BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

GENERAL ADJUSTMENT OF ELECTRIC)
RATES OF KENTUCKY POWER COMPANY) CASE NO. 2005 -00341

KENTUCKY POWER COMPANY
RESPONSES TO ATTORNEY GENERAL'S
FIRST SET DATA REQUEST

VOLUME 1 OF 2

November 29, 2005

Kentucky Power Company

REQUEST

In its response to KPSC-1-35, page 2, the Company states that it factors its uncollectible electric receivables. In this regard, please provide the following information:

a. Provide a detailed description of the workings and mechanics of the accounts receivables factoring process and associated costs, including an explanation of how any electric receivable uncollectible accounts are accounted for in this factoring process.
b. Provide the Company's actual annual uncollectible expenses for the test year and each of the 3 years prior to the test year and an explanation of how these uncollectible expenses are accounted for on the Company's books (including account numbers and titles) and/or in the accounts receivable factoring process.
c. Provide the Company's actual annual electric accounts receivable write-offs for the test year and each of the 3 years prior to the test year and an explanation of how these charge-offs are accounted for on the Company's books (including account numbers and titles) and/or in the accounts receivable factoring process.

RESPONSE

a. AEP Credit, Inc., a wholly owned subsidiary of AEP, which does not participate in the AEP Money Pool, provides low cost financing for AEP Utility subsidiaries, including Kentucky Power, through factoring receivables, which arise primarily from the sale and delivery of electricity in the ordinary course of business. AEP Credit was formed for the purpose of purchasing accounts receivable (receivables) at a discount (factoring) and financing these purchases at an SEC approved debt to equity ratio.

Each company selling (factoring) its receivables to AEP Credit has executed a Purchase Agreement and an Agency Agreement, which outlines how the basic transactions take place. Either party upon 30 days written notice to the other party may terminate the Purchase Agreement and Agency Agreement.

AEP Credit is authorized by the SEC to purchase, without recourse, certain receivables arising from the sale or delivery of electricity, gas and other related services in the Seller's ordinary course of business. The price AEP Credit pays for the receivables is the dollar amount of the receivables less a discount (purchase price). The determination of the discount is based upon AEP Credit's cost of financing, the Seller's collection experience and an agency fee. The collection experience component of the discount is based upon a rolling twelve-month percentage of charge-offs, or uncollectible accounts, to A/R purchased.

The Seller has agreed through the Agency Agreement to service, administer and collect such receivables on behalf of AEP Credit.

AEP Credit has entered into a sale of receivables agreement with a group of banks and commercial paper conduits. Under the sale of receivables agreement, AEP Credit sells an interest in the receivables it has acquired from the Sellers to the commercial paper conduits and banks and receives cash.

b. The uncollectible expenses for the test year and each of the 3 years prior to the test year are booked in account 4265010 - Factored Customer Accounts Receivable - Bad Debts as bad debt expense and are as follows:

July 2004 – June 2005 (Test Year)	$1,625,430
January 2004 – December 2004	$1,780,197
January 2003 – December 2003	$1,628,516
January 2002 – December 2002	$1,799,612

c. As mentioned previously in 1(a), the monthly charge-offs are used to determine the collection experience portion of the discount that AEP Credit pays for the receivables that it purchases from Kentucky Power. The collection experience component of the discount is based upon a rolling twelve-month percentage of charge-offs, or uncollectible accounts, to A/R purchased. The collection experience discount is booked as bad debt expense on the Company's books in account 4265010 - Factored Customer Accounts Receivable - Bad Debts. The electric accounts receivable write-offs for the test year and each of the 3 years prior to the test year are as follows:

July 2004 – June 2005 (Test Year)	$1,177,282
January 2004 – December 2004	$1,621,330
January 2003 – December 2003	$1,605,657
January 2002 – December 2002	$1,537,009

WITNESS: Errol K. Wagner

Kentucky Power Company

REQUEST

With regard to the uncollectible expense information shown on Section V, S-2, page 3, please provide the following information:

a. How was the test year uncollectible amount of $1,177,282 actually reflected as an uncollectible expense on the Company's books (include accounts number and title)?
b. If not recorded on the Company's books as an uncollectible expense, in what alternative way was this amount of $1,177,282 reflected as an expense in the test year?

RESPONSE

a. The test year uncollectible amount of $1,177,282 is being used to determine the collection experience portion of the discount that AEP Credit pays for the receivables that it purchases from Kentucky Power. A portion of the $1,177,282 will continue to be used in determining the collection experience discount until the last month (June 2005) of the test year's uncollectible amount rolls off of the rolling twelve-month percentage of charge-offs, or uncollectible accounts, to A/R purchased. The collection experience discount is booked as bad debt expense on the Company's books in account 4265010 - Factored Customer Accounts Receivable - Bad Debts.

b. See response a. above.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

With regard to the OH and WVA income tax information shown in footnote 2 of Section V, S-2, page 2, and discussed on pages 14-15 of Mr. Wagner's testimony, please provide the following information:

a. Provide a more detailed explanation and workpaper in support of the proposed OH phase-out factor of 24%.

b. Provide a workpaper showing all calculations and assumptions in support of the apportionment factors of 7.59% and 0.47%.

c. On page 14 of his testimony, lines 20-23, Mr. Wagner states that "KPCo is obligated to pay Ohio state franchise tax on the portion of its apportioned taxable income that relates to the system sales transactions because KPCo receives income from these sales." In this regard, please provide the following information:

1) Is any taxable income from KPCo's system sales transactions reflected in the pro forma adjusted test year operating results used for ratemaking purposes in this case? If so, indicate exactly where in the filing schedules this taxable income is reflected.
2) If the answer to the part c(1) above is negative, explain where and how the taxable income from KPCo's system sales transactions allocable to the ratepayers of KPCo is reflected for book and ratemaking purposes.

RESPONSE

a. The Ohio income tax of 8.5% is reduced by 20% in 2005, by 40% in 2006, by 60% in 2007, by 80% in 2008, and is completely phased out for years after 2008. A five year average is being used to determine the appropriate factor. See attached file for the calculation summary.

b. See response to Commission Staff 2nd Set Question No. 71c.

c.
1) Yes. Please refer to Workpaper S10, page 2, line 94.

