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David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

April 25, 2012

PARTIES OF RECORD

Re: Case No. 2011-00401

Attached is a copy of the Summary Notes and attached Exhibits, of the proceedings from the Public Meeting held in Pikeville, Kentucky on April 4, 2012.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

Attachments

cc: Parties of record

SUMMARY NOTES
PUBLIC MEETING
CASE NO. 2011-00401

KENTUCKY POWER COMPANY
PIKEVILLE, KENTUCKY
APRIL 4, 2012

A public meeting concerning Case No. 2011-00401 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, was conducted at approximately 6:30 p.m. on April 4, 2011 at the auditorium, Pikeville High School, 120 Championship Drive, Pikeville, Kentucky.

A sign in sheet of attendees (excluding PSC staff) is attached as Exhibit # 1.

This document is intended to be the summary notes of the proceeding and is not intended to be a verbatim transcription. ¹

Chairman Armstrong called the meeting to order at approximately 6:30 p.m. Chairman Armstrong introduced Vice Chairman James Gardner and the Assistant Attorney General, Hon. Jennifer Hans, as well as PSC staff members Talina Matthews, Kimra Cole, Faith Burns, John Rogness, Andrew Melnykovych, Steven Bailey, Jim Rhodes, and Van Kuhnappel.

The Chairman reviewed the purpose of the meeting and gave a brief overview of Kentucky Power Company's proposal. The Chairman indicated that the evidentiary hearing in Frankfort on April 30 at 10:00 a.m. is open to the public.

The Chairman stated that as a rule we have always respected role of the local officials. In that regard, the Chairman asked the County Judge Executive to come forward.

¹ This summary composed by PSC staff member Faith Burns. These notes are intended to be a summary of the proceedings and not an exact verbatim transcription. The spelling of some names and/or locations may not be accurate. While attention has been given to assure the accuracy of this summary of public testimony and the information submitted by the public to be included in the public record in this case proceeding, this staff member was not in possession of all information at all times submitted by the public to be filed in the public record, and as such, cannot verify either the completeness of the information filed herewith (including any and all attachments), or the identity of the person or entity submitting such information.

Judge Wayne T. Rutherford

Thank you Chairman Armstrong and Vice Chairman Mr. Gardner. We welcome you all to Pike County, Kentucky, America's energy capital. If Pike County were a state, we'd be 10th in coal production in America. Pike County, we produce 35% of the natural gas in this Commonwealth. So yes, we're the Saudia Arabia of the United States of America. But we are, Pike County is interested in the provision of fair and equitable electric power rates for the people that live in this county, and we're interested in using our abundance of natural resources. In reviewing the proposed changes affecting the only plant owned by Kentucky Power Company, I will restrict my remarks to review of proposed plans and comments by other parties. The first party I wish to discuss is the Sierra Club. The central purpose of the objection of Sierra Club is attempt to either convert the Big Sandy plant to natural gas as a fuel, or to close the plant and purchase power requirements from renewable sources of energy. Because of a series of interstate pipelines that cross the Big Sandy River near the Big Sandy power station, it is very likely that all natural gas to be that would be purchased would not come from Pike County nor the Big Sandy Valley but instead come from off shore platforms in the Gulf of Mexico or from the shore of from Louisiana or Texas wells. Several major interstate gas pipelines cross the Big Sandy River near this plant and presently serve other natural gas fuel peak power stations that are in the immediate vicinity of the Kentucky Power Big Sandy Unit number 2. As Kentucky Power notes, retiring the Big Sandy Unit 2, and I quote, it is with a gas unit that would have cost approximately 86 jobs, 6 million in annual compensation, in addition the company calculated (?) that gas option would have reduced payroll and property taxes by three two million, by \$3,200,000.00, and 461,000 annually. With market prices at \$75 per ton, coal sales to Big Sandy plant inject approximately 165 million into the local economy, which would be eliminated along with the indirect impact on mining and transportation. Five hundred jobs, 8 million in severance tax, and 25 million in wages per year, and this is direct testimony from Mr. Wohnhas, Director of Regulatory and Finance, Kentucky Power, lines 13, 21 page 8, and I have an Exhibit to file with this Commission.

The central purpose of the objections of the large industrial customers to cost shift so far as possible any rate increase to households and medium service customers by increase the cost of users of distribution lines and reduce the cost to customers supplied directly by transmission lines. In general, we do not have any such customers in Pike County. The customers in eastern Kentucky already pay partially for the cost of construction of plants such as plants located at Rockport, Indiana, that serves the industry in that area and in areas of western Kentucky. Unrealized by many consumers, in addition to paying for the costs of initial construction, consumers are being requested to pay for environmental upgrades at AEP plants in West Virginia and Ohio.

For the months of December the charges for current operations were billed as environmental costs to the Kentucky Power Company by the Ohio Power Company and the by the Indiana Power Company. And let me stop right here and say that this is what they was talking about complicated. Last time that a rate increase was asked for and received, by the Public Service Commission by Kentucky Power, the no show for that plant, I know not from the Attorney General's office, and I would say I was glad to see

Mrs. Hans here today because the other gentleman that represented, supposed to represent the Office of Rate Intervention, we couldn't tell who he was for the other time. So I'm glad that this Attorney General now has somebody who say that they'll represent the person who pays the bill. But this is complicated. My staff it took a month to go through this. But we didn't take a chance this time. We went through this line by line. Charles Carlton in our office and the county staff went through this. Complicated yes. Complicated but the things I'm gonna' talk to you about are buried within this. And anytime I say something, there'll be something here to back it up which will be filed as a part of this record.

The central purpose of objections the large industrial customers is a cost shift as far as possible for any rate increase to households and mediums service customers by increasing the cost of user distribution lines and reduce the cost of customer supplied directly by transmission lines. In general, we do not have any such customers in Pike County. Customers in this area of Kentucky already pay partially for one month in December they were billed the environmental cost of the Ohio Power Company. And that total amount was 1,573,000. And we have that to file as a on page Testament 1, page 11 part of this report the request that filed by the Kentucky Power Company and AEP. AEP plants have been billed in December 2011 to the power company consumers for environmental operating costs to include the Amos plant Cardinal Unit number 1, the Gavin plant, the Kenner plant, the Mitchell plant, Muskegon River plant, Sporn plant, Rockport plant, and Tanner's Creek plant. In particular, in addition to the proposed changes at the Big Sandy Unit 2, there will be added Kentucky Power customers a proposal charge for AEP American Electric Power interconnect pool agreement. Quoting from the filing by Kentucky Power again, all of the charges associated with the Amos plant near Charleston, West Virginia and Tanner Creek plant, Lawrenceburg, Indiana project flow to Kentucky Power through pool agreement in addition a portion of the costs associated with the Rockport plant, Rockport, Indiana, flow to Kentucky Power through the pool agreement. The remainder of the Rockport costs flow through the Rockport Unit Power agreement lines 11 15 page 12. On behalf of the residents of Pike County, and all of the consumers, I ask Kentucky Power to state for the record the costs for the improvement to Big Sandy plant in using the exact same methodology used in the answer to this question. The cost paid by the Kentucky Power consumers associated with the Amos and the Tanner Creek pool agreement and the Rockport Unit power agreement for environmental upgrade. I think the answer will be that a major portion of the cost has to be paid by the Kentucky Power consumer is for environmental improvements in West Virginia and Indiana and other states. Regardless of the request of the Kentucky Power consumers to pay for the cost of nearly a billion dollars for environmental upgrade at a series of plants including the Amos plant, Tanner Creek plant, and the Rockport plant as well as the Big Sandy station Unit 2. The major issue affects Pike County and other counties in the Big Sandy valley such as Martin County, Floyd County, and the question of retaining the use of Kentucky coal with a source of supply for the Big Sandy unit. And I was glad to see the representative of the Public Service Commission stating that the Kentucky legislature has indicated that we ought to use Kentucky energy. In order to understand the plant changes proposed by Kentucky Power Company it is import to know the Company chose a – this is a

scrubber – dry fluid gas desulfurization that provides the ability to burn coal that has sulfur content up to 4.5 pounds. 2.7 sulfur using as a reference, a 1200 btu coal. As was noted in direct testimony again, by the managing director of the regulatory and finance Kentucky Power, the current environmental permits as well as other physical limitations of the boiler limit the plant possibility fuel options to consuming only central Appalachian coal; low sulfur coal. On lines 2 4 page 10, and I have that exhibit to file, while it is true that currently only coal from central Appalachia will work in the boiler, with the addition of the dry fluid gas desulfurization unit, high sulfur coal will enable Kentucky Power to expand its fuel options including as they know (?) potentially lower cost. The Company did consider two fluid gas desulfurization system alternatives. One limits the Company to coal having sulfur dioxide content 3.0. 1.8 sulfur content as was noted in the direct testimony. While the 3.0 per pound the option of 3 pound sulfur dioxide per million btu provides some additional fuel purchase flexibility and the blend of northern Appalachia or Illinois basin coal. And that's not what the Kentucky General Assembly said or meant. Coal would most likely be limited to no greater than 30% of the remainder of the coal being from central Appalachia. That is buried in this application for rate increase. I have the exhibit. It's Exhibit A and will be filed with this Commission.

Clearly Kentucky Power evaluated purchasing up to 30% of the coal supply for the Big Sandy Unit from sources outside Kentucky, either from northern Appalachia, northern West Virginia or western Pennsylvania or the Illinois basin which is located principally in the states of Illinois and Indiana. Equally clearly, Kentucky Power selected another alternative as it noted in direct testimony from Mr. Wohnhas immediately firing (?) this statement which I will file in the record. 4.5 pounds of sulfur dioxide per million btu as(?) a fluid gas desulfurization unit and boiler modification have been proposed was easy allow a 50 50 blend of either northern Appalachian or Illinois basin coal to be blended with central Appalachian coal thus providing a lower overall cost of fuel. The planned purchase of coal from outside Kentucky with up to 2.7 sulfur content could estimate using figures by Kentucky Power themselves one half of the \$165 million in coal sales and a total of \$82 million in coal sales. Fifty percent of that coal mining jobs tied to the Big Sandy Unit 2 or 250 of the 500 mining jobs then would estimate \$4 million of the total \$8 million of Kentucky coal. Severance tax receipts and \$12.5 million of now in the current number of \$5 million in local wages would be gone. While Kentucky Power projects that fuel shift would have some savings to consumers, they project that and I quote such blending has the potential to save approximately 8% the cost of fuel annually. Using this direct testimony of the witness of Kentucky Power for comparison, the coal supply for the Big Sandy Unit 2 is projected to cost 165 million per year. An 8% saving would be 13.2 million at the most. The eliminating of a just direct wages of Kentucky coal miner is equal to 12.5 million and ignores the taxes paid by these same miners and they're employed and \$4 million in severance tax lost and \$82.5 million dollars in coal sales lost. A conservative figure often used in economic comparison is that each dollar of economic activity generates about \$3 of other economic activity. Using this metric, a loss of 82 million 5 in dollars in coal sales will take from the economy of this area approximately one quarter of a billion dollar billion that's with a billion dollars per year. The economic loss over 20 year period at current dollars would

be 5 million dollars. Kentucky Power has proposed these changes based off retaining coal as a fuel source. They have not publicized that the bigger economic impact will be to improve the economy as the General Assembly of Kentucky intended. But they're improving the economy of southern Illinois and Indiana and northern West Virginia and western Pennsylvania thus potentially depriving Kentucky residents of good paying jobs. Taking jobs away from our people. That's what they're asking the Kentucky Public Service Commission to do.

