STITES & HARBISON PLLC
ATTORNEYS

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

April 21, 2011

RECEIVED
APR 21 2011
PUBLIC SERVICE
COMMISSION

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

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 Staff's Second Set of Data Requests in the above matter. Copies of the responses are being served upon the parties, along with a copy of this letter.

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

Very truly yours,

Mark R. Overstreet

MRO
cc: David F. Boehm
Lawrence W. Cook

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

APR 21 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
COMMISSION STAFF'S SECOND SET OF DATA REQUESTS

April 21, 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 18th day of April 2011.

Robin 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 before me, a Notary Public, by Jerald R. Boteler, Jr. this 20th day of April, 2011.

Notary Public

My Commission Expires

NOTARIAL SEAL STATE OF OHIO

David C. House, Attorney At Law
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date
Sec. 147.03 R.C.

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 19th day of April, 2011.

Judy K Rosquist

Notary Public

My Commission Expires January 23, 2013

Kentucky Power Company

REQUEST

Refer to page 3 of the Direct Testimony and Exhibits of Jerald R. Boteler, Jr., lines 24-26, and the last full paragraph on page 2 of 4 of Exhibit JRB-1.

a. The quote in the testimony from the Moody's credit report refers to Moody's concern if Kentucky Power Company's ("Kentucky Power") spending plans were to result in "a persistent negative free cash flow position that will be primarily funded with internal or external debt." Explain what is considered to be "internal" debt Kentucky Power.

b. Page 2 of 4 of the exhibit refers to Kentucky Power having $56 million of positive free cash flow for the 12 months ended September 2010, a period in which it had roughly $53 million in capital expenditures and a $21 million upstream dividend payment. Confirm that, individually or combined, Kentucky Power's capital expenditures and/or upstream dividend payment would have needed to be $56 million greater than they were in order for it to have had a zero free cash flow for this period.

RESPONSE

a. Moody's reference of internal debt likely refers to inter-company loans or borrowings through the utility money pool. Kentucky Power currently has outstanding a 5.25% inter-company note to American Electric Power Company, Inc. (its parent company) due June 1, 2015 in the amount of $20 million.

b. We are unable to confirm that statement because it is inaccurate. As stated in response to KPSC Staff Data Request Question No. 16, 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).

The cash flow from operations amount for 12 months ended September 2010 (as cited in the Moody's report), does not make the proper adjustment for the accounting change mentioned above. The accounting change was a cash flow neutral event, and thus, the Cash Flow from Operations amount for 2010 is artificially inflated. The offset to the inflated Cash Flow from Operations amount was recorded in the Investing Activities section. This can be seen in the attached Cash Flow Statement for Kentucky Power for the nine months ended September 30, 2010 and 2009. In particular, please refer to the amount of ($42,823) as reported on the line item "Change in Advances to Affiliates, Net". A significant portion of this amount is a result of the accounting change for receivables securitization.

WITNESS: Randy Boteler

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2010 and 2009
(in thousands)
(Unaudited)