2) Not Applicable

WITNESS: Errol K Wagner

Kentucky Power Company
Calculation of the Ohio Income Tax Phase-Out
2006 - 2010

Year	Phase-Out Rate
2006	60.0%
2006	40.0%
2008	20.0%
2009	0.0%
2010	0.0%
5 Year Average	24.0%

Kentucky Power Company

REQUEST

With regard to the Kentucky state income tax rate please provide the following information:

a. Confirm that the current Kentucky state income tax rate of 7% will be reduced to 6% effective 1/1/07.

b. The Company has proposed to consider state income tax changes, in the form of a tax phase-out, occurring in the next 4 years with regard to the Ohio franchise tax, but has not proposed to consider the Kentucky state income tax phase-down from 7% to 6% effective 1/1/07. Why hasn't the Company proposed a phase-down factor for the 1/1/07 Kentucky state income tax rate change to 6% similar to its proposed phase-out factor of 24% it used for the Ohio franchise taxes?

c. If the Company agrees that it would be appropriate to reflect a phase-down factor for the Kentucky state income tax reduction to 6% effective 1/1/07, explain how the Company would propose to reflect this and what impact this would have on the revenue requirement in this case.

RESPONSE

a. The current state income tax rate of 7% will be reduced to 6% effective 1/1/07 (statute attached).

b. The Ohio Corporation Franchise Tax is being eliminated over a relatively short period of time, and there is certainty as to how the taxes will be calculated during the phase-out period. During the phase-out period, there is no change as to how the Company calculates its Ohio franchise tax liability; rather the liability is reduced by a phase-out percentage. The new Kentucky law reducing the current income tax rates effective 1/1/07 also corresponds with a change in taxpayer filing requirements. Under the new Kentucky law, affiliated taxpayers with Kentucky nexus are required to file on a consolidated basis. Kentucky tax law regulations interpreting the new law have yet to be issued. We believe that there is sufficient uncertainty as to the calculation of the consolidated tax filing that we do not believe the calculation of a phase-down factor would be a more accurate reflection of the tax. While we did not compute a phased down factor, we do not believe that a phased down factor would be inappropriate.

c. The attached calculation does not reflect the effect of the change to file a consolidated tax return.

WITNESS: Errol K Wagner

-NTUCKY REVISED STATUTES, TITLE XI REVENUE AND TAXATION, CHAPTER 141 INCOME TAXES.

Sec. 141.040. –

(1) Every corporation doing business in this state, except those corporations listed in paragraphs (a) to (h) of this subsection, shall pay for each taxable year a tax to be computed by the taxpayer on taxable net income or the alternative minimum calculation computed under this section at the rates specified in this section:

(a) Financial institutions, as defined in KRS 136.500, except bankers banks organized under KRS 287.135;

(b) Savings and loan associations organized under the laws of this state and under the laws of the United States and making loans to members only;

(c) Banks for cooperatives;

(d) Production credit associations;

(e) Insurance companies, including farmers or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters;

(f) Corporations or other entities exempt under Section 501 of the Internal Revenue Code;

(g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit; and

(h) Corporations whose only owned or leased property located in this state is located at the premises of a printer with which it has -ntracted for printing, provided that:

-. The property consists of the final printed product, or copy from which the printed product is produced; and

2. The corporation has no individuals receiving compensation in this state as provided in KRS 141.120(8)(b).

(2) For tax years ending before January 1, 1990, the following rates shall apply:

(a) Three percent (3%) of the first twenty-five thousand dollars ($25,000) of taxable net income;

(b) Four percent (4%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000), but not in excess of fifty thousand dollars ($50,000);

(c) Five percent (5%) of the amount of taxable net income in excess of fifty thousand dollars ($50,000), but not in excess of one hundred thousand dollars ($100,000);

(d) Six percent (6%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000); and

(e) Seven and twenty-five one hundredths percent (7.25%) of the amount of taxable net income in excess of two hundred fifty thousand dollars ($250,000).

(3) For tax years beginning after December 31, 1989, and before January 1, 2005, the following rates shall apply:

(a) Four percent (4%) of the first twenty-five thousand dollars ($25,000) of taxable net income;

(b) Five percent (5%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000) but not in excess of fifty thousand dollars ($50,000);

-Six percent (6%) of the amount of taxable net income in excess of fifty thousand dollars ($50,000), but not in excess of one -dred thousand dollars ($100,000);

(d) Seven percent (7%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000); and

(e) Eight and twenty-five one hundredths percent (8.25%) of the amount of taxable net income in excess of two hundred fifty ~usand dollars ($250,000).

(4) For tax years beginning before January 1, 1990, and ending after December 31, 1989, the tax shall be the sum of the amounts determined in paragraphs (a) and (b) as follows:

(a) Apply the tax rates in subsection (2) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from the first day of the taxable year through December 31, 1989, and the denominator of which is the total number of days of the taxable year; and

(b) Apply the tax rates in subsection (3) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from January 1, 1990, through the last day of the taxable year and the denominator of which is the total number of days of the taxable year.

(5) For taxable years beginning on or after January 1, 2005, corporations subject to the tax imposed by this section shall pay the greater of the tax computed under paragraph (a) of this subsection, the tax computed under subparagraph 1. or 2. of paragraph (b) of this subsection, or the minimum tax imposed by subsection (6) of this section. The tax computed under this subsection is as follows:

(a) 1. Four percent (4%) of the first fifty thousand dollars ($50,000) of taxable net income;

2. Five percent (5%) of taxable net income over fifty thousand dollars ($50,000) up to one hundred thousand dollars ($100,000);

3. Seven percent (7%) of taxable net income over one hundred thousand dollars ($100,000) for taxable years beginning on or after January 1, 2005, and prior to January 1, 2007; and

4. For taxable years beginning on or after January 1, 2007, six percent (6%) of taxable net income over one hundred thousand dollars ($100,000); or

(b) An alternative minimum calculation of an amount equal to the lesser of the amount computed under subparagraph 1. or 2. of this paragraph:

1. Nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's gross receipts. For purposes of this paragraph, "gross receipts" means the numerator of the sales factor under the provisions of KRS 141.120(8)(c); or

2. Seventy-five cents ($0.75) per one hundred dollars ($100) of the corporation's Kentucky gross profits.

(6) A minimum of one hundred seventy-five dollars ($175) shall be due for the taxable year from each corporation subject to the tax imposed by this section, regardless of the application of any tax credits provided under this chapter or any other provision of the Kentucky Revised Statutes for which the business entity may qualify.