What also is disturbing is that while the mandate from the Kentucky General Assembly is that all power companies in Kentucky to use as far as possible Kentucky natural resources, that's the Public Service Commission and that's a mandate from the Kentucky General Assembly. Kentucky Power Company has attempted to have approved by the Kentucky Public Commission a plan that will eliminate Kentucky jobs and harm the coal producer in this Commonwealth and in the coal fields of central Appalachia. Mr. Chairman and Mr. Gardner, on behalf of our people who pay the bill, and we're talking to here about tonight, many of them sitting behind me, and those coal miners who give their very breath and their very life and is under attack by the federal EPA today, by the Obama EPA, they're about to put us out of business. Life as we know it and the quality of life that we have looks to be doom. Now on behalf of these people and these coal miners surely an equitable structure can be derived that retains Kentucky jobs, support Kentucky businesses and saves money for these blessed people out there are wondering where they're going, they're gonna' pay their power bill, get their medicine, or buy food. So I mean that's that simple. At a time of the worst recession in the history of this country. The last raise was 17%. And you know over in West Virginia they didn't hit 'em that hard. They hit 'em in the long run but they was even staggered it. A little bit one year a little bit the next year but no not to our people. Not to those people on set incomes on social security SSI, veterans pensions. And that's the people I'm standing up for here today. And our coal industry. And our coal industry that's under attack. The coal industry is not the villain in this country. Coal industry is the hero in this country in America. But we ask you all to be considerate. I will file this and I'll ask Brandon to take it up and file it as part of the record here. But I've been at this a long time. I've appeared before your body many many times. But never ever did I think it would come to this, that I would be here in 2012 and and have to endure what our industry that we have 22% of the coal in the world in America. We have metallurgical coal here our majority is steam coal. But I ask you all to be understanding, understanding that what's going on in our coal industry, and what's going on with people's budget as they sit around their kitchen table and try to decide what they're gonna' have in their life. And that's sad. That is absolutely sad and uncalled for in this day and time especially we're just now coming out of recession in this country. You hit 'em with 17%, now looks like it may be 15%. Whatever it is, it's too much. Well what I gave you here tonight is the facts for you all to consider. I thank you all for coming to eastern Kentucky uh and being understanding and I hope that you will that you will go back and some of the things that I've told you that Charles Carlton and others on my staff put together from this big filing this complicated as your employee said it sure is complicated with a lot of letters and a lot of numbers that 99% of these people wouldn't know what you was talkin' about, wouldn't know what you was

talkin' about but that's the reason that I took this route today because we didn't have anybody and I'm talkin' about the consumer had nobody at the last time when the Attorney General did not did not and we couldn't even tell and Mrs. Napier can tell you in the conversations we had with him who who he was representing so that's the reason that we took our time and took our time and went through this and tried to understand that complicated as the gentleman talked about to try to understand what those letters and numbers meant. Go through it and look at it. And I hope that I made it more simple. It's not complicated what I said tonight. But you all have a mandate from the General Assembly and I hope that you all will make sure that this Kentucky energy which is so vital to this state and to this nation is remained in Kentucky. Thank you all and God bless.

Chairman Armstrong

The Chairman thanked the Judge and indicated we would receive the documents into evidence of this case. The Chairman then called on former Governor Paul Patton.

Governor Paul Patton

Thank you Mr. Chairman and thank you all for being in Pike County and giving our citizens an opportunity to learn more about this issue and to discuss their opinions with you. And let me say that this is a major rate increase. This will be a hardship on a lot of people. This will be a hardship on the University of Pikeville a major consumer of electricity providing educational services to this region. It is complicated. And I know what your responsibility is. I'm quite familiar with the operations of the Kentucky Public Service Commission and have been very impressed with its integrity and with its technical expertise. And I would expect you to use that expertise and that ability on behalf of the consumers of Kentucky. I fully understand who you're charged with protecting. And it's the consumers. You know, I wish we had, I'm glad we have low electric rates. I wish we had lower electric rates, if I had my wish I'd like to have free electricity. But I've got enough sense to know that that's not gonna' happen. I believe that we do have a very efficient electricity system in the United States and certainly in Kentucky. And that is in large part because of the work that this Public Service Commission has done over the years. I'm also glad that the Attorney General's office is charged with with sort of a second look at this information. But you know, what I want more than cheap electricity is electricity. I want to know that when I turn that switch on, that I'm gonna' have electricity. And it's gonna' be stable, reliable electricity. I wanna' know when some act of nature destroys the power line that I've got a company that's financially strong enough to be able to repair that line and restore electricity to me as quickly as is reasonably possible. And that is also a responsibility of the Public Service Commission. So I respect your your ability to do that and will trust your judgment. Let me say on behalf of Kentucky Power, I have found them to be a very responsible and concerned corporate citizen. And they take very seriously their responsibility to provide for us uh reliable economical electricity. And they are doing their best I believe to utilize Kentucky coal. Now your responsibility is to make sure that they have come up with the cheapest uh electricity for these people back here. But I appreciate the fact that

Kentucky Power has tried to do, from what I can understand, their very very best to also look out after another interest of this community which you do not have the power to possess. As eloquent as the Judge uh made his argument, the fact of the matter is you have no responsibility as I understand it to insist that they use any particular fuel. But rather, that whatever their proposal is, is the most economical proposal for these ratepayers. That's the only people that you have a responsibility to. We in the region have a responsibility to our coal companies. We have a responsibility to our coal miners. We certainly want uh uh as much Kentucky coal to be burned as is possible. And uh I believe that Kentucky Power will do that as a responsible corporate citizen it is in their interest that their customers are prosperous. You know, I've worked a little bit in economic development in my life, and my greatest partner was the electric utility business. Because they can't expand beyond their territory, the only way they can expand their business is for their customers to be more prosperous for their customers to be able to use more electricity. And they still have that same interest today. They're interested in our community. They're a responsible corporate citizen.

I will digress a little bit and say that we have a great medical school here in Pike County. Made part made responsible because 14, 15 years ago, some corporate citizens including uh Kentucky Power, American Electric Power, came forward with the amount of money that it took to get that school started. And that wasn't ratepayers' money. That was stockholder money. And uh, and they've shared it with this community. We're now in the business of building a \$40 million uh building to house that medical school and once again, AEP came together as a major corporate supporter that will allow us to build that building cheaper and provide a high quality education to our citizens in a less expensive way. So as much as I would like to have cheaper electricity, I'm trusting this Public Service Commission to do what is best for us and provide us with reliable electricity at the lowest possible cost. Again thank you for being here today. I have great confidence in your staff and in your decision. Thank you.

Chairman Armstrong

Thank you Governor. The Commission has received a letter from your State Representative Leslie Combs who is taking a similar tact from Judge Rutherford and Judge Patton and she's in a powerful position in the House so we have received her comments and her letter and she regrets not being able to be here but uh her certainly represented you well in the letter of March the 28th 2012. So that is received into evidence.

Are there any other public officials who wish to be heard at this time? Seeing no hands go up, I'm going to go to the sign in sheet and call on Ollie Calhoun.

Mr. Calhoun

[Mr. Calhoun declined to speak]

Chairman

We recognize you're here and thank you. You know some of you write like I do. And I often have trouble reading my own writing. Uh if I've pronounce your name wrong it's because I can't understand your writing but forgive me for that. It's uh Eugene, is it Gerth?

From Audience

Gibbs

Chairman Armstrong

Gibbs. OK. Welcome Mr. Gibbs.

Eugene Gibbs

Good evening. My name is Eugene Gibbs and I'm with the Pike County Senior Citizens Board. And I'm here tonight to uh speak on behalf of the senior citizens centers. We have eight centers in Pike County. And we serve somewhere between 800 and 1000 every day. Not every day a couple of centers is down to due to the economic pressures that we're under we're down some. So what I'm here to tell you is that our people cannot afford this rate increase. We just come back from a couple years ago the as they said before the 17% increase. But I'd like to tell you a little story about a little lady that come to me and she's in the Blackberry McCarr (?) area. She came to me about a year ago and she said, Eugene, I got my electric bill today and it's \$300. And she said I don't know what I'm gonna' do. I draw a little over \$600 a month. She's a widow lady. And she said, I just don't know how I'm gonna' afford my medication, my food, and pay my electricity. Well I told this little lady you know the power company has a program for you. I told her wrong. They don't have a program for this lady. And I'll tell you why. In order for the power company to help you as the individual such as the lady that I'm talkin' about, you have to have a disconnect notice. And if you don't have a disconnect notice, then Kentucky Power can't help you. Now some of the people in the neighborhood that was a whole lot younger than her, and can afford a whole lot more than her, had that disconnect notice. For what reason I don't know. But I do know that she the reason that she is didn't get a disconnect notice because one reason, she's never had a disconnect notice. Two reasons is if she would have let it go and got a disconnect notice, then they might not have had enough funding over here at the Big Sandy area that they had to give out these vouchers then they may have turned her power off and she would not have had any power. Now she is a proud lady. She was raised, she's in the neighborhood of about 77 years old. Somewhere in that area. And she was raised to pay her bills irregardless of what the outcome comes. So she said somehow I'm gonna' pay this bill. She did. She took a little box she showed me and she put her medication inside that box and stamped it. What that done was it cut that pill in half. And what that done was she took a month's supply of her medication and

made two months out of it. Now in the 21st century in this country, that should not happen whatsoever. And I can't stand here and tell you I blame that all on the power company because it's not all the power company. There's other things that that plays into this part. But that touched my heart. That really really touched my heart. Now over the centers and the other seven centers in this county, I'm sure we have other people in that same situation. But I'm here tonight to plead with you all to consider about this little lady. I would love to have her standin' right here but she declined anything like that. And according to the HIPPA Act, I'm not allowed to tell you who it is. But I can assure you this is a true statement. And it hurts my heart to have to stand here in front of you all and tell you all this. I beg for you all to look and consider what our people and the senior citizens have to go through in eastern Kentucky. So when you lay down tonight when you say your last prayer before you go to sleep, think about this little lady. Think about the families that we have to contend with each and every day. I've been with this program for 13 years. I've seen 'em come and I've seen 'em go. I've seen 'em struggle to make it daily. And just too much month at the end of the money. Just not enough for these people. So please please consider our senior citizens of eastern Kentucky. Thank you for listening.

Chairman Armstrong

Thank you Mr. Gibbs. Again, if I don't pronounce your name uh this is a Alex who lives on Jenkins Road?

From audience

?

Chairman Armstrong

I'm sorry?

From audience

Individual declined to speak.

Chairman Armstrong

OK. Thank you for being here. And uh, Mark Thomas. Mr. Thomas. Welcome.

Mark Thomas

Thank you. I represent several crafts people in the area of Louisa uh mainly what I represent is uh mechanical insulators. I just want to state for the record that uh I'm in favor of the scrubber project and that's really all I've got to say. Thank you.

Chairman Armstrong

Thank you. Miss Carol Napier. Thank you Miss Napier. You may want to adjust that microphone.

Carol Napier

Uh.

Chairman Armstrong

Welcome.

