VERIFICATION

The undersigned, Kelly D. Pearce, being duly sworn, deposes and says he is the Director Contract and Analysis for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge and belief

Kelly D. Pearce

STATE OF OHIO)
) Case No. 2014-00225
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Kelly D. Pearce, this the 26th day of September 2014.

Ann Dawn Clark
Notary Public

Ann Dawn Clark
Notary Public-State of Ohio
My Commission Expires
November 16, 2015

My Commission Expires: Nov. 16, 2015

VERIFICATION

The undersigned, John A. Rogness III, being duly sworn, deposes and says he is the Director Regulatory Services for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his/her information, knowledge and belief.

John A. Rogness III

COMMONWEALTH OF KENTUCKY)
) Case No. 2014-00225
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by John A. Rogness III, this the 29th day of September 2014.

Notary Public 481393

My Commission Expires: January 23, 2017

VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief

Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY)
) Case No. 2014-00225
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 29th day of September 2014.

Notary Public 481393

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 1.b. (1) of Commission Staff's Second Request for information ("Staff's Second Request").

a. Confirm that this response indicates that Kentucky Power interpreted the February 7, 2005 Order in Case No. 2004-00430[1] denying East Kentucky Power Cooperative, Inc.'s ("EKPC") proposal to record non-economy power purchases as zero and the March 21, 2005 Order in that same proceeding which clarified the definition of "non-economy purchases," to nullify the Commission's May 2, 2002 and September 20, 2002 Orders in a Kentucky Power proceeding, Case No. 2000-00495-B, in which Kentucky Power requested and received authority to use a proxy when calculating fuel costs during a planned outage. If confirmed, explain whether Kentucky Power sought confirmation from the Commission of this presumed nullification. If Kentucky Power did not seek confirmation, explain why.

b. State whether there are any other fuel adjustment clause ("FAC") related Orders in non-Kentucky Power proceedings that Kentucky Power has interpreted as nullifying an Order in a previous Kentucky Power FAC proceeding. If so, identify the Order or Orders and explain Kentucky Power's interpretation(s).

c. The response states that the language in the February 7, 2005 and March 21, 2005 Orders indicate "...that the entire, actual costs of the non-economy energy purchase should be used in lieu of any lesser or greater amount." On page 5 of the May 2, 2002 Orders in Cases No. 2000-00495-B[2] and 2000-00496-B,[3] the Commission states:

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[1] Case No. 2004-00430, East Kentucky Power Cooperative's Request for a Declaratory Ruling on the Application of Administrative Regulation 807 KAR 5:056 to its Proposed Treatment of Non-Economy Energy Purchases (Ky. PSC Mar. 21, 2005).

[2] Case No. 2000-00495-B, An Examination by the Public Service Commission of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001 (Ky. PSC May 2, 2002).

[3] Case No. 2000-00496-B, An Examination by the Public Service Commission of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001 (Ky. PSC May 2, 2002).

> We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates. [Emphasis added].

On pages 5-6 of the March 21, 2005 Order in Case No. 2004-00430, the Commission states:

> Since EKPC's purchases to meet native load demand in excess of native generation have no avoided costs and generally are less than the avoided cost of EKPC's highest cost generating unit available to serve native load during an FAC expense month, Salt River argues, they do not meet the definition of "non-economy energy purchases." While Salt River is correct on this point, its argument does not require reconsideration of our February 7, 2005 Order. The definition of "non-economy energy purchases" set forth in our Order in Case No. 2000-00496-B too narrowly construes 807 KAR 5:056 and conflicts with the regulation. A more accurate definition of non-economy energy purchases recognizes that the energy costs thereof may be greater or less than the variable cost of the highest cost generation unit available to serve native load. To the extent that the definition in our Order in Case No. 2000-00496-B conflicts with our Order of February 7, 2005, we find that it was incorrect and should be overruled.