(7) The alternative minimum calculation portion of the tax computation provided in subsection (5) of this section shall not apply to:

(a) Public service corporations subject to tax under KRS 136.120;

(b) Open-end registered investment companies organized under the laws of this state and registered under the Investment Company Act of 1940;

(c) Any property or facility which has been certified as a fluidized bed energy production facility as defined in KRS 211.390; and

(d) An alcohol production facility as defined in KRS 247.910.

(8) (a) As used in this subsection, "qualified exempt organization" means an entity listed in paragraphs (a) to (h) of subsection (1) of this section and shall not include any entity whose exempt status has been disallowed by the Internal Revenue Service.

(b) Notwithstanding any other provisions of this section or KRS 141.010, any corporation of the type listed in KRS 141.010(24)(b) to (h) that is owned in whole or in part by a qualified exempt organization shall, in calculating its taxable net income, gross receipts, or Kentucky gross profits, exclude the proportionate share of its taxable net income, gross receipts, or Kentucky gross profits 'butable to the ownership interest of the qualified exempt organization.

(c) Any corporation that reduces taxable net income, gross receipts, or Kentucky gross profits in accordance with paragraph (b) of this subsection shall disregard the ownership interest of the qualified exempt organization in determining the amount of credit available under Section 18 of this Act.

(d) The Revenue Cabinet may promulgate an administrative regulation to further define "qualified exempt organization" to include an entity for which exemption is constitutionally or legally required, or to exclude any entity created primarily for tax avoidance purposes with no legitimate business purpose.

(9) (a) To the extent that a corporation identified in KRS 141.010(24)(b) to (h) is doing business in this state, any member, shareholder or partner of the corporation may elect to pay, on behalf of the corporation, his, her or its proportionate share of the tax imposed by this section against the corporation. If an election is made, the electing member, shareholder or partner shall be treated in the same manner as the corporation regarding the proportionate part of the tax paid by the member, shareholder or partner. An election made pursuant to this subsection shall not:

1. Be used by the Revenue Cabinet or the taxpayer to assert that the party making the election is doing business in Kentucky;

2. Result in an increase of the amount of credit allowable under Section 18 of this Act; or

3. Apply to any corporation that is required to be included in a consolidated return under the provisions of subsections (2) to (5) and (9) to (12) of KRS 141.200.

(b) The Revenue Cabinet shall prescribe forms and promulgate regulations to execute and administer the provisions of this subsection.

(As added by Ch. 176, Laws 1980; as amended by Ch. 6, Laws 1985, 1st Sp. Sess.; Ch. 459, Laws 1986; Chs. 111 and 332, Laws 1988; Chs. 262, and 476, Laws 1990; Ch. 254, Laws 1996; Ch. 168 (H.B. 272), Laws 2005, effective March 18, 2005, applicable to tax years beginning on or after January 1, 2005.)

Kentucky Power Company
Calculation of the Kentucky Income Tax Phase-Down
2006 - 2010

Year	Phase-Down Rate
2006	100.0%
2006	85.71%
2008	85.71%
2009	85.71%
2010	85.71%
5 Year Average	88.6%

Kentucky Power Company
Revenue Requirement
Test Year Twelve Months Ended 06/30/2005

Line No. (1)	Description (2)	Percent of Incremental Gross Revenues (3)	
1	Capitalization (Per Sch 3, L 7, Col 12)	$853,082,950	
2	Rate of Return (WP S-2, Pg 1, L 5, Col 6)	7.89%	
3	Required Net Electric Operating Income (L1 X L2)	$67,308,245	
4	Test Year Net Electric Operating Income (Per Sch 4, L 14, Col 5)	$28,406,655	
5	Net Electric Operating Income Change (L3 - L4)	$38,901,590	
6	Revised Gross Revenue Conversion Factor	1.6513	1/
7	Change in Revenue Requirement (L5 X L6) Increase / (Decrease)	$64,238,196	
8	Change in Revenue Requirement (L5 X L6) Increase / (Decrease) - Section V Schedule 2	$64,796,239	
9	Change in Revenue Requirement is (Ln 7 - Ln 8)	($558,043)	

1/ See Page 7 of 8 for the Gross Revenue Conversion Factor

KENTUCKY POWER COMPANY
Computation of Gross Revenue Conversion Factor

		Tax Rates	Percentage of Incremental Gross Revenues
1	Operating Revenues		100.00%
2	Less: Uncollectible Accounts Expense		0.47%
3	Income Before Income Taxes		99.53%
4	Less: State Income Taxes (Line 3 x State Tax Rate)	6.39%	6.36%
5	Income Before Federal Income Taxes		93.17%
6	Less: Federal Income Taxes (Line 5 x Federal Tax Rate)	35.00%	32.61%
7	Operating Income Percentage		60.56%
8	Gross Revenue Conversion Factor (100% / Line 7)		1.6513

KENTUCKY POWER COMPANY
Calculation of Effective Income Tax Rate

State Income Tax Rate -KY	7.00%	
Apportionment Factor	100.00%	
Phase-Down Factor	88.60%	
Effective Kentucky State Income Tax Rate		6.20%
State Income Tax Rate -WVA	9.00%	
Apportionment Factor	0.47%	
Effective West Virginia State Income Tax Rate		0.04%
State Income Tax Rate -OH	8.50%	
Apportionment Factor	7.59%	
Phase-Out Factor	24.00%	
Effective Ohio State Income Tax Rate		0.15%
Total Effective State Income Tax Rate		6.39%

Kentucky Power Company

REQUEST

Please provide a detailed description and a supporting workpaper showing the assumptions and calculations used in deriving the 13-month average Accounts Receivable Financing rate of 2.99%.

