KPSC Case No. 2005-00341 Attorney General Second Set Data Request Order Dated December 12, 2005 Item No. 34 Page 1 of 2

## **Kentucky Power Company**

### REQUEST

Please refer to AG Request No. 109. Only data for the years 2002-2004 was provided, and only at a Company level. Does the Company not have the data for any prior years? If the data does exist, please provide it. If it does not exist, please explain why not. Also, please provide the requested data at a functional level.

### RESPONSE

Attached is a schedule of the Company's annual accumulated provision for depreciation by function for the years 2002, 2003 and 2004. The requested information is available in the Company's FERC Form 1 filings for the other years. It is too voluminous to reproduce and will be made available for inspection in Frankfort, Kentucky at a mutually agreeable time.

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#### KENTUCKY POWER COMPANY ANNUAL ACCUMULATED PROVISION FOR DEPRECIATION ACCOUNTS 1080001 AND 1080011

		BEGINNING RESERVE	ANNUAL	ANNUAL	ANNUAL COST OF		ANNUAL TRANSFERS/	ENDING RESERVE
YEAR	FUNCTION	BALANCE	DEPRECIATION	RETIREMENTS	REMOVAL	ANNUAL SALVAGE	ADJUSTMENTS	BALANCE
2002	Generation	(159,872,974)	(9,994,819)	875,114	39,320	(30,879)	12,094	(168,972,144)
	Transmission	(96,763,546)	(6,305,468)	433,622	48,654	31,282	(74,029)	(102,629,485)
	Distribution	(100,722,489)	(14,220,841)	6,304,531	2,969,610	(4,835,825)	(74)	(110,505,088)
	General Plant	(13,949,847)	(993,860)	502,464	35,368	(239,760)	15,295	(14,630,340)
	Total	(371,308,856)	(31,514,988)	8,115,731	3,092,952	(5,075,182)	(46,714)	(396,737,057)
2003	Generation	(168,972,144)	(13,953,839)	17,253,619	7,312,512	28,698	6,362	(158,324,792)
	Transmission	(102,629,485)	(6,400,468)	590,515	912,736	(305,945)	8 <u>,</u> 533	(107,824,114)
	Distribution	(110,505,088)	(14,688,466)	5,434,673	1,682,264	(1,560,605)	(14,895)	(119,652,117)
	General Plant	(14,630,340)	(983,056)	1,740,509	(844,736)	100,160	(90,552)	(14,708,015)
	Total	(396,737,057)	(36,025,829)	25,019,316	9,062,776	(1,737,692)	(90,552)	(400,509,038)
2004	Generation	(158,324,792)	(16,744,840)	3,128,846	4,666,328	(14,006)	0	(167,288,464)
	Transmission	(107,824,114)	(6,510,774)	1,113,137	224,657	(129,249)	(15)	(113,126,358)
	Distribution	(119,652,117)	(15,190,439)	7,250,555	2,120,023	(1,040,987)	18	(126,512,947)
	General Plant	(14,708,015)	(752,083)	12,449,684	(1,474,937)	(1,063,478)	0	(5,548,829)
	Total	(400,509,038)	(39,198,136)	23,942,222	5,536,071	(2,247,720)	3	(412,476,598)

#### Notes:

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(1) This analysis includes the balances in Accounts 1080001, Accumulated Provision for Depreciation, and Account 1080011, Cost of Removal Reserve.
 Balances in Account 1080005, Retirement Work in Progress, are not included in this analysis.

(2) Third party reimbursements are not separately identified in the depreciation reserve. Consequently this information was not available for this analysis.

## Kentucky Power Company

## REQUEST

Refer to the response to AG Request No. 110. Please explain the increase in Acct. 5930000 – Maintenance of Overhead Lines.

### RESPONSE

Please see attachment.

