

Kentucky Power Company  
KPSC Case No. 2022-00283  
Commission Staff's Second Set of Data Requests  
Dated October 12, 2022

**DATA REQUEST**

**KPSC 2\_1** Refer to the Application, BKW-Exhibit 4 and Case No. 2021-00481, the Commission's May 4, 2022 Order, page 9.

- a. Explain whether Kentucky Power's 2023 per books net income will include transaction costs related to the transfer to Liberty Utility Co. If not, explain how the transfer costs would be excluded.
- b. Provide an itemized estimate of the transaction costs related to the transfer.

**RESPONSE**

a. Per Appendix A to the Commission's May 4, 2022 Order in Case No. 2021-00481, transaction costs will not be incurred by Kentucky Power and thus will not be within its 2023 per books net income. Also see Liberty's response to AG 1-55 in Case No. 2021-00481, attached as KPCO\_R\_KPSC\_2\_1\_Attachment1.

b. Kentucky Power has not incurred any transaction costs related to the transfer, nor does it expect to.

Witness: Brian K. West

American Electric Power Company, Inc.  
Kentucky Power Company  
Liberty Utilities Co.  
KPSC Case No. 2021-00481  
Attorney General's First Set of Data Requests  
Dated January 13, 2022

**DATA REQUEST**

- AG 1\_55** Do the Joint Applicants agree that there are two categories of costs for the proposed transaction, namely: (1) costs-to-achieve the transaction (e.g., due diligence reports, legal counsel, etc.); and (2) costs-to-achieve cost savings in the post-transaction structure (e.g., systems integration, etc.)? If not, please identify the categories and provide a definition.
- a. For the costs-to-achieve the transaction, explain how the Joint Applicants determine the costs that are allocated to or the responsibility of their respective shareholders, and those costs that are allocated to or the responsibility of their respective ratepayers, if any. Include any allocation methodologies.
  - b. For the costs-to-achieve cost savings in the post-transaction structure, explain how the Joint Applicants determine the costs that are allocated to or the responsibility of their respective shareholders, and those costs that are allocated to or the responsibility of their respective ratepayers, if any. Include any allocation methodologies.
  - c. For the costs-to-achieve the transaction, explain how the Joint Applicants determine the costs that are allocated to or the responsibility of their respective non-regulated operations. Include any allocation methodologies.
  - d. For the costs-to-achieve cost savings in the post-transaction structure, explain how the Joint Applicants determine the costs that are allocated to or the responsibility of their respective regulated operations. Include any allocation methodologies.

**RESPONSE**

Liberty utilizes a slightly different taxonomy than that suggested in the question. In place of cost-to-achieve cost savings, given that synergies are not the motivating factor for the transaction, no cost category has been identified to achieve such savings; rather, Liberty has identified one-time costs to complete the transition as "Transition Costs," which is defined below. In terms of "costs-to-achieve" the Transaction, those costs more closely align with "Transaction Costs" as defined below:

- Transaction Costs - internal and external costs of due diligence, legal and other professional support to evaluate and execute the transaction, and carry out the requisite regulatory approvals; and

- Transition Costs - costs to enable the handover of operational control from the buyer to the seller). This category is further separated into:
  - One-Time Transition Costs - costs of staff required to work on the transitioning of the business from AEP to Liberty, IT support and external services between agreement to the sale and closing; and
  - Long Lived Transition Costs – capital investments to enable day-to-day operations continuity, particularly where sellers retain some or all of the pre-existing systems.

Transition investments in the context of the current sale arise due to Kentucky Power not being a standalone utility but rather one integrated with AEP's technology systems that cannot be "carved out" from AEP and thus require replacement with Liberty's systems. Liberty expects the cost of these investments to be absorbed by the existing rate funding for AEP's systems that will be removed from the rate base as the transition period winds down.

The following responses to parts a.-d. are based on Liberty's nomenclature described above applied to the equivalent terms (to the extent practicable) in the question:

- a. Liberty does not allocate any Transaction Costs to its customers; these costs are borne exclusively by shareholders. AEP-incurred costs associated with the sale of Kentucky Power are not being charged to Kentucky ratepayers.
- b. Neither Transaction Costs nor one-time Transition Costs will be allocated to customers. The impact of the Long Lived Transition Costs will replace similar costs that may currently be in Kentucky Power's rates that will no longer be in the rate base after the next rate case
- c. Liberty does not allocate any Transaction Costs or One-Time Transitions Costs in M&A transactions involving regulated companies to its unregulated affiliates as they are not implicated by this Transaction. This is consistent with situations where the purchase of unregulated assets has no impact on the regulated utilities and therefore has no allocations to regulated entities. AEP-incurred costs associated with the sale of Kentucky Power are not being charged to Kentucky ratepayers.
- d. Please see the response to item c.

Witness: Stephan T. Haynes

Witness: Peter Eichler

Kentucky Power Company  
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Dated October 12, 2022

**DATA REQUEST**

- KPSC 2\_2** Refer to the Application, BKW-Exhibit 4 and Case No. 2020-00174, the Commission's January 13, 2021 Order.
- a. Explain whether Kentucky Power's 2023 per books net income will include categories of expenses that were removed for ratemaking purposes in Case No. 2020-00174. If not, explain how these costs would be excluded.
- b. Provide an itemized estimate of these costs.

