

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

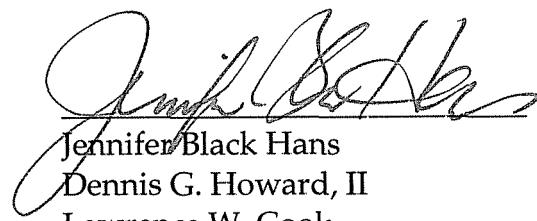
PUBLIC SERVICE
COMMISSION

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

**ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS
OF KENTUCKY POWER CO.**

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and tenders his responses to the Data Requests tendered by Kentucky Power Co.

Respectfully submitted,
JACK CONWAY
ATTORNEY GENERAL



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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Honorable Joe F Childers
201 West Short Street, Suite 310
Lexington, KY 40507

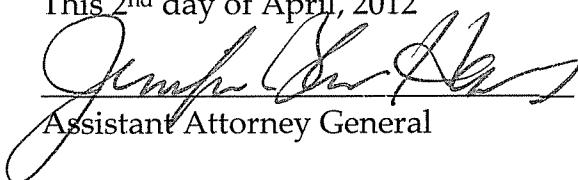
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This 2nd day of April, 2012



Jeff Derouen
Assistant Attorney General

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

PAGE 1 of 1

QUESTION 1

Please provide in their original form, with all calculations operable and formulas intact and unprotected, all electronic spreadsheets and other calculations used, developed in connection with the preparation of, referenced, or contained in Dr. Woolridge's testimony, analyses, and exhibits filed in this proceeding.

Response:

The requested documents are provided on the Woolridge CD. The requested spreadsheets, including data and calculations, are provided in the Worksheets folder.

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

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PAGE 1 of 1

QUESTION 2

Please provide copies of all documents, articles, studies, or other publications referenced in Dr. Woolridge's testimony.

Response:

The requested documents are provided on the Woolridge CD. The requested documents, articles, work papers, studies, and other publications referenced in Dr. Woolridge's testimony are provided in the following folders: Analysts EPS Growth Rate Forecasts, Articles, AUS, Electric V-Lines, and Worksheets.

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

PAGE 1 of 1

QUESTION 3

Does Dr. Woolridge agree that bond rating agencies, such as Standard & Poor's Corporation, consider the impact of regulation on a utility's risks when evaluating credit ratings? If the answer is anything other than an unqualified, "yes", please provide a complete explanation of, and support for, the answer.

Response:

Yes, Dr. Woolridge believes that bond rating agencies consider the impact of the regulated status of utilities in the rating process, as well as other factors that affect utilities' business and financial risks.

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

PAGE 1 of 1

QUESTION 4

Does Dr. Woolridge believe that the beta values referenced on Exhibit JRW-11 reflect the market's assessment of the impact of regulation on the utilities' relative investment risks? If the answer is anything other than an unqualified, "yes", please provide a complete explanation of, and support for, the answer.

Response:

Yes, Dr. Woolridge believes that the betas for utilities reflect their regulated status, as well as other factors that affect utilities' investment risk.

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

PAGE 1 of 1

QUESTION 5

Please refer to page 32, lines 16-17, of Dr. Woolridge's testimony. Please provide a detailed explanation of, including all support for, the methodology used by Dr. Woolridge in adjusting the DPS growth rate downward from the projected EPS growth rate for each of the companies in his proxy group. For each of the companies in Dr. Woolridge's proxy group please provide:

- a. the calculation of the downward adjustment in electronic spreadsheet format, with all calculations operable and formulas intact and unprotected;
- b. the magnitude of the adjustment for each company.

Response:

- a. No such calculation was made for each individual company in the proxy group. In particular, Dr. Woolridge did not make a specific downward adjustment to the DPS growth rate from the projected EPS growth rate for each of the companies in his proxy group. As discussed in his testimony, Dr. Woolridge used the data for the proxy group and measured growth by evaluating the median figures for the proxy group for *Value Line* historic EPS, DPS, and BVPS growth, *Value Line* projected EPS, DPS, and BVPS growth, projected sustainable growth, and the projected EPS growth rate forecasts from Zacks, Yahoo, and Reuters.
- b. See response to a.

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

PAGE 1 of 1

QUESTION 6

Please refer to page 45, lines 1-2, of Dr. Woolridge's testimony. Did Dr. Woolridge directly rely on this 4.3% equity risk premium in determining his recommended ROE? If the answer is anything other than an unqualified, "No," please calculate the cost of equity estimate implied by the 4.3% risk premium for Dr. Woolridge's proxy group.

Response:

Yes. This figure is one of the more than thirty risk premium results that Dr. Woolridge employed in developing an overall risk premium of 4.95%. As discussed in his testimony, estimates of the equity risk premium are highly variable. As a result, Dr. Woolridge used the median of all the risk premium results, and did not compute equity cost rate estimates using the individual risk premiums. Nonetheless, if this risk premium were to be used by itself, it would result in an equity cost rate estimate of 7.0%.

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

PAGE 1 of 1

QUESTION 7

Please refer to page 45, line 11, of Dr. Woolridge's testimony. Did Dr. Woolridge directly rely on this 2.8% equity risk premium in determining his recommended ROE? If the answer is anything other than an unqualified, "No," please calculate the cost of equity estimate implied by 2.8% risk premium for Dr. Woolridge's proxy group.

Response:

Yes. This figure is one of the more than thirty risk premium results that Dr. Woolridge employed in developing an overall risk premium of 4.95%. As discussed in his testimony, estimates of the equity risk premium are highly variable. As a result, Dr. Woolridge used the median of all the risk premium results, and did not compute equity cost rate estimates using the individual risk premiums. Nonetheless, if this risk premium were to be used by itself, it would result in an equity cost rate estimate of 6.1%.

Attorney General's Responses to Data Requests of
Kentucky Power Co.
Case No. 2011-00401

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

PAGE 1 of 1

QUESTION 8

Please refer to page 48, lines 18-21, of Dr. Woolridge's testimony. Please provide all cost of equity estimates, including all calculations and support thereof, developed by or on behalf of Dr. Woolridge using the DCF and CAPM approaches discussed in his testimony for the industry groups presented on JRW-8. If Dr. Woolridge did not perform these analyses, or have them performed in connection with the preparation of his testimony, please indicate in detail, including all support and calculations, how the referenced testimony confirms the reasonableness of his recommended ROE.

Response:

Dr. Woolridge did not perform DCF and CAPM analyses for the 100 industry groups listed in Exhibit JRW-8. He has used the betas to highlight the riskiness of utilities relative to other industries as measured by beta. The referenced statement suggests that, as indicated by beta, utilities are among the lowest risk industries in the U.S. and therefore have a low equity cost rate relative to other industries.