

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

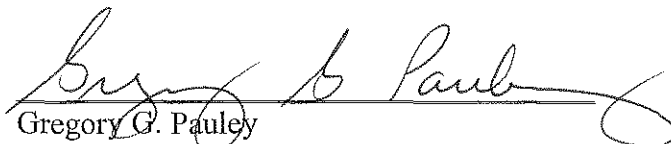
**Application Of Kentucky Power Company For )  
A General Adjustment Of Its Rates For Electric )  
Service; (2) An Order Approving Its 2014 )  
Environmental Compliance Plan; (3) An Order ) Case No. 2014-00396  
Approving Its Tariffs And Riders; And (4) An )  
Order Granting All Other Required Approvals )  
And Relief )**

**Kentucky Power Company Responses  
To Commission Staff's Third Set of Data Requests**

**March 9, 2015**

**VERIFICATION**

The undersigned, Gregory G. Pauley, being duly sworn, deposes and says he is the President and Chief Operating Officer for Kentucky Power Company, 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

  
Gregory G. Pauley

COMMONWEALTH OF KENTUCKY )  
  ) Case No. 2014-00396  
COUNTY OF FRANKLIN )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Gregory G. Pauley, this the 9th day of March, 2015.

 481395  
Notary Public

My Commission Expires: January 23, 2017

**VERIFICATION**

The undersigned, Jeffrey B. Bartsch, being duly sworn, deposes and says he is the Director, Tax Accounting and Regulatory Services for American Electric Power Service Corporation and that he has personal knowledge of the matters set forth in the forgoing responses for which he is identified as the witness and the information contained therein is true and correct to the best of his information, knowledge and belief.



\_\_\_\_\_  
Jeffrey B. Bartsch

STATE OF OHIO

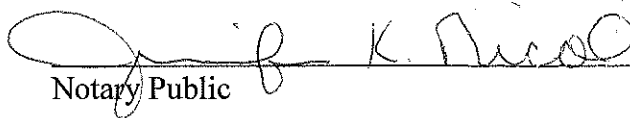
)

) Case No. 2014-00396

COUNTY OF FRANKLIN

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Jeffrey B. Bartsch, this the 2<sup>nd</sup> day of March, 2015.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: 12/14/15

**VERIFICATION**

The undersigned, David A. Davis, being duly sworn, deposes and says he is the Manager, Property Accounting Policy and Research that he has personal knowledge of the matters set forth in the forgoing responses for which he is identified as the witness contained therein is true and correct to the best of his information, knowledge and belief.

*David A. Davis*

\_\_\_\_\_  
David A. Davis

STATE OF OHIO

)

) Case No. 2014-00396

COUNTY OF FRANKLIN

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by David A. Davis, this the 3<sup>rd</sup> day of March, 2015

*Kathryn L. Messer*

\_\_\_\_\_  
Notary Public

My Commission Expires: August 18, 2017

**VERIFICATION**

The undersigned, Amy J. Elliott, being duly sworn, deposes and says she is a Regulatory Consultant Sr. in Regulatory Services for Kentucky Power, that she has personal knowledge of the matters set forth in the forgoing responses for which she is the identified witness and that the information contained therein is true and correct to the best of her information, knowledge, and belief

*Amy J. Elliott*

\_\_\_\_\_  
Amy J. Elliott

COMMONWEALTH OF KENTUCKY )

) Case No. 2014-00396

COUNTY OF FRANKLIN )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Amy J. Elliott, this 7<sup>th</sup> day of March, 2015.

*Judy K. Kasgrist 481393*  
\_\_\_\_\_  
Notary Public

My Commission Expires: January 23, 2017

VERIFICATION

The undersigned, Jeffery D. LaFleur, being duly sworn, deposes and says he is Vice President Generating Assets APCO/KY, 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

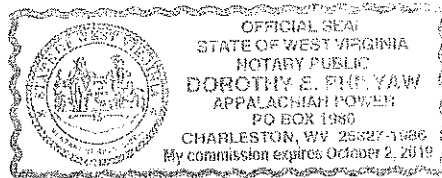
*Jeffery D. LaFleur*  
JEFFERY D. LAFLEUR

STATE OF WEST VIRGINIA )  
 ) Case No. 2014-00396  
COUNTY OF KANAWHA )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Jeffery D. LaFleur, this the 9<sup>th</sup> day of March, 2015.

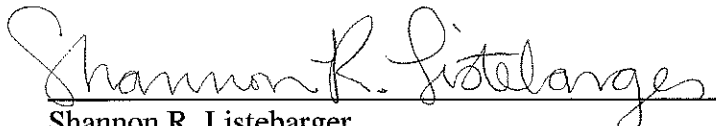
*Dorothy E. Philpott*  
Notary Public

My Commission Expires: October 2, 2019



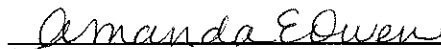
**VERIFICATION**

The undersigned, Shannon R. Listebarger, being duly sworn, deposes and says she is a Regulatory Consultant Sr. in Pricing and Analysis for American Electric Power Service Corporation and that she has personal knowledge of the set forth in the forgoing responses for which she is identified as the witness and the information contained therein is true and correct to the best of his information, knowledge and belief.

  
 Shannon R. Listebarger

STATE OF OHIO                                     )  
   ) Case No. 2014-00396  
 COUNTY OF FRANKLIN                         )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Shannon R. Listebarger, this the 3<sup>rd</sup> day of March, 2015.

  
 Notary Public

My Commission Expires: Never



**VERIFICATION**

The undersigned Everett G. Phillips, being duly sworn, deposes and says he is the Managing Director, Distribution Region Operations for Kentucky Power Company, that he has personal knowledge of the matters set forth in the forgoing data requests and the information contained therein is true and correct to the best of his information, knowledge, and belief.

  
\_\_\_\_\_  
Everett G Phillips

COMMONWEALTH OF KENTUCKY    )  
  ) CASE NO. 2014-00396  
COUNTY OF BOYD                     )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by, Everett G. Phillips, this the 3<sup>rd</sup> day of March, 2015.


  
\_\_\_\_\_  
Notary Public

My Commission Expires: 4/5/2015



**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. 2014-00396  
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 9<sup>th</sup> day of March, 2015.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: January 23, 2017


**VERIFICATION**

The undersigned, Jason M. Stegall, being duly sworn, deposes and says he is the a Regulatory Consultant for American Electric Power Service Corporation and that he has personal knowledge of the matters set forth in the forgoing response and the information contained therein is true and correct to the best of his information, knowledge and belief.

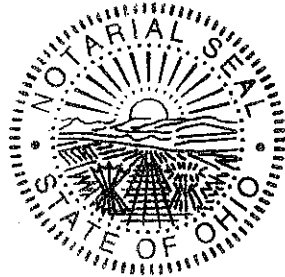
  
 \_\_\_\_\_  
 Jason M. Stegall

STATE OF OHIO )  
 ) Case No. 2014-00396  
 COUNTY OF FRANKLIN )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Jason M. Stegall, this the 8<sup>th</sup> day of March, 2015.

  
 \_\_\_\_\_  
 Notary Public

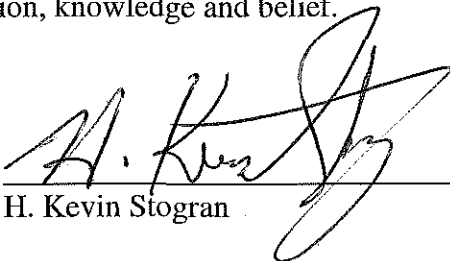
My Commission Expires: 05/11/2016



ELLEN A. MCANINCH  
 NOTARY PUBLIC  
 STATE OF OHIO  
 Recorded in  
 Franklin County  
 My Comm. Exp. 5/11/16

**VERIFICATION**

The undersigned, H. Kevin Stogran, being duly sworn, deposes and says he is the Managing Director, Cyber Risk and Security Services for American Electric Power Service Corporation and that he has personal knowledge of the set forth in the forgoing responses for which he is identified as the witness and the information contained therein is true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_

H. Kevin Stogran

STATE OF OHIO )


) Case No. 2014-00396

COUNTY OF FRANKLIN )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by H. Kevin Stogran, this the 4<sup>th</sup> day of March, 2015.



Cheryl L. Strawser  
Notary Public, State of Ohio  
My Commission Expires 10-01-2016

  
\_\_\_\_\_

Notary Public

My Commission Expires: October 1<sup>st</sup> 2016



**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*  
\_\_\_\_\_  
Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY     )  
   ) Case No. 2014-00396  
COUNTY OF FRANKLIN                     )

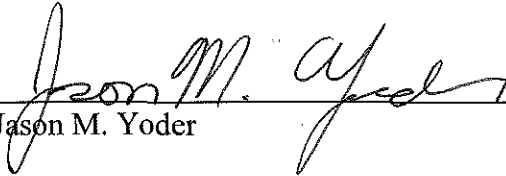
Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 9<sup>th</sup> day of March 2015.

*Judy K. Rosquist 481393*  
\_\_\_\_\_  
Notary Public

My Commission Expires: January 23, 2017

**VERIFICATION**

The undersigned, Jason M. Yoder, being duly sworn, deposes and says he is Staff Accountant Accounting Policy and Research for American Electric Power Service Corporation and that he has personal knowledge of the set forth in the forgoing responses for which he is identified as the witness and the information contained therein is true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
Jason M. Yoder

STATE OF OHIO

)

) Case No. 2014-00396

COUNTY OF FRANKLIN

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Jason M. Yoder, this the 4<sup>th</sup> day of March, 2015.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: May 16, 2016 (05/11/16)



ELLEN A. MCANINCH  
NOTARY PUBLIC  
STATE OF OHIO  
Recorded in  
Franklin County  
My Comm. Exp. 5/11/16

## **Kentucky Power Company**

### **REQUEST**

Refer to the Application, Section V, Exhibit 2, Tab "W04.