		2010		2009
OPERATING ACTIVITIES				
Net Income	$	18,391	$	16,971
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:				
Depreciation and Amortization		39,529		38,878
Deferred Income Taxes		3,384		21,992
Allowance for Equity Funds Used During Construction		(548)		(137)
Mark-to-Market of Risk Management Contracts		(946)		(5,884)
Pension Contributions to Qualified Plan Trust		(5,292)		-
Property Taxes		7,036		6,431
Fuel Over/Under-Recovery, Net		(246)		14,773
Change in Other Noncurrent Assets		3,972		1,845
Change in Other Noncurrent Liabilities		(1,191)		1,365
Changes in Certain Components of Working Capital:				
Accounts Receivable, Net		8,406		2,945
Fuel, Materials and Supplies		29,487		(14,820)
Accounts Payable		(22,409)		(29,494)
Accrued Taxes, Net		19,737		(6,139)
Other Current Assets		(155)		(2,934)
Other Current Liabilities		(3,057)		(6,376)
Net Cash Flows from Operating Activities		96,098		39,416
INVESTING ACTIVITIES				
Construction Expenditures		(36,765)		(49,734)
Change in Advances to Affiliates, Net		(42,823)		(4,197)
Acquisitions of Assets		(214)		(297)
Proceeds from Sales of Assets		586		622
Net Cash Flows Used for Investing Activities		(79,216)		(53,606)
FINANCING ACTIVITIES				
Capital Contribution from Parent		-		30,000
Issuance of Long-term Debt - Nonaffiliated		-		129,292
Change in Advances from Affiliates, Net		(485)		(131,399)
Principal Payments for Capital Lease Obligations		(1,280)		(547)
Dividends Paid on Common Stock		(15,000)		(13,500)
Other Financing Activities		10		243
Net Cash Flows from (Used for) Financing Activities		(16,755)		14,089
Net Increase (Decrease) in Cash and Cash Equivalents		127		(101)
Cash and Cash Equivalents at Beginning of Period		494		646
Cash and Cash Equivalents at End of Period	$	621	$	545
SUPPLEMENTARY INFORMATION				
Cash Paid for Interest, Net of Capitalized Amounts	$	28,229	$	29,776
Net Cash Paid (Received) for Income Taxes		(14,883)		(2,416)
Noncash Acquisitions Under Capital Leases		4,191		794
Construction Expenditures Included in Accounts Payable at September 30,		2,431		2,834

See Condensed Notes to Condensed Financial Statements.

Kentucky Power Company

REQUEST

Refer to page 4, lines 15-1 8, of the Direct Testimony and Exhibits of Ranie K. Wohnhas. Assuming KY Transco is not approved by the Commission, provide Kentucky Power's total projected capital expenditures for the calendar years 2011, 2012 and 2013, and identify the portion expected to be spent on transmission projects.

RESPONSE

Kentucky Power's current projection of capital expenditures for the calendar years 2011, 2012 and 2013 assumes KY Transco's application is approved by the Commission. The total Company's projected capital expenditures and the portion that is expected to be spent on transmission projects for the calendar years 2011, 2012, and 2013 are identified on page 2 of this response.

No projections have been made assuming KY Transco is not approved. Please see the Company's response to Item 4b of the Commission's Second set of data requests for the possible effect on Kentucky Power's capital investment resulting from a denial of the application.

WITNESS: Ranie K Wohnhas

Kentucky Power Company
Total Company Projected Capital Investment
(000)

	2011	2012	2013
Generation	$ 48,033	$ 65,712	$ 140,896
KPCo Transmission	$ 17,481	$ 9,478	$ 7,310
KY Transco	$ 1,809	$ 7,665	$ 18,419
Total Transmission	$ 19,290	$ 17,143	$ 25,729
Distribtution	$ 33,304	$ 35,392	$ 34,787
Other	$ 1,918	$ 1,989	$ 2,143
Total Company	$ 102,545	$ 120,236	$ 203,555

Kentucky Power Company

REQUEST

Refer to the response to Item 2.a. of the Commission Staffs Initial Data Request ("Staff's First Request"). Identify the wholesale customers to whom Kentucky Power presently provides transmission service and describe whether the Kentucky Public Service Commission has any jurisdiction over that service.

RESPONSE

Kentucky Power, as part of the interconnected transmission system functionally controlled by PJM, provides wholesale transmission service to all load serving entities within PJM including the following wholesale customers located within the Commonwealth of Kentucky;

City of Olive Hill
City of Vanceburg.

In addition to the Kentucky wholesale customers listed above, other load serving entities include the AEP Operating Companies, including Kentucky Power, other investor-owned utilities, municipals and cooperatives.

These load serving entities are billed by PJM for the use of Kentucky Power's transmission system based on regional cost allocation rules defined by PJM.

The Federal Energy Regulatory Commission has jurisdiction over this transmission service.

