

Kentucky Power Company

REQUEST

Refer to the application, paragraph 25, and Exhibit 2, page 1 of 1. The total amount of deferred storm costs is shown as \$4,694,230. Confirm that Kentucky Power is requesting a deferral of \$285,609 for the March 2015 storm and \$4,408,621 for the July 2015 storm. If this cannot be confirmed, provide the requested deferral amount for each storm.

RESPONSE

The Company confirms that under the specific circumstances of the Company's application in this case, the math and logic of the allocation by storm of the total requested deferral as presented in the data request is accurate. Kentucky Power believes that the specific storm deferral amounts presented in the data request were calculated for each of the two major storms that are the subject of the Application by subtracting the amount of the jurisdictional Major Storm O&M Costs in Base Rates (line 31 of Application Exhibit 2) in effect during the period of the storm from the amount of the jurisdictional major storm costs (line 20 of Application Exhibit 2) for the subject storm.

The calculation is logically permissible only because there was only a single major storm at issue for each base rate period. Thus, if there had been three major storms in 2015 for which Kentucky Power was seeking a deferral, two in the first six months and one in the second six months, for example, the logic of the calculation would fail. Similarly, if there had only been one base rate in effect during the entirety of 2015 and two (or more) major storms it would not have been possible to allocate the amount of the requested deferral between the two (or more) storms.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Commission Staffs First Request

a. Refer to the response to Item 4.a.

(1) In light of Kentucky Power's specific acknowledgement that Commission approval is a necessary predicate for it to record a regulatory asset, and notwithstanding the Generally Accepted Accounting Principles ("GAAP") rule permitting Kentucky Power to do so, explain why Kentucky Power did not seek Commission approval before deferring the incremental operation and maintenance expense related to the 2015 Major Event storms.

(2) In the event Kentucky Power's application is denied by the Commission, explain how such a denial would affect Kentucky Power's 2015 financial statements, including operations and maintenance ("O&M") expense, earnings and return on equity. Also, describe the process that would need to be undertaken to restate Kentucky Power's 2015 financial statements, and state whether Kentucky Power would restate its 2015 financial statement.

(3) Provide a copy of Kentucky Power's audited 2015 financial statements and audit report.

(4) Provide a copy of the GAAP rule referenced in this response.

b. For each of the two major storms, provide the actual costs recorded on Kentucky Power's books each month since each storm occurred.

c. Refer to the response to Item 4.c. Provide supporting documentation showing when the journal entry was made to transfer the incremental storm costs to account 182.

RESPONSE

2 a. (1) Please refer to the Company's response to KPSC 1-4 (a) and (b). As shown in 2(b) below, the final costs for the July 13th thunderstorm were booked in January 2016. Indeed, Kentucky Power booked expenses or credits related to the July thunderstorm each month from July 2015 through January 2016. At that point, there was insufficient time to obtain Commission approval for the deferral before closing the 2015 books. The Company waited several months until mid-April after the last booked entry in January to ensure that all actual costs had been booked before filing the application for the deferral of the storm costs.

2 a. (2) The denial of the Company's application would be reflected in Kentucky Power's financial statements as an increase to O&M expense and thus a decrease to earnings and return on equity in the year of the Commission's denial. A denial would not affect Kentucky Power's 2015 financial statements and thus Kentucky Power would not restate its 2015 financial statements. Kentucky Power booked the regulatory asset following its determination based on the Commission's January 7, 2013 order in Case No. 2012-00445, that the asset was probable of recovery.

2 a. (3) Kentucky Power's audited 2015 financial statements and audit report are attached as KPCO_R_KPSC_2_2_Attachment1.pdf.

2 a. (4) A copy of the GAAP rule referenced (Accounting Standards Board Standards Codification 980-340-25-1) is attached as KPCO_R_KPSC_2_2_Attachment2.pdf

2 b.

	March 4 Snow Storm	July 13 Thunderstorm
2015 Mar	\$1,397,584	\$ 0
2015 Apr	(7,878)	0
2015 May	11,365	0
2015 Jun	31,406	0
2015 Jul	2,284	6,965,971
2015 Aug	3	211,431
2015 Sep	15,642	(373,163)
2015 Oct	0	660,258
2015 Nov	0	90,547
2015 Dec	0	74,169
2016 Jan	<u>0</u>	<u>114,839</u>
Totals	<u>\$1,450,406</u>	<u>\$7,744,052</u>

2 c. Please see KPCO_R_KPSC_2_2_Attachment3.pdf.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

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Refer to Kentucky Power's response to Staffs First Request, Item 5. Explain the necessity of receiving an Order in this proceeding by September 30, 2016.

RESPONSE

Because the Company provides audited financial information to the public on a quarterly basis, the Company would prefer to have a final order by September 30, 2016 which is the end of the 3rd Quarter of 2016.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's First Request, Items 6.c. and 12.

- a. Explain why the costs listed in Item 12 have not been included in this application for a regulatory asset, given the amount of maintenance O&M costs in base rates listed in Item 6.c.
- b. What does the percent of the O&M cost for storm damages embedded in rate base represent to total 2015 O&M expense?
- c. What percent does the proposed regulatory asset represent to total 2015 O&M expense?
- d. With respect to Items b. and c. above, provide the percent each amount represents in relation to total O&M expense exclusive of Accounts 501 (Fuel) and 555 (Purchased Power).

