

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER)
COMPANY FOR A GENERAL ADJUSTMENT) CASE NO. 2009-00459
OF ELECTRIC RATES)

THIRD DATA REQUEST OF COMMISSION STAFF
TO KENTUCKY POWER COMPANY

Kentucky Power Company ("Kentucky Power"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than March 24, 2010. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky Power shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Kentucky Power fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Volume 2 of Kentucky Power's application, Section III, pages 392 and 400 of 488, Rider ECS-C&E and Rider EPCS. The last sentence on these pages states that, if requested, Kentucky Power will make real time pulse metering data available "for an additional fee." Provide the amount of the fee, how it was calculated, and its location in Kentucky Power's proposed tariff.

2. Refer to the Direct Testimony of David M. Roush, pages 4 – 6, and Exhibit DMR-1, regarding the customer annualization adjustment.

a. Exhibit DMR-1, page 3, shows the derivation of the operating ratio used to calculate the expense portion of the customer annualization adjustment. Identify "OML Workpaper" which is listed as one source for the adjusted labor expense.

b. Clarify that the adjusted labor expense of \$26,300,126 on page 3 of the exhibit does not include the cost of employee benefits.

c. Provide an operating ratio calculation in which adjusted salaries and wages, adjusted employee benefits, and regulatory commission expenses are deducted from the adjusted operations and maintenance expense of \$453,834,609.

3. Refer to the Direct Testimony of Errol K. Wagner. At page 7, lines 11 to 14, he states that Kentucky Power's member load ratio ("MLR") is 7.069 percent based on its highest non-coincident peak to the total of all members' highest non-coincident peaks. However, at page 35, lines 6 to 9, he states that the 7.069 percent is based on the AEP System-East Zones' total peak demand of 23,680 MW at September 30, 2009.

a. Explain whether 23,680 MW is the total peak demand of the AEP System-East Zone or the sum of the non-coincident peaks of the members.

b. Provide a schedule showing the calculation of the MLR for each member of the AEP System-East Zone as of September 30, 2009 and as of February 28, 2010.

4. Refer to the response to Item 1 of Commission Staff's Second Data Request ("Staff's Second Request"). Provide the calculations for the proposed energy charges and demand charges, if applicable, for the new tariffs RS-TOD2, SGS-TOD, and LGS-TOD. This response should be provided in electronic format with the formulas intact and unprotected.

5. Refer to the response to Item 2 of Staff's Second Request, page 3 of 3.

a. Provide the reason for the large increase in Sales for Resale from 2007 to 2008 and the large decrease from 2008 to 2009.

b. Provide the reason for the large increase in Account 4540002, Rent from Elect Property-NAC, from 2007 to 2008 and the large decrease from 2008 to 2009.

6. Refer to the response to Item 3 of Staff's Second Request.

a. The first paragraph states that the increase in charges from Appalachian Power Company (“APCO”) is due to payments of \$.9 million and \$1.0 million made on behalf of Kentucky Power for a transformer and substation.

(1) Describe in detail the \$.9 million payment made on behalf of Kentucky Power.

(2) Explain why the amount for the transformer was expensed rather than capitalized.

b. The second paragraph states that the increase in charges from Indiana Michigan Power (“I&M”) is due to employee labor and storm damage restoration expenses of \$.2 million related to severe storms in Kentucky in January and February 2009. State whether these expenses are included for recovery through rates elsewhere in Kentucky Power’s application.

c. The third paragraph states that the increase in charges from Public Service Company of Oklahoma is due primarily to employee labor and storm damage restoration expenses of \$.3 million related to the February 2009 storm. State whether these expenses are included for recovery through rates elsewhere in the application.

7. Refer to the response to Item 4 of Staff’s Second Request, the RS tab of the electronic spreadsheet. Cells D25 to D33 reference a spreadsheet titled “B&A Surcharges.” Provide this spreadsheet in electronic form with the formulas intact and unprotected.

8. Refer to the response to Item 5 of Staff’s Second Request.

a. Refer to the response to 5.a.

(1) Confirm that metered kWh in the test year were 23,089,257 more than the kWh for which Kentucky Power showed revenues. If not, explain.

