

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

APPLICATION OF KENTUCKY POWER )  
COMPANY FOR (1) A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY )  
AUTHORIZING THE TRANSFER TO THE )  
COMPANY OF AN UNDIVIDED FIFTY )  
PERCENT INTEREST IN THE MITCHELL )  
GENERATING STATION AND ASSOCIATED )  
ASSETS; (2) APPROVAL OF THE )  
ASSUMPTION BY KENTUCKY POWER )  
COMPANY OF CERTAIN LIABILITIES IN )  
CONNECTION WITH THE TRANSFER OF THE )  
MITCHELL GENERATING STATION; (3) )  
DECLARATORY RULINGS; (4) DEFERRAL OF )  
COSTS INCURRED IN CONNECTION WITH )  
THE COMPANY'S EFFORTS TO MEET )  
FEDERAL CLEAN AIR ACT AND RELATED )  
REQUIREMENTS; AND (5) ALL OTHER )  
REQUIRED APPROVALS AND RELIEF )

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PUBLIC SERVICE  
COMMISSION

CASE NO.  
2012-00578

ORIGINAL

VOLUME II

Transcript of July 11, 2013, hearing  
before David L. Armstrong, Chairman, James W. Gardner,  
Vice-Chairman, and Linda Breathitt, Commissioner, at  
the Kentucky Public Service Commission, 211 Sower  
Boulevard, Frankfort, Kentucky 40602-0615.

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1 (Hearing commenced at 9:36 a.m.)

2 CHAIRMAN ARMSTRONG: Good morning.

3 MR. OVERSTREET: Good morning,

4 Mr. Chairman.

5 CHAIRMAN ARMSTRONG: We are on the  
6 record.

7 MR. OVERSTREET: Your Honor, we'd like  
8 to call our next witness, Ranie K. Wohnhas.

9

10 \* \* \*

11

12 RANIE K. WOHNHAS, called by Kentucky  
13 Power Company, having been first duly sworn, testified  
14 as follows:

15

16 DIRECT EXAMINATION

17

18 By Mr. Overstreet:

19

20 CHAIRMAN ARMSTRONG: Your name.

21 THE WITNESS: Ranie Wohnhas.

22 CHAIRMAN ARMSTRONG: What do you do,  
23 Mr. Wohnhas? What do you do?

24 THE WITNESS: I am the managing director  
25 of regulatory and finance for Kentucky Power Company.

1 CHAIRMAN ARMSTRONG: Where are you  
2 located?

3 THE WITNESS: In Frankfort, Kentucky.

4 CHAIRMAN ARMSTRONG: And why are you  
5 here?

6 THE WITNESS: I'm here to support the  
7 application for a 50 percent transfer of the Mitchell  
8 units to Kentucky Power and also to support the  
9 settlement, the stipulation settlement agreement.

10 CHAIRMAN ARMSTRONG: Your witness.

11 MR. OVERSTREET: Thank you,  
12 Mr. Chairman.

13 Q Mr. Wohnhas, did you cause to be filed  
14 in the record of this case direct testimony, rebuttal  
15 testimony, and supplemental testimony?

16 A Yes, I did.

17 Q And did you cause to be filed in the  
18 record of this case responses to data requests?

19 A Yes.

20 Q Do you have any corrections to any of  
21 those?

22 A I have three corrections to my  
23 supplemental testimony.

24 Q Would you please identify those?

25 A Yes. The first one is on page 5, line

1 27. The time period there is -- currently says 2004  
2 through 2005, and that 2005 should be corrected to  
3 2012.

4 The second one is on page 26, line 16.  
5 The 40 percent, where it says, (Reading) Currently  
6 customers receive a credit or pay a charge equal to  
7 40 percent, that should be corrected to 60 percent.

8 Q And the third?

9 A Is on page 36, line 7. Currently  
10 states, (Reading) Approximately 17 months earlier.  
11 "Earlier" should be corrected to "later."

12 And that's all the corrections.

13 Q And with those modifications, if you  
14 were asked the questions contained in your three sets  
15 of testimony and the data request responses, would  
16 your answers be the same if you were asked those  
17 questions today?

18 A Yes, they would.

19 MR. OVERSTREET: The witness is  
20 available for cross-examination.

21 MR. HOWARD: Thank you, Mr. Chairman.

22

23 \* \* \*

24

25

## CROSS-EXAMINATION

1  
2  
3 By Mr. Howard:

4  
5 Q Good morning, Mr. Wohnhas.

6 A Good morning.

7 Q Can you hear me well enough?

8 A I can hear you fine.

9 Q In the event that you can't, I would  
10 suggest or ask that you tell me so and I'll reask.  
11 Okay?

12 A Will do.

13 Q What I'd like to do this morning, if I  
14 may, is look at the partial stipulation that's been  
15 filed in the record.

16 MR. HOWARD: Now, Mr. Chairman, I did  
17 not make extra copies of this. Probably do have those  
18 available, though.

19 MR. NGUYEN: I do. That's the  
20 nonunanimous stipulation of settlement?

21 MR. HOWARD: That's correct, and it is a  
22 partial settlement stipulation.

23 Q Do you have that in front of you, sir?

24 A I do.

25 Q If you will look at page 4, paragraph 1.

1 A Yes.

2 Q Okay. Do you see in that paragraph,  
3 (Reading) The transfer will be at actual net book  
4 value as of December 31, 2013, and then it reads on.

5 Do you see that?

6 A Yes, I do.

7 Q Was there an independent -- excuse me.  
8 Was there an independent impartial evaluation of this  
9 net book value outside of the AEP family?

10 A No, there was not.

11 Q Now, if we're going to -- please refer  
12 to the same paragraph. You'll -- if you'll go down to  
13 about the second line from the bottom, which reads,  
14 (Reading) Such transfers shall be deemed a prudent  
15 component of rate base in future proceedings.

16 Do you see that?

17 A Yes, I do.

18 Q Does this language indicate that the PSC  
19 will have no choice but to accept the costs and future  
20 proceedings cannot rule to the contrary?

21 A I think what it states is that the  
22 estimated \$536 million, which are book numbers, and  
23 that's why it's -- there was not the need for an  
24 independent review of these numbers, that these costs  
25 are prudent -- a prudent part of the rate base as

1 it -- as it will be part of a future rate base  
2 proceeding.