RESPONSE

- a. The amounts listed in the Company's response to KPSC 1-12 are non-major storm costs. These are the smaller storms that occur routinely throughout the year. Please refer to the Company's response to KPSC 2-10 for the budgeted amount for the next five years for these non-major storm costs.
- b. Total O&M for 2015, including fuel and purchase power, was \$455,028,361. The amount of non-major storm damage as filed in the Company's last base rate case 2014-00396 was \$8,565,086. The non-major storm costs is approximately 1.9% of total 2015 O&M expense. Because case 2014-00396 was a black box settlement and non-major storm costs were not specifically addressed in the final order, the percentage is an estimate.

KPSC Case No. 2016-00180
Commission Staff's Second Set of Data Requests
Dated July 27, 2016
Item No. 4
Page 2 of 2

- c. The proposed regulatory asset would be approximately 1% (\$4,694,230 / \$455,028,361).
- d. Total O&M for 2015 less Accounts 501 and 555 would be \$158,276,091 (\$455,028,361 - \$296,978,724). Thus the percentages would be 5.4% and 3% respectively for b and c above.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's First Request, Item 13, findings 5 and 6 of Kentucky Power's review and its plans related to those findings.

- a. Explain and elaborate on the term "separate grounding personnel" to be assigned to Forestry crews.
- b. Explain the need for a General Foreman to be present when a stick saw is in use, rather than considering the size of the crew or other equipment use.
- c. Explain and elaborate on the term "Cut and Run" crews.

RESPONSE

- a. "Separate grounding personnel" are qualified line crew members who ground a downed or impaired line, tag the line to Distribution Dispatch Center (DDC), and notify the Forestry crew the line has been secured. The separate grounding personnel will then move to the next outage location while the Forestry crew clears the line and outage site of tree-related debris or other hazards.
- b. Asplundh safety policy directs that a general foreman be present when a stick saw is used. A general foreman, who typically has greater experience than Forestry crew members, reviews the Forestry crew's hazard assessment and monitors the crew's operations and the site for safety-related concerns.

More specifically, a stick saw is infrequently used by Forestry crew personnel during their normal operations and thus the presence of the more-experienced general foreman can aid the crew members' safe use of the stick saw. In addition, downed trees and branches present hazards not routinely encountered by Forestry crews during normal vegetation management efforts. For example, multiple trees may be uprooted during a storm and pin the conductor with multiple points of stored energy. The general foreman aids in assessing the hazard and developing a plan to mitigate hazards posed by the stored energy while identifying the line of fire, strike zone, and fall zone.

- c. A "Cut and Run" crew consists of a two-person team that responds to reported hazards such as downed wires. The crew's primary role is to remedy any public hazards as quickly as possible, further isolate, ground and tag the line to DDC, and restore those customers up to the new isolation point. Cut and run crews are used early in the storm to clear up hazards as quickly as possible.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's First Request, Item 15, Recommendation B-2. State whether any line hardening had occurred on any of the distribution lines that suffered outages during the March 2015 and July 2015 storms.

RESPONSE

Kentucky Power lacks the information necessary to respond. The Company's GIS mapping system does not permit Kentucky Power to identify all storm hardening projects and tie them back to the affected circuits as cataloged in the Company's outage management system.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Provide Kentucky Power's earnings, equity, and return on equity for calendar year 2015, along with the supporting calculations.

RESPONSE

Please see KPSC_R_PSC_2_7_Attachment 1.xls.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Provide a copy of all communication between or among Kentucky Power, American Electric Power Service Corporation personnel, and/or Kentucky Power's auditors regarding the recording of the storm costs as a deferral.

RESPONSE

Please see KPCO_R_KPSC_2_8_Attachment1.pdf.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Explain why the case style used by Kentucky Power for this proceeding refers to the establishment of both regulatory assets and liabilities when Kentucky Power is not proposing to establish a regulatory liability.

RESPONSE

The inclusion of the phrase "regulatory liability" in the case style was the result of a scrivener error.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Provide the amount budgeted for total O&M costs for each of the next five years. If storm costs are included in the O&M budget, provide the amount included in total O&M costs each year.

RESPONSE

Listed below is the total O&M budget (excluding fuel and purchase power) for the next 5 years.

Year	2017	2018	2019	2020	2021
Non-Storm	\$158,124,745	\$176,083,207	\$175,956,153	\$179,785,098	198,802,120
Non-Major Storms	6,340,707	6,352,535	6,364,759	6,377,034	6,389,129
Major Storms	<u>1,385,670</u>	<u>1,414,459</u>	<u>1,443,866</u>	<u>1,473,904</u>	<u>1,503,316</u>
Total O&M	<u>\$165,851,122</u>	<u>\$183,850,201</u>	<u>\$183,764,778</u>	<u>\$187,636,036</u>	<u>\$206,694,565</u>

WITNESS: Ranie K Wohnhas