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PUBLIC SERVICE
COMMISSION

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March 6, 2008

HAND DELIVERED

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Executive Director
Public Service Commission of Kentucky
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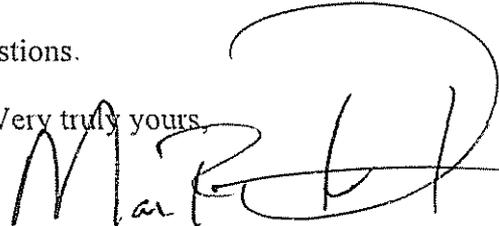
RE: P.S.C. Case No. 2007-0522

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and five copies of Kentucky Power Company's Responses to the Staff's Data Requests propounded by Order dated February 19, 2008. Copies are being served on the persons listed below.

Please contact me if you have any questions.

Very truly yours,



Mark R. Overstreet

cc: Michael L. Kurtz
Lawrence Cook

KE057:KE198:16693:1:FRANKFORT

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MAR 06 2008

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
KENTUCKY POWER COMPANY FROM) CASE NO. 2007-00522
MAY 1, 2007 THROUGH OCTOBER 31, 2007)

KENTUCKY POWER COMPANY

**RESPONSES TO COMMISSION STAFF'S
SUPPLEMENTAL DATA REQUESTS**

March 6, 2008

Kentucky Power Company

REQUEST

Refer to the Direct Testimony of Errol K. Wagner ("Wagner Testimony") at 3. Mr. Wagner states that marginal transmission line losses, either charges or credits, are now being recorded in sub-accounts of Account 447, Sales for Resale.

a. State whether the Federal Energy Regulatory Commission ("FERC") requires Kentucky Power to record marginal transmission line losses in Account 447. If yes, provide the regulation, order, or other document in which the requirement is made. If no, explain why Account 447 is the appropriate account to record the charges and credits for the line losses.

b. List all items that Kentucky Power has recorded in the sub-accounts 4470207 and 4470208.

RESPONSE

a. FERC issued Order 668 on December 16, 2005, and Order No. 668-A on April 20, 2006, in Docket No. RM04-12-000, which addressed the accounting and financial reporting for Regional Transmission Organizations (RTOs) and the public utilities for the various aspects of the utilities interactions with the RTOs. However, these orders were issued before PJM marginal transmission line losses were instituted June 1, 2007, and the accounting for marginal transmission line losses was not addressed. Therefore, the Federal Energy Regulatory Commission (FERC) does not require Kentucky Power to record marginal transmission line losses in Account 447, Sales for Resale.

As was stated on Page 3 of Mr. Wagner's testimony starting at Line 18, "The post-June 1, 2007 methodology requires PJM to account for incremental or marginal transmission line losses in the dispatch of energy and the calculation of locational marginal prices (LMP)". It is Kentucky Power Company's policy to record these LMP-related charges and credits on a net basis as revenues to Account 447, Sales for Resale.

b. Kentucky Power has only recorded marginal line loss charges applicable to the load serving entity (LSE) in sub-Account 4470207.

Kentucky Power has only recorded marginal line loss credits applicable to the load serving entity (LSE) in sub-Account 4470208.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to Wagner Testimony at 7. If marginal line losses and average line losses had been equal for the 7 months ended December 31, 2007, is it correct, absent the change in the treatment of transmission line losses, that the \$7 million of which Kentucky Power now seeks recovery would have been included in its calculation of fuel expenses during that time period? If no, explain.

RESPONSE

Yes.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to Wagner Testimony at 8. For the 7 months ended December 31, 2007, provide a side-by-side comparison of the monthly system sales clause factors as filed and as they would have been filed under the pre-June 1, 2007 treatment of transmission line losses.

RESPONSE

Attached you will find a side-by-side comparison (See columns 10 and 11) of the monthly system sales clause factors as-filed and as they would have been filed under the pre-June 1, 2007 treatment of transmission line losses for the period June 2007 through January 2008.

Comparison of the total System Sales Margin as filed (Column 4, Line 10) versus the Revised System Sales Margin (Column 9, Line 10), demonstrates the as-filed column total is larger than the revised column total. This supports the fact that the KPCo ratepayers received the benefit of the additional off-system sales margins. These additional off-system sales margins were the direct result of the freed up MWHs which were the result of settling the Transmission line losses financially versus in kind MWHs. Therefore, since the Kentucky ratepayers received the benefit from the increased system sales margins fairness dictates that the ratepayers should also incur the costs recorded in Accounts 4470207 and Account 4470208 in the calculation of the monthly fuel adjustment clause.

