

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:)

The Application of Kentucky Power)
Company d/b/a American Electric)
Power to Assess a Surcharge Under)
KRS 278.183 to Recover Costs of)
Compliance with the Clean Air Act)
and Those Environmental Requirements)
Which Apply to Coal Combustion Wastes)

Case No. 96-489

DIRECT TESTIMONY OF LANE KOLLEN

1

2

I. QUALIFICATIONS AND SUMMARY

3

4 **Q. Please state your name and business address.**

5

6 A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.
7 ("Kennedy and Associates"), 35 Glenlake Parkway, Suite 475, Atlanta, Georgia
8 30328.

9

10 **Q. What is your occupation and by whom are you employed?**

11

12 A. I am a utility rate and planning consultant holding the position of Vice President and
13 Principal with the firm of Kennedy and Associates.

1 **Q. Please describe your education and professional experience.**

2

3 A. I received my Bachelor of Business Administration in Accounting from the
4 University of Toledo. I also received a Master of Business Administration from the
5 University of Toledo. I am a Certified Management Accountant ("CMA") and a
6 Certified Public Accountant ("CPA").

7

8 Since 1986, I have held various positions with Kennedy and Associates. I specialize
9 in revenue requirements analyses, taxes, the evaluation of rate and financial impacts
10 of traditional and non-traditional ratemaking, and other utility strategic, operational,
11 financial, and accounting issues.

12

13 From 1983 to 1986, I held various positions with the consulting group at Energy
14 Management Associates. I specialized in utility finance, utility accounting issues, and
15 computer financial modeling. I also directed consulting and software projects
16 utilizing PROSCREEN II and ACUMEN proprietary software products to support
17 utility rate case filings, budgets, internal management and external reporting, and
18 strategic and financial analyses.

19

20 From 1976 to 1983, I held various positions with The Toledo Edison Company in the
21 Accounting and Corporate Planning Divisions. From 1980 to 1983, I was responsible

1 for the Company's financial modeling and financial evaluation of the Company's
2 strategic plans. In addition, I was responsible for the preparation of the capital
3 budget, various forecast filings with regulatory agencies, and assistance in rate and
4 other strategy formulation. I utilized the strategic planning model PROSCREEN II,
5 the production costing model, PROMOD III, and other software products to evaluate
6 capacity swaps, sales, sale/leasebacks, cancellations, write-offs, unit power sales, and
7 long term system sales, among other strategic options. From 1976 to 1980, I held
8 various other positions in the Budget and Accounting Reports, Property Accounting,
9 Tax Accounting, and Internal Audit sections of the Accounting Division.

10
11 I have appeared as an expert witness on accounting, finance, and planning issues
12 before regulatory commissions and courts in numerous states on more than one
13 hundred occasions. I have appeared as an expert witness before the Kentucky Public
14 Service Commission in Case Nos. 9613, 9885, 10217, 10064, 10217, 10064, 90-158,
15 92-043, 92-490, 93-490A, and 90-360C. In addition, I have developed and presented
16 papers at various industry conferences on utility rate, accounting, and tax issues. My
17 qualifications and regulatory appearances are further detailed in my Exhibit ___ (LK-
18 1).

19
20 **Q. Please describe the firm of Kennedy and Associates.**

1 A. Kennedy and Associates provides consulting services in the electric, gas, and
2 telecommunications utilities industries. Our clients include industrial electricity and
3 gas consumers and state government agencies. The firm provides expertise in
4 revenue requirements, cost of service, rate design, financial analysis, and utility
5 industry restructuring and transition issues.

6

7 **Q. On whose behalf are you testifying in this proceeding?**

8

9 A. I am offering testimony on behalf of Kentucky Industrial Utility Customers, Inc.
10 ("KIUC"), a group of large industrial customers taking electric service on the
11 Kentucky Power Company ("KPC" or "Company") system.

12

13 **Q. What is the purpose of your testimony?**

14

15 A. The purpose of my testimony is to review the conceptual basis for and the specifics
16 of the initial KPC filing for recovery under the Kentucky environmental surcharge
17 statute (KRS 278.183), and to make recommendations to the Commission regarding
18 recovery by KPC under that statute. It should be noted that the historic
19 quantifications incorporated in the Company's filing are illustrative since the filing
20 seeks recovery only prospectively.

21

22 **Q. Please summarize your testimony.**

23

1 A. The Company's request should be rejected in its entirety since it does not comply
2 with the requirements of the statute for recovery. First and fundamentally, the
3 Company has failed to provide the Commission with a defined environmental
4 compliance plan demonstrating that it is "reasonable and cost-effective" for Kentucky
5 retail ratepayers. The Commission cannot approve the plan or the rate charges absent
6 an affirmative finding that both the plan and the rate charges are "reasonable and
7 cost-effective."

8
9 Second, the Company has acknowledged that the FERC does not mandate
10 Commission authorization of an environmental surcharge pursuant to the Kentucky
11 statute, whether through federal preemption, the filed rate doctrine, or otherwise. If
12 anything, federal preemption would preclude changing the FERC filed rate through
13 a Kentucky retail specific environmental surcharge.

14
15 Third, the Company has failed to pattern its filing to reflect the Commission's
16 decisions in the LG&E, Kentucky Utilities, and Big Rivers environmental surcharge
17 proceedings, acknowledging it was not aware of critical aspects of those Commission
18 orders.

19
20 Finally, the Company has significantly overstated its environmental costs, even if the
21 costs are assumed to be recoverable through the environmental surcharge. The
22 Company has included costs not eligible as current compliance costs, has not
23 recognized the compliance benefits to the AEP system provided by Kentucky Power
24 Company, has failed to recognize Ohio Power fuel savings not shared with Kentucky

1 Power Company ratepayers, has incorrectly computed its cost of capital, incorrectly
2 computed its jurisdictional allocation factor, and has failed to recognize other
3 computational benefits to ratepayers.

4
5 In summary, on both conceptual and computational bases, the Company's surcharge
6 filing is flawed and must be rejected.

7
8 I have structured the rest of my testimony into the following sections.

9
10 II. Principles of Cost Recovery. This section provides a review of the
11 principles of environmental surcharge cost recovery established by the
12 statute and prior Commission orders.

13
14 III. Surcharge Issues Related to More than One Power Plant. This section
15 addresses the reasonable cost of capital, Kentucky jurisdictional
16 allocation, customer class allocation, and allowance inventories,
17 pricing, gains, and losses.

18
19
20 IV. Big Sandy 1 and 2. This section addresses issues specific to this
21 power plant and the application of the reasonable cost of capital and
22 allocation issues addressed in Section III.

23
24
25 V. Rockport 2. This section addresses issues specific to this power plant
26 and the application of the reasonable cost of capital and allocation
27 issues addressed in Section III.

28
29
30 VI. Gavin. This section addresses issues specific to this power plant and
31 the application of the allocation issues addressed in Section III.
32
33

1 **II. PRINCIPLES OF COST RECOVERY**

2

3 **Q. Please identify the principles of cost recovery established through the**
4 **environmental surcharge statute that should guide the Commission in this**
5 **proceeding.**

6

7 **A.** First, it is clear that the environmental surcharge represents an exception to the
8 normal ratemaking process as represented by either a comprehensive review of a
9 utility's revenue requirements and cost of service in a base ratemaking proceeding or
10 the comprehensive biennial review of a utility's fuel costs provided for under
11 Kentucky regulation. As such, the environmental surcharge represents an
12 extraordinary form of potential recovery and a utility's request is not an entitlement
13 absent full compliance with the statute's requirements.

