COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR APPROVAL OF ITS 2011 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, AND FOR THE GRANT OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE CONSTRUCTION AND ACQUISITION OF RELATED FACILITIES	)	CASE NO. 2011-00401

COMMISSION STAFF'S THIRD INFORMATION REQUEST
TO KENTUCKY POWER COMPANY

Kentucky Power Company ("Kentucky Power"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 12 copies of the following information, with a copy to all parties of record and three copies to the Commission's consultant. The information requested herein is due within 14 days of the date of this request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky Power shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky Power fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to Kentucky Power's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 1.b., which requested all studies and/or analyses relied upon and used to support Kentucky Power's decision to terminate the East Pool Agreement effective January 1, 2014. Kentucky Power provided a 42-page analysis pertaining to the pool termination which was completed prior to December 17, 2010. In reviewing the December 17, 2010 Minutes to the Meeting of the AEP Interconnection Agreement Operating Committee, it appears all Member Representatives then committed to investigating such transitional approaches as needed. Provide any and all studies and/or analyses which were the result of the different transitional approaches that were investigated subsequent to the December 17, 2010 AEP Interconnection Agreement Operating Committee meeting.

2. Refer to Kentucky Power's response to Staff's Second Request, Item 6.a., the $5,966,590 which was originally classified as "materials purchased" but which Kentucky Power indicates should have been classified as "outside services" because those costs were for engineering work pertaining to vendors from whom Kentucky Power would have purchased materials for the wet Flue Gas Desulfurization ("FGD") if and when actual construction would have begun.

a. In the event that construction commences, explain whether the $5,966,590 for engineering work which was performed for a wet FGD is still relevant or useful to the vendors from whom Kentucky Power could purchase materials for the dry FGD.

b. In the event that construction commences for the remaining "outside services" in the amount of $5,279,574, explain whether all of the work performed for the wet FGD will still be relevant or useful for the construction of the dry FDG.

3. Refer to Kentucky Power's response to Staff's Second Request, Item 10.d. The item requested Kentucky Power to provide the amount and type of expenditures on the Big Sandy dry FGD project prior to the AEP Subcompany Board approval on January 26, 2012. Kentucky Power provided yearly amounts by cost category for the years 2004 through 2011. Provide the following:

a. A confirmation that Kentucky Power was incurring costs associated with both a wet and a dry FGD for Big Sandy Unit No. 2 in calendar years 2004 through 2006.

b. If the answer to part a. is no, provide a reconciliation of the information provided in Staff's Initial Request for Information, Item 18.b., with the information provided in Staff's Second Request, Item 10.d.

c. An explanation of whether the $5,977,554 incurred at the end of calendar year 2006 for vendor materials and supplies would be applicable or useful to the Alstom NID scrubber system.

d. An explanation of whether the $6,010,889 incurred at the end of calendar year 2006 for outside services would be applicable or useful to the Alstom NID scrubber system.

4. Refer to Kentucky Power's response to Staff's Second Request, Item 13.b. Provide the following:

a. Whether the Big Sandy Unit No. 2 Electro-Static Precipitator ("ESP") is reflected in any Commission-approved Kentucky Power compliance plan.

b. Whether the investment associated with the Big Sandy ESP is reflected on ES Form 3.10, Line1.

c. Whether the accumulated depreciation associated with the Big Sandy ESP is reflected on ES Form 3.10, Line 2.

d. Whether the depreciation expense associated with the Big Sandy ESP is reflected on ES Form 3.10, Line 12.

e. Using the Environmental Surcharge Report for the expense month of September 30, 2009, provide the amounts used in the monthly filing for parts b., c., and d. of this information request.

5. Refer to Kentucky Power's response to Staff's Second Request, Item 13.b., filed on February 24, 2012. Provide the following:

a. The work order numbers, their estimated cost, their actual installed costs and their associated in-service date for the Big Sandy Unit No. 2 ESP.

b. A reconciliation between Kentucky Power's responses to Staff's Second Request, Item 13.b., filed on February 24, 2012 and Kentucky Power's response to Commission Staff's Third Request for Information, Item 4.

6. Refer to Kentucky Power's response to Staff's Second Request, Item 26. Provide an update to this response once the decision has been made.

7. Refer to Kentucky Power's response to Staff's Second Request, Item 27.b.(1). Provide the following:

a. A reconciliation between the statement "[t]he depreciation study completed was based on a June 2005 demolition study prepared by Brandenburg Industry Service Company," and the statement in Kentucky Power's response to Staff's Second Request, Item 27, Attachment 2, page 2 of 350, which states, "[t]he demolition cost is estimated to be $32,000,000 in current (2008) dollars."

b. An explanation of whether the 2005 Brandenburg Industry Service Company demolition study was updated for the depreciation study filed in Case No. 2009-00459.[1]

8. Refer to Kentucky Power's response to Staff's Second Request, Item 29. Provide all analyses, explanations, and/or calculations that were used by Kentucky

[1] Case No. 2009-00459, Application of Kentucky Power Company for a General Adjustment of Electric Rates (Ky. PSC Jun. 28, 2010).