Even if one would allocate the revenue percentage of the applicable environmental costs $((\$8,171,190 / \$103,056,076) \times \$907,279 = \$71,937)$ the same conclusion would be reached. The Kentucky ratepayers received the benefit of the freed up MWHs by way of increased system sales margins without paying for the costs associated with the freeing up of the MWHs.

WITNESS: Errol K Wagner

Kentucky Power Company
 Calculated Side by Side Comparison of
 System Sales Factors
 for the 8 Month ending January 31, 2008

Case No. 2007-00522
 Commission Staff Supplemental Data Request
 Order Dated February 15, 2008
 Item No. 3
 Page 2 of 3

Ln	Month	Year	System Sales Margin ¹¹	Revenues	Fuel Costs	Non Fuel Costs	Line Loss ²	Revised System Sales Margin	Revised System Sales Factor	System Sales Factor As Filed
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	June	2007	\$5,653,449.00	\$888,271.11	(\$351,868.38)	(\$72,388.88)	(\$9,698.00)	\$5,088,032.15	(\$0.0026846)	(\$0.0034442)
2	July	2007	\$6,014,017.00	\$926,924.64	(\$359,829.55)	(\$52,311.88)	(\$51,352.00)	\$5,550,585.88	(\$0.0038780)	(\$0.0042673)
3	August	2007	\$5,448,132.00	\$1,443,879.81	(\$485,181.41)	(\$87,166.74)	(\$18,050.00)	\$4,604,550.34	(\$0.0033527)	(\$0.0041975)
4	September	2007	\$5,647,635.00	\$878,662.17	(\$373,380.95)	(\$57,634.13)	(\$26,278.00)	\$5,226,065.91	(\$0.0045795)	(\$0.0049647)
5	October	2007	\$3,631,657.00	\$956,228.23	(\$381,191.44)	(\$59,422.17)	(\$67,892.00)	\$3,163,934.38	(\$0.0027740)	(\$0.0033601)
6	November	2007	\$4,111,374.00	\$826,608.83	(\$320,115.44)	(\$50,007.33)	(\$19,177.00)	\$3,874,064.84	(\$0.0026059)	(\$0.0029596)
7	December	2007	\$2,933,668.00	\$980,219.18	(\$420,521.44)	(\$67,698.19)	(\$28,622.00)	\$2,470,280.44	(\$0.0004207)	(\$0.0008587)
8	Subtotal		\$33,439,932.00	\$7,001,083.97	(\$2,682,088.61)	(\$446,630.41)	(\$219,969.00)	\$29,787,524.05		
9	January	2008	\$5,144,466.00	\$1,170,096.39	(\$428,691.22)	(\$58,619.52)	(\$50,899.00)	\$4,512,579.35	(\$0.0014628)	(\$0.0019622)
10	Total		\$38,584,398.00	\$8,171,190.36	(\$3,110,777.83)	(\$505,249.93)	(\$270,868.00)	\$34,300,103.40		

Incremental Off System Sales & Expenses

11 See Page 3 of 3 Column 8
 12 See Page 3 of 3 Column 16
 13 See Page 3 of 3 Column 9
 14 See Page 3 of 3 Column 11

Kentucky Power Company
 Calculated Side by Side Comparison of
 System Sales Factors
 for the 8 Month ending January 31, 2008