14

15 Second, there is no federal oversight or preemption by the FERC over the Kentucky
16 statute. The statute by its terms provides for Kentucky jurisdictional recovery. In
17 the absence of the Kentucky environmental surcharge statute, the Company would be
18 required to make a comprehensive base revenue requirement filing in order to
19 recognize any changes in its costs under the various AEP Agreements. The Company
20 has acknowledged that the FERC has no authority over the Commission's decisions
21 under the environmental surcharge statute (KIUC 2nd Set, Item 4). Thus, the

1 Company's repeated references to its costs under FERC-approved agreements has no
2 bearing on the recovery or level of recovery of costs under the Kentucky
3 environmental surcharge statute. If however, there is any relevance to the fact that
4 FERC has approved the various AEP agreements, it would be to preclude changing
5 the FERC filed rate through incremental retail recovery under the ratemaking process
6 of the Kentucky environmental surcharge mechanism.

7
8 Third, the Commission must find affirmatively that the Company's compliance plan
9 and its rate charges are both reasonable and cost-effective. Otherwise, the
10 Commission cannot approve the compliance plan or authorize recovery through the
11 surcharge process. Consequently, if the Company fails to provide a sufficient
12 evidentiary basis for this determination by the Commission, then its request for an
13 environmental surcharge must be rejected.

14
15 Fourth, the Company is prohibited from including compliance costs for which
16 existing rates provide current recovery. Consequently, the Company must
17 conscientiously remove any such costs as a reduction to the costs for which it seeks
18 recovery through the environmental surcharge. This requirement is to avoid excessive
19 and improper double recovery through both the base revenue requirement or the fuel
20 clause and the environmental surcharge.

1 Fifth, the Company is limited to current recovery through the environmental
2 surcharge of only the current costs of compliance. Thus, costs for early compliance
3 or future compliance are prohibited from recovery until the costs are in fact due to
4 current environmental requirements. If environmental requirements are not applicable
5 until a future date then, by definition, there are no costs to "comply" until the
6 requirements are effective. Although the Company may have expended amounts prior
7 to its compliance requirement date, the Commission is not required to provide the
8 extraordinary ratemaking recovery afforded through an environmental surcharge.

9
10 **Q. The statute requires the Commission to find affirmatively that the Company's**
11 **environmental compliance plan is "reasonable and cost-effective." Has the**
12 **Company filed a specific Kentucky Power Company environmental compliance**
13 **plan?**

14
15 A. No. The only compliance plan provided by Kentucky Power Company, other than
16 a brief description of its major elements of the AEP system-wide compliance plan
17 (covering seven states) included in the testimony of AEP witness McManus, was the
18 "AEP System Acid Rain Compliance Plan." That Plan had been filed with the Public
19 Utilities Commission of Ohio ("PUCO") and was the subject of PUCO Docket 94-
20 1181-EL-ECP. In response to discovery (KIUC 2nd Set, Item 2), Kentucky Power
21 Company averred that this AEP System Acid Rain Compliance Plan was the ". . .

1 only document believed to be responsive to the interrogatory . . . " replicated below
2 (KIUC 1st Set, Item 3):

3
4 **"Q3. Please provide copies of all reports, engineering studies, internal**
5 **memoranda, analyses or other documents in the possession of**
6 **Kentucky Power or AEP that relate in any way to the**
7 **reasonableness or cost effectiveness of that part of the compliance**
8 **plan including, but not limited to:**

- 9
10 a. low NOx burners at Big Sandy Units 1 and 2;
11 b. continuous emission monitors at Big Sandy Plant;
12 c. continuous emission monitors at Rockport Plant;
13 d. scrubbers at the Ohio Power Gavin Plant including
14 alternatives actively considered such as fuel switching and
15 allowance purchases;
16 e. SO2 allowance purchases and inventory levels."

17
18 **Q. Does the AEP System Acid Rain Compliance Plan provide the Commission with**
19 **the necessary evidentiary basis to find affirmatively that the Kentucky Power**
20 **Company compliance plan is "reasonable and cost-effective?"**

21
22 A. No. The 1994 "AEP System Acid Rain Compliance Plan," according to AEP witness
23 Fayne in the referenced PUCO proceeding, was submitted "to demonstrate the
24 continued appropriateness of the Company's Environmental Compliance Plan
25 approved by the [Ohio] Commission in Case No. 92-790-EL-ECP pursuant to Section
26 4913.05, Revised Code" (emphasis added). Thus, the Plan provided to the Kentucky
27 Commission in this proceeding does not represent the basis upon which the AEP

1 System made its initial decision to scrub Gavin rather than fuel switch and provides
2 the Kentucky Commission no basis upon which to access the reasonableness of the
3 original decision for Kentucky Power Company ratepayers.

4
5 The 1994 AEP Plan represents Ohio Power Company's justification to the Ohio
6 Commission, on a going forward basis, to continue with the construction of the Gavin
7 scrubber, on which it had already spent \$530 million. Not surprisingly, AEP and
8 the Ohio Commission determined in that proceeding that it would be appropriate to
9 complete and operate the scrubbers rather than fuel switch.

10
11 Second, the AEP System Plan, according to the document's title and content as well
12 as Kentucky Power Company's admission in response to discovery (KIUC 1st Set,
13 Item 17 and KIUC 2nd Set, Item 19), addresses Clean Air Act Amendments
14 ("CAAA") compliance from the perspective of the total AEP system, and not from
15 the perspective of Kentucky Power Company, although there are limited
16 quantifications of the effects of the Plan on the operating companies. Thus, although
17 the AEP Plan may have been reasonable and cost-effective for the AEP system on
18 a going forward basis, there is no evidentiary basis, let alone an adequate basis, to
19 find affirmatively that the AEP Plan is currently reasonable and cost-effective for
20 Kentucky Power Company.

1 Third, this Commission had no input or opportunity to review and approve either the
2 1992 or 1994 versions of the AEP System Acid Rain Compliance Plan prior to its
3 implementation. Thus, the central elements of the compliance plan are now largely
4 a fait accompli, for which the Commission has only two choices as it affects the
5 determination of reasonableness required under the Kentucky environmental surcharge
6 statute: acquiescence or rejection. There is no realistic opportunity for the Kentucky
7 Commission to require AEP to modify a compliance plan that has already been
8 largely implemented to incorporate the interests of Kentucky Power Company
9 ratepayers. According to the Company's response to discovery, it has no plans to
10 modify or update its 1994 AEP System Acid Rain Compliance Plan regardless of the
11 Kentucky Commission's acquiescence or rejection.

12
13 Fourth, the Kentucky Commission cannot rely upon reviews and approvals of the
14 AEP System Acid Rain Compliance Plan by any other regulatory commissions. No
15 other Commission has reviewed the AEP Plan from the perspective of Kentucky
16 Power Company ratepayers. The only regulatory Commission review and approval
17 of the AEP System Acid Rain Compliance Plan has been by the PUCO in Ohio
18 Power Company Docket Nos. 92-790-EL-ECP and 94-1181-EL-ECP. However, the
19 PUCO's reviews were parochial assessments in accordance with the requirements of
20 Ohio statutes.

1 In accordance with the Ohio statutes, the PUCO was charged to consider factors other
2 than the economics of the Gavin compliance alternatives. Those other factors
3 included the maximum utilization of Ohio coal and the effects on the Ohio state
4 economy of Ohio Power Company's CAAA compliance strategy. By the language
5 of the PUCO's order in Docket No. 94-1181-EL-ECP compliance proceeding, these
6 statutory considerations were significant factors that led to the PUCO's approval to
7 complete the Gavin scrubber project compared to the Gavin fuel switching alternative.