RESPONSE

The calculation of the factoring rate consists of a debt and equity factor.

Debt factor - Compensates AEP Credit, Inc. for its interest cost in obtaining funding from external sources. AEP Credit Inc. maintains a 95% debt ratio and 5% equity ratio capital structure on all affiliated companies. This capitalization structure has been approved by the SEC. The calculation consists of multiplying the daily interest cost incurred by AEP Credit Inc.by the above debt ratios.

Equity factor - Provides a return to AEP Credit Inc. for the equity that is provided by AEP. The calculation consists of multiplying the allowed return on equity for KPCo and then divided by the tax effect (1 - tax rate) to allow for income taxes. The return on equity that the SEC allows for the purchase of retail receivables is based on the allowed equity returns of KPCo as approved by its respective state commission.

Attached is the workpaper showing the calculations used in deriving the 13- month average Account Receivable Financing rate of 2.99%.

WITNESS: Errol K Wagner

	Average Annual Cost of Carry	Average A/R Balance
13 Months Ended March 31, 2005	2.6182%	29,661,224.27
13 Months Ended June 30, 2005	2.9865%	30,139,597.65

Date	Daily Carrying Cost Rate
6/1/2004	2.1240%
6/2/2004	2.1240%
6/3/2004	2.1240%
6/4/2004	2.1240%
6/5/2004	2.1240%
6/6/2004	2.1240%
6/7/2004	2.1240%
6/8/2004	2.1240%
6/9/2004	2.1600%
6/10/2004	2.1600%
6/11/2004	2.1600%
6/12/2004	2.1600%
6/13/2004	2.1600%
6/14/2004	2.1600%
6/15/2004	2.1600%
6/16/2004	2.1600%
6/17/2004	2.1600%
6/18/2004	2.1600%
6/19/2004	2.1600%
6/20/2004	2.1600%
6/21/2004	2.1600%
6/22/2004	2.1960%
6/23/2004	2.1960%
6/24/2004	2.1960%
6/25/2004	2.2320%
6/26/2004	2.2320%
6/27/2004	2.2320%
6/28/2004	2.2320%
6/29/2004	2.2320%
6/30/2004	2.2320%
7/1/2004	2.2680%
7/2/2004	2.3040%
7/3/2004	2.3040%
7/4/2004	2.3040%
7/5/2004	2.3040%
7/6/2004	2.3040%
7/7/2004	2.3400%
7/8/2004	2.3400%
7/9/2004	2.3400%
7/10/2004	2.3400%
7/11/2004	2.3400%
7/12/2004	2.3400%
7/13/2004	2.3400%
7/14/2004	2.3760%
7/15/2004	2.3760%
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7/17/2004	2.4120%
7/18/2004	2.4120%
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7/20/2004	2.4120%
7/21/2004	2.4120%
7/22/2004	2.4120%
7/23/2004	2.4120%
7/24/2004	2.4120%
7/25/2004	2.4120%
7/26/2004	2.4120%
7/27/2004	2.4480%
7/28/2004	2.4480%
7/29/2004	2.4480%
7/30/2004	2.4480%

7/31/2004	2.4480%
8/1/2004	2.4480%
8/2/2004	2.4480%
8/3/2004	2.4840%
8/4/2004	2.4840%
8/5/2004	2.4840%
8/6/2004	2.4840%
8/7/2004	2.4840%
8/8/2004	2.4840%
8/9/2004	2.4480%
8/10/2004	2.4840%
8/11/2004	2.4840%
8/12/2004	2.4840%
8/13/2004	2.4840%
8/14/2004	2.4840%
8/15/2004	2.4840%
8/16/2004	2.4840%
8/17/2004	2.5200%
8/18/2004	2.5200%
8/19/2004	2.5200%
8/20/2004	2.5560%
8/21/2004	2.5560%
8/22/2004	2.5560%
8/23/2004	2.5200%
8/24/2004	2.5560%
8/25/2004	2.5560%
8/26/2004	2.5200%
8/27/2004	2.5200%
8/28/2004	2.5200%
8/29/2004	2.5200%
8/30/2004	2.5200%
8/31/2004	2.5200%
9/1/2004	2.4480%
9/2/2004	2.4480%
9/3/2004	2.4840%
9/4/2004	2.4840%
9/5/2004	2.4840%
9/6/2004	2.4840%
9/7/2004	2.4840%
9/8/2004	2.4480%
9/9/2004	2.4480%
9/10/2004	2.4480%
9/11/2004	2.4480%
9/12/2004	2.4480%
9/13/2004	2.4480%
9/14/2004	2.4840%
9/15/2004	2.4480%
9/16/2004	2.4480%
9/17/2004	2.4840%
9/18/2004	2.4840%
9/19/2004	2.4840%
9/20/2004	2.4840%
9/21/2004	2.5200%
9/22/2004	2.5200%
9/23/2004	2.5200%
9/24/2004	2.5200%
9/25/2004	2.5200%
9/26/2004	2.5200%
9/27/2004	2.5200%
9/28/2004	2.5920%
9/29/2004	2.5920%

9/30/2004	2.5920%
10/1/2004	2.5920%
10/2/2004	2.5920%
10/3/2004	2.5920%
10/4/2004	2.5920%
10/5/2004	2.7000%
10/6/2004	2.6640%
10/7/2004	2.6640%
10/8/2004	2.6640%
10/9/2004	2.6640%
10/10/2004	2.6640%
10/11/2004	2.6640%
10/12/2004	2.6640%
10/13/2004	2.6640%
10/14/2004	2.6640%
10/15/2004	2.7000%
10/16/2004	2.7000%
10/17/2004	2.7000%
10/18/2004	2.7000%
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11/8/2004	2.7360%
11/9/2004	2.7360%
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11/20/2004	2.7720%
11/21/2004	2.7720%
11/22/2004	2.7720%
11/23/2004	2.8440%
11/24/2004	2.8440%
11/25/2004	2.8440%
11/26/2004	2.8440%
11/27/2004	2.8440%
11/28/2004	2.8440%
11/29/2004	2.8440%

