

Kentucky Power Company

REQUEST

Follow-up to Question 199. In Volume II, Section V, Workpaper S-4, page 30, a Test Year AEP Pool Capacity Cost of \$28,750,934 is calculated. But in page 4 through 27 of this response, monthly sheets are provided of sales to and from the AEP pool, in which very few demand charges are shown. Please reconcile these differing figures and state which one is correct?

RESPONSE

The \$28,750,934 figure in Section V, Workpaper S-4, page 30 is correct. Pages 4 through 27 provided in response to AG-1-199 did not include the AEP Pool Capacity Costs. As explained in response to AG-2-72 the primary purpose of those pages is to facilitate the Company's computation of fuel factor. In that regard, the AEP Pool Capacity Costs are irrelevant. For convenient reference, the Company is providing a workpaper as page 2 in this response, whereby the AEP Pool charges are broken down between demand charges and energy charges which total \$81,876,025 as previously reported. As shown, the demand charges total \$28,750,934, which is precisely what is shown in Section V, Workpaper S-4, page 30. These figures are also reported and can be verified in the monthly Interchange Power Statements (pgs. 2-3) submitted in response to KIUC-1-36.

WITNESS – Errol Wagner

Kentucky Power Company
Test Year: July 2004 to June 2005 - - KPCO (1)

	MWh	MWh	Demand	Energy	Total	Credit
	From Pool	To Pool	Charge	Charge	Charge	(\$)
			(\$)	(\$)	(\$)	
Jun-05	231,661	219,054	3,218,782	4,557,961	7,776,743	4,164,203
May-05	256,850	147,962	3,249,662	4,711,272	7,960,934	2,600,292
Apr-05	178,679	274,913	3,240,968	3,508,447	6,749,415	4,989,068
Mar-05	228,525	249,263	3,178,613	4,350,643	7,529,256	4,493,068
Feb-05	163,880	182,415	3,034,222	3,140,150	6,174,372	3,332,082
Jan-05	363,793	162,473	2,484,659	5,664,662	8,149,321	2,871,505
Dec-04	385,338	193,368	1,864,356	5,929,624	7,793,980	3,212,310
Nov-04	320,035	151,782	1,793,310	5,055,539	6,848,849	2,620,938
Oct-04	184,968	152,298	1,857,139	3,357,991	5,215,130	2,590,197
Sep-04	274,376	236,574	1,831,044	4,368,743	6,199,787	3,905,288
Aug-04	258,583	215,370	1,459,267	4,129,540	5,588,807	3,389,136
Jul-04	273,059	309,610	1,538,912	4,350,519	5,889,431	4,646,146
Test Year	3,119,747	2,495,082	28,750,934	53,125,091	81,876,025	42,814,233

Note: (1) From page 2 of Actual Interchange Power Statements

Kentucky Power Company

REQUEST

Follow-up to Question 199. In the Cost of Service Study, Exhibit LCF-1, page 5 of 20, "Purchased Power Demand" was shown to be \$70,249,303. In page 4 through 27 of this response, monthly sheet are provided of sales to and from the AEP pool, in which very few demand charges are shown. Please reconcile these differing figures and state which one is correct?

RESPONSE

The Company affirmed in response to AG-2nd Set, Item No. 76 that the \$ 70,249,303 figure in Exhibit LCF-1, page 5, is correct. Also, in response to AG-2nd Set, Item Nos. 72, 74, and 77, the Company explained the intent and use of pages 4 through 27 submitted in response to AG-1st Set, Item No. 199.

WITNESS – Errol Wagner

Kentucky Power Company

REQUEST

Follow-up to Question 199. Please provide the source for the “Purchased Power Demand” which was shown to be \$70,249,303 and “Purchased Power Energy” which was shown to be \$96,186,225, in the Cost of Service Study, Exhibit LCF-1, page 5 of 20. Provide all calculations, assumptions and workpapers used to generate these two inputs in the Cost of Service Study.

RESPONSE

The source of the \$70,249,303 is Section V, Workpaper S-7, Page 1 of 5, line 17, column 8. This number was multiplied by the Production Demand jurisdictional allocation factor of 0.986. ($71,246,758 * 0.986 = 70,249,303$). The source of the \$96,186,225 is Section V, Workpaper S-7, Page 1 of 5, line 17, column 9. This number was multiplied by the Production Energy jurisdictional allocation factor of 0.987. ($97,453,115 * 0.987 = 96,186,225$).

WITNESS – Errol Wagner

Kentucky Power Company

REQUEST

Follow-up to Question 199. Please provide the source for the "System Sales" Demand which was shown to be \$20,094,132 and "System Sales" Energy which was shown to be \$105,379,475, in the Cost of Service Study, Exhibit LCF-1, page 5 of 20. Provide all calculations, assumptions and workpapers used to generate these two inputs in the Cost of Service Study.

RESPONSE

The source of the \$20,094,132 is Section V, Workpaper S-7, Page 1 of 5, lines 20 and 21, column 8. These numbers were multiplied by the Production Demand jurisdictional allocation factor of 0.986. $((13,401,788 + 6,977,656) * 0.986 = 20,094,132)$. The source of the \$105,379,475 is Section V, Workpaper S-7, Page 1 of 5, line 21, column 9. This number was multiplied by the Production Energy jurisdictional allocation factor of 0.987. $(106,767,452 * 0.987 = 105,379,475)$.