Carol Napier

Gentlemen, my name is Carol Napier. I'm the Commissioner of the Pike County Community Services Department and the program supervisor of the Pike County Senior Citizens Program. Although I understand that Kentucky statute allows for utility companies to recover both capital and operating costs from customers for changes made to comply with regulations, this just doesn't set well with me. And it's something we need to address with our legislators at a later date. What really trouble me is the fact that the power companies can continue to make a healthy profit at the expense of the ratepayers. I come in contact daily with individuals who are truly struggling to make ends meet. Every day my office receives calls from citizens of this county who need help in paying their electric bills. In fact, the majority of those who call are referred to my office by the Kentucky Power Company. It is those individuals that live on a fixed income the senior and the disabled and the working poor I am concerned about. We've already seen a 31.5% increase in our electric bill since 2002. As part of this mix, I think consideration should be given to a program such as lifeline that will allow those seniors and the disabled who are on fixed income and the working poor a subsidized rate that is offered in other states. I would ask that this in the mix of things as I stated that this be given consideration that we look at such a program as lifeline. I thank you for coming and listening to our comments.

Chairman Armstrong

Thank you Miss Napier. Mark Johnson. Welcome Mr. Johnson.

Mark Johnson

Thank you. My name is Mark Johnson. I'm representative of the Tri-States building and construction trades council. And we represent the construction workers in eastern Kentucky. We built and maintained this facility at Big Sandy since it was first first built and operated. And the maintenance alone provides a lot of jobs for our membership. You look around Pike County and there's a lot of construction work going on also. There's many jobs there for our membership. We provide infrastructure to the coal industry. It's vital that the Kentucky coal be utilized as much as possible to our people. I also have an 83 year old mother at home that that lives on nothing but social security and I understand exactly what the gentleman comment said and my mother wouldn't take a dime off of me as assistance but she pays her bills also. There's a lot of good points been made here tonight. And I also agree with a lot what the Judge Exec said and Charles Carlton is a personal friend of mine. But anyway, I would love to see as much Kentucky coal utilized as (?) responsible also. But far as AEP is concerned, they've been a good partner to the building trades and provided a lot of good jobs and they have committed to utilizing local building trades to do this scrubber project which I believe is a big plus to the local economy also. But I thank you for your time and that concludes my comments.

Chairman Armstrong

Thank you Mr. Johnson. Jeff Rowe. Welcome Mr. Rowe.

Jeff Rowe

How ya doin? My name's Jeff Rowe. I'm a business representative for the sheet metal workers eastern Kentucky and we too uh support the scrubber project at the Big Sandy. And we also support the coal industry. I think uh eastern Kentucky there's not one community that's not uh affected by the coal industry. And we just need to keep coal here. Thanks.

Chairman Armstrong

Thank you Mr. Rowe. Mae Mellert? Or is that Mac Mellert.

Mac Mellert (sp?)

Mac.

Chairman Armstrong

Mac, I apologize.

Mac Mellert

That's ok. My writing's not that good either.

Chairman Armstrong

Mine's terrible.

Mac Mellert

My name's Mac Merrert and I represent uh the bricklayers of eastern Kentucky and for that reason I'm in favor of the scrubber project and we've worked with AEP. It looked like AEP's done their homework and they put that raise out there for which is going to be four years from now and who knows what happens if the scrubber doesn't stay there what we'll get or what kind of a hike that the electric bills will take if we have to buy it off the grid somewhere else. So I'm in favor of keeping the scrubber there and doing that work. Thank you.

Chairman Armstrong

Thank you sir. Scott Sykes. Welcome Mr. Sykes.

Scott Sykes

Thank you all for coming to Pikeville. Good evening. My name is Scott Sykes and I'm a lifelong resident of Pike County. I'm here today to voice my concern regarding Kentucky Power's request for the Public Service Commission to approve plans to spend \$940 million at the Big Sandy power plant located in Louisa. This increase is supposed to cover the costs associated with upgrading this facility and effort to keep it in compliance with new standards for coal fired generation plants by placing a scrubber system on the plant's 800 megawatt generation unit. Big Sandy power plant was commissioned in 1963 and serves 20 counties in eastern Kentucky Pike County included in that. With 49 years of service, why has Kentucky Power not budgeted for improved emissions or prepared for the day of stricter environmental regulations? This is a utility company. And utility companies work 5, 10, 25, and 50 year plans. So why is it that citizens of eastern Kentucky are expected to pay for something that should have been budgeted all along? I'm at a loss for words today. I'm at a loss of words because I can't believe that we're here again discussing yet another rate increase for a multi-billion dollar corporation. Why was the \$940 million for improvements not amortized over the life cycle of this facility? Where does it stop? This decision affects every man, woman, and child. It affects 173,000 citizens who choose to call these mountains their home many of which live on fixed incomes. And you, the Public Service Commission, are charged with protecting us from these companies that put profit over fairness. This

brings us to a crossroads where we have an opportunity to move forward and embrace modern technology in energy policy or to stay the course and continue to wreak havoc on the people who suffer at the whim of this titan of industry. There are things we must do to move the Commonwealth forward. One, implement a renewable portfolio standard. This diversifies our state's energy portfolio by introducing new industry and technology to the Commonwealth's energy mix. Increase net metering rate. We must increase net metering rate to at least that of the wholesale electric rate. This will encourage the development of residential generation and add to the state's overall renewable output. Restructure electric bills to do away with fuel adjustment costs in order to accurately reflect a true kilowatt per hour cost for each household. It is inaccurate to tout the Commonwealth's electricity rates as being the lowest in the nation when the cost of fuel is not accurately reflected in our bills. Therefore, making it easier to reject the impact of renewables in our energy markets. We must implement peak and off peak usage by introducing peak and off peak usage utility companies can better manage output to meet demand and stabilize usage. It is all too convenient for utility companies to dispel any attempt to diversify our Commonwealth's energy portfolio by saying they will increase costs when they hold strict control over the market. Yes, utility companies have a monopoly that is very well funded by the citizens, well backed by the coal industry, and well protected by the state. These companies have an enormous impact on our lives. From the buzz of the alarm clock in the morning to turning off the lights as we go to sleep at night. I ask you all to think carefully about this. I ask you to look at every man, woman, and child that's here before you tonight. And think about the impact that this has on our quality of life. We don't thrive here in eastern Kentucky. We have it hard. But we do we make do with what we have. And we cannot sustain anything for our children and for our families if we have to pay another 30% increase in our power bills. Thank you all for your time.

Chairman Armstrong

Thank you Mr. Sykes. Mr. Dennis Morgan. Mr. Morgan.

Dennis Morgan

Thank you Mr. Chairman, committee. Can you hear me?

Chairman Armstrong

Yes.

Dennis Morgan

Thank you for giving me the opportunity to speak. Uh, my name is Dennis Morgan. I'm President of Teamsters Local 505 and myself as well as many other teamster locals represent other many other folks in eastern Kentucky. And this whole issue I believe that's before us today is to determine whether or not uh your Commission, Public Service Commission, is gonna' approve AEP's request for this rate increase to cover the cost of installing the scrubbers on the Big Sandy power plant. And we've heard a lot of compelling arguments about the costs and how folks can't afford it and how folks are struggling and that's true. That's true not only in eastern Kentucky, southern West Virginia but it's true across this country in given locations. But I think the real issue is to determine whether or not these folks are going to be able to control or have some impact on the continued generation of electricity at the Big Sandy power plant. If I understand correctly, the EPA is the one who is requiring that the scrubber either be put on or the plant be shut down. And if I understand the presentation in the earlier session, uh, one of the two plants is already planned to be shut down so that will only leave a single generating station. Absent the scrubbers being installed, then these folks are going to be placed uh uh in a position where they have to rely on someone else to provide their power. And I agree with what they say. The the the use of Kentucky resources, coal, natural gas, should be used as much as possible. But if you end up not installing the scrubbers at all, then it's my understanding that the plant will be shut down altogether. That then leaves these folks at the mercy of people far away from here to provide them with the electric that all of us have come to not only enjoy but we need. So I hope that on behalf of the folks that I represent that they'll be given that opportunity to continue to control their future and that you will approve AEP's application. At least that way, these folks have some opportunity to have some input and to receive some of the benefit that comes from the jobs, that AEP provides, and the jobs that coal has and the residual jobs that come out of those that supply the coal and the electric industry. Thank you.

Chairman Armstrong

Thank you Mr. Morgan. Garlene Layne Abshire. Welcome Ms. Abshire.

Garlene Layne Abshire

Hello Gentlemen. My name again is Garlene Layne Abshire and I'm a normal working class woman. Uh, I'm a teacher. I have a disabled son who's 22 years old, traumatic brain injury. As you know, medical costs are are tremendous for me. I have a disabled husband. Now I'm here for some of us what we call normal working people. We're not here to say don't put the scrubber in, don't put the scrubbers in. We're not saying that. We know that a lot of our industry depends on AEP, a lot of our jobs. My family is coal. I mean that's all we are from my grandfather who worked for Henry Ford when he first came to McVey, Kentucky and put in one of the first coal mines in the whole area. So it's been through my generations. My dad, uh my brother and uncles and cousins and

nephews. I mean that's what our life is is coal. All we're asking is that you seriously think about the amount of this increase and what it's gonna' do to us. Again, some in the earlier session someone talked about problems for those who can't afford it. Well you know I live paycheck to paycheck. I pay right now I'm on the uh where we just pay so much per month the equal payment plan. That is \$248 a month. I send \$300 every month so that I will equal out no matter what the temperature is so I don't have to worry about in October my month to where they say well you owe this month or we owe you back. So I want that covered where I don't have that to have to worry about. So we're not we're not sayin' don't put the scrubbers in. We're sayin' do it in a rate to where we can pay this. Now 30%'s gonna' increase me almost another \$100. I honestly cannot pay \$400 a month for an electric bill. Now we have a lot of people who are trying to use kerosene heaters, uh the old coal stoves again, their fireplaces again, and we have homes that are being burnt down. Lives that are being lost and that's what's gonna' happen if this big increase hits us all at one time like this. So we're just we just askin' you all to consider all these facts. Now as the former Governor said, AEP has helped tremendously with our our new medical building being built here. AEP has major profits so how come some of those profits can't cover some of this cost to where we could recoup this and still not penalize us normal working people or those on a fixed income? Thank you.

Chairman Armstrong

Thank you Mr. Abshire. Charles Baird.

Charles Baird

Thank you all for coming to our city. Hope before you leave rather than just go down the road to Jenny Wiley that you will drive through downtown and see the wonderful things that are going on with our new hospital and courthouse and the about \$150 or 60 million dollars worth of projects that are going on. But uh

Chairman Armstrong

It's impressive.