(2) Explain the difference of 23,089,257 between metered and billed kWh. State in the response whether this difference would include line loss.

b. Refer to the response to 5.b. State whether \$9,513,955 is the actual amount billed through the fuel adjustment clause in the test year. If no, provide the actual amount billed through the fuel adjustment clause in the test year and explain in greater detail what the \$9,513,955 represents and how it was calculated.

9. Refer to the response to Item 10 of Staff's Second Request. The request, among other things, called for Kentucky Power to quantify the benefits of the cost saving measures, etc. identified in the response; however, the last sentence in the response states that "Savings have not been quantified." Explain whether the response means that (a) the benefits cannot be quantified or (b) Kentucky Power had not quantified the benefits before receiving the data request and made no attempt to do so for its response to the request. If the answer is the latter, provide Kentucky Power's best estimate of the amount of the savings associated with each measure.

10. The response to Item 26 of Staff's Second Request does not satisfy the request. Provide the relevant testimony and exhibits from FERC Docket No. ER09-1279 which provide the description and calculation that were the subject of the original request.

11. Refer to the response to Item 35, part b. of Staff's Second Request.

a. Confirm whether it is a correct reading of the response to conclude that I&M has not filed a transmission adjustment tariff with the Indiana Commission for approval. If this is correct, explain why.

b. The response indicates that I&M's case with the Michigan Commission was scheduled for "pre-hearing" in late February. Provide a description of "pre-hearing" as used in this context and state when a decision on the case is expected.

c. Confirm whether it is a correct reading of the response to conclude that APCO has not filed a transmission adjustment tariff with the West Virginia Commission for approval. If this is correct, explain why.

12. Refer to the responses to Item 40 of Staff's Second Request and Item 29 of the Kentucky Industrial Utility Customers' ("KIUC") first data request.

a. \$5,650,647 is the target amount of "incentive compensation" for the test year. Provide a breakdown of this amount showing the amount for Kentucky Power employees and the amount for American Electric Power Service Corporation ("AEPSC") employees with the portion of these amounts derived from each of the 12 incentive plans shown in the same manner as the actual test year amount is shown in the response to the KIUC request.

b. \$990,858 is the target amount of "long term incentive compensation" for the test year. Provide a breakdown of this amount showing the amount for Kentucky Power employees and the amount for AEPSC employees with the portion of these amounts derived from each of the 12 incentive plans shown in the same manner as the actual test year amount is shown in the response to the KIUC request.

13. Refer to the response to Item 53 of Staff's Second Request, which states that Kentucky Power is proposing to limit street lighting service on metal or concrete poles to existing locations because it receives very few requests for new metal or concrete poles.

a. Describe the disadvantages of installing lights on metal and concrete poles.

b. If the proposal is approved, describe the options that would remain for a customer who requests street lighting on a metal or concrete pole.

14. Refer to the response to Item 55 of Staff's Second Request, which states that the meter cost is \$319 and that the \$3.55 monthly charge "includes a return on the investment, a return of the investment (depreciation), taxes and administrative and general expense based upon a 30-year useful life."

a. Describe how the \$319 cost will be accounted for to insure that it will not inadvertently be included in rate base in future rate proceedings.

b. Describe how the return, depreciation, taxes and administrative and general costs will be accounted for so that they are not "double-recovered" through base rates in the future.

c. Provide the calculation of the \$3.55 monthly charge.

d. Provide the basis for the 30-year useful life.

15. Refer to the response to Item 59 of Staff's Second Request. Provide a sample annual filing for Tariff TA and BAF.

16. Refer to the response to Item 61 of Staff's Second Request. Explain why capacity charges increased 79 percent from 2005 to 2009.

17. Refer to page 2 of the response to Item 63 of Staff's Second Request. The schedule of uncollectible accounts appears to indicate that, in the 12-month periods ended September 2008 and September 2009, the two highest months for net charge offs were July and August. However, in the 12 months ended September 2007, the two highest months were July and October. Explain whether there was a specific reason for October rather than August being one of the two highest months during this period.