Power and/or American Electric Power ("AEP") to reach the decision to not purchase the Riverside Generating ("RG") natural gas plant in Zelda, Kentucky.

9. In Kentucky Power's filing in Case No. 2002-00169,[2] Kentucky Power retained Stone & Webster Consultants ("Stone & Webster") to prepare an independent technical review of the planned projects and to determine if the projects were a reasonable and cost-effective method of complying with the requirements of the Clean Air Act. Provide the following:

a. Has an independent technical review of the planned projects been performed in this proceeding such as that performed by Stone and Webster in Case No. 2002-00169?

b. If not, why did Kentucky Power change in the method of supporting its position in this filing?

c. Who at Kentucky Power and/or AEP made the decision not to present an independent technical review of the projects and the associated determination that these proposed projects were a reasonable and cost-effective method of complying with the requirements of the Clean Air Act in the proceeding?

10. Provide the following information:

a. The cost Kentucky Power incurred making this filing, broken down by American Electric Power Service Corporation costs, Kentucky Power costs of labor

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[2] Case No. 2002-00169, The Application of Kentucky Power Company d/b/a American Electric Power for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC Mar. 31, 2003).

(base labor and over-time), outside services, and materials and supplies as of February 29, 2012.

b. An update of these costs for each month two weeks after the close of the prior month's financial records.

11. Erica Martinson, an Energy Reporter for the *POLITICO Pro*, in her February 24, 2012 article, reported AEP spokeswoman Melissa McHenry as stating, "[b]ut the company will not shutter its 1,078-megawatt Big Sandy Plant in Louisa, KY., as previously announced, because of in-state pressure to support the coal industry." The article is attached hereto as Appendix A.

a. Explain this statement by Ms. McHenry.

b. Explain whether this Commission has given any indication, either express or implied, that Kentucky Power should not comply with any and all statutory and regulatory requirements in the most cost-effective manner.

12. In light of the recent ruling by the Public Utilities Commission of Ohio to revoke the September 7, 2011 Settlement Agreement ("Settlement Agreement") between AEP and 19 other parties concerning Ohio's electric security plan, provide the following:

a. Explain whether AEP's position is still to do away with the AEP East Pool Agreement.

b. Explain whether Kentucky Power still intends to purchase a 20 percent stake in Ohio Power Company's Mitchell Plant.

13. In the *Electric Utility Week*, February 6, 2012 issue, page 13, there was a paragraph regarding two AEP affiliates' plan to seek Federal Energy Regulatory

Commission ("FERC") approval concerning the acquisition of the Mitchell Generating Station ("Mitchell Plant"). The paragraph stated, "[t]wo AEP affiliates plan to seek FERC approval later this month to buy the 1,560-MW Mitchell coal plant in West Virginia from another AEP affiliate as part of a proposed new power pool arrangement. Under the plan, Kentucky Power would own a 20% stake in the two-unit Mitchell base-load plant on the Ohio River south of Moundsville while Appalachian Power would own 80%. Mitchell, which went into commercial operation about 40 years ago, currently is owned and operated by Ohio Power."

a. Provide a list of the current dispatch order of the AEP East Pool by generating unit.

b. Explain why the purchase of 20 percent of Ohio Power's Mitchell Plant is in the best financial interest of the Kentucky Power ratepayers. Did Kentucky Power consider other levels of ownership in the Mitchell Plant?

c. Provide the annual amount of operation and maintenance expense for a 20 percent ownership of the Mitchell Plant.

14. Refer to the Sierra Club Second Supplemental Set of Data Requests, Item 10. Kentucky Power responded to part a. with the following response: "Big Sandy Unit 2 was considered for retirement in mid-2011." Also refer to Kentucky Power's response to Staff's Second Request to Item 29. It states, "[t]he Company estimates that it will take eight to ten weeks to complete the analysis after the receipt of the requested information. The estimate (sic) cost of the engineering study is approximately $250,000." This is in response to preparing an analysis for the purchase of the RG natural gas plant. Provide a time-line and discussion of both Kentucky Power and AEP

managerial considerations, public statements, and decisions that have been made beginning with the 2004-2006 Scrubber analysis, the 2007 Consent Decree, the consideration to retire Big Sandy Unit 2, the consideration to convert Big Sandy Unit 1 to a 600-MW gas-fired unit, and the current decision to install a wet FGD on Big Sandy Unit 2 as part of this Application.