11/30/2004	2.8800%
12/1/2004	2.8800%
12/2/2004	2.8800%
12/3/2004	2.8800%
12/4/2004	2.8800%
12/5/2004	2.8800%
12/6/2004	2.9160%
12/7/2004	2.9160%
12/8/2004	2.9160%
12/9/2004	2.9160%
12/10/2004	2.8800%
12/11/2004	2.8800%
12/12/2004	2.8800%
12/13/2004	2.8800%
12/14/2004	2.9160%
12/15/2004	2.9520%
12/16/2004	2.9520%
12/17/2004	2.9520%
12/18/2004	2.9520%
12/19/2004	2.9520%
12/20/2004	2.9520%
12/21/2004	2.9520%
12/22/2004	2.9880%
12/23/2004	2.9880%
12/24/2004	2.9880%
12/25/2004	2.9880%
12/26/2004	2.9880%
12/27/2004	3.0240%
12/28/2004	3.0600%
12/29/2004	3.0600%
12/30/2004	3.0960%
12/31/2004	3.0960%
1/1/2005	3.0960%
1/2/2005	3.0960%
1/3/2005	3.0960%
1/4/2005	3.1320%
1/5/2005	3.1320%
1/6/2005	3.1320%
1/7/2005	3.1320%
1/8/2005	3.1320%
1/9/2005	3.1320%
1/10/2005	3.1320%
1/11/2005	3.1320%
1/12/2005	3.1320%
1/13/2005	3.1320%
1/14/2005	3.1320%
1/15/2005	3.1320%
1/16/2005	3.1320%
1/17/2005	3.1320%
1/18/2005	3.1320%
1/19/2005	3.1320%
1/20/2005	3.1320%
1/21/2005	3.1320%
1/22/2005	3.1320%
1/23/2005	3.1320%
1/24/2005	3.1320%
1/25/2005	3.1320%
1/26/2005	3.1320%
1/27/2005	3.1320%
1/28/2005	3.1320%
1/29/2005	3.1320%

1/30/2005	3.1320%
1/31/2005	3.1320%
2/1/2005	3.1680%
2/2/2005	3.1680%
2/3/2005	3.1680%
2/4/2005	3.1680%
2/5/2005	3.1680%
2/6/2005	3.1680%
2/7/2005	3.1680%
2/8/2005	3.2400%
2/9/2005	3.2400%
2/10/2005	3.2400%
2/11/2005	3.2400%
2/12/2005	3.2400%
2/13/2005	3.2400%
2/14/2005	3.2400%
2/15/2005	3.2760%
2/16/2005	3.2760%
2/17/2005	3.2760%
2/18/2005	3.2760%
2/19/2005	3.2760%
2/20/2005	3.2760%
2/21/2005	3.2760%
2/22/2005	3.2760%
2/23/2005	3.2760%
2/24/2005	3.3120%
2/25/2005	3.3120%
2/26/2005	3.3120%
2/27/2005	3.3120%
2/28/2005	3.3120%
3/1/2005	3.3120%
3/2/2005	3.3480%
3/3/2005	3.3480%
3/4/2005	3.3480%
3/5/2005	3.3480%
3/6/2005	3.3480%
3/7/2005	3.3480%
3/8/2005	3.3480%
3/9/2005	3.3480%
3/10/2005	3.3840%
3/11/2005	3.3480%
3/12/2005	3.3480%
3/13/2005	3.3480%
3/14/2005	3.3480%
3/15/2005	3.3840%
3/16/2005	3.3840%
3/17/2005	3.3840%
3/18/2005	3.3840%
3/19/2005	3.3840%
3/20/2005	3.3840%
3/21/2005	3.3840%
3/22/2005	3.4200%
3/23/2005	3.4200%
3/24/2005	3.4200%
3/25/2005	3.4200%
3/26/2005	3.4200%
3/27/2005	3.4200%
3/28/2005	3.4200%
3/29/2005	3.4920%
3/30/2005	3.4920%
3/31/2005	3.4920%

4/1/2005	3.4920%
4/2/2005	3.4920%
4/3/2005	3.4920%
4/4/2005	3.5280%
4/5/2005	3.5640%
4/6/2005	3.5280%
4/7/2005	3.5640%
4/8/2005	3.5640%
4/9/2005	3.5640%
4/10/2005	3.5640%
4/11/2005	3.5640%
4/12/2005	3.5640%
4/13/2005	3.5640%
4/14/2005	3.5640%
4/15/2005	3.5640%
4/16/2005	3.5640%
4/17/2005	3.5640%
4/18/2005	3.5640%
4/19/2005	3.6000%
4/20/2005	3.6000%
4/21/2005	3.6000%
4/22/2005	3.6000%
4/23/2005	3.6000%
4/24/2005	3.6000%
4/25/2005	3.6000%
4/26/2005	3.6360%
4/27/2005	3.6360%
4/28/2005	3.6000%
4/29/2005	3.6360%
4/30/2005	3.6360%
5/1/2005	3.6360%
5/2/2005	3.6360%
5/3/2005	3.6720%
5/4/2005	3.6720%
5/5/2005	3.6360%
5/6/2005	3.6720%
5/7/2005	3.6720%
5/8/2005	3.6720%
5/9/2005	3.6720%
5/10/2005	3.7080%
5/11/2005	3.7080%
5/12/2005	3.7080%
5/13/2005	3.7080%
5/14/2005	3.7080%
5/15/2005	3.7080%
5/16/2005	3.7080%
5/17/2005	3.7440%
5/18/2005	3.7440%
5/19/2005	3.7440%
5/20/2005	3.7800%
5/21/2005	3.7800%
5/22/2005	3.7800%
5/23/2005	3.7800%
5/24/2005	3.7800%
5/25/2005	3.7800%
5/26/2005	3.7800%
5/27/2005	3.8160%
5/28/2005	3.8160%
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5/30/2005	3.8160%
5/31/2005	3.8160%