WITNESS: Everett G Phillips

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Kentucky Power Company

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	2002	2003		2004	
	Total Year	Total Year	Increase	Total Year	Increase
	Act \$	Act \$	2003 vs 2002	Act \$	2004 vs 2003
5930000 Maintenance of Overhead Lines	9,828,568	13,183,960	3,355,392	13,965,042	781,082
Major Storms					
EON014575 KY/Major Event	1,122,973	2,977,424	1,854,450	2,235,638	(741,786)
System Forestry (Tree Trimming)					
000007513 KP/Targeted Ckt Reliability				1,925,551	
EDN102852 Ds/All/Forestry 2001 Funding	527,324	23,761			
EDN103175 Ds/Kp/Anda				4,210,378	
EDN103681 Ds/Forestry Anda	90,203	132,095		1,222	
EDN103683 Ds/Tree Trimming Anda	2,391,076	4,267,004		0	
EDNANDA Distribution Anda Project	632,932		-		
	3,641,535	4,422,860	781,326	6,137,152	1,714,292
Pole Program					
EDN014673 Ds/Kp/Ai Pole Reinforcement	391	81,238		(1,459)	
EDN014680 Ds/Kp/Ai Pole Replacement	59,590	56,926		67,022	
EDN100104 Inspect Poles	129,751	219,052	_	5,222	
	189,731	357,216	167,485	70,784	(286,432)
Circuit Inspection Program					
EDN100577 Ds/Kp/Ai Ckt Inspections	51,657	144,212	92,555	201,077	56,865
Total Variance Explained			2,895,816		742,940

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## **Kentucky Power Company**

### REQUEST

Refer to the response to AG Request No. 117, which refers to the response to AG Request No. 105. The remaining life calculations for transmission, distribution and general plant were not provided in that response. Please provide the calculations in Excel format.

#### RESPONSE

The remaining life calculations for transmission, distribution and general plant were not provided because the calculations are performed by the proprietary D&T book depreciation software. Hard copies of the remaining life calculations for Transmission, Distribution and General Plant are contained in the depreciation study workpapers.

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### REQUEST

Refer to AG Request Nos. 124, 125 and 126.

a. Please explain fully the mechanics of how cost of removal and gross salvage is calculated for retirements relating to replacements. Please provide examples of these calculations, and the source documents supporting these calculations.

b. Explain fully the mechanics of how cost of removal and gross salvage is calculated for retirements in circumstances where no replacement is put in place. Please provide examples of those calculations and the relating support documents.

c. Please explain the rationale for any difference between the calculations in case of replacement and in the case of no replacement.

d. Provide five examples of replacement projects done during the five years ending in 2004. Include the original budget estimates showing the breakout of replacement costs and removal costs. Explain how that breakout is made. Also, please provide the actual results and any budget vs. actual deviations

### RESPONSE

a. The Company does not calculate removal and gross salvage for retirements relating to replacements. The Company records the actual removal costs incurred or salvage credits received for retirements relating to replacements.

b. The Company does not record any removal cost or salvage credit where there is new construction and no replacement is put in place.

c. See responses to items a. and b., above.

d. Attached is a schedule with five examples of replacement projects. For budget estimates, a Company employee familiar with the equipment being replaced estimates the breakout between replacement (installation) costs and removal costs.

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#### KENTUCKY POWER COMPANY EXAMPLES OF REPLACEMENT PROJECTS

(No Salvage \$ Included in Removal Costs) Charges Variance То (Act - Bud) **Funding Project Funding Project Description** From Actual Budget Big Sandy U2 Turbine Blading Replacement WSX114844 Additions 2001 2004 6,303,369.04 6,776,144.00 (472,774.96)Removal 2002 2004 615,482.84 94,600.00 520,882.84 Total 6,918,851.88 6,870,744.00 48,107.88 J00050782 Relocate 138KVHatfield-Inez Line Additions 2000 2001 470,513.01 595,413.00 (124, 899.99)Removal 2000 2000 20,047.87 6.250.00 13,797.87 Total 490.560.88 601.663.00 (111, 102, 12)WSX115587 Rebuild Big Sandy Electrostatic Precipitator Upgrade 514,902.20 Additions 2002 2003 13,100,115.20 12,585,213.00 Removal 2002 2003 2,488,656.32 3,400,235.00 (911, 578.68)Total 15,588,771.52 15,985,448.00 (396, 676. 48)J00055345 McKinney 46KV Station Rebuild Additions 2002 2004 1,265,508.27 881,021.00 384,487.27 62,500.00 Removal 2002 2003 23,705.41 (38,794.59)Total 1,289,213.68 943,521.00 345,692.68 Rebuild and Relocate Ashland Bellefonte 69ky Line ETN102449 (184.43)Additions 1999 2002 230,915.57 231,100.00 188.69 2000 3,700.00 Removal 2001 3,888.69 Total 234,804.26 234,800.00 4.26

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# Kentucky Power Company

## REQUEST

Refer to AG Request No. 126. Please provide the actual workorder (Workorder No. 40509399) referenced in the response.

