WITNESS/RESPONDENT RESPONSIBLE:
Counsel

QUESTION No. 1
Page 1 of 1

State whether the AG has a position with regard to the level of the proposed residential monthly service charge.

RESPONSE:
To the extent that this request seeks information that is covered by the Attorney-Client Privilege, the Attorney General objects. However, without waiving this objection, the Attorney General states as follows: The Attorney General has not taken a position in prefiled direct testimony about the proposed residential monthly service charge, but will advocate for a lower residential monthly service charge than KPCo has requested. Other things being equal, the lower overall base rate revenue requirement proposed by the AG should result in a lower residential monthly service charge than KPCo has requested.

WITNESS/ RESPONDENT RESPONSIBLE:
Ralph C. Smith and Counsel

QUESTION No. 2
Page 1 of 1

State whether the AG has a position with regard to the proposed NERC Compliance and Cybersecurity Rider.

RESPONSE:
To the extent that this request seeks information that is covered by the Attorney-Client Privilege, the Attorney General objects. However, without waiving this objection, the Attorney General states as follows: The AG has not taken a position in prefiled direct testimony about the proposed NERC Compliance and Cybersecurity Rider; however, the AG will likely take a position in this case in its legal pleadings opposing the NERC Compliance and Cybersecurity Rider that KPCo has requested.

WITNESS/ RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 3
Page 1 of 1

Refer to the Direct Testimony of Ralph C. Smith ("Smith Testimony"), pages 34-36, and to the Excel spreadsheet provided in Kentucky Power Company's ("Kentucky Power") Response to the AG's Second Set of Data Requests, Item 112. Provide a table indicating which commercial and industrial expansions, reductions, and closures are included in the net monthly revenues of $88,636 referenced on page 35 of the Smith Testimony.

RESPONSE:
This is shown on Exhibit RCS-1, Schedule C-1, filed with Mr. Smith's direct testimony and is also summarized below:

A: Amount calculated from data provided in KPCo's response to AG 2-112 as shown below:

	Expansion or Closure	Size (MW)	Load Factor %	Approx. Monthly MWh	Effective Date	Tariff Code	Monthly Revenue Change
6	Reduction	(0.8)	35%	(200)	11/25/2014	358	$ (15,385)
7	Closure	(1.0)	55%	(400)	3/1/2015	371	$ (14,048)
8	Expansion	0.5	70%	270	1/1/2015	371	$ 8,303
9	Expansion	0.3	55%	433	1/1/2015	358	$ 6,293
10	Expansion	1.0	25%	171	11/20/2014	244	$ 17,074
11	Expansion	1.5	35%	350	11/20/2014	358	$ 23,806
12	Expansion	5.6	40%	1,708	11/21/2014	359	$ 107,733
13	Expansion	0.8	25%	130	10/28/2014	358	$ 13,704
14	Expansion	(0.7)		(380)	10/29/2014	358	$ (28,420)
15	Closure	(1)	55%	(400)	12/1/2014	371	$ (26,774)
16	Closure	(1)	20%	(100)	12/1/2014	244	$ (8,309)
17	Closure	0	42%	50	10/27/2014	240	$ 4,660
18	Net Monthly Revenues						$ 88,636

WITNESS/ RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 4
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Refer to the Smith Testimony, page 51, regarding the AG's proposed adjustment to Kentucky Power's incentive compensation. Explain the basis for the proposed 75 percent reduction in incentive compensation and provide any information relied upon in determining the proposed amount of incentive compensation.

RESPONSE:
As discussed in the 2014 AIP plan, the plan provides annual incentive compensation to motivate and reward employees based on AEP's performance, business unit performance (if applicable) and to those employees whose payout is discretionary, based on their individual performance. In addition, the funding measures for the plan are tied to AEP's operating earnings per share (75% weight), safety (10% weight), and strategic initiatives (15% weight)[1]. The proposed adjustment removes the 75% that is based on the AEP operating earnings component. Moreover, in response to AG 2-38, the Company stated that the funding measures associated with the incentive compensation costs included in the Company's filing reflect the aforementioned percentages under the plan's performance categories. Please also see Exhibit RCS-1, Schedule C-7 and Exhibit RCS-14.

