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September 23, 2011

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SEP 23 2011

PUBLIC SERVICE
COMMISSION

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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: P.S.C. Case No. 2011-00042

Dear Mr. Derouen:

Enclosed please find the original and ten copies of Kentucky Power Company's responses to the data requests propounded at the September 13, 2011 informal conference in this matter.

A copy also is being served on the persons below.

Very truly yours,

STITES & HARBISON, PLLC


Mark R. Overstreet

MRO

Enclosure

cc: David F. Boehm
Lawrence W. Cook

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

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SEP 23 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
SEPTEMBER 13, 2011
INFORMAL CONFERENCE DATA REQUESTS

September 23, 2011

Kentucky Power Company

REQUEST

Does KY Transco intend to file any tariffs with the PSC?

RESPONSE

Because it will not be providing retail service in the Commonwealth, KY Transco does not intend on filing any tariffs with the PSC.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

What interest if any will KPCo or KY Transco have in the Pioneer Joint Venture between AEP and DUKE?

RESPONSE

Please refer to the supplemental testimony of Lisa M. Barton on Barton - 5 where she states "At this time it is contemplated that all related facilities would be owned by Pioneer and TVA. The project is not anticipated to have ownership by either KPCo or KY Transco". There has been no change in the interim.

WITNESS: Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Provide by year a comparison of costs for five years, based upon "real" projects: (a) if undertaken by KPCo solely; or (b) if undertaken by Transco and KPCo in accordance with the project selection guidelines. When does KY Transco believe a Transco option would become more advantageous for rate payers?

RESPONSE

As set forth in the direct testimony Ranie K. Wolnhas, for the same investment:

1. KY Transco's OATT revenue requirement (FERC wholesale rate) is slightly higher (~\$30K) than Kentucky Power's OATT revenue requirement under current conditions. However, the key inputs to the calculation are the same (ROE, O&M expense, depreciation rates, tax rates). Reference Wolnhas page 12, table 3.
2. KY Transco's OATT revenue requirement (FERC wholesale rate) is higher (~\$300K) than KPCo's retail revenue requirement (retail rate), with certain key differences driving this difference (ROE, capital structure). Reference Wolnhas page 11, table 2.

KY Transco anticipates having several cost advantages at the wholesale level over Kentucky Power that, within the next three years, will produce a lower OATT revenue requirement for the KY Transco than for KPCo. These factors are:

- lower cost of debt;
- O&M savings from performing proactive asset replacement work at a more rapid pace;
- elimination of the recovery of formation costs.

As a result, for the same new project it is anticipated that within three years these advantages will exceed the \$30 K cost differential described above and KY Transco's wholesale rate will be lower than KPCo's wholesale rate.

However, under current conditions, these cost advantages for KY Transco at the wholesale level cannot overcome the differences between FERC *wholesale* rates and Kentucky *retail* rates described above.

There are two possible scenarios that could reverse this relationship between FERC wholesale and Kentucky retail rates in the future:

- KPCo could apply for and have approved an OATT tracker. In this scenario, Kentucky retail customers would pay the FERC wholesale rate for transmission and the expected cost advantages for KY Transco at the wholesale level would produce a direct cost savings to retail customers; or
- KY Transco's FERC approved ROE's could decrease or Kentucky Power's retail ROE's could increase. In either case, a convergence of FERC and Kentucky retail rates would cause the cost savings for KY Transco at the wholesale level to produce a direct cost savings to retail customers.

Neither of these possible scenarios can be predicted with certainty. Therefore, under current conditions, KY Transco cannot be shown to provide a direct cost savings to retail customers.

Notwithstanding this difference, KY Transco maintains that the public convenience and necessity require the approval of its application for a certificate of authority. First, the cost increase represented by KY Transco is small. Transmission is already a small component of a retail customers' bill, the approval of KY Transco will not affect the rates paid for existing transmission assets, and Kentucky retail customers only pay a small load share (5.9% or lower) of the total cost for new transmission owned by KY Transco. These factors add up to a negligible difference in the overall amount retail customers pay for their electric service.

Second, KY Transco will produce several important benefits to the overall quality of electric service provided to Kentucky retail customers. Approval of KY Transco will allow for a more proactive schedule for replacing aging transmission assets, which will enhance the quality of service to customers. Approval of KY Transco will help protect the financial condition and credit rating of Kentucky Power and help Kentucky Power free up capital for other system needs in Generation and Distribution. Finally, the investments made by KY Transco will create jobs and tax base in the state of Kentucky, with the great majority of the cost for those projects paid by others in PJM.

WITNESS: Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Will KY Transco be subject to KRS 278.300 (financing regulation)?

RESPONSE

Assuming KY Transco is granted utility status as requested in its application, it would be subject to KRS 278.300.

WITNESS: Ranie K Wuhnhas

Kentucky Power Company

REQUEST

What effect will the Ohio settlement, including the unwind of the "pool", have on KY Transco?

RESPONSE

Based upon the Company's understanding of the stipulation agreement currently before the Public Utility Commission of Ohio, there will be no effect on KY Transco.

WITNESS: Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Would the Company be willing as part of a settlement, to address K.Y. Transco's eligibility for future FERC incentives?

RESPONSE

Yes.

WITNESS: Ranie K. Wohnhas