15. In Kentucky Power's last base rate case, Case No. 2009-00459,[3] in Kentucky Power's Application, Volume 2, Section V, Workpaper S-4, page 9, $66,065,353 was listed for AEP Pool Capacity Payments. In light of the recent ruling by the Public Utilities Commission of Ohio to revoke the Settlement Agreement, and given that the existing AEP East Pool Agreement will remain in effect at the time the Scrubber is placed on Big Sandy Unit 2, using the most current actual AEP Interconnection Agreement East Interchange Power Statement and Related Data, and the assumptions in subparagraphs a., b., and c. below, provide the annual amount of AEP Pool Capacity Payments for which Kentucky Power will be responsible once Big Sandy Unit 1 is retired.

a. Kentucky Power's generating capacity includes Big Sandy Unit 2 and Kentucky Power's portion of the Rockport Plant.

b. Kentucky Power's generating capacity includes Big Sandy Unit 2, Kentucky Power's portion of the Rockport Plant, and a 20 percent stake in the Mitchell Plant.

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[3] *Id.*

c. Kentucky Power retires both units of Big Sandy Plant; and the generating capacity includes the purchase of a 1,400 MW natural gas combined cycle plant, in addition to Kentucky Power's portion of the Rockport Plant.

16. A February 12, 2012 article in *Business Week* entitled "AEP Reduces Coal-Fired Plants It Will Shut Because of EPA Rules," states that "American Electric Power Co., the largest U.S. coal consumer, reduced by 12 percent the amount of coal-fired generation it will shut because of new environmental regulations, saying it may get state support to spend $940 million to keep a Kentucky unit operating." The article further stated that "[t]he difference stems from the company's decision in December to seek a 31 percent rate increase to fund environmental equipment needed to keep its Big Sandy Unit 2 in Kentucky operating, [Chief Executive Officer Nick] Akins said later in an interview. State regulators have indicated American Electric may be able to recover from customers the almost $1 billion needed to keep the unit operating, he said." The article is attached as Appendix B.

a. Explain in detail the basis for the statement that AEP may obtain state support to spend $940 million to keep a Kentucky generating unit operating. Include in this statement the source of the referenced state support, the type of the referenced state support, and the manner in which the referenced state support was communicated to AEP and/or Kentucky Power.

b. Provide a detailed explanation for the statement that state regulators have indicated that AEP or Kentucky Power may be able to recover from customers almost $1 billion for the proposed environmental compliance plan. Include in the explanation the identity of the state regulatory agency that made such indications to

AEP or Kentucky Power, the substance of any such communication from the state regulatory agency, and date and manner any such communication was conveyed to AEP and/or Kentucky Power.

17. Identify and provide copies of any and all letters, comments, agreements, or other communications that have indicated financial or other support for Kentucky Power's application.

18. Refer to page 17, line 21, of the Direct Testimony of Ranie K. Wohnhas, which states, "[t]he Company proposes to use a 10.5% return on equity."

a. Explain why Kentucky Power did not provide a cost-of-money analysis considering the proposed cost to construct a Scrubber on Big Sandy Unit 2 and considering the changes in the market conditions (U.S. Department of the Treasury – Daily Treasury Yield Curve Rates) of financing since the Commission's Order dated June 28, 2010 in Case No. 2009-00459.

b. Explain why Kentucky Power chose not to provide testimony of a cost-of-money witness in this preceding considering the incremental cost of the proposed environmental facilities is an estimated $940 million, while in Case No. 2002-00169 when the incremental cost of proposed environmental facilities was approximately $200 million, testimony of a cost-of-money witness was provided.

Stephanie Bell for Jeff Derouen

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DATED: MAR 14 2012

cc: Parties of Record

APPENDIX A

AEP: Costs of meeting power plant rule decline

By Erica Martinson

2/24/12 8:53 AM EST

At least one power company is finding EPA's mercury and air toxics rule cheaper to comply with than previously expected.

American Electric Power has cut its estimate for complying with EPA's mercury rule in Ohio to $400 million from last summer's estimate of $1.1 billion, the company told investors this month.

The estimated $600 million to $700 million in savings comes from changes the EPA made between the draft and final rule on how it will regulate particulate matter, company CEO Nick Akins said at a Feb. 10 analyst and investor meeting in New York City.

"That's been adjusted a little bit because we did get one positive outcome out of the EPA rules, and that was around particulate matter," Akins said. In the final rule, EPA requires removal only of "filterable particulate, as opposed to condensable and filterable. So that helped us. It took about $600 million out of the capital plan."

Filterable fine particulate matter is a solid or liquid at stack temperature — around 250 to 320 degrees Fahrenheit — while condensable fine particulate matter is a vapor or a gas at stack temperature, according to EPA's website. AEP argued to the agency that the upgrades needed to limit condensable particulate matter would be extremely costly but result in negligible reductions to emissions.