### RESPONSE

Please see attached work order.

Facility: BSP BIG SANDY	
Trait 2 Project : 000001878	Work Order Package
Vnit: 2Project :000001878W/O Type:CPPriority:3W/O Dspln:ENVR	
Planner : X795068 SEE B K	40509399 01
W/O Title : PURCHASE TWO (2) NOX MONITORS	
W/O TILLE : PURCHASE TWO (2) NON MONITORS	DUPLICATE
W/O Task Title: PURCHASE TWO (2) NOX MONITORS Written To : PRECIPITATOR SO3 INJ. SYSTEM MISC. I	Rpt : TIPMC11
	Date: 12/20/05
Task Dspln : Completed By:	
	Page: 1
Work Order Task Written To	
Facility : BSP Unit : 2	Op Sys :
	Sys/Cls: 175
Division : Area : Equipment : PREC 12529200 Component:	
	Ops Review Reqd:
Work Item : Eqt. List:	CTDITATOR GOS INT SYSTEM M
Equip. Tag: SO3 INJECTION SYSTEM MISC. ITE Alt: PRI	Tbl/Brkdwn: (Past 12 mo)
tied compt :	
Catalog ID: Job Type : GI	UCR:
Client/Act:	
Location : ZZZ 1068 ZS039 1 100% to One Compan	Y ST, ATTBASIS, - 43230
Cost Centr: 10218 Activity : 812	
Percentage: 100.000 Acct No. : KG 10	070001
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Work Order Task Instructions	
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WO requested by Rich Gill. Initially planned for 2006	or 2007. Mone
y availabe at end of 2004 per Mell.	
Rework/Approval_	
Deficiency Tag No.: Loc:	Tag Removed:
ReWork Job : Comments:	-
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Major Failure : Deficiency Tag Loc: Deficiency Tag No.: Limit	Action Taken : Removed (Y/N):
Work Completion Signatures	
Name Function/Dept.	Date
Work Delay Reason :	
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Rework Reason/Cause	(Y/N)
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Facility	BSP BIG SANDY	
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W/O Type:	CP Priority: 3 W/O Dspln: ENVR	
Planner :	K795068 SEE B K	40509399 01
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Facility: BSP BIG SANDY Unit : 2 Project : 000001878 W/O Type: CP Priority: 3 W/O Dspln: ENVR Planner : K795068 SEE B K W/O Title : PURCHASE TWO (2) NOX MONITORS W/O Task Title: REMOVAL (R) TWO (2) NOX MONITORS Written To : PRECIPITATOR SO3 INJ. SYSTEM MISC. I Task Dspln : Completed By:	Work Order Package_ 40509399 02 DUPLICATE Rpt : TIPMC11 Date: 12/20/05				
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QC Requirements/Comments					
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Authorization					
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Facility: BSP BIG SANDY Unit : 2 Project : 000001878 W/O Type: CP Priority: 3 W/O Dspln: ENVR Planner : K795068 SER B K W/O Title : PURCHASE TWO (2) NOX MONITORS W/O Task Title: REMOVAL (R) TWO (2) NOX MONITORS Written To : PRECIPITATOR SO3 INJ. SYSTEM MISC. I Task Dspln : Completed By:	Work Order Package 40509399 02 DUPLICATE Rpt : TIPMC11 Date: 12/20/05
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Facility: BSP BIG SANDY	Work Order Package