Explain how making the clarification that "non-economy energy purchases" recognizes that the energy costs thereof may be greater or less than the variable cost of the highest cost generation unit available to serve native load would nullify the language from the May 2, 2002 Orders in Cases No. 2000-00495-B and 2000-00496-B which limits recovery through the FAC to "only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month." [Emphasis added].

d. The May 2, 2002 Orders in Cases No. 2000-00495-B and 2000-00496-B also state, "Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered 'non-FAC expenses' and, if reasonably incurred, are otherwise eligible for recovery through base rates." Kentucky Power's response to Item 26 of the Commission's August 13, 2014 Request for Information states that it does not limit the cost of purchase power when calculating the FAC. Identify what type of non-economy purchases Kentucky Power believed the Commission was referring to in the above quote that would be classified as "non-FAC expenses" otherwise eligible to be recovered through base rates.

RESPONSE

a. Kentucky Power confirms that it interpreted the "February 7, 2005 Order in Case No. 2004-00430 denying East Kentucky Power Cooperative, Inc.'s ('EKPC') proposal to record non-economy power purchases as zero and the March 21, 2005 Order in that same proceeding which clarified the definition of "non-economy purchases" as inconsistent with and hence "nullifying the Commission's May 2, 2002 and September 20, 2002 Orders in a Kentucky Power proceeding, Case No. 2000-00495-B, in which Kentucky Power requested and received authority to use a proxy when calculating fuel costs during a planned outage." Because 807 KAR 5:056 established a uniform fuel adjustment clause, the Company regularly attempts to review and apply Commission orders addressing the fuel adjustment clauses of other electric utilities. Kentucky Power acted in good faith in interpreting the orders.

   Upon review and analysis, the Company recognizes its earlier interpretation of the EKPC Orders was erroneous.

   Kentucky Power did not seek confirmation of its interpretation from the Commission. The Company erred in failing to seek confirmation from the Commission of its understanding.

b. The Company is not aware of any other fuel adjustment clause-related orders in non-Kentucky Power proceedings interpreted by the Company as nullifying an Order in a previous Kentucky Power fuel adjustment clause proceeding.

c. Upon review and analysis the Company agrees that its understanding of the EKPC Orders referenced in subpart (a) was mistaken.

d. See the Company's response to KPSC 3-1(a). The Company was mistaken in its interpretation. The Company should have sought clarification.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 2 of Staff's Second Request. The response states that "[t]he Commission's Order dated [sic] in Case No. 2004-00430 overturned the Commission's previous Order in Case No. 2000-00496B."

a. State whether Kentucky Power believes that the entire Order in Case No. 2000-00496-B was "overturned," or just the definition of "non-economy energy purchases."

b. If Kentucky Power believes the entire Order was "overturned," state which Order (the February 7, 2005 or the March 21, 2005) "overturned" the Order in Case No. 2000-00496-B.

c. If Kentucky Power believes that only the definition of "non-economy energy purchases" as it appeared in the Order in Case No. 2000-00496-B was corrected, explain how making the clarification that "non-economy energy purchases" recognizes that energy costs may be greater or less than the variable cost of the highest cost generation unit available to serve native load would nullify the language from the May 2, 2002 Orders in Cases No. 2000-00495-B and 2000-00496-B which limits recovery through the FAC to "only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month." [Emphasis added]

RESPONSE

a. The Company now interprets the Commission's February 7, 2005 Order in Case No. 2004-00430 denying East Kentucky Power Cooperative, Inc.'s proposal to record non-economy power purchases as zero and the March 21, 2005 Order in that same proceeding as *not* nullifying the Commission's earlier orders in Case No. 2000-00495-B. Please see the Company's response to KPSC 3-1(a).

b. Please see the Company's response to KPSC 3-2(a) and KPSC 3-1(a).

c. Please see the Company's response to KPSC 3-2(a) and KPSC 3-1(a).

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 3 of Staff's Second Request. The response states that "[T]he Company's resources were constructed or obtained by contract for the purpose of serving internal load." Given that the purchase of the interest in the Mitchell Station was made to replace the Big Sandy unit 2 generation, explain why both Big Sandy 2 and the Mitchell Station would be considered as being for the purpose of serving internal load.