Charles Baird

Yes it is. Thank you all for your service. I know you all don't have the most pleasant job in the world. Uh but I really think the job you have is gonna' be of a continuing nature. This is one rate increase that is based on environmental regulations that have been placed on us by EPA. And uh, the young man here that spoke, uh, wish I had a speechwriter, number one. I think he did a great job. I didn't agree with a thing he said but he did a great job. But his question was where does this end. And unless we stop the burdensome regulations it's not going to end. You're going to be faced with this

many times uh over the next many years if things don't stop. His question was where does it stop. And it only stops when these massive unnecessary environmental regulations cease. This 80,000 pages of new regulations this since Mr. Obama – 80,000 pages of new regulations and this is all coming down to the consumer. These things aren't aren't free. I know I'm not addressing a lot of things you all can consider but you know, like someone said earlier, we're spoiled here in Kentucky. We have the second or third or fourth lowest energy rates of anywhere in the United States. Uh, your figures are wrong there. Uh, sir when you said that those figures were not accurate. We're spoiled. Spoiled by the dependability. Just go over and switch the switch. And the reason is because 95% of Kentucky electricity is produced by coal. That's that is the reason. Here in our local community, the effect of this facility down there in Louisa, I don't know how many tens and tens of millions of eastern Kentucky coal have gone to that facility since it was built in the '60's, but it's many many tens of millions and has accounted for thousands and thousands of jobs. And we would like that to continue indefinitely (?). And the only way it can continue if if you all approve the installation of the scrubbers. Uh, by the way I'm Chairman of coal operators and associates which is the largest coal association in the state of Kentucky. I've been Chairman since 1987. I'm also a director of the FACES, which is the Federation of American Coal and Energy Security, so I've dealt with not with you folks but with other folks that have the power to make decisions and we're wanting to encourage you to make the decision to approve this project. And, this gentleman here, and I pay myself, personally, between several people's electric bills, on a monthly basis and I know that's a struggle. When I go through the city of Pikeville, I stop and talk to people. I have about 40 people that work for us in our law firm. And I know the struggle those folks go through paying their electric bills. And I when I go around town I ask people about how they're paying their electric bills and there's not one person that I've talked to is not struggling with this. But it goes back to this massive amount of unnecessary regulation. And if you if you want to get on the internet sometimes and I think the gentleman's name is George Innis. He is the head of CORE, which that's the Congress of Racial Equality. He's an African American, and it's an African American group. And he has spoken out on these issues of all these regulations that and the impact of those regulations are are coming home to roost on the folks that can't pay 'em. I can pay my electric bill. This is not going to hurt me. This is going to hurt you all. And it's all because of unnecessary regulations. Uh, and I know that's a debatable point, but it has to be examined because people in the whole country are not able to afford what they're doing. So we uh, I'm sure my time is up but am I the last speaker? So we request that you approve this uh and one last point, I think it would be helpful if there were some kind of regulation to place on the electric bill what the environmental regulations are costing the people in Kentucky. You know if you've got a \$100 utility bill, why not state that this particular regulation that was enacted at this certain time or put it on the flip side or put it on your internet. This regulation caused (?) 15% of this bill. You know, and some other regulation cost (?) 12% . And this was this and this was that. I think people's eyes would be opened as to why their electric bills – it's not the electric company's problem. They didn't create it. You didn't create it. The state of Kentucky didn't create it. But we've got an agency that's totally out of control that is runnin' this country and ruining our livelihood and it's

changing our uh it's changing our ability to make ends meet. So with that said, I'll quit and I appreciate. Be sure to go uptown though. Just drive around town one time.

Chairman Armstrong

We have. We're very impressed. Next speaker is Frank Fitzpatrick.

Mr. Fitzpatrick

Mr. Fitzparick indicated from the audience he had no comment.

Chairman Armstrong

Thank you for your attendance tonight. Ladies and gentlemen that was our last sign up speaker. Are there any individuals who did not sign up who would like to be heard at this time?

I want to urge you to communicate with us through cards, letters, e-mail. Uh, this is an important case, and the Commission would like to hear from as many people as possible. Uh, and I urge you to consider even after this and even up to the day of April the 30th our hearing date to communicate with us and express your opinion. Uh, we don't judge you on your opinions, we we want to understand the effect of this uh case will have on you so as I mentioned earlier, uh, have many ways to communicate to us and I hope you will do that. Ah, seeing no more speakers, I'm gonna' call this um hearing to a close and it's been a very uh beneficial one for the Commission. I thank you all for your attendance.

Attachments:

Exhibit # 1 Sign-In Sheets consisting of 7 pages

Exhibit # 2 Information Received from Judge Wayne T. Rutherford

Consisting of Testimony of Hon. Judge Rutherford and his

Exhibit A 4/4/2012 Rutherford (consisting of 2-13 of Direct
Testimony of Ranie Wohnhas and verification page of Mr.
Wohnhas)

And

Exhibit B 4/4/2012 Rutherford (consisting of 1 page which is identified as
ES Form 3.15 Page 1 of 11; Supplemental Response to Item No.
41 March 9, 2012 Attachment 1 Page 11 of 25)

(this information provided in folder identified by "America's Energy Capital
Pike County, Kentucky and also containing the business card of Brandon
C. Roberts, Administrative Assistant, Media Relations Specialist, Pike
County Fiscal Court)

Exhibit # 3 Letter dated March 28, 2012 from State Representative Leslie Combs to
Chairman David Armstrong

Exhibit # 4 Comment from Patricia Young, Hardy, Kentucky

PUBLIC MEETING - SIGN-IN SHEET

Kentucky Power Co./AEP - Case No. 2011-00401

Pikeville - April 4, 2012

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?
1 <u>Bill Calhoun</u>	<u>654 HWY 610 W VIRGIF</u>	<u>YES</u> NO
2 <u>Charles O Gault</u>	<u>PO 339 on 146 Main St Pikeville Ky</u>	YES <u>NO</u>
3 <u>Joey Bantley</u>	<u>515 Left Fork Rockhouse Elk Horn City, Ky</u>	YES <u>NO</u>
4 <u>Ken Galt</u>	<u>CHG, 1024 Capital Cr Dr. Frankfort</u>	YES <u>NO</u>
5 <u>Ann Stacy</u>	<u>80 Taylor Rd, Pikeville, KY 41501</u>	YES <u>NO</u>
6 <u>James W. Young</u>	<u>millers Hardy Ky 41531</u>	YES NO
7 <u>Pat Young</u>	<u>millers Hardy Ky 41531</u>	YES NO
8 <u>Justin Handshoe</u>	<u>1040 Millard Stones Br.</u>	YES <u>NO</u>
9 <u>Joe M'Master</u>	<u>617 A 2nd Ave Ches. OH 45619</u>	YES <u>NO</u>
10 <u>Chuck Allen</u>	<u>330 Pvt Rd 4750 Decina Lu #132</u>	YES <u>NO</u>

PUBLIC MEETING - SIGN-IN SHEET

Kentucky Power Co./AEP - Case No. 2011-00401

Pikeville - April 4, 2012

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?	
1 Tom Vienkelkn;	P.O. Box 37; Banner, Ky 41603	YES	<input checked="" type="radio"/> NO
2 John Rumber	147 Clark Dr; Prestonburg Ky 41629	YES	<input checked="" type="radio"/> NO
3 Eugene Gith	1775 upper Blackburg R. Ransom Ky. 41558	<input checked="" type="radio"/> YES	NO
4 Gail Bitts	" " " " " " " " " " " "	YES	<input checked="" type="radio"/> NO
5 Judd Johnson	154 Adkins Ln. Pikeville, Ky	YES	<input checked="" type="radio"/> NO
6 Jace Johnson	154 Adkins Ln Pikeville, Ky	YES	<input checked="" type="radio"/> NO
7 Alex DeSla	1348 Jenkins Rd whitesburg, ky 41858	<input checked="" type="radio"/> YES	NO <i>maybe</i>
8 Mark Thomas	7901 Rt 34 winfield wv 25215	<input checked="" type="radio"/> YES	NO
9 Jeanne Robinson	146 main St. Pikeville, Ky 41501	YES	<input checked="" type="radio"/> NO
10 Tony [unclear]	247 Mt. Martha Dr Pikeville Ky 41501	YES	<input checked="" type="radio"/> NO

PUBLIC MEETING - SIGN-IN SHEET

Kentucky Power Co./AEP - Case No. 2011-00401

Pikeville - April 4, 2012

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?	
1 Pauline Chadders	3320 Marrowbone Cr. Elkhorn City, Ky 41522	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO
2 Amy Napier	1829 Hurricane Lane Ky	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO
3 Mark Johnson	2141 Carter Avenue Ash. Ky	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO
4 Jeff Rowe	16 Valley Ct. Huntington W. VA	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO
5 Mr. Mallett	2553 Carter Ave Ashland Ky	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO
6 H Frank Adair	146 Main St Pikeville Ky 41501	<input checked="" type="checkbox"/> YES	<input checked="" type="checkbox"/> NO
7 SCOTT C. SYLES	140 HIGH STREET ELKHORN CITY, KY 41522	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO
8 Bob Shurtlett	3249 N. MAYO TRAIL Pikeville Ky 41501	<input checked="" type="checkbox"/> YES	<input checked="" type="checkbox"/> NO
9 DENNIS ROHRE	41 WEBSTER way Pikeville 41501	<input checked="" type="checkbox"/> YES	<input checked="" type="checkbox"/> NO
10 [Signature]	1828 Hurricane Cr. Ky 41539	<input checked="" type="checkbox"/> YES	<input checked="" type="checkbox"/> NO

PUBLIC MEETING - SIGN-IN SHEET

Kentucky Power Co./AEP - Case No. 2011-00401

Pikeville - April 4, 2012

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?
1 <u>Dennis Sackett</u>	<u>B2467 Darton, Ky</u>	YES <input type="radio"/> NO <input checked="" type="radio"/>
2 <u>Angela Rutherford</u>	<u>PO Box 2010 Pikeville Ky 41502</u>	YES <input checked="" type="radio"/> NO <input type="radio"/>
3 <u>Gracie Bentley</u>	<u>515 LF Rockhouse Galbreath City Ky 41503</u>	YES <input checked="" type="radio"/> NO <input type="radio"/>
4 <u>Carl Patton</u>	<u>3880 Greasy Creek Road, Spelbiano, Ky 41562</u>	YES <input type="radio"/> NO <input type="radio"/>
5 <u>Tracy Kiser</u>	<u>949 Coney Hwy Pikeville KY 41501</u>	YES <input type="radio"/> NO <input checked="" type="radio"/>
6 <u>Brad Pitt</u>	<u>720 Beach Hollow Forest Hills, Ky 41527</u>	YES <input type="radio"/> NO <input checked="" type="radio"/>
7 <u>Dennis Morgan</u>	<u>834 Washington Ave Huntington, WV ²⁵⁷⁰⁴</u>	YES <input checked="" type="radio"/> NO <input type="radio"/>
8 <u>William G. Poush</u>	<u>500 exacted Ashland, KY 4101</u>	YES <input type="radio"/> NO <input checked="" type="radio"/>
9 <u>Daria A. Geach</u>	<u>PO Box 3158 Pikeville KY 41501</u>	YES <input type="radio"/> NO <input checked="" type="radio"/>
10 <u>Jocelyn Grassmiller</u>	<u>202 Scott Ave</u>	YES <input type="radio"/> NO <input checked="" type="radio"/>

PUBLIC MEETING - SIGN-IN SHEET

Kentucky Power Co./AEP - Case No. 2011-00401

Pikeville - April 4, 2012

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?	
1 Billy Gamble	391 west maple Salycusville Ky	YES	<input checked="" type="radio"/> NO
2 Jack Gamble	73 Central Solyersville Ky	YES	<input checked="" type="radio"/> NO
3 Paul Patton		YES	<input type="radio"/> NO
4 Ed Reliford		YES	<input checked="" type="radio"/> NO
5 Jerry McMan	138 Sixth St Pikeville, Ky 41501	YES	<input checked="" type="radio"/> NO
6 John Doug Hays	P.O. Box 1470, Pikeville	YES	<input checked="" type="radio"/> NO
7 Brad Hall	787 Hambley Blvd Pikeville KY 41501	YES	<input checked="" type="radio"/> NO
8 SEWE BAKEY	24 Oakwood Dr Huntington WV 25701	YES	<input checked="" type="radio"/> NO
9 Shanda		YES	<input checked="" type="radio"/> NO
10 Bill Omer		YES	<input type="radio"/> NO