WITNESS: Lisa M Barton

Kentucky Power Company

REQUEST

Refer to the response to Item 14 of Staffs First Request.

a. State the estimated amount of investment that will be required over the next decade in Kentucky Power's transmission system.

b. Assuming the Commission approves the formation of KY Transco, state the amount of investment in Kentucky Power's transmission system that will be made over the next decade by KY Transco and the amount that will be made by Kentucky Power.

RESPONSE

a. Based on current estimates, the amount of investment required over the next decade in Kentucky Power's transmission system is approximately $260 million. Included in the $260 million are two types of "required" investment.

AEP expects that a significant portion of this forecasted investment will be mandated to meet NERC or PJM requirements. The currently identified mandated investment through 2013 totals $37 million or approximately 60% of the total transmission investment planned for the combined Kentucky Power and KY Transco. PJM and NERC requirements have not been completely identified for the period after 2013, but AEP expects that the level of mandated investment will continue to be significant through 2020.

The balance of the forecast is the investment required to replace older existing transmission facilities. The existing Kentucky transmission system is aging and a portion of the assets are good candidates to be replaced; however, these asset replacement projects are not mandated by PJM or NERC. Instead, it is in the long-term interest of Kentucky customers (both in terms of cost and quality of service) to begin replacing these assets, rather than spending increasing maintenance dollars to keep them in service and replacing them at failure.

b. Of the total investment forecast described above, it is currently projected that Kentucky Power will invest approximately $80 million, and KY Transco will invest approximately $180 million. This investment projection is displayed by year on page 3 of this response.

If the Commission were to disallow the KY Transco application, Kentucky Power would need to evaluate the extent to which it could absorb the $180 million increase to its capital expenditures and achieve the financial objectives of the Company. Any reductions could be across all functions (generation, transmission, distribution).

WITNESS: Ranie K Wohnhas

Kentucky Power Company
Transmission Projected Capital Investment
(000)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10 Yr. Total
KPCo Total	$17,481	$9,478	$7,310	$6,155	$7,465	$6,575	$9,113	$6,074	$6,134	$6,198	$81,983
KY Transco Total	$1,809	$7,665	$18,419	$34,053	$23,560	$22,568	$17,028	$18,640	$17,400	$19,880	$181,022
Grand Total	$19,290	$17,143	$25,729	$40,208	$31,025	$29,143	$26,141	$24,714	$23,534	$26,078	$263,005

* 2011 spending forecasted for KY Transco represents spending on the Hazard Area project.
This spending would occur at KPCo if the Commission does not approve the Transco application.

Kentucky Power Company

REQUEST

Refer to the responses to Items 21 and 24 of Staff's First Request. The responses and numerous places throughout the application refer to Kentucky Power's financial position, its credit rating, capital structure, etc. and why creating KY Transco is necessary to alleviate concerns and possible future problems regarding Kentucky Power's financial condition, etc. Explain why Kentucky Power's financial issues cannot be sufficiently addressed by its parent company, American Electric Power, committing to providing sufficient equity capital to Kentucky Power (in conjunction with whatever debt issuances Kentucky Power requires in the future) to permit it to maintain a capital structure that will enable it to retain its current credit ratings.

RESPONSE

KPCo's parent company, AEP, Inc., has provided KPCo financial support in the past. In fact, KPCo received an equity contribution of $30 million from AEP Inc. in 2009. However, it is not in the best interest of KPCo or its customers to expect or rely on indefinite financial support from its parent company and impractical to expect such support to continue into the future. KPCo's rate structure was designed to allow it to stand on its own, and additional equity contributions should be made only in extraordinary circumstances. Putting additional equity into KPCo on a year-in and year-out basis is not sustainable when the long term capital needs cannot be supported by the cash flows generated by the company. Moreover, the rate of return for equity typically is higher than the cost associated with debt, thereby requiring higher customer rates. As a consequence, our proposal to create KY Transco is driven by the long-term benefits of removing the capital burden of certain transmission projects, thus allowing KPCo to focus its limited capital allocation on other projects, whether they be transmission, distribution or generation-related.

WITNESS: Randy Boteler