6/1/2005	3.8160%
6/2/2005	3.8160%
6/3/2005	3.8160%
6/4/2005	3.8160%
6/5/2005	3.8160%
6/6/2005	3.8160%
6/7/2005	3.8160%
6/8/2005	3.8160%
6/9/2005	3.8160%
6/10/2005	3.8160%
6/11/2005	3.8160%
6/12/2005	3.8160%
6/13/2005	3.8160%
6/14/2005	3.8520%
6/15/2005	3.8520%
6/16/2005	3.8520%
6/17/2005	3.8520%
6/18/2005	3.8520%
6/19/2005	3.8520%
6/20/2005	3.8520%
6/21/2005	3.8520%
6/22/2005	3.8520%
6/23/2005	3.8520%
6/24/2005	3.8880%
6/25/2005	3.8880%
6/26/2005	3.8880%
6/27/2005	3.8880%
6/28/2005	3.8880%
6/29/2005	3.8880%
6/30/2005	3.9240%
Average	**2.9865%**

Kentucky Power Company

REQUEST

Consistent with all of the pro forma capitalization adjustments shown on Section V, Schedule 3, and consistent with the proposed pro forma rate base deduction adjustment of $2,662,755 shown on Section V, S-5, line 20, explain why the Company has not made a pro forma capitalization reduction adjustment of $2,662,755.

RESPONSE

The $2,662,755 is the net effect of removing from Electric Plant in Service- Capital Leases and adding to Electric Plant in Service Post in Service AFUDC Hanging Rock Jefferson (HR-J) and Deferred Depreciation on HR-J (Please see Section V Schedule 11 Lines 25 +26 - 27 less Section V Schedule 12 Lines 9 - 10) and since the Company did not utilize any capital to obtain the these assets, it would be inappropriate to reduce the Company's capitalization by the $2,662,755.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

With regard to the Hanging Rock-Jefferson pro forma net plant in service additions described on page 3, lines 20-22 of Mr. Wohnhas' testimony, please provide the relevant page(s) of the KPSC Order in Case No. 9061 referring to this item. In addition, provide a workpaper showing the calculations of these pro forma net plants in service additions.

RESPONSE

Please refer to page 2 and 3 of this response. Also please refer to Section V, Sch 11, Sch 12 and Sch 13 for the calculations.

WITNESS: Ranie K Wohnhas

Q All right. Thank you. I have no further questions. Is that--let me--is that your understanding, too, Mr. Matthews?

A Yes. I--it was decided not to adjust the billing determinants, but I think it was a point that the--we wanted to bring out in the case, and it was included for that reason.[76]

In recent Kentucky Power rate cases, as well as those of other public utilities in Kentucky, the Commission has enunciated a consistent policy concerning proposed price elasticity adjustments. Had Kentucky Power specifically requested such an adjustment, there is nothing in this case to cause the Commission to deviate from that policy. Accordingly, a price elasticity adjustment has not been incorporated in the rates set forth in this Order.

Hanging Rock-Jefferson AFUDC

As part of its application in this case, Kentucky Power requested approval of a modification in accounting practices regarding AFUDC and depreciation of the Hanging Rock-Jefferson line. The modification involved permission to continue accruing AFUDC on the line from its September 1984 in-service date until the effective date of rates in this case and permission to defer any depreciation expense until that same date. This request came about due to Kentucky Power's decision to implement this rate increase in conjunction with the commercialization of Rockport.

As support for the request, Mr. Boyle explained that, under the instructions of the FERC Uniform System of Accounts, which

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[76] T.E., Volume I, October 9, 1984, pages 71-72.

require that AFUDC cease and depreciation commence at the commercial operation date of a project, Kentucky Power's earnings for the period from September through November 1984 would be reduced by approximately 40 percent.[77] In addition, without the requested accounting modification Kentucky Power would never recover the capital costs incurred during that 3-month period.

None of the intervenors objected to the request and no modifications were proposed by any of the parties. The Commission is of the opinion that, in view of Kentucky Power's financial condition, and inasmuch as the request applies to a specific construction project, the proposed accounting treatment is both reasonable and appropriate. The Commission recognizes this to be an isolated incident caused by the timing of the Hanging Rock-Jefferson and Rockport projects. Furthermore, the Commission finds the accounting entries proposed by Kentucky Power to be proper and consistent with generally accepted accounting principles. Therefore, Kentucky Power is hereby authorized to continue AFUDC accrual for the Hanging Rock-Jefferson line from its in-service date up to the effective date of the rates approved herein. Kentucky Power is also authorized to defer depreciation on the Hanging Rock-Jefferson project until the effective date of the rates approved herein.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

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77 Boyle Prefiled Testimony, page 5.

Kentucky Power Company

REQUEST

Please indicate in which exact expense account shown in the response to KPSC-1-23b the actual test year distribution and transmission O&M expenses shown in Table 3 and the actual 2000 through 2004 distribution and transmission O&M expenses shown in Table 4 of Mr. Phillips' testimony are reflected.

RESPONSE

The actual test year distribution and transmission O&M expenses shown in Table 3 and the actual 2000 through 2004 distribution and transmission O&M expenses shown in Table 4 of Mr. Phillips' testimony are reflected in accounts 5710000, 5710001, 5930000, and 5930001.

WITNESS: Errol Wagner and Ranie K Wohnhas

Kentucky Power Company

REQUEST

With regard to the Reliability Adjustment annual expense and investment levels shown on Section V, S-4, page 29, please provide (1) explanation of the basis of and workpapers showing all assumption and calculations in support of the annual expense and investment levels, and (2) any available actual source documentation (invoices, bids, RFPs, etc.) in support of the annual expense and investment levels.

RESPONSE

The basis of the request for vegetation resources is contained in Phillips Testimony page 10 lines 2-5: "The estimates (of both O&M and Capital) were based on actual line mile tree-trimming clearing expenses, which include base tree trimming work, herbicide application, and incremental tree trimming crews to perform end-to-end clearance, administrative oversight, and follow-up trimming for fast growing vegetation between cycles"

Specific calculations may be found in the attached pages.