8
9 Additional factors the PUCO considered were also parochial in that they were Ohio
10 state-specific and Ohio Power Company-specific. These other parochial issues
11 included the combined revenue requirement effects of the Gavin decision on Ohio
12 Power Company ratepayers' base revenue and EFC revenue requirements, limits on
13 recovery through its EFC of above-market Ohio Power Company affiliate coal mine
14 costs, and the costs of affiliate mine closures.

15
16 Given the parochial nature of the reviews, the Kentucky Commission simply cannot
17 place any reliance on the PUCO's review and approval of the AEP System Acid Rain
18 Compliance Plan for Ohio Power Company to assess or find affirmatively that the
19 Plan and resultant rate charges are both reasonable and cost-effective for Kentucky
20 Power Company ratepayers.

1 **Q. The Company is prohibited from including compliance costs for which existing**
2 **rates provide current recovery. Has the Company removed any such costs as**
3 **a reduction to the costs for which it seeks recovery through the environmental**
4 **surcharge?**

5

6 A. No. The Company has failed to remove any environmental investment or any
7 expenses that have been displaced or otherwise reduced. The Company failed to
8 identify a base year in its filing, which was confirmed by the Staff through discovery
9 (Staff 1st Set, Item 3). Nevertheless, the Company did identify its "existing rates"
10 as those that were established in Case No. 91-066, as modified by Case No. 94-460
11 to roll-in fuel costs to base rates (Staff 1st Set, Item 4). Case No. 91-066 relied upon
12 a 1990 test year. Thus, any environmental costs that were included in existing rates
13 and that have since been displaced by new environmental investment and expenses
14 must be removed as an offset to the environmental investment and expenses included
15 in the Company in this environmental surcharge proceeding.

16

17 **Q. Has the Company provided any quantifications of the environmental costs**
18 **included in existing rates in response to discovery in this proceeding?**

19

20 A. Yes, but the quantifications have been extremely limited. For example, KPC objected
21 to providing the December 31, 1990 cost of the cooling towers at Big Sandy and at
22 Rockport (AG 2nd Set, Items 10,11), but did provide the cost at December 31, 1990
23 of the existing low NOx burners at Big Sandy and the CEMS at Rockport that were

1 displaced by new equipment and investment. However, the Company has not only
2 failed to provide but also objected to quantifying other environmental costs included
3 in existing rates. Thus, the Commission cannot find affirmatively that the Company
4 will not recover costs through the environmental surcharge that it already recovers
5 through its existing rates.

6
7 **Q. The Company is limited to only the current recovery of its costs of compliance.**
8 **Has the Company included any costs for early compliance or future compliance?**

9
10 A. Yes. The Company has included the costs of the low NO_x burners at Big Sandy 2,
11 which were not necessary for current environmental compliance. Thus, the costs are
12 not eligible for recovery under the statute. The low NO_x burners at Big Sandy 2 are
13 addressed in more detail in the Big Sandy section of my testimony.

14
15 In addition, the Company has included the inventory cost of SO₂ allowances which
16 it does not currently require. Kentucky Power Company is a Phase II compliance
17 company and will not require allowances until the year 2000. Thus, a return on the
18 inventory amount is not eligible for recovery under the statute. The SO₂ allowances,
19 and the quantification and removal of the allowance costs is addressed in more detail
20 in the next section of my testimony.

1 **III. SURCHARGE ISSUES RELATED TO MORE THAN ONE POWER PLANT**

2
3 **Rate of Return on Rate Base/Investment Component of Surcharge**

4
5 **Q. The environmental surcharge requires the Commission to establish a**
6 **"reasonable return on compliance-related capital expenditures." Please describe**
7 **the Company's request for a rate of return on its compliance investment.**

8
9 A. The Company has requested two separate rates of return on its compliance
10 investments. First, it has requested a rate of return on its Rockport compliance
11 investment based upon its charges under the Rockport Unit Power Agreement.
12 According to the Company's testimony and its responses to discovery, the rate of
13 return on its Rockport investment consists of the grossed up cost of capital of AEP
14 Generating Co. The grossed up cost of capital includes a return on common equity
15 of 12.16% and reflects a capital structure consisting of long-term debt, short-term
16 debt, short-term investments, and common equity.

17
18 Second, KPC has requested a rate of return on its Big Sandy and other compliance
19 investment not specific to Rockport or Gavin based upon the grossed up cost of
20 capital for Kentucky Power Company, including a requested return on common

1 equity of 12.0% and a capital structure consisting of long-term debt, preferred equity,
2 and common equity.

3
4 **Q. Is the return sought on Rockport compliance costs reasonable?**

5
6 A. No. It is excessive and fails to correctly reflect Rockport environmental compliance
7 costs. First, and as addressed previously, the Kentucky Commission is under no
8 FERC requirement to allow in the environmental surcharge any of the costs that may
9 be charged to Kentucky Power Company for Rockport under the Unit Power
10 Agreement. Consequently, the rate of return under that Agreement is not
11 determinative or relevant.

12
13 Second, there is a more appropriate rate of return available. During 1995, AEP
14 Generating Co. issued installment purchase contracts supporting the issuance of
15 pollution control revenue bonds by the City of Rockport Indiana. According to the
16 Company's response to discovery (Staff 1st, Item 36), those pollution control bonds
17 were issued to finance the construction costs of pollution control facilities at the
18 Rockport Plant. In 1995, the average interest rate was 3.91%.

19
20 Third, the Commission has not authorized a return on common equity in any other
21 Kentucky utility's environmental surcharge proceeding. It would be inappropriate to

1 do so in this proceeding since the Company has failed to provide any evidence that
2 AEP Generating Co. invested a single dollar of common equity in Rockport
3 compliance plan assets.

4
5 Fourth, the Company's computation for June 1996, provided on Exhibit EKW-4 page
6 11, improperly reflects a reduction to the capital structure and costs for short term
7 investments. Short term investments are rarely, if ever, considered to be a reduction
8 to the capitalization supporting investments for ratemaking purposes. If anything,
9 short term investments should be utilized to reduce the common equity component
10 of the capital structure at the cost of common equity. Thus, the Company's request
11 for an overall return including short-term investments is excessive and should be
12 rejected.

13
14 **Q. What would be a reasonable rate of return on Rockport compliance costs?**

15
16 A. To the extent the Commission allows environmental surcharge recovery of Rockport
17 compliance costs, a reasonable rate of return would be the average debt interest rate
18 on the Rockport pollution control bonds computed on a current month basis.

19
20 **Q. Is the return sought on Big Sandy compliance costs reasonable?**

1 A. No. It is excessive and fails to correctly reflect the Big Sandy compliance costs.
2 First, an environmental surcharge proceeding is not an appropriate forum to
3 adjudicate the required return on common equity. That debate inherently belongs in
4 the base ratemaking process where all components of the base revenue requirement
5 can be considered in a comprehensive manner. To consider the return on common
6 equity in an environmental surcharge proceeding inappropriately will broaden the
7 scope of the Commission's investigation even beyond the vagaries of the return on
8 common equity itself. The Commission will be required to select an appropriate
9 capital structure and to determine the appropriate tax rate in order to gross up the
10 equity components. The Commission also may have difficulty constraining the
11 utilization of the adjudicated return on common equity from use by the utility or
12 other parties in other proceedings.

13
14 Second, there is a more appropriate rate of return available. Kentucky Power
15 Company has issued \$160 million in long-term debt securities in 1995 and 1996
16 according to the Company's response to discovery (Staff 1st, Item 36). That debt
17 carries an average interest rate of 7.59%.