3 Q Thank you for the explanation. Now,  
4 you've indicated that there has not been an  
5 independent audit, correct?

6 A Of our book numbers? No.

7 Q Correct. Now, the question was, and I  
8 will repeat this: Will the PSC have any choice in  
9 future proceedings to rule that those costs are not as  
10 agreed to in this partial settlement?

11 A I believe what it states is it will be  
12 part of -- be included in our rate base as we move  
13 forward. And I would add also, just as a -- maybe a  
14 slight clarification, you know, all of our numbers,  
15 book numbers, are also audited by our internal  
16 auditors. So considering, you know, our books are  
17 audited, I would say that they are evaluated by  
18 another party outside of the Company.

19 Q Okay. Let me reask the question, and I  
20 will simply ask for a yes or no.

21 Is it your understanding this language,  
22 and I will read it again, (Reading) Such transfers  
23 shall be deemed a prudent component of rate base in  
24 future proceedings.

25 Is that something that the PSC will be

1 allowed to review and perhaps consequently disallow a  
2 portion of those costs based on the language here? Is  
3 that your -- is it your opinion that the PSC can or  
4 cannot?

5 A I would interpret that to mean that  
6 it -- that the total rate base would be prudent and be  
7 allowed in our base case.

8 Q Thank you, sir. Remaining in the same  
9 paragraph, if I may, and the following sentence  
10 thereafter, (Reading) The Company will use current  
11 Ohio Power Company depreciation rates for Mitchell's  
12 Units 1 and 2 until such rates are changed in the base  
13 rate case as that proceeding is defined in paragraph  
14 3.

15 Do you see that?

16 A Yes, I do, sir.

17 Q Are those depreciation rates in this  
18 record?

19 A I believe that there are data requests  
20 that shows the current depreciation rates for the  
21 Mitchell assets. It, I think, was asked in a data  
22 request. I don't have -- couldn't tell you exactly  
23 what the data request number is, but I believe they  
24 were asked in this proceeding.

25 MR. HOWARD: Mr. Overstreet, if I may,



1 and I know that we've got lots of questions here. I  
2 went through there, I did not see that they were, but  
3 perhaps I simply overlooked them.

4           Would you and your client be kind  
5 enough, by way of a post-hearing data request, to  
6 either provide that information or, if it has not been  
7 provided -- I mean, if it has been provided, just  
8 identify where, if it hasn't been provided, if you  
9 could provide that.

10           MR. OVERSTREET: Certainly.

11           Q       Is it your understanding that the PSC  
12 will have no option but to use these rates even if the  
13 PSC were to disagree with them?

14           A       No, not at all. All we're saying is  
15 until -- as this states, until the next base rate  
16 case, which, as defined there, would be the case that  
17 would be filed at the end of December of 2014, at that  
18 point in time, I believe the Company, you know,  
19 anticipates filing a depreciation study at that point  
20 in time, and the depreciation rates could be changed,  
21 but up until that point in time we're going to  
22 continue to use the current Ohio depreciation rates  
23 for depreciating the Mitchell units.

24           Q       Now, if we can move on, please, sir, to  
25 paragraph 3.

1 A Yes, sir.

2 Q Which is also on page 5. And at the  
3 bottom of that page, do you see where it reads,  
4 (Reading) The Company further agrees to remove all  
5 coal-related plant, that sentence?

6 A Yes, sir.

7 Q Would you be kind enough to read that  
8 sentence and the rest of the paragraph into the  
9 record?

10 A (Reading) The Company further agrees to  
11 remove all related plant and other capitalized costs,  
12 e.g. fuel inventories, materials --

13 VICE-CHAIR GARDNER: Excuse me. I  
14 think -- I don't think you said "coal" at the  
15 beginning.

16 A All right. I'll --

17 VICE-CHAIR GARDNER: I'm sorry to  
18 interrupt.

19 A That's okay. (Reading) The Company  
20 further agrees to remove all coal-related plant and  
21 other capitalized costs, e.g. fuel inventories,  
22 materials, materials and supplies inventories,  
23 et cetera, related to Big Sandy Unit 1, and all plant  
24 and other capitalized costs, e.g. fuel inventories,  
25 materials and supplies inventories, et cetera, related

1 to Big Sandy Unit 2 from the cost of service study in  
2 the base rate case and instead recover these costs in  
3 the manner set forth in paragraph 14 of this  
4 settlement agreement.

5 Q Okay. And are you familiar with  
6 paragraph 14 of this stipulation?

7 A I am.

8 Q Okay. And am I correct in understanding  
9 that the cost for the aforementioned costs noted in  
10 that paragraph that you just read will be indeed  
11 recovered when the Company files its next rate case in  
12 December of 2014?

13 A That is correct.

14 Q And if we can move on to paragraph 4,  
15 sir.

16 A Yes, sir.

17 Q Do you see the sentence which reads,  
18 (Reading) The asset transfer rider is designed to  
19 collect \$44 million annually with a true-up mechanism  
20 to ensure no over or underrecovery?

21 A Yes, sir.

22 Q What kind of mechanism will be used?

23 A I mean, it's a -- it'll be a rider.  
24 Something, I guess, as an example, similar to the fuel  
25 adjustment clause or the system sales clause. It's a

1 rider that will collect -- have a monthly factor that  
2 will collect over the course, annually, \$44 million.

3 Q And is that in the record?

4 A That's shown in Exhibit 1 --

5 Q Okay.

6 A -- of -- attached here to the settlement  
7 document.

8 Q And who reviews that?

9 A The Commission will review that.  
10 Provisions of that tariff state that it'll be filed  
11 monthly with the Commission for their review.

12 Q Thank you. Also within that paragraph  
13 there is a sentence which reads, (Reading) The asset  
14 transfer rider charges will be calculated as a  
15 percentage of total revenue -- total revenues for the  
16 residential class and as a percentage of nonfuel  
17 revenues for all other customers.

18 Do you see that?

19 A Yes, sir.

20 Q Was that an accurate reading?

21 A Yes, sir.

22 Q How does this translate to cost for  
23 residential in actual dollars?

24 A Well, I don't know the actual dollars,  
25 because we -- if you go to the -- to the exhibit in

1 the tariff, that's going to be determined based on the  
2 revenues as of 12 months ended September 30th of 2013.

3 But the purpose of this allocation is  
4 for the residential customers to see no impact based  
5 on this change in allocation. This is an allocation  
6 that is based upon a similar allocation LG&E, KU uses  
7 in their environmental cost, and it is also mentioned  
8 in other places in this settlement related to  
9 environmental, the same type of methodology.

