

Kentucky Power Company

REQUEST

In Case 2015-00152, Exhibit JGD-3 to the Direct Testimony of Joseph G. Deruntz listed the components and associated revised cost estimates for the Big Sandy ash pond closure, but did not include a line item for "QA/QC Consultant." In Kentucky Power's Response to Commission Staff's Supplemental Data Request, Item 2, KPCo_2_2_Attachment_1.pdf,¹ in the reconciliation of estimates spreadsheet, the QA/QC Consultant line item appeared as being removed and as being added to the General Conditions line item. However, the General Conditions estimate and the overall budget amount estimate for all items did not change from the Exhibit JGD-3 amounts. The quarterly reports have again introduced the QA/QC Consultant item as a separate line item. Provide a detailed description and explanation of the QA/QC Consultant item, its expected estimated cost, and whether the QA/QC Consultant cost is now separated from the General Conditions cost item. Lastly, explain how the inclusion of the QA/QC Consultant cost into the General Conditions item changed the Revised Estimate for the General Conditions item by \$1,243,764 as shown in KPCo_2_2_Attachment_1.pdf.

RESPONSE

In construction contracts such as the one for the fly ash closure, General Conditions refer to the categories of work necessary for the construction contractor to manage the worksite including the creation of on-site offices and the installation of site utilities. The Company will employ a QA/QC consultant separately from the construction contract and will task the QA/QC consultant with independently verifying that the construction contractor closes the fly ash pond in accordance with the Issued for Construction drawings and project permits.

¹ Exhibit JGD-3 and KPCo_2_2_Attachment_1.pdf are attached to this letter.

There are three different cost estimates included in Exhibit JGD-3 and the Company's response to Staff 2-2: the Charter Estimate, the Original Estimate, and the Revised Estimate:

- The Charter Estimate (shown in Staff 2-2, Attachment 1) is a preliminary estimate created by the Company for budgetary purposes prior to any detailed engineering and design work.
- The Original Estimate (shown in Exhibit JGD-3) is the estimate the Company received from an independent engineering firm following detailed engineering and design work.
- The Revised Estimate (shown in Staff 2-2, Attachment 1 and Exhibit JGD-3) is the estimate received from the independent engineering firm with adjustments to account for specific conditions at the Big Sandy site, permitting requirements and adjustments based on information made available to the Company by an affiliate performing similar fly ash pond closure work.

Exhibit JGD-3 provides a comparison of the Original Estimate (created by the independent engineering firm) and the Revised Estimate (also prepared by the independent engineering firm but updated as noted above). In both of these estimates, the QA/QC contractor costs are embedded within the General Conditions line item, but are not distinctly quantified in the documentation provided to the Company by the independent engineering firm.

The Company's response to Staff 2-2 compares the Charter Estimate (created by the Company) with the Revised Estimate (created by the independent engineering firm). Because the QA/QC consultant costs were embedded within the Revised Estimate provided by the independent engineering firm, the line item for the QA/QC consultant is not separately reflected in the Revised Estimate (although it is typical Company practice to reflect the QA/QC consultant as a separate line item in its cost estimates).

As noted above, General Conditions includes many categories of work relating to the contractor's management of the project, and accordingly, the estimate for General Conditions is the sum of these categories of work. The comparison between the General Conditions estimate in the Company's initial Charter Estimate to the independent engineering firm's Revised Estimate shows not only the inclusion of the QA/QC consultant cost in the Revised Estimate but also changes to the other categories of work resulting from further refinement of the project.

As reflected in the Company's response to Staff 2-2, the amount included in the Charter Estimate for the QA/QC consultant was \$3,229,931. This estimate was based on 5% of the Contract Amount of \$64,598,621. The Company currently estimates the cost of the QA/QC consultant to be \$600,000, based on new information made available to the Company by an affiliate performing similar fly ash pond closure work.

Consistent with the Company's initial quarterly filing, the QA/QC consultant will be reflected separately from the General Conditions.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Provide a detailed description of the Overhead cost, a detailed derivation of each component of the Overhead cost item, and the projected total estimate of this cost item.

RESPONSE

Overhead costs represent the allocation to the Big Sandy Fly Ash Pond Closure project of the overhead costs incurred by Kentucky Power and AEPSC personnel working on the project. These overhead costs include employee fringe benefits (such as medical and dental insurance), incentive plan accruals, transportation costs, shared service costs, and other general and administrative costs. See [KPCO_R_PSC_3_2_Attachment1.pdf](#) for a detailed description of Overhead Cost Component Descriptions.

The projected cost estimate for overheads for this project is \$1,195,000, based on the historical overhead costs as a percentage of the PMEC (Project management, engineering & construction) costs.

See [KPCO_R_PSC_3_2_Attachment2.xlsx](#) for the detail supporting \$327,213.67 of Overhead costs incurred through June 2016.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

The status report indicates that Kentucky Power has entered into a general closure construction contract with Entact, LLC. The total contract price is \$52 million, including \$6.4 million set aside for escalation of labor, materials, equipment, and emergent work. Explain whether the scope of the construction contract is for the entirety of the Big Sandy ash pond closure project, including the post closure care and monitoring component.

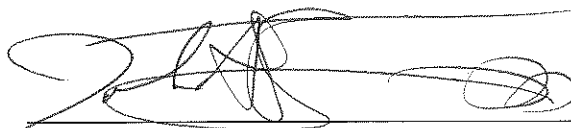
RESPONSE

The scope of the construction contract with Entact, LLC includes only the construction component of the Big Sandy ash pond closure project. It does not include post closure care and monitoring.

WITNESS: John A Rogness

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.



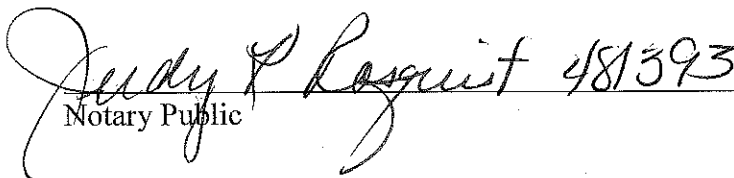
John A. Rogness III

COMMONWEALTH OF KENTUCKY)

) Case No. 2015-00152

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 3rd day of October 2016.



Judy P. Rogness 481393
Notary Public

My Commission Expires: January 23, 2017