All told, the company will spend "around $5 billion to $6 billion for the EPA-related investments associated with generation" between 2012 and 2020, Akins said. Of that, 75 percent is for established air rules, and 25 percent is for currently incomplete water regulations for cooling towers and coal ash. (To put that in context, AEP plan to spend around $10 billion in total capital expenditures from 2012 to 2014, according to a recent company presentation in Tokyo.)

The change in particulate matter requirements also reduced the number of environmental retrofit projects in AEP's long-term plan to 24 from 36, Akins said.

Outside of Ohio, however, upgrade costs have not been significantly affected by changes to the rule, AEP spokeswoman Melissa McHenry said.

When the EPA released its final mercury and air toxics rule in December, Administrator Lisa Jackson touted about $1 billion in cuts to the costs of the proposed rule. The agency said it credits such cuts to new information on the effectiveness of control technologies, which will probably allow some plants to comply by upgrading existing controls or using "lower-cost" methods.

For example, some companies will upgrade a type of control equipment called an electrostatic precipitator rather than install a new fabric filter, EPA said. Some plants could also use less costly alternatives instead of scrubbers to meet the acid gas standard.

"This improved understanding and other factors reduced the overall costs of the rule to $9.6 billion (at final) — down from a cost of $10.9 billion at proposal," the EPA said.

McHenry said the company is still reviewing changes that could limit upgrade requirements for some technologies, but they are not a large portion of the expected upgrade costs.

AEP still plans to shut down more than 5,000 megawatts of coal-fueled power generation, McHenry said. Of that, 2,600 megawatts comes from outside of Ohio, and 2,538 megawatts are on tap to be shuttered inside the state. (The "inside Ohio" numbers include several plants that are physically located outside the state but are owned by AEP in Ohio, producing power used inside the state.)

But the company will not shutter its 1,078-megawatt Big Sandy Plant in Louisa, Ky., as previously announced, because of in-state pressures to support the coal industry, McHenry said.

The Big Sandy Plant would have been rebuilt as a 650-megawatt natural gas plant by the end of 2015 under the shutdown plan. Instead, the company has asked the Kentucky Public Service Commission to approve a plan to add a scrubber to the plant.

APPENDIX B

AEP Reduces Coal-Fired Plants It Will Shut Because of EPA Rules

February 12, 2012, 7:08 PM EST

By Jim Polson

Feb. 10 (Bloomberg) -- American Electric Power Co., the largest U.S. coal consumer, reduced by 13 percent the amount of coal-fired generation it will shut because of new environmental regulations, saying it may get state support to spend $940 million to keep a Kentucky unit operating.

The company still plans to close power plants with about 5,138 megawatts of capacity, Chief Executive Officer Nick Akins said at an investor conference in New York today. The Columbus, Ohio-based company said in June that new U.S. Environmental Protection Agency rules would force it to retire as much as 5,909 megawatts of capacity.

The difference stems from the company's decision in December to seek a 31 percent rate increase to fund environmental equipment needed to keep its Big Sandy Unit 2 in Kentucky operating, Akins said later in an interview. State regulators have indicated American Electric may be able to recover from customers the almost $1 billion needed to keep the unit operating, he said.

A U.S. air-pollution rule to reduce power-plant emissions that cross state lines was halted by a federal court last year. Separate regulations to cut mercury pollution are scheduled to go into effect in 2015. Akins has asked for more time to phase in the regulations and in Nov. 30 testimony to federal energy regulators said the company would have to spend $6.7 billion in the next three years to comply with the rules.

American Electric plans to shut power plants that generate about 2,600 megawatts and sell electricity at state-regulated rates, plus another 2,538 megawatts owned by a unit that sells power at wholesale-market rates, Akins said.

FirstEnergy Retirements

It said it hasn't identified which of the regulated plants will shut. Slides from a Dec. 7 presentation list 12 units with expected retirement in 2014 that are owned by its utility subsidiaries.

For the competitive unit, the company lists 5 plants it owns in Ohio, according to slides posted today. One of the plants closed last year. It also included in its tally 53 megawatts from a Duke Energy Corp.-owned unit in Ohio, which American Electric owns a 12.5 percent stake in, according to the other company's website.

FirstEnergy Corp., an Akron-Ohio based utility owner, has announced it will shut 3,349 megawatts of coal-fired power plants this year because of new environmental rules.

Arch Coal Inc., the fourth-largest U.S. coal producer by market value, said today it expects demand for the fuel will decline by 50 million tons or more this year as mild weather and low natural-gas prices curb use by power companies.

--With assistance from Julie Johnsson in Chicago and Mark Drajem in Washington. Editors: Jessica Resnick-Ault, Tina Davis

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