

421 West Main Street
Post Office Box 634
Frankfort, KY 40602-0634
[502] 223-3477
[502] 223-4124 Fax
www.stites.com

May 6, 2011

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MAY 06 2011

PUBLIC SERVICE
COMMISSION

HAND DELIVERED

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

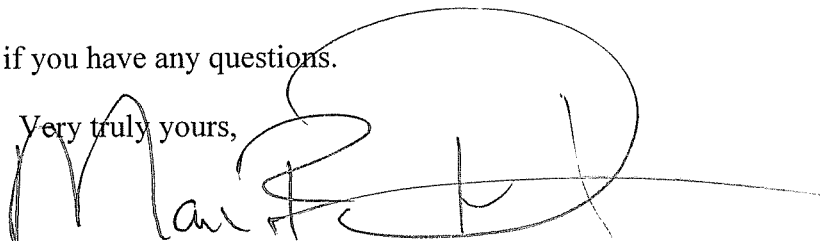
RE: P.S.C. Case No. 2011-00031 (Kentucky Power Environmental Surcharge Review)

Dear Mr. Derouen:

Enclosed please find and accept for filing an original and six copies of Kentucky Power Company's Responses to Commission Staff's April 18, 2011 Informal Conference Data Requests.

Please do not hesitate to contact me if you have any questions.

Very truly yours,



Mark R. Overstreet

MRO

cc: Dennis G. Howard, II
Michael L. Kurtz

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

MAY 06 2011

IN THE MATTER OF

PUBLIC SERVICE
COMMISSION

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION ON THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NO. 2011-00031
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING DECEMBER 31, 2010)

KENTUCKY POWER COMPANY RESPONSES TO COMMISSION STAFF'S
APRIL 18, 2011 INFORMAL CONFERENCE DATA REQUESTS

May 6, 2011

Kentucky Power Company

REQUEST

Refer to the Company's response to Item No. 1 of the Commission's First Set of Data Requests. Please explain whether or not polymer, lime hydrate and steam expense are being recovered by Kentucky Power through the AEP Pool Capacity Charges approved in the 2009 Rate Case No. 2009-00459.

- a. Please provide a brief narrative explaining how polymer is used in the emissions control process.

RESPONSE

Polymer, lime hydrate, and steam expense are part of the fixed operating rate in the capacity charges. However, KPCo recovers these and other environmental expenses through base rates only at the 9/30/09 test year level. This base amount is subtracted from the total monthly environmental costs to determine whether the environmental surcharge is a debit or credit to the bill.

- a. Polymer is used in the settling process after the absorption reaction occurs in the stacks. The polymer is added to the process to aid the solids in coagulation so that the centrifuges can remove the solids and clear water can be sent back to the towers to have fresh lime added to make the slurry. The polymer also works to "lubricate" the walls of the centrifuge. This makes it easier for the solids to traverse the walls and exit the centrifuge to the cake conveyors and prevents the solids from clumping together and clinging to the sides and walls, which can create operational issues for the centrifuge.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Refer to the Company's response to Item No. 4 of the Commission's First Set of Data Requests. Please explain the primary reason(s) for the large expense for emissions testing maintenance for Big Sandy in the October 2010 expense month.

RESPONSE

The large maintenance expense for October resulted from labor and material costs associated with the order of magnitude study completed on Big Sandy Unit 1 by Sargent & Lundy and shipping the SO₃ soot blower to Republic Pneumatics for repair.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Refer to the Company's response to Item No. 7 of the Commission's First Set of Data Requests. Please provide the contract period for the contract with Solvay Chemicals to provide Trona for Kentucky Power.

RESPONSE

The contract with Solvay Chemicals is a blanket contract that covers the entire AEP fleet. The contract commenced on January 1, 2008 and will remain in effect until December 31, 2014.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Refer to the Company's response to Item No. 8 of the Commission's First Set of Data Requests. Please explain whether Kentucky Power has traditionally obtained its limestone supplies from Wyoming or if this is a new supplier due to economic or other reasons.