10 So it's -- the residential are not  
11 impacted at all by this allocation. The -- this is  
12 a -- as is a lot of the environmental issues, is a  
13 nonfuel component, and it seems more proper or -- to  
14 allocate that on a nonfuel basis.

15 So the shift -- the total collection by  
16 the Company is the same. The shift is between high  
17 and low factor customers in the nonresidential  
18 customer class.

19 Q Thank you, sir. If you'll look at  
20 paragraph 6, please, which is on page 6.

21 A Yes, sir.

22 Q Would you be kind enough to read the  
23 first sentence into the record, which begins when --  
24 with "When base rates are set."

25 A (Reading) When base rates are set in the

1 base rate case, all costs associated with the Mitchell  
2 Units 1 and 2 flue gas desulfurization, in parens,  
3 FGD, equipment will be recovered through the  
4 environmental surcharge, then in parens, tariff ES,  
5 approved in the base rate case and excluded from base  
6 rates in the base rate case.

7 Q Does this paragraph indicate that the  
8 costs shall be automatically approved by the PSC?

9 A The FGD costs are already a part of the  
10 total cost of the Mitchell unit. They're already  
11 installed on the Mitchell units.

12 The only thing that this sentence, this  
13 paragraph is doing, instead of collecting the cost of  
14 the FGD through base rates, it's just being recovered  
15 through the environmental surcharge. The total impact  
16 to the customer is zero.

17 We either collect it through base rates  
18 or we collect it through the environmental surcharge,  
19 but it's already a cost that's been incurred and will  
20 be part of the total estimated \$536 million that will  
21 be coming at net book value to the Company.

22 Q Thank you for the explanation.

23 The next sentence, (Reading) This  
24 collection mechanism shall continue until at least --  
25 shall continue at least until the Commission sets new

1 base rates for a period commencing after June 30,  
2 2020, that include these costs.

3 Why was the year 2020 used?

4 A It was a proxy out there. There's  
5 nothing magical about that date. And in the -- in the  
6 settlement discussions, it was felt that we wanted to  
7 recover this through a period of time but didn't want  
8 to necessarily say that it would be indefinitely.

9 So we picked a date out there, and then  
10 it could be reviewed as to whether or not it would  
11 continue after that date. Nothing more than that,  
12 sir.

13 Q And then the last sentence of that  
14 paragraph, if you would read that into the record,  
15 beginning with "The environmental surcharge will be  
16 implemented."

17 A (Reading) The environmental surcharge  
18 will be implemented as a percentage of total revenues  
19 for the residential class and as a percentage of  
20 nonfuel revenues for all other customers.

21 Q And again, why is it that the  
22 residentials are treated differently?

23 A The im -- the thought was that we did  
24 not want to impact whatsoever the residential  
25 customers, so the residential customers will, just as

1 today, get their percentage on total revenues between  
2 residential and nonresidential, and then the  
3 nonresidential gets divided further by nonfuel  
4 revenues.

5 Q So the classes other than the  
6 residentials may see an increase or there might be an  
7 impact?

8 A There will be a shift. The total impact  
9 to the cust -- to the Company is going to be the same.  
10 We're going to collect the same dollars. Where the  
11 shift is is between those -- between high load factor  
12 and low factor customers. The high user -- the higher  
13 usage customers, all right, which would see a  
14 reduction on -- in their -- their bill.

15 If you were to go to Staff Data Request  
16 5-7, there is an example of the environmental  
17 surcharge with this for -- I believe it was April of  
18 2013, which shows where the shift between the customer  
19 classes would be based on an actual month's usage.

20 Q But there is a shift away from the  
21 residentials to the other classes?

22 A The residentials does not -- it's not  
23 away from. The residentials don't change. I can show  
24 you on 5-7 if you'd like to --

25 Q That's fine. I'll --



1           A       Okay.  But that's -- if you go to 5-7,  
2       it shows that, how it's allocated to the residential  
3       currently and how it will be allocated with this  
4       change, and to the residential class of customer,  
5       there is no change.

6           Q       Thank you.  If you'll look at paragraph  
7       7.

8           A       Yes, sir.

9           Q       And there's a discussion about the  
10       off-system sales.

11          A       Yes.

12          Q       Is this consistent with the current  
13       sharing mechanism that's in place with AEP that's  
14       filed with the Commission?

15          A       No, it is not.  This -- the difference  
16       between the current mechanism -- the base amount shown  
17       there, the 15.290, is the same base number.  The  
18       difference is, under the current allocation, the -- if  
19       we are above that 15.29 million, and it's on a monthly  
20       basis, the customer would receive an additional credit  
21       of 60 percent.  If it is below that amount, the  
22       customer would see an additional charge of 60 percent  
23       of the difference.

24                    In eight of the last 12 months, it has  
25       been a charge that has -- so we have -- we have had

1 overall system sales profits under the 15.2 level.

2 Under the settlement the customers are  
3 guaranteed the \$15.29 million. They will receive  
4 that. They will not get anything less than that.  
5 They also will receive nothing more than that. The  
6 Company will receive everything above the  
7 \$15.29 million.

8 The concessions made is we, Kentucky  
9 Power Company, are taking a finance -- a financial hit  
10 on earnings due to only collecting \$44 million through  
11 the asset transfer rider compared to the total cost of  
12 Mitchell.

13 We can offset that some in our earnings  
14 by these additional system sales, but the risk is upon  
15 Kentucky Power Company, not the customer.

16 Q And when is it that Kentucky Power will  
17 take control over Mitchell?

18 A If approved, it would be midnight  
19 December 31st, 2013.

20 Q And at that point in time, will Kentucky  
21 Power have an excess in energy?

22 A We will have -- because of Mitchell  
23 being added and still running Big Sandy plant, we will  
24 have additional capacity that we will be able to sell  
25 to -- out in the market.

1 Q Will there be --

2 A And energy.

3 Q I'm sorry. Will there be a greater  
4 opportunity for the Company to enhance its off-system  
5 sales after it takes the additional capacity or  
6 energy?

7 A Yes. As I explained, we do -- we do  
8 have that opportunity, and that will help us offset  
9 the earnings hit for not getting all of the Mitchell  
10 impact effective in our rates January 1st, 2014.