18
19 Third, the Commission previously has not authorized a return on equity in any other
20 Kentucky utility's environmental surcharge proceeding. It would be inappropriate to

1 do so in this proceeding since the Company has failed to provide any evidence that
2 KPC invested any common equity in Big Sandy compliance plan assets.

3
4 **Q. What would be a reasonable rate of return on Big Sandy compliance costs?**

5
6 A. To the extent the Commission allows surcharge recovery of Rockport compliance
7 costs, a reasonable rate of return would be the average debt interest rate on the
8 Company's 1995 and 1996 vintage long term debt computed on a current month
9 basis.

10
11 **Kentucky Jurisdictional Allocation**

12
13 **Q. Has the Company properly allocated its environmental compliance costs to the**
14 **Kentucky retail jurisdiction?**

15
16 A. No. First, the Company's allocation methodology never has been explicitly approved
17 by the Commission for base ratemaking or for an environmental surcharge. KPC
18 utilized an internal maximum demand methodology that was premised upon recovery
19 of all costs by ultimate retail or wholesale customers, with no allocation to off-system
20 sales. Consequently, 98.6% of all its identified and quantified environmental
21 surcharge costs are allocated to the Kentucky retail jurisdiction.

1 Second, the Company's methodology is inconsistent with the operation of its system.
2 Kentucky Power Company, through AEP, sold 17.59% of its output to the wholesale
3 and off-system sales markets in 1996 (Staff 1st Set, Item 51). Those sales
4 represented 9.98% of its total revenues in 1996 (Staff 1st Set, Item 51).

5
6 Third, the Commission has consistently utilized total revenue as the basis for the
7 Kentucky retail jurisdictional allocation of environmental surcharge costs. According
8 to the Company's response to discovery, it conceded it was not aware of the
9 Commission's decision to utilize total revenue as the basis for Kentucky retail
10 jurisdictional allocation in the LGE Case No. 94-332 environmental surcharge
11 proceeding. In that proceeding, LGE argued that all environmental costs should be
12 allocated to its retail customers since its generating plants were installed to meet the
13 needs of those customers. The Commission disagreed with that argument for
14 jurisdictional allocation purposes stating:

15
16 **"The Commission rejects this argument. LG&E's generating**
17 **facilities are currently used to make off-system sales and, thus, the**
18 **cost of environmental improvements should be allocated to both**
19 **retail and off-system sales."**

20
21 **Q. The Company argues that it is inappropriate to allocate any of the**
22 **environmental surcharge costs to the off-system sales due to the operation of its**
23 **system sales clause. Please respond.**

1 A. First, the operation of the system sales clause is irrelevant to whether it is appropriate
2 to allocate the Company's environmental compliance costs between its native and off-
3 system operations. As the Commission has recognized in prior environmental
4 surcharge proceedings, if the utility's system is operated to supply off-system sales,
5 then emissions necessarily increase. Thus, an allocation between its native and off-
6 system operations is appropriate and necessary.

7
8 Second, whether Kentucky Power Company will be able to recover an allocation of
9 environmental costs from its off-system sales customers is irrelevant. The Company's
10 argument regarding the effect on system sales clause would apply equally to an
11 increase in fuel costs, yet KPC's fuel costs are still allocated between its native and
12 off-system operations. Whether KPC has the ability to recover increases in
13 environmental costs from its off-system operations is no more relevant than whether
14 it can recover increases in its fuel costs.

15
16 Third, any loss through the operation of the system sales clause will necessarily be
17 minimal. The system sales clause provides for a sharing of net off-system sales
18 revenues over the amount included in base rates. The allocation of environmental
19 surcharge costs to off-system sales will neither reduce gross revenues nor significantly
20 increase the variable costs included in the net revenues computation. Only variable
21 environmental costs, or approximately 10.4% of the total environmental costs

1 quantified by the Company, are variable. These variable environmental costs are a
2 minor portion of the total variable costs that affect the net revenues computation.

3
4 **Q. What is the appropriate Kentucky retail jurisdictional allocation factor?**

5
6 **A. The Commission should utilize the total revenue Kentucky retail jurisdictional**
7 **allocation factor, consistent with the use of that allocation methodology for all other**
8 **Kentucky electric utilities with environmental surcharges.**

9
10 **Customer Class Allocation**

11
12 **Q. Please describe the Company's proposal to allocate the environmental surcharge**
13 **costs to customer classes.**

14
15 **A. The Company has proposed a two step process. In the first step, it allocates to**
16 **customer class on the basis of total revenue for the class compared to total retail**
17 **revenue. In the second step it then allocates to customers on the basis of kWh usage.**

18
19 **Q. Does the Company's customer class allocation methodology comport with the**
20 **Commission's precedent in prior environmental surcharge proceedings?**

1 A. No. The Company's two-step process does not comport with the Commission's
2 treatment for Big Rivers, Kentucky Utilities, and Louisville Gas & Electric. For
3 those utilities, the Commission simply developed a percentage based upon the ratio
4 of the environmental surcharge revenue requirement to the Company's total revenues.
5 KPC indicated in response to discovery that it was not aware that the Commission
6 had already established the total revenue allocation precedent (Staff 1st Set, Item 52).

7

8 **Q. What is the appropriate customer allocation methodology?**

9

10 A. The Commission should utilize the total revenue customer allocation methodology,
11 consistent with the allocation methodology it has utilized for all other Kentucky
12 electric utilities with environmental surcharges.

13

14 **Allowance Inventories, Pricing, Gains and Losses**

15

16 **Q. Please describe the Company's proposal to include the cost of SO₂ allowance**
17 **inventories in this environmental surcharge.**

18

19 A. The Company has included its allocated share of the AEP system SO₂ allowance
20 inventory in its environmental compliance rate base. It has treated the grossed-up
21 return on the allowance inventory as a current environmental compliance cost.

1 **Q. What is the basis for the Company's allocation of AEP system SO₂ allowance**
2 **inventories?**

3

4 A. The allocation is based upon the AEP Interim Allowance Agreement. That
5 Agreement provides for an allocation of AEP system allowances based on the
6 Member Load Ratio ("MLR"). It further establishes the "cost" of the allowances
7 purchased from the AEP system in 1995 at \$115.43 per ton, escalated at 10.14%
8 annually thereafter. The Company estimates that the "cost" of its allowances will
9 increase to \$127.13 in 1996 and \$140.03 in 1997.

10

11 **Q. Is it appropriate to include the SO₂ allowance inventories in the KPC**
12 **environmental surcharge computation?**

13

14 A. No. The SO₂ allowance inventories should not be included in the surcharge
15 computation for numerous reasons. First, the costs are not current costs of
16 environmental compliance as discussed in the proceeding section of my testimony.
17 The allowance inventories have value to KPC only in the year 2000 and after. Thus,
18 the return on the allowance inventories is not recoverable under the statute.

19

20 Second, the allowances do not represent costs incurred by Kentucky Power Company
21 for environmental compliance. The allowance inventories represent an internal AEP

1 accounting allocation under the terms of the Interim Allowance Agreement. To the
2 extent costs were incurred by AEP, they were not incurred by Kentucky Power
3 Company.

4
5 Third, the existence and operation of the AEP Interim Allowance Agreement does not
6 require the Kentucky Commission to provide recovery through the environmental
7 surcharge, as discussed in the previous section of my testimony. There is no federal
8 preemption and the Kentucky Commission is free to use its judgement as to the
9 validity of the cost and its surcharge recovery.