- a. Provide the supporting calculations for the amount in cell E11 or its location in the record.
- b. Explain how this work paper isolates the effect of customer migrations.

### **RESPONSE**

- a. Please see the Kentucky Power Total Company Per Books amount of Operating Revenues - Sales of Electricity located in Section V, Exhibit 1, Schedule 4, Line 1, Column 2 of the Company's application for support of the value in cell E11.
- b. This work paper does not isolate the effect of customer migrations but rather reconciles the difference between the Per Books amount of Operating Revenues - Sales of Electricity and those revenues when adjusted for year-end migrations. It does so by identifying all operating revenue adjustments made prior to the Year End Migration Adjustment and identifying the difference. The Year End Migration Adjusted revenues are presented on Line 1 and the Per Books revenues are presented on Line 2. The previous revenue adjustments are listed on lines 3 - 7 and line 9.

The total Year End Migration Revenue Adjustment presented on Line 14 matches, within rounding error, the value identified in Cell D71 on the YEM tab of KIUC\_1\_17\_Attachment34\_Stegall\_JMS\_1\_and\_StegallRevenueWorkpapers.xlsx filed in the Company's response to KIUC 1-17. This attachment provides the detail to isolate the Year End Migration Adjustment on a tariff class basis and/or a billing component basis.

**WITNESS:** Jason M Stegall

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 2**  
**Page 1 of 1**

**Kentucky Power Company**

**REQUEST**

Refer to the Application, page 6 of the Direct Testimony of David Davis, where the existing and study depreciation rates are listed. Identify and explain the impact(s) of the increased spending since 2009 in Kentucky Power's vegetation management program on the depreciation rates determined in the current depreciation study.

**RESPONSE**

The Company follows FERC's instructions in regards to the classification of amounts spent on vegetation management as either O&M or capital. Vegetation management amounts charged to capital are not specifically tracked in KPCo's property records. Therefore, the impact on depreciation rates of spending on this program since 2009 cannot be determined.

**WITNESS:** David A Davis



**Kentucky Power Company**

**REQUEST**

Refer to the Application, page 25 of the Direct Testimony of John A. Rogness III, lines 17-19. Explain why Kentucky Power is required to pay an employee for a minimum of two hours when the employee is "called out."

**RESPONSE**

Pursuant to the collective bargaining agreement between Kentucky Power and the International Brotherhood of Electrical Workers Local 978, the Company is required to pay an employee for a minimum of two hours when the employee is called out for a reconnection after normal business hours. Please see KPSC\_1\_49\_Attachment1 for a copy of this agreement. Terms relating to call outs can be found on page 18 of the agreement.

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Refer to the Application, pages 5-6 of the Direct Testimony of Jason M. Stegall ("Stegall Testimony"). Beginning at the bottom of page 5, Mr. Stegall states, "To ensure that the Customer Annualization Adjustment reflects only actual customer growth, the impact of customer migrations has been eliminated by starting with the data adjusted for the Customer Migration Adjustment." Provide the following or its location in the record:

- a. The data prior to the Customer Migration Adjustment by rate class.
- b. The Customer Migration Adjustment amounts by rate class and their supporting calculations.

**RESPONSE**

a-b. Please see  
KIUC\_1\_17\_Attachment34\_Stegall\_JMS\_1\_and\_StegallRevenueWorkpapers.xlsx filed  
in the Company's response to KIUC 1-17.

**WITNESS:** Jason M Stegall

**Kentucky Power Company**

**REQUEST**

Refer to the Application, Exhibit JMS-1, pages 1 and 2 of 3.

- a. Explain the references to March 2013 in the headings for columns 3, 7, and 11 on page 1 and columns 3, 4, 7, and 10 on page 2.
- b. Confirm that the amounts in columns 2, 6, and 10 on page 1, and column 2 on page 2, are actually number of customer bills rather than number of customers.

**RESPONSE**

- a. The headings are labeled March 2013 in error and should be labeled September 2014.
- b. The values identified in those columns are a sum of the monthly customer counts, adjusted for year-end migrations, for each month of the test year.

**WITNESS:** Jason M Stegall

**Kentucky Power Company**

**REQUEST**

Refer to the response to item 5.i. of Commission Staff's First Request for Information ("Staff's First Request").

- a. Provide a copy of the incentive program for the employees of the largest contractor that has components for safety, effectiveness, and efficiency.
- b. Provide an explanation for adding a full-circuit re-clearing measure in the third quarter of 2014. Provide a copy of the contract measure.

**RESPONSE**

- a. See attachment KPSC\_3\_6a\_Attachment1.pdf.
- b. The "hours per mile" full-circuit re-clearing measure was added to the traditional measures of tree trimming, tree removal, and brush cut for the contractor employees' incentive program to better align performance with the Company's full-circuit re-clearing mileage goals. An explanation of the measure and a copy of the contract measure are included on page 8 and 10 in attachment KPSC\_3\_6a\_Attachment1.pdf.

**WITNESS:** Everett G Phillips

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to item 5.o. of Staff's First Request and to the Direct Testimony of Everett G. Phillips ("Phillips Testimony").

- a. Create a table, keeping Table 1 0 - Scenario Cost Comparison on page 30 of the Phillip's Testimony fully intact, with the addition of a scenario 5 column which represents a five-year clearing cycle. Provide a written explanation for the calculated numbers which is similar in style to what was provided in the Phillip's Testimony. Use assumptions similar to Scenario 2, shifting the clearing cycle to five years.
- b. Create a table, similar to table 7 on page 26 of the Phillips Testimony, based on a five-year clearing cycle and with assumptions similar to those made in scenario 2. Provide a written explanation for the table and its calculations which is similar in style to what was provided in the Phillip's Testimony.

### **RESPONSE**

- a. Under Scenario 5, the Company estimates it will complete Task 1 and Task 2 on the same schedule and at the same cost (either actual or projected) as with Scenario 2. Beginning in 2019, Kentucky Power will begin Task 3 for both Scenario 2 and Scenario 5. Under Scenario 2, the Company projects it will complete approximately 2,016 miles of Task 3 clearance each year through 2022. Under Scenario 5, the Company will complete approximately 1,613 miles of Task 3 clearance each year through 2023. Thus, Task 3 will be completed a year earlier (2022) under Scenario 2 than Scenario 5. The total cost through completion of Task 3 under Scenario 2 is \$268,397,219. Completion of the same work under Scenario 5 is estimated to cost \$268,000,223. The difference, which is not material, is the result of rounding differences and an additional year of efficiency savings, which the Company projects will outstrip inflation by approximately one percent per year.

**KPSC Case No. 2014-00396 General Rate Adjustment  
Commission Staff's Third Set of Data Requests  
Dated February 24, 2015  
Item No. 7  
Page 2 of 2**

Under Scenario 5, the Company will continue Task 1 at funding levels established in Case No. 2009-00459. As in Scenario 1 and Scenario 2, Task 1 will be completed under Scenario 5 by the end of 2018. However, under both Scenario 2 and Scenario 5, Task 2, which targets those circuits previously cleared in the latter half of 2010 and at the beginning of 2011, is initiated. Additional funds beyond those used in connection with Task 1 are required under Scenario 2 and Scenario 5 to carry out the Task 2 interim clear.

The Company anticipates the Task 2 work under Scenario 2 and Scenario 5 will be performed at the lower maintenance cost due to the shorter elapsed time between the initial clearing (Task 1) and interim clearing (Task 2) under each. During the period 2015-2018 the Company will be working simultaneously on both Task 1 and Task 2 under both Scenario 2 and Scenario 5.

The Company projects the third task can be completed at approximately the same per mile cost under Scenario 5 as under Scenario 2. Because fewer miles will be cleared each year under the third task of Scenario 5 than Scenario 2 (approximately 1,613 miles per year vs. 2,016 miles per year) the annual cost will be reduced under Scenario 5. This lower annual cost will be offset under Scenario 5 by the additional year of costs (2023) required to complete Task 3.

Scenario 2 and Scenario 5 have the same cost thru 2018. Under both Scenario 2 and Scenario 5 the Company begins realizing the savings from the lower maintenance costs of Task 3, coupled with the elimination of the Task 1 costs, beginning in 2019. This is evidenced by Table 11 in the Attachment KPSC\_3\_7a\_Attachment1.xlsx, (Tab "Scenario 5 Mileage 5yr").

- b. Refer to KPSC\_3\_7a\_Attachment1.xlsx and Tab "Scenario 5 mileage 5 years".

**WITNESS:** Everett G Phillips

**Kentucky Power Company**

**REQUEST**

Refer to Item 30 of Staff's First Request.

- a. The advertising detail provided in KPSC 1\_30\_Attachment1 , Line 8, lists \$5,576.97 for Customer Assistance Expense- DSM. Explain why this cost was not recovered through Kentucky Power's DSM surcharge.
- b. In KPSC\_1\_30\_Attachment3, the summary lists Donations of \$464,485.63, Civic and Political Activities of \$272,375.85, and Penalties of \$63,080.31 . Explain why these items should not be removed for ratemaking purposes.