WITNESS: Everett G Phillips

Estimated Annual
Total Cost to Achieve a
T & D Cycle Approach

Total Program Cost	Year	($Million) O&M	Capital	Total
$74,050,988	First	$12.30	$5.40	$17.70
	Second	$12.67	$5.56	$18.23
	Third	$13.05	$5.72	$18.78
	Fourth	$13.45	$5.90	$19.34
	Fifth	$0.00	$0.00	$0.00

Estimated Annual
Average Cost to Achieve a
T & D Cycle Approach
($ Millions)

	Distribution		Transmission		Total	
	O&M	Capital	O&M	Capital	O&M	Capital
Average	$11.56	$5.20	$1.31	$0.44	$12.87	$5.64

Estimated Incremental
O&M and Capital Cost Summary
($ Millions)

Year	Distribution		Transmission		Total	
	O&M	Capital	O&M	Capital	O&M	Capital
First	$5.33	$3.18	$0.42	$0.42	$5.75	$3.60
Second	$5.66	$3.33	$0.46	$0.44	$6.12	$3.76
Third	$6.00	$3.48	$0.50	$0.45	$6.50	$3.93
Fourth	$6.36	$3.64	$0.54	$0.46	$6.89	$4.10
Fifth	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

Kentucky Test Year O&M and Capital Cost Summary
($ Millions)
($ Millions)

Year	Distribution		Transmission		Total	
	O&M	Capital	O&M	Capital	O&M	Capital
First	$5.72	$1.33	$0.83	$0.00	$6.55	$1.33
Second	$5.72	$1.33	$0.83	$0.00	$6.55	$1.33
Third	$5.72	$1.33	$0.83	$0.00	$6.55	$1.33
Fourth	$5.72	$1.33	$0.83	$0.00	$6.55	$1.33
Fifth	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

Ky Pwr Vegetation
Ky Vegetation Work Sheet Aug 25.xls

Estimated Annual
Cost to Achieve a Five Year
Distribution Cycle Approach

Total Program Cost	Year	($Million) O&M	Capital	Total
67,035,765	First	$11.05	$4.97	$16.02
	Second	$11.38	$5.12	$16.50
	Third	$11.72	$5.28	$17.00
	Fourth	$12.08	$5.43	$17.51
	Fifth	$0.00	$0.00	$0.00

Direct $'s

Test Year	Capital	O&M
2004 - Q3	$275,851	$1,230,537
2004 - Q4	$454,976	$1,819,244
2005 - Q1	$305,063	$1,129,045
2005 - Q2	$292,694	$1,541,366
Test Year Total	$1,328,584	$5,720,192

Step 1 - Unloaded Cost to Achieve

Category	Line Miles	Cost Per Line Mile or Per Year	Cost
4kV to 34.5 kV Trimming & Reclearing	9,546	$5,200	$49,639,200
Herbicide for newly cut r/w (avg 20% of total miles)	1,909	$250	$477,300
Inspections	N/A	$205,000	$820,000
Repetitive Trimming & Herbicide	N/A	$2,000,000	$8,000,000
		Unloaded Total Cost	**$58,936,500**
Years to Implement	**4**		

Step 2 -Adding Inflation Factor

		Inflation Cost	Total Cost Per Year
Plan's Per Year Total Cost	$14,734,125		
Inflation Factor	0.03		
	First Year	N/A	$14,734,125
	Second Year	$442,024	$15,176,149
	Third Year	$455,284	$15,631,433
	Fourth Year	$468,943	$16,100,376
	Fifth Year	$0	$0

Step 3-Determine Loaded Cost To Achieve: O&M and Capital Split (w/35% loadings)

Total Cost Per Year	O&M	Capital Split	Load Capital	Adjusted Total Cost Per Year
	0.75	0.25	0.35	
$14,734,125	$11,050,594	$3,683,531	$4,972,767	$16,023,361
$15,176,149	$11,382,112	$3,794,037	$5,121,950	$16,504,062
$15,631,433	$11,723,575	$3,907,858	$5,275,609	$16,999,184
$16,100,376	$12,075,282	$4,025,094	$5,433,877	$17,509,159
$0	$0	$0	$0	$0
Loaded Cost To Achieve	**$46,231,562**	**$15,410,521**	**$20,804,203**	**$67,035,765**

Step 4 - Determine Base Year

Category	O&M	Capital	Load Capital	Total Test Year
Test Year - (7/1/04-6/30/05)	$5,720,192	$1,328,584	$1,793,588	$7,513,780

Step 5-Determining O&M and Capital Split of Incremental Portion

Year	O&M	Capital	Load Capital	Total Incremental
First	$5,330,402	$2,354,947	$3,179,179	$10,864,528
Second	$5,661,920	$2,465,453	$3,328,362	$11,455,735
Third	$6,003,383	$2,579,274	$3,482,020	$12,064,678
Fourth	$6,355,090	$2,696,510	$3,640,289	$12,691,889
Fifth	$0	$0	$0	$0
Loaded Incremental Cost To Achieve	**$23,350,794**	**$10,096,185**	**$13,629,849**	**$47,076,829**

Step 6 - Total Cost to Maintain

	Line Miles	Cost Per Line Mile	Total Cost
4kV to 34.5 kV	9,546	$3,200	$30,547,200
		Total Cost	$30,547,200

Based on a 4 year approach

Average Line Miles Per Year	Line Mile Per Year	Total Cost
2386.5	$3,200	$7,636,800

Ky Pwr Vegetation
Ky Vegetation Work Sheet Aug 25.xls

Estimated Annual Cost to Achieve a Five Year Transmission Cycle Approach

Total Program Cost	Year	O&M ($Million)	Capital ($Million)	Total ($Million)
7,015,223	First	$1.25	$0.42	$1.68
	Second	$1.29	$0.44	$1.73
	Third	$1.33	$0.45	$1.78
	Fourth	$1.37	$0.46	$1.83
	Fifth	$0.00	$0.00	$0.00

Direct $'s

Test Year	Capital	O&M
2004 - Q3		$375,628
2004 - Q4		$44,409
2005 - Q1		$96,771
2005 - Q2		$313,417
Test Year Total	$0	$830,225