RESPONSE

The fact that the 50% undivided interest in the Mitchell generating station was acquired to replace Big Sandy Unit 2 supports the fact that it was acquired for the primary purpose of first serving the Company's internal load. Big Sandy Unit 2 was constructed and operated for the primary purpose of serving the Company's internal load. Kentucky Power acquired the 50% interest in the Mitchell generating station to replace Big Sandy Unit 2 once it is no longer able to operate beginning June 2015. The fact there is a seventeen-month period when the Company will own and operate both Big Sandy Unit 2 and its 50% interest in the Mitchell generating station does not change the reason for the acquisition of Mitchell. Instead, it reflects the availability of the Mitchell interest.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

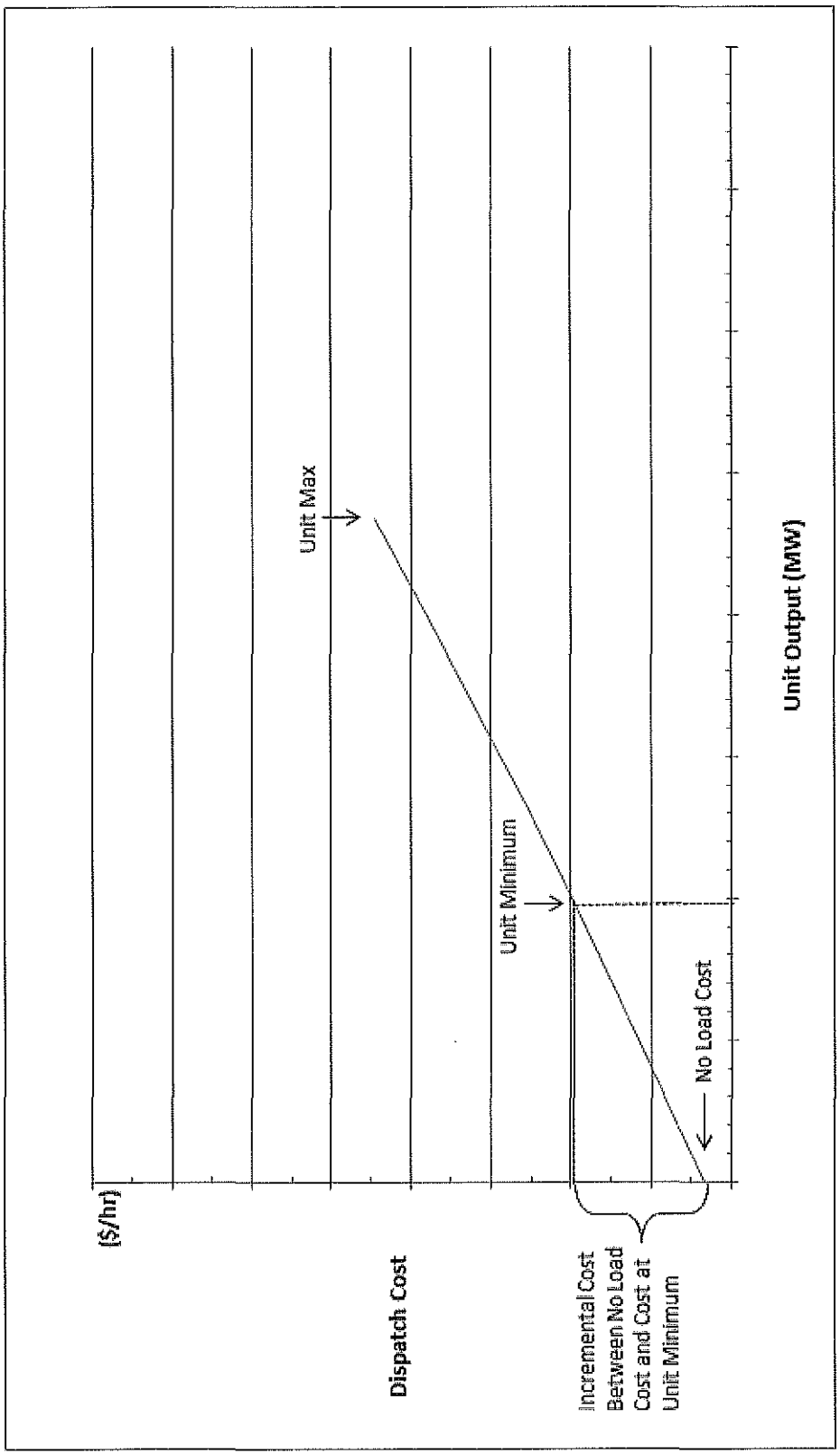
REQUEST

Refer to Kentucky Power's response to Item 4.b. (1) of Staff's Second Request. The response states that "[a]s a result, the remaining generation costs of each unit at the unit minimums, which includes the no load costs and other incremental cost between the no load cost and the unit minimum, remains with internal load." Explain what is meant by "other incremental cost between the no load cost and the unit minimum."

RESPONSE

The (a) total hourly dispatch costs of a unit at the unit minimum less (b) the no load cost of the unit equals (c) the other incremental cost between the no load cost and the unit minimum. Please refer to KPSC 3 4 Attachment 1 for an illustrative example.

WITNESS: Kelly D Pearce


($/hr)
Dispatch Cost
Unit Max
Unit Minimum
No Load Cost
Incremental Cost Between No Load Cost and Cost at Unit Minimum
Unit Output (MW)

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 4.c. of Staff's Second Request. The response states that "the allocation illustrated in KPSC 2-4 Attachment 3 would have the effect of depriving the Company of the 100% of OSS margins it is entitled to retain under the Settlement Agreement in Case No. 2012-00578." Explain whether Kentucky Power informed the Commission in that proceeding that "no load costs" were allocated 100 percent to native load customers and, with the Mitchell Transaction, additional "no load costs" would be allocated to native load customers. Include in the response whether or not "no load costs" were included in any calculation in that proceeding of the effect the Mitchell Transaction would have on customers' bills.