**RESPONSE**

- a. This expense was eliminated from the cost of service because it is recovered through the DSM program. Please refer to Section V, Exhibit 2, Tab W17, for Kentucky Power's Adjustment to Eliminate Advertising Expenses. In this adjustment, the \$5,576.97 is part of the \$30,610 of advertising expense that is being eliminated.
- b. Donations, Civic and Political Activities, and Penalties were recorded below the line and were not included in the cost of service for rate recovery.

**WITNESS:** Ranie K Wohnhas

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 32 of staff's First Requests. In the detail provided in KPSC\_1\_32\_Attachment1, contributions for charitable and political purposes is listed as \$162,872. Explain why this amount should not be removed for ratemaking purposes.

**RESPONSE**

The three payments of \$50,000 each to the Carbon Management - UK Research Foundation are not contributions for charitable and political purposes. They are payments to the UK Research Foundation for R&D for carbon research. These costs were approved by the Commission in Case No. 2008-00308 dated October 30, 2008. The remaining \$12,872 should have been excluded for ratemaking purposes.

**WITNESS:** Ranie K Wohnhas



**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 2.g. of Commission Staff's Second Request for Information ("Staff's Second Request"). Describe the results of the NERC CIP audits and provide a copy of the audit reports.

**RESPONSE**

AEP participated in a NERC CIP compliance audit from Nov 4, 2014 through Nov 14, 2014. The audit was conducted by three of the NERC Regional Entities, the Southwest Power Pool Regional Entity; the Reliability First Regional Entity; and the Texas Regional Entity. Due to the sensitive nature of the audit findings, and in accordance with the cybersecurity Information Protection recommendations of NARUC's Cybersecurity Primer for State Commissions, some of the audit findings and results have been redacted. Please see KPSC\_3\_10\_Confidential\_Attachment1.pdf for the audit's exit presentation

**WITNESS:** H Kevin Strogan

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 4 of Staff's Second Request regarding economic development and job training programs.

- a. Provide a breakdown of how the funds were expended.
- b. State whether there were labor or other costs associated with Kentucky Power personnel included in the expenditures.

**RESPONSE**

- a. The following gifts were made:

<b><u>Recipient</u></b>	<b><u>Amount</u></b>	<b><u>Purpose</u></b>
Big Sandy Area Development District	\$8,000	Economic Development
City of Paintsville, Kentucky	\$100,000	Economic Development
Louisa Chapter of Kentucky Southeast Chamber of Commerce	\$92,000	Economic Development
Ashland Community and Technical College	\$16,500	Job Training
Big Sandy Community and Technical College	\$16,500	Job Training

Please see the response to AG 1-9 for additional information regarding the economic development gifts.

- b. No labor or other costs associated with Kentucky Power personnel were included in the expenditures detailed in the Company's response to subpart a. above.

**WITNESS:** Gregory G Pauley

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 5 of Staff's Second Request.

- a. In column D, line 14 and line 24 in KPSC\_2\_5d\_Attachment.xlsx, the percentage increases in the average cost per hour for tree-related outage overtime and average cost for customer minutes of interruption from the test year in Case No. 2009-00459<sup>1</sup> to the 2014 test year are 106.7 percent and 125.8 percent, respectively.
  - (1) Confirm that the percentage increases should be 6.7 percent and 25.8 percent, respectively.
  - (2) Explain why the average overtime hourly wage for contractors is lower than that for internal employees.
  - (3) Explain why Kentucky Power does not use more contractors, since the average overtime hourly cost is less than that for internal employees.
- b. Explain whether Kentucky Power tracks productivity of tree trimming jobs or projects, regardless of whether it is a capital project or operation and maintenance project.
- c. If the answer to part b. is yes, provide the level of productivity for the 2009 test year and then by year for 2010 through 2014. If there is any change in productivity, explain the reason.
- d. Explain whether there is any change in how tree-trimming contractor(s) are currently paid, whether by job or hourly.
- e. Explain whether there has been any change in how tree-trimming contractors are now paid from 2010 through 2014 versus in 2009.

---

<sup>1</sup> Case No. 2009-00459, Application of Kentucky Power Company for a General Adjustment of Electric Rates (Ky. PSC June 28, 2010 D).

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 12**  
**Page 2 of 3**

- f. If there has been any change since 2009, provide the reason(s) for the change.
- g. Refer to the response to Item 5.f. of Staff's Second Request. Explain why there was a reduction of approximately 40 percent in the incremental operations and maintenance spending.

**RESPONSE**

- a. (1) During preparation of this response, an error in the method used to accumulate contractor hours was found in KPSC\_2\_5d\_Attachment.xlsx. The error led to an overstatement of the contractor hours. An amended attachment is attached to this response as KPSC\_3\_12a(1)\_Attachment1.xlsx. In the amended attachment, the increase in average cost per hour for tree-related outage overtime is 114.9%. The increase of 125.8% in the average cost per customer minute of interruption is confirmed.

(2) The contractors responding to tree related outages are primarily contractors employed by AEP's vegetation management contractors. During outage restoration their function is to safely remove trees that have fallen on Kentucky Power distribution facilities and clear vegetation from the vicinity of those distribution facilities in preparation for service restoration crews making repairs to damaged distribution facilities. Their normal job is the safe removal of trees, trimming of trees and control of brush that may endanger the safe, reliable operation of Kentucky Power Company's distribution system.

The internal employees responding to tree related outages are tasked with the safe repair of the electrical distribution system; making the area safe for the public; and for the restoration work, including splicing wires, and replacing poles and associated hardware that has been damaged by the trees that have fallen on Kentucky Power distribution facilities.

The skill level required for line mechanics (internal employees) is considerably higher than that of the vegetation management crew members (contract employees) and therefore their hourly wage rate is higher.

3) The Company assigns workers to tasks based on the skill level required to perform the task in a safe and efficient fashion. During restoration of service following tree related outages the tasks performed by contractors differ from those of internal employees. Internal employees make repairs to the distribution facilities and contractors removing trees from those facilities so repairs can be made. The contract workers do not possess the skill sets required to repair the distribution system in a safe and efficient fashion and thus could not be used in place of internal workers.

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 12**  
**Page 3 of 3**

- b. Kentucky Power tracks vegetation management tree trimming, tree removal, and brush cutting productivity for both capital and O&M work.
- c. See attachment KPSC\_3\_12c\_Attachment1.xls. There has not been a material change in these productivity measures since mid-2010 when the current distribution vegetation management program was initiated.
- d. During the existence of the current distribution vegetation management program, the Company has entered into both hourly and lump sum compensation arrangements with its contractors. Although both types of compensation arrangements have been used throughout the existence of the current program, the amount of work assigned to each type of compensation arrangement has been modified as the Company seeks to increase the cost-effectiveness of the work.
- e. In 2009, tree contractors were compensated only on an hourly basis.
- f. The Company added lump sum compensation arrangements for use when they may prove more cost-effective than hourly arrangements.
- g. The reduction reflects the agreement made between the parties involved in the Unanimous Settlement Agreement and the original request in Case No. 2009-00459.

**WITNESS:** Everett G Phillips

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 7.d. of Staffs Second Request. The response states, "In many cases, the programs and functions of security and cybersecurity are spread over many departments and business units that provide a larger service such as IT infrastructure, telecommunications, applications, or information security with security or cybersecurity included in their overall cost structure. Therefore it is not possible to accurately segregate and sum costs specific to security and cybersecurity."

- a. Explain how it is possible to track the costs for inclusion in the NERC Compliance and Cybersecurity Rider.
- b. Explain how the level of costs being recovered through base rates can be known.
- c. Provide the accounting classifications, both capital and operation and maintenance, that will be used to identify the costs subject to recovery through the proposed rider.
- d. Explain why it is reasonable to establish a rider to recover costs that cannot be separately identified to determine their historical levels and which, based on the response provided, could be subject to double recovery.

### **RESPONSE**

- a. Upon approval of the NERC Compliance and Cybersecurity Rider (NCCR), the Company will create unique work orders to track the capital and O&M costs related to **new** NERC requirements or **new** interpretations of existing requirements.
- b. See the Company's response to KPSC-2-7, part a.
- c. The Company's accounting classification for capital and O&M will be in accordance with the FERC Uniform System of Accounts. Also, see subpart a. above.
- d. Unique work orders will be created to track NERC related efforts, and thus will be fully identifiable in future cases and will not be subject to double recovery.

**WITNESS:** Ranie K Wohnhas

**KPSC Case No. 2014-00396 General Rate Adjustment  
Commission Staff's Third Set of Data Requests  
Dated February 24, 2015  
Item No. 14  
Page 1 of 1**

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 17 of Staff's Second Request. Provide the dates of each of the ROE awards shown on Attachment 1.

**RESPONSE**

Please see KPSC\_3\_14\_Attachment1.pdf.

**WITNESS:** Ranie K Wohnhas

**Kentucky Power Company**

**REQUEST**

Refer to the response to Staff's First Request, Item 32. For the months of January 2014 to September 2014, confirm that Kentucky Power included in its monthly environmental surcharge report the costs billed for Rockport's projects in service at that time, even though Kentucky Power's environmental surcharge factor was set at zero.

**RESPONSE**

The Company cannot confirm this statement. Kentucky Power only included in its monthly environmental surcharge reports from January to September 2014 costs associated with those projects at Rockport that were in-service and part of the Company's approved environmental compliance plan. The Company included costs for the Continuous Emissions Monitoring System, Low NOx Burners, Flyash Landfill, and air emission fees.