RESPONSE

The Company does not receive limestone supplies from Wyoming as originally stated. The statement to the contrary was inaccurate. Kentucky Power obtains limestone from Hilltop Basic Resources, Inc., Battletown, Kentucky and Mulzer Crushed Stone, Inc., Cape Sandy, Indiana.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Refer to the Company's response to Item No. 16 of the Commission's First Set of Data Requests. Please provide a corrected page 18 of 19 with the percentage for Uncollectible Account Expenses listed as .22 and not .0022 as originally filed.

RESPONSE

The requested document is attached.

WITNESS: Lila P Munsey

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT
 CURRENT PERIOD REVENUE REQUIREMENT
 BIG SANDY PLANT COST OF CAPITAL

For the Expense month of XXXXXXXX XX, 2010

LINE NO.	Component	Balances	Cap Structure	Cost Rates		WACC (Net of Tax)	GRCF	WACC (PRE-TAX)	
		As of 10/31/2010							
1	L/T DEBT	\$550,000,000	50.859%	6.48%		3.30%		3.30%	
2	S/T DEBT	\$0	0.000%	0.01%		0.00%		0.00%	
	ACCTS REC								
3	FINANCING	\$41,323,205	3.821%	1.18%		0.05%		0.05%	
4	C EQUITY	\$490,091,762	45.319%	10.50%	1/	4.76%	1.5764	7.501%	
5	TOTAL	\$1,081,414,967	100.000%			8.11%		10.85%	
1/	WACC = Weighted Average Cost of Capital Rate of Return on Common Equity per Case No. 2009 - 00316								
2/	Gross Revenue Conversion Factor (GRCF) Calculation: Case No. 2009 - 00316 dated - January 20, 2010								
1	OPERATING REVENUE						100.0000		
2	UNCOLLECTIBLE ACCOUNTS EXPENSE (0.22%)						0.2200		
3	Kentucky Public Service Commission Assessment (0.15%)						0.1500		
4	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						99.6300		
5	STATE INCOME TAX EXPENSE, NET OF 199 DEDUCTION (SEE BELOW)						5.6396		
6	FEDERAL TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						93.9904		
7	199 DEDUCTION PHASE-IN						5.6372		
8	FEDERAL TAXABLE PRODUCTION INCOME						88.3532		
9	FEDERAL INCOME TAX EXPENSE AFTER 199 DEDUCTION (35%)						30.9236		
10	AFTER-TAX PRODUCTION INCOME						57.4296		
11	GROSS-UP FACTOR FOR PRODUCTION INCOME:								
12	AFTER-TAX PRODUCTION INCOME						57.4296		
13	199 DEDUCTION PHASE-IN						5.6372		
14	UNCOLLECTIBLE ACCOUNTS EXPENSE						0.2200		
15	Kentucky Public Service Commission Assessment (0.15%)						0.1500		
16	TOTAL GROSS-UP FACTOR FOR PRODUCTION INCOME (ROUNDED)						63.4368		
17	BLENDED FEDERAL AND STATE TAX RATE:								
18	FEDERAL (LINE 8)						30.9236		
19	STATE (LINE 4)						5.6396		
20	BLENDED TAX RATE						36.5632		
21	GROSS REVENUE CONVERSION FACTOR (100.0000 / Line 14)						1.5764		
	STATE INCOME TAX CALCULATION:								
1	PRE-TAX PRODUCTION INCOME						100.0000		
2	COLLECTIBLE ACCOUNTS EXPENSE (0.22%)						0.2200		
3	Kentucky Public Service Commission Assessment (0.15%)						0.1500		
4	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						99.6300		
5	LESS: STATE 199 DEDUCTION						5.6372		
6	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						93.9928		
7	STATE INCOME TAX RATE						6.0000		
8	STATE INCOME TAX EXPENSE (LINE 5 X LINE 6)						5.6396		

The WACC (PRE - TAX) value on Line 5 is to be recorded on ES FORM 3.10, Line 9.
 Weighted Average Cost of Capital Balances As of 4/30/2010 based on Case No. 2010-00318, dated January 24, 2011.