[1] The plan has two extra credit measures, which are the Zero Fatality Adjustment (7.5%) and a Culture and Employee Engagement measure (5%).

WITNESS/ RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 5
Page 1 of 1

Refer to the Smith Testimony, page 56, regarding PJM Interconnection, Inc. ("PJM") charges and credits. State whether the AG believes the PJM charges should not be annualized, whether or not such charges are recovered through base rates or a rider.

RESPONSE:
AG witness Smith is not opposed to reflecting 12 months of actual PJM charges and requested that information from KPCo in discovery. The recommendation of AG witness Smith is that the PJM charges should be recovered through base rates and not a rider.

WITNESS/ RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 6
Page 1 of 1

Refer to the Smith Testimony, page 62. State whether the AG recommends any revision to Kentucky Power's proposed Big Sandy Retirement Rider ("BSRR") tariff with regard to the recovery of actual costs only.

RESPONSE:
AG witness Smith recommends that the initial implementation of the BSRR proposed by KPCo be adjusted in the manner described in his testimony. As additional actual costs become known, such as for dismantlement and/or cost of removal, such actual costs could be reflected in the BSRR at that time.

WITNESS/ RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 7
Page 1 of 1

Refer to the Smith Testimony, pages 64-67. Confirm that the AG has no objection to the proposed Big Sandy 1 Operation Rider tariff with the exception of Kentucky Power's inclusion of PJM charges in Big Sandy Unit 1 non-fuel O&M expenses.

RESPONSE:
Confirmed.

WITNESS/ RESPONDENT RESPONSIBLE:
Dr. J. Randall Woolridge

QUESTION No. 8
Page 1 of 1

Refer to the Testimony of Dr. J. Randall Woolridge. Several of the electric companies in the proxy group shown in Exhibit JRW-10 have negative DCF equity cost growth rate measures. Explain why it is valid to include negative growth rates in the analysis.

RESPONSE:

Dr. Woolridge has reviewed thirteen different growth rate measures for the twenty-nine companies in the Electric Proxy Group. This produces distributions of outcomes for historic and projected growth in EPS, DPS, and BVPS. He has used the medians of the distributions of these growth rates as the measure of central tendency in his summary analysis. Several companies in the group have negative historic and/or projected growth rate measures. The fact is that negative growth is a possibility for some time periods and some companies. If these were eliminated, it would distort the measures of central tendency by eliminating relevant information about the possible outcomes and distributions of growth rates.

WITNESS/ RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 9
Page 1 of 1

Refer to the Direct Testimony of Lane Kollen, on behalf of Kentucky Industrial Utility Customers, Inc. ("KIUC"), pages 53-61, regarding Kentucky Power's proposed BSRR tariff. Identify and explain any differences in the determination of the revenue requirement for the BSRR by KIUC and by the AG, and state with which items the AG is in agreement in the determination of the revenue requirement.

RESPONSE:
The review of the Direct Testimony of KIUC witness Kollen, including his recommendation concerning the BSRR tariff, is continuing and has not been completed at this time. A final conclusion has not been reached, and might not be reached until after the hearings, concerning any differences in the determination of the revenue requirement for the BSRR by KIUC and by the AG. However, in general and in order to be responsive to the request, it is noted that the approach of KIUC witness Kollen and AG witness Smith to the BSRR revenue requirement appears to be similar in both excluding estimated future costs and in adjusting the return component based on the respective KIUC and AG cost of capital witness' recommendations. One difference that has been noted is that KIUC witness Kollen appears to have adjusted the gross revenue conversion factor (GRCF) to correspond with his recommendation that an Internal Revenue Code §199 deduction be incorporated into the GRCF. AG witness Smith did not make that same GRCF adjustment in his testimony. It appears that making a GRCF adjustment for the §199 deduction would be consistent with how that was done in a prior KPCo rate case.