**WITNESS:** Amy J Elliott



**Kentucky Power Company**

**REQUEST**

Refer to the response to Staff's First Request, Item 39, which was not totally responsive.

- a. Provide the requested information for the portion of the test year that predates Kentucky Power's ownership of the Mitchell Generating Station ("Mitchell" or "Mitchell Plant")
- b. Provide the information for columns 9 through 14 for the months of January 2014 through September 2014 in the expanded Exhibit AJE-4.

**RESPONSE**

a-b. Please see KPSC\_3\_16\_Attachment1.xls.

**WITNESS:** Amy J Elliott

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 44.b. of Staff's Second Request. Provide a listing of the specific revenue accounts that vary with the amount of energy sold but are not directly assignable.

**RESPONSE**

The revenue accounts are listed below. These accounts pertain to our sale for resale accounts and are recorded as Operating Revenues-Wholesale Sales of Electricity and Non-Firm Sales in the Section V, Exhibit 1, Schedule 4, Line 250 and Line 255 respectively.

4470001	4470098	4470126	4470180
4470002	4470099	4470128	4470181
4470006	4470100	4470141	4470202
4470010	4470101	4470143	4470203
4470027	4470103	4470144	4470204
4470028	4470106	4470150	4470206
4470033	4470107	4470155	4470207
4470035	4470109	4470156	4470208
4470066	4470110	4470168	4470209
4470081	4470112	4470170	4470214
4470082	4470115	4470174	4470220
4470089	4470116	4470175	4470221
4470093	4470124	4470176	4470222

**WITNESS:** Shannon R Listebarger

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 45 of Staff's Second Request. State whether Kentucky Power historically and currently implements a true-up to refund or collect over/under-recoveries of Capacity Charge revenues. If so, describe how the true-up occurs.

**RESPONSE**

The Company has not historically implemented a true-up or refunded or collected over/under recoveries of Capacity Charge revenues; however, the Company is proposing to do so now to allow it to recover no more than the Capacity Charge amounts authorized by the Commission in Case No. 2004-00420.

**WITNESS:** John A Rogness

## **Kentucky Power Company**

### **REQUEST**

Refer to Item 49 of Staff's Second Request regarding the annualization of property taxes. In Column C under the WV Payment Transfers, there are two line items for two years of West Virginia property taxes.

- a. Confirm there are two years of property taxes related to Kentucky Power's 50 percent ownership in Mitchell reflected in the test year.
- b. Provide an updated Section V, Exhibit 2, W 44 that shows Kentucky Power's proposed adjustment with only the 2014 taxes included for the Mitchell plant, and provide a reconciliation of the original amount of the adjustment to the \$11,304,090 contained in the response.

### **RESPONSE**

- a. There are two half-years of property taxes related to Kentucky Power's 50 percent ownership in Mitchell reflected in 2014. This is because each tax year West Virginia property taxes are paid in two installments September 1 (for the first six months) and the following March 1 (for the second six months). The Company understood KPSC 2-49 to request calendar year amounts. For 2014, the March West Virginia payment was for the second-half of the Tax Year 2013 liability; the September 2014 WV payment was first-half payment for the Tax Year 2014. Due to the way WV assesses its property taxes, a calendar year of property tax expense on the Company's books will contain partial tax payments for two different years. The two partial tax payments for the different years are a representative of the Company's actual annual West Virginia property tax expense.
- b. Please see the Company's response to subpart a. above. Adjustment 44 as shown in Section V, Exhibit 2, W 44 is only for transmission and distribution property taxes. Please see KPSC\_3\_19\_Attachment1.xls for a reconciliation of the Company's proposed adjusted test year property tax expense to be included in base rates.

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 51. Confirm that Ohio has enabling legislation providing for the cost of economic development programs to be recovered from utility customers.

**RESPONSE**

Confirmed.

**WITNESS:** Gregory G Pauley

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 55.b. of Staff's Second Request. Given the response to Item b., that a customer would have to request to be switched to the S.G.S. tariff, explain why the proposed M.G.S. tariff language states, "Customers receiving service on or before January 22, 2015 at a secondary voltage and with average monthly demand below 10 kw will be served under S.G.S. tariff" (Emphasis added).

**RESPONSE**

The Company agrees that the language is imprecise and is not opposed to changing the word "will" to "may" so that the sentence would read "Customers receiving service on or before January 22, 2015 at a secondary voltage level and with average monthly demand below 10 KW, may be served under the S.G.S. tariff."

**WITNESS:** John A Rogness

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 57 of Staffs Second Request. State whether September 2014 was used in the determination of on-peak hours because it is the last month of the test year. If not, explain why it was used. If so, explain why September's being the last month of the test year makes it the most appropriate month to use for the calculation.

### **RESPONSE**

The Company's answer to KPSC 2-57 contained a typographical error.

The answer to KPSC 2-57 should have read as follows:

The Company calculates the actual number of on-peak and off-peak hours as a part of the cogeneration rate design. *For the 12 months ending* September 2014, there were 3,654 on-peak hours out of 8,760 total hours. The average number of hours in a month is 730. The calculation is  $(3,654 / 8,760) * 730 = 304.5$ .

**WITNESS:** John A Rogness

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 58 of Staff's Second Request.

- a. Explain why purchased power excluded from recovery through the fuel adjustment clause because of the equivalent peaking unit limitation should be recoverable through a separate mechanism and not through base rates.
- b. Provide the amount of the unrecovered power purchases due to the peaking unit equivalent limitation for each of the past five calendar years.

### **RESPONSE**

- a. The recovery through the Company's Purchased Power Adjustment of fuel costs excluded from recovery through the Company's fuel adjustment clause because of operation of the peaking unit equivalent limitation limits customers' exposure to overpaying such costs, while providing the Company with timely recovery of its actual expenses. With the termination of AEP-East Pool effective December 31, 2013, the Company is more frequently required to purchase power in the wholesale market. Volatility in wholesale market prices, coupled with significant swings in the amount of and necessity for such purchases, could, when coupled with other factors, force the Company in for more frequent base rate cases. Permitting contemporaneous recovery of the FAC-excluded purchase power costs may help limit or avoid such rate case-related expenses.

The Commission's Order Dated October 7, 2013, in Case No. 2012-00578 approved the recovery "cost of fuel related substitute generation less the cost of fuel which would have been used in plants suffering forced generation or transmission outages" through the Purchase Power Adjustment. The Company's inclusion of costs associated with the peaking unit equivalent limitation is a reasonable and consistent addition to a tariff created to recover costs associated with purchased power.

Because the Company proposes to recover these costs going-forward through the purchased power tariff, it did not include an adjustment in this case to include the test year amount in its base rates.



**KPSC Case No. 2014-00396 General Rate Adjustment  
Commission Staff's Third Set of Data Requests  
Dated February 24, 2015  
Item No. 23  
Page 2 of 2**

- b. During the years from 2010 through 2013, the Company did not exclude any purchased power costs from recovery through the FAC due to the peaking unit equivalent. Because of the availability of energy from the now-terminated AEP East System Pool, the Company was only infrequently required to purchase energy from the volatile wholesale power market.

As a result, pre-January 1, 2014 levels of purchase power expenses excluded by the peaking unit equivalent limit are not representative of the going-forward levels of such excluded expenses. During 2014, the Company did not recover \$655,017 of purchased power costs due to the peaking unit equivalent limitation.

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 60.c. of Staff's Second Request, Attachment

1. Provide support for the 1,160 meter-servicing hours used to calculate the hourly rate.

**RESPONSE**

The 1,160 meter-servicing hours represents the average annual productive available hours per vehicle/employee. There are 2,080 employee hours allotted per a single vehicle/employee per year (40 work hours per week x 52 weeks). The productive available hours of 1,160 are calculated by reducing the available hours by vacations, holidays, training sessions, and meetings. The 1,160 hourly value is an average and it will vary by vehicle/employee from month to month.

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 62 of Staff's Second Request. Explain the circumstances causing Kentucky Power to propose the change in its customer deposit policy regarding supplemental deposits for nonresidential customers that have paid all their bills in full in a timely manner. State how many nonresidential customers in the test year would have been subject to such a supplemental deposit requirement, if that number is known.

**RESPONSE**

Kentucky Power is not proposing a change to its customer deposit policy. It is updating its tariff language to clarify its policy for customers who no longer qualify as "investment grade" by Dun and Bradstreet, Moody's, or Standard and Poors. The proposed language change to the Company's tariffs clarifies when an additional deposit may be required from a nonresidential customer who falls below the investment grade.

The total number of customers for which supplemental deposits may have been required is unknown. However, two non-residential customers failed to qualify as investment grade companies during the test year due to filing for bankruptcy and the Company required supplemental deposits from those customers.

**WITNESS:** John A Rogness

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 64.b. of Staff's Second Request. State whether 100 percent of Kentucky Power's meters are Automatic Meter Reading ("AMR") meters that are read remotely. If not, state whether the non-AMR customers would be charged the proposed meter reading charge each month by Kentucky Power for manually reading the meter.

### **RESPONSE**

Over 99.97% of Kentucky Power's meters in service are AMR meters that are read remotely. The small portion of customers with meters in service that are not AMR (less than .03%) will not be charged a check meter read charge each month by the Company to manually read the meter.

