

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER)	
COMPANY D/B/A AMERICAN ELECTRIC)	
POWER FOR APPROVAL, TO THE)	
EXTENT NECESSARY, TO TRANSFER)	CASE NO. 2002-00475
FUNCTIONAL CONTROL OF)	
TRANSMISSION FACILITIES LOCATED)	
IN KENTUCKY TO PJM INTERCONNECTION,)	
L.L.C. PURSUANT TO KRS 278.218)	

COMMISSION STAFF S FIRST DATA REQUEST TO
KENTUCKY POWER COMPANY D/B/A AMERICAN ELECTRIC POWER

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Kentucky Power Company d/b/a American Electric Power (Kentucky Power) file the original and 8 copies of the following information with the Commission on or before February 17, 2003, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Was the decision by American Electric Power, Inc. (AEP) for its utility subsidiaries to join PJM Interconnection, LLC (PJM) based on a cost/benefit analysis? If yes, provide the analysis. If no, explain why an analysis was not performed.

2. Was a cost/benefit analysis performed to analyze the impact on Kentucky Power of AEP s joining PJM? If yes, provide the analysis. If no, explain why an analysis was not performed.

3. Provide a detailed explanation of the consideration given to joining the Midwest ISO (MISO) or another Regional Transmission Organization (RTO) other than PJM. Was a cost/benefit analysis of joining MISO performed? If yes, provide the analysis. If no, explain why an analysis was not performed.

4. Provide a copy of every document and analysis relied upon by AEP to join PJM rather than MISO.

5. Identify all costs incurred to date by AEP in connection with the development and membership in an RTO.

a. To the extent available, show separately the costs for: MISO, the Alliance, and PJM.

b. Were all the costs expensed as they were incurred, or have any been deferred?

(1) If any have been deferred, on whose books were they deferred?

(2) What were the amounts of the deferrals?

(3) Which regulatory agencies, if any, authorized the deferrals?

c. Does AEP intend to pass any of these costs to Kentucky Power in the future? If so, how much and when?

d. Does AEP anticipate that any of its RTO development costs will be reimbursed directly by PJM or through a charge assessed by PJM?

6. Describe and quantify all of the revenue requirement impacts to Kentucky Power that will result from joining PJM. This response should include, but not be limited to, the following:

a. The difference between AEP's current transmission rates and its transmission rates as part of a PJM zone.

b. The change in rate of return on equity as proposed or requested in AEP's transmission tariff.

7. List each PJM rate that will be paid by or allocated or assessed to Kentucky Power. For each rate listed, provide the following information:

a. The specific service that will be offered or performed by PJM.

b. The estimated annual cost to Kentucky Power.

c. An explanation of how Kentucky Power's estimated annual cost was calculated, including the billing determinants used in the calculation and whether it is calculated on a demand or energy basis.

d. The basis to be used for any allocation or assessment to Kentucky Power.

8. Craig Baker's testimony, at page 8, mentions PJM's high required reserve margin as compared to that required in East Central Area Reliability Council (ECAR).

a. Provide a detailed explanation of the existing ECAR capacity reserve requirements and PJM's required reserve margin.

b. Explain the differences in AEP's reserve responsibilities under ECAR versus PJM.

c. Does Kentucky Power's reserve margin satisfy PJM's requirements in 2003 and in each of the following 10 years? If no, explain the amount of the shortfall in each year and estimate the cost to Kentucky Power to meet PJM's requirement in each year.

9. Mr. Baker's testimony, at page 10, asserts that the transfer of control is consistent with the public interest because Kentucky Power's participation in PJM, as part of the integrated AEP System, will benefit Kentucky electric customers by improving the reliability and competitiveness of interstate wholesale energy markets, and greatly expand the generation sources economically available to Kentucky customers.

a. Provide all analyses that have been performed for Kentucky Power to support these conclusions.

b. Explain why AEP's membership in any RTO with which it has a direct interconnection would not improve the reliability and competitiveness of interstate wholesale energy markets, and greatly expand the generation sources economically available to Kentucky customers.

10. a. For each month of the last 3 calendar years, provide a schedule of revenues received by Kentucky Power from sales to non-associated companies.

b. Assuming AEP had been a member of PJM during the last 3 calendar years, provide an estimate of the monthly revenues that would have been received from sales to non-associated companies.

11. a. For each month of the last 3 calendar years, provide a schedule showing Kentucky Power's costs for power purchased from non-associated companies.

b. Assuming that AEP had been a member of PJM during the last 3 calendar years, provide an estimate of what Kentucky Power's costs would have been for power purchased from non-associated companies.

12. List each instance of unreliable service experienced by Kentucky Power's native load customers over the last 3 years that would not have occurred if AEP had been a member of PJM and explain how PJM membership would have eliminated or corrected each such instance.

13. Quantify the anticipated improvement in reliability that will benefit Kentucky electric customers as a result of Kentucky Power's participation in PJM.

