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 KIUC Second Set of Data Requests

March 9, 2015

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 2nd day of March, 2015.

Notary Public

My Commission Expires: 12/19/15

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 3rd day of March, 2015

Kathy [illegible]

Notary Public

My Commission Expires: August 18, 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 9th day of March, 2015.

Dorothy E. Philyaw

Notary Public

My Commission Expires: October 2, 2019

OFFICIAL SEAL
STATE OF WEST VIRGINIA
NOTARY PUBLIC
DOROTHY E. PHILYAW
APPALACHIAN POWER
PO BOX 1986
CHARLESTON, WV 25327-1986
My commission expires October 2, 2019

VERIFICATION

The undersigned, Marc D. Reitter, being duly sworn, deposes and says he is the Managing Director, Corporate Finance for American Electric Power Service Corporation and that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge and belief.

Marc D. Reitter

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 Marc D. Reitter, this the 2nd day of March, 2015.

NOTARIAL SEAL STATE OF OHIO

JOSEPHINE CONER
Notary Public, State of Ohio
My Commission Expires 09-20-16

Josephine Coner
Notary Public

My Commission Expires: 09-20-2016

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 9th day of March, 2015.

Judy K Rosquist 481393
Notary Public

My Commission Expires: January 23, 2017

VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Manager, Regulatory Pricing and Analysis that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge and belief.

Alex E. Vaughan

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 Alex E. Vaughan, this the 4th day of March, 2015

Amanda E Owen
Notary Public

My Commission Expires: Never

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 9th 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 4th day of March, 2015.

Notary Public

My Commission Expires: May 11, 2016

NOTARIAL SEAL STATE OF OHIO

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 Company's response to KIUC 1-18. Please provide all calculations in support of each amount shown on the attachment spreadsheet in electronic spreadsheet format and with all formulas intact. Please describe each component of the calculation and source the data used in the calculation. If there are any input values, then provide the source and/or calculation of these values as well.

RESPONSE

See KIUC_2_1_Attachment1.xls.

WITNESS: Alex E Vaughan

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-21(c). The question asked:
Please confirm that the Company agrees that income tax expense should reflect a reduction for the PCLA. If the Company does not agree, then please provide all reasons why it does not agree and why the Company believes this Commission should treat it differently than Appalachian Power Company's proposal in West Virginia.

The Company's response stated:
Should the Kentucky Commission determine that it would now be appropriate to include the PCLA adjustment as a reduction to income tax expense in this proceeding, the Company would comply.

Please respond to the question that was asked in KIUC 1-21(c). The question did not ask if the Company would comply, but rather, it asked the Company to confirm that income tax expense should reflect a reduction for the PCLA.

RESPONSE

The Company has advocated the Stand-Alone Approach for the calculation of income tax expense in Cost of Service. This methodology only calculates the income taxes on the utility revenues and expenses that are included in the utility's revenue requirement. The expenses of other affiliates, including the Parent Company, are not included in this Stand-Alone Methodology. This is evident in the Company's approach for including a Section 199 Deduction in the Income Tax Calculations based on a stand-alone approach. As stated in the response to KIUC 1-21(c), the Company records a PCLA adjustment on its books as described in KIUC 1-21. The Company now understands that the Commission had historically required that the Company's portion of the parent company tax loss be included in the operating income tax expense for cost of service purposes. Based on the Commission's previous Orders, the Company should have included the PCLA as a reduction to income tax expense in this filing.

WITNESS: Jeffrey B Bartsch

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-29. The Company was asked to provide the effects of the 2014 extension of bonus depreciation and to provide revised schedules and calculations. The Company provided a quantification of $23.6 million, but did not provide any revised schedules or calculations.

a. Please provide the revised schedules, including all calculations in electronic spreadsheet format with all formulas intact.

b. Please provide the calculation of the $23.6 million cited in the response in electronic spreadsheet format with all formulas intact.

c. In its response, the Company referred to "hypothetical revisions" to the schedules.Please explain what the Company means by the use of this term.

d. Please confirm that the Company agrees that the capitalization at September 30, 2014 should be revised to reflect the additional federal ADIT resulting from the 2014 extension of bonus depreciation. If the Company does not agree, then please provide all reasons why it does not agree and why it believes that the Commission should provide a return on amounts that the Company has not invested.

e. Please provide the accounting entries related to the 2014 extension of bonus depreciation in December 2014 and the underlying calculations in electronic spreadsheet format with all formulas intact. Provide the calculation of the incremental tax depreciation and ADIT for each month based on the plant additions in each month January 2014 through September 2014.

