

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

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MAR 31 2011

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF

THE APPLICATION OF AEP KENTUCKY)
TRANSMISSION COMPANY, INC.)
FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO)
OPERATE AS A TRANSMISSION ONLY)
PUBLIC UTILITY)

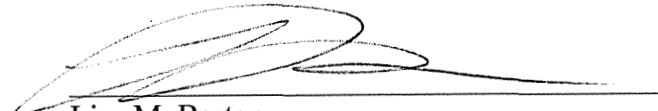
CASE NO. 2011-00042

RESPONSES OF KENTUCKY POWER COMPANY TO
ATTORNEY GENERAL'S FIRST SET OF DATA REQUESTS

March 31, 2011

AFFIDAVIT

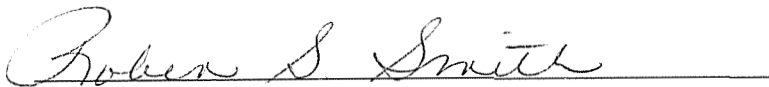
Lisa M. Barton, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to her at a hearing before the Public Service Commission of Kentucky, she would give the answers recorded following each of said questions and that said answers are true.



Lisa M. Barton

State of Ohio)
)
County of Franklin) Case No. 2011-00042

Subscribed and sworn to before me, a Notary Public, by Lisa M. Barton this 28th
day of March 2011.



Notary Public


My Commission Expires November 2, 2013



ROBIN S. SMITH
NOTARY PUBLIC
IN AND FOR THE STATE OF OHIO
MY COMMISSION EXPIRES
NOVEMBER 2, 2013

AFFIDAVIT


Ranie K. Wohnhas, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.



Ranie K. Wohnhas

Commonwealth of Kentucky)
)
County of Franklin) Case No. 2011-00042

Subscribed and sworn before me, a Notary Public, by Ranie K. Wohnhas this
30th day of March, 2011.



Notary Public

My Commission Expires January 13, 2011

Kentucky Power Company

REQUEST

Please provide copies of any and all original studies indicating how the new transmission subsidiary ("Transco") would impact Kentucky Power's ratepayers from a monetary perspective (i.e., how much more they can expect to pay) in the event the Kentucky PSC should approve the petition in the instant matter.

- a. Provide a break down by ratepayer class regarding the monetary impact.
- b. To the extent possible, illustrate the financial impact to Kentucky Power's ratepayers over:
 - (i) One year;
 - (ii) Five years;
 - (iii) Ten years;
 - (iv) Fifteen years; and
 - (v) Twenty years.
- c. Provide copies of any and all correspondence between Kentucky Power officials and its parent, American Electric Power, and its other subsidiaries, regarding the instant matter.

RESPONSE

Please refer to Exhibit RKW-1 and pages 7-12 in the direct testimony of Witness Wohnhas which provides an illustrative comparison of the cost impact to Kentucky Power's ratepayers.

It is important to note that one of the first steps in the process of creating the new Transco Companies was to establish wholesale rates under the PJM OATT that are very similar to the existing wholesale transmission rates recently approved by the FERC for the AEP Operating Companies, including Kentucky Power, in FERC Docket No. ER08-1329. This was a critical objective to ensure that wholesale transmission customers, including Kentucky Power, would pay very similar rates for new transmission facilities regardless if those new facilities were owned by the new Transco Companies or by the AEP Operating Companies. As discussed by Witness Wohnhas, the settlement filed with FERC Docket No. ER10-355 would establish wholesale rates for the Transco Companies that meets this objective.

As discussed by Witness Wohnhas, the weighted average cost of capital approved to be used in wholesale transmission rates is somewhat higher than the weighted average cost of capital last approved by this Commission for Kentucky Power's bundled retail rates. The pro forma analysis presented in Exhibit RKW-1 attempts to quantify the effect of this difference to Kentucky retail ratepayers. Through this analysis, the Company has shown from a customers perspective there would be no material difference between the two alternatives in the short term and it also shows that changing of the current rate treatment (i.e. allow a transmission tracker) would effectively eliminate that difference.

The long term impact of stable credit ratings should allow the Kentucky Power Company access to capital at lower interest rates and those lower costs are passed on to the customer. In addition, it is very important to keep Kentucky Power's credit rating at investment grade because a downgrade to a non-investment grade credit rating would significantly increase cost to customers. The comparison should be viewed as support to allow the KY Transco and other changes in rate treatment that will move towards a reduction in the total cost to the customer.