RESPONSE

Because the Company did not intend to modify the manner in which no load costs are allocated, no load costs were not addressed; nor did any calculation performed in Case No. 2012-00578 specifically address "no load costs".

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 4.d. of Staff's Second Request which states that "Big Sandy was needed to serve internal load during March and April of 2014." State whether Big Sandy was actually "needed" to service native load or was allocated to serve native load in that the Big Sandy "no load costs" were allocated to native load customers. If the response is that Big Sandy was "needed," explain why Big Sandy was necessary to serve native load during these months, in particular the shoulder month of April 2014, when it was at the bottom of the dispatch order as shown in the response to Attachment 1 of Item 4.

RESPONSE

Big Sandy was needed to serve load in multiple hours in both March and April of 2014. There were certain hours in both March 2014 and April 2014 that KPCo's internal load exceeded the total generation output of its other plants, Mitchell and Rockport. Without Big Sandy generation, Kentucky Power would have been a net purchaser from the market in those hours.

WITNESS: Kelly D Pearce

Kentucky Power Company

REQUEST

Refer to the response to Item No 5. c. Staff's Second Request.

a. Confirm that the 4-East Coal Scale, the 4-West Coal Scale, the 3A Coal Scale, and the 3B Coal Scale all have routine calibrations conducted on the scales once per month each and every month.

b. Explain how the physical and perpetual inventory got out of balance if the scales removing the coal from inventory are calibrated monthly.

c. State whether the imbalance between the perpetual level and physical level of inventory happened in a one-month period or over several months since the date of the last physical inventory. If in one month, identify the month.

RESPONSE

a. Scale calibrations are performed monthly.

b. Monthly scale calibrations mitigate measurement risk associated with scale measurement but do not remove all measurement risk.

c. In general, survey differences are not identifiable to a specific month. It is only known that the difference occurred since the prior survey.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the electronic spreadsheet filed on September 16, 2014, as KPSC 2-1 Attachment.

a. Refer to the Tab "Summary".