It is important to note that Kentucky Power customer's will not be charged a check meter read charge unless the customer request a meter to be re-read, and the Company finds that the original reading was correct. This is consistent to 807 KAR 5:006, Section 9(d) (1).

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 71 of Staff's Second Request. The response did not answer the question. Explain why the 500-customer limit should be retained for Tariff S.G.S.-T.O.D.

**RESPONSE**

As discussed in the Company's response to KPSC 2-71, the S.G.S.-T.O.D. tariff limitation is 500 customers and only 77 customers are taking service under this tariff. Since the tariff is still relatively new for Kentucky Power and requires special metering, the Company sees no reason to either increase or remove the limitation at this time.

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 75 of Staff's Second Request. Explain whether Kentucky Power is requesting that the Commission approve \$.13421 per kWh for the Tariff L.G.S. - Load Management Time-of-Day when \$.13164 per kWh was noticed to customers.

**RESPONSE**

As filed, the Company sought approval for a \$.13421 per kWh rate for the Tariff L.G.S. - Load Management Time-of-Day. In light of the published customer notice the Company will accept a rate of \$.13164 per kW.

**WITNESS:** Alex E Vaughan

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 79.b. of Staff's Second Request. Explain why Kentucky Power is proposing an increase to \$57.60 for the 1,000 watt Floodlight, given a calculated cost-based rate of \$42.61 .

**RESPONSE**

The 10.38% overall class increase for outdoor lighting services was applied to the present rate of \$52.20. This was done to limit the percentage increase for all lamps. If this lamp was capped at cost, other lamps would require a larger increase.

**WITNESS:** Alex E Vaughan

**Kentucky Power Company**

**REQUEST**

Refer to Item 80 of Staff's Second Request.

- a. Provide the source and the source documents for the industry standards discussed in the responses.
- b. State whether Kentucky Power has discussed the proposed tariff language changes with the operators subject to the C.A.T.V. tariff.
- c. Explain whether Kentucky Power has experienced difficulty meeting its current tariff obligations with regard to notification of special conditions regarding pole use, insurance notice time, and semi-annual billing.

**RESPONSE**

- a. Please see Code of Federal Regulations – 47 CFR 1.1403. It provides CFR> Title 47 > Chapter I > Subchapter A > Part 1 > Subpart J > Section 1.1403 .. 47 CFR 1.1403 - Duty to provide access; modifications; notice of removal, increase or modification; petition for temporary stay; and cable operator notice.  
  
§ 1.1403 Duty to provide access; modifications; notice of removal, increase or modification; petition for temporary stay; and cable operator notice. (b) Requests for access to a utility's poles, ducts, conduits or rights-of-way by a telecommunications carrier or cable operator must be in writing. If access is not granted within 45 days of the request for access, the utility must confirm the denial in writing by the 45th day. The utility's denial of access shall be specific, shall include all relevant evidence and information supporting its denial, and shall explain how such evidence and information relate to a denial of access for reasons of lack of capacity, safety, reliability or engineering standards.
- b. Yes. The Company has discussed the proposed tariff language changes with representatives of K.C.T.A. and at least one cable provider.  
  
b. The Company is not experiencing any difficulty meeting its current tariff obligations regarding notifications of special conditions regarding pole use, insurance notice time or semi-annual billing.

**WITNESS:** John A Rogness



## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 84.a. of Staff's Second Request. Given the response, explain why Kentucky Power is not proposing that the language on the referenced tariff pages be similar to the language included on proposed tariff P.S.C. KY. No. 10 Original Sheet No. 39-2, the Big Sandy Unit 1 Operation Rider, which states, "The factors as computed above are calculated to allow the recovery of Uncollectible Accounts Expense of 0.3% and the KPSC Maintenance Fee of 0.1952% and other similar revenue based taxes or assessments . ... "

### **RESPONSE**

It was the Company's intent that this wording be consistent across all applicable tariffs. The Company agrees that the proposed wording for tariff B.S.1.O.R. regarding the uncollectible accounts expense and KPSC Maintenance Fee "The factors as computed above are calculated to allow the recovery of Uncollectible Accounts Expense of 0.3% and the KPSC Maintenance Fee of 0.1952% and other similar revenue based taxes or assessments occasioned by the Big Sandy Unit 1 Operation Rider revenues." more clearly describes the Company's intent than does the similar proposed wording for tariffs P.J.M.R. and N.C.C.R.

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 85 of Staff's Second Request.

- a. State whether the use of "Asset Transfer Adjustment" in proposed Tariff B.S.R.R. is a carryover from the Settlement Agreement wherein the proposed rider was referred to as "Asset Transfer Rider 2" and before the proposed name change to "Big Sandy Retirement Rider."
- b. Explain why it would not be more appropriate to use the term "Residential B.S.R.R. Adjustment Factor" instead of "Residential Asset Transfer Adjustment Factor," and to use the term "All Other Classes B.S.R.R. Adjustment Factor" instead of "All Other Classes Asset Transfer Adjustment Factor" in proposed Tariff B.S.R.R.

**RESPONSE**

- a. Yes.
- b. The Company is not opposed to changing the terminology.

**WITNESS:** John A Rogness

**Kentucky Power Company**

**REQUEST**

Provide examples of all forms to be used in conjunction with each proposed new tariff.

**RESPONSE**

The Company has not prepared any of the forms to be used in conjunction with each proposed new tariff (PPA, BSRR, BS1OR, PJM, and NERC CIP and Cyber Security). The Commission's final order in this case could materially affect any proposed form. Accordingly, the Company's intends to work with the Commission after the tariffs have been approved to develop and finalize all of the appropriate forms prior to the first month the riders would go into effect.

**WITNESS:** John A Rogness

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 87 of Staff's Second Request.

- a. Explain why Kentucky Power is requesting approval of a weather normalization adjustment in this proceeding when it has not in prior proceedings.
- b. State whether Kentucky Power is aware that in Case No. 2013-00148(See footnote below) the Commission required that Atmos Energy Corporation ("Atmos-Ky.") file in its next application for a natural gas base rate increase a comparison of weather normalization methodologies using time periods including, but not limited to, 20, 25, and 30 years in length, and that, along with its comparison of results, Atmos-Ky. was directed to include support for the time period it proposes to use to normalize revenues, including the superiority of the chosen method in terms of its predictive value for future temperatures.
- c. Provide the 30-year and test-year weather data used in preparing the proposed weather normalization adjustment. The information should be in sufficient detail to include the source of the data and the location(s) of measurement.
- d. Clarify whether Kentucky Power's weather normalization is based on specific 30-year daily or monthly average temperatures, or whether a range of normal temperatures was used, with usage normalized outside the range of normal bounds.
- e. Explain whether only residential customers' usage is impacted by temperature.
- f. State other factors besides temperature that impact consumption (for example, personal income, employment status, humidity, and wind) and how Kentucky Power incorporated these into its modelling.
- g. Provide and describe any modelling developed by Kentucky Power to measure the temperature dependence of kWh sales for the residential class for the test year.

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 34**  
**Page 2 of 4**

- h. State whether there is a level of per-customer energy usage which is insensitive to weather. If so, provide the impact on the proposed weather normalization if the non-weather sensitive load is removed from the calculation.
- i. Provide in Excel format all data and assumptions underlying the three spread sheets provided in Attachment 1 to this response, to the extent not already provided.
- j. Provide calculations showing the impact on Kentucky Power's proposed rates if the weather normalization adjustment is removed from both revenues and expenses.

**RESPONSE**

The extreme weather conditions that occurred during the test year were atypical, have a low probability of recurrence, and yielded energy sales data that is not a reasonable basis for establishing fair, just, reasonable rates. In fact, 2014 was the coldest year in terms of net degree days (heating degree days minus cooling degree days) for the Kentucky Power service territory since 1968. The use of non-normalized energy sales data would produce billing determinants that have a very low likelihood of recurrence. This in turn would cause Kentucky Power to under-recover the revenue requirement established by the Commission.

- b. No, the Company was not aware.

Kentucky Power routinely evaluates its weather normalization methodology and tests alternative period definitions of normal to ensure that the estimated weather impact that is reported by management to analysts, investors, regulators, and the media is consistent and reliable.

Also, the weather normalization methodology employed by Kentucky Power in this case is the same methodology the Company has filed in other filings before the Commission. The requirements for Integrated Resource Planning (IRP) by electric utilities in Kentucky (Administrative Regulation 807 KAR 5:058) requires a utility to provide actual and weather normalized energy sales by class, which is exactly what Kentucky Power has provided in this filing. In the Company's previous IRP filing (Case No. 2009-00339), Commission Staff reviewed the short term forecast models that are the source of the weather coefficients used by the Company in its weather normalization process and indicated Staff was 'satisfied' with this modeling approach.

- c. See attached file KPSC\_3\_34\_Attachment1.xlsx tab labeled 'Part C'.
- d. Kentucky Power uses a rolling 30 year average monthly degree day value for its weather normalization process. Cooling degree days are computed using an average

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 34**  
**Page 3 of 4**

daily temperature base of 65 degrees; heating degree days are computed using a 55 degree temperature base.

- e. The weather sensitive revenue classes include Residential, Commercial, and Wholesale. Industrial and Other Retail class loads are not as responsive to changes in temperature.
- f. In addition to weather, the demand for electricity from a single Residential customer is a function of the mix, number, and efficiencies of end-use appliances, household size (number of people living at the residence), home size, energy prices, income, and the coincident behaviors of all persons at that residence during a defined period.