RESPONSE

a. See the Response to KPSC 3-50.

b. See KIUC_2_3_Attachment1.xlsx.

c. The phrase was intended to indicate that the Company did not make the adjustment because the change was signed into law after the Company's filing was prepared.

d. See the Response to KPSC 3-50.

e. For the December 2014 Accounting Entry related to the 2014 extension of bonus depreciation, see part b. See KIUC_2_3_Attachment2.xlsx for the estimated incremental tax depreciation for the monthly plant additions in each month January 2014 through September 2014 as a result of the extension of bonus depreciation.

WITNESS: Jeffrey B Bartsch

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-32. The question asked for the amount of incentive compensation expense pursuant to the LTIP included in the revenue requirement in the test year. The response did not provide this information. Please provide it, along with all calculations and supporting documentation.

RESPONSE

The response provided in KIUC_1_32 provided only the total company test year amounts for LTIP because there are no prepared analyses of account components comprising the revenue requirement. As indicated in KIUC_1_32, the actual level included in the revenue requirement in the test year is not identifiable because the adjustments to remove Big Sandy costs and to annualize Mitchell costs were prepared at the account number level and not by the cost components within each account. Further discussion regarding the adjustments is included in the Company's response to AG 2-72.

WITNESS: Jason M Yoder

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-34. The question asked for amortization expense associated with each regulatory asset for each year 2010 – 2014 and the test year. The Company provided the beginning and ending balances as well as the net debits and net credits in each year. However, it did not provide the amortization expense that was requested. Please provide this information in the format requested.

RESPONSE

See KIUC_2_5_Attachment1.xls.

WITNESS: Jason M Yoder

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-35. Please provide a copy of the depreciation study, underlying workpapers, and witness testimony resulting in the depreciation rates approved in Case No. 91-066.

RESPONSE

The witness testimony and depreciation study from Case No. 91-066 are provided on the attachment labeled "KIUC_2-6_Testimony_Report_91-066_Attachment1.pdf" and the underlying workpapers are provided on the attachment labeled "KIUC_2-6_Depr_WPs_91-066_Attachment2.pdf".

WITNESS: David A Davis

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-38, which confirms that the Company had $0 in short term debt at year-end, but that it issued short-term debt throughout the test year.

a. Please indicate if the Company opposes using a 13-month average or 12-month daily average of short-term debt in lieu of the test year-end level to determine the capital structure and weighted cost of capital used for the return on capitalization.

b. If the response to part (a) of this question is yes, then please provide all reasons why the use of a 13 month average or 12 month daily average of short term debt to determine the capital structure and weighted cost of capital used for the return on capitalization would not be appropriate.

RESPONSE

a-b. Yes. The Company has filed and the Commission approved short term debt balance at the end of the test year adjusted for all capitalization adjustments in every base rate case since 1982. The Company's treatment of using the per books balance of short term debt is consistent with the manner in which the Company presents the other aspects of capitalization. Changing to a 13 month average or 12 month daily average of short term debt will not change the fact that the ending short term debt balance after capitalization adjustments may still be negative.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-41, which shows a short-term investment in the AEP Utility Money Pool of $9.577 million at September 30, 2014.

a. Please confirm that the investment in the Money Pool is not a rate base investment.

b. Please provide all reasons why the Company did not reduce capitalization at September 30, 2014 for the investment in the Money Pool.

RESPONSE

a. Confirmed.

b. Please see the Company's response to AG 2-27.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Please confirm that on any day when the Company holds a short term investment in the AEP Utility Money Pool it cannot be financing Big Sandy coal related assets, Big Sandy M&S, Big Sandy CWIP or Mitchell FGD with short term debt borrowed through the Money Pool. If the Company does not agree, then please provide all reasons why this is not correct.

RESPONSE

The Company agrees when it holds a short term investment position in the AEP Utility Money Pool, funds are not borrowed from the Utility Money Pool to finance Big Sandy coal related assets, Big Sandy M&S, Big Sandy CWIP or Mitchell FGD. Daily short-term cash surpluses of Utility Money Pool participants, including Kentucky Power, are contributed to the Utility Money pool and subsequently matched up with the daily borrowing requirements of the various other participants. The Utility Money Pool meets the short-term cash needs of its participants by providing for short-term borrowings from the Utility Money Pool by its participants and short-term investment of surplus funds by its participants. Please see previously provided response to KIUC1-39 for further detail regarding mechanics of the AEP Utility Money Pool.

