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March 31, 2011

RECEIVED
MAR 31 2011
PUBLIC SERVICE COMMISSION

Mark R. Overstreet
(502) 209-1219
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HAND DELIVERED

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

RE: Case No. 2011-00042

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Transmission Company, Inc.'s responses to the data requests propounded by Staff and the Attorney General in the above matter. Copies of the responses are being served upon the undersigned.

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

Very truly yours,

Mark R. Overstreet

MRO
cc: Michael L. Kurtz
Lawrence W. Cook

RECEIVED

MAR 31 2011

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

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
COMMISSION STAFF'S INITIAL 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)
) Case No. 2011-00042
County of Franklin)

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

Rober S. Smith
Notary Public

My Commission Expires November 2, 2013

NOTARIAL SEAL
STATE OF OHIO

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

AFFIDAVIT

Jerald R. Boteler, Jr. 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.

JERALD R. BOTELER, JR.

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

Subscribed and sworn to before me, a Notary Public, by Jana T. Croom this 25th day of March, 2011.

3/25/11

Notary Public

My Commission Expires 11/17/2011

NOTARIAL SEAL
STATE OF OHIO

JANA T. CROOM
Notary Public
In and for
the State of Ohio
My Commission Expires
11/17/2011

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

Ranie K. Wohnhas

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

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

Judy K Rosquist

Notary Public

My Commission Expires January 23, 2013

Kentucky Power Company

REQUEST

Refer to page 2, paragraph 4, of KY Transco's application. Explain whether Kentucky Transco is a voting member of PJM Interconnection LLC ("PJM"). If yes, as one of six AEP transmission subsidiaries, explain whether it will have the same voting power as each of the other five subsidiaries.

RESPONSE

No. KY Transco is not a voting member at PJM's two senior committees (Members Committee (MC) and Markets & Reliability Committee (MRC)) whose approval is necessary for any new action by PJM.

Currently, American Electric Power is the voting member in PJM and AEP has one vote at each of PJM's two senior committees (Members Committee (MC) and Markets & Reliability Committee (MRC)).

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to page 2 of KY Transco's application, the last sentence of paragraph 4, which states that KY Transco "[w]ill own, control, operate and manage facilities to be used for the transmission of electricity to the public for compensation."

a. Provide the names of, or in the alternative, a general description of, the customers KY Transco intends to serve that will constitute "the public" as that term is generally used in the Commission's statutes and regulations.

b. If it were determined that KY Transco is not a utility as defined in KRS 278.010, explain whether KY Transco believes it would be subject to the jurisdiction of the Kentucky Board of Electric Generation and Transmission Siting.

RESPONSE

a. KY Transco will provide transmission service at wholesale to load service entities within PJM, including Kentucky Power Company and other wholesale customers in the Commonwealth of Kentucky. These load service entites will utilize transmission service provided by KY Transco to provide service to customers at retail. These wholesale customers constitute a portion of an indefinite public which has a legal right to demand and receive transmission service.

b. KY Transco believes it would be subject to the jurisdiction of the Kentucky Board of Electric Generation and Transmission Siting if it were determined not to be a utility.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to page 5, paragraph 12 (a), of the application.

a. Explain who determines/approves the regional planning process discussed in the last sentence.

b. Explain whether this planning is in accordance with the guidelines of PJM, AEP Transmission LLC ("AEPTCo"), or another entity.

RESPONSE

a. PJM holds the responsibility and authority for planning the regional transmission system, including AEP, as designated by FERC.

b. PJM plans the system in coordination with AEP pursuant to planning criteria filed under FERC 715 and in compliance with NERC rules and regulations. The transmission systems associated with all AEP entities are planned under the same criteria.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to the application, page 8, and last sentence of paragraph 17, which reads "[d]ecisions to undertake the majority of new transmission investments facing Kentucky Power are no longer within the exclusive control of Kentucky Power and AEP Transmission, as many such investments are now mandated by NERC and PJM."

a. Describe the extent to which future transmission investments that may be mandated by the North American Electric Reliability Corporation ("NERC") or PJM, which may not relate to service provided to Kentucky customers, can be determined to be required by the "[p]ublic convenience and necessity" as jurisdictional to this Commission pursuant to KRS 278.020.

b. Explain why a future transmission line mandated by entities such as NERC or PJM for the purpose of improving regional reliability, but that would otherwise not be constructed, would not be considered a "[n]onregulated electric transmission line" as the term is defined in KRS 278.700(5).