10
11 Fourth, the allowance inventories are computed on the basis of the formulas contained
12 in the Interim Allowance Agreement. Thus, the "cost" of the allowance inventory is
13 not the actual cost, but rather, a computational myth. The 1995 cost of \$115.43 is
14 excessive as well as the escalation compared to market price realities. If the
15 allowance inventories are to be included in the surcharge, then it should be at actual
16 cost. That would also be true for any allowance expense incurred by Kentucky
17 Power in the future.

18
19 Fifth, the Kentucky Power Company proposal is inconsistent since it would require
20 KPC ratepayers to provide recovery of all the Gavin scrubber costs ostensibly
21 allocated to KPC through the AEP Interconnection Agreement, and then require KPC

1 ratepayers to provide recovery of a return on the allowance "costs" included in
2 inventory. Except for AEP purchases of allowances, there are no actual allowance
3 costs. The allowances awarded by the EPA, which constitute most of the allowance
4 inventories, had a zero cost. Thus, it is neither equitable nor reasonable to require
5 a return on these "costs."

6
7 **Q. Has the Company reflected gains and losses from the sale of allowances in its**
8 **proposed environmental surcharge?**

9
10 A. No. Although it would be conceptually appropriate to include such gains and losses
11 (if prudent), the Commission should not do so for Kentucky Power Company due to
12 the inventory costing methodology employed by the Company under the AEP Interim
13 Allowance Agreement. In order to determine actual gains and losses, the Company
14 and the Commission would have to rely upon actual cost.

1 A. No. First and fundamentally, these costs do not qualify for recovery under the
2 statute. The costs were incurred five years prior to the date at which the Big Sandy
3 plant is required to comply. The Company has acknowledged that its compliance was
4 premature. Big Sandy is a Phase II plant and the installation of low NOx burners is
5 not required until January 1, 2000. Second, there is significant economic harm to the
6 ratepayers if the costs are allowed current recovery in the environmental surcharge
7 compared to the alleged economies of premature installation.

8

9 **Q. Please address the Company's claim that there were economies achieved through**
10 **the premature compliance.**

11

12 A. The Company asserted, through the testimony of Mr. McManus and in response to
13 discovery (Staff 1st, Item 5d), that the installation cost savings were the reason it
14 installed the low NOx burners prematurely. Otherwise, "the retrofit work would have
15 been postponed." Thus, the only justification for the premature installation was the
16 alleged economies.

17

18 However, no economies exist for Kentucky Power Company ratepayers. The
19 Company's premature installation is uneconomic, and if allowed current recovery
20 through the environmental surcharge, will substantially harm ratepayers. The
21 Company asserts that the premature installation of the low NOx burners resulted in

1 a \$0.420 million savings in the installation cost (Staff 1st, Item 5f). That "savings"
2 in the installation cost has not been documented and is not represented by the
3 Company to be any more than an estimate.

4
5 By comparison, the inclusion of the low NOx installation costs in the environmental
6 surcharge will cost Kentucky Power Company ratepayers more than \$4 million over
7 the next three years. In essence, Kentucky Power Company has proposed that its
8 ratepayers pay \$10 or more for each \$1 that ostensibly was saved through the
9 premature installation. That is unreasonable and it is not cost-effective.

10
11 **Q. Has the Company reduced its request for recovery of the costs of the Big Sandy**
12 **low NOx burners and CEMS by the costs of environmental compliance already**
13 **included in existing rates?**

14
15 A. No. According to the Company's responses to discovery current rates include the
16 costs of low NOx burners at Big Sandy that were retired in 1994 upon the installation
17 of the new burners. The cost included in the test year in its last base rate filing was
18 \$2.280 million less \$1.846 million in accumulated depreciation (Staff 1st, Item 9(f)(2)
19 and Staff 2nd, Item 2).

20

1 In addition, the Company included the cost of the Big Sandy electrostatic
2 precipitators in the 1990 test year at \$1.231 million (AG 1st, Item 9), which has since
3 been depreciated to \$0.630 million at December 31, 1996 (AG 1st, Item 11).

4
5 The Company objected to providing similar quantifications for the Big Sandy cooling
6 tower costs included in the 1990 test year and the current depreciated cost (AG 2nd,
7 Items 10 and 12).

8
9 **Q. Are there specific deficiencies in the Company's computations of the Big Sandy**
10 **2 low NOx and Big Sandy 1 and CEMS 2 costs as represented on the format of**
11 **Exhibit EKW-6 pages 3 and 4?**

12
13 A. Yes. The Company's computation of rate base does not reflect a reduction for the
14 accumulated deferred income taxes. The balance of accumulated deferred income
15 taxes is a source of cost free capital to the Company that should be reflected as a
16 reduction to the investment cost upon which the Company is allowed to earn a return.
17 The only rationale offered by the Company for not reflecting this reduction is the
18 amounts are "immaterial" (KIUC 1st, Item 43(a). Regardless of whether the amounts
19 are currently small relative to the investment, the balances will continue to grow, just
20 as accumulated depreciation continues to grow. The rate base should be reduced by
21 the accumulated deferred taxes at the end of the prior month consistent with KPC's

1 treatment of accumulated depreciation. The Company has provided estimates of the
2 accumulated deferred income tax balances at December 31, 1995 in response to
3 discovery (KIUC 1st, Item 43(b)).

4
5 **Q. Referring again to Exhibit EKW-6 pages 3 and 4. Are there other changes that**
6 **should be made to these formats to reflect recommendations made previously in**
7 **your testimony?**

8
9 A. Yes. The monthly weighted average cost of capital should be the debt rate I
10 previously recommended for Kentucky Power rather than the grossed up cost of
11 capital reflected on these exhibits. In addition, the Kentucky jurisdictional allocation
12 factor should be based upon total revenue consistent with the Kentucky Commission's
13 practice.

1 **VI. ROCKPORT 2**

2
3 **Q. Please describe the Company's request for recovery of Rockport environmental**
4 **costs through the environmental surcharge.**

5
6 A. The Company's request is generally described by AEP witness Mr. McManus in his
7 direct testimony, with the detailed format of the quantifications addressed by Mr.
8 Wagner and reflected on his Exhibit EKW-6 page 9. I have replicated Exhibit EKW-
9 6 page 9 and attached it as my Exhibit ___(LK-3). The Company's request is for
10 recovery of the cost of CEMS at Rockport. The costs requested include a grossed
11 up return on rate base utilizing the AEP Generating Company claimed overall cost
12 of capital under the Rockport Unit Power Agreement, depreciation expense, and
13 property tax expense. To compute the rate base amount, the Company subtracted the
14 accumulated depreciation from the gross plant at the end of the month preceding the
15 surcharge computation month. To compute the jurisdictional amount of the revenue
16 requirement, the Company utilized the factor that I described and addressed in the
17 preceding section of my testimony.

18
19 **Q. Is it appropriate to allow the current recovery of the Rockport CEMS costs in**
20 **the environmental surcharge?**

1 A. No. First, there is no overall environmental compliance plan that the Commission
2 can find is both reasonable and cost-effective under the statute, and as I previously
3 addressed in my testimony. Second, despite the cost allocations to Kentucky Power
4 Company of the Rockport CEMS costs, there effectively has been no offset reflected
5 in the Company's filing to recognize the compliance benefits afforded the other AEP
6 operating companies through the operation of the Big Sandy plant and the KPC net
7 sales into the AEP pool. These same reasons apply for the exclusion of the Indiana
8 air emission fees.