(1) Explain why the cells in C7 through C13 differ from each other (i.e., why some refer to the cell in the previous column, while others are a formula, and others are a number). For example, cell C7 references cell B7 when it appears that cell C7 should be a formula that pulls data from the "2014" Tab.

(2) Explain why the cells in E7 through E13 differ from each other (i.e., why some refer to the cell in the previous column, while others are a formula, and others are a number).

b. Refer to the "2014" Tab.

(1) Explain why the formulas in cells P43 and P59 differ from the formulas in remaining cells of column P. Include in the response the reason why all formulas in the column should not be the same as the formulas in cells P43 and P59.

(2) Explain the origin of the amounts in column 0 and why the amounts do not equal column N multiplied by column E. For example, explain why cell 059 is not the product of N59 multiplied by E59.

(3) If corrections are necessary, provide an updated KPSC 2-1.

RESPONSE

a. (1). Cells C7 – C12 represent the corresponding month purchases made during an outage when the Peak Unit Equivalent method is employed. Using the 75% test, only the months January, February and March of 2014 necessitated the use of the method. Since the Peak Unit Equivalent method was not necessary for November 2013, December 2013 and April 2014, the numbers in cells C7, C8 and

C12 will be equivalent to the numbers in cells B7, B8 and B12. The number in cell C9 is identical to the number in B9 because either the Peak Unit Equivalent method price is greater than the purchase price in the specific outage hours for purchases that were allocated to internal load or some or all of the specific hour purchase was not allocated to serve internal load. Referring to Tab 2014, there are instances where there were purchases made during an outage that were allocated to internal load during February 2014 and March 2014. The numbers in cells C10 and C11 are slightly less than those in B10 and B11 because during the specific outage hours in the respective month, the Peak Unit Equivalent price was less than the purchase price for purchases allocated to internal load. The Peak Unit Equivalent method price was used in a specific hour only if it was less than the purchase price in instances where some or all of the purchase was allocated to serve internal load. The formulas in cells C10 and C11 perform the calculations.

a. (2). The same rationale explained in part a (1) applies to why the cells E7 – E13 differ.

b. (1). The formula in column P for the months January 2014 through March 2014 has been corrected to consistently reflect apply the Peak Unit Equivalent price to the number of MWh allocated to internal load in the appropriate hour.

b. (2). The amounts in column O are outputs from the Power Tracker system where the purchases are allocated between internal customers and off system. In the revised spreadsheet, the dollars per MWh purchase cost (column E) is obtained by dividing the purchase cost (column F) by the number of MWh purchased (column D). Multiplying the amount in column N by the amount in column E yields the cost in column O;

b. (3). Please see KPSC 3-8 Attachment 1 for the updated spreadsheet.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to Item 10 of Kentucky Power's response to Commission Staff's Fifth Request for information in Case No. 2012-00578, Attachment 1, page 1 of 1.

a. Confirm that this schedule demonstrates the percentage change in Kentucky jurisdictional revenue requirement comparing the following three different scenarios:

1) the percentage change in the Kentucky jurisdictional revenue requirement associated with the installation of a Dry Flue Gas Desulfurization Scrubber at the Big Sandy Unit No. 2;

2) the percentage change in the Kentucky jurisdictional revenue requirement associated with the Stipulation and Settlement Agreement of the Mitchell Transfer during the overlap period (January 2014 through June 2015); and

3) the percentage change in jurisdictional revenue requirement associated with the Mitchell Transfer Post Big Sandy Unit retirement (July 2015 and forward). If this cannot be confirmed, explain what the schedule represents.

b. In the Mitchell Transfer Overlap Period column, state which line number and the amount includes the Mitchell Units annual "no load costs."

c. If the annual "no load costs" for Mitchell are not reflected in column 2, provide the impact the Mitchell "no load costs" would have on the percentage change amount of 5.33 percent shown on line 13, column 2.