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QC Requirements/Comments_	
NO QC REQUIREMENTS FOR THE WORK ORDER TASK	
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Authorization.	
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Facility: BSP BIG SANDY Unit : 2 Project : 000001878 W/O Type: CP Priority: 3 W/O Dspln: ENVR Planner : K795068 SEE B K W/O Title : PURCHASE TWO (2) NOX MONITORS W/O Task Title: PURCHASE TWO (2) NOX MONITORS Written To : PRECIPITATOR SO3 INJ. SYSTEM MISC. I Task Dspln ; Completed By:	Work Order Package_ 40509399 03 DUPLICATE Rpt : TIPMC11 Date: 12/20/05 COEDCoe Page: 2
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Major Failure : Deficiency Tag Loc:	Action Taken : Removed (Y/N): ted Cond Operation:
Work Completion Signatures	
Name Function/Dept.	Date
Work Delay Reason_         CON       CONTRACTOR LATE ARRIVAL         Date:       Hours:       Crew:         ENG       NEED ENGINEERING EVALUATION ASAP         Date:       Hours:       Crew:         IA       INCIDENT/ACCIDENT         Date:       Hours:       Crew:         OPE       NEED OPERATIONS SUPPORT         Date:       Hours:       Crew:         PRM       PERMIT REQUIRED/NEEDED         Date:       Hours:       Crew:         PRT       NEED ADDITIONAL PARTS ON SITE         Date:       Hours:       Crew:         TFE       TOOLS/PARTS/EQUIPMENT         Date:       Hours:       Crew:         Comments:       Crew:       Crew:	(Y/N) Shift:
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Facility: BSP BIG SANDY Unit : 2 Project : 000001878 W/O Type: CP Priority: 3 W/O Dspln: ENVR Planner : K795068 SEE BK W/O Title : PURCHASE TWO (2) NOX MONITORS W/O Task Title: PURCHASE TWO (2) NOX MONITORS Written To : PRECIPITATOR SO3 INJ. SYSTEM MISC. I Task Dspln : Completed By:	•
Rework Reason/Cause	
Job Variance.       (Y/N)         CL       CLEARANCE NOT READY         LM       LATE MATERIAL         MR       MATERIAL REPLACEMENT         NA       FEEDBACK NOT APPLICABLE         RA       RESOURCES NOT AVAILABLE AS PLANNED         RS       SATISFIACTORY CUST FEEDBACK         RU       UNSATISFACTORY CUST FEEDBACK         RI       FIRST RATING REQUEST SENT         SC       CHANGE IN JOB SCOPE         S1       FIRST RATING REQUEST SENT         S2       SECOND RATING REQUEST SENT         Date:	• •
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Facility: BSP BI Unit : 2 W/O Type: CP Planner : K79506 W/O Title : W/O Task Title: Written To : Task Dspln :	Project : Priority: 8 SEE PURCHASE TWO PURCHASE TWO	B (2) NOX MONITORS	К.		Work Order F 40509399 DUPLICAT Rpt : TIF Date: 12/	03 E MC11
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KPSC Case No. 2005-00341 Attorney General Second Set Data Request Order Dated December 12, 2005 Item No. 39 Page 1 of 1

