

**KPSC Case No. 2014-00396 General Rate Adjustment  
KIUC First Set of Data Requests  
Dated January 29, 2015**

**Item No. 63**

**Page 1 of 2**

**Corrected Response filed April 8, 2015**

**Kentucky Power Company**

**REQUEST**

Refer to Exhibit JMY 1. Please explain why the Company did not reflect ADIT on the "Additions" shown on that schedule in Years 1-17, including the removal and salvage costs shown in Year 17 or on the deferred carrying costs accumulated each year.

**RESPONSE**

The "additions" on Exhibit JMY 1 are the future cash outlays related primarily to asset retirement costs and cost of removal.

The Company inadvertently failed to reflect the ADIT on the additions shown on Exhibit JMY 1. The calculation of the ADIT is based on the net change in the future regulatory asset which will be the difference between the net amortization expense (net of earned carrying charges) of the regulatory asset and future incurred costs. This updated ADIT calculation is included in KIUC\_1\_63\_RetirementCostUpdate\_Attachment1.xls summarized on page 5 of 18 "WACC Amortization" tab in the electronic workpaper.

There are no deferred carrying charges and therefore there are no deferred taxes related to carrying charges since there is no difference in the book versus tax treatment of carrying charges. As noted in Company witness Yoder's testimony on page 19 lines 13 – 17 current month BSRR revenues recover current month carrying charges first.

In the preparation of this response related to the treatment of ADIT in the BSRR calculations, the Company noted certain additional calculations that needed to be updated which are summarized below with respect to how these items should be treated in this proceeding:

1. The Company included the ADIT in the carrying charge calculation only instead of netting it against retirement costs to be recovered as originally filed. These updates are shown on page 1 and 2 of 18 ("Summary" and "Components" tabs of the electronic workpapers) of KIUC\_1\_63\_RetirementCostUpdate\_Attachment1.xls.

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**Page 2 of 2**  
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2. The Company adjusted the beginning ADIT as of June 30, 2015 related to the regulatory asset for the retirement costs to 35% of the total regulatory asset balance (including the ARO asset which had not been tax-effected as originally filed) as of June 30, 2015 as shown on page 2 of 18 ("Components" tab).

3. The Company updated the retirement cost estimate to change the WACC rate from 7.70% originally used in the carrying charge calculation to the 7.71% as filed. The slight change was due to a difference between the filed capital structure and the capital structure used for purposes of estimating the retirement costs. The capital structure is shown on page 12 of 18 "WACC" tab shown in KIUC\_1\_63\_RetirementCostUpdate\_Attachment1.xls.

The net impact of all these updates is an annual increase of \$1,082,274 (the updated value is \$23,248,584) as compared to the original filed amount as shown on page 1 of 18 ("Summary" tab) shown in KIUC\_1\_63\_RetirementCostUpdate\_Attachment1.xls

**WITNESS:** Jason M Yoder