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November 21, 2007

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HAND DELIVERED

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PUBLIC SERVICE COMMISSION

Ms. Beth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort KY 40602-0615

RE: P.S.C. Case No. 2007-00381

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and seven copies of the Kentucky Power's Responses to the Data Requests propounded on November 7, 2007. By copy of this letter, copies of the Responses are being served on the persons listed below.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet

cc: Michael L. Kurtz
Lawrence W. Cook

KE057:KE196:16287:1:FRANKFORT

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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

AN EXAMINATION BY THE PUBLIC SERIVCE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF KENTUCKY	)	
POWER COMPANY FOR THE SIX-MONTH	)	**CASE NO. 2007-00381**
BILLING PERIODS ENDING JUNE 30, 2006 AND	)	
DECEMBER 31, 2006, AND FOR THE TWO-YEAR	)	
BILLNG PERIOD ENDING JUNE 30, 2007	)	

KENTUCKY POWER COMPANY

RESPONSES TO COMMISSION STAFF'S SECOND SET OF DATA REQUESTS

November 21, 2007

Kentucky Power Company

REQUEST

Refer to the Direct Testimony of Errol K. Wagner ("Wagner Testimony"), page 6. On line 13 is the statement, "Due to the fact that these adjustments tend to off-set each other, the Company recommends that these adjustments be reflected in the same month on the customers' monthly bill to lessen the impact on the ratepayers." Since the fuel adjustment clause and the environmental surcharge are two separate and distinct mechanism, would Kentucky Power agree that it may not be possible to include adjustments for both mechanisms on the same monthly bill?

RESPONSE

Yes. KPCo agrees that depending on the timing of the Commission's Orders in the two separate proceedings it may not be possible to include adjustments for the Fuel Adjustment Clause, including the System Sales Tracker, and the adjustment for the Environmental Surcharge on the same monthly customer bills.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to the Wagner Testimony, pages 10 and 11. Concerning the proceeding before the West Virginia Commission ("WV Commission") involving the Appalachian Power Company ("Appalachian"):

a. Briefly describe the nature of the proceeding. Include with the description when it is anticipated the proceeding will begin and approximately how long the proceeding could be expected to last.

b. If the WV Commission permits Appalachian to recover costs back to an earlier date in 2007, as noted in the Wagner Testimony, would the likely effect on Kentucky Power's environmental surcharge be an additional over-recovery? Explain the response.

RESPONSE

a. The West Virginia cost recovery mechanism operates from a forecasted amount and is trued up after the fact on an annual basis. For example, the 2007 costs are forecasted and collected during the calendar year 2007. In March 2008, APCo-West Virginia will make its filing with the West Virginia Commission and the Commission's Order is anticipated in July 2008.

b. Yes. The original meter recording was higher than the corrected meter recording and this resulted in overstating KPCo's MLR. This higher MLR resulted in KPCo recovering a higher amount of AEP Pool environmental costs through the environmental surcharge.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to the response to the September 19, 2006 Order, Appendix B ("First Request"), Item 11. Kentucky Power has determined that its weighted average cost of capital as of April 30, 2007 is 7.67 percent. Using the approach described in Case No. 2005-00068, determine the weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

RESPONSE

Please see Page 2 of 3 for the weighted average cost of capital reflecting the income tax gross-up factor. The calculation of the attached gross-up factor reflects the change in the Uncollectible Accounts Expense from 0.20% to 0.32%, the change in Kentucky State Income Tax rate from 7% to 6% and the change in Section 199 Deduction from 3% to 6%.

Page 3 of 3 calculates the most recent three-year average Uncollectible Accounts Expense percentage.

WITNESS: Errol K Wagner

ES FORM 3.15

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT
CURRENT PERIOD REVENUE REQUIREMENT
BIG SANDY PLANT COST OF CAPITAL

For the Expense Month of XXXXXXX XX, XXXX

LINE NO.	Component	Balances	Cap. Structure	Cost Rates		WACC (Net of Tax)	GRCF		WACC (PRE-TAX)
		As of 04/30/2007							
1	L/T DEBT	$447,964,000	50.358%	5.55%		2.79%			2.79%
2	S/T DEBT	$24,200,519	2.720%	5.57%		0.15%			0.15%
3	ACCTS REC FINANCING	$39,060,175	4.391%	5.82%		0.26%			0.26%
4	C EQUITY	$378,338,220	42.531%	**10.50%**	1/	4.47%	1.5768	2/	7.04%
5	TOTAL	**$889,562,914**	**100.000%**			**7.67%**			**10.24%**