RESPONSE

a. NERC requires that the transmission system be tested in accordance with specific guidelines. As the RTO and the planning authority for AEP, PJM tests the transmission system and determines any upgrades AEP is required to construct to maintain reliability of the system. Thus, all of these upgrades identified would be directly related to the service provided to Kentucky customers. The designation of need, however, lies with PJM. Any line sited in Kentucky would require a Certificate of Public Convenience and Necessity per Kentucky state regulations.

b. Kentucky Power Company does not own any transmission assets there are considered a "[n]onregulated electric transmission line" as the term is defined in KRS 278.700(5). Similarly, the Company does not expect that any future assets owned by KY Transco would be considered as such, regardless of whether or not those future assets were mandated by PJM.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to the last complete sentence on page 8 of the application. Confirm whether the word "transmission" should be inserted between "Kentucky Power" and "capital spending."

RESPONSE

The word "transmission" should be inserted between "Kentucky Power" and "capital spending".

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Pages 8-9 of the application indicate that, among the transmission projects being evaluated by AEPTCo, KY Transco and Kentucky Power is the Soft- Shell-Bonnyman project in the Hazard Kentucky area.

a. Explain whether a determination has been made as to which party, or parties, will own this line.

b. If the answer to part a. of this request is yes, describe the process used to make the ownership determination.

RESPONSE

a. A final determination as to which party will own the Soft Shell-Bonnyman transmission line project has not yet been concluded at this time. Kentucky Power's desire is that it be owned by KY Transco. That final determination is predicated upon the outcome of this proceeding.

b. Please refer to Exhibit LMB-1 and page13 of the direct testimony of Witness Barton which descibes the project selection guideline for determining the ownership of projects. If the commission grants the KY Transco application prior to Kentucky Power Company filing for a Certificate of Public Convenience and Necessity for this project, KY Transco would own the project. If the Commission denied the KY Transco application in this proceeding or the matter is still pending at the time an application for the project is filed, Kentucky Power Company would own the project.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

If PJM or NERC determine that a line should be constructed in Kentucky Power's service territory for reliability purposes or to address congestion problems, explain whether the cost of the line is socialized across PJM. If yes, explain how the percentage each party pays is determined. If no, describe the process under which Kentucky Power's share would be determined.

RESPONSE

The costs of any line constructed in Kentucky Power's service territory will be socialized within PJM to some extent, regardless whether the line is built to address congestion or other reliability concerns.

If PJM deems that the project will only benefit the AEP Zone, the project is identified as Zonal. The costs are then billed to the transmission users within the AEP Zone based on their network service peak load ("NSPL"). AEP then allocates its zonal charge to its Operating Companies based on their 12 coincident peak load share average ("12CP").

If PJM deems that the project will benefit the entire PJM footprint, the project is identified as Regional. These costs are billed to the transmission users in all zones within PJM based on their NSPL. AEP then allocates these regional charges to its Operating Companies based on the 12CP.

PJM determines whether transmission upgrades are Zonal or Regional through its planning process, including its Regional Transmission Expansion Plan.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Explain whether an intrastate transmission line built primarily to improve reliability on Kentucky Power's system would likely be a Kentucky Power project or a KY Transco project.

RESPONSE

All transmission facilities will be assigned to Kentucky Power or KY Transco based on the AEPTCo Project Selection Guidelines (PSG), Exhibit LMB-1 of Witness Barton's direct testimony. The PSG bases the ownership of transmission facilities on the technical characteristics of the facility. It does not assign ownership based on what system the facility will benefit.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

For the states in which AEP operating companies operate:

a. Explain whether Transcos in those states would be required to receive certificates of convenience and necessity prior to beginning transmission projects; and

b. Explain whether any of the state commissions can reject a Transco certificate application if it deems the project unnecessary.