WITNESS: Marc D Reitter

Kentucky Power Company

REQUEST

Refer to Section V Sch 3. The Company proposes an adjustment to reduce capitalization for the CARRS site.

a. Please explain why it did not propose similar adjustments to reduce capitalization for IGCC and CCS/FEED.

b. Please confirm that the IGCC and CCS/FEED deferred costs are not included in the per books capitalization because the Company wrote-off (or established an offsetting "regulatory provision") these costs.

c. Please describe the Company's writeoffs of the IGCC and CCS/FEED costs and provide the journal entries, including the related tax effects.

RESPONSE

a. The CARRS site cost is land and included in Electric Plant Held for Future Use (FERC Account 105) which is a part of rate base. The IGCC and CCS/FEED study costs are in account 183 and account 182.3, respectively and discussed further in AG_1_351. The Commission issued an order in Case No. 8734 specifying the treatment of the CARRS land. There has been no such order with respect to IGCC and CCS/FEED study costs and as discussed in c. below these amounts were reserved in September 2013.

b. The Company recorded a reserve for IGCC and CCS/FEED (along with the Big Sandy FGD and CARRS study costs) as discussed in c. below.

c. Kentucky Power Company recorded the following journal entry in September 2013:

Dr. 426.5 $32,847,318
Cr. 182.3 $(872,858)
Cr. 183.0 $(31,974,460)

The tax related impact was:

Dr. 190.1 $11,496,561
Cr. 411.2 $(11,496,561)

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Section V Exhibit 2 W31 and the spreadsheet provided in response to KIUC 1-17 labeled KIUC_1_17_Attachment66_31_33_Remove_BS_O_M_AnnualizeMitchell. Please provide all calculations of the Big Sandy generation per books for each A&G expense account/subaccount. Start with the total per books expense for each A&G expense account/subaccount, show any allocations to generation, any direct assignments to Big Sandy and any other direct assignments, and then show amounts allocated to Big Sandy. For amounts allocated to Big Sandy, start with the total per books after functionalization to generation and direct assignments for each account/subaccount and then provide each calculation resulting in an allocation to Big Sandy. Provide all allocation factors used, including the data used to develop the allocation factors and the source data used for this purpose.

RESPONSE

The “Detail” tab of KIUC_1_17_Attachment 66_13_33 Remove_BS_O_M_ AnnualizeMitchell.xls shows the Big Sandy generation A&G by account (920 through 935). These amounts were calculated by subtracting Kentucky Power's Mitchell A&G from the total generation A&G. The tab "WP-50 926" calculates certain pension and OPEB cost for accounts where the joint book data for Mitchell Plant was not utilized to determine the portion of Mitchell Plant that was assigned to Kentucky Power.

WITNESS: Jason M Yoder

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-53 wherein the question asked if the Company was seeking a "reversal" of the Commission's decision in Case No. 2012-00578 on the recovery of the Big Sandy 2 FGD deferred costs. The response referred to the Company's response to Staff 2-107, which explained why the Company sought recovery again in this case.

a. Please confirm or deny that the Company seeks a reversal of the Commission's decision on the recovery of the Big Sandy 2 FGD deferred costs in Case No. 2012-00578.

b. Is it the Company's position that each component of the Commission's decision on the recovery of Mitchell and Big Sandy costs in Case No. 2012-00578 can be revisited in this proceeding? If not, then please identify which components can be revisited and which ones cannot and the basis for the distinction on each such component.

RESPONSE

a. The Company objects to this request on the grounds that it purports to require the Company to provide legal analysis. Without waiving this objection the company states that the Commission's October 7, 2013 Order in Case No. 2012-00578 requiring the modification of the July 2, 2013 Stipulation and Settlement Agreement speaks for itself, and is consistent with the Company's application in the present case. Paragraph 8 of that agreement provided that the Company would be permitted to accumulate and defer for recovery $28,113,304 of costs incurred in connection with the Company's on-going efforts to meet Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2. It further provided that the Company "shall be authorized and recover the regulatory asset over a five-year period commencing with the implementation of the base rates established in the Base Rate Case." KIUC agreed to such recovery. As a condition to its approval of the July 2, 2013 Stipulation and Settlement Agreement, the Commission required the Company to forego the contractual right "to recover … [the Big Sandy Unit investigation costs] over a five year period …." as part of the consideration to be received by the Company in return for the Mitchell Transfer under the terms of the agreement. The Company agreed to forego that consideration for the Mitchell Transfer. The Company does not premise its request to recover the Big Sandy Unit 2 investigation costs on such a contractual right.

b.