As described in the Company's most recent IRP filing, the Company develops both short term and long term forecast models and blends the results to leverage the relative strengths of each approach when developing the final forecast. The short term model coefficients are used as the source for computing the official estimated weather impacts.

- g. See attached file KPSC\_3\_34\_Attachment1.xlsx for the model output used to normalize the test year. The tab labeled 'Part G (2013 Test Yr Data)' contains the model output and coefficients used to compute the weather impacts in the 2013 months of the test year. The 2014 monthly coefficients can be found in the tab labeled 'Part G (2014 Test Yr Data)'.

The Company uses regression models with time-series (ARIMA) error modeling to develop the weather coefficients. A regression is first estimated between kWh (or kWh per customer) and heating-degree-days, cooling-degree-days, number of days billed, and indicator variables as necessary. Then the resulting error structure is modelled using the ARIMA methods to reduce residuals. The method is premised upon the recognition that in the short-run customers alter their demand for electricity only in reaction to weather and behavioral patterns that are best captured through the ARIMA pattern recognition mechanisms. These models attempt to capture the most recent relationship between electricity use and weather.

- h. Conceptually, there are a number of end-uses in the home whose usage levels would not be a function of weather. Examples of these include lighting, a dishwasher, an electric razor, a coffee maker, etc. Accurately quantifying the non-weather sensitive loads from customer's usage would be difficult without metering on all the specific end-use appliances. The Company's weather normalization process does not attempt to remove all weather sensitive loads from the per-customer usage estimates. Instead, it identifies the typical weather response under normal weather conditions so that the impact of abnormal weather on customer usage can be quantified.
- i. Assumptions are identified below according to each tab in Attachment 1 to KPSC 2-87. These assumptions were incorporated into the tabs provided.

**KPSC Case No. 2014-00396 General Rate Adjustment  
Commission Staff's Third Set of Data Requests  
Dated February 24, 2015  
Item No. 34  
Page 4 of 4**

Weather Impacts - This tab incorporates all of the items discussed in responses to parts a through h above.

Tariff Class Calculation - This calculation assumes additional kilowatt-hour sales were incurred proportionally among the tariff classes, other than outdoor lighting, that comprise the Company's residential class. This assumption is incorporated into the calculations performed on this tab.

Billing Dets - None of the weather-related adjustments for the standard residential tariffs affected the water heater billing block for that tariff. The adjustment for the Residential LMTOD customers was applied to the On-Peak and Off-Peak kilowatt-hour blocks based on the monthly ratios of On-Peak and Off-Peak energy during the test year. These assumptions are incorporated into the calculations performed on this tab.

- j. Please see KPSC\_3\_34\_Attachment2.xlsx for the calculation supporting the impact to KPCO's proposed rates if the weather normalization adjustment is removed from both revenues and expenses.

**WITNESS:** Jason M Stegall and Ranie K Wohnhas

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 89 of Staff's Second Request. Explain whether the response indicates that Kentucky Power used neither the minimum size methodology nor zero-intercept methodology to allocate distribution plant between customer and demand-related. If not, explain what is meant by the response. If so, confirm that the distribution plant categories of poles, conductors and transformers were allocated 100 percent as demand-related and explain why this treatment is appropriate

**RESPONSE**

The Company's response to KPSC 2-89 indicates that neither the minimum size methodology nor the zero-intercept methodology was used to allocate distribution plant. FERC Accounts 364 - Poles, 365 - Overhead Lines, 366 - Underground Conduit, 367 - Underground Lines and 368 - Transformers were allocated 100 percent as demand-related.

As indicated in the Company's response to KPSC 2-88, these allocation methods are consistent with the methods the Company used in Case No. 2009-00459. The Company also used these methods in Case No. 2005-00341.

**WITNESS:** Jason M Stegall



## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 96 of Staff's Second Request, Attachment 1; Exhibit JMS-3 of the Application; and Section II of the Application, page 348 of 1 ,829.

- a. Confirm that Tab "Part A" of Attachment 1 to the response to Item 96 shows that the difference between the \$4,696,331 base rate revenue decrease shown on page 1 of Exhibit JMS-3 and the \$39,163,930 base rate revenue increase shown in the Application, Section 2, page 348 of 1,829, consists of Asset Transfer Rider revenues. If this cannot be confirmed, explain the difference.
- b. Confirm Kentucky Power's understanding that Asset Transfer Rider revenues are not base rate revenues and should not be included in the calculation of a base rate increase or decrease.
- c. Regardless of Kentucky Power's response to subpart b. above, provide a revised Exhibit JMS-3 showing the rates of return based on the base rate increase for each rate class as shown in Section II of the Application, page 348 of 1 ,829, the total of which is \$39,163,930.

### **RESPONSE**

- a. The worksheet tab "Part A" of Attachment 1 to the response to Item 96 of Staff's Second Request shows that the difference between the \$4,696,331 base rate revenue decrease shown on page 1 of Exhibit JMS-3 and the \$39,163,930 base rate revenue increase shown in the Application, Section 2, page 348 of 1,829, consists primarily of Asset Transfer Rider revenues but lists all items that make up that difference.

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 36**  
**Page 2 of 2**

- b. The Company cannot confirm the statement in subpart (b). Revenues collected by the Company through the Asset Transfer Rider during the test year are properly treated by the Company as base rate revenues. (See Paragraph 4, July 2, 2013 Stipulation and Settlement Agreement (“The Asset Transfer Rider will remain in place until the Commission sets new base rates for the Company that include the Mitchell units.”)) In conformity with paragraph 4 of the July 2, 2013 Stipulation and Settlement Agreement, these base rate revenues were recovered through the Asset Transfer Rider and not through a January 1, 2014 adjustment in base rates so as to permit the dismissal of the Company’s then pending base rate case (Case No. 2013-00197) and to limit the recovery during the interim period of the Mitchell-related expenses and returns to \$44 million. The \$4,696,331 base rate revenue decrease shown on page 1 of Exhibit JMS-3 reflects the fact that the Company’s base rate revenues include both the base rates established in Case No. 2009-00459 and the Asset Transfer Rider.
- c. KPSC\_3\_36\_Attachment1.xlsx provided in this response is Page 1 of Exhibit JMS-3 includes some of the additional information requested in this question. However, the Company has not conducted the extensive analysis to remove from its cost-of-service study all revenues, expenses and rate base items associated with the Asset Transfer Rider in order to calculate rates of return other than the ones provided in JMS-3. As described in response to subpart (b) above, the Company has properly considered revenues recovered through the Asset Transfer Rider as part of the Company’s base rate revenues.

**WITNESS:** Jason M Stegall

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 98.a. of Staff's Second Request, Attachment1.

- a. Provide a revised Attachment 1 with a column added which shows the total to be billed for each customer at the rates proposed in Kentucky Power's Application.
- b. Refer to page 1 of 3, middle of the page. Provide the supporting calculations for the current and proposed total bill amounts for the customer showing a 15 percent increase.
- c. Refer to page 2 of 3, top half of the page. Provide the supporting calculations for the current and proposed total bill amounts for the customer showing a 14 percent increase.
- d. Refer to page 3 of 3, bottom half of the page. Provide the supporting calculations for the current and proposed total bill amounts for the customer showing a 13 percent decrease.
- e. For each of the three customers identified in subparts b., c., and d. above, provide the supporting calculations for the total billed amounts shown in the column added in response to subpart a.

**RESPONSE**

- a. Please see KPSC\_3\_37\_Confidential\_Attachment1.xls.
- b- d. The supporting calculations are included in the Company's response to Staff's second request, item 98. Specifically please see KPSC\_2\_98\_Confidential\_Attachment1 which includes the rates, billing units and in-tact formulas used to calculate the requested information.
- e. Please see the Company's response to subpart a. above.

**WITNESS:** Alex E Vaughan

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 103 of Staffs Second Request; the Application, Exhibit AEV-4, page 1 of 3; and the response to Item 17 of the Kentucky Industrial Utility Customers, Inc.'s First Set of Data Requests ("KIUC's First Request"), Attachment 47. The second row on Exhibit AEV-4, page 1 of 3, shows "Non Fuel Plant O&M- Energy" of \$3,351 ,767. This amount can be found in cells AT570 and AT575 in Attachment 47 to Item 17 of KIUC's First Request. The formula for cell AT570 is a sum which includes cells AT96 and AT98 which are "Fuel" and "Fuel-Procure Unload & Handle," respectively. Explain why the amounts in these two cells would be included in "Non Fuel Plant O&M- Energy."

### **RESPONSE**

The amounts in the referenced cells ( AT96 and AT98 which are "Fuel" and "Fuel-Procure Unload & Handle," respectively) need to be included in the calculation of the BS1OR revenue requirement because they are fuel costs that are not recovered through the Company's fuel clause clause. The label of "Non Fuel Plant O&M - Energy" should actually be "Non Fuel *Adjustment Clause* Plant O&M - Energy".

**WITNESS:** Alex E Vaughan

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 108 of Staff's Second Request regarding the Mitchell Plant Maintenance Normalization and Adjustment 34.

- a. In the heading of the spreadsheet, it lists the test year ended 3/31 /2013. Confirm that the years and amounts listed in the spreadsheet are correct.
- b. Provide the amount of the Mitchell plant maintenance budgeted for the year ended September 30, 2015.
- c. Provide the date and the estimated cost for the scheduled maintenance outages at Mitchell for the three years following the end of the test year.
- d. Provide a schedule including the date and cost of all outages for the three years listed in Adjustment 34.