9
10 **Q. Please describe in greater detail the benefits that Kentucky Power Company and**
11 **the Big Sandy plant afford the other AEP operating companies.**

12
13 A. In recent years, Kentucky Power Company has been a net seller into the AEP system
14 pool, despite the fact that it has been considered short for capacity settlement
15 purposes. Thus, the rest of the AEP system obtains substantial benefits from the Big
16 Sandy Phase I compliance without being required to pay for any of the Big Sandy
17 compliance investment costs. The Big Sandy investment costs are borne 100% by
18 Kentucky retail ratepayers. According to the 1995 AEP SEC 10-K, relevant pages
19 of which are replicated and attached as my Exhibit___ (LK-4), Kentucky Power
20 Company was a net seller into the AEP pool in 1993, 1994, and 1995. In response
21 to discovery, the Company detailed the exchange of costs and revenues between it

1 and the other AEP operating companies (KIUC 1st, Item 51), a copy of which I have
2 attached as my Exhibit__(LK-5). The revenues received and the mWh sold in each
3 of the three years far exceed the costs and mWh purchased from the pool by
4 Kentucky Power Company.

5
6 The Commission should recognize that Kentucky Power Company provides net
7 compliance benefits to the rest of the AEP system, for which it receives no capacity
8 settlement compensation other fixed cost reimbursement under the AEP
9 Interconnection Agreement. As such, it would be inappropriate for the Commission
10 to authorize extraordinary ratemaking recovery through the environmental surcharge
11 mechanism for the Rockport CEMS costs without any offset for the Big Sandy
12 compliance benefits provided.

13
14 **Q. Has the Company reduced its request for recovery of the costs of the Rockport**
15 **CEMS by the costs of environmental compliance already included in existing**
16 **rates?**

17
18 A. No. According to the Company's response to discovery, current rates include the
19 costs of the Rockport 1 electrostatic precipitator in the 1990 test year at \$9.130
20 million (AG 1st, Item 10; \$44,285,594 x 15%), which has since been depreciated to
21 \$6.643 million at December 31, 1996 (AG 1st, Item 12; \$60,869,689 x 15%). The

1 Company objected to providing any further quantifications in response to discovery
2 on the environmental costs included in its current rates.

3
4 **Q. Are there specific deficiencies in the Company's computations of the Rockport**
5 **CEMS costs as represented on the format of Exhibit EKW-6 page 9?**

6
7 A. Yes. The Company's computation of rate base does not reflect a reduction for the
8 accumulated deferred income taxes. The balance of accumulated deferred income
9 taxes is a source of cost free capital to the Company that should be reflected as a
10 reduction to the investment cost upon which the Company is allowed to earn a return.
11 The only rationale offered by the Company for not reflecting this reduction is that
12 the amounts are "immaterial" (KIUC 1st, Item 43(a)). Regardless of whether the
13 amounts are currently small relative to the investment, the balances will continue to
14 grow, just as accumulated depreciation continues to grow. The rate base should be
15 reduced by the accumulated deferred taxes at the end of the prior month consistent
16 with KPC's treatment of accumulated depreciation. The Company has provided
17 estimates of the accumulated deferred income tax balances at December 31, 1996 in
18 response to discovery (KIUC 1st, Item 43(b)).

1 **Q. Referring again to Exhibit EKW-6 page 9. Are there other changes that should**
2 **be made to the format to reflect recommendations made previously in your**
3 **testimony?**

4

5 A. Yes. The monthly weighted average cost of capital should be the debt rate I
6 previously recommended for Rockport rather than the grossed up cost of capital
7 reflected on these exhibits. In addition, the Kentucky jurisdictional allocation factor
8 should be based upon total revenue consistent with the Kentucky Commission's
9 practice.

1 Second, all or virtually all of the fuel savings resulting from the use of higher sulfur
2 and presumably lower cost coal are retained by Ohio Power Company. Kentucky
3 Power Company does not share in those fuel savings, except perhaps to a minimal
4 extent through the AEP pool. Thus, the Company's proposal would recover the costs
5 of the Gavin scrubber from Kentucky Power Company ratepayers without providing
6 them a proportionate share of the fuel savings benefits. That would be inequitable
7 and an abuse of the extraordinary ratemaking under the environmental surcharge
8 statute.

9
10 Third, and similar to the situation with the Rockport CEMS costs, there has been no
11 offset reflected in the Company's filing to recognize either the compliance benefits
12 afforded the AEP system through the operation of the Big Sandy plant and the KPC
13 net sales into the AEP pool.

14
15 The Commission should recognize that Kentucky Power Company provides net
16 compliance benefits to the rest of the AEP system, for which it receives no capacity
17 settlement compensation or other fixed cost reimbursement under the AEP
18 Interconnection Agreement. As such, it is not appropriate for the Commission to
19 authorize the extraordinary ratemaking recovery through the environmental surcharge
20 mechanism for the Gavin scrubber costs.

1 **Q.** Referring again to Exhibit EKW-6 page 5. Is there a change that should be
2 made to the format to reflect recommendations made previously in your
3 testimony?

4

5 A. Yes. To the extent that any Gavin scrubber costs are allowed recovery through the
6 environmental surcharge, the Kentucky jurisdictional allocation factor should be based
7 upon total revenue consistent with the Kentucky Commission's practice.

8

9 **Q.** Does this complete your testimony?

10

11 A. Yes.

12

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

**The Application of Kentucky Power
Company d/b/a American Electric
Power to Assess a Surcharge Under
KRS 278.183 to Recover Costs of
Compliance with the Clean Air Act
and Those Environmental Requirements
Which Apply to Coal Combustion Wastes
and By-Products**

Case No. 96-489

**EXHIBITS
OF
LANE KOLLEN**

**ON BEHALF OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

**J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA**

MARCH 1997

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Certified Management Accountants

Institute of Management Accountants

Seventeen years utility industry experience in the financial, rate, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

J. KENNEDY AND ASSOCIATES, INC.

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to
Present:

Kennedy and Associates: Vice President and Principal. Responsible for utility revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Minnesota, North Carolina, Ohio, Pennsylvania, Texas, and West Virginia Public Service Commissions and the Federal Energy Regulatory Commission.

1983 to
1986:

Energy Management Associates: Lead Consultant.
Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to
1983:

The Toledo Edison Company: Planning Supervisor.
Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

- Rate phase-ins.
- Construction project cancellations and write-offs.
- Construction project delays.
- Capacity swaps.
- Financing alternatives.
- Competitive pricing for off-system sales.
- Sale/leasebacks.

J. KENNEDY AND ASSOCIATES, INC.

RESUME OF LANE KOLLEN, VICE PRESIDENT

CLIENTS SERVED

Industrial Companies and Groups

Air Products and Chemicals, Inc.	Lehigh Valley Power Committee
Airco Industrial Gases	Maryland Industrial Group
Alcan Aluminum	Multiple Intervenors (New York)
Armco Advanced Materials Co.	National Southwire
Armco Steel	North Carolina Industrial
Bethlehem Steel	Energy Consumers
Connecticut Industrial Energy Consumers	Occidental Chemical Corporation
ELCON	Ohio Industrial Energy Consumers
Enron Gas Pipeline Company	Ohio Manufacturers Association
Florida Industrial Power Users Group	Philadelphia Area Industrial Energy
General Electric Company	Users Group
GPU Industrial Intervenors	PSI Industrial Group
Indiana Industrial Group	Smith Cogeneration
Industrial Consumers for	Taconite Intervenors (Minnesota)
Fair Utility Rates - Indiana	West Penn Power Industrial Intervenors
Industrial Energy Consumers - Ohio	West Virginia Energy Users Group
Kentucky Industrial Utility Consumers	Westvaco Corporation

Regulatory Commissions and Government Agencies

Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
New York State Energy Office
Office of Public Utility Counsel (Texas)

RESUME OF LANE KOLLEN, VICE PRESIDENT

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation

Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim 19th Judicial District Ct.	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements. Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR- 87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County completion.
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric Corp.	Financial workout plan.
5/88	M-87017-1C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017-2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.
7/88	M-87017-1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92
7/88	M-87017-2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdic.	Party	Utility	Subject
10/88	88-171- EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800 355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71)
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of cancelled plant.
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Recovery of CAAA costs, least cost financing.
9/91	91-231 -E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
12/91	91-410-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715-AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdic.	Party	Utility	Subject
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions, fuel.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464- EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine closure costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Audit and investigation into fuel clause costs.