## Kentucky Power Company

## REQUEST

Please refer to AG Request No. 128. Does the Company have any expectations regarding future removal requirements?

### RESPONSE

The depreciation study assumes that future removal and salvage requirements will approximate the levels actually experienced by the Company during the fifteen-year period 1990-2004.

#### REQUEST

Refer to AG Request Nos. 129 and 133. Please fully explain the reasons for the following increases and decreases. Include all assumptions driving the estimates that could contribute to the variances, i.e., specific projects, etc.

a. The increase in Production cost of removal from \$759 thousand in 2005 to \$3.9 million in 2006.

b. The increase in Production cost of removal from \$3.9 million in 2006 to \$4.7 million in 2007.

c. The decrease in Production cost of removal from \$4.7 million in 2007 to \$1.2 million in 2008.

d. The increase in Production cost of removal from \$1.2 million in 2008 to \$4.6 million in 2009.

e. The decrease in Transmission cost of removal from \$277 thousand in 2006 to \$40 thousand in 2007.

f. The decrease in Distribution cost of removal from \$1.8 million in 2006 to \$332 thousand in 2007.

### RESPONSE

Removal costs are project specific. See page 2 of this response for a listing of removal costs by project. See response to AG 2nd Set, Item No. 42 for further explanation of why removal costs vary from year to year.

WITNESS: Ranie Wohnhas

XNBDA	Espense AGENX General	sbnA elssefort ACNANZW 2000st 2061 - 05 Pawer Paners	081
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BDRCB SDR32	Capital Stand Alone Santal Blanket	Keniucky Power Co - Trans 1080005 ETN104041 TS/kyP-VER SITES SPILL PREVENT Keniucky Power Co - Trans 1080005 PR180KYER TB/PPR/KyP-KENTUCKY FAC RELOC	081
ONART	a H O ZNAAT ONAAT 92n9qx3 bns	Kenlucky Power Co - Trans 1080005 ETNANDA Transmission Anda	081
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SCRCS	Capital Blanket Capital Stand Alone	Keniucky Power Co - Trans 1080005 SI180KYRE TANBIKYPYKY-SYS REHAB-BUD ONLY Keniucky Power Co - Trans 1080005 SI180KYRE TBISIKYP-KENTUCKY SYS REHAB-BUD ONLY	081
AGENX	Expense Capital Stand Alone	Kentucky Power Co - Gene 5050003 GLNANDA General Ledger Expense Kentucky Power Co - Trans 1080005 ETN015012 TotAepiPti-Prg-Direct-Lab-Cost	081
BOSMO	Capital Blanket AGENX Genetal	Kentucky Power Co - Gene 5060003 00001596 Capital Staff Project	/11
GWSCB	textnet8 letige0 lexinel8 letige0	Kentucky Power Co - Gene 1060005 BSPPB0014 Precipitator PP8<100k Kentucky Power Co - Gene 1060005 BSPDDP105 Spend Opt Capital Reductions	211 211
EVNCB BONNCB	Capital Blanket Environmental Blankets	Kenlucky Power Co - Gene 1080005 BSPP80015 SCR Projects PP8-100k Kenlucky Power Co - Gene 1080005 BSPP80015 SCR Projects PP8-100k	211
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EBOCB GWSCB	Capital Blanket Environmental Blankets	Kentucky Power Co - Gene 1080005 BSPPBS024 PR System U1 PPB 100k Kentucky Power Co - Gene 1080005 BSPPBS024 PPB Stark U1 PPB 100k	241
EVRCB BORVB	Expense Environmental Blankets Environmental	Kentrick Bower Co - Gene 1080005 EROCB Cos Bilk - Errino 11 BES-100k Kentrick bower Co - Gene 1080005 EROCB Cos Bilk - Errino 11 BES-100k	211
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EBOCB	Capital Blanket Environmental Blankets Capital Blanket	Kentucky Power Co - Gene 1080005 BSPPBS016 Oil Lighter Repi PPS-5100k Kentucky Power Co - Gene 1080005 BSPPBS016 Oil Lighter Repi PPS-5100k	211
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BOSW9	Capital Blanket Capital Blanket	Kentucky Power Co - Gene 1080005 BSPPBOUTZ U 2 PPB Outage <100k Kentucky Power Co - Gene 1080005 GWSCB Cap Bikt - Prod Plant Binkt	211 211
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RCCB BOMIA	Capital Blanket texnel8 letiqeC	Kentucky Power Co. – Dist. 1060005 EDN014720 DSIKp/ki Recloser Replacement Kentucky Power Co. – Dist. 1060005 00008184 – KP/Asset Programs EnglSupport	011 011
AIPCB FEQCB	Capital Blanket Capital Blanket	Kentucky Power Co - Dist 1080005 500005999 KPrFailed Equip No Outage Kentucky Power Co - Dist 1080005 EDN014580 Ds/KpAti Pole Replacement	011
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### REQUEST

Refer to AG Request No. 129. Please provide Construction Expenditures and Retirements for 2005, similar to those provided in response to AG Request No. 133. Also, please explain any variances between the retirements budgeted for 2005 and those budgeted for 2006.

### RESPONSE

Please see Section II, Application Exhibit-A, page 346 of the Company's filing for 2005 for the budgeted construction expenditures. The budgeted retirement expenditures for 2005 are below. There is no variance between 2005 and 2006.