**RESPONSE**

- a. The years and amounts listed in the spreadsheet are correct in Adjustment 34. The heading should say "Test Year Ended 9/30/2014. "
- b. Please see the tab labeled KPSC\_3\_39\_Confidential\_Attachment1.pdf for the requested information. Please note that the information provided for this response included 2014 actuals and 2015 forecast data.
- c. Please see the tab labeled KPSC\_3\_39\_Confidential\_Attachment1.pdf for the requested information. Please note that these estimates for scheduled outages are forecasted in both Steam Operations and Maintenance accounts.
- d. Please see the KPSC\_3\_39\_Confidential\_Attachment1.pdf for the requested information. Please note that these costs occur in Steam Operations and Maintenance accounts associated with all types of outages over the referenced time periods. Please also note that maintenance costs occur during outages and also in non-outage situations.

**WITNESS:** Jeffery D LaFleur

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 109.d. of Staff's Second Request regarding Kentucky Power's economic development program.

- a. Confirm that the response should refer to KPSC 2-4 and provide the account number(s) in which these expenses were recorded.
- b. Confirm that the reference to AG\_1\_1 09\_Attachment1.pdf is correct. If not, provide the correct reference.
- c. Explain why the \$800 advertisement with the Southeast Chamber of Commerce should be included in the test-year's cost of service.

### **RESPONSE**

- a. The response to KPSC 2-109b should have referenced KPSC 2-4 and not KPSC 2-9. The expenses were entered on account 2420088 and were recorded below the line.
- b. The response to KPSC 2-109d should have referenced KPSC\_1\_109\_Attachment1.pdf to KPSC\_1\_109\_Attachment3.pdf.
- c. Kentucky Power provided an informational advertisement for members of the Southeast Chamber of Commerce detailing what the Company is doing in regards to economic development within the service territory.

WITNESS: Gregory G Pauley

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 110 of Staff's Second Request regarding expenses for professional services.

- a. Refer to subpart d. of the response. State whether Kentucky Power included the \$49,128.93 paid to InSite in test-year expenses for ratemaking purposes.
- b. If the response to subpart a. above is affirmative, provide justification for including the amount paid to InSite as a test-year expense for ratemaking purposes.
- c. Refer to the response to subpart e. Explain how Kentucky Power determines which consulting services are allowable for ratemaking purposes without knowing the basis of the consulting charges.
- d. Refer to subpart f. The original file did not contain a response to subpart f. Provide a response to this question.

**RESPONSE**

- a. The Company did not include the \$49,128.93 paid to InSite as a test year expense for ratemaking purposes.
- b. N/A.
- c. The Company records costs in accordance with the FERC Uniform System of Accounts based upon the nature of the incurred costs. The Company includes costs for ratemaking purposes based upon the FERC accounts charged.
- d. The Company apologizes for the inadvertent omission. InSite's work is ongoing. The last invoice paid was received in November 2014 for work performed as part of Phase III.

**WITNESS:** John A Rogness

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 112 of Staff's Second Request.

- a. Refer to the response to subpart b. Explain the reason(s) for the increases or decreases in the expenses billed to Kentucky Power by AEPSC for the 12 months ended September 2009 through the end of the test year.
- b. Refer to the response to subpart f. Explain the reason for the large increase in the number of Kentucky Power employees from the year preceding the test year to the test year.

### **RESPONSE**

- a. Explanation for variances in expenses billed to Kentucky Power by AEPSC for following periods (12 months ended) is:

Sept 2009 vs. Sept 2010 - Increase primarily due to the AEP-wide 2010 severance program.

Sept 2010 vs. Sept 2011 - Decrease primarily due to decreased labor and labor-related fringes as a result of the decreased AEPSC headcount in 2011 following the 2010 severance program.

Sept 2011 vs. Sept 2012 - Decrease primarily due to decreased labor, labor-related fringes and incentives in 2012 related primarily to decreased AEPSC headcount.

Sept 2012 vs. Sept 2013 - Increase primarily due to increased labor, labor-related fringes and incentives in 2013 related primarily to increased AEPSC generation services provided to support Big Sandy outages and increased AEPSC headcount due to a transfer of transmission employees from the operating companies to AEPSC and an increase in the Transmission organization.

Sept 2013 vs. Sept 2014 - Increase in AEPSC billings related to the addition of an undivided fifty percent interest in the Mitchell Plant to Kentucky Power's



**KPSC Case No. 2014-00396 General Rate Adjustment  
Commission Staff's Third Set of Data Requests  
Dated February 24, 2015  
Item No. 42  
Page 2 of 2**

generation portfolio on December 31, 2013 and an increased AEPSC headcount due to a transfer of transmission employees from the operating companies to AEPSC and an increase in the Transmission organization.

- b. Kentucky Power employees increased from September 2013 to September 2014 because of the transfer of Mitchell Plant employees as a result of the Mitchell Plant transfer to Kentucky.

**WITNESS:** Ranie K Wohnhas

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 114 of Staffs Second Request. Provide the number of industrial customers served by Kentucky Power and the code sections of the North American Industry Classification System used to qualify the customers as industrial.

### **RESPONSE**

The Company stated in response to KPSC 2-114 that it used the North American Industry Classification System. In fact, the Company uses the Standard Industrial Classification (SIC). Please see KPSC\_3\_43\_Attachment1.xls for the number of industrial customers served by Kentucky Power Company by Major Group SIC. The Major Group SIC Codes for industrial customers are as follows:

Major Group 10: Metal Mining  
Major Group 12: Coal Mining  
Major Group 13: Oil And Gas Extraction  
Major Group 14: Mining And Quarrying Of Nonmetallic Minerals, Except Fuels  
Major Group 20: Food And Kindred Products  
Major Group 21: Tobacco Products  
Major Group 22: Textile Mill Products  
Major Group 23: Apparel And Other Finished Products Made From Fabrics And Similar Materials  
Major Group 24: Lumber And Wood Products, Except Furniture  
Major Group 25: Furniture And Fixtures  
Major Group 26: Paper And Allied Products  
Major Group 27: Printing, Publishing, And Allied Industries  
Major Group 28: Chemicals And Allied Products  
Major Group 29: Petroleum Refining And Related Industries  
Major Group 30: Rubber And Miscellaneous Plastics Products  
Major Group 31: Leather And Leather Products  
Major Group 32: Stone, Clay, Glass, And Concrete Products  
Major Group 33: Primary Metal Industries  
Major Group 34: Fabricated Metal Products, Except Machinery And Transportation Equipment

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 43**  
**Page 2 of 2**

Major Group 35: Industrial And Commercial Machinery And Computer Equipment  
Major Group 36: Electronic And Other Electrical Equipment And Components, Except  
Computer Equipment  
Major Group 37: Transportation Equipment  
Major Group 38: Measuring, Analyzing, And Controlling Instruments; Photographic,  
Medical And Optical Goods; Watches And Clocks  
Major Group 39: Miscellaneous Manufacturing Industries  
Major Group 40: Railroad Transportation  
Major Group 46: Pipelines, Except Natural Gas  
Major Group 49: Electric, Gas, And Sanitary Services

**WITNESS:** Ranie K Wohnhas

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 164 of the Attorney General's Initial Set of Data Requests ("AG's Initial Request") regarding aviation expense. State whether any of the aviation expenses were for economic development purposes. If so, provide the amount.

**RESPONSE**

None of the aviation expenses discussed in the response to AG 1-164 were for economic development purposes.

**WITNESS:** Jason M Yoder

**Kentucky Power Company**

**REQUEST**

Refer to the response to Items 264 and 268 of the AG's Initial Request regarding tickets and athletic events, respectively. State whether the expenditures listed in the responses were included in the cost of service. If so, provide justification for including the costs in the test year.

**RESPONSE**

The expenditures listed in response to AG 1-264 and 1-268 were inadvertently included in the cost of service and should have been excluded.

**WITNESS:** Ranie K Wohnhas

**KPSC Case No. 2014-00396 General Rate Adjustment  
Commission Staff's Third Set of Data Requests  
Dated February 24, 2015  
Item No. 46  
Page 1 of 1**

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 266 of the AG's Initial Request, which is not responsive to the question asked. Provide the response.

**RESPONSE**

Please see the Company's Supplemental Response to AG 1-266 filed on March 2, 2015.

**WITNESS:** Ranie K Wohnhas

## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 335 of the AG's Initial Request wherein Kentucky Power states that eliminating the OATT adjustment in Exhibit JMS-3 would mean that " ... customers' rates in aggregate and by class would not be aligned with the true cost of transmission service. Furthermore, the customer class revenue allocation would need to be re-examined since the effects of the OATT adjustment were taken into consideration when the Company decided not to remove any further inter-class subsidies."

- a. If the adjustment were to be removed, explain how Kentucky Power would propose aligning customers' rates with the "true cost of transmission service."
- b. If the adjustment were to be removed, provide any change that would be necessary to class revenue allocation.

### **RESPONSE**

- a. If the OATT adjustment were to be removed, the Company would need to make the following changes to its cost of service studies to align its customers' rates with the true cost of PJM transmission service:
  1. The Company would have to align the Kentucky retail jurisdictional and class cost of service for the transmission function with its OATT cost of service by adjusting the cost of service for each class by the same amounts shown in column 10 of Company Exhibit JMS-3 (page 1 of 3).
  2. The Company would then have to reduce the current class subsidies shown in column 12 of Company Exhibit JMS-3 (page 3 of 3) by the amounts shown in column 10 of Company Exhibit JMS-3 (page 1 of 3). For example, the RS value of \$7,903,930 would be subtracted from currently proposed subsidy of \$33,770,821 resulting in a reduced subsidy of \$25,886,891.
- b. Please see the response to subpart a., above.