The Company objects to this request on the grounds that it purports to require the Company to provide legal analysis. Without waiving this objection the company states that Kentucky Power's application in the present case is consistent with the Commission's October 7, 2013 decision in Case No. 2012-00578, and the Company's subsequent agreement to forego its contractual rights with respect to the Big Sandy Unit 2 investigation costs. The Company's application seeks the Commission's approval of the Company's recovery over 25 years (not the five years in the agreement) of the investigation costs as part of the Company's Commission-approved fair, just, and reasonable rates. Because it is not seeking to "revisit" or reverse the Commission's decision it has no basis to answer the hypothetical question posed in the final sentence.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to the response to KIUC 1-57.

a. When does the Company plan to file such a CPCN? For example, does it plan to file a CPCN in the next year or does it plan to wait until a few years prior to retiring BS1 or does it plan some other timing?

b. Please confirm that if dismantling and ARO costs are included in the BSRR at the levels and on the basis sought by the Company in this proceeding, it will effectively pre-determine and affirm the Company's decision to not consider a lower cost retirement in place alternative. Please explain your response.

RESPONSE

a. The Company is currently evaluating when CPCN's may need to be filed to address dismantling and site remediation at the Big Sandy site.

b. The Company cannot confirm this statement. The Company will adjust the BSRR at each subsequent base rate case to effectively adjust the BSRR over the remaining life for updated estimates and actual costs. Nothing is pre-determined other than what types of costs are to be collected through the BSRR.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Please refer to the spreadsheet provided in response to KIUC 1-17 labeled KIUC_1_17_Attachment69_56_Removalcoalrelatedassets.

a. Please explain why there are no assets in the general plant accounts.

b. Please confirm that there are BS1 and BS2 assets in the general plant accounts.

c. Please quantify the BS1 coal-related and BS2 assets in the general plant accounts that should be removed from the base revenue requirement. Provide the gross plant in service, accumulated depreciation and ADIT at September 30, 2014.

d. Please quantify the BS1 coal-related and BS2 assets in the general plant accounts that would or should be included in the BSRR at June 1, 2015, assuming they are removed from the base revenue requirement. Provide the gross plant in service, accumulated depreciation and ADIT quantified in the same manner as the Company quantified the BS1 coal-related and BS2 assets in the functional plant accounts for this purpose.

RESPONSE

a. General equipment includes items such as Office Furniture (Account 391) and Miscellaneous Equipment (Account 398). Due to the nature of these types of items, they are not assigned to "coal" or "gas related" type categories.

In addition, Kentucky Power follows FERC's Accounting Release 15 in regards to general equipment in accounts 391-398. Accounting Release 15, which was issued by the FERC in 1997, permits utilities to discontinue the burdensome task of keeping track of these individual general equipment items, to amortize the property over its useful life, and to annually retire the oldest year of general equipment which has exceeded its useful life.

a-d There are no general plant items that are directly assigned to BS1 and BS2. See the response to item a, above.

WITNESS: Jason M Yoder

Kentucky Power Company

REQUEST

Refer to the Company's response to KIUC 1-8, Attachment 1. Please explain why there are two entries (a revenue account 456... and an expense account 565...) for: Network Integrated Transmission Service, Schedule 1a Charges and Transmission Enhancement Charges. Also explain why Firm and Non-Firm PTP revenues are included as a credit and assigned directly to KPCo.

RESPONSE

Charges for Network Integrated Transmission Service (NITS), Schedule 1a Charges and Transmission Enhancement Charges from KPCo affiliates are recorded in account 456 up to the amount of affiliate revenue recorded in 456 accounts to allow for proper financial reporting on a net basis. Should the affiliate expenses exceed the affiliate revenues, then such additional amounts would be recorded in 565 accounts. Charges from 3rd parties are also recorded in account 565.

Point to point revenues are included as a credit and directly assigned to KPCo to offset other OATT costs it incurs as a network customer. As a network customer, KPCo pays its share of the entire zonal revenue requirement (NITS). PJM then directly assigns any point to point revenues it receives from market participants who purchase firm or non-firm point to point transmission service back to the applicable zonal network customers.