RESPONSE

a. The Company confirms the three different scenarios described in the question.

b. The no load costs for Mitchell were not not included in column 2 (Mitchell Transfer Overlap Period) as the calculation was for the long-term, ongoing fuel savings for Mitchell as compared to Big Sandy as a result of their different fuel blends.

c. Please see KPSC_3_9_Attachment1 for an updated spreadsheet using the Company's response KPSC 5-10 in Case No. 2012-00578, Attachment 1.

The calculation of the Big Sandy Unit 2 and 50% of the Mitchell no-load costs vary based on the twelve-month period of the calculation.

The values for lines 2a (BS2 no load costs) and 3a (Mitchell 50% no load costs) are calculated using a twelve-month period ended March 31, 2013 to conform to the twelve-month period used for the jurisdictional revenue in the original response to KPSC 5-10 and the 2013 base rate case filing (Case No. 2013-00197).

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Given that Kentucky Power allocates 100 percent of "no load costs" to native load customers, state whether Kentucky Power or American Electric Power Company employees were aware of the magnitude that the Mitchell "no load costs" would have on Kentucky Power's internal customers prior to the July 2, 2013 filing of the Stipulation and Settlement Agreement in Case No.2012-00578.[4]

RESPONSE

No. Kentucky Power and AEPSC employees ***were not*** aware of the magnitude of the post-December 31, 2013 no load costs or their effect on the Company's internal customers. Because the Company did not intend to alter its allocation of no-load fuel costs following the transfer of the 50% undivided interest in the Mitchell generating station AEPSC and Kentucky Power employees did not consider such costs. Moreover, no load fuel costs are not explicitly identified in retail fuel cost projections.

The calculation of the $16.75 million in annual fuel savings related to the fact that the Mitchell units were scrubbed and could use a mixture of high-sulfur and low-sulfur coal. An unscrubbed Big Sandy Unit 2 (to the extent it could continue to run) would be required to burn the more costly low-sulfur coal.

WITNESS: Ranie K Wohnhas

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[4] Case No. 2012-00578, Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Ruling; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief (Ky. PSC Oct. 7, 2013).

Kentucky Power Company

REQUEST

Provide in Excel format, with cells and formulas intact, a monthly calculation of a residential customer's bill using 1,300 kWh each month for the monthly periods December 2013 through the most recent billing period, showing the individual components of the bill for each month. Also, show the percentage change each month using December 2013 as the base amount along with the average percentage change for the period January 2014 through the most recent billing period.

RESPONSE

Please see KPSC3-11 Attachment 1.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 15 of the Kentucky Industrial Utility Customers, Inc. First Information Request, Attachment 1, the section pertaining to Off-System Energy Sales by Energy Sales Type.

a. Explain the category "PJM Mkt Pur Required" as it relates to off-system sales.

b. Explain the category "MONE1-3" as it relates to off-system sales.

c. Explain the category "Real Time Purchases" as it relates to off-system sales.

RESPONSE

a) "PJM Mkt Pur Required" are purchases in the forecast that the simulation tool automatically purchases from the market for two reasons. One, when KPCO does not have sufficient generation to serve its own load, or two, when market purchased energy is less expensive than self-generation, considering the operational parameters of the units the model currently has operating.

b) "MONE 1-3" are the MLR'd share of the forecasted generation of the Mone Plant. AEP has a power purchase agreement with an Ohio generation cooperative, Buckeye Power Inc.'s subsidiary National Power for Mone. Mone is a 3 unit combustion turbine (peaking unit, nominal 510 MW total) and is considered a pool resource in the forecast. This agreement is not applicable to KPCO after December 31, 2013.

c) "Real Time Purchases" is a model input in an effort to mimic actual real time variability. The simulation forecasting tool has a perfect view of the future, but that is not possible in reality. This input tries to capture the variability between day-ahead unit commitments and real time unit performance as well as the variability between load forecasts and actual load.

WITNESS: Kelly D Pearce