PUBLIC MEETING - SIGN-IN SHEET

Kentucky Power Co./AEP - Case No. 2011-00401

Pikeville - April 4, 2012

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?	
1 Everett Phillips	12333 Kevin Av. Ashland, Ky	YES	<input checked="" type="radio"/> NO
2 Rance Wohlers	1846 Mill Creek Pike Lawrenceburg	YES	<input checked="" type="radio"/> NO
3 PAUL DAVIS	302 TRIMBLE BR, BOSTONSBURG, KY 41053	YES	<input checked="" type="radio"/> NO
4 Patricia Rutherford	133 West cedar Dr	YES	<input checked="" type="radio"/> NO
5 Harlene Layne-Abshire	1058 Hurricane Rd Kumpen Ky 41539	<input checked="" type="radio"/> YES	NO
6 Willie Abshire	"	YES	NO
7 Chris Anderson-App-News-Express		YES	<input checked="" type="radio"/> NO
8 Mark Baird	P.O. Box 351 Pikeville, Ky	<input checked="" type="radio"/> YES	NO
9 Leslie A. Wilson	PO Box 2116 Elkhorn City, Ky	YES	<input checked="" type="radio"/> NO
10 Dorothy Cochran	Pikeville Ky	YES	<input checked="" type="radio"/> NO

PUBLIC MEETING SIGN-IN SHEET

Kentucky Power Co./AEP - Case No. 2011-00401

Pikeville - April 4, 2012

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?	
		YES	NO
1 Frank Fitzpatrick	PO Box 326, Prestonsburg, KY 41653	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2		YES	NO
3		YES	NO
4		YES	NO
5		YES	NO
6		YES	NO
7		YES	NO
8		YES	NO
9		YES	NO
10		YES	NO

TESTIMONY – PIKEVILLE, KENTUCKY

Before the KENTUCKY PUBLIC SERVICE COMMISSION

The Honorable Wayne T. Rutherford

Pike County Judge/Executive

April 4, 2012

Pike County is America's Energy Capital and if a state would be the 10th largest producer of coal in the United States. Pike County in addition produces 53% of all of the natural gas produced in Kentucky. Pike County also is vitally interested in the provision of fair and equitable electrical power rates for our population using our abundant natural resources.

In reviewing the proposed changes affecting the only plant owned by Kentucky Power Company, I wish to restrict my remarks to a review of proposed plans and comments by other parties.

The first party that I wish to discuss is the Sierra Club. The central purpose of the objection of the Sierra Club is to attempt to either convert the Big Sandy Plant to natural gas as a fuel or to close the plant and purchase power requirements from renewable sources of energy.

Because a series of interstate pipelines cross the Big Sandy River near the Big Sandy Power Station, it is very likely that any natural gas to be purchased would not come from Pike County or the Big Sandy Valley but instead would come from offshore platforms in the Gulf of Mexico or on shore from Louisiana or Texas wells. Several major interstate pipelines cross the Big Sandy River very near this plant and presently serve other natural gas fueled peak power stations that are in the immediate vicinity of the Kentucky Power Big Sandy Unit No. 2

As Kentucky Power notes ...“Retiring the Big Sandy Unit 2 and replacing it with a gas unit would have cost approximately 86 jobs and 6.0 million in annual compensation..... In addition, the Company calculated that the gas option would have reduced payroll and property taxes respectively by \$3.2 million and \$461,000 annually. With market prices at \$75 per ton, coal sales to Big Sandy plant inject approximately \$165 million into the local economy which would be eliminated along with the indirect impact on mining and transportation (500 jobs, \$8 million in severance tax and \$25 million in wages per year)...” Direct Testimony of Ranie K. Wohnhas, Managing Director, Regulatory and Finance, Kentucky Power Company, Lines 13-21, Page 8 SEE EXHIBIT A.

The central purpose of the objections of the large industrial customers is to cost shift in so far as possible any rate increase to households and medium service customers by increasing the cost to users of distribution lines and reduce the cost to customers supplied directly by transmission lines. In general we do not have such customers in Pike County.

Customers in Eastern Kentucky already pay partially for the cost of construction of plants such as the plant located at Rockport, Indiana that services the industry in Western Kentucky. Unrealized by many consumers, in addition to paying for the cost of initial construction, consumers are being requested to pay for environmental upgrades at AEP plants in West Virginia and Ohio. For the month of December these charges for current operations were billed as ENVIRONMENTAL COSTS to Kentucky Power Company by Ohio Power Company and by Indiana Michigan Power Company in the total amount of \$1,573,350. See *KIUC First Set of Data Requests, Supplemental Response to Item No. 41, March 9, 2012, Attachment 1, Page 11 of 25. SEE EXHIBIT B.*

AEP plants that were billed in December 2011 to Kentucky Power consumers for environmental operating and capital costs included Amos Plant, Cardinal Unit No. 1, Gavin Plant, Kemmer Plant, Mitchell Plant, Muskingum River Plant, Sporn Plant, Rockport Plant and Tanners Creek Plant.

In particular in addition to the proposed changes at the Big Sandy Unit 2, there will be added to Kentucky Power's customers a proposed charge for the AEP (American Electric Power) Interconnection (Pool) agreement.

Quoting from the filing by Kentucky Power.....*“All of the charges associated with the Amos Plant (Near Charleston, West Virginia) and Tanner Creek Plant (Lawrenceburg, Indiana) projects flow to Kentucky Power through the Pool Agreement. In addition, a portion of the costs associated with the Rockport Plant (Rockport, Indiana) flow to Kentucky Power through the Pool Agreement. The remainder of the Rockport costs flow through the Rockport Unit Power Agreement.”* Lines 11-15, Page 12, Wohnhas SEE EXHIBIT A.

On behalf of the residents of Pike County and all consumers, I ask Kentucky Power to state for the record the disaggregated cost for the improvements at the Big Sandy Plant and using the exact same methodology used in the answer to this question, the costs to be paid by Kentucky Power consumers associated with the Amos and Tanner Creek Pool Agreement and the Rockport Unit Power agreement for environmental upgrades. I think the answer will be that a major portion of the cost asked to be paid by Kentucky Power consumers is for environmental improvements in West Virginia and Indiana among other states.

Regardless of the request for Kentucky Power consumers to pay for the cost of nearly a billion dollars for environmental upgrades at a series of plants including the Amos Plant, the Tanner Creek Plant and the Rockport Plant as well as the Big Sandy Power Station Unit 2, the major issue that affects Pike county and other counties in the Big Sandy Valley such as Martin County and Floyd County is the question of retaining the use of Kentucky coal as the source of supply for Big Sandy Unit 2.

In order to understand the plant changes proposed by Kentucky Power Company it is important to note that “...the Company chose a DFGB technology (Dry Flue Gas Desulfurization) that provides the ability to burn coal that has a sulfur content of up to 4.5 lbs. SO₂/MMBtu.” Lines 17-19, Page 7, Wohnhas SEE EXHIBIT A. Four point five pounds of sulfur dioxide per million BTUs is equal to 2.7 % sulfur coal using as a reference a 12,000 BTU coal.

As was noted in direct testimony by Mr. Ranie K. Wohnhas, Managing Director, Regulatory and Finance, Kentucky Power Company, Frankfort, Kentucky ...”The current environmental permits, as well as other physical limitations of the boiler, limit the plant’s possible fuel options to consuming only Central Appalachian (CAPP) low sulfur coal...” Lines 2-4, Page 10, Wohnhas SEE EXHIBIT A. While it true that currently only coal from Central Appalachia will work in the boiler, with the addition of a dry flue gas desulfurization system, high sulfur coal will enable Kentucky Power to expand fuel options including as they note, “.....potentially lower cost coals.” Line 9, Page 10, Wohnhas SEE EXHIBIT A.

The company did consider two flue gas desulfurization system alternatives. One would limit the company to coals having a sulfur dioxide content of 3.0 lbs of SO₂/MMBtu per pound or 1.8 % sulfur content. As was noted in the direct testimony of Mr. Wohnhas,...”While the 3.0 lbs. SO₂/MMBTU option (3 pounds of sulfur dioxide per million BTU) provides some additional fuel purchase flexibility, the blend of

Northern Appalachian (NAPP) or Illinois Basin (ILB) coal would most likely be limited to no greater than 30% with the remainder of the coal being from the CAPP (Central Appalachian) region.” Lines 15-18, Page 10, Wohnhas SEE EXHIBIT A.

Clearly Kentucky Power evaluated purchasing up to 30% of the coal supply for the Big Sandy Unit 2 from sources outside of Kentucky in either Northern Appalachia in Northern West Virginia or Western Pennsylvania or in the Illinois Basin which is located principally in the states of Illinois and Indiana.

Equally clearly Kentucky Power selected another alternative. As is noted in direct testimony by Mr. Wohnhas immediately following is this statement,... *“The 4.5 lbs. SO₂/MMBTU FDG (4.5 pounds of sulfur dioxide per million BTU in a Flue Gas Desulfurization unit) and boiler modifications being proposed would easily allow a 50/50 blend of either NAPP (Northern Appalachian) or ILB (Illinois Basin) coal to be blended with CAPP (Central Appalachian) coals, thus providing a lower overall cost of fuel.” Lines 18-21, Page 10, Wohnhas SEE EXHIBIT A.*

This planned purchase of coal from outside of Kentucky with up to 2.7 % sulfur content could eliminate, using figures prepared by Kentucky Power, one half of the \$165 million dollars in coal sales or a total of \$82.5 million dollars in coal sales, 50% of the coal mining jobs tied to the Big Sandy Unit 2 or 250 of 500 mining jobs and would eliminate \$4 million dollars of the total of 8 million dollars of Kentucky Coal

Severance Tax receipts and \$12.5 million dollars of the now current number of 25 million dollars in local wages.

While Kentucky Power projects that this fuel shift would have some savings to consumers, they project that...*"Such blending has the potential to save approximately eight percent on the cost of fuel annually."* Lines 21-22, Page 10, Wohnhas SEE EXHIBIT A.

Using the direct testimony of the witness for Kentucky Power Company for comparison, the coal supply for the Big Sandy Unit 2 is projected to cost 165 million dollars per year. An eight percent savings would be 13.2 million dollars at the most. The elimination of just the direct wages of Kentucky coal miners is virtually equal or 12.5 million dollars and this ignores the taxes paid by these same miners and their employers and the 4 million dollars of severance tax lost and the 82.5 million dollars in coal sales lost. A conservative figure often used in economic comparisons is that each dollar of economic activity generates at least three dollars of other economic activity. Using this metric, a loss of 82.5 million dollars in coal sales will take from the economy of this area approximately ONE QUARTER OF A BILLION DOLLARS PER YEAR. THE ECONOMIC LOSS OVER A TWENTY YEAR PERIOD WOULD BE IN CURRENT DOLLARS OVER FIVE BILLION DOLLARS.

Kentucky Power has proposed these changes based upon retaining coal as a fuel source. They have not publicized that the biggest economic impact will be to improve the economies of South Illinois and Indiana

and Northern West Virginia and Western Pennsylvania thus potentially depriving Kentucky residents of good paying jobs.

What also is disturbing is that while the mandate from the Kentucky General Assembly is for all power companies in Kentucky to use in so far as possible Kentucky natural resources, Kentucky Power Company is attempting to have approved by the Kentucky Public Service Commission a plan that will eliminate Kentucky jobs and harm Kentucky coal producers.