WITNESS: Alex E Vaughan

Kentucky Power Company

REQUEST

Refer to Section V Exhibit 2 W34.

a. Please provide the same information for the twelve months ending September 30, 2010 and September 30, 2011.

b. Please provide the same information for each calendar year 2010 through 2014.

c. Please provide a narrative description of the reasons for the variations in Mitchell maintenance expense for each 12-month ending September 30 and each calendar year compared to the prior year.

RESPONSE

a. Please see the Company's response to AG 1-20c.

b. Please see the Company's response to AG 1-310g for calendar years 2012, 2013, 2014. Please see KIUC_2_16_Attachment1.xlsx for calendar years 2010 and 2011.

c. Please see the Company's response to AG 1-20d.

WITNESS: Ranie K Wohnhas/J D LaFleur

REQUEST

Please provide the rating agency financial ratios for Kentucky Power over that last five years. Please provide all work papers and supporting calculations with spreadsheets and cell formulas intact. The response should include the ratios used by Standard and Poor's and Moody's used to evaluate Kentucky Power's bond and credit ratings and show each component part of the ratio is calculated. Please include any items such as purchased power obligations that are considered in the calculation of the financial ratios.

RESPONSE

The requested ratios are calculated by the rating agencies and not Kentucky Power. Please see attachment KIUC_2_17_Attachment1.xls (Standard & Poor's) and KIUC_2_17_Attachment2.xls (Moody's). Attachment 1 contains exported data from Standard & Poor's Ratings Direct website that illustrates financial information and resulting credit metrics utilized to support their ratings opinion. The information is presented in the form copied from the website. Attachment 2 represents the Company's best effort to approximate Moody's regulated electric and gas utilities rating methodology used to support their ratings opinion.

WITNESS: Marc D Reitter

Kentucky Power Company

REQUEST

Regarding Adjustment W09 sponsored by Company Witness Vaughan.

a. Please provide all workpapers electronically, with all formulas intact, that were used to develop the -$14.3 million adjustment for Total Sales for Resale.

b. Please provide a spreadsheet that reconciles electronically, with all formulas intact, the -$14.3 million adjustment for Total Sales for Resale with the support the Company provided in response to KIUC 1-64 for the level of margins from off-system sales, which was $24,288,344.

c. Please indicate where in the Company's filing of exhibits, the off-system sales margin of $24,288,344 may be found.

d. Please provide all workpapers electronically, with all formulas intact, that were used to develop the -$24.8 million adjustment to Total Purchase Power.

RESPONSE

a. See the Company's response to KIUC 1-17, specifically see KIUC_1_17_Attachment37. The "detail tab" of this spreadsheet contains the FERC account detail by month of the test year that is used to calculate the $14.3 million adjustment to sales for resale on the "ADJ" tab of the same Excel workbook.

b. The two items do not reconcile because they are different items in their entirety. The referenced $14.3 million in adjustment W09 is related to 447 FERC accounts that are not included in the Company's system sales clause and therefore are not included in the calculation of OSS margins.

c. The referenced $24,288,344 is the portion of the Company's adjusted going level OSS margins related to PJM Energy sales. Kentucky Power's OSS margins total $14,299,964 on a Kentucky retail basis.

d. See pages 31 and 32 of Company witness Vaughan's direct testimony. See also Company Exhibit AEV-7, line 1 column G.

e. See the Company's response to KIUC 1-17, specifically see KIUC_1_17_Attachment37. The "detail tab" of this spreadsheet contains the FERC account detail by month of the test year that is used to calculate the $24.8 million adjustment to purchased power on the "ADJ" tab of the same Excel workbook.

WITNESS: Alex E Vaughan

Kentucky Power Company

REQUEST

Regarding Adjustment W09 sponsored by Company Witness Vaughan. Please refer to the Company's response to DR 1-66. Alex Vaughan's October 6, 2014 email stated "We need to come to a consensus on how to best calculate the "normal" level of annual OSS margins KPCo can expect after Big Sandy 2 retires. Our test year obviously is going to be a little over-stated due to the Mitchell acquisition ….. Whatever we decide on, it needs to be understandable and "known and measurable" if we want it to stand a chance of being adopted by the Commission in the base case."

a. Mr. Vaughan indicated that the OSS margins would be a little overstated, what did he mean by that?

b. Please confirm that the level of OSS margins that the Company assumed in the filing was $24,288,344, and the adjustment was $14,295,833, which adjustment is 58% of the amount assumed in the filing. If these values are not accurate, please provide the accurate information. If the values are correct, please explain how the Company believes this is just a little overstatement.

c. Please supply all workpapers that were created in the development of the annual OSS margins.

d. Please provide a narrative explanation of the methodology used to calculate the OSS margins.

e. Please explain why the Company believes the methodology that was selected was determined to be understandable.

f. Please explain why the Company believes the methodology that it selected was determined to be "known and measurable".