14. Identify the anticipated improvement in the competitiveness of the interstate wholesale energy markets as a result of Kentucky Power's participation in PJM.

15. Is AEP obligated either by agreement or order in other jurisdictions to join an RTO? If so, identify all agreements or orders, and the jurisdictions in which they were entered.

16. Explain whether Kentucky Power's retail customers will be charged PJM's costs to operate its real-time and day-ahead markets. If no, specify who will pay such costs.

17. For each of the services to be performed by PJM, identify any similar service that is currently being performed by AEP.

a. Will AEP continue to perform any of these services? If yes, identify all such services and explain whether this will result in any redundancy.

b. For those services that will be discontinued by AEP due to their being provided by PJM, explain how Kentucky Power's rates will be adjusted to reflect the elimination of AEP's costs of providing such services.

c. Describe the extent to which AEP's workforce will be reduced as a result of it transferring control of its transmission facilities to PJM.

18. Under KRS 278.214, Kentucky customers have the highest priority use on transmission facilities.

a. Explain whether this transmission priority will continue with membership in PJM.

b. Provide assurance that PJM's method for allocating Congestion Revenue Rights/Financial Transmission Rights (CRRs/FTRs) is adequate to protect this transmission priority for Kentucky customers.

19. In AEP's comments to Federal Energy Regulatory Commission (FERC) regarding the Notice of Proposed Rulemaking on Standard Market Design, AEP expresses concerns about PJM's method of allocating CRRs or FTRs, as follows:

Similar problems arise with the use of CRRs to hedge congestion costs because the NOPR fails to ensure that LSEs will have the same level of service flexibility that they enjoy today to serve their native load However, once the CRR process is implemented, LSEs may be required well in advance (for instance, one year) to choose generation-to-load paths of service that will result in an award of CRRs (or the revenue from CRR auctions) based

on these path choices, and the LSEs may be locked into these choices for a set period of time. We are concerned that flows on the system are dynamic and a static set of CRRs may not provide full congestion protection. (See AEP comments at page 4, filed November 15, 2002 RM01-12-000.)

How does PJM's method of allocating CRRs or FTRs alleviate AEP's expressed concerns?

20. What rate of return on equity has AEP proposed or requested to be utilized in its transmission tariff?

21. a. Does Kentucky Power anticipate any loss of revenues due to the elimination of rate pancaking in its region? If yes, estimate the amount for 2003 and for each of the next 10 years.

b. Describe any measures to be taken by PJM to make up for those lost revenues and the number of years that those measures will remain in place.

c. Explain how Kentucky Power will address any loss of revenue due to the elimination of rate pancaking.

22. In Mr. Baker's testimony, at page 12, he states, Among the conditions imposed by FERC on AEP's choice of PJM is the requirement that North American Electric Reliability Council (NERC) must approve PJM and MISO's updated reliability plans. Either provide documentation of NERC's approval or explain the status of the approval process.

23. On page 11 of Mr. Baker's testimony, he states, AEP's participation in PJM, and the resultant transfer of Kentucky Power's transmission facilities, will promote construction of properly located generation when that is the optimum solution.

a. Explain in detail how AEP's participation in PJM and the transfer of Kentucky Power's transmission facilities will promote construction of properly located generation.

b. Provide all studies, analyses, reports or other documents prepared by or for AEP or Kentucky Power that support this claim.

24. Provide a list of all regulatory approvals required to transfer functional control of AEP's transmission facilities to PJM and the status of those approvals.

25. Describe and quantify the withdrawal penalties, if any, that would be incurred if AEP joined PJM and subsequently withdrew and the amount of any penalties that would be assigned to Kentucky Power.

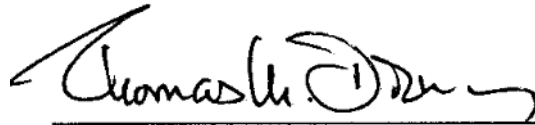
26. Provide a list of the differences between PJM's market rules and FERC's currently proposed SMD rules.

27. Provide the latest estimate of the cost of conforming PJM's market rules to the SMD rules and the amount that would be assigned to AEP and Kentucky Power.

28. On page 5 of Mr. Baker's testimony, he refers to the intent of AEP, Commonwealth Edison, and Illinois Power to participate in PJM through an ITC which would be managed by National Grid. Provide a detailed narrative description of this arrangement and its current status.

29. Provide the agreement that governs the allocation of transmission system costs among AEP's operating companies, a brief explanation of how the agreement assigns responsibility for transmission costs among the operating companies, and the amount of transmission investment responsibility assigned to Kentucky Power. How

does Kentucky Power s assigned transmission investment responsibility compare to its actual per-books transmission investments?

A handwritten signature in black ink, appearing to read "Thomas M. Dorman", written over a horizontal line.

Thomas M. Dorman
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

DATED: February 7, 2003

cc: Parties of Record