11 Q So you've indicated that eight out of  
12 the ten -- the past ten months there's been a charge  
13 to customers.

14 A Eight of the last 12 months have been a  
15 charge to the customers through the system sales  
16 mechanism, yes.

17 Q Thank you for the correction. On a  
18 going-forward basis, after there is the transfer of  
19 the Mitchell, if that takes place, and you have excess  
20 capacity, you will have a greater opportunity for more  
21 profit related to off-system sales, will you not?

22 A Yes, we will.

23 Q Do you have any estimate as -- estimate  
24 as to how much that would be on an annual basis?

25 A I believe the additional current

1 estimates could be up to an additional \$30 million.

2 Q So if there is a stay out for -- in a  
3 month and a half, or thereabouts, until the next rate  
4 case comes in, the estimate on an annual basis is 30,  
5 so if it's a year and a half, that would be  
6 \$45 million in additional revenue to the Company?

7 A Well, it's all on an annual basis, so, I  
8 mean, it would just be an additional 30 million on an  
9 annual basis.

10 Q Right.

11 A The total -- the total for that period  
12 of time, 18 months, would be roughly 45 million.

13 Q Thank you. Paragraph 8, if I may, sir.  
14 Would you read the first sentence into the record  
15 beginning with "The Company shall be authorized"?

16 A (Reading) The Company shall be  
17 authorized in accordance with Financial Accounting  
18 Standards Board Standards Codification 980-340-25-1,  
19 to accumulate and defer for review and recovery in the  
20 base rate case the 28,113,304 of costs incurred from  
21 2004 through 2012 in connection with the Company's  
22 ongoing efforts to meet federal Clean Air Act and  
23 other environmental requirements with respect to Big  
24 Sandy Unit 2.

25 Q In the -- if I'll ask you, too, when we

1 look at that sentence, it -- it says, "The Company  
2 shall be authorized," correct?

3 A Yes.

4 Q Does this allow the PSC to perform a  
5 comprehensive review of those costs?

6 A Well, they reviewed those costs and data  
7 requests in 401, the scrubber case, they reviewed  
8 those costs as part of data responses in this  
9 proceeding as well, so they have already had an  
10 opportunity to review and see what those charges are.

11 Q But there's a specific amount that's  
12 listed in this paragraph, is there not?

13 A That is correct.

14 Q And if I'm reading this paragraph  
15 correctly, and correct -- and please tell me if I'm  
16 wrong, that this effectively would preclude the PSC  
17 from determining a lesser amount of those costs,  
18 correct?

19 A That is correct. You had asked if they  
20 reviewed it, but this does state that we would get  
21 recovery of this full amount; that is correct.

22 Q If we can look at paragraph 9, please,  
23 sir. And at the first sentence, if I may, if you  
24 could read that into the record.

25 A (Reading) Effective June 1, 2015, the

1 availability of service under tariff CSIRP shall be  
2 increased to 75,000 kW in accordance with the revised  
3 tariff CSIRP attached hereto as Exhibit 4.

4 Q Can you explain to me what that means?

5 A Well, that sentence is basically just  
6 increasing the amount of kW. Currently it is at  
7 60,000 kW, and so it's broadening the amount that  
8 customers could put into this tariff to be  
9 interrupted.

10 Q Would there be any effect on the cost  
11 that the residentials would have to bear with --

12 A Under this provision?

13 Q Yes.

14 A No, sir.

15 Q If you'd look at paragraph 10 next,  
16 please, sir.

17 A Yes, sir.

18 Q You have earmarked -- or rather the  
19 Company has earmarked \$100,000 for Lawrence County,  
20 correct?

21 A It's 100,000 top -- \$100,000 per year  
22 for five years for Lawrence County and the contiguous  
23 counties or the ones that touch Lawrence County in  
24 Kentucky.

25 Q And contiguous. And I don't have a map

1 in front of me that shows all the Company's counties,  
2 but when we look at Lawrence and the contiguous  
3 counties, does that include all of AEP's counties?

4 A No, it's just the ones that physically  
5 touch Lawrence County, and I believe it's  
6 approximately -- without the map, I believe it's four  
7 or five other counties.

8 Q And why were the other counties not  
9 included?

10 A It was just part of the consensus, part  
11 of the settlement.

12 Q Do you think those other counties might  
13 be affected?

14 A Well, I believe from an economic  
15 development standpoint, we are working in all 20  
16 counties. We just, back in June of 2012, hired an  
17 economic development manager, and we have been working  
18 very hard in doing economic development across all 20  
19 counties.

20 This provision, realizing that the  
21 impact of the retirement of Big Sandy Unit 2 gave us  
22 an opportunity to, on top of that economic  
23 development, give more to a more localized area,  
24 closer area that are affected by Big Sandy Unit 2.

25 Clearly there could be -- you know, it

1 does spread farther than just those counties, and  
2 that's why we're, as a Company, dealing in economic  
3 development, but this is centralized more closely  
4 around Big Sandy Unit 2.

5 Q There's \$33,000 set aside for job  
6 training, correct, within this paragraph?

7 A Yes. Thirty-three thousand per year  
8 would be toward specific, you know, job training in  
9 the -- in the area of weatherization and any type of  
10 energy-efficiency-related jobs to encourage -- you  
11 know, if we had those who are capable of more  
12 weatherization, more type of energy-efficiency jobs  
13 would then help increase, number one, job growth in  
14 that -- in that area, but then would also, from an  
15 energy efficiency, DSM idea, help us towards the other  
16 proponent of this, in another paragraph, the  
17 additional money we're going to be spending in DSM and  
18 energy-efficiency products.

19 Q Insofar as that job training, who  
20 monitors that and how?

21 A I don't know that we have specifically  
22 designated how that's to be monitored, so, I mean,  
23 we'd be open to any type of -- what the Commission  
24 would like to see as a way of monitoring how and when  
25 we spend it. There's been nothing specified as to



1 the -- how it is to monitored to this point.

2 Q Do you anticipate filing something  
3 before the Public Service Commission, or how do you  
4 anticipate trying to make a determination and then get  
5 approval or make sure that the goal as established is  
6 ultimately achieved and that there's a check on that?

7 A We'd be willing to work with the  
8 Commission if that is deemed to be appropriate or  
9 needed. We just have not had those discussions to  
10 this point.

11 Q Mr. Wohnhas, I think in your testimony,  
12 and unfortunately I do not have the direct reference  
13 at the moment, but I could find one if necessary, I  
14 think that there was an economic development manager  
15 that you designated in your rebuttal, or in your -- in  
16 your testimony in support of -- or actually just a few  
17 minutes ago you talked about this manager. What would  
18 be the salary for that person?