Step 1 - Unloaded Cost to Achieve

Category	Line Miles	Cost Per Line Mile or Per Year	Cost
46kV and above	1,183	$5,000	$5,915,000
46 kV and below	3	$4,500	$13,500
Inspections	N/A	$85,004	$340,016
		Unloaded Total Cost	$6,268,516
Years to Implement	4		

Step 2 -Adding Inflation Factor

		Inflation Cost	Total Cost Per Year
Plan's Per Year Total Cost	$1,567,129		
Inflation Factor	0.03		
	First Year	N/A	$1,567,129
	Second Year	$47,013.87	$1,614,142.87
	Third Year	$48,424.29	$1,662,567.16
	Fourth Year	$49,877.01	$1,712,444.17
	Fifth Year	$0.00	$0.00

Step 3-Determine Loaded Cost To Achieve: O&M and Capital Split (w/35% loadings)

Total Cost Per Year	O&M	Capital Split	Load Capital	Adjusted Total Cost Per Year
	0.80	0.20	0.35	
$1,567,129	$1,253,703	$313,426	$423,124.83	$1,676,828
$1,614,143	$1,291,314	$322,829	$435,818.57	$1,727,133
$1,662,567	$1,330,054	$332,513	$448,893.13	$1,778,947
$1,712,444	$1,369,955	$342,489	$462,359.93	$1,832,315
$0	$0.00	$0.00	$0.00	$0.00
Loaded Cost To Achieve	$5,245,026.56	$1,311,256.64	$1,770,196.46	$7,015,223.02

Step 4 - Determine Base Year

Category	O&M	Capital
Test Year - (7/1/04-6/30/05)	$830,225	$0

Step 5-Determining O&M and Capital Split of Incremental Portion

Year	O&M	Capital	Load Capital (35%)	Total Incremental
First	$423,478	$313,426	$423,125	$846,603
Second	$461,089	$322,829	$435,819	$896,908
Third	$499,829	$332,513	$448,893	$948,722
Fourth	$539,730	$342,489	$462,360	$1,002,090
Fifth	$0	$0	$0	$0
Loaded Incremental Cost To Achieve	$1,924,127	$1,311,257	$1,770,196	$3,694,323

Step 6 - Total Cost to Maintain

	Line Miles	Cost Per Line Mile	Total Cost
46kV and above	1,183	$3,500	$4,140,500
46 kV and below	3	$3,200	$9,600
		Total Cost	$4,150,100

Based on a 4 year approach

Average Line Miles Per Year	Cost per Line Mile Per Year	Total Cost
295.75	$3,500	$1,035,125
0.75	$3,200	$2,400
		$1,037,525

KPSC CASE NO. 2005-00341
AG 1ST SET DATA REQUESTS
ITEM NO. 9
PAGE 4 OF 4

Kentucky Power Company

REQUEST

Under the assumption that the KPSC will allow the proposed Reliability Adjustment, what actions and procedures is the Company proposing to provide assurance and verification to the KPSC that the annual expense and investment levels and all of the associated incremental vegetation management activities for which rate recovery would be allowed will indeed be spent and performed by the Company?

RESPONSE

The Company uses several metrics to track vegetation programs - $'s spent; miles of line maintained; # of trees trimmed; # of trees removed; acres of brush cleared; and acres of brush sprayed. Phillips Testimony page 9 – Table 1 contains a projection of annual Trims, Removes and Acres of Brush Cleared should the incremental increase be granted. While field conditions will dictate the actual levels these projections will serve as an annual baseline for comparison. If the Commission grants the Company the requested Reliability Adjustment the Company will provide the Commission with all required documentation concerning the Company's vegetation management expenditures.

WITNESS: Everett G Phillips

Kentucky Power Company

REQUEST

The Company is proposing a pro forma test year depreciation expense adjustment that increases the adjusted per books test year depreciation expenses by $3,654,912. In this regard, please provide the following information:

a. Why hasn't the Company proposed to increase its pro forma test year accumulated depreciation reserve balance in rate base to reflect this pro forma annualized depreciation expense adjustment, consistent with previously established KPSC ratemaking policy?

b. If the Company does not agree that this pro forma rate base adjustment should be made, explain your disagreement.

c. If the Company agrees that this pro forma rate base adjustment should be made, provide the impact on the Company's proposed rate base, as well as the corresponding impact on the Company's proposed adjusted capitalization shown on Section V, Schedule 3.

RESPONSE

a. The Company is unaware of such a "previously established KPSC ratemaking policy." Further, the Company does not believe it appropriate to adjust an historical end of test year accumulated depreciation reserve balance in rate base to reflect the depreciation expense adjustment in light of the Commission's past practice of using capitalization to set rates.

b. Please see response to subpart (a) to this request.

c. N/A.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Please reconcile each of the unadjusted test year depreciation expense amounts shown on Section V, S-4, page 8, column (6), lines 1 through 4 to the corresponding unadjusted test year depreciation expense amounts shown on Section V, Schedule 8, column (3), lines 1 through 4.

RESPONSE

The difference between Section V, S-4, Page 8, Column (6) Line 1 through 4 and Section V, Schedule 8, Column (3), Line 1 through 4 is the following:

The amount in Section V, S-4, Page 8, Column (6) Line 1 through 4 was calculated on the depreciable In Service Plant as of June 30, 2005 using the current annual depreciation rates.

The amount in Section V, Schedule 8, Column (3) Lines 1 through 4 is based on the 12 monthly, month end balances of Electric Plant In Service for the months June 2004 through May 2005. Monthly depreciation expense is calculated on the prior month Electric Plant In Service balances. The monthly Electric Plant In Service balances can change from month to month due to in service additions and/or retirements from Electric Plant In Service.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

The Company has proposed an M&S balance of $16,720,225 which represents the actual M&S balance as of the end of the test year, 6/30/05. From the information on Section IV, page 14 it can be derived that the corresponding 13-month average M&S balance for the test year amounts to $14,510,165. Please confirm this. If you do not agree, explain your disagreement.

RESPONSE

The 13-month M&S balance for the test year ended June 30, 2005 is $14,510,165.

WITNESS: Errol K Wagner