- a. Any break down by ratepayer class would follow the current rate design allocation.
- b. Kentucky Power has not performed any such analysis.
- c. Kentucky Power was provided with the pro-forma analysis, filed as part of Witness Wohnhas' testimony, and White Paper, filed as part of Witness Boteler's testimony. No other correspondence has been located.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Does AEP agree that if the Kentucky PSC grants AEP's petition in the instant matter, that the Kentucky PSC would lose jurisdiction regarding any transmission projects which the contemplated Transco would assume? If AEP disagrees, state in complete detail why the company disagrees, and provide all documentation necessary to support the company's assertion.

RESPONSE

No. Please refer to response to AG First Set No. 3.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

In the event the Kentucky PSC grants AEP's petition in the instant matter, confirm that FERC would have sole jurisdiction and authority over approval of any transmission projects the new Transco would assume.

RESPONSE

This is not true. FERC only has authority over the OATT charges that can be recovered. Authority to build any new transmission project that needs a Certificate of Public Convenience and Necessity will continue to be regulated by this commission whether it is requested by Kentucky Power Company or K.Y. Transco.

WITNESS: Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Confirm that FERC awards a rate of return on transmission projects, together with an incentive-based rate of return.

RESPONSE

Yes, FERC awards a rate of return (on equity) for purposes of determining wholesale rates for transmission projects and, in certain circumstances, that rate of return on equity does include incentives.

As it applies to this instant application, under FERC Docket No. ER10-355-000 (AEP Transco's formula rates), a settlement filed on September 24, 2010 seeks approval of a base return on common equity of 10.99% plus a 50 basis point adder (incentive) for continued Regional Transmission Organization participation, for a total of 11.49% return on equity. This is the same base ROE (10.99%) and same 50 basis point adder that was recently approved and is currently in effect for Kentucky Power Company's wholesale transmission rates under the PJM OATT (FERC Docket No. ER08-1329).

KY Transco and/or Kentucky Power Company may in the future seek additional incentives for specific projects, if any future project merits consideration for incentives. However, it would be the nature of the project that drives consideration for additional incentives and not simply the fact that the project is owned by KY Transco. KY Transco and Kentucky Power Company would be equally likely to seek additional incentives for projects that merit consideration.

Finally, FERC has also granted incentive return on equity for independent transmission companies that are not affiliated with generation-owning or distribution-owning companies. KY Transco is not an independent transmission company and, as such, could not seek these incentives.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Provide copies of all analyses analyzing and/or forecasting the rates of return AEP can, could or would expect if FERC becomes the sole regulatory authority reviewing transmission projects which the new Transco would assume.

- a. To the extent possible, illustrate the financial impact to AEP over:
 - (i) One year;
 - (ii) Five years;
 - (iii) Ten years;
 - (iv) Fifteen years; and
 - (v) Twenty years.
- b. Provide copies of all analyses analyzing and / or forecasting the rates of return AEP can, could or would expect if the Kentucky PSC continues to retain the degree of authority that it currently exercises with regard to Kentucky-based transmission projects and rates of return.

RESPONSE

- a. FERC is not and would not become if the application is granted the sole regulatory authority reviewing transmission projects which the new Transco would undertake.
- b. AEP is an unregulated entity and is not assigned a rate of return. To the extent the data request is referring to Kentucky Power Company and the outcome of this proceeding, there are no such analyses.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Provide copies of all analyses analyzing and/or forecasting the monetary benefit or detriment AEP could or is likely to experience in all states in which it is filing for permission to create the Transco contemplated in the instant petition.

- a. To the extent possible, illustrate the financial impact AEP will experience in all such states over:
 - (i) One year;
 - (ii) Five years;
 - (iii) Ten years;
 - (iv) Fifteen years; and
 - (v) Twenty years.

RESPONSE

KY Transco objects to this data request to the extent it seeks information about the financial effect on AEP, which is not a public utility, or the effect on AEP of proceedings in any jurisdiction other than Kentucky. KY Transco further objects and is unable to answer this data request because it is unclear from the request the nature of contingency giving rise to the financial impact inquired about.

WITNESS: Ranie K Wohnhas