RESPONSE

a. Company Witness Vaughan meant that the Company's test year OSS margins would be higher than what the Company could reasonably expect to achieve after the Company's new base rates go into effect. This is consistent with Company witness Vaughan's direct testimony at pages 27-32.

b. The Company denies. As described in detail on pages 27-32 of and Exhibit AEV-7 and in Adjustment W10, which can be found in Section V, Exhibit 2 (Adjustments), the Kentucky retail jurisdictional adjustment to OSS margins is a reduction of $60,722,845. The Company's test year OSS margins on a Kentucky retail jurisdiction basis were $75,022,809. For the reasons described in the testimony of Company Witness Vaughan, these margins were not representative of the OSS margins the Company reasonably anticipates achieving when the new base rates are put into effect. Following the adjustment, the Company's going level OSS margins are $14,299,964 as stated on page 32 of Company Witness Vaughan's direct testimony.

c. See the Company's response to KIUC 1-93.

d. See the direct testimony of Company witness Vaughan beginning on page 27 at line 5, ending on page 32 at line 14. See also the Company's response to KIUC 1-93.

e. The Company's methodology is understandable because it is described in 6 pages of direct testimony and is calculated in Microsoft Excel in its entirety so that it can be easily shared with the parties to the Company's base rate case. Furthermore, the Excel OSS margin calculations were purposefully designed to be intuitive for ease of review in this proceeding.

f. The Company's methodology is known and measurable because the following material adjustments were made to the Company's test year OSS margins:

   I. Test year OSS margins from Big Sandy Unit 2 were removed. This is needed, known and measurable because Big Sandy Unit 2 will be retired by June 1, 2015 and its impact on the Company's OSS margins can be calculated based on historical data..
   II. Test year OSS margins from the AEP East Pool were removed. This is needed, known and measurable because the former AEP East Pool ceased to exist on January 1, 2014 and its impact on the Company's OSS margins can be calculated using the FERC account detail contained in the Company's income statement.
   III. Test year OSS margins were adjusted for the effects of the extreme weather event that occurred in January and February of 2014 known as the "Polar Vortex". The Company's abnormally high internal load was adjusted down, which increased energy available to make off system sales into PJM. Also, the historically high PJM market prices that occurred during the Polar Vortex were reduced to the 5 year average system energy price of $47.35 per MWh. These adjusted prices are more representative price for calculating adjusted going level OSS margins in this

IV. case. These adjustments are needed, known and measurable because historic weather events and historically high market prices do not happen every year. This is proven by the fact that January and February of 2015 were also extremely cold months but PJM market energy prices have only averaged $51.93 per MWh (system energy price) as can be seen in the Company's response to KIUC 2-25.

WITNESS: Alex E Vaughan

Kentucky Power Company

REQUEST

Concerning KIUC_1_67_Confidential_Attachment1.pdf, which contains Internal Requirements Excluding Marginal Losses, Generation for Off-System Sales and Assumed Generation and Purchases for 2015 and 2016.

a. Please provide a narrative explanation of how the projections were developed including a discussion of all assumptions made.

b. Please provide the same information, but monthly and provide it in spreadsheet format with all formulas intact.

RESPONSE

a. The forecast for each of the Company's generating units, purchase power and off-system sales was prepared utilizing the production cost simulation model PLEXOS®. To use the PLEXOS® model, forecast assumptions are made for the items such as: the cost of fuel, fuel handling, variable operations & maintenance, consumable costs, generating unit capacity, generating unit heat rate, emission rates, emission allowance costs, scheduled maintenance outages, forecasted Company internal energy requirement, forced outage rates, and forecasted market power prices to determine the projected generation for each of the units in the PJM Regional Transmission Organization power market.