18. Refer to the response to Item 69 of Staff's Second Request.

a. The response to part c. of the request states that Big Sandy Unit 1 operates on a four-year outage cycle while Big Sandy Unit 2 is on a three-year outage cycle. For how long has each of the units been on its current outage cycle?

b. The last paragraph on page 2 of the response, referring to the 2007 – 2009 timeframe cited in the request, states that there were no scheduled maintenance outages on either Big Sandy unit in 2009. However, the schedule of maintenance expenses for that timeframe on page 3 of the response lists "O & M Outage – Routine" in the amount of \$1,801,663 during the period ended September 30, 2009. Clarify whether there was or was not a scheduled maintenance outage at the Big Sandy Station during that period and describe the nature of the "O & M Outage – Routine."

c. Refer to page 3 of the response. In each of the two most recent 12-month periods, the largest amount of unplanned maintenance expense is on the line for "NOMI." Identify "NOMI" and explain why this has been the category with the greatest amount of expense in the two latest time periods.

d. The unplanned maintenance expense was substantially greater in the two most recent 12-month periods (2008 and 2009) compared to the 2007 period. Provide a detailed explanation for the increases in 2008 and 2009 compared to 2007.

19. Refer to the response to Item 75 of Staff's Second Request.

a. Refer to 75.b, page 1 of 4.

(1) Are specific vehicles assigned to individual employees?

(2) The response states that "[t]he total annual cost per vehicle is then divided by 1,165 productive hours (2,080 hours less an average vacation time, sick time, training time, safety meeting time, plus other nonproductive time) to arrive at an hourly rate." Explain whether all employees who use the vehicles in question would use vacation leave, sick leave, and other "nonproductive time" at the same time. If no, explain why the vehicles would not be available to employees not taking vacation or sick leave and, therefore, why the total annual cost per vehicle should not be divided by 2,080 hours rather than 1,165 hours.

(3) State whether the vehicles in question are used by employees who work overtime. If so, provide the average annual number of overtime hours worked over the past three years during which the vehicles were used.

b. Refer to 75.c, page 4 of 4.

(1) Provide the calculations for the fringe benefit rates shown.

(2) State whether the fringe benefit hourly rates were calculated using 1,165 hours. If yes, provide the fringe benefit hourly rates using 2,080 hours.

20. Refer to the response to Item 76 of Staff's Second Request concerning the proposed adjustment for interest on customer deposits and Section V, Schedule 4,

page 1 of the application. Provide the amount of customer deposits included in the “Customer Advance and Deposit” amount of \$17,378,824 shown on line 23 of Schedule 4, page 1.

21. Refer to the response to Item 77 of Staff’s Second Request. Given the circumstances associated with a major storm event, explain how Kentucky Power insures that the amounts it is charged for restoration work performed by third-party contractors are reasonable and/or reflective of the “market” for such work.

22. Refer to the response to Item 78 of Staff’s Second Request, which states that post-test year merit wage and salary increases constitute a known and measurable adjustment and will be a part of Kentucky Power’s expenses in the first year that new rates will be in effect. Explain why, from a theoretical ratemaking perspective, post-test year adjustments for revenue increases due, for example, to customer growth, should not be made as well as post-test-year adjustments for expense increases.

23. Refer to the response to Item 81 of Staff’s Second Request, pages 7 – 8 in Section II of Exhibit JEH-1 of the Direct Testimony of James E. Henderson and pages 104 and 105 of 350 of the depreciation study filed with the testimony.

a. The testimony reflects that Kentucky Power maintains salvage and removal costs not by primary account, but at the functional plant level. It states that “In order to determine gross salvage, gross removal and net salvage percentages for individual plant accounts, the original cost retirements were detailed by account . . . and, based on judgement, gross salvage and cost of removal percentages were selected for each account so that the gross salvage and gross removal would approximate the total functional percentages . . .” Explain in detail how judgement was applied to develop,

from the gross removal percentage of 29 percent for transmission plant, the gross removal percentages for the individual transmission plant accounts shown on page 104 of the depreciation study, which range from 0 to 75 percent.

b. Explain in detail how judgement was applied to develop, from the gross salvage percentage of 12 percent for transmission plant, the gross removal percentages for the individual transmission plant accounts shown on page 105 of the depreciation study, which range from 0 to 15 percent.

24. Refer to Kentucky Power's response to Item 70 of KIUC's first data request. State whether it is Kentucky Power's position that it should recover a larger transmission expense (\$49,514,393) if the method of recovery is through base rates only and a lesser amount (\$42,475,930) if the method of recovery is through a combination of base rates and a rider. If yes, explain the reasoning behind this position.

