COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR APPROVAL OF ITS 2011 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, AND FOR THE GRANT OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE CONSTRUCTION AND ACQUISITION OF RELATED FACILITIES	)	CASE NO. 2011-00401

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO TOM VIERHELLER, BEVERLY MAY, AND SIERRA CLUB

Tom Vierheller, Beverly May, and Sierra Club (collectively "Sierra Club"), pursuant to 807 KAR 5:001, are to file with the Commission the original and 12 copies of the following information, with a copy to all parties of record and two copies to the Commission's consultant.[1] The information requested herein is due by April 2, 2012. 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 the 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

[1] Copies should be served on: Walter P. Drabinski, Vantage Energy Consulting, LLC, 21460 Overseas Highway, Cudjoe Key, Florida 33042; Chuck Buechel, Vantage Energy Consulting, P.O. Box 75018, Fort Thomas, Kentucky 41075; and Mike Boismenu, 2645 West Marion Avenue, Apt. 111, Punta Gorda, Florida 33950.

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.

Sierra Club 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 KIUC 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.

1. Refer to page 6, starting at Line 1 of the Direct Testimony of J. Richard Hornby. It states, "KPCo System Sales Clause, Tariff S.S.C., the Company retains forty percent of the margin revenue from off-system and credits retail customers with the remaining sixty percent." In Tariff S.S.C.,[2] Effective Date June 29, 2010, issued by Commission Order in Case No. 2009-00459 dated June 28, 2010, the Rate Section, at paragraph 1, states, "[w]hen the monthly net revenues from system sales are above or below the monthly base net revenues from system sales, as provided in paragraph 3

[2] Kentucky Power Company Schedule of Tariffs, Terms and Conditions of Service Governing Sale of Electricity, Tariff S.S.C., Issued by Order in Case No. 2009-00459, Application of Kentucky Power Company for a General Adjustment of Rates (Ky. PSC June 28, 2010). Effective Date, June 29, 2010.

below, an additional credit or charge equal to the product of the KWHs and a system sales adjustment factor (A) shall be made, where 'A', calculated to the nearest 0.0001 mill per kilowatt-hour, is defined as set forth below." Also, reflected in Tariff S.S.C., Rate Section, is the System Sales Adjustment Factor equation. That is defined as:

System Sales Adjustment Factor (A) – (.6 [Tm-Tb])/Sm.

a. Explain whether the ".6" from the formula identified above is applied to the total off-system sales revenues, or whether the formula is applied to the difference between the total off-system sales revenues and the monthly base off-system sales amount.

b. Explain what assumptions Dr. Fisher used in allocating the off-system sales between the ratepayer and shareholder.

c. Explain how Dr. Fisher concluded that the shareholders receive 40 percent of the off-system sales revenues.

2. Refer to page 15, starting at Line 9 of the Direct Testimony of Jeremy Fisher, Ph.D. It states, "I deducted 40% of the gross market sales from the KPCo system on an annual basis, and, following the Company's method for calculating the total cumulative present worth (CPW), subtracted the remaining revenues from the stream of costs and calculated a new CPW." Also, refer to Dr. Fisher's testimony at page 15, starting at line 14 where it states, "[t]he result of allocating 40% of OSS revenues to shareholders drives up the cost seen by ratepayers – but drives it up faster in those scenarios where KPCo has greater off-system sales, in this case in Option 1."

a. Provide the gross market sales amount on an annual basis and the time-period used in your Strategist analysis of the Kentucky Power Company ("Kentucky Power") system.

b. Explain how the 40 percent off-system sales revenues to shareholders was determined. Provide all calculations necessary to support that 40 percent of off-system sales revenues are going to shareholders.

3. Does the Sierra Club recognize that Kentucky Power's base rates include approximately $15.29 million in off-system sales revenues with a specific base amount therefrom assigned to each month; and that, on a monthly basis, the difference between the off-system sales revenues and the base amount for that month is shared with 60 percent allocated to the ratepayer and 40 percent allocated to the shareholders?

a. If no, explain Sierra Club's understanding of how the off-system sales revenues are shared between the ratepayers and the shareholders.

b. If yes, explain the Sierra Club's position that the shareholders receive 40 percent of the off-system sales revenues.

c. Explain whether Sierra Club maintains that the ratepayers of Kentucky Power could receive no more than 60 percent of annual off-system sales revenues in a 12-month period.

d. Using the allocation methodology as stated in Item 1 above and using Sierra Club's Strategist analysis, explain whether Sierra Club's conclusion or testimony would change as to the 40 percent of off-system sales revenues to the shareholders.

4. Refer to page 10, lines 1-3, of Dr. Fisher's testimony. Provide the source of dry flue gas desulfurization ("DFGD") system cost estimates that differ from the Kentucky Power's estimates.

5. Refer to page 10, lines 3-6, of Dr. Fisher's testimony. Provide the source of cost estimates for replacement options that differ from the Company's options.

6. Refer to page 33, lines 1-2, and Exhibit JIF-7A of Dr. Fisher's testimony. The testimony maintains that the Company's estimate for carbon dioxide emissions is below industry estimates. Explain the impact of the recent Energy Information Administration ("EIA") AEO-2012 Early Release report that CO^2 emissions will remain below the 2005 thru 2035 previously forecasted levels.

7. Refer to page 33, lines 1-2, and Exhibit JIF-7A of Dr. Fisher's testimony. Did Dr. Fisher consider the recent reports associated with the Regional Greenhouse Gas Initiative that indicates that the recent CO^2 allowance auction resulted in a floor price of $1.86 per ton verses an expected $10 to $15 per ton? Explain the impact of this uncertainty.

8. Refer to page 26, lines 19-21, of Dr. Fisher's testimony. Dr. Fisher's testimony suggests that the fixed Operation and Maintenance ("O&M") costs of Big Sandy 2 drop significantly in 2030 to 2031. Provide a rationale for this significant drop in O&M costs.

9. Refer to page 67, lines 10-12, of Dr. Fisher's testimony. Dr. Fisher indicates that the allocation of off-system sales to shareholders rather than ratepayers diminishes the advantage of the DFDG option. Please provide a further explanation.

Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAR 23 2012

cc: Parties of Record

Honorable Joe F Childers
Attorney at Law
201 West Short Street
Suite 310
Lexington, KENTUCKY 40507

Shannon Fisk
Senior Attorney
Natural Resources Defense Council
2 N. Riverside Plaza, Suite 2250
Chicago, ILLINOIS 60660

Jennifer B Hans
Assistant Attorney General's Office
1024 Capital Center Drive, Ste 200
Frankfort, KENTUCKY 40601-8204

Kristin Henry
Staff Attorney
Sierra Club
85 Second Street
San Francisco, CALIFORNIA 94105

Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

Honorable Mark R Overstreet
Attorney at Law
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634