   KIUC_2_20_Attachment1.pdf provides a description of the load forecast process that is used to derive the internal energy requirements forecast.

b. KIUC_2_20_Confidential_Attachment2.xls provides a monthly schedule showing the forecasted KPCo retail sales, wholesale sales, and off-system sales as well as forecasted generation and purchases for 2015 and 2016.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Regarding KIUC 1-70.

a. Please provide associated costs/revenues with each of the items included in the response (See spreadsheet - KIUC_1_70_Attachment1.xls). Please provide this electronically in spreadsheet format with all formulas intact. In the case of sales please include the costs of making the sales.

b. Please reconcile the OSS energy found in KIUC 1-72 to the sales categories in KIUC 1-70. For example, OSS energy for October 2013 in KIUC 1-72 is 63,851 MWH, while Third Party Sales in KIUC 1-70 is 143,330 MWH. Please provide this electronically with all formulas intact.

RESPONSE

a. The costs and revenues associated with the items on KIUC_1_70_Attachment1.xls have been provided in previous responses to KIUC question, KIUC 1-72.
   - The cost of generation is not available at the unit level, but was provided at the plant level in KIUC_1_72_Attachment 2.xlsx, Section 1 (Net Generation), column D.
   - The cost of purchases was included in KIUC_1_72_Attachment 2.xlsx, Section 2 (Other Purchases-Cash Settled), column D.
   - The cost of making the off-system sales was included in KIUC_1_72_Attachment 2.xlsx, Section 4 (Off System Allocation of Sources), column D.
   - The cost of making sales to retail load was included in KIUC_1_72_Attachment 2.xlsx, Section 5 (Fuel Identified for NER), column D.
   - The revenues associated with off-system third party sales were included in KIUC_1_72_Attachment 1.xls, column 5.
   - The revenues associated with retail sales were included in KIUC_1_17_Attachment168_ECR.xls.

b. The Third Party Sales volumes on KIUC_1-70_Attachment1.xls (column 14) accurately tie to the OSS energy found on KIUC_1-72_Attachment2.xlsx (Cell D31). The reconciliation is achieved by the following calculation: column 14 plus column 15 plus column 20 minus column 21. Starting in 2014, with the end of the AEP Pool Agreement, columns 15, 20 and 21 were no longer applicable since this activity was pool related, and all months tie out between the two referenced attachments. A description of each column follows:
- Column 14 is the Kentucky Power's MLR share of third party off-system sales.
- Column 15 is the primary energy sales made by Kentucky Power to support the internal load obligation of other AEP operating companies.
- Column 20 is the off-system sales allocation made by Kentucky Power on behalf of other AEP operating companies. These sales are made in hours when Kentucky Power had excess generation beyond that required to fulfill its internal load and MLR off-system sales obligation.
- Column 21 is the off-system sales allocation made by other AEP operating companies on behalf of Kentucky Power. These are made in hours when Kentucky Power was unable to fulfill its MLR off-system sales obligation.

The results of this calculation are shown on KIUC_2_21b_Attachment1.xls, Column AS.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Please provide the file KIUC_1_71_Attachment1.pdf containing fuel cost information for the Test Year period (October 2013 – Sept 2014) in excel spreadsheet format with all formulas intact.

RESPONSE

KIUC_1_71_Attachment1.pdf is Page 2 of 5 of Kentucky Power's monthly fuel filing. In order to show the information requested, Kentucky Power is providing its monthly fuel filings from the Test Year in KIUC_2_22_Attachment1.xls through KIUC_2_22_Attachment12.xls. Please see the tab labeled "FAC-Page 2" in each attachment for the answer to this response.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Exhibit JAR-3 (which was provided in KIUC 1-75) derives an adjustment due to an over-recovery of fuel cost. Column 9 is identified to be Deferred Fuel. Please explain what deferred fuel is and provide a workpaper showing the derivation of Deferred Fuel cost for each month.

RESPONSE

Deferred Fuel is an accounting treatment for prudently incurred fuel costs that allows the Company to properly match the recognition of these fuel costs with its associated revenues in the month of recovery.

Exhibit JAR-3 Column 9 Deferred Fuel represents the respective monthly activities recorded to deferred fuel contra expense account 5010005. Because the deferred fuel process includes a calculated current month estimate, true-up to previous month actual, and the needed recognition for collection of amounts booked two months prior, the 5010005 activity in any given reporting month is a combination of both set-up entries as well as necessary reversals for previously booked activities.

