

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR (1) A GENERAL)	
ADJUSTMENT OF ITS RATES FOR ELECTRIC)	
SERVICE; (2) APPROVAL OF TARIFFS AND)	
RIDERS; (3) APPROVAL OF ACCOUNTING)	CASE NO.
PRACTICES TO ESTABLISH REGULATORY)	2020-00174
ASSETS AND LIABILITIES; (4) APPROVAL OF)	
A CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY; AND (5) ALL OTHER)	
REQUIRED APPROVALS AND RELIEF)	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY, BY
AND THROUGH THE OFFICE OF RATE INTERVENTION, AND KENTUCKY
INDUSTRIAL UTILITY CUSTOMERS, INC.

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), and Kentucky Industrial Utility Customers, Inc. (KIUC) (jointly, Attorney General/KIUC), pursuant to 807 KAR 5:001, are to file with the Commission an electronic version of the following information. The information requested herein is due on November 2, 2020. The Commission directs Attorney General/KIUC to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency. All responses in paper medium shall be appropriately bound,

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

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 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.

Attorney General/KIUC shall make timely amendment to any prior response if Attorney General/KIUC obtain information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Attorney General/KIUC fail or refuse to furnish all or part of the requested information, Attorney General/KIUC shall provide a written explanation of the specific grounds for their 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. When filing a paper containing personal information, Attorney General/KIUC shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Direct Testimony of Stephen J. Baron (Baron Testimony), page 15, lines 14–20, through page 16, lines 1–10, and Figure 1. Provide the source, workpapers, and data in Excel spreadsheet form with all cells unprotected and accessible used to generate Figure 1.

2. Refer to the Baron Testimony, page 5, lines 10–14. Provide a list of the alternative methodologies for production cost allocation that Mr. Baron alleges would result in a more accurate cost of service study for Kentucky Power, and provide an explanation why each alternative methodology is more accurate.

3. Refer to the Baron Testimony, page 22, lines 17–18. Explain and quantify the substantial subsidies that Mr. Baron alleges will continue even if Kentucky Power's proposed Tariff NMS II is accepted as filed.

4. Refer to the Baron Testimony, page 15, lines 10–12. Kentucky Power's 12 CP share of American Electric Power Company's (AEP) load service entity (LSE) costs are currently about 5.6 percent of the total AEP LSE amount. Explain whether Kentucky Power's share of AEP LSE costs would be more equitable if the LSE costs were allocated based on Kentucky Power's contribution at the PJM Interconnection (PJM) 1 CP share rather than their 12 CP share.

5. Refer to the Direct Testimony of Richard A. Baudino (Baudino Testimony), page 23, line 14, and page 24, line 7. Explain whether Institutional Brokers' Estimate System (IBES) is the same source as Yahoo! Finance, and if not, whether IBES or Zacks is one of the three sources used for Mr. Baudino's analysis.

6. Refer to the Baudino Testimony. Provide all exhibits in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

7. Refer to the Baudino Testimony, page 25, lines 9–10, and Exhibit RAB- 4. Provide the rationale and support for estimating the expected dividend yield by multiplying the current dividend yield by one plus one half the expected growth rate.

8. Refer to the Baudino Testimony, page 25, and Exhibit RAB-4.

a. Explain why it is appropriate to use both dividend and earnings growth rates in the DCF calculations rather than solely earnings growth rates.

b. If it is appropriate to include the dividend growth rate in the DCF calculation, explain why it is accorded a 25 percent weight in the calculation.

9. Refer to the Baudino Testimony, page 30, lines 3–4 and Exhibit RAB- 5.

a. Explain the rationale and support for Mr. Baudino’s assertion that it is appropriate to use book value growth rates in the calculations.

b. Explain why the reasoning for not using average growth rates in the CAPM analysis does not apply to the DCF analysis.

c. Provide the average growth rates applicable to the earnings and book value figures.

10. Refer to the Baudino Testimony, page 31, lines 7–12.

a. Explain why the average income return for 20-year Treasury bonds is used in the calculation as opposed to the 30-year Treasury bond.

b. Provide the average income return for 30-year Treasury bonds over the 1926–2019 period.

c. For the purposes of this study, explain why the historical risk premium should not have the growth rate in the P/E ratio subtracted out, since that is, in

part, reflective of the risk premium investors expect in order to invest in stocks over government bonds.