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Nuclear and fossil unit performance, fuel costs, fuel clause principles and guidelines.
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.
9/94	U-19904 Initial Post- Merger Earnings Review	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone & Telegraph Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone & Telegraph Co.	Alternative regulation, cost allocation.
11/94	U-19904 Initial Post- Merger Earnings Review (Rebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Revenue requirements. Fossil dismantling, nuclear decommissioning.
6/95	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone & Telegraph Co.	Incentive regulation, affiliate transactions, revenue requirements, rate refund.
6/95	U-19904 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
10/95	95-02614	TN	Tennessee Office of the Attorney General Consumer Advocate	BellSouth Telecommunications, Inc.	Affiliate transactions.
10/95	U-21485 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.

**Expert Testimony Appearances
of
Lane Kollen
As of February 1997**

Date	Case	Jurisdic.	Party	Utility	Subject
11/95	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Division	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
11/95	U-21485 (Subblemental Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
12/95	I-21485 (Surrebuttal)				
1/96	95-299- EL-AIR 95-300- EL-AIR	OH	Industrial Energy Consumers	The Toledo Edison Co. The Cleveland Electric Illuminating Co.	Competition; asset writeoffs and revaluation, O&M expense, other revenue requirement issues.
7/96	8725	MD	The Maryland Industrial Group and Redland Genstar, Inc.	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Merger savings, tracking mechanism, earnings sharing plan, revenue requirement issues.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues, allocation of regulated/nonregulated costs.

**American Electric Power-Kentucky
Environmental Surcharge Calculations
Low NOx Burners - Unit 2
August 1996**

Line No.	Description	\$ (1)	\$ (2)			
1	Installed Cost as of 12/95* (Unit 2)	\$9,899,554				
2	Less: Accumulated Depreciation	592,496				
3	Net Book Value as of 7/96	9,307,058				
4	Monthly Weighted Avg Cost of Capital (Page 8 of 12, Ln 4)	0.010644				
5	Monthly Carrying Costs		99,064			
6	Installed Cost as of 12/95	9,899,554				
7	Monthly Depreciation Rate	0.003150				
8	Monthly Depreciation Cost		31,184			
9	Monthly Property Tax		550			
10	Total Monthly Cost		130,798			
11	KPSC Jurisdictional Allocation Factor		0.986			
12	KPSC Jurisdictional Amt (L10 x L11)		<u>\$128,967</u>			

* In Service Date 12/94

Exhibit (LK-2)
Page 1 of 2

**American Electric Power-Kentucky
Environmental Surcharge Calculations
Continuous Emission Monitors - Units 1 and 2
August 1996**

Line No.	Description	\$ (1)	\$ (2)
1	Installed Cost as of 12/95* (Units 1 & 2)	\$1,301,138	
2	Less: Accumulated Depreciation	110,673	
3	Net Book Value as of 7/96	1,190,465	
4	Monthly Weighted Avg Cost of Capital (Page 8 of 12, Ln 4)	0.010644	
5	Monthly Carrying Costs		12,671
6	Installed Cost as of 12/95	1,301,138	
7	Monthly Depreciation Rate	0.003150	
8	Monthly Depreciation Cost		4,099
9	Monthly Property Tax		72
10	Total Monthly Cost		16,842
11	KPSC Jurisdictional Allocation Factor		0.986
12	KPSC Jurisdictional Amt (L10 x L11)		<u>\$16,606</u>

* In Service Date 4/94

American Electric Power-Kentucky
 Environmental Surcharge Calculations
 Rockport Generating Station
 Continuous Emission Monitors
 August 1996

Line No.	Description	\$ (1)	\$ (2)
1	Installed Cost as of 12/95*	\$1,370,584	
2	Less: Accumulated Depreciation	80,556	
3	Net Book Value as of 7/96	1,290,028	
4	Monthly Weighted Avg Cost of Capital (Page 11 of 12, Ln 6)	0.007295	
5	Monthly Carrying Costs		9,411
6	Installed Cost as of 12/95	1,370,584	
7	Monthly Depreciation Rate	0.002792	
8	Monthly Depreciation Cost		3,836
9	Total Monthly Cost		13,247
10	AEP-Kentucky Percentage 15%		0.15
11	AEP-Kentucky Amount (L9 x L10)		1,987
12	KPSC Jurisdictional Allocation Factor		0.986
13	KPSC Jurisdictional Amt (L11 x L12)		\$1,959

* In Service Date 10/94

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1995

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address; and Telephone Number</u>	<u>I.R.S. Employer Identification No.</u>
1-3525	AMERICAN ELECTRIC POWER COMPANY, INC. (A New York Corporation) 1 Riverside Plaza Columbus, Ohio 43215 Telephone (614) 223-1000	13-4922640
0-18135	AEP GENERATING COMPANY (An Ohio Corporation) 1 Riverside Plaza Columbus, Ohio 43215 Telephone (614) 223-1000	31-1033833
1-3457	APPALACHIAN POWER COMPANY (A Virginia Corporation) 40 Franklin Road, S.W. Roanoke, Virginia 24011 Telephone (540) 985-2300	54-0124790
1-2680	COLUMBUS SOUTHERN POWER COMPANY (An Ohio Corporation) 215 North Front Street Columbus, Ohio 43215 Telephone (614) 464-7700	31-4154203
1-3570	INDIANA MICHIGAN POWER COMPANY (An Indiana Corporation) One Summit Square P. O. Box 60 Fort Wayne, Indiana 46801 Telephone (219) 425-2111	35-0410455
1-6858	KENTUCKY POWER COMPANY (A Kentucky Corporation) 1701 Central Avenue Ashland, Kentucky 41101 Telephone (800) 572-1113	61-0247775
1-6543	OHIO POWER COMPANY (An Ohio Corporation) 301 Cleveland Avenue, S.W. Canton, Ohio 44702 Telephone (330) 456-8173	31-4271000

AEP Generating Company, Columbus Southern Power Company and Kentucky Power Company meet the conditions set forth in General Instruction J(1)(a) and (b) of Form 10-K and are therefore filing this Form 10-K with the reduced disclosure format specified in General Instruction J(2) to such Form 10-K.

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes . No. .

Sale of Power

AEP's electric utility subsidiaries own or lease generating stations with total generating capacity of 23,759 megawatts. See Item 2 for more information regarding the generating stations. They operate their generating plants as a single interconnected and coordinated electric utility system and share the costs and benefits in the AEP System Power Pool. Most of the electric power generated at these stations is sold, in combination with transmission and distribution services, to retail customers of AEP's utility subsidiaries in their service territories. These sales are made at rates that are established by the public utility commissions of the state in which they operate. See *Rates*. Some of the electric power is sold at wholesale to non-affiliated companies.