Ln No (1)	Month (2)	Year (3)	Current Month Sales MWh (4)	KPCo Total Off System Sales and Expenses				KPCo Incremental Off System Sales & Expenses				Total System Sales Line Loss				Line Loss Associated With Incremental Off System Sales (6) (in '000)
				System Sales Expenses (5)	System Sales (6)	System Margin As Filed (C5-C8-C7)	Revenue Account No 4470210 (8)	Fuel Costs Account No 4472011 (10)	Non Fuel Costs Account No 4470212 (11)	Account No 4470205 (12)	Account No 4470208 (13)	Total (14) (C12-C13)	Percentages (15) (C14/C5)			
1	June	2007	518,644,000	\$13,651,082.00	\$7,742,344.00	\$195,268.00	\$868,271.11	(\$351,856.38)	(\$72,389.98)	\$198,838.44	\$317,747.57	\$118,968.17	0.87%	(\$48,588.00)		
2	July	2007	650,457,000	\$14,197,468.00	\$8,082,293.00	\$101,156.00	\$926,924.84	(\$559,626.55)	(\$52,311.88)	\$716,297.72	\$1,502,762.16	\$788,544.44	5.54%	(\$51,352.00)		
3	August	2007	614,693,000	\$15,650,162.00	\$10,172,510.00	\$289,620.00	\$1,443,918.81	(\$485,181.41)	(\$87,166.74)	\$438,992.77	\$434,391.24	\$187,998.47	1.25%	(\$18,050.00)		
4	September	2007	501,628,000	\$13,498,728.00	\$7,822,253.00	\$28,840.00	\$878,862.17	(\$373,380.95)	(\$57,634.13)	\$395,773.12	\$787,413.27	(\$403,640.16)	2.88%	(\$25,278.00)		
5	October	2007	478,813,000	\$10,794,048.00	\$7,005,891.00	\$116,600.00	\$358,228.23	(\$581,181.44)	(\$68,422.17)	(\$97,587.34)	(\$540,878.19)	(\$763,506.89)	7.10%	(\$87,892.00)		
6	November	2007	578,309,000	\$10,261,685.00	\$6,185,303.00	(\$34,892.00)	\$626,608.83	(\$320,115.44)	(\$50,007.35)	\$303,162.97	(\$850,792.79)	(\$237,685.22)	2.32%	(\$18,177.00)		
7	December	2007	634,761,000	\$18,249,318.00	\$7,157,461.00	\$55,389.00	\$860,218.18	(\$420,621.44)	(\$67,698.18)	\$338,879.44	(\$950,392.71)	(\$614,888.22)	2.92%	(\$28,822.00)		
8	Subtotal		759,168,000	\$89,639,691.00	\$54,788,055.00	\$731,704.00	\$7,001,093.97	(\$2,892,066.61)	(\$448,630.41)	\$2,287,789.12	(\$5,109,894.81)	(\$2,822,096.68)	3.17%	(\$218,069.00)		
9	January	2008		\$14,118,395.00	\$8,798,344.00	\$176,575.00	\$1,170,098.38	(\$428,891.22)	(\$59,818.52)	\$365,654.65	(\$6,090,277.58)	(\$614,888.22)	4.35%	(\$50,898.00)		
10	Total			\$103,056,078.00	\$53,564,399.00	\$807,279.00	\$8,171,180.36	(\$3,118,777.83)	(\$505,249.83)	\$2,653,482.67	(\$26,980,277.58)	(\$3,438,794.91)	3.33%	(\$270,868.00)		

u Accounting Adjustment Account 4470209 - Amount \$472,000
 v Accounting Adjustment Account 4470206 - Amount \$337,000

	August 2007 As Filed	September 2007 Revised Amount
Current Month at 70%	\$4,423,653.00	\$937,950.62
Current Month at 60%	\$1,024,478.00	\$4,388,116.28
Less Base	\$5,448,132.00	\$5,226,066.91
Net	\$1,650,434.00	\$1,487,772.00
70% Percentage Amount	\$1,200%	\$3,728,284
60% Percentage Amount	\$1,200%	\$5,075,611
70% Sub Total	\$2,152,928	\$70,000%
Percentage	18.80%	\$418,352
60% Sub Total	\$712,087	\$3,100,648
Percentage Total	\$0.06%	\$0.00%
Current Month Sales	\$427,252	\$1,878,388
System Sales Clausea Factor	\$2,680,180	\$2,296,741
	\$14,693,000	\$01,529,000
	(\$0,004,975)	(\$0,004,975)

Kentucky Power Company

REQUEST

Refer to Wagner Testimony at 8. Provide the calculations that show the derivation of the \$2.5 million estimated reduction in Kentucky Power's customers' bills due to the increased level of off-system sales margins.

RESPONSE

The attached pages demonstrate the derivation of the \$2.5 million estimated reduction in KPCo customers' bills due to the increased level of off-system sales margins.