Retirements		<u>2005</u>
Production	310-316	422
Transmission	350-359	5,891
Distribution	360-373	345
General	389-399	769
Intangible	301-303	-
Total		7,427

#### WITNESS: Ranie Wohnhas

### REQUEST

Refer to AG Request No. 133. Please explain fully why budgeted cost of removal varies from year to year, while budgeted retirements remain the same. Does the Company believe that there is no correlation between the amount of cost of removal it will incur and the amount of retirements in the same period? Please explain the answer.

### RESPONSE

The level of retirements is generally not an important component of the Company's capital forecast. The amount included in the forecast is reviewed for reasonableness and is held constant for the forecast period, unless there would be a good reason to vary it. Cost of Removal is determined by project or blanket through a more detailed process. Removal can have a cash requirement and it is also associated with physical work and requires resource planning. Retirements are merely an accounting entry. In its forecast process the Company has not considered or factored in, any correlation between retirements and cost of removal.

WITNESS: Ranie Wohnhas

### REQUEST

Refer to the response to AG Request Nos. 136 and 176.

a. Please provide the actuarial software plus the operating instructions so that we may view the "index of variation" as discussed in the response to AG Request No. 136, and better understand the limited remaining life as discussed in the response to AG Request No. 176.

b. Also, please provide a manual summary of the fit indications embedded in the software for each actuarial study conducted.

### RESPONSE

a. The D&T software used to prepare the study is proprietary and cannot be provided.

b. The fit indications are not saved by the software and the fit indications were not manually recorded.

## **Kentucky Power Company**

## REQUEST

Refer to AG Request No. 140, and the direct testimony of Everett G. Phillips, pages 12 through 15.

a. Does the Company agree that some of the Distribution Asset Management Programs listed on those pages could affect plant lives? Please explain the response.

b. Based on the descriptions, the Pole Inspection and Maintenance Program and the Underground Cable Program appear to extend plant lives. Please provide all studies, reports, or other documents detailing and supporting these programs, and any changes on plant lives due to the programs.

## RESPONSE

a. Yes, there are two programs that can affect the useful life of distribution assets. Specifically, these are the pole maintenance (treatments and/or reinforcements) program and the underground cable injection program.

b. There are various Electric Power Research Institute (EPRI) and Canadian Electricity Association (CEA) reports that detail and support the pole inspection, treatment and reinforcement programs. However, the amount of life extension benefit can be a factor of climate, geography, frequency of the treatment, as well as the original treatment. These studies are considered proprietary and confidential. We can make these studies available for your review at the Kentucky Power Frankfort Office.

WITNESS: Everett G Phillips

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# Kentucky Power Company

## REQUEST

Refer to AG Request No. 141. Were any life extension studies prepared for Transmission, Distribution or General Plant? If yes, please provide those studies.

#### RESPONSE

No life extension studies were prepared.

WITNESS: Everett G Phillips

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KPSC Case No. 2005-00341 Attorney General Second Set Data Request Order Dated December 12, 2005 Item No. 46 Page 1 of 43

## Kentucky Power Company

## REQUEST

Refer to AG Request No. 151. While the AG has maintained a copy of the Order and Settlement from Case No. 91-066, under the AG's Document Retention Policy other documents from Case No. 91-066 have been destroyed. Please provide the depreciation study submitted (and accepted) in that case. Also, please provide Mr. Henderson's testimony, as listed in the response to AG Request No. 93.

## RESPONSE

The depreciation study with supporting workpapers that was submitted and accepted in Case No. 91-066 is voluminous. A copy is available for inspection at the Company's offices during normal business hours. The depreciation study is also available as a public record on file in that docket with the Public Service Commission. A copy of Mr. Henderson's testimony as filed in Case No. 91-066 is attached.

