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Via Overnight Mail

RECEIVED

JAN 30 2006

PUBLIC SERVICE
COMMISSION

January 27, 2006

Beth A. O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2005-00341

Dear Ms. O'Donnell:

Please find enclosed the original and twelve (12) copies each of the Response of the Kentucky Industrial Utility Customers, Inc. to the Attorney General to be filed in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,



David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment

cc: Certificate of Service
David Brown Kinloch

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by first-class postage prepaid mail, and electronic mail, (when available) to all parties on the 27th day of January, 2005.

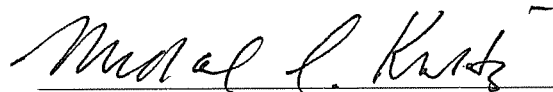
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Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 30 2006

PUBLIC SERVICE
COMMISSION

In the Matter of:

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

ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION
TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Initial Request for Information to Kentucky Industrial Utility Customers, Inc. (KIUC) to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) To the extent that the company has objections to any request for the provision of information on the grounds that doing so would violate Copyright laws, in lieu of the information requested, please state for the answer what efforts have been made by the company to secure permission to provide copies of the information requested for use in this case only. The response should include the name of the person to whom the request for permission to provide a copy of the document for use in this case was made, the date of the request, a copy of all documentation of the request and response, and the means by which the Attorney General might contact that person directly via telephone or electronically together with how and when the company will make the information available for inspection.

(9) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(10) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL OF KENTUCKY

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NOTICE OF FILING AND CERTIFICATION OF SERVICE

I hereby give notice that this the 18th day of January, 2006, I have filed eight true copies of the foregoing Request for Information with the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 and certify that this same day I have served the parties by mailing a true copy of same, postage prepaid, to those listed below and by sending a courtesy electronic copy to Kentucky Industrial Utility Customers at KIUC@bkllawfirm.com.

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Assistant Attorney General

Kentucky Power Company
Case No. 2005-00341

1. The Cost of Service Study presented as Baron Exhibit SJB-2 contains on the results of the Cost of Service Study. Please provide all calculations, assumption and workpapers, including intermediary calculations, that produced these results.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

2. Please provide the complete Cost of Service Study, the results of which were presented in Baron Exhibit SJB-2, in an electronic format with all underlying formulas contained in the cells left intact. Please also include the type of software with which the study was prepared (ex. EXCEL 97).

Response: Please see attached CD. The software used is Excel 2003. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

3. The Cost of Service Study presented as Baron Exhibit SJB-2 contains only the results of the cost of service study. Please provide the intermediary steps and calculations used to generate these results, including but not limited to:

- a) All study inputs.
- b) Functionalization of costs.
- c) Classification of functionalized costs.
- d) Allocation of costs by customer class.
- e) All allocators used.
- f) All inputs and calculations used to develop the of the allocators.
- g) All formulas used.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

- 4) Please refer to Baron Exhibit SJB-2. The two generally accepted methodologies outlined in the NARUC Manual for use in the division of distribution line costs into demand and customer components are the “Minimum System” method and the “Zero-Intercept” method. It was unclear from Mr. Baron’s testimony which was used in the Cost of Service study.
- a) Please state which methodology was used to separate distribution line costs into demand and customer components.
 - b) Please provide all inputs, calculations, assumptions and workpapers used to divide distribution line costs into demand and customer components.

Response: Neither of those methods was used. The distribution system was classified in the same manner as was done by the Company and described in Mr. Foust’s testimony at pages 10 and 11.

5. On page 12 of his testimony, Mr. Baron states that Baron Exhibit SJB-2 is an “independent replication of the KPCo cost of service study.” Comparing Baron Exhibit SJB-2 and the Company’s study filed as Foust Exhibit LCF-1, these two study summaries appear to be identical.
- a) Please state how this is an “independent replication” and not simply a copy of the KPCo study.
 - b) Did Mr. Baron use the same TACOS Gold software that KPCo used for its study, to produce his Cost of Service Studies? If not, please explain all differences between the KPCo methodology and Mr. Baron’s methodology.
 - c) If Mr. Baron used the TACOS Gold software to produce his Cost of Service Studies, please provide a detailed description what Mr. Baron has done to confirm the intermediary calculations being performed inside the TACOS Gold software are correct, the assumptions on which those calculations are based, and whether and how he is confident that the software is producing accurate results.
 - d) If Mr. Baron used the TACOS Gold software to produce his Cost of Service Studies, did Mr. Baron simply use as a starting point the assumption that the calculations done by KPCo in its Cost of Service Study were correct, and then plug different demand allocators into that KPCo study?

Response:

- a) It is an independent replication of the complete modeling of the KPCo class cost of service using the 12 CP methodology. The objective was to develop an electronic model of class cost of service. We independently verified the methodologies used by the Company.
- b) No. Please see response to question 1. Mr. Baron has not used the TACOS Gold software, as used by KPCo in this case, and can not make such a comparison.
- c) N.A.
- d) N.A.

6. The Cost of Service Study presented as Baron Exhibit SJB-3 contains on the results of the Cost of Service Study. Please provide all calculations, assumption and workpapers, including intermediary calculations that produced these results.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

7. Please provide the complete Cost of Service Study, the results of which were presented in Baron Exhibit SJB-3, in an electronic format with all underlying formulas contained in the cells left intact. Please also include the type of software with which the study was prepared (ex. EXCEL 97).