AEP System Power Pool

APCo, CSPCo, I&M, KEPCo and OPCo are parties to the Interconnection Agreement, dated July 6, 1951, as amended (the Interconnection Agreement), defining how they share the costs and benefits associated with the System's generating plants. This sharing is based upon each company's "member-load-ratio," which is calculated monthly on the basis of each company's maximum peak demand in relation to the sum of the maximum peak demands of all five companies during the preceding 12 months. In addition, since 1995, APCo, CSPCo, I&M, KEPCo and OPCo have been parties to the AEP System Interim Allowance Agreement which provides, among other things, for the transfer of SO₂ Allowances associated with transactions under the Interconnection Agreement.

The following table shows the net credits or (charges) allocated among the parties under the Interconnection Agreement and Interim Allowance Agreement during the years ended December 31, 1993, 1994 and 1995:

	1993	1994	1995(a)
	(in thousands)		
APCo	\$(260,000)	\$(254,000)	\$(252,000)
CSPCo	(141,000)	(105,000)	(143,000)
I&M	183,000	107,000	118,000
→ KEPCo	1,000	12,000	23,000
OPCo	217,000	240,000	254,000

(a) Includes credits and charges from allowance transfers related to the transactions.

In July 1994, APCo, CSPCo, I&M, KEPCo and OPCo entered into the AEP System Interim Allowance Agreement (IAA). Reference is made to *Environmental and Other Matters — Clean Air Act Amendments of 1990* for a discussion of SO₂ Allowances. The IAA provides for and governs the terms of the following allowance transactions among the parties which began January 1, 1995: (1) an annual reallocation of certain SO₂ Allow-

ances initially allocated by the Federal EPA to OPCo's Gavin Plant; (2) transfer of SO₂ Allowances associated with energy transactions among APCo, CSPCo, I&M, KEPCo and OPCo, (3) a monthly cash settlement for SO₂ Allowances consumed in connection with power sales to non-affiliated electric utilities; and (4) transfers of SO₂ Allowances for current and future period compliance. The IAA does not provide for the allocation of costs and proceeds related to the sale or purchase of SO₂ Allowances to or from non-affiliated companies. The IAA was accepted by the FERC on December 30, 1994.

Wholesale Sales of Power to Non-Affiliates

AEGCo, APCo, CSPCo, I&M, KEPCo and OPCo also sell electric power on a wholesale basis to non-affiliated electric utilities and power marketers. Such sales are either made by the AEP System and then allocated among APCo, CSPCo, I&M, KEPCo and OPCo based on member-load-ratios or made by individual companies pursuant to various long-term power agreements. The following table shows the amounts contributed to operating income of the various companies from such sales during the years ended December 31, 1993, 1994 and 1995:

	1993(a)	1994(a)	1995(a)
	(in thousands)		
AEGCo(b)	\$ 32,500	\$ 30,800	\$ 29,200
APCo(c)	23,600	25,000	24,100
CSPCo(c)	12,000	11,700	12,000
I&M(c)(d)	35,300	34,600	34,700
KEPCo(c)	4,900	4,800	5,000
OPCo(c)	20,700	20,000	20,200
Total System	\$129,000	\$126,900	\$125,200

- (a) Such sales do not include wholesale sales to full/partial requirement customers of AEP System companies. See the discussion below.
- (b) All amounts for AEGCo are from sales made pursuant to a long-term power agreement. See *AEGCo — Unit Power Agreements*.
- (c) All amounts, except for I&M, are from System sales which are allocated among APCo, CSPCo, I&M, KEPCo and OPCo based upon member-load-ratio. All System sales made in 1993, 1994 and 1995 were made on a short-term basis, except that \$16,800,000, \$21,800,000 and \$22,500,000, respectively, of the contribution to operating income for the total System were from long-term System sales.
- (d) In addition to its allocation of System sales, the 1993, 1994 and 1995 amounts for I&M include \$21,600,000, \$21,600,000 and \$21,000,000 from a long-term agreement to sell 250 megawatts of power scheduled to terminate in 2009.

The AEP System has long-term system agreements to sell 100 megawatts of electric power through 1997 and to sell at times up to 200 megawatts of peaking power through March 1997 to unaffiliated utilities. In addition, commencing January 1996, the AEP System began supplying 205 megawatts of electric power to an unaffiliated utility for 15 years and commencing September 1996, the

KPSC Case No. 96-489

KIUC (1st Set)

Dated January 13, 1997

Item No. 51

Sheet 1 of 2

Kentucky Power Company

d/b/a

American Electric Power

REQUEST:

- a. Please refer to the AEP 1995 SEC 10-K, section entitled AEP System Power Pool. Please provide a schedule detailing all credits and (charges) as those terms are used in that section underlying the net credit amount of \$23 million received by Kentucky Power from the other AEP companies.
- b. Please provide a schedule underlying the net credit amount of \$12 million in 1994 in the same format as the response to part (a) of this question.
- c. Please provide a schedule underlying the net credit amount of \$1 million in 1993 in the same format as the response to part (a) of this question.
- d. Please explain the growth in the net credit amount referenced in part (a) of this question from \$1 million in 1993 and \$12 million in 1994.

RESPONSE:

- a,b,c. A schedule detailing the credits and charges supporting the net credit amount received by Kentucky Power from other AEP companies for the years ended December 31, 1995, 1994 and 1993 is shown on the attached schedule.
- d. The growth in the net credit amount from \$1 million in 1993 to \$23 million in 1995 was mainly due to increased sales of energy to the AEP System Power Pool (Power Pool) coupled with decreased purchases from the Power Pool. The increased sales of energy to the Power Pool are attributable to increased availability of the Company's Big Sandy generating units and in 1995 to increased weather-related energy demand of affiliated Power Pool members and increased sales by the Power Pool to unaffiliated utilities. The reduction in energy purchases from Power Pool reflects the availability of the Company's generating capacity. Significant outages at Big Sandy Plant for maintenance were: Unit 1: from 6/2-6/30/95 and 9/9-9/24/94; Unit 2: 9/9-12/17/94 and 3/19-7/11/93.

WITNESS: E.K. Wagner

86-KIUC

KENTUCKY POWER COMPANY
SALES FOR RESALE ANALYSIS

KPSC Case No. 96-489
KIUC(1st Set)
Dated January 13, 1997
Item No. 51
Sheet 2 of 2

	YEAR ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	1995	1994	1995	1994
	(\$ in thousands)			
OPERATING REVENUES FROM SALES OF ENERGY TO THE AEP SYSTEM POWER POOL. . . .	38,930	31,620	27,322	3,315,895
				2,673,673
				2,375,221

PURCHASED POWER EXPENSE FOR AEP SYSTEM POWER POOL CAPACITY AND ENERGY:				
CAPACITY CHARGE.	6,489	1,921	5,490	0
ENERGY COST.	9,493	18,103	20,870	618,782
				1,086,716
TOTAL PURCHASED POWER EXPENSE.	15,982	20,024	26,360	618,782
				1,086,716
				1,391,455

NET CREDIT	22,948	11,596	962	
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KPSC Case No. 96-489
KIUC (1st Set)
Dated January 13, 1997
Item No. 51
Sheet 2 of 2

American Electric Power-Kentucky
Environmental Surcharge Calculations
Pool Capacity Costs Associated with Scrubber Costs
August 1996

Line No.	Description	\$		
		(1)		
1	Weighted Average Rate (\$/kw) of Gavin Scrubber	\$0.63677 ^{1/}		
2	Member Capacity Deficit	82,900 kw/mo		
3	Total Pool Capacity Cost Associated with Scrubber Costs	52,788		
4	KPSC Jurisdictional Allocation Factor	0.986		
5	KPSC Jurisdictional Amount (L5 x L6)	\$52,049		

^{1/} Source: See Exhibit MDK- 3, Ln 11, August column (.64 is rounded)