Mr. Chairman and members of the commission on behalf of our consumers and the miners and producers in this region I take strong exception to this plan. Surely an equitable structure can be devised that retains Kentucky jobs, supports Kentucky businesses and saves money for Kentucky Power consumers.

THANK YOU VERY MUCH FOR THIS OPPORTUNITY TO ADDRESS THE KENTUCKY PUBLIC SERVICE COMMISSION.

EXHIBIT "A"
4/4/2012
RUTHERFORD

WOHNHAS - 2

DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

CASE NO. 2011-00401

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**DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

1 Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

2 A: My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory
3 and Finance, Kentucky Power Company (Kentucky Power, KPCo or Company).

4 My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

5 **II. BACKGROUND**

6 Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
7 BUSINESS EXPERIENCE.

8 A: I earned a Bachelor of Science degree with a major in accounting from Franklin
9 University, Columbus, Ohio in December 1981. I began work with Columbus
10 Southern Power in 1978 working in various customer services and accounting
11 positions. In 1983, I transferred to Kentucky Power Company working in
12 accounting, rates and customer services. I became the Billing and Collections
13 Manager in 1995 overseeing all billing and collection activity for the Company.
14 In 1998, I transferred to Appalachian Power Company working in rates. In 2001,
15 I transferred to the AEP Service Corporation (AEPSC) working as a Senior Rate
16 Consultant. In July 2004, I assumed the position of Manager, Business
17 Operations Support with KPCo and was promoted to Director in April 2006. I

1 was promoted to my current position as Managing Director, Regulatory and
2 Finance effective September 1, 2010.

3 **Q: WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR,**
4 **REGULATORY AND FINANCE?**

5 A: I am primarily responsible for managing the regulatory and financial strategy for
6 KPCo. This includes planning and executing rate filings for both federal and state
7 regulatory agencies and certificate of public convenience and necessity filings
8 before this Commission. I am also responsible for managing the Company's
9 financial operating plans including various capital and O&M operational budgets
10 which interface with all other AEP organizations impacting KPCo performance.
11 As part of the financial strategy, I work with various AEPSC departments to
12 ensure that adequate resources such as debt, equity and cash are available to build,
13 operate and maintain the KPCo electric system assets providing service to our
14 retail and wholesale customers.

15 **Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

16 A: Yes. I have testified before this Commission in various fuel proceedings and the
17 last two base rate case filings (Case Nos. 2005-00341 and 2009-00459). I am also
18 testifying in our current filing for public utility status for Kentucky Transco (Case
19 No. 2011-00042), and in support of the Company's application for a certificate of
20 public convenience and necessity to construct the proposed Bonnyman-Soft Shell
21 138 kV transmission line and related facilities (Case No. 2011-00295).

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III. PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: The purpose of my testimony is to provide an overview of KPCo’s request for a certificate of public convenience and necessity (CPCN) to install the necessary environmental control equipment on Big Sandy Unit 2 (“the Plant”) as required by final and proposed environmental regulations, and its inclusion as part of the Company’s 2011 Environmental Compliance Plan and Environmental Cost Recovery mechanism. Also, I will be addressing the recovery of approximately \$15.2 million of costs incurred and currently recorded in account 183 for a Phase I feasibility analyses for a flue-gas desulfurization (FGD) system on Big Sandy Unit 2 as part of the Company’s on-going efforts to meet Federal Clean Air Act and related requirements. That feasibility analysis began in the third Quarter of 2004 and was suspended in the second Quarter of 2006. Lastly, I will address the accounting treatment of a fifteen year depreciation life recovery for the FGD and treatment of emission allowances.

Q: PLEASE IDENTIFY THE OTHER WITNESSES TESTIFYING IN SUPPORT OF KPCO’S APPLICATION IN THIS PROCEEDING?

A: The other witnesses testifying on behalf of KPCo are:

<u>Witness</u>	<u>Title</u>	<u>Testimony Support</u>
John M. McManus	Vice President – Environmental Services	Environmental Laws and Regulations
Scott C. Weaver	Managing Director – Resource Planning & Operational Analysis	Economic Evaluation of Resource Alternatives
Robert L. Walton	Managing Director – Projects & Controls	FGD Technology and Project Cost Estimates

Lila P. Munsey	Manager, Regulatory Services	Environmental Cost Recovery
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1 **IV. ADDITIONAL ENVIRONMENTAL CONTROLS TO BE INCLUDED**
 2 **IN THE 2011 ENVIRONMENTAL COMPLIANCE PLAN**

3 Q: WHAT SPECIFIC ENVIRONMENTAL CONTROL FACILITIES IS
 4 KPCO SEEKING AUTHORITY TO INSTALL AT KPCO'S BIG SANDY
 5 UNIT 2?

6 A: The Company is requesting permission to install a dry flue gas desulfurization
 7 (DFGD) system that includes an ash haul road and landfill. These are described
 8 in more detail in the testimony of Witness Robert L. Walton.

9 Q: ARE THERE OTHER ENVIRONMENTAL PROJECTS THAT KPCO IS
 10 REQUESTING TO ADD TO ITS EXISTING ENVIRONMENTAL
 11 COMPLIANCE PLAN SO AS TO RECOVER THE COSTS ASSOCIATED
 12 WITH THROUGH ITS ENVIRONMENTAL SURCHARGE?

13 A: Yes. We are requesting approval to include four projects from Ohio Power's
 14 Amos plants and one project each from Indiana & Michigan's Rockport and
 15 Tanners Creek plants in KPCo's 2011 Environmental Compliance Plan. The need
 16 for these projects is explained in the testimony of Witness John M. McManus.
 17 The recovery of their associated costs is discussed in the testimony and exhibits of
 18 Witness Lila P. Munsey.

1 V. FLUE GAS DESULFURIZATION UNIT (FGD) AND OTHER
2 MODIFICATIONS TO BIG SANDY UNIT 2

3 I. BIG SANDY UNIT 2 FGD

4 Q: WHY DOES BIG SANDY UNIT 2 REQUIRE A FGD UNIT?

5 A: Witness McManus details in his testimony the final and proposed environmental
6 requirements affecting the continued operation of KPCo's Big Sandy Unit 2. The
7 need to address these environmental issues and time frames for their
8 implementation led the Company to analyze multiple alternatives as discussed by
9 Witness Scott C. Weaver. After reviewing these alternatives, the Company
10 selected the DFGD as the most cost-effective means of complying with the
11 Federal Clean Air Act as amended and those federal, state, and local
12 environmental requirements which apply to coal combustion wastes and by-
13 products in connection with its operation of Big Sandy Unit 2, particularly in light
14 of the short compliance time.

15 Q: WHAT TECHNOLOGY WAS CHOSEN FOR THE FGD AT BIG SANDY
16 UNIT 2?

17 A: As discussed in Witness Walton's testimony, the Company chose a DFGD
18 technology that provides the ability to burn coal that has a sulfur content of up to
19 4.5 lbs SO₂/MMBtu.

20 Q: WERE OTHER ALTERNATIVES TO THE FGD UNIT CONSIDERED?

21 A: Yes. The Company evaluated two different combined cycle gas alternatives and a
22 "market-purchase" alternative. Witness Weaver explains these alternatives in
23 detail in his direct testimony.

1 Q: WHY WERE THESE ALTERNATIVES NOT CHOSEN?

2 A: As explained in detail by Witness Weaver, the DFGD was the least cost compared
3 to the two combined cycle gas alternatives and the "market-purchase"
4 alternatives.

5 Q: WHAT OTHER FACTORS WERE CONSIDERED BY THE COMPANY
6 IN DECIDING TO INSTALL A FGD UNIT AT BIG SANDY UNIT 2?

7 A: Although not outcome determinative, the Company believes socio-economic
8 factors also favor its choice. In addition, KPCo also considered the General
9 Assembly's policy of fostering and encouraging the use of Kentucky coal by
10 electric utilities serving the Commonwealth in weighing the gas and market
11 purchase options.

12 Q: WHAT WERE THOSE SOCIO-ECONOMIC FACTORS?

13 A: Retiring Big Sandy Unit 2 and replacing it with a gas unit would have cost
14 approximately 86 jobs and \$6.0 million in annual compensation. Of course, the
15 market purchase option would have had an even greater deleterious effect. In
16 addition, the Company calculated that the gas option would have reduced payroll
17 and property taxes respectively by \$3.2 million and \$461,000 annually. With
18 market prices at \$75 per ton, coal sales to Big Sandy Plant inject approximately
19 \$165 million per year into the local economy which would be eliminated along
20 with the indirect impact on mining and transportation (500 jobs, \$8 million in
21 severance taxes, and \$25 million in wages per year) of the gas options.

22 Q: WAS THE COMPANY'S FINAL DECISION BASED UPON THESE
23 SOCIO-ECONOMIC ITEMS?

1 A: No. The DFGD alternative was the clear economic low cost winner with the least
2 risk. But the socio-economic effects informed and reinforced that decision.

3 Q: PLEASE RECONCILE THE COMPANY'S CURRENT PROPOSAL TO
4 RETROFIT BIG SANDY UNIT 2 WITH A FGD UNIT WITH ITS JUNE 9,
5 2011 ANNOUNCEMENT THAT IT INTENDED TO RETIRE BIG SANDY
6 UNITS 1 AND 2 AND REPOWER BIG SANDY UNIT 1 AS A COMBINED
7 CYCLE GAS UNIT.

8 A: Those plans were based upon a preliminary analysis that indicated repowering of
9 Big Sandy Unit 1 would be the least cost alternative. Subsequently, and as
10 explained by Witness Walton, a more robust and detailed analysis was performed
11 on the four alternatives. That completed analysis revealed that contrary to the
12 preliminary review, the low cost alternative is installation of a DFGD on Big
13 Sandy Unit 2.

14 2. BIG SANDY UNIT 2 BOILER MODIFICATIONS

15 Q: ARE THERE OTHER MODIFICATIONS PLANNED FOR BIG SANDY
16 UNIT 2 IN CONNECTION WITH THE INSTALLATION OF THE DFGD
17 UNIT?

18 A: Yes. KPCo plans to modify the Big Sandy Unit 2 boiler to permit the burning of
19 coal with sulfur content of up to 4.5 pounds per MM/Btu.

20 Q: WHY DOES THE COMPANY SEEK TO BURN COAL WITH A SULFUR
21 CONTENT OF UP TO 4.5 LBS SO₂/MMBTU?

22 A: The addition of FGD equipment and subsequent boiler modifications to permit the
23 consumption of coal having a sulfur content of up to 4.5 lbs SO₂/MMBtu will

1 allow for greater flexibility by blending the various fuel that can be consumed at
2 the Plant. The current environmental permits, as well as other physical limitations
3 of the boiler, limit the Plant's possible fuel options to consuming only Central
4 Appalachian (CAPP) low sulfur coal. With the installation of the proposed FGD
5 equipment and the corresponding boiler modifications, the Plant will be able to
6 consume coal containing higher amounts of sulfur, thereby allowing the Plant to
7 broaden its sources of coal. More specifically, the proposed facilities will allow
8 the Plant both to continue to consume coal from the CAPP region, and will
9 expand its fuel options to include other potentially lower cost coals.