WITNESS: Errol K Wagner

Kentucky Power Company
Accounts 4470210, 4470211 and 4470212
June 30, 2007 through February 29, 2008

Ln No (1)	Month (2)	Year (3)	Account Number 4470210 (4)	Account Number 4470211 (5)	Account Number 4470212 (6)	Monthly Net Amount (7)	
1	June	2007	\$988,271.11	(\$351,866.38)	(\$72,389.88)	\$564,014.85	
2	July	2007	\$926,924.64	(\$359,829.55)	(\$52,311.98)	\$514,783.11	
3	August	2007	\$1,443,979.81	(\$495,181.41)	(\$87,166.74)	\$861,631.66	
4	September	2007	\$878,862.17	(\$373,380.95)	(\$57,634.13)	\$447,847.09	
	October	2007	\$956,228.23	(\$361,191.44)	(\$59,422.17)	\$535,614.62	
6	November	2007	\$826,608.83	(\$320,115.44)	(\$50,007.33)	\$456,486.06	
7	December	2007	\$980,219.18	(\$420,521.44)	(\$67,698.18)	\$491,999.56	
8	Sub Total		<u>\$7,001,093.97</u>	<u>(\$2,682,086.61)</u>	<u>(\$446,630.41)</u>	<u>\$3,872,376.95</u>	
9	January	2008	\$1,170,096.39	(\$428,691.22)	(\$58,619.52)	\$682,785.65	
10	February	2008					
11	Total		<u>\$8,171,190.36</u>	<u>(\$3,110,777.83)</u>	<u>(\$505,249.93)</u>	<u>\$4,555,162.60</u>	
12	Sub Total Page 2 of 3, Line 8, Column (7)						\$3,872,376.95
13	Sub Total Page 3 of 3, Line 8 Column (5)						64.43%
14	Reduction in KPCo's Customers Bill Due to Increased System Sales						<u>\$2,494,972.00</u>

**Kentucky Power Company
 Monthly Off System Sales Margins and
 Amount Shared with Customers
 June 30, 2007 through February 29, 2008**

<u>Ln No (1)</u>	<u>Month (2)</u>	<u>Year (3)</u>	<u>Company Total Margin (4)</u>	<u>Monthly Percentage (5)</u>	<u>Customer Share of Margin (6)</u>
1	June	2007	\$2,551,893	70.00%	\$1,786,325
2	July	2007	\$3,355,653	70.00%	\$2,348,957
3	August	2007	\$3,787,698	68.12%	\$2,580,180
4	September	2007	\$4,149,853	60.00%	\$2,489,918
5	October	2007	\$2,681,467	60.00%	\$1,608,880
6	November	2007	\$2,852,595	60.00%	\$1,711,557
7	December	2007	<u>\$908,412</u>	<u>60.00%</u>	<u>\$545,047</u>
8	Sub Total		<u>\$20,287,581</u>	<u>64.43%</u>	<u>\$13,070,864</u>
9	January	2008	\$2,482,773	60.00%	\$1,489,664
10	February *	2008			
11	Total		<u>\$22,770,354</u>	<u>63.95%</u>	<u>\$14,560,528</u>

* Will be provided when available

Kentucky Power Company

REQUEST

On May 1, 2006, FERC issued its order requiring PJM Interconnection, LLC to implement the locational marginal loss method. American Electric Power ("AEP") System was a party to the FERC proceeding. Explain why, in light of the date of the FERC order and AEP's participation in the FERC proceeding, Kentucky Power failed to advise the Commission of the possible changes in the treatment of *transmission line losses* before February 1, 2008.

RESPONSE

On August 3, 2006 PJM Interconnection, L.L.C., filed with FERC revisions to tariff sheets implementing accounting for line losses on a marginal rather than an average basis. Notice of the August 3, 2006 PJM filing was provided to all PJM Members and all state utility regulatory commissions, including the Kentucky Public Service Commission. On November 6, 2006 FERC issued an order accepting the tariff sheets in the August 3, 2006 filing with an effective date of June 1, 2007.

The post-June 1, 2007 methodology had numerous effects on various components. These included off-system sales and the corresponding revenues, net energy costs and requirements for customers, transmission line loss costs associated with native load requirements, modifications to systems and processes to implement the new methodology. Assessing the impact on the overall dispatch and resulting impact on the Company's business, could not be accurately quantified without actual operational experience.

Kentucky Power strives to keep the Commission reasonably informed of all pertinent regulatory changes and other developments affecting the Company. The Company acknowledges the better practice would have been to inform the Commission directly of the FERC Orders.

The Company's failure to provide the Commission with the quantification of the effect of the changed methodology prior to February 2008 did not prejudice the ratepayers. The Company apologizes for any inconvenience caused the Commission or its Staff.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Provide updated versions of Exhibits EKW- 1 and 2 with the results for January 2008 added.

RESPONSE

Attached you will find an updated version of Exhibits EKW-1 and EKW-2 which includes the results for January 2008.

WITNESS: Errol K Wagner

**Kentucky Power Company
 Load Serving Entity (LSE)
 Net Transmission Line Losses
 For the Period June 2007 through January 2008**

**Exhibit EKW - 1
 Page 1 of 1
 Revised March 6, 2008**

<u>Ln No</u> (1)	<u>Month</u> (2)	<u>Year</u> (3)	<u>Charge</u> <u>Acct No. 4470207</u> (4)	<u>Credit</u> <u>Acct No. 4470208</u> (5)	<u>Net Monthly</u> <u>Amount</u> (6)
1	June	2007	\$2,092,442.32	(\$813,497.55)	\$1,278,944.77
2	July	2007	\$1,167,867.88	(\$422,027.01)	\$745,840.87
3	August	2007	\$2,946,027.74	(\$1,136,813.99)	\$1,809,213.75
4	September	2007	\$1,474,422.32	(\$501,783.14)	\$972,639.18
5	October	2007	\$1,489,944.20	(\$1,008,842.68)	\$481,101.52
6	November	2007	\$1,395,539.09	(\$631,058.03)	\$764,481.06
7	December	2007	<u>\$1,886,026.49</u>	<u>(\$895,749.19)</u>	<u>\$990,277.30</u>
8	Sub Total	2007	<u>\$12,452,270.04</u>	<u>(\$5,409,771.59)</u>	<u>\$7,042,498.45</u>
9	January	2008	\$2,397,326.54	(\$1,109,174.84)	\$1,288,151.70
10	February	2008	*		
11	Total		<u>\$14,849,596.58</u>	<u>(\$6,518,946.43)</u>	<u>\$8,330,650.15</u>

* Will be provided when available

**Kentucky Power Company
 Fuel Adjustment Clause Calculations
 For the Months June 2007 through January 2008**

**Exhibit EKW - 2
 Page 1 of 1
 Revised March 6, 2008**

<u>Ln No</u> (1)	<u>Month</u> (2)	<u>Year</u> (3)	<u>As Filed Fuel Cost</u> (4)	<u>Net Monthly Line Loss</u> (5)	<u>Revised Fuel Cost</u> (6)	<u>As Filed Sales MWH</u> (7)	<u>Revised Factor</u> (8)	<u>As Filed Factor</u> (9)	<u>Difference</u> (10)
1	June	2007	\$9,828,806	\$1,278,945	\$11,107,751	518,644	\$0.02142	\$0.01895	\$0.00247
2	July	2007	\$11,170,414	\$745,841	\$11,916,255	550,457	\$0.02165	\$0.02029	\$0.00136
3	August	2007	\$11,924,434	\$1,809,214	\$13,733,648	614,693	\$0.02234	\$0.01940	\$0.00294
4	September	2007	\$10,154,999	\$972,639	\$11,127,638	501,528	\$0.02219	\$0.02025	\$0.00194
5	October	2007	\$10,449,016	\$481,102	\$10,930,118	478,813	\$0.02283	\$0.02182	\$0.00101
6	November	2007	\$12,091,821	\$764,481	\$12,856,302	578,309	\$0.02223	\$0.02091	\$0.00132
7	December	2007	\$13,424,480	\$990,277	\$14,414,757	634,751	\$0.02271	\$0.02115	\$0.00156
	Sub Total		\$79,043,970	\$7,042,499	\$86,086,469	3,877,195			
9	January	2008	\$17,233,744	\$1,288,152	\$18,521,926	759,166	\$0.02440	\$0.02270	\$0.00170
10	February	2008 *							
11	Total		\$96,277,714	\$8,330,651	\$104,608,395	4,636,361			

* Will be provided when available

Kentucky Power Company

REQUEST

Exhibit EKW-3 shows a 6-month average line loss of 9.028 percent for January through June 2007 and a 3.896 percent average line loss for July through December 2007. State whether the reduction in line loss is entirely attributable to the change in the method of accounting for transmission line losses. If not attributable to the change in accounting methods, identify and describe the other factors contributing to the reduction.

RESPONSE

Yes.

WITNESS: Errol K Wagner