1/	WACC = Weighted Average Cost of Capital Rate of Return on Common Equity per Case No. 2005 - 00341	
2/	Gross Revenue Conversion Factor (GRCF) Calculation:	
1	OPERATING REVENUE	100.0000
2	UNCOLLECTIBLE ACCOUNTS EXPENSE (0.32%)	0.3200
3	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	99.6800
4	STATE INCOME TAX EXPENSE, NET OF 199 DEDUCTION (SEE BELOW)	5.6423
5	FEDERAL TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	94.0377
6	199 DEDUCTION PHASE-IN	5.6423
7	FEDERAL TAXABLE PRODUCTION INCOME	88.3954
8	FEDERAL INCOME TAX EXPENSE AFTER 199 DEDUCTION (35%)	30.9384
9	AFTER-TAX PRODUCTION INCOME	57.4570
10	GROSS-UP FACTOR FOR PRODUCTION INCOME:	
11	AFTER-TAX PRODUCTION INCOME	57.4570
12	199 DEDUCTION PHASE-IN	5.6423
13	UNCOLLECTIBLE ACCOUNTS EXPENSE	0.3200
14	TOTAL GROSS-UP FACTOR FOR PRODUCTION INCOME (ROUNDED)	63.4193
15	BLENDED FEDERAL AND STATE TAX RATE:	
16	FEDERAL (LINE 8)	30.9384
17	STATE (LINE 4)	5.6423
18	BLENDED TAX RATE	36.5807
19	GROSS REVENUE CONVERSION FACTOR (100.0000 / Line 14)	1.5768
	STATE INCOME TAX CALCULATION:	
1	PRE-TAX PRODUCTION INCOME	100.0000
2	COLLECTIBLE ACCOUNTS EXPENSE (0.20%)	0.3200
3	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	99.6800
4	LESS: STATE 199 DEDUCTION	5.6423
5	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	94.0377
6	STATE INCOME TAX RATE	6.0000
7	STATE INCOME TAX EXPENSE (LINE 5 X LINE 6)	5.6423

Kentucky Power Company
Uncollected Accounts

Line No. (1)	Description (2)	Electric Revenues (3)	Accounts - Net Charged Off (4)	Percent of Electric Revenues (5)
1	12 Months Ended 04/30/2005	$326,008,759	$1,268,242	0.39%
2	12 Months Ended 04/30/2006	$366,463,628	$1,047,033	0.29%
3	12 Months Ended 04/30/2007	$412,884,602	$1,193,975	0.29%
4	Total	$1,105,356,989	$3,509,250	0.97%
5	Three Year Average	$368,452,330	$1,169,750	0.32%

Kentucky Power Company

REQUEST

Refer to the response to the First Request, Item 12(a). Explain why Kentucky Power believes no surcharge amounts need to be incorporated into its base rates in conjunction with the current 2-year surcharge review.

RESPONSE

Whether or not there are additional amounts of environmental costs are incorporated into base rates, the effect on the ratepayers and the Company is that the total revenue requirement should remain the same. These environmental costs represent both investment costs, which are generally reflected in the demand charge and energy costs, which are reflected in the energy charge. The best time to properly allocate or assign these different types of environmental costs to the correct charge is at the time of a rate case. This is different than during a fuel adjustment proceeding because only energy costs are being rolled into the energy charge in base rates.

Also, during the Informal Conference held on October 31, 2007, the Company was asked if the environmental case under appeal in the Kentucky Court of Appeals would have any bearing on the decision not to incorporate additional amounts of environmental costs into base rates. The Company responded the appeal was not a factor in the Company's initial response. However, after reflecting on the question, the Company would agree that the appeal is an additional reason not to incorporate an additional amount of environmental costs into base rates. Should the Kentucky Court of Appeals reverse the Commission's order and additional environment costs were already incorporated into base rates the Company would have to remove the additional environmental amount from base rates. This likely would cause confusion for ratepayers concerning to the level of base rate charged for electric service.

WITNESS: Errol K Wagner