10 **Q: DID THE COMPANY CONSIDER OTHER BOILER MODIFICATION**
11 **OPTIONS?**

12 **A:** Yes. Two possible FGD installations and corresponding boiler modifications
13 were considered, one permitting coals having a sulfur dioxide content of up to 3.0
14 lbs. SO₂/MMBtu and the other permitting coals having a sulfur dioxide content of
15 up to 4.5 lbs. SO₂/MMBtu. While the 3.0 lbs. SO₂/MMBtu option provides some
16 additional fuel purchase flexibility, the blend of either Northern Appalachian
17 (NAPP) or Illinois Basin (ILB) coal would most likely be limited to no greater
18 than 30% with the remainder of the coal being from the CAPP region. The 4.5
19 lbs. SO₂/MMBtu FGD and boiler modification being proposed would easily allow
20 a 50/50 blend of either NAPP or ILB coals to be blended with CAPP coals, thus
21 providing a lower overall cost of fuel. Such blending has the potential to save
22 approximately eight percent on the cost of fuel annually. Without the proposed

1 FGD and boiler modifications the KPCO's customers would be subject to price
2 fluctuations of the highly stressed CAPP market.

3 Q: WHAT WOULD BE THE CONSEQUENCES OF NOT MODIFYING THE
4 BOILER?

5 A: Not modifying the boiler would limit the plant's fuel flexibility. To capture the
6 full potential of the FGD the proposed boiler modifications to permit the burning
7 of 4.5 lbs. SO₂/MMBtu FGD are necessary.

8 3. TIMING OF THIS APPLICATION

9 Q: ALTHOUGH CERTAIN OF THE ENVIRONMENTAL REQUIREMENTS
10 DRIVING THIS APPLICATION HAVE ONLY RECENTLY BECOME
11 FINAL, OR EVEN BEEN PROPOSED, KENTUCKY POWER HAS BEEN
12 AWARE OF EVOLVING ENVIRONMENTAL STANDARDS FOR A
13 NUMBER OF YEARS. WHY DID THE COMPANY NOT TAKE ACTION
14 EARLIER?

15 A: It did. As highlighted below and discussed in greater detail by Witness Walton,
16 KPCo began its preliminary investigation into installing a FGD unit at Big Sandy
17 2 as early as 2004. That work was suspended in 2006 because of increases in the
18 estimated cost of the wet FGD system then being investigated, and a decrease in
19 the price spread between low and higher sulfur coal. The Company restarted
20 conceptual and analytical work in support of a CPCN filing in the first quarter of
21 2010 in light of the changing environmental requirements and the purported
22 abundance of shale gas and new DFGD technology.

1 Q: HOW DOES THE COMPANY PROPOSE TO RECOVER THE COSTS OF
2 THE FGD?

3 A: The Company is requesting as part of this application recovery of the FGD costs
4 through our environmental cost recovery mechanism as supported by the
5 testimony of Witness Munsey.

6 VI. NOTICE OF TERMINATION OF THE POOL AGREEMENT

7 Q. DO CERTAIN OF THE COSTS ASSOCIATED WITH THE NON-BIG
8 SANDY 2 PROJECTS THAT ARE BEING ADDED TO KENTUCKY
9 POWER'S ENVIRONMENTAL FLOW TO KENTUCKY POWER
10 THROUGH THE AEP INTERCONNECTION (POOL) AGREEMENT?

11 A. Yes. All of the costs associated with Amos Plant and Tanner Creek Plant
12 projects flow to Kentucky Power through the Pool Agreement. In addition, a
13 portion of the costs associated with the Rockport Plant flow to Kentucky Power
14 through the Pool Agreement. The remainder of the Rockport costs flow through
15 the Rockport Unit Power Agreement.

16 Q: DID PARTIES TO THE AEP POOL AGREEMENT SERVE NOTICE TO
17 EACH OTHER OF THEIR INTENT TO TERMINATE THIS
18 AGREEMENT EFFECTIVE NO LATER THAN JANUARY 1, 2014?

19 A: Yes, but it is not known now what sort of agreement, if any, may replace it.

20 Q: IF THE POOL AGREEMENT IS BEING TERMINATED, WHY SHOULD
21 THIS COMMISSION APPROVE COST RECOVERY OF ANY

1 ENVIRONMENTAL PROJECT ON GENERATING UNITS FROM
2 SURPLUS COMPANIES?

3 A: The Pool Agreement will be in effect at the time of the Commission's order in
4 this proceeding. All costs that flow through the Pool Agreement should
5 continue to be recoverable. The Company recognizes its obligation to amend
6 its Environmental Plan and associated tariff to reflect any changes to the Pool
7 Agreement.

8 VII. PRELIMINARY INVESTIGATION COSTS

9 Q: ARE THERE OTHER COSTS BESIDES THE CURRENT FGD AND
10 OTHER ENVIRONMENTAL PROJECTS THAT THE COMPANY IS
11 SEEKING TO RECOVER?

12 A: Yes. During the period April 2004 through April 2006 the Company accumulated
13 \$15.2M in account 1070001 in connection with a preliminary investigation of a
14 Big Sandy Unit 2 FGD and landfill. When this work was suspended, these costs
15 were transferred from Account 1070001 (Construction Work in Progress) to
16 Account 1830000 (Preliminary Survey and Investigation). With the project being
17 restarted, the Company plans to transfer the funds back into account 1070001.

18 Q: WHY SHOULD THE COMMISSION ALLOW RECOVERY OF THESE
19 COSTS WHEN THE CURRENT PLANS ARE FOR A DIFFERENT TYPE
20 FGD TECHNOLOGY?

21 A: The costs incurred in 2004-2006, like the costs incurred to date, were reasonable
22 and prudent efforts to address the then existing environmental requirements in

1 connection with the continued operation of Big Sandy Unit 2. The suspension of
 2 the original project and subsequent events allowed for new, even more effective
 3 technology to be developed, while allowing KPCo to install a system that will
 4 meet the heightened requirements of the recent environmental rule-making. The
 5 Company acted reasonably and prudently in beginning and suspending the 2004-
 6 2006 analysis and as such these cost should be recoverable as part of the total cost
 7 for the installation of the DFGD at Big Sandy Unit 2.

8 **VIII. DEPRECIATION**

9 **Q: IS THERE ANY OTHER ACCOUNTING ISSUES BEING PROPOSED**
 10 **WITH THIS FILING?**

11 **A:** Yes. The Company proposes to depreciate the cost of the FGD over a 15-year
 12 period.

13 **Q: PLEASE EXPLAIN THE COMPANY'S ACCOUNTING FOR**
 14 **DEPRECIATION EXPENSE FOR THE FGD AT BIG SANDY UNIT 2.**

15 **A:** Depreciation expense will be recorded by charging Account 403, Depreciation
 16 Expense, and crediting Account 108, Accumulated Provision for Depreciation of
 17 Electric Plant. This specific asset will be assigned a project which will permit the
 18 depreciation to be tracked directly to the FGD asset.

19 **Q: WHY IS THE COMPANY SEEKING TO DEPRECIATE THE FGD AT**
 20 **BIG SANDY UNIT 2 OVER 15 YEARS?**

21 **A:** Though the installation of a FGD at Big Sandy Unit 2 will allow it to operate
 22 under currently promulgated and proposed EPA rules, the effect of future

1 environmental regulations, particularly carbon legislation, is uncertain. Because
2 of this uncertainty, the Company believes that reducing the period over which the
3 investment will be depreciated will reduce risk of stranded investment should
4 future increased EPA standards cause operation of this unit not to be
5 economically feasible in the future.

6 IX. EMISSION ALLOWANCES

7 Q. HOW ARE THE EMISSION ALLOWANCES ACCOUNTED FOR BY
8 KPCO?

9 A. Emission allowances are accounted for differently for compliance and accounting
10 purposes. For compliance purposes, allowances are held and the allowances are
11 surrendered to match consumption. From an accounting perspective, emission
12 allowances are kept on the company's books at an average inventory cost of the
13 allowances held. For instance, when Cross-State Air Pollution Rule (CSAPR)
14 emission allowances are allocated by the EPA, they are done so at zero cost. As
15 such, using these allowances for consumption would result in zero dollars in
16 emission expense. However, if KPCo purchases allowances to meet its emission
17 obligation, then (subsequent to purchase) each allowance held will be valued at
18 the average cost of all allowances held in inventory including those allocated and
19 purchased.

20 Q. DOES KPCO PLAN TO ACCOUNT FOR CSAPR ALLOWANCES
21 DIFFERENTLY THAN THOSE ALLOWANCES ASSOCIATED WITH
22 PRIOR ENVIRONMENTAL REGULATIONS?

1 A. No. KPCo has been accounting for, and recovering costs associated with, Title
 2 IV SO₂ allowances under the Clean Air Act (CAA) as well as SO₂ and NO_x
 3 allowances under the Clean Air Interstate Rule (CAIR), over the lives of those
 4 rules. While CSAPR emission allowances will be held in different sub-accounts
 5 to differentiate between them and the allowances created under other regulations
 6 in accordance with FERC Uniform System of Accounts, the allowances
 7 themselves will be subject to the same accounting procedures regarding value,
 8 gains and losses, and surrender, as the allowances under the other regulations.
 9 KPCo also is proposing to recover the CSAPR emission allowances costs in the
 10 same manner as other environmental regulations, which is through the
 11 Environmental Surcharge.

12 Q. IS IT REASONABLE FOR KPCO TO RECOVER ITS PRUDENTLY
 13 INCURRED COSTS ASSOCIATED WITH CSAPR EMISSIONS
 14 ALLOWANCES?

15 A. Yes. The CSAPR is, in part, a replacement for the CAIR, and KPCo is proposing
 16 to recover the cost of emission allowances under the CSAPR just as it has
 17 previously done under Title IV of the CAA and the CAIR. Other than the fact
 18 that the allowances were created under a different rulemaking, there is no
 19 difference in the rationale for recovery of the costs associated with emission
 20 allowances.

21 Q. WHAT IS THE MAGNITUDE OF THE COSTS THAT KPCO IS
 22 EXPECTING TO INCUR FOR EMISSION ALLOWANCES UNDER THE
 23 CSAPR?

1 A. For 2012, the Company has forecasted it will consume \$6.2 million in CSAPR
2 emission allowances. Aside from the forecasted expense, KPCo is also currently
3 forecasting to have a gain of \$650,000 in 2012 associated with the sale of annual
4 NO_x allowances under the CSAPR.

5 Q. WHAT DETERMINES THE PRICE OF ALLOWANCES UNDER CSAPR
6 IF THEY ARE ALLOCATED AT ZERO COST?

7 A. The price of an allowance under the CSAPR is determined by the market that
8 develops for the allowances. The market price is determined by the cost at which
9 companies are willing to sell their excess allowances, versus the cost that
10 companies are willing to pay to earn the right to increase emissions.

11 Q. IS THERE A GUARANTEE THAT THERE WILL BE A ROBUST
12 MARKET FOR CSAPR ALLOWANCES?

13 A. No. While the intent of the USEPA, as highlighted through technical updates
14 made to the CSAPR in October 2011, is to have a developed and fluid market
15 where allowances are readily available, it is possible that the market will not
16 develop in such a fashion.

17 X. RETURN ON EQUITY

18 Q. WHAT RETURN ON EQUITY IS KENTUCKY POWER PROPOSING
19 FOR USE IN CONNECTION WITH THE COMPANY'S
20 ENVIRONMENTAL FACILITIES?