Response: Please see attached CD. The software used is Excel 2003. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

8. The Cost of Service Study presented as Baron Exhibit SJB-3 contains only the results of the cost of service study. Please provide the intermediary steps and calculations used to generate these results, including but not limited to:

- a) All study inputs.
- b) Functionalization of costs.
- c) Classification of functionalized costs.
- d) Allocation of costs by customer class.
- e) All allocators used.
- f) All inputs and calculations used to develop all of the allocators.
- g) All formulas used.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

9. Please provide all calculations, assumptions and workpapers used to generate the class demand allocators using the Average and Excess methodology, as used in Baron Exhibit SJB-3.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

10. The Cost of Service Study presented as Baron Exhibit SJB-4 contains only the results of the Cost of Service study. Please provide all calculations, assumption and workpapers, including intermediary calculations that produced these results.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

11. Please provide the complete Cost of Service Study, the results of which were presented in Baron Exhibit SJB-4, in an electronic format with all underlying formulas contained in the cells left intact. Please also include the type of software with which the study was prepared (ex. EXCEL 97).

Response: Please see attached CD. The software used is Excel 2003. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

12. The Cost of Service Study presented as Baron Exhibit SJB-4 contains only the results of the Cost of Service Study. Please provide the intermediary step and calculations used to generate these results, including but not limited to:

- a) All study inputs.
- b) Functionalization of costs.
- c) Classification of functionalized costs.
- d) Allocation of costs by customer class.
- e) All allocators used.
- f) All inputs and calculations used to develop the allocators.
- g) All formulas used.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

13. Please provide all calculations, assumptions and workpapers used to generate the class demand allocators using the 1 CP methodology, as used in Baron Exhibit SJB-4.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

14. The Cost of Service Study presented as Baron Exhibit SJB-5 contains on the results of the Cost of Service Study. Please provide all calculations, assumption and workpapers, including intermediary calculations that produced these results.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

15. Please provide the complete Cost of Service Study, the results of which were presented in Baron Exhibit SJB-5, in an electronic format with all underlying formulas contained in the cells left intact. Please also include the type of software with which the study was prepared (ex. EXCEL 97).

Response: Please see attached CD. The software used is Excel 2003. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

16. The Cost of Service Study presented as Baron Exhibit SJB-5 contains only the results of the Cost of Service Study. Please provide the intermediary step and calculations used to generate these results, including but not limited to:

- a) All study inputs.
- b) Functionalization of costs.
- c) Classification of functionalized costs.
- d) Allocation of costs by customer class.
- e) All allocators used.
- f) All inputs and calculations used to develop the allocators.
- g) All formulas used.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

17. Please provide all calculations, assumptions and workpapers used to generate the class demand allocators using the Summer and Winter CP methodology, as used in Baron Exhibit SJB-5.

Response: Please see attached CD. The cost of service model contained on this CD is a proprietary model of J. Kennedy & Associates, Inc. and cannot be used without the express written permission of J. Kennedy & Associates, Inc. It is being provided to the AG, subject to a confidentiality agreement and must be returned, with no copies made, to J. Kennedy & Associates, Inc. at the conclusion of this proceeding.

18. Were any of the Cost of Service Studies presented by Mr. Baron prepared utilizing commercially available software subject to a licensing agreement that performs the calculations required to produce the results that are not subject to review if the Studies are presented in an electronic format?

- a) If so, which studies?
- b) If so, what entity holds the licensing rights to the software utilized?
- c) If so, for each Cost of Service Study performed by such software please detail how Mr. Baron assessed the ability of the software to perform each study according to the principles and/or parameters appropriate to that methodology in terms of functionalization, classification, and allocation of costs. If Mr. Baron possesses any written or electronic information concerning the operation of or means by which the software implements each methodology, please provide a copy of that information.
- d) If so, please detail what Mr. Baron did to verify the accuracy of the calculations performed by the software to implement or execute the principles and parameter each methodology represented by each Cost of Service Study performed by the software. Please provide copy of any means of verification.

Response:

- a) All of the studies were developed using Excel 2003 software.
- b) Microsoft
- c) Mr. Baron does not understand this question. All of the analyses were developed using standard Excel 2003.
- d) Since the cost of service study was developed using Excel 2003, Mr. Baron did not perform a specific analysis of calculation accuracy.

19. On page 19 of Mr. Baron's testimony, he recommends a 25% reduction in subsidies.

- a) Please provide all calculations, assumptions and workpapers used to produce this 25% figure.
- b) If there are no specific calculations used to generate this 25% figure, please explain why a figure of 25% was recommended, as opposed to 15% or 20%.
- c) In Table 1 on page 20, Mr. Baron recommends that a single class, the RS class, be assigned over 60% of the entire increase, and an overall increase of over 30%. Please explain how this recommendation is consistent with the principle of continuity and gradualism.

Response:

- a) The 25% subsidy reduction was the criterion used in the settlement of the recent LGE and KU cases and approved by the Kentucky Commission. No specific calculations were performed to produce the 25% value.
- b) See response to part (a).
- c) The percentage of the overall increase being proposed by Mr. Baron for the residential class is a function of the relative size of the class. If the residential class received the system average increase of 19.2%, it would still receive almost 40% of the total dollars of increase. The fact that the residential class is producing a negative rate of return on investment (i.e., not even covering operating expenses, let alone return on investment), is support for an increase in the range of 1.5 times the system average increase being request in this case of 19.21%. Given the facts in this case, it is not unreasonable for a rate class to receive an increase of 1.5 times the system average increase.

20. Please provide all calculations, assumption and workpapers used to generate Table 1 on page 20 of Mr. Baron's testimony.

Response: Please see attached CD.

21. Please provide all calculations, assumption and workpapers used to generate Table 2 on page 21 of Mr. Baron's testimony.

Response: Please see attached CD.

22. Please provide all calculations, assumption and workpapers used to generate Table 3 on page 22 of Mr. Baron's testimony.

Response: Please see attached CD.

23. Did Mr. Baron perform any Cost of Service Study that was not presented in his testimony? If so, please provide both a written and an electronic copy, with all formulas intact.

Response: No.