COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF KENTUCKY POWER COMPANY, AMERICAN ELECTRIC POWER COMPANY, INC. AND CENTRAL AND SOUTH WEST CORPORATION REGARDING A PROPOSED MERGER	))))	CASE NO. 99-149

O R D E R

IT IS ORDERED that Kentucky Power Company (Kentucky Power), American Electric Power Company, Inc. (AEP), and Central and South West Corporation (CSW) (collectively Joint Applicants) shall file the original and 12 copies of the following information with the Commission no later than May 4, 1999, with a copy to all parties of record. Each copy of the data requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the Application, Exhibit 4, Agreement and Plan of Merger, Article IX.

a. Based on the terms contained in Article IX, what is Kentucky Power s potential share of:

(1) The $20 million Termination Fee?

(2) The $225 million Topping Fee?

(3) The $20 million Out-of-Pocket Expenses?

b. If any of the fees or expenses listed above were incurred, who (Kentucky Power s shareholders or ratepayers) will bear them? Explain.

2. List all regulatory and governmental approvals either required or requested in conjunction with the proposed AEP/CSW merger. Include any approvals needed for investments outside of the United States. Indicate the status of each as of April 15, 1999.

3. Provide the organizational structure of CSW as of April 15, 1999, using the format contained in AEP s Disclosure Letter at Exhibit 4 of the Application, page 137 of 149.

4. Refer to Exhibit 4 of the Application, pages 106-107 of 149.

a. Are the Change in Control Agreements listed on these pages the source of change in control payments referred to in the Direct Testimony of Richard E. Munczinski?

b. If not, provide a brief description of these agreements and state the total dollars associated with these agreements.

5. At Exhibit 4 of the Application, page 123 of 149, Company Permitted Transactions are listed and described.

a. Update the status of the listed transactions as of April 15, 1999. Include any transactions that have been commenced since December 21, 1997.

b. (1) Does AEP have any Permitted Transactions as of April 15, 1999?

(2) If yes, describe each Permitted Transaction using the format contained in Exhibit 4 of the Application, pages 123-129 of 149.

6. Refer to the Application, Exhibit 4, page 137 of 149. Provide AEP s organizational structure as of April 15, 1999, using the format shown on page 137 of 149.

7. a. Has AEP acquired any natural gas production, transmission, distribution, or other related assets or operations since December 21, 1997?

b. If yes, describe each acquisition and how it will relate to AEP s current operations.

8. Refer to the Direct Testimony of Thomas J. Flaherty.

a. At page 14 of his testimony, Mr. Flaherty states that the estimates of cost savings were developed for a 10-year period beginning April 1, 1999.

(1) Over what time period were these estimates prepared?

(2) When were the final estimates completed?

b. At page 24 of his testimony, Mr. Flaherty states that since AEP and CSW are electric companies, there was no opportunity for cost reduction in gas operations areas as in other previous mergers. If AEP has acquired natural gas assets or operations, how would such acquisitions affect Mr. Flaherty s overall analysis of the potential merger savings?

9. Refer to the Direct Testimony of Richard E. Munczinski.

a. Describe the nature and purpose of the change in control payments.

b. Explain why any AEP operating company, shareholder or ratepayer should bear any cost associated with the change in control payments since the payments result from agreements that CSW executed with its officers in 1996.

10. Refer to the Direct Testimony of Richard E. Munczinski, page 20.

a. Does the use of a KWH factor to calculate the net merger savings eliminate the need to allocate net merger savings to Kentucky Power s various customer classes?

b. Does the method proposed to calculate the net merger savings credit for Kentucky Power differ from that proposed to any other state regulatory commissions by any other AEP operating companies? If yes, identify the state regulatory commission(s) to which a different method(s) was proposed and describe how that method differs from the proposal before this Commission.

c. Is the methodology proposed in this proceeding the same as that agreed to in the Stipulation and Settlement Agreement filed with the Indiana Utility Regulatory Commission (IURC) on April 12, 1999 (Indiana Settlement)? If not, describe the differences in the methodologies.

