

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of:

NOTICE OF KENTUCKY POWER COMPANY)
OF AN ADJUSTMENT OF RATES) CASE NO. 7900

O R D E R

IT IS ORDERED that Kentucky Power Company shall file with the Commission by October 13, 1980, the following information:

Staff Request No. 2

1. For each of the earnings growth rates and dividend growth rates from Value Line Investment Survey reports listed in schedule 13 of Hanley's Exhibit.
 - a. publication date of growth rate estimate.
 - b. length of estimated growth period.
 - c. dividend or earnings level predicted for end of estimated growth period.
2. A description of the procedures used to calculate the average betas from Value Line Investment Survey listed in schedule 15 of Hanley's exhibit. Include:
 - a. the measures of market rate of return and riskless rate of return used.
 - b. the periods of historical data used.
 - c. the computational procedures used.
 - d. other information useful in interpreting and applying the betas.
3. A description of the procedures used to calculate the return rates on common stocks and treasury bills from Ibbotson and Sinquefeld's study listed in schedule 15 of Hanley's exhibit. Include:
 - a. a detailed description of the data used.
 - b. the computational procedures used.
 - c. other information useful in interpreting and applying the rates.

4. A summary of the methodology and results of Ibbotson and Sinquefeld's study of historical returns on securities. Include:

- a. a list of return rates calculated for any shorter periods within the 1926-1978 period studied.
- b. a statement of the results and methodology of any examination of factors causing variation in risk premiums overtime.

5. A detailed description of the procedures used to estimate the equity risk premium of 4% stated in schedule 14 of Hanley's exhibit. Include summaries of the methodology and results of studies of risk premiums of common stock over long-term corporate debt that were relied on in making the estimate.

6. A detailed description of the procedure used to estimate the short-term debt cost rate stated in schedule 5 of Hanley's exhibit. Include:

- a. the procedure followed in estimating the factor of 104%.
- b. the procedure followed in estimating the compensating balance requirement of 5%.

7. A detailed reconciliation of the cost rates to maturity from Kentucky Power's first mortgage bonds stated on page 3 of item 34a of response to request for information contained in order dated July 17, 1980 with the cost rates on page 2 of schedule 5 of Hanley's exhibit. Include all backup material and supporting schedules.

8. A detailed description of the procedure used to calculate the effective cost rate of total other long-term debt as shown on page 1 of schedule 5 of Hanley's exhibit. Include all backup material and supporting schedules.

9. A detailed description of the procedure used to estimate the expected annual rate of attrition of 1% stated in schedule 19 of Hanley's exhibit. Include all backup materials and supporting schedules.

10. A detailed reconciliation of the assumed effective tax rate of 45% used on page 1 of schedule 16 of Hanley's exhibit with the tax rate of 50% used on pages 3 and 6 of the schedule.

11. A detailed reconciliation of the use of capital structure ratios based on total permanent capital excluding short-term debt on pages 3, 4, 6, and 7 of schedule 16 of Hanley's exhibit, with the use of capital structure ratios based on total capital including short-term debt on pages 1, 2, and 5 of the schedule.

12. A billing analysis for the Test Period which will show a clear and concise compilation of billing KWH and KW demand per each rate step and each rate schedule. Such analysis shall show:

- a. Per book total KWH and revenue (columns (3) & (4) - Comparative Billing Analysis Section III, page 16 of 33).
- b. Computer Total Revenue (Column (7) - Comparative Billing Analysis - Section III, page 16 of 33).

13. Work papers showing the details of how the employee discount is computed.

14. Work papers showing the details of how the proposed increase in revenues was allocated to each rate class.

15. Work papers showing the details of how the "Actual Fuel Clause Revenue for Test Year" and "Incremental Fuel Clause Revenue from Annualization" were computed. (Kentucky Power Company Work Papers - Rate Design - Reply to Armco Inc. Request - Columns 2 & 3 - Allocation of Rate Increase Schedule).

16. Furnish an comparative analysis of average monthly billing in each rate class with regards to rates in effect as of 6-27-80 - Order Case No. 7489 and the proposed rates in Case No. 7900 showing percent of increase in each rate class.