19 A I don't -- I don't know what his salary  
20 is. I'm not privy to that information.

21 Q Again, that would be something that  
22 would have to be worked out?

23 A I mean, the current economic development  
24 manager, I mean, he has a salary, I just don't know  
25 what his salary is.

1 Q Okay. Is that part of the settlement?

2 A No. That was prior -- the economic  
3 development manager was hired in -- started in, I  
4 believe, June or July of 2012, and he's located  
5 currently physically in Pikeville, Kentucky, but he  
6 works the whole Kentucky Power service area, and he  
7 has been a part of a current study and analysis with  
8 the Southeast Cham -- Southeast, yeah, Chamber that --  
9 in trying to work with all the counties in helping  
10 them with economic development.

11 We've had -- we've contracted with a  
12 consultant to help each of these counties work in  
13 economic development to increase the opportunities for  
14 companies to come into Eastern Kentucky.

15 So that was before anything to do with  
16 this case -- or before this settlement. I'm sorry.

17 Q So this settlement is in addition to  
18 what the Company's already doing?

19 A Absolutely.

20 Q If we'll look at paragraph 12, about the  
21 DSM commitment.

22 A Yes, sir.

23 Q And at the sentence -- of any  
24 assistance -- I know the PSC asked questions of this  
25 in their fifth set at question 8. Will this DSM

1 commitment require a separate PSC filing?

2 A It won't -- it will require -- it  
3 would -- should be through the normal DSM filings as  
4 we currently have under statute, and we're moving  
5 towards an annual filing of looking at the DSM  
6 programs, and then, on a three-year basis, the  
7 evaluations of those programs.

8 And so what we would do is that we would  
9 bring forward before the Commission Staff expansion of  
10 programs, if that would be where we would lead, or new  
11 programs that we would want to encourage the -- or we  
12 are asking, not encouraging, we would bring in and ask  
13 them for approval to start to implement. So nothing  
14 would change from the current process.

15 Q Let's look at paragraph 13. If you can  
16 begin by looking at the -- and reading out loud the  
17 first sentence.

18 A (Reading) The Company shall file with  
19 the Commission an application pursuant to KRS  
20 278.02 -- 020 for Certificate of Public Convenience  
21 and Necessity to convert the 268-megawatt Big Sandy  
22 Unit 1 to natural gas and will exercise its option to  
23 terminate its March 28th, 2013, request for proposals.

24 Q Thank you. Now, without asking a legal  
25 question, are you familiar with the fact that Kentucky

1 is a least and best cost state when it comes to  
2 electricity generation?

3 A Yes, I am.

4 Q And if the bids as submitted -- well, if  
5 there are any bids that are submitted that are not  
6 natural-gas related and are at a cheaper cost, will  
7 the Company still be going with natural gas,  
8 notwithstanding that standard that the PSC has used?

9 A In the context of this paragraph in the  
10 settlement, you know, regardless of what the bids  
11 would come in, however many there were, we would pull  
12 that RFP and we would proceed with conversion of Big  
13 Sandy Unit 1 to gas in the context of paragraph 13.

14 Q If you could look at paragraph 14. We  
15 touched on this earlier, but just reference the  
16 paragraph in general, if you would.

17 A Yes, sir.

18 Q In particular, if you would look at the  
19 beginning of the paragraph, and I'll quote, and you'll  
20 tell me if I'm wrong with the quote, (Reading) The  
21 Company shall be authorized to recover the  
22 coal-related retirement costs of Big Sandy Unit 1, and  
23 so on and so forth.

24 Do you see the words "shall be  
25 authorized"?

1 A Yes, sir.

2 Q Will this provide the PSC the  
3 opportunity to actually deny any of those costs, or  
4 are they automatically authorized if this partial  
5 settlement is approved?

6 A Under this settlement agreement, if it  
7 is approved, then all the costs would be recoverable  
8 based on paragraph 14.

9 Q Do you have an estimate of those costs?

10 A I think if -- in Data Request 5-10,  
11 column 3 of that discusses at a very high level the  
12 cost of service impact of those costs in relationship  
13 to that, but that's the only numbers that I -- that I  
14 have. I don't have specific cost numbers that I can  
15 readily have available.

16 Q Well, if we're going to reference 5-10  
17 at the moment, and we'll have to do so later on --

18 MR. HOWARD: Counsel, if you could  
19 handle -- or hand Mr. Wohnhas PSC 5-10, I --

20 A I have it.

21 Q Okay. You do have it?

22 A I have it. Thank you.

23 Q At column 3 --

24 A Yes, sir.

25 Q And that's where you're talking about

1 the numbers on a going-forward basis, correct?

2 A That is correct, sir.

3 Q Does column 3 reflect the costs that  
4 will be at play, if I may use those words, after the  
5 Company files its next rate case?

6 A The answer to that is yes. It might be  
7 better, so that everyone understands this whole data  
8 request response, if I can -- if I may, and I'll  
9 ask if I may kind of go through it column by column so  
10 that everyone understands, you know, what this is --  
11 this is really putting everything on an  
12 apples-to-apples basis when we look at percentages and  
13 such --

14 Q I tell -- I tell you what.

15 A -- if I may.

16 Q Let's hold on to that and I -- and I  
17 will let you do that.

18 A Okay.

19 Q Please look at paragraph 15.

20 A Yes, sir.

21 Q And if you could read the first sentence  
22 into the record, please.

23 A (Reading) Beginning January 1st, 2014,  
24 no outage associated with Big Sandy Unit 2, including  
25 that due to its retirement, shall be treated as a

1 forced outage for purposes of the fuel adjustment  
2 clause.

3 Q Now, without asking you for a legal  
4 opinion, do you know whether this is permissible under  
5 the regulatory accounting?

6 A I believe the regulatory accounting has  
7 nothing to do with it. The current -- our current  
8 regulations that are set up, it is different than  
9 those.

10 Currently, if Big Sandy Unit 2 were to  
11 be forced out, that -- during that forced outage time,  
12 the energy that is -- that you would go and get to  
13 cover that outage energy is priced out at the lower,  
14 you know, of the cost or at Big Sandy's cost. It  
15 cannot be priced at something higher than Big Sandy's  
16 cost.