Reference attachment KIUC_2_23_Attachment1.xls for a break-down of the standard items for each month on Exhibit JAR-3 Column 9.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

DR request KIUC 1-78 sought information explaining how Big Sandy 1 costs are to be recovered per the Company's filing. KIUC 1.17 Attach 46 was supplied in response, and it includes a category of costs entitled Non-Fuel Plant O&M – Demand and Energy, which sums to $12,501,844. Embedded in that amount is the BS1 Base Fuel amount of $1,559,769 (From KIUC 1.17 Attach 47). Please explain why the Company is seeking to recover fuel costs through Non-Fuel items in the BS1OR.

RESPONSE

The $1,559,769 in cells AT96 and AT98 (FERC Accounts 5010000 and 5010003 "Fuel" and "Fuel-Procure Unload & Handle," respectively) need to be included in the calculation of the BS1OR revenue requirement because they fuel costs not recovered through the Company's fuel clause. The label of "Non Fuel Plant O&M - Energy" should actually be "Non Fuel ***Clause*** Plant O&M - Energy".

WITNESS: Alex E Vaughan

Kentucky Power Company

REQUEST

a. As a follow-up to KIUC 1-92, related to Mr. Vaughan's testimony at page 25, related to congestion costs, the Company stated that "the energy portion of LMP and the congestion portion of LMP are not calculated in the same manner by PJM."

b. Please explain in detail the way that PJM calculates the energy portion of LMP and the congestion portion of LMP, and explain further what Mr. Vaughan meant when he said that these are not calculated in the same manner by PJM.

c. Please provide the hourly energy portion of LMP, and the hourly congestion portion of LMP for Jan and Feb 2014. Please provide this in excel spreadsheet format, with all formulas intact.

d. Please provide the hourly energy portion of LMP, and the hourly congestion portion of LMP for each hour in the months of January and February 2015. Please provide this in excel spreadsheet format, with all formulas intact.

e. Please provide the congestion charges and the offsetting FTRs, for each of the following months, January 2014, February 2014, January 2015 and February 2015. Please provide this in excel spreadsheet format, with all formulas intact.

RESPONSE

a. The energy portion of LMP, also known as the "system energy price" is equal to the offer cost of the marginal unit scheduled to run by PJM as a result of its economic dispatch. The system energy price is the same for all pricing nodes in PJM.

b. The Congestion portion of LMP is calculated by PJM based on the physical flows of electricity across the grid, transmission capability, injections of energy onto the grid and withdrawals of energy from the grid. The congestion portion of LMP can vary for every pricing node in PJM depending on system conditions.

c. Company witness Vaughan meant that the congestion and energy components of LMP are calculated using completely different methods by PJM.

d. See the Company's response to KIUC 1-17. Specifically see the "DA LMP" tab of KIUC_1_17_Attachment45 which contains all LMP components for the hourly day ahead AEP Gen Hub pricing point LMPs during the test year.

e. See KIUC_2_25_Attachment1.xls for the requested LMPs from 1/1/2015 through 2/25/2015 which are all that are available at the time of this answer.

f. See KIUC_2_25_Attachment2.xls for the requested PJM congestion charges and FTR revenues. February 2015 is not being provided because February 2015 accounting is not complete at the time of this response.

WITNESS: Alex E Vaughan

Kentucky Power Company

REQUEST

As a follow-up to KIUC 1-85, related to AEV 5, page 2 of 5, please provide all of the values in columns A – E, but provide them by month for all of the rows in the Exhibit. Please provide this electronically in excel format with all formulas intact.

RESPONSE

Referring to Company Exhibit AEV 5 page 2 of 5:

For all PJM lines of columns A and B, see KIUC_2_26_Attachment1.xls.

For line 1 of columns C, D,E and F see the Company's response to KIUC 1-17. Specifically see the "congestion" tab of KIUC_1_17_Attachment40.

For line 4 of columns C and D, see KIUC_2_26_Attachment1.xls. Specifically, see cells K16 and L16 of the "AS Gen Credits" tab.

For line 18 of columns C and D, see the Company's response to KIUC 1-17. Specifically see KIUC_1_17_Attachment39.

For all OATT lines of columns A and B, see KIUC_2_26_Attachment1.

For all OATT lines of column D, see the Company's response to KIUC 1-17. Specifically see KIUC_1_17_Attachment42.

For the OATT lines in column C, they are calculated subtracting column B from column D.

WITNESS: Alex E Vaughan