WITNESS: James E Henderson

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#### BEFORE THE

## PUBLIC SERVICE COMMISSION OF KENTUCKY

#### IN THE MATTER OF

GENERAL ADJUSTMENTS IN ELECTRIC RATES OF KENTUCKY POWER COMPANY

CASE NO. 91-066

#### DIRECT TESTIMONY

OF

JAMES E. HENDERSON

ON BEHALF OF KENTUCKY POWER COMPANY

#### DIRECT TESTIMONY OF

KPSC Case No. 2005-00341 AG 2nd Set Data Requests Dated December 12, 2005

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#### JAMES E. HENDERSON

#### BEFORE THE

#### PUBLIC SERVICE COMMISSION OF KENTUCKY IN CASE NO. 91-066

1. Q. Please state your name and business address.

A. My name is James E. Henderson. My business address is
 1 Riverside Plaza, Columbus, Ohio.

4. Q. By whom are you employed and in what capacity?

5. A. I am employed by American Electric Power Service

6. Corporation, (AEPSC), a wholly-owned subsidiary of

American Electric Power Company, Inc. (AEP), the parent
 company of Kentucky Power Company (Kentucky Power or
 Company). My position is Administrator - Depreciation
 Studies and Plant Accounting.

Q. Please summarize your educational background and work
 experience.

I received a Bachelor of Science Degree with a major in 13. Α. accounting from Columbus Business University in 1969. 14. I have attended three sessions in depreciation 15. life analysis originally sponsored by Western Michigan 16. University Center of Depreciation Studies and currently 17. sponsored by Depreciation Programs, Inc. 18. I have been a member of the Depreciation Accounting Committee of 19. 20. Edison Electric Institute since 1976.

I joined Columbus Southern Power Company (CSP),
 one of the eight electric utility companies comprising
 AEP, as a part-time student employee in 1967. Upon
 graduation, I was employed full time and held various
 positions in the Accounting Department in the areas
 of plant accounting, tax accounting and depreciation.

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HENDERSON - 2

From 1978 to 1980, I held the position of Director 1. of Depreciation Accounting and from 1980 to 1982, I 2. held the position of Director of Plant Accounting and 3. Depreciation. My responsibilities included performing 4. depreciation studies, preparing book and federal income 5. tax depreciation accruals, preparing and analyzing 6. property valuations for state and local property tax 7. assessments and supervising the accounting for CSP's 8. investment in electric utility plant. 9. In August 1982, I transferred from CSP to AEPSC. 10. In my current position, I am responsible for 11. depreciation studies and the coordination of plant 12. accounting for the AEP System companies. 13. What is the purpose of your testimony in this 14. Q. proceeding? 15. The purpose of my testimony is to recommend revised 16. Α. depreciation accrual rates for Kentucky Power, based on 17. a depreciation study for Kentucky Power's electric 18. 19. utility plant in service at December 31, 1989. The 20. study report is attached hereto as Exhibit JEH-1. This report and supporting documents were filed with the 21. Commission on March 5, 1991. 22. 23. Was this study performed by you or under your Q. supervision? 24. Yes. 25. Α.

26. Q. What was the purpose of the depreciation study?

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From time to time it is necessary to review existing 1. A. 2. depreciation rates to determine whether they are still 3. appropriate. The last depreciation study for Kentucky 4. Power was performed in 1980. The purpose of the 5. present study, therefore, is to recommend appropriate 6. annual depreciation rates for Kentucky Power to use in computing annual book depreciation expense in light of 7. 8. current conditions.

9. Q. Would you briefly describe the methods and procedures10. used in the study?

A. The methods and procedures are fully described in
 Exhibit JEH-1. Briefly, however, the study is based
 on the Average Remaining Life procedure instead of the
 Average Service Life procedure used in the last
 depreciation study.

16. Q. Please explain the difference between the Average
17. Service Life procedure and the Average Remaining Life
18. procedure.

The Average Service Life procedure recovers the 19. Α. 20. original cost of the plant, adjusted for net salvage, over the average service life of the investment. 21. The 22. basic assumptions used in determining depreciation 23. rates by the Average Service Life procedure are: 1) the 24. property will be retired over a specified average life and 2) the future amount of net salvage is known. 25. One major shortcoming of the Average Service Life procedure 26.