17 Q So was the intent of this particular  
18 sentence to change the way that it's been handled in  
19 the past?

20 A No, sir. You know, this is strictly for  
21 the purposes of this -- during this base rate freeze  
22 time, during the overlap period of having, that if Big  
23 Sandy were to -- you know, as we know it's going to  
24 retire, and as we look at the operation and  
25 maintenance expenses to that, we have a lot that

1 Witness LaFleur can expound upon, but we have cyclical  
2 maintenance, life-extending maintenance that we  
3 normally use in all of our plants that we may not  
4 incur because of the time that it's going to retire in  
5 the close proximity of, you know, the next two years.

6 So this is a protection for the Company  
7 as part of the whole -- the total comprehensive  
8 package that it won't be used as a forced outage only  
9 during this time period.

10 So it is not trying to change anything  
11 in the long term in relationship to the regulations of  
12 handling fuel.

13 Q You said "in the long term," but in the  
14 short term does it?

15 A It -- it's -- you know, during this  
16 17-month period of time, it will be handled  
17 differently than it currently is, 'cause it will not  
18 be considered a forced outage.

19 Q And is there a financial consequence to  
20 that different treatment in that 17-month time?

21 A It may or may not. It depends on what  
22 you can go out -- we still may be able to go out  
23 and -- for instance, during this time frame, as an  
24 example, Big -- if Big Sandy is forced out,  
25 currently -- let me back up, just to help here.



1                   Currently we have the pool that we can  
2 depend on if Big Sandy is forced out, that we go to  
3 the pool for energy. Many times that pool energy is  
4 cheaper in total than Big Sandy, so that energy flows  
5 through to the customer, so it's at a ben -- it's a  
6 benefit to the customer. All right. And we can never  
7 get more than the Big Sandy cost.

8                   With this provision, the only thing  
9 that -- we would first probably not have to go out to  
10 the market during this 17-month period because  
11 Mitchell will be in our flock, per se. And as we've  
12 shown, the Mitchell costs and -- many times is cheaper  
13 than Big Sandy, so it could be a benefit to the  
14 customers as well to have Mitchell as the supplement  
15 power during this time.

16                   So it -- you know, it could be more  
17 expensive, but it could go either way, sir.

18                   Q       Understood. But it is a departure, at  
19 least in that 17-month time frame?

20                   A       It is -- it is different than the  
21 current setup of forced outages; yes, sir.

22                   Q       Please go to paragraph 16 at this point  
23 in time. And I'll ask you to read the first sentence  
24 into the record.

25                   A       (Reading) The retirement of Big Sandy

1 Unit 2 prior to May 31st, 2015, shall be considered a  
2 force majeure event and the Company shall have the  
3 right to seek emergency rate relief from the  
4 Commission to prevent its credit or operations from  
5 being materially impaired or damaged under KRS -- KRS  
6 278.190(2) consistent with the Commission's orders and  
7 precedent governing such relief.

8 Q If this force majeure is triggered,  
9 could it have an impact on rates?

10 A Yes. And the amount is 24 million per  
11 year, or \$2 million per month would be the most that  
12 it -- to the greatest extent it would be.

13 Q Two million dollars. I'm sorry. Say  
14 those numbers again, please.

15 A As it says in the next sentence,  
16 \$24 million annually --

17 Q Right.

18 A -- or \$2 million per month.

19 Q Thank you.

20 A And this is -- and the Commission would  
21 need to approve this. This is something we could go  
22 before them, but they have the right to look at, as  
23 they currently do under 278.190, to rule on this force  
24 majeure emergency based on our finance condition.

25 Q Let's now look at paragraph 21, which is

1 rather extensive, and so I'm going to try to go  
2 through this.

3 A Yes, sir.

4 Q If we look at paragraph A, if you would,  
5 read into the record beginning with "Any party can  
6 contest," and then conclude on the next page, "shall  
7 bar for ratemaking purposes." So actually the first  
8 couple sentences.

9 A All right. Just give me a moment so I  
10 can mark where they -- you want me to read the "shall  
11 bar" as well, because that's a long sentence after  
12 that.

13 Q Well, let's just take it one step at a  
14 time.

15 A All right. (Reading) Any party can  
16 contest the reasonableness of the ongoing cost of  
17 environmental compliance in future proceedings. The  
18 Company acknowledges the authority of the Commission,  
19 upon its own motion or upon application by the  
20 parties, including the Attorney General, Sierra Club,  
21 and KIUC, to determine, following a full due process  
22 hearing, that Mitchell Units 1 and 2 are no longer the  
23 least-cost generation resource for the ratepayers of  
24 the Company due to federal, state, or local  
25 environmental laws or regulations imposing on Mitchell

1 Units 1 and 2 costs or operational requirements  
2 associated with or related to greenhouse gas emissions  
3 and in order -- and to order, upon such determination,  
4 that Mitchell Units 1 and 2 shall be retired for  
5 Kentucky ratemaking purses -- purposes. Nothing in  
6 this stipulation settlement agreement shall bar the  
7 Commission --

8 Q I'm sorry. That -- that's far enough.

9 A Is that it? Thank you.

10 Q So with what you've read, if this  
11 happens, what will the Company do for generation?

12 A We would have to look at it and see what  
13 the options were at that time. If this -- if this  
14 were to happen quickly for some type of reason, which  
15 the Company does not perceive it will, because, as you  
16 can talk with Witness McManus, you know, this whole  
17 greenhouse gas issue, the carbon tax, is -- it's got  
18 dates certain now of trying to meet some of those  
19 dates, but it also has, you know, litigation time as  
20 we work with the different states, and that takes  
21 time.

22 So this is not going to sneak up on  
23 anyone, so -- and it is also -- if this affects  
24 Mitchell, it's going to affect all of America. The  
25 greenhouse is -- gases and the carbon taxes, it's just

1 not going to be something that's going to affect AEP.  
2 So the whole industry would have to look at how we're  
3 going to deal with this issue.

4 Q And, Mr. Wohnhas, I appreciate your  
5 indulgence of reading for me, and I've just got a  
6 little bit more of that and then we'll try to get away  
7 from that, because I don't want to take up too much of  
8 the Commission's time.

9 But if you'll look at paragraph 21 A,  
10 which is on page 12, beginning with the word "Nothing  
11 in this stipulation and settlement agreement shall bar  
12 the Commission or the parties."