11. Refer to the Direct Testimony of Richard E. Munczinski, pages 23-25.

a. Assume the proposed merger is approved and consummated. As a condition for receiving final approval from another regulatory commission, a shift in AEP member load ratios to the detriment of Kentucky Power is required. All other things being equal, explain how AEP s hold harmless provision would protect Kentucky Power s ratepayers from a change in the member load ratio resulting from this condition.

b. Under the most favored nation provision, explain how AEP envisions the equivalent net benefits and conditions clause operating.

c. Based on the provisions of the Indiana Settlement currently pending and the most favored nation provision set forth in the Munczinski Direct Testimony, identify each benefit or condition contained in the Indiana Settlement which would be extended to Kentucky ratepayers if the IURC adopts the agreement.

12. In its May 13, 1994 Order in Case No. 94-104,[1] the Commission identified and discussed the following areas of concern: Additional Regulatory Concerns, Protection of Utility Resources, Monitoring, and Reporting Requirements. To the extent that these concerns have not been addressed by the Applicants in their application or would not be addressed by the most favored nation provision as it relates to the Indiana Settlement if approved, how does AEP propose to address these concerns?

13. Refer to the Direct Testimony of Richard E. Munczinski, Exhibit REM-3, page 3 of 4. Identify the appropriate workpapers that show the allocation of the merger savings between non-operating and operating.

14. Refer to the Indiana Settlement, Section 8 Affiliate Standards, pages 6 through 11. If adopted by the IURC, does AEP intend for these standards to be

[1] Case No. 94-104, Application of the Cincinnati Gas & Electric Company and CINergy Corp. for Approval of the Acquisition of Control of The Union Light, Heat & Power Company by CINergy Corp.

applicable to all subsidiaries and affiliates of AEP, regardless of any state regulatory commission action on the subject of affiliate transactions? Explain.

15. Refer to the Indiana Settlement, Section 8 Affiliate Standards, Part I, page 9. Would market or customer specific information be readily available to an affiliate engaged in activities other than exempt wholesale generation or power marketing, such as telecommunication services or home appliance repair? Explain.

16. Refer to the Indiana Settlement, Attachment A. The attachment indicates that the total net merger savings over eight years for Indiana are $121,255,000. However, Exhibit REM-3 of the Munczinski Direct Testimony, page 2 of 4, indicates that the net merger savings over ten years for Indiana Retail are $176,447,940. Provide a reconciliation of these two amounts. To the extent possible, include references to workpapers and exhibits included with the Application filed in this proceeding.

17. Refer to the Application, Exhibit 4, page 116-117 of 149. In the Agreement and Plan of Merger, CSW discloses that it and its subsidiaries have several older grandfathered gas-fired plants which are not required to have air quality permits, but which could be subject to legislation in Texas that would require them to incur substantial air compliance costs.

a. What is the current status of this legislation?

b. Define the term substantial as it is used in this section of the Agreement and Plan of Merger.

18. Refer to Agreement and Plan of Merger, Section 5.9(b).

a. What is the current status of the Cook Plant?

b. Has the Cook Plant s status had an adverse impact on AEP s operations and/or financial condition since June 1998?

19. Refer to the Application, Exhibit 4, page 145-146 of 149. (AEP s Disclosure Letter, Section 5.14(4).)

a. What is the current status of the appeal of EPA s 8-hour ozone standard filed by the Utility Air Regulatory Group?

b. In its Disclosure Letter, AEP states that the cost of meeting stricter NO_x standards could be substantial. For purposes of this section, how is the term substantial defined or measured?

20. At page 22 of his testimony, Mr. Flaherty lists Revenue Enhancement as one of the savings areas derived from the operational synergies that are created upon the integration of two independent operations. He states that [n]o such revenue enhancement opportunities were identified in this [AEP-CSW merger] transaction. He specifically refers to increased off-system sales as an example of such revenue enhancement opportunities. Explain why the combination of the AEP and CSW systems would not be expected to produce a greater level of off-system sales than the two systems could achieve independently.

21. When do AEP and CSW expect their proposed merger to be completed?

22. Refer to the Direct Testimony of J. Craig Baker, pages 16 -21.

a. (1) Explain why an analysis of external markets was not included in the base case production cost analysis set forth in Exhibit JCB-2.

(2) Explain why the analysis of external markets shown in Exhibit JCB-7 does not directly relate to the issue of foregone revenues.

b. The East Zone (the existing AEP system) is expected to a significant exporter of generation to the West Zone (the existing CSW system) and a relatively small importer of generation from the West Zone. Explain why this expectation does not indicate that a significant amount of the estimated foregone revenues are revenues that will be foregone by AEP rather than CSW?

c. (1) Have the Applicants performed any analysis or study to separate the estimated $61 million in foregone net revenues by zone?