25. Refer to the response to Item 76.c. of the first data request of KIUC and Section V, Workpaper S-4, pages 15 and 20 of Kentucky Power's application.

a. Confirm that, while the expenses associated with the three major storms that occurred during the test year were deferred as a regulatory asset in accordance with the Commission's ruling in Case No. 2009-00352,¹ the entries to establish the regulatory occurred after the test year.

b. Confirm that subtracting the amount on Workpaper S-4, page 15, line 1, column 3 in the application of \$2,115,867 from the corresponding amount of \$12,424,094 on the revised Workpaper S-4 on page 3 of the data response provides the amount of \$10,308,227, which is the amount established as a regulatory asset per Case

¹ Case No. 2009-00352, Kentucky Power Company (Ky. PSC Dec. 22, 2009).

No. 2009-00352 and which is the subject of the proposed amortization adjustment on Workpaper S-4, page 20.

c. The costs incurred by Kentucky Power for the three major storms are included in its test year. The intent of the adjustment on Workpaper S-4, page 15, is to normalize the test year storm damage expense apart from the costs of the three major storms, which are to be recovered via the proposed amortization adjustment on Workpaper S-4, page 20. Therefore, it appears the correct normalization adjustment would be determined as follows:

- (1) Test year storm expense (excluding expense of three major storms);
- (2) Plus amounts for two prior periods shown on page 1, lines 2 and 3;
- (3) Divided by three to result in three-year average of storm expense;
- (4) Subtract test year storm expense (including expense of major storms); and
- (5) Resulting amount equals the adjustment to reduce test year expense.

26. Refer to Kentucky Power's response to Item 16 of the Attorney General's first data request ("AG's First Request"). State whether this response means that \$48,200 should be excluded from expenses because it is included in storm expense recorded as a regulatory asset for which Kentucky Power is requesting recovery.

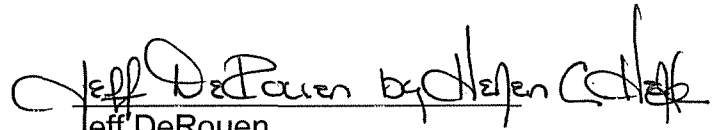
27. Refer to the response to Item 34 of the AG's First Request, which states that AMI is not included in its proposal. State whether Kentucky Power currently has the ability to remotely disconnect or reconnect meters. If so, state whether it remotely disconnects and reconnects customers, the amount charged to customers, and the location of the charge in Kentucky Power's current or proposed tariff.

28. Refer to pages 2 and 3 of the response to Item 53 of the AG's First Request, which includes information for the 64 months from October 2004 through January 2010.

a. As of November 2008, Kentucky Power's 13-month average return on equity ("ROE") was 10.38 percent. December 2008, one of 13 months in the response in which Kentucky Power had a net loss, showed a net loss of \$11.5 million. The next largest net loss was \$2.2 million in September 2009, the last month of the test year. Provide the primary reasons for why December 2008's net loss was roughly equal to the sum of the net losses in all the other months in which net losses were incurred.

b. Kentucky Power's 13-month average ROE for the periods ended October and November 2009 were less than the 2.9 percent test year ROE. Since the December 2008 net loss dropped out, the average ROEs for the periods ended December 2009 and January 2010 have been between 5.5 and 6.0 percent. Given these circumstances, explain in detail why the 12 months ended September 2009 should be considered a representative test period for use in this rate case.

29. Refer to the response to Item 5 of the AG's first data request to Kentucky Power in Case No. 2009-00545.² The response discusses the degree to which the time-of-day pricing built into the terms of the proposed wind energy contract provides a form of hedging for time-of-day price risk and how the wind purchases serve as a hedge against environmental risk. Considering the political considerations, policy issues, and company-specific business decisions which affect the implementation of a possible future federal renewable portfolio standard or the time to acquire renewable energy resources, explain in detail why it would not be appropriate for these and other risks associated with the proposed wind energy contract to be shared by ratepayers and shareholders in some fashion.


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DATED MAR 11 2010

cc: Parties of Record

² Case No. 2009-00545, Application for Approval of Renewable Energy Purchase Agreement for Wind Energy Resources Between Kentucky Power Company and FPL Illinois Wind, LLC (Ky. PSC Jan. 28, 2010).

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