13 Do you see that?

14 A Yes, sir.

15 Q If you could read from there until the  
16 last sentence.

17 A (Reading) Nothing in this stipulation  
18 and settlement agreement shall bar the Commission or  
19 the parties, including the Attorney General, Sierra  
20 Club, and KIUC, from proceeding pursuant to KRS  
21 278.260 to challenge the Company's rates on the  
22 grounds the rates are unreasonable or unjustly  
23 discriminatory because Mitchell Units 1 and 2 are no  
24 longer the least-cost generation resource for the  
25 ratepayers of the Company due to federal, state, or

1 local environmental laws or regulations imposed --  
2 regulations imposing on Mitchell Units 1 and 2 costs  
3 or operational requirements associated with or related  
4 to greenhouse gas emissions.

5 Q Without asking you for a legal opinion  
6 about -- let me ask this: How long have you worked  
7 for AEP?

8 A About 34 years.

9 Q And you're familiar with the ratemaking  
10 process?

11 A Yes, sir.

12 Q Are you familiar with -- generally  
13 familiar with the -- with the statutes and regulations  
14 that govern the regulatory process?

15 A Generally; yes, sir.

16 Q Do you understand or are you familiar  
17 with the fact that a party can file a complaint  
18 against the Company for overearning?

19 A Yes, sir.

20 Q If a complaint by one of those parties  
21 is filed against the Company, who bears the burden of  
22 proving that the Company is overearning? Do you know  
23 the answer to that?

24 A I believe the Company bears the burden  
25 under the question of overearnings that you -- let me

1 back up. I honestly don't know who bears the burden  
2 if it's asked under that. I know who -- who bears it  
3 if we file. I don't know the other way, honestly.

4 Q Subject to check --

5 MR. HOWARD: And, Mr. Overstreet,  
6 again --

7 MR. OVERSTREET: You're asking him a  
8 legal question at this point, Mr. Howard. I'm going  
9 to have to object.

10 MR. HOWARD: Okay.

11 MR. OVERSTREET: He's not an attorney.

12 CHAIRMAN ARMSTRONG: Where are you  
13 going?

14 MR. HOWARD: Mr. Chairman, that's --  
15 I'll conclude with that question on that point.

16 Q Paragraph 21 A, (Reading) The Company  
17 and settling Intervenor further agree to work  
18 collaboratively -- collaboratively with the Kentucky  
19 and West Virginia Environmental Protection Agencies to  
20 attempt to reasonably address potential regulation of  
21 carbon and its impact on Kentucky Power customers,  
22 period, quote, end quote.

23 Do you see that?

24 A Yes, sir.

25 Q Was that an accurate reading?

1           A       That was an accurate reading.

2           Q       What does that sentence mean?

3           A       If you go back to President Obama's  
4       speech and what is going on, he stated that, you know,  
5       these environmental greenhouse gas regu -- where he  
6       wants to go shouldn't be done strictly at a federal  
7       level, that we need to be working with the states, and  
8       what this -- and if you read this whole 21 A and the  
9       idea of being able to come in before the Commission is  
10      all around greenhouse gases, specifically related to  
11      greenhouse gases.

12                         And so this last sentence is strictly  
13      saying that Kentucky Power will work as the federal  
14      develops whatever they are going to develop, and then  
15      as they work with the states, because the Mitchell  
16      unit is in -- physically sitting in the state of West  
17      Virginia but being used for the customers of Kentucky,  
18      that we would be at the table working with them to try  
19      to ensure that -- to the best of our ability, that  
20      those regulations that would be agreed to or are being  
21      discussed, that we are, to the greatest extent  
22      possible, protecting the Kentucky ratepayers.

23           Q       And when you say "protecting the  
24      Kentucky ratepayers," I'm trying to understand what  
25      you mean by that. Does that include, and then perhaps



1 exclusively, trying to lessen the costs?

2 A I think that's, you know, our challenge  
3 all the time is to, yes, lessen that to -- as a  
4 Company, you know, in general. Kentucky Power does  
5 not enjoy coming in and asking for a rate increase.  
6 It is not what we want to do. We work very, very hard  
7 to not have to come in and ask for a rate increase, so  
8 this is consistent with what we do day in, day out, is  
9 that they we would work very hard to try to -- if  
10 there's going to be an increase, to limit it to the  
11 greatest extent possible.

12 Q And, in fact, Kentucky Power, and AEP  
13 more globally, over the years has filed a number of  
14 lawsuits or joined a number of lawsuits fighting the  
15 EPA, has it not?

16 A It has, and you can talk to Witness  
17 Munczinski, and he can give you a whole litany of  
18 that, because he's been very much involved over the  
19 years.

20 Q And there's --

21 A And he'll be glad to fill you in, and  
22 everyone, on what some of the problems are.

23 Q But there's a whole slew of them,  
24 correct?

25 A Yes, there is.

1           Q     And the attempt by the Company has been  
2 to fight the EPA in order to try to keep the rates as  
3 low as possible.

4           A     I wouldn't say it's always fight the  
5 EPA. You know, it's work with. You know, and we have  
6 challenged them and went against them, and -- but it's  
7 being at the table so that we get our message heard,  
8 just like there are those from the Sierra Club at a  
9 table trying to get their message heard. You know, we  
10 are at the table continually.

11          Q     Okay. And maybe I used the word "fight"  
12 inappropriately. To challenge perhaps is a better  
13 word.

14          A     Sometimes it's challenge, sometimes it's  
15 fight.

16          Q     Very good. But again, the goal is to  
17 lessen the cost?

18          A     That is our goal.

19          Q     And if the EPA came out with CO2  
20 regulations that increased the costs for the Company,  
21 would the Company challenge or otherwise fight the EPA  
22 on that?

23          A     I believe our precedent shows that we  
24 would.

25          Q     And if I'm looking at this particular

1 sentence where you're talking -- where the intervenors  
2 who have signed this partial settlement, is it your  
3 understanding that this particular sentence is that of  
4 the Company and that the Intervenors would do  
5 everything that they could to lessen the rates,  
6 including fighting any type of carbon regulation?

7 A And I guess, you know, you've gotta be a  
8 little bit careful in the fact that, you know, the  
9 Company and I think everyone in this audience today  
10 would say that we are all -- have an obligation to  
11 make sure the environment is as clean as possible.  
12 And AEP, and Kentucky Power as part of AEP, has worked  
13 towards that for years.

14 And, you know, many times it's not  
15 necessarily that we are fighting, using your words,  
16 against the EPA on some certain regulations. A lot of  
17 times it's the speed or the timing of when those  
18 regulations occur, because we realize we have a  
19 responsibility to the environment, just as anyone else  
20 does, to be compliant and to make sure that this earth  
21 is here for -- I have two great -- two granddaughters  
22 that are with me right now that are twins, and I want  
23 them to be able to grow up in a very --  
24 environmentally clean as possible.