**WITNESS:** Alex E Vaughan

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 17 of KIUC's First Request, Attachment 34, Tab "RS."

- a. State whether column 10 represents the customer migration adjustment. If not, explain what this column represents and why the total Revised Revenue calculated in column 12 (using the amount in line 10) is used as the "Year End Migration Revenue" on Tab "JMS-1 Page 1."
- b. Provide the origin of the amounts in column 10.

**RESPONSE**

- a. Column 10 of the Tab RS in KIUC\_1\_17\_Attachment34\_Stegall\_JMS\_1\_and\_StegallRevenueWorkpapers.xlsx represents the Year End Migration adjustment for the RS tariff class as well as a reversal of the Book-to-Bill Adjustment identified in Column 2.
- b. The amounts in Column 10 were developed through an analysis of the Company's customer accounting system, which is provided in KPSC\_3\_48\_Attachment1.xlsx.

**WITNESS:** Jason M Stegall



## **Kentucky Power Company**

### **REQUEST**

Refer to the response to Item 17 of KIUC's First Request, Attachment 35, Tab "JMS-2 Allocators."

- a. Explain what is represented by the inputs in rows 64 and 154.
- b. Explain what is represented by, and provide the origin of, the inputs in row 174.
- c. Explain the difference between the customer number amounts that appear on row 74 and row 84.
- d. Explain how the percentages in cells C253 and C254 were calculated and what they represent.
- e. Explain how the percentages in cells C265 and C266 were calculated and what they represent.
- f. Explain how the percentages in cells C277 and C278 were calculated and what they represent.
- g. Explain how the percentages in cells C289 and C290 were calculated and what they represent.
- h. Explain what "\_FXNL" stands for when used in the name of an allocator.

### **RESPONSE**

- a. The allocator identified on row 64 is the Secondary Demand allocator. It is discussed in the testimony of Company Witness Stegall beginning on Line 17 of Page 15. The workpaper supporting its calculation was provided in the SECDEM tab of Attachment 33 to KIUC 1-33.

The allocator identified on row 154 is an analysis of the Company's revenues in FERC Account 451. While developed as part of the case, it was not used to allocate any costs. The workpaper supporting its calculation was provided in the CUST\_451 tab of Attachment 33 to KIUC 1-33.

**KPSC Case No. 2014-00396 General Rate Adjustment**  
**Commission Staff's Third Set of Data Requests**  
**Dated February 24, 2015**  
**Item No. 49**  
**Page 2 of 2**

- b. The allocator identified on row 174 is the Customer Annualization Revenue Adjustment. It is a class-by-class summary of the revenue adjustment calculated by Company Witness Stegall and discussed in the section of his testimony starting on Line 8 of Page 5. The detailed calculation of the class amounts can be found in Attachment 34 to KIUC 1-17 and a workpaper was provided in the YEAR END CUST ADJ tab of Attachment 33 to KIUC 1-17.
- c. The difference between the two customer counts is that the counts on row 84 excludes Subtransmission and Transmission voltage customers because it is a distribution customer allocator. The counts on row 74 include all customers, regardless of voltage.
- d. Row 253 contains the percentage of FERC Account 364 that is used to serve the primary voltage distribution system. Row 254 contains the percentage of FERC Account 364 that is used to serve the secondary voltage distribution system. These percentages are calculated in the tab KY 364 Poles & Towers in KPSC\_3\_49\_Attachment1.xlsx.
- e. Row 265 contains the percentage of FERC Account 365 that is used to serve the primary voltage distribution system. Row 266 contains the percentage of FERC Account 365 that is used to serve the secondary voltage distribution system. These percentages are calculated in the tab KY 365 OH Conductors in KPSC\_3\_49\_Attachment1.xlsx.
- f. Row 277 contains the percentage of FERC Account 366 that is used to serve the primary voltage distribution system. Row 278 contains the percentage of FERC Account 366 that is used to serve the secondary voltage distribution system. These percentages are calculated in the tab KY 367 UG Conductors in KPSC\_3\_49\_Attachment1.xlsx.
- g. Row 289 contains the percentage of FERC Account 367 that is used to serve the primary voltage distribution system. Row 290 contains the portion of FERC Account 367 that is used to serve the secondary voltage distribution system. These percentages are calculated in the tab KY 368 Transformers in KPSC\_3\_49\_Attachment1.xlsx.
- h. The "\_FXNL" suffix indicates that this allocator was allocated to the seven functions identified in the Cost-of-Service Study (Production, Bulk Transmission, Subtransmission, Primary Distribution, Secondary Distribution, Energy and Customer).

**WITNESS:** Jason M Stegall

## **Kentucky Power Company**

### **REQUEST**

Refer to Items 28, 29, and 30 of KIUC's First Request and Item 171 of the AG's initial Request regarding the impact of the 50 percent bonus depreciation. Based on Kentucky Power's estimate of the bonus depreciation of \$23.6 million increase in deferred federal income taxes and an additional normalized MACRS Schedule M deduction of \$67,446,000, provide updated schedules for the Company's accumulated deferred income taxes, capitalization, the proposed adjustment 49 listed in Section V, Exhibit 2 of the Application, and any other schedules or exhibits affected by the 50 percent bonus depreciation.

### **RESPONSE**

Please see KPSC\_3\_50\_Attachment1.xlsx for the updated Tax Schedules related to the adjustment to the MACRS Normalized Schedule M deduction for 50 percent bonus depreciation. See KPSC\_3\_50\_Attachment2.xlsx for the updated Accumulated Deferred Income Taxes as of September 30, 2014. There is no change to proposed Adjustment 49 as a result of the bonus depreciation.

There is no change in capitalization as a result of bonus depreciation. Capitalization provides the funds needed to maintain the Company's operations. It thus funds the test year and future operations as long as possible before additional debt or equity is needed to operate the Company. Bonus depreciation and ADIT allows the Company to use its capitalization to maintain its operations without having to issue additional debt or equity.

Please see KPSC\_3\_50\_Attachment3.xls for the environmental cost calculations that are affected by bonus depreciation. A formulaic error within the depreciation calculation has also been corrected in this revision.

KPSC\_3\_50\_Attachment4.xls provides a revised exhibit AJE-3 to reflect these revisions.

**WITNESS:** Jeffrey B Bartsch

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 32 of KIUC's First Request and the Application, Section V, Exhibit 2, Worksheet 25 regarding incentive compensation. Explain the difference in the amount of incentive compensation listed in each document and provide corrections if necessary.

**RESPONSE**

The two amounts represent different types of incentive compensation. The amount provided in response to KIUC 1-32 is compensation pursuant to Long Term Incentive Plans. The adjustment found in Section V, Exhibit 2, Worksheet 25 of the Application relates to current incentive compensation. No adjustment was made for Kentucky Power employee Long Term Incentives Plans in the filing.

**WITNESS:** Jason M Yoder

**Kentucky Power Company**

**REQUEST**

Refer to the response to Item 66 of KIUC's First Request and page 15 of the Direct Testimony of Alex E. Vaughn. Is Kentucky Power contemplating any changes in the way it operates in PJM in terms of the fixed resource requirement or reliability pricing model construct?

**RESPONSE**

Because the FRR/RPM election has to be made 3 years in advance of the delivery year, KPCo will remain an FRR entity until at least the end of the 2017/18 PJM planning year that ends May 31, 2018.

The Company is currently evaluating its FRR/RPM election for the 2018/19 planning year that begins June 1, 2018. PJM recently filed substantial changes to the PJM capacity market with FERC in Docket No. ER15-623-000 and the Company is awaiting a FERC Order in that proceeding to evaluate the final rules. Consequently, the Company moved to be allowed to postpone its FRR/RPM election decision. As a result, FERC has authorized a dealy for the Company to make its FRR/RPM decision until no later than April 10, 2015.

**WITNESS:** Ranie K Wohnhas

## **Kentucky Power Company**

### **REQUEST**

Per paragraphs 5 and 7 of the Stipulation and Settlement Agreement in Case No. 2012-00578,3 dated July 2, 2013, the Environmental Surcharge ("Tariff E.S.") factor will be fixed and maintained at 0.00% and System Sales Adjustment ("Tariff S.S.C.") factor to 0.0000 mills/kWh until new base rates are set by the Commission.

- a. If a rate change occurs in the middle of billing cycle, explain whether the Tariff E.S. and Tariff S.S.C. factors are mechanically pro-rated in Kentucky Power's customer accounting system or if the factors are prorated manually for each billing cycling.
- b. If the proration of Tariff E.S. and Tariff S.S.C. factors are calculated manually for each billing cycle, and the Commission were to issue a final Order on June 22, 2015, explain how the factors would be pro-rated and provide an example.

### **RESPONSE**

- a. If a rate change occurs in the middle of a billing cycle, the Tariff E.S. and Tariff S.S.C. factors are prorated manually. The manually prorated factors must then be entered into the Company's accounting system on a daily basis.
- b. The factors would be prorated based on the number of days in the billing cycle. Please see KPSC\_3\_53\_Attachment1.xls for a sample calculation. This calculation would be performed for the SSC factor, the residential ES factor, and the All Other Classification ES factor.

**WITNESS:** John A Rogness