11. Refer to the Baudino Testimony, page 32, lines 7–11. Provide a detailed explanation of how Duff and Phelps calculated its normalized risk-free rate using its measure of the “real risk free rate” and expected inflation.

12. Refer to the Baudino Testimony, page 34, lines 1–14. To the extent possible, provide a comparison of what the proxy group betas were in the previous five years that supports the contention that the current average beta value is a short-term phenomenon.

13. Refer to the Direct Testimony of Lane Kollen (Kollen Testimony), page 38, lines 4–9. Explain whether Mr. Kollen has additional evidence to support the assertion that the percentage of Edison Electric Institute (EEI) dues identified as influencing legislation is not all inclusive and should be higher, and provide a copy of the additional support.

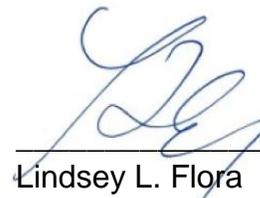
14. Refer to the Kollen Testimony, page 43, line 7.

- a. Provide support for the proposed 4 percent debt cost.
- b. Provide the most current long term debt rate for 10, 20, and 30 year tenor.

15. Refer to the Kollen Testimony, page 43, lines 12–13. Explain whether the proposed regulatory asset should include a carrying charge, and if so, what rate this carrying charge should be.

16. Refer to the Kollen Testimony, page 46, lines 13–14. Provide support for the assertion that since the Commission’s Order in Case 2017-00179², the economic conditions of Eastern Kentucky have deteriorated further.

17. Refer to the Kollen Testimony, page 49, lines 20–24, through page 52, lines 1–2. Mr. Kollen proposes to extend the depreciation expense for Rockport 2 SCR from three years to ten years, beyond the termination of the Rockport UPA lease. Explain why it is reasonable for future rate payers to pay the depreciation expense associated with an asset for which the future rate payer is not benefiting.



Lindsey L. Flora
Deputy Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED OCT 20 2020

cc: Parties of Record

² See Case No. 2017-00179 *Electronic Application of Kentucky Power Company for (1) a General Adjustment of Its Rates for Electric Service; (2) an Order Approving Its 2017 Environmental Compliance Plan; (3) an Order Approving Its Tariffs and Riders; (4) an Order Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) an Order Granting All Other Required Approvals and Relief*, (Ky. PSC June 28, 2018).

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Thomas J FitzGerald
Counsel & Director
Kentucky Resources Council, Inc.
Post Office Box 1070
Frankfort, KENTUCKY 40602

*Lisa A. Lucas
Administrative Assistant
Jenkins Fenstermaker, PLLC
325 Eighth Street
Huntington, WEST VIRGINIA 25701

*Barry Alan Naum
Spilman Thomas & Battle, PLLC
1100 Brent Creek Blvd., Suite 101
Mechanicsburg, PENNSYLVANIA 17050

*Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Clay A. Barkley
Strobo Barkley PLLC
239 South 5th Street
Ste 917
Louisville, KENTUCKY 40202

*Joe F Childers
Joe F. Childers & Associates
300 Lexington Building
201 West Short Street
Lexington, KENTUCKY 40507

*Michael A Frye
Honorable
Jenkins Fenstermaker, PLLC
325 Eighth Street
Huntington, WEST VIRGINIA 25701

*Carrie H Grundmann
Spilman Thomas & Battle, PLLC
110 Oakwood Drive, Suite 500
Winston-Salem, NORTH CAROLINA 27103

*John Horne
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Matt Partymiller
President
Kentucky Solar Industries Association
1038 Brentwood Court
Suite B
Lexington, KENTUCKY 40511

*Christen M Blend
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OHIO 43216

*Honorable Kurt J Boehm
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Don C Parker
Spilman Thomas & Battle, PLLC
300 Kanawha Blvd, East
Charleston, WEST VIRGINIA 25301

*Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

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

*Honorable David Edward Spenard
Strobo Barkley PLLC
239 South 5th Street
Ste 917
Louisville, KENTUCKY 40202

*Katie M Glass
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634

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

*Robert D. Gladman
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OHIO 43216

*Randal A. Strobo
Strobo Barkley PLLC
239 South 5th Street
Ste 917
Louisville, KENTUCKY 40202