17. An explanation as to why the computer total revenue in column (7) of the comparative billing analysis is greater than the computer total revenue in column (9).

18. Explain why the KWH's shown in the following documents differ in some rate classes.

- a. KWH's per Books, column (31, Comparative Billing Analysis, Schedule III, page 16 of 33).
- b. KWH's applicable to fuel adjustment.
- c. KWH's used to compute revenues based on rates per ERC Order dated 4/11/80 in Case No. 7489.
- d. KWH's used to compute revenues based on rates per ERC Order dated 6/27/80 in Case No. 7489.
- e. KWH's used to compute revenues based on proposed increased rates in Case No. 7900.
- f. KWH's used in rate design worksheets furnished to Armco, Inc.

19. a) Describe the conditions present in September and October, 1979 which resulted in the shutdown of Big Sandy Unit 2.
b) Describe the increases in all operating expenses resulting from this shutdown and if applicable, any recovery of the additional purchased power costs through the fuel clause.

20. Describe all conditions which led to Kentucky Power's status as a net purchaser of capacity from the system during the test period.

21. Reconcile Section V work paper S-2, page 44 with the Company's Response to Staff Request, item 22.

22.

- a. Is the total adjustment for the DuMont Test Site related to land. If not, provide the amount not related to land and the proposed period of amortization.
- b. Provide the calculation determining Kentucky Power's share of the total cost with a complete description of the allocation factors used.
- c. Is further investment in this project expected? If so, provide amounts, purposes, expected dates and Kentucky Power's allocated shares.
- d. Provide a detailed description of the purpose of the research.

23. Provide a detailed description of the purpose of the \$100,000 spent for the "provision for future AEP Service Corporation Billing," listed in the Company's response to the Staff Request, item 18, sheet 15 of 18.

24. Provide a detailed calculation showing the method and results of incorporating the FAC refund (Section V, work paper S-2, page 7) in adjustments 3, 4 and 5. This calculation should reconcile the method employed with the specific adjustment method not used by the Company.

25. Provide a detailed breakdown of the fringe benefit factor of 15.025% used in the wage and salary adjustment.

26. Provide the test period premiums paid for Long-Term Disability and Medical Plan Insurance.

27. Reconcile the capacity settlement expense of \$3,763,000 on page 6 of Mr. Mathew's testimony with the charge of \$3,053,000 on Section V, work paper S-2, page 41.

28. Provide all supporting schedules relating to Section V, work paper S-2, page 41. All factors used in the calculations should be identified and each subsection of the adjustment should be set out separately (i.e., Mountaineer, Smith Mountains, Twin Branch). To the extent that these revenues and costs are estimated provide the basis upon which the estimate was formulated.

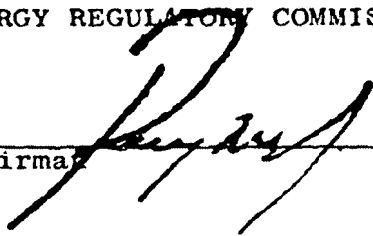
29. Provide the detailed calculation relating to the strike cost of \$1,125,590 and the basis for the estimated normal operating expense of \$481,198 set out on Section V, work paper S-2, page 54.

30. Provide the estimated total cost of relocation to be shared by all members of the system. Further provide a breakdown of this total estimate into categories of expense with a full explanation of the basis used to make these estimates. (Ref. Section V - Work paper S-2, page 56).

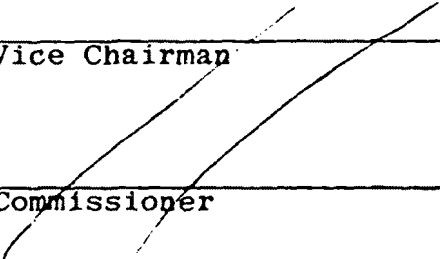
31. Provide a statement of purpose of the relocation described above. If cost savings is a consideration in the relocation, provide an estimate of Kentucky Power's share of the estimated reduction in operating expenses by classification of expense with complete documentation of the basis of estimation.

Done at Frankfort, Kentucky, this 22nd day of September, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary