COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY POWER COMPANY D/B/A AMERICAN ELECTRIC POWER FOR THE SIX-MONTH BILLING PERIODS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999, AND FOR THE TWO-YEAR BILLING PERIOD ENDING JUNE 30, 1999	))))))))	CASE NO. 2000-107

O R D E R

IT IS ORDERED that Kentucky Power Company ("Kentucky Power"), d/b/a American Electric Power ("AEP") shall file the original and 12 copies of the following information with the Commission no later than May 15, 2000, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should 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 its legibility. 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 Order.

1. Refer to the response to Items 2, 9, and 16 of the Commission's March 14, 2000 Order.

a. The response states that the book cost used in determining the gain on the sale of these allowances is the weighted average cost of current year allowances. Is this weighted average cost based on the vintage year of the allowances sold, the total of all allowances in inventory, or some other basis? Explain the response.

b. Are the allowance sales made on a stand-alone basis, or combined with sales of electricity by Kentucky Power?

c. Provide a further description of these allowance sales.

2. Refer to the response to Items 3(b) and 17(b)(ii) of the Commission's March 14, 2000 Order. Explain in detail why the journal entry number 056 was not included on the Gavin Scrubber Report for the months of May, June, July, and December 1998.

3. Refer to the response to Items 4, 11, and 18 of the Commission's March 14, 2000 Order.

a. Explain why the AEP System has determined it was necessary to enter into forward contracts with non-affiliated parties for the purchase and sale of allowances. Include a discussion of the analysis performed by the AEP System supporting this strategy. Indicate when the AEP System began entering into these forward contracts.

b. Describe the general terms and conditions usually contained in the forward contracts for the purchase and sale of allowances.

c. The response mentions the inclusion of hedging costs with these allowance transactions. If these allowance transactions are for hedging purposes, provide the accounting entries required by the Uniform System of Accounts to record these transactions.

d. For each of the billing periods covered in this proceeding, provide a schedule showing for each month:

(1) The beginning balance of allowances resulting from forward contracts.

(2) The number of allowances purchased.

(3) The number of allowances sold.

(4) The ending balance of allowances resulting from forward contracts.

Include both the number of allowances and the total dollar value for each category listed above.

e. Does the AEP Interim Allowance Agreement ("IAA") require that these allowance purchases and sales be allocated to Kentucky Power? If so, provide excerpts from the applicable section of the IAA.

f. If the IAA does not require that Kentucky Power make these purchases and sales, explain in detail why Kentucky Power has been undertaking these transactions.

4. Refer to the response to Items 5, 12, and 19 of the Commission's March 14, 2000 Order. The response states that the price of allowances was based on the weighted average cost of current year allowances. Is this weighted average cost based on the vintage year of the allowances sold, the total of all allowances in inventory, or some other basis? Explain the response.

5. Refer to the response to Items 7, 13, and 21 of the Commission's March 14, 2000 Order.

a. Concerning the first mortgage bonds, junior sub-ordinated debentures, and unamortized debt discount, is the listed interest rate the stated rate or the effective rate on the debt? Explain the response.

b. If the listed interest rate were the effective rate, would it be correct that the amortization of the debt discount is already reflected by using the effective rate rather than the stated rate? Explain the response.

6. Refer to the response to Item 15 of the Commission's March 14, 2000 Order. Kentucky Power has identified an under-recovery of $63,605 for the two-year period ending June 30, 1999. Explain how Kentucky Power proposes to recover this amount from ratepayers.

7. Refer to the response to Item 17 of the Commission's March 14, 2000 Order. Kentucky Power has identified several environmental costs associated with the Gavin scrubber that have not been previously reflected in its surcharge mechanism. The omission of these costs was due to the fact that the cost information was not available at the time Kentucky Power was required to make its monthly surcharge filings. The cost information was not available to Kentucky Power due to a conversion in the accounting system of the AEP System. Explain why Kentucky Power believes it is appropriate to recover these environmental costs as part of the current review process.

8. Refer to the response to Item 20 of the Commission's March 14, 2000 Order. Explain in detail why the Rockport depreciation expense was omitted from the November 1998 expense month calculations.

9. Refer to the response to Item 24(b) of the Commission's March 14, 2000 Order. Provide a further discussion of the change Kentucky Power believes is necessary relating to the allocation methodology. Include examples demonstrating the change Kentucky Power believes is necessary.

10. Prepare an analysis that compares and contrasts the approach Kentucky Power has proposed to use to incorporate its environmental surcharge into base rates with the approach normally used to incorporate its fuel adjustment clause into base rates.

11. Refer to the response to Item 23(a) of the Commission's March 14, 2000 Order which indicates that Kentucky Power annualized its February 2000 monthly ES filing to derive the surcharge amount it proposes to incorporate into its base rates.

a. Identify any other approaches that were considered and rejected by Kentucky Power for use in deriving the surcharge amount to incorporate into base rates and provide the reasons they were rejected.

b. Provide the rationale for the proposed approach when it is based on using only one month's data.

12. The monthly ES reports filed with the Commission show that the costs of the Low NO_x burners installed at Big Sandy Units 1 and 2 were included in the determination of the ES rate base beginning in November 1999. The reports also show

that, beginning in January 2000, Kentucky Power began incurring amounts in excess of \$500,000 for “Monthly Emission Allowance Consumption.”

a. Describe the circumstances that resulted in the inclusion of the Low NO_x burner costs in the ES rate base determination beginning with the November 1999 ES report.

b. Describe the circumstances that caused Kentucky Power to begin reporting amounts in excess of \$500,000 for “Monthly Emission Allowance Consumption” beginning in January 2000, when it had been reporting zero prior to this time.

c. Explain whether these are considered permanent changes to the ES calculation that Kentucky Power anticipates will continue for the foreseeable future.

Done at Frankfort, Kentucky, this 1st day of May, 2000.

By the Commission

ATTEST:

Executive Director