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1.	is that it does not provide a mechanism to adjust the
2.	accumulated depreciation when changes occur in service
з.	life or net salvage.
4.	The Average Remaining Life procedure compensates
5.	for this shortcoming by recovering the original cost of
6.	the plant, adjusted for net salvage, less the
7.	accumulated depreciation, over the average remaining
8.	life of the plant. By this procedure, the annual
9.	depreciation rate for each account is determined on the
10.	following basis:
11.	Annual Depreciation Expense =
12.	(Orig. Cost) (Net Salvage Ratio) - Accumulated Depreciation
13.	Average Remaining Life
14.	Annual Depreciation Rate =
15.	Annual Depreciation Expense
16.	Original Cost
17.	Q. Were there any other major changes in methodology
18.	from the last study?
19.	A. Yes. We changed the method for determining net
20.	salvage for steam production plant. Previously,
21.	we had used an industry standard value of negative
22.	ten percent. However, because of the significant
23.	increases in the cost of removal of production plant,
24.	it has now become more appropriate to use a site-
25.	specific analysis. To assist in establishing the
26.	net salvage applicable to Kentucky Power's steam

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HENDERSON Gese Jo. 2005-00341 AG 2nd Set Data Requests Dated December 12, 2005 Item No. 46 Page 7 of 43

1. generating plant, Kentucky Power had a detailed cost 2. of removal study made by the engineering firm Sargent з. and Lundy (S&L). S&L estimated the probable net cost to demolish Big Sandy Plant based on the current price 4. level and my recommended depreciation rates are 5. 6. calculated on that basis; however, I recommend that 7. Kentucky Power adjust the estimated cost of removal in future depreciation studies to reflect changes in price 8. 9. level. This will enable the Company to recover the 10. estimated actual removal costs that can reasonably be 11. expected to be incurred at the time the Big Sandy Plant 12. is retired.

13. How are the depreciation rates which you recommend used 0. 14. in determining annual depreciation expense? 15. A. In the Study, depreciation rates were determined for 16. each primary plant account. The resulting rates for 17. each account at December 31, 1989 were then applied to 18. the investment in each account at December 31, 1989 19. and the results were composited to determine a rate 20. for each functional group of depreciable property for 21. which Kentucky Power computes the annual depreciation 22. expense and maintains the accumulated provisions for 23. depreciation.

24. Q. How do the depreciation rates recommended as a result
25. of the study compare with Kentucky Power's current
26. rates?

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1.	А.	The results by primary plant account and functional
2.		group are shown in Exhibit JEH-1 on Schedule I, pages
3.		I-2 through I-4. Based on December 31, 1989
4.		depreciable plant in service Kentucky Power's overall
5.	1	composite rate decreases from 3.09% to 2.96%.
6.	Q.	Will you explain, in general, what caused the reduction
7.		in the overall composite depreciation rate?
8.	А.	Yes. In general, the depreciable lives of all
9.		functional plant groups have increased since the last
10.		depreciation study. This resulted in a decrease in the
11.		composite depreciation rate for all functional plant
12.		groups. The increase in the depreciable life for
13.		Steam Production Plant, however, was mitigated by the
14.		effect of the site-specific demolition cost estimate
15.		for Big Sandy Plant.
16.	Q.	When do you recommend that the revised depreciation
17.		rates become effective?
18.	A.	I recommend that the revised depreciation rates become
19.		effective concurrent with the effective date of new
20.		rates established by the Commission in Case No. 91-066,
21.		Kentucky Power's 1991 Rate Application.
22.	Q.	Does this conclude your direct testimony?
23.	А.	Yes.
24.		
25.		
26.		

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#### COMMONWEALTH OF KENTUCKY

#### BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

COUNTY OF FRANKLIN

CASE NO. 91-066

STATE OF OHIO

#### Affidavit

James E. Henderson, 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.

Henderson James E.

Subscribed and sworn to before me by James E. Henderson this  $\underline{H^{3}}_{}$  day of  $\underline{hpul}_{}$  1991.

Notary Public

My Commission Expires \_\_\_\_\_\_

DOROTHY O. GROSSMAN NOTARY PUBLIC - STATE OF OHIO MY COMMISSION EXPIRES 1112193

# EXHIBIT JEH-1

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## KENTUCKY POWER COMPANY

DEPRECIATION STUDY

OF

ELECTRIC PLANT IN SERVICE

AT DECEMBER 31, 1989