21 A. The Company proposes to use a 10.5% return on equity.

22 Q. WHAT IS THE BASIS FOR THAT RECOMMENDATION?

1 A. In the “Unanimous Settlement Agreement” that was approved by the Commission
 2 by its Order dated June 28, 2010 in Case No. 2009-00459, the parties agreed that
 3 “[f]or purposes of the Tariff E.S., and for accounting for allowance for funds used
 4 during construction (AFUDC), Kentucky Power shall be entitled to use a 10.5%
 5 rate of return on equity.” The parties to the “Unanimous Settlement Agreement”
 6 further specified a return on equity of 10.5% for purposes of the rate increase
 7 approved by the Commission by the same. In addition, a 10.5% return on equity
 8 is reasonable, and that rates resulting from the use of that return on equity in
 9 connection with Tariff E.S. are fair, just and reasonable.

10 XI. 2011 ENVIRONMENTAL COMPLIANCE PLAN AND RELATED
 11 MATTERS

12 Q. HAS THE COMPANY PREPARED A 2011 ENVIRONMENTAL
 13 COMPLIANCE PLAN FOR USE IN RECOVERING ITS COSTS
 14 ASSOCIATED COMPLYING WITH APPLICABLE ENVIRONMENTAL
 15 REQUIREMENTS?

16 A. Yes. It is attached as Exhibit 3 to the Application. Witness McManus explains
 17 the environmental requirements associated with each project.

18 Q. IN HER TESTIMONY, MS. MUNSEY INDICATES THAT THE IMPACT
 19 ON KPCO’S ELECTRIC CUSTOMERS IS ESTIMATED TO BE A 0.20%
 20 INCREASE IN 2012 WITH A MAXIMUM INCREASE OF 31.41% IN 2016.
 21 IS THE COMPANY WILLING TO DISCUSS A MORE GRADUAL
 22 PHASE-IN OF THE INCREASE OVER THE SAME PERIOD?

1 A: Yes.

2 **XII. CONCLUSION**

3 **Q: PLEASE SUMMARIZE YOUR TESTIMONY.**

4 A: *The Company has prudently examined all options to comply with the various*
5 *proposed and promulgated environmental rules that affect the Company's Big*
6 *Sandy Unit 2. The detailed modeling conducted to evaluate the alternatives*
7 *indicates the DFGD technology is the least cost/ least risk solution. Finally, the*
8 *costs identified for Kentucky Power's 2011 Environmental Compliance Plan are*
9 *reasonable and cost-effective for complying the environmental requirements*
10 *specified in KRS 278.183.*

11 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A: Yes.

EXHIBIT "B"
 4/4/2012
 RUTHERFORD

KPSC Case No. 2011-00401
 KIUC's First Set of Data Requests
 Supplemental Response to Item No. 41
 March 9, 2012
 Attachment 1
 Page 11 of 25

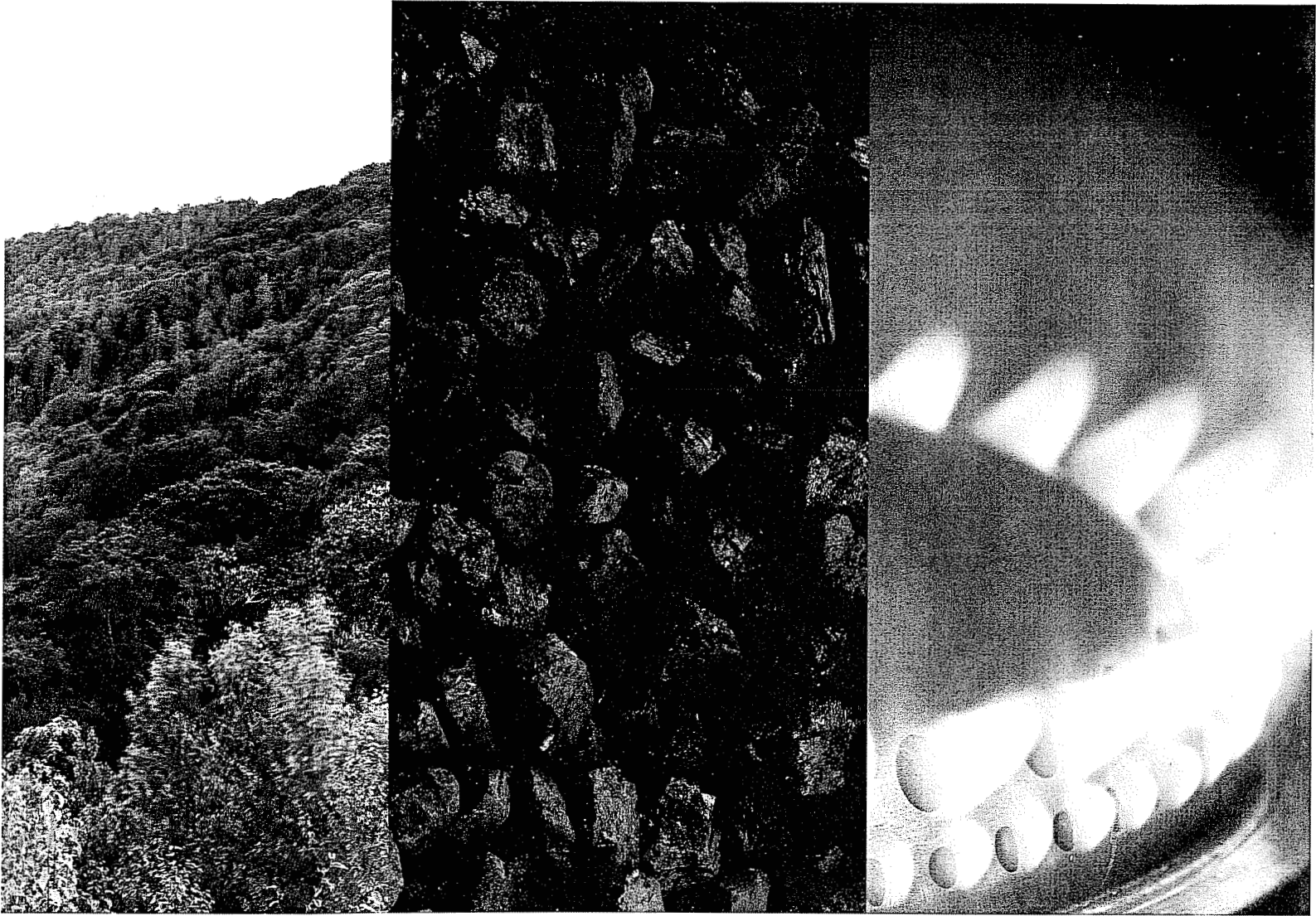
ES FORM 3.14
 Page 1 of 11

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT
 CURRENT PERIOD REVENUE REQUIREMENT
 AEP POOL MONTHLY ENVIRONMENTAL CAPACITY COSTS

For the Expense Month of December 2011

Line No. (1)	Cost Component (2)	Ohio Power Company's Environmental Cost to KPCo (3)	Indiana Michigan Power Company's Environmental Cost to KPCo (4)	Total (5)
1	Amos Unit No. 3 Environmental Cost to Kentucky Power (ES FORM 3.14, Page 3 of 11, Line 26)	\$247,350		
2	Cardinal Unit No. 1 Environmental Cost to Kentucky Power (ES FORM 3.14, Page 4 of 11, Line 24)	\$168,300		
3	Gavin Plant Environmental Cost to Kentucky Power (ES FORM 3.14, Page 5 of 11, Line 26)	\$581,400		
4	Kammer Plant Environmental Cost to Kentucky Power (ES FORM 3.14, Page 6 of 11, Line 20)	\$5,100		
5	Mitchell Plant Environmental Cost to Kentucky Power (ES FORM 3.14, Page 7 of 11, Line 23)	\$504,900		
6	Muskingum River Plant Environmental Cost to Kentucky Power (ES FORM 3.14, Page 8 of 11, Line 20)	\$48,450		
7	Sporn Plant Environmental Cost to Kentucky Power (ES FORM 3.14, Page 9 of 11, Line 20)	\$10,200		
8	Rockport Plant Environmental to Kentucky Power (ES FORM 3.14, Page 10 of 11, Column 5, Line 21)		\$2,550	
9	Tanners Creek Plant Environmental Cost to Kentucky Power (ES FORM 3.14, Page 11 of 11, Line 20)		\$5,100	
10	Total AEP Pool Monthly Environmental Capacity Costs to Kentucky Power	\$1,565,700	\$7,650	\$1,573,350

Note: Cost in Column 5, Line 10 is to be recorded on ES FORM 3 10, Line 16.



KENTUCKY'S RICH ENERGY RESOURCES



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Commonwealth of Kentucky

HOUSE OF REPRESENTATIVES

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E-mail: leslie.combs@lrc.ky.gov

LESLIE A. COMBS
94th LEGISLATIVE DISTRICT

March 28, 2012

Mr. David Armstrong, Chairman
Kentucky Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602-0615

Dear Mr. Armstrong:

As the Public Service Commission considers Kentucky Power's request for a sizeable rate increase in eastern Kentucky, I want to take this opportunity to voice the serious concerns my constituents and I have.

It was not too long ago, of course, that our region was having this very same discussion. Just as it did about a year ago, Kentucky Power has made the claim that this increase is needed to meet its obligation to serve those of us who live and work in eastern Kentucky. Without this 30 percent hike, the company says, jobs will be lost and service will be harmed.

While my constituents and I certainly support increased economic development and reliable service, and are indeed sensitive to the increased regulatory burdens power companies face, we cannot support this increase, not when Kentucky Power's parent company is experiencing such growth. Consider that American Power's stock price over the last three years has jumped nearly 50 percent.

Even in the best of times, my "stakeholders," the people of the 94th Legislative District, have never experienced such success. The last three years, in fact, have been among the toughest they – and our country – have seen in more than 70 years.

It is time for Kentucky Power to do more than improve its bottom line at the expense of its customers. It is time for Kentucky Power to invest more capital here, to take on the responsibilities it is called upon to accept.

Those in favor of this proposal note that Kentucky's electric rates are among the cheapest in the nation, thanks in large measure to our coal. What is left unsaid, however, is that the per capita cost of capital investment here is largely in line with the national average. In other words, we get no break financially on building and upgrading the infrastructure needed to get electricity to our homes, schools, and businesses. This proposed rate increase, then, would take us well beyond the national average.


Mr. David Armstrong
Page 2
March 28, 2012

As you may recall, the House of Representatives' Tourism Development and Energy Committee, which I chair, studied recent rate increases last year. In addition to the PSC's public forums in the region in early April, it may be worth revisiting this issue again in committee. Together, these meetings would give the public and legislators alike an opportunity to learn more about this request and to ensure their concerns are truly heard.

I appreciate the PSC's willingness to hear all sides of this issue, and I hope, when the facts are presented, it will become abundantly clear that the people of southeastern Kentucky should not shoulder this burden. The last thing they need now, especially on the heels of the last double-digit increase Kentucky Power received, is another rate hike that will force many families to make stark choices no one should have to face.

Thank you for giving me this opportunity to speak on behalf of the people of southeastern Kentucky. I stand ready to help should you or others on the commission need my assistance.

Very truly yours,

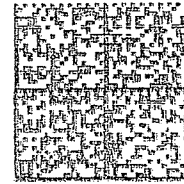


Leslie A. Combs
State Representative

LAC/lfr
CC: Greg Pauley, President
Kentucky Power



LESLIE A. COMBS
STATE REPRESENTATIVE
CAPITOL ANNEX
700 CAPITOL AVENUE, ROOM 373C
FRANKFORT, KENTUCKY 40601



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04/02/2012

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