WITNESS – Errol Wagner

Kentucky Power Company

REQUEST

Follow-up to Question 203 (c) and (d), and 204 (c) and (d). If there were no calculations assumptions or workpapers used to develop the "Fixed Cost Adder," please explain how the \$0.01 figure was chosen, as opposed to \$0.02 or \$0.03?

RESPONSE

The \$0.01 figure was chosen based upon experience and judgment.

WITNESS -- David M Roush

Kentucky Power Company

REQUEST

Follow-up to KPSC-2-67(a). This response states that “a declining block residential rate structure does not necessarily result in increased usage at the time of the peak.” Please provide any studies or other evidence that would back-up this statement.

RESPONSE

The Company has not prepared any such study. A residential customer has a limited set of electricity consuming appliances. For example, if an appliance such as an air conditioner is operating at the time of the peak, its usage at that time does not change because of the residential rate structure.

WITNESS – David M Roush

Kentucky Power Company

REQUEST

Follow-up to KPSC-2-67(b). Please provide all calculations, assumptions and workpapers used to generate the \$8.69 full customer charge figure provided in this response.

RESPONSE

Please see page 8 of the Company's response to Commission Staff 1st Set Data Request Item No. 8-c.

WITNESS – David M Roush

Kentucky Power Company

REQUEST

Follow-up to KPSC-2-67(c). Would Kentucky Power oppose a flat rate being used for its residential rate tariff?

RESPONSE

Yes, unless the residential customer charge were set at the full cost level of \$8.69 /month.

WITNESS – David M Roush

Kentucky Power Company

REQUEST

Follow-up to KPSC-2-73. Please provide an update on the status of these negotiations, and whether new contracts are expected to be in place by December 31, 2005. If not, will service continue under the old contracts until new contracts are in place?

RESPONSE

Both contracts have been signed by the Cities. The Company hopes to have the contracts filed with the Federal Energy Regulatory Commission for its approval before the end of 2005.

WITNESS – Errol Wagner

Kentucky Power Company

REQUEST

In response to KIUC-1-92 the company indicates it uses an externally developed cost of service program called TACOS Gold v.5.3.0 (hereinafter TACOS) to perform the class cost of service study. Did Kentucky Power or the American Electric Power Service Corporation or any other entity within the AEP family instruct Threshold Associates Inc. to construct the TACOS cost of service software to implement a specific cost of service methodology (i.e. – zero intercept, base, intermediate, peaking, etc.) that had been utilized by Kentucky Power Company or on KPC’s behalf prior to 2000 and/or that was planned to use in the future by KPC or on its behalf?

- a. If so, please describe the cost of service methodology Kentucky Power Company had previously used or that it was to use in the future that was to be incorporated into the TACOS program and describe and explain specifically what steps are included within the TACOS program to insure the functionalization, classification, and allocation of costs in accord with that methodology. To the extent that KPC or its affiliates were provided with documentation concerning the cost of service methodology to be used and how the operation of the TACOS software program would implement this methodology, please provide a copy of all documentation.
- b. If there is any change in the way costs were functionalized, classified, and allocated in the cost of service methodology Kentucky Power utilized before acquiring the right to use of the TACOS software and the way in which they are functionalized, classified and allocated by the TACOS software, please describe all changes specifically, state the reason for the change, and provide the impact of the change(s). To the extent there is documentation of those changes, please provide a copy of all documentation
- c. If the TACOS software is not designed to implement a cost of service methodology whose parameters were established by KPC or an AEP affiliate, what cost of service methodology is the TACOS software designed to implement?

- d. Please provide a copy of any sales solicitation information provided by Threshold Associates, Inc. to KPC or AEP and all operational instructions provided to the purchasing company with the TACOS software.

RESPONSE

AEP did not instruct Threshold Associates, Inc to design the TACOS software utilizing any specific methodology.

- a. Not applicable.
- b. Purchase of the TACOS software did not cause a change in the methodology used by Kentucky Power in its cost of service study. As stated on page 9 of the testimony of Witness Foust, the cost of service study is substantially the same as the Company's cost of service study filed in the previous rate case.
- c. The program does not utilize any specific cost of service methodology. The program is only an allocation program and utilizes any allocation factors input into the program, irrespective of the methodology used to develop that factor outside of the program.
- d. The Company does not have any sales solicitation information. The operational instructions are being provided on the attached CD.

WITNESS – Larry C. Foust

Kentucky Power Company

REQUEST

In response to KIUC-1-92 the company indicates it uses an externally developed cost of service program called TACOS Gold v.5.3.0 (hereinafter TACOS) to perform the class cost of service study. Is the TACOS program capable of being tested to assure it is performing in accord with the parameters of the cost of service methodology established by Kentucky Power and/or the AEP Service Corporation or any other entity within the AEP family with rights to use of the program?

- a. If so, what are the tests and what are they designed to show, specifically?
- b. If the tests replicate a certain procedure or methodology for the allocation of costs, please describe that procedure or methodology in detail including a description of each step in the testing process and how the results are verified for each cost.
- c. If the parameters of the cost of service methodology were not established by KPC or the AEP Service Corporation, but the TACOS program is capable of being tested, what is the purpose of the test, how is it done, and how are its results verified?

RESPONSE

As stated in the answer to AG second set, question 86, the program does not perform any specific cost of service methodology. It does perform allocation calculations. The calculations can be verified using the inputs to the program.

- a. There are no formal tests designed.
- b. The tests do not replicate a certain procedure or methodology.
- c. See the response to (a) above.

WITNESS -- Larry C. Foust