**RESPONSE**

- a. Yes, Kentucky Power expects that its 2023 per books net income will be calculated on a per books basis, in accordance with applicable generally accepted accounting principles and without ratemaking adjustments. Such an approach would be consistent with accounting rules, the Company's historical approach to calculating net income, and with the Commission-approved settlement in Case No. 2017-00179.<sup>1</sup>
- b. The Company has not performed the requested analysis because it is unable to do so for the reasons set forth in subpart a above.

Witness: Brian K. West

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<sup>1</sup> The Company further notes that whether it was appropriate to remove certain of the expenses removed for ratemaking purposes in Case No. 2020-00174 is the subject of a pending appeal before the Franklin County Circuit Court, the conclusion of which may affect whether those items should be included in future rates. Moreover, certain expenses removed for ratemaking purposes in Case No. 2020-00174 were removed on the basis that the Commission found the Company failed to provide sufficient evidence to support them. The Company has no basis to expect that such expenses similarly would be excluded from ratemaking in a future case.

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**DATA REQUEST**

**KPSC 2\_3** Refer to the Application, BKW-Exhibit 4. Explain whether Kentucky Power uses any non-GAAP accounting measures.

**RESPONSE**

Kentucky Power's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Kentucky Power does not use any non-GAAP financial reporting measures in its stand-alone financial statements.

Witness: Heather M. Whitney

Kentucky Power Company  
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Dated October 12, 2022

**DATA REQUEST**

**KPSC 2\_4** Provide the amount of capacity, in megawatts and dollars, that Kentucky Power will purchase in 2023 that is directly related to the expiration of the Rockport Unit Power Agreement (UPA).

**RESPONSE**

The Company forecasts that with the expiration of the Rockport UPA it will require:

- 152.4MW of capacity through the 2022/2023 PJM planning year ending May 31, 2023 at \$50 per MW-day.
- 70.2MW of capacity through the PJM planning year ending May 31, 2024 at \$34.13 per MW-day.

The above translates to \$1,663,348 in replacement capacity costs for the 2023 calendar year. Please see KPCO\_R\_KPSC\_2\_6\_Attachment1 tab "Replacement Capacity."

Witness: Brian K. West

Kentucky Power Company  
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**DATA REQUEST**

**KPSC 2\_5** Explain how capacity purchases for 2023 will be recovered from customers.

**RESPONSE**

Capacity purchases for 2023 will be recovered through the purchase power adjustment (PPA) rider. See P.S.C. Ky. No. 12 Original Sheet No. 35-1 section 1(a).

Witness: Brian K. West

Kentucky Power Company  
KPSC Case No. 2022-00283  
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**DATA REQUEST**

**KPSC 2\_6** Provide the estimated net savings to Kentucky Power's customers from the expiration of the Rockport UPA, calculated as the difference between the amount currently recovered in rates and the cost of replacement capacity.

**RESPONSE**

Please see KPCO\_R\_KPSC\_2\_6\_Attachment1 which provides estimated net impact due to the expiration of the Rockport UPA through May 2025.

Witness: Brian K. West



VERIFICATION

The undersigned, Brian K. West, being duly sworn, deposes and says he is the Vice President, Regulatory & Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.



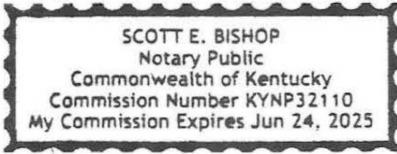
Brian K. West

Commonwealth of Kentucky )  
  )  
County of Boyd                     )

Case No. 2022-00283

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Brian K. West, on October 18, 2022.

Scott E. Bishop  
Notary Public



My Commission Expires June 24, 2025

Notary ID Number KYNP 32110



### Whitney Verification Form.doc

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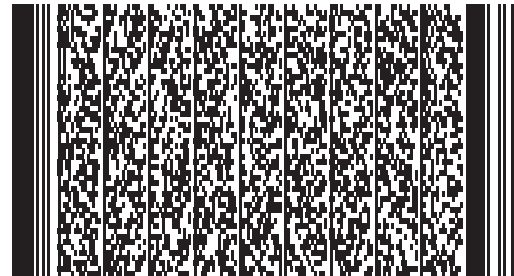
#### E-Signature Summary

**E-Signature 1: Heather M. Whitney (HMW)**

October 19, 2022 06:32:30 -8:00 [DFA64E5E51B7] [167.239.221.101]  
hmwhitney@aep.com (Principal) (Personally Known)

**E-Signature Notary: Jennifer Young (JAY)**

October 19, 2022 06:32:30 -8:00 [21A70BDFB9D1] [167.239.221.101]  
jayoung1@aep.com  
I, Jennifer Young, did witness the participants named above electronically sign this document.



# VERIFICATION

The undersigned, Heather M. Whitney, being duly sworn, deposes and says she is the Director in Regulatory Accounting Services for American Electric Power Service Corporation, that she has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of her information, knowledge, and belief.

Heather M. Whitney

Signed on 2022/10/19 06:32:30 -8:00

Heather M. Whitney

Commonwealth of Kentucky )


)

Case No. 2022-00283

County of Boyd )

)

Subscribed and sworn before me, a Notary Public, by Heather M. Whitney this 19th day of October, 2022.

  
Signed on 2022/10/19 06:32:30 -8:00

Notary Public

**JENNIFER A. YOUNG**  
ONLINE NOTARY PUBLIC  
STATE AT LARGE KENTUCKY  
**Commission # KYNP31964**  
My Commission Expires Jun 21, 2025

Notary Stamp 2022/10/19 06:32:30 PST

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Notarial act performed by audio-visual communication

My Commission Expires 06/21/2025

Notary ID Number: KYNP31964

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