(2) (a) If yes, provide these analyses or studies.

(b) If no, explain why not.

23. At pages 7 and 8 of his direct testimony, Mr. Munczinski states that the costs to achieve the merger will be deferred and amortized over a 5-year period beginning with the date of closing. He further states that the Net Merger Savings Credit Rider, under which customers will receive their portion of non-fuel merger savings, will continue until the earlier of 10 years or the implementation of mandated unbundling and retail competition. Explain why customers would be charged the merger costs over a period of time that is equal to only one-half the time period over which the savings would be spread.

24. At page 12 of his direct testimony, Mr. Bailey states that AEP commits that quality of service for KPCO customers will be maintained or where necessary improved as a result of this merger.

a. Explain how the proposed merger will improve service in those areas of Kentucky Power s service territory that have experienced and continue to experience long-standing reliability and service quality problems.

b. To what extent would the application of additional resources to these areas result in improvements in service quality and reliability?

25. On page 7 of 258 of his testimony, Dr. Hieronymous states that "the transfer of 250 MW of previously unavailable economic capacity from AEP to CSW actually increases supply in the area where CSW operates, which ordinarily would be expected to lower, rather than increase, prices." Using this same line of reasoning, will not the area in which AEP operates experience a decrease in available capacity, which will result in a price increase? Explain.

26. What are the results of the post-merger but pre-divestiture market power analysis (i.e., the Herfindahl-Hirschman Indexes (HHIs)) for the CSW-SPP and CSW-ERCOT areas?

27. The Applicants state that their strategy of divesting 550 MW of generation capacity in CSW-SPP and CSW-ERCOT areas is designed to reduce market power and, thus, prevent the exploitation of customers (especially native load).

a. In view of Applicants intention to connect AEP and CSW s systems by a 250 MW transmission line which will allow CSW access to AEP s generation, will the net divestiture of generation by Applicants be only 300 MW?

b. (1) What is the cost differential between the cost of power produced by CSW and that produced by AEP (including transmission charges)?

(2) What is the cost differential between the cost of power produced by Northeastern baseload coal generation in Oklahoma and that produced by AEP (including transmission charges)?

c. How does the commitment to waive native load priority with respect to CSW interconnections protect the customers of CSW?

28. At pages 28-29 of his testimony, Dr. Hieronymous states that modeling the NYPP and the PJM as single suppliers (but not as destination markets) tends to increase market concentration and thus are conservative assumptions. Will not the inclusion of New York, Pennsylvania, New Jersey, and Maryland into the relevant geographic area reduce AEP's market share (since all utilities in each of these states will be included in the analysis)? If yes, explain why the inclusion should be considered a conservative assumption.

29. Concerning the nine time periods evaluated in his analysis, Dr. Hieronymous defines the Super Peak as the Top 150 Load Hours. To what period does this Top 150 Load Hours apply?

30. a. How will the merged company maintain operating control of the Frontera and Northeastern plants when 50 percent of the former and all of the latter are to be divested?

b. Explain how the Northeastern plant may be considered as divested by AEP/CSW if AEP/CSW retains control over the dispatch of its capacity.

c. What are the results of a market power test conducted in the interim period (post-merger but pre-divestiture)?

31. a. Explain the logic behind a sensitivity analysis that assumes that transmission is priced regionally at losses.

b. Describe the differences, if any, between the ATC sensitivity analysis and the TTC sensitivity analysis.

c. Given AEP s opposition to joining the Midwest Independent System Operator (MISO), explain why Dr. Hieronymous scenario which assumes that AEP joins the MISO is reasonable.

d. What are the differences between an independent system operator (ISO) and the other types of regional transmission organizations (RTO)? Which type of organization is the Alliance?

32. Provide a detailed summary of the files included on the CD-ROM that contains Dr. Hieronymous' workpapers. Explain the purpose of each file and describe its relevance to Dr. Hieronymous analysis.

33. What assurances, if any, will the Applicants provide that Kentucky Power s customers will not suffer any decrease in service quality and reliability as a result of the proposed merger?

34. What additional resources, if any, will be allocated after the proposed merger to improving Kentucky Power s service quality and reliability?

Done at Frankfort, Kentucky, this 28th day of April, 1999.

By the Commission

ATTEST:

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Executive Director