RESPONSE

a. & b. Staff 1-9 Attachment 1 summarizes the CPCN requirements for transmission lines in each of AEP's jurisdictions. The state requirements for CPCN's are expected to be the same for the new Transco companies and the AEP Operating Companies.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

If Kentucky Power were to construct a transmission line to comply with federal requirements, the up-front costs of the project would be borne by its ratepayers. To the extent such a line is used for wholesale and interstate transactions, Kentucky Power's ratepayers would benefit from those transactions. Explain how, or if, Kentucky Power ratepayers will benefit in a similar situation if KY Transco constructs the line.

RESPONSE

The benefits to Kentucky Power ratepayers would be the same whether the transmission project is constructed by Kentucky Power Company or KY Transco. In both cases, the dollars collected by PJM from users of the new transmission facilities for wholesale and interstate transactions reduce the amount PJM bills to load serving entities (including Kentucky Power Company).

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to page 12 of the application, paragraph 31, which indicates the anticipated service agreement between KY Transco and Kentucky Power Company ("Kentucky Power") will be "[m]odeled on the existing service agreement between Kentucky Power and AEPSC." Provide the existing service agreement between Kentucky Power and American Electric Power Service Corporation ("AEPSC").

RESPONSE

Please see the the existing service agreement between Kentucky Power and American Electric Power Service Corporation ("AEPSC") in the following attachment.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to Exhibit 3 to the application, the AEPTCo Project Selection Guideline dated November 19, 2009. A statement at the top of each page states that printed copies may be obsolete. Provide the latest version, including all attachments.

RESPONSE

The AEPTCo (AEP Transco) Project Selection Guideline version dated November 19, 2009 filed with the application is the latest version.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to Section 3.1 of the AEPTCo Project Selection Guideline.

a. What is the significance of 23 kV or higher transmission lines being designated as Transmission Assets in the PJM region?

b. What is the implication of AEPTCo building or owning only those transmission facilities for which the cost may be recovered from Transmission Service Customers through the Regional Transmission Owner's approved Open Access Transmission Tariff?

RESPONSE

a. Only assets assigned to a Transmission FERC Form 1 general ledger account number qualify for Transco ownership under the PSG.

b. AEPTCo (KY Transco), as a transmission-only company, will only provide wholesale transmission service to load serving entities and will not provide service at retail.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to the Direct Testimony and Exhibits of Lisa M. Barton ("Barton Testimony"), specifically, page 5, lines 19-22. Provide a description of the level of investment Kentucky Power's transmission is expected to require over the next decade to meet:

a. Customers' needs;

b. NERC requirements; and

c. PJM requirements.

RESPONSE

a., b. & c. These categories are all interrelated. PJM plans the system in coordination with AEP pursuant to planning criteria filed under FERC 715 and in compliance with NERC rules and regulations. The requirements are established to ensure transmission owners maintain reliability of the system and fulfill customer needs. Investments required to meet these criteria would apply to all three categories. The age and condition of some existing transmission infrastructure will require additional infrastructure to be added or replaced as well. In this case, these investments would increase reliability and meet customer needs, but may not be explicitly required under NERC or PJM rules.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to the Barton Testimony from page 7, line 18, to page 8, line 5. Based on the wording of the question beginning on page 7, line 18, explain whether part (1) of the answer, "[u]pgrades required to maintain system reliability and meet customer demand" is intended to apply to the Kentucky Power system, the transmission grid in general, or both.

RESPONSE

The phrase "[u]pgrades required to maintain system reliability and meet customer demand" is intended to apply primarily to Kentucky Power system since KY Transco would only construct upgrades located within the Commonwealth of Kentucky. However, the transmission grid is continuous across state lines and is planned in the same manner within Kentucky as it is outside of the state, so inherently would also help the transmission grid in general as well.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to the Direct Testimony and Exhibits of Jerald R. Boteler, Jr. ("Boteler Testimony") from page 3, line 8, to page 5, line 12. This testimony discusses Kentucky Power's financial condition, credit ratings, and relatively weak cash flow metrics. It also discusses how American Electric Power ("AEP"), the parent of both KY Transco and Kentucky Power, has supplied, and can supply, capital to its subsidiaries.

a. Describe the how the funding level available within Kentucky Power is limited, as referenced on page 5, lines 11-12.

b. Explain why the financial resources of AEP, which the testimony indicates will be available to KY Transco, could not be available in the same manner and magnitude to Kentucky Power to fund future transmission projects.

RESPONSE

a. Kentucky Power is engaged in the generation, transmission, and distribution of electric power to approximately 174,000 retail customers in an area in eastern Kentucky, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities, and other market participants. Being that the electric utility industry is a capital-intensive business, significant amounts of capital are often required to fund the Company's operations and investments.

   Since 2008, Kentucky Power Company's construction expenditures have been in excess of its cash flows from operations (net of the accounting change for receivables securitization in 2010) by approximately $55 million, requiring that shortfall to be financed externally.

   Going forward, to the extent that Kentucky Power Company's internally-generated cash flows do not cover its cash outflows for investing and financing activities, it must then obtain these funds from other sources. Typically, this means borrowing the funds in the capital markets. Other sources of funds include cash contributions from its parent company or cash received from the sale of assets.

Kentucky Power's ability to issue debt through the capital markets, however, is limited in its capacity. A company with a high ratio of debt to capitalization will typically have weaker credit metrics, which can result in significantly increased borrowing costs and reduced availability to liquidity.

b. The financial resources of AEP will be available to KY Transco in the same manner and magnitude that they would be available to Kentucky Power to fund future transmission projects. However, the benefits of financing through Kentucky Transco as mentioned in the white paper as attached as Exhibit JRB-2 are not available to Kentucky Power Company as an integrated utility company.

WITNESS: Randy Boteler

Kentucky Power Company

REQUEST

Refer to the Boteler Testimony, page 5, line 17, to page 6, line 25. This portion of the testimony discusses the investor perspective on a transmission-only business unit. Confirm whether, among KY Transco, Kentucky Power, and the entire AEP system that only AEP issues stock that is publicly traded.

RESPONSE

AEP, Inc. is the only entity in the entire AEP System that has publicly-traded common equity stock.

WITNESS: Randy Boteler

Kentucky Power Company

REQUEST

Refer to the Direct Testimony and Exhibits of Ranie K. Wohnhas ("Wohnhas Testimony") at page 6. Describe the difference, if any, of transmission formula rates of a PJM FRR participant with those of a PJM RPM participant.

RESPONSE

There is no difference. Formula rates apply to transmission owners within PJM. RPM and FRR are options for load-serving entities to meet their capacity obligations. A load-serving entitiy would have to participate in RPM or develop a FRR plan regardless of whether it is a transmission owner.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to page 7, line 16, of the Wohnhas testimony. Will the future proposed Kentucky Power cost rider include anticipated revenues by KY Transco?

RESPONSE

No.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Kentucky Power operates as an FRR participant in PJM's RPM market as it self-supplies. Does this affect the transmission cost allocation, or recovery, if the transmission is owned by KY Transco as opposed to being owned by Kentucky Power? If there is any difference, how will it affect Kentucky Power's ratepayers?

RESPONSE

No. The transmission cost allocation and recovery will not change. Kentucky Power self-supplies capacity as an FRR participant in PJM. It does not self-supply transmission service. Kentucky Power, through AEP, purchases wholesale transmission service from PJM to serve its load. This will be the case regardless of whether the transmission is owned by Kentucky Power, KY Transco, or a third party.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to the Wohnhas Testimony, specifically, page 8, line 7, through page 12, line 16, which provides a comparison of a hypothetical future transmission investment under a "Transco Build Case" and an "OpCo Build Case." Explain why, from a customer perspective, this comparison should not be viewed as support for maintaining the status quo, both in terms of who builds the transmission facilities and the ratemaking treatment thereof.

RESPONSE

KY Transco 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. KY Transco has also shown the long term impact of stable credit ratings should allow KY Transco access to capital at lower interest rates and those lower costs are passed on to the customer. In addition, KY Transco has shown that 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.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Since Kentucky is a rate-regulated state which allows cost recovery of approved transmission projects, explain why rating agencies would necessarily be favorable to the formation of KY Transco as compared to maintaining the status quo.

RESPONSE

Rating agencies may look favorably upon Kentucky Power Company, as a result of the creation of the stand-alone transmission business, primarily because of the reduced level of capital expenditures that would otherwise be funded by Kentucky Power, but which will now be funded by KY Transco. As stated in Witness Wohnhas' direct testimony on page 13, "The formation of KY Transco will assist in strengthening the financial health of Kentucky Power, in particular by removing the financial burden of constructing transmission upgrades that are needed to maintain and enhance reliability in Kentucky Power while relieving KPCo of the need to raise equity and debt associated with those projects, and preserving debt issuance capacity for KPCo's other system needs."

WITNESS: Randy Boteler

Kentucky Power Company

REQUEST

Provide bond rating agency reports and any other rating agency or financial/investment bank advisory reports for AEP and any AEP subsidiaries issued since January 1, 2009 which discuss the risks and advantages of electric utilities creating separate transmission entities in order to obtain separate funding for new transmission projects.

RESPONSE

We are not aware of any bond rating agency reports or other financial/investment bank advisory reports specifically commenting on the risks and advantages of creating separate transmission entities in order to obtain separate funding for new transmission projects for AEP or any of its subsidiary companies, except for the report included as Exhibit JRB - 2 to Witness Boteler's direct testimony.

WITNESS: Randy Boteler

Kentucky Power Company

REQUEST

Refer to the slides under Tab 1 of the document filed after the March 2, 2011 informal conference in this case, specifically, the next-to-last bullet on page 5. Explain why an operating company like Kentucky Power cannot have a stronger "equity layer" with a 50 percent equity ratio like that of a Transco.

RESPONSE

The referenced document does not mention Kentucky Power's equity capital structure. However, there is no reason why Kentucky Power cannot have a stronger "equity layer" with a 50 percent equity ratio. Currently, Kentucky Power is limited in its Open Access Transmission Tariff (OATT) to an equity ratio no greater than 50 percent. Likewise, the KY Transco's capital structure will be limited to a maximum equity ratio of 50 percent, pending the approval of the Transco settlement at the FERC (Case No. 10-355-000). During the initial phase of the KY Transco's development, its capital structure will shadow the average actual capital structure of the AEP East Operating Companies in the OATT, until an actual capital structure is developed for KY Transco. As of 12/31/2009, the average actual equity ratio for the composite AEP East operating companies was 47.52 percent.

WITNESS: Randy Boteler

Kentucky Power Company

REQUEST

Refer to the slides under Tab 1 of the document filed after the March 2, 2011 informal conference in this case, specifically, the last bullet on page 5, which provides the average difference in the cost of debt between A and BBB rated utilities since 2008, based on yields of 10-year utility bonds.

a. Explain why the comparison was performed based on the cost of debt since 2008, which coincides with the timeframe of the recent economic recession, rather than the cost of debt for a longer period, such as since 2005 or since 2000.

b. Explain why 10-year utility bonds were used in the comparison when it is not uncommon for utility bonds to have terms that are longer, in some cases two or three times longer, than 10 years.

RESPONSE

a. Providing the cost of debt differential since 2008 provides a better view of the risks utilities face in the current financial markets. Additionally, it should be noted that the timeframe cited in the report incorporates the significant tightening in utility credit spreads that occurred in 2010.

b. While many companies do issue 30-year bonds, 10-year bonds are issued more often. When analyzing a comparable time period for 30-year utility bonds, the average spread between A- rated and BBB-rated 30-year utility yields was 0.62%, in line with the spread on 10-year utility bonds.

WITNESS: Randy Boteler