25 So, you know, to say -- but we are going

1 to be at the table for -- to -- if there's something  
2 that is -- that we feel is overboard, we will fight  
3 it; if it's something to do with timing, I think the  
4 key is that we're going to be at the table expressing  
5 our views, our thoughts, our position.

6 Q But the goal is to minimize the cost?

7 A As much as possible.

8 Q Thank you. Paragraph 21 C. And you can  
9 read the first sentence -- actually, if you would,  
10 read the first and second sentence of paragraph 21 C,  
11 as in Charlie.

12 A (Reading) If Mitchell Units 1 or 2 are  
13 retired for Kentucky ratemaking purposes pursuant to  
14 paragraph 21 A, or retired early as a result of  
15 federal, state, or local environmental requirements  
16 relating to greenhouse gas emissions, the Company  
17 agrees to collect the retirement costs with a  
18 debt-only carrying cost. The recovery period and  
19 mechanism shall be approved by the Commission.

20 Q And that last sentence says "shall be  
21 approved by the Commission"?

22 A Yes, it does.

23 Q Which means the PSC will have no  
24 authority if this is -- if this partial settlement is  
25 approved, the PSC will have no authority to deviate

1 that -- from that, correct?

2 A I mean, it gives them the authority to  
3 approve, so it gives them all the authority to approve  
4 this paragraph.

5 Q I'm sorry. Yeah, that -- I misread  
6 that. Thank you.

7 A Okay.

8 Q And the stayout lasts until May or --  
9 yeah, until May 31st of 2015, correct?

10 A I'm sorry. Could you repeat that?

11 Q The stayout period that's listed in  
12 paragraph 3 of the stipulation.

13 COMMISSIONER BREATHITT: What page?

14 MR. HOWARD: Of the stipulation.

15 A Yes, the -- the -- as we call it --

16 MR. HOWARD: Five.

17 A -- the base rate freeze period would go  
18 through at least May 31st, 2015.

19 Q One of the questions that I had asked  
20 earlier, and we will get to the Company's response to  
21 PSC 5-10, but I had asked for a quantification, at  
22 least I think I was trying to ask for a quantification  
23 of what the Company anticipated would be the cost  
24 associated with paragraph 14.

25 Can the Company, by way of a

1 post-hearing data request, provide to me its best  
2 estimate of the cost associated as listed in paragraph  
3 14?

4 A We can do that.

5 MR. OVERSTREET: And I think the  
6 operative word is going to be "estimate." I mean,  
7 there's -- there's a -- there's a lot involved in  
8 determining what costs are to be included. It would  
9 be --

10 MR. HOWARD: It --

11 MR. OVERSTREET: -- incurred in  
12 connection with the retirement, so --

13 MR. HOWARD: I understand that.

14 MR. OVERSTREET: -- it will be at a very  
15 high level, at best, estimate.

16 A And maybe to clarify, you know, again,  
17 on 5-10, when we look at the column 3 in a moment, you  
18 know, those costs are all the generation-type costs  
19 related. You know, we're not talking, when we look at  
20 that, anything about the normal operation,  
21 transmission, distribution. You know, we've not done  
22 that at all, so it's just going to be looking at the  
23 impacts. The only thing that we have is the  
24 generation-type -- the Big Sandy costs, the Mitchell  
25 type of analysis.

1 Q And I understand that.

2 A All right.

3 Q But I'm looking at paragraph 14, and I  
4 asked Mr. Kollen yesterday if he was able to quantify  
5 what those numbers were, and he said he couldn't and  
6 he would have to defer to the Company, so here I am  
7 deferring to the Company for their best estimates on  
8 the retirement costs of Big Sandy Unit 1 --

9 A And -- and I will tell you that that  
10 most of those costs are going to be best based upon  
11 the estimates that we have that were filed in the base  
12 rate case. There were some costs in this June 28  
13 filing, and we use that as our basis, even though,  
14 again, they're estimates.

15 Q And that is definitely acceptable. What  
16 I'm trying to do, Mr. Wohnhas -- let me rephrase.

17 Do you think it's appropriate for the  
18 public, now that we've been going through a review of  
19 Kentucky Power's attempt to comply with the ECR  
20 mechanism for several years now -- we've been going  
21 through this for a number of years, correct?

22 A That is correct.

23 Q 2011-401, that case was withdrawn,  
24 correct?

25 A Correct.

1           Q     This case has now been filed in its  
2     stead, correct?

3           A     Basically in its stead. It was to --  
4     both of them were to deal with the environmental  
5     compliance of Big Sandy Unit 2, how we would do that,  
6     so yes.

7           Q     And will you accept, subject to check,  
8     that the public is somewhat confused --

9           MR. OVERSTREET: I'm going to object.  
10    He can't testify to what the public is, and there's no  
11    way to check it.

12           CHAIRMAN ARMSTRONG: Sustained.

13           Q     Mr. Wohnhas, I'm trying to determine the  
14    costs related to 401 and do an apples-to-apples  
15    comparison as you had indicated that you wanted to do  
16    a moment ago.

17           A     Let's go to 5-10 and we can do that, and  
18    it'll -- I think it'll clear it up for everyone here  
19    in the audience.

20           Q     And by doing that, what we'll be able to  
21    do, and correct me if I'm wrong, is to be able to  
22    understand what was at play in 401 and what is at play  
23    now?

24           A     Absolutely.

25           MR. OVERSTREET: I actually have copies



1 of it if that's of any help to anybody.

2 May I approach?

3 CHAIRMAN ARMSTRONG: You may. Would you  
4 describe this document?

5 MR. OVERSTREET: Yes. It is the  
6 Company's response to Staff Data Request 5-10. It was  
7 filed on July 3rd of this year.

8 CHAIRMAN ARMSTRONG: Do you wish to have  
9 it admitted?

10 MR. HOWARD: Yes, Mr. Chairman, as a  
11 matter of fact, I do, because I was going to ask a  
12 question on that. Because I do, at the end of the  
13 day, want clarity for the public as to the numbers  
14 that are out there. So this'll be AG Number --

15 CHAIRMAN ARMSTRONG: Eight.

16 MR. HOWARD: -- 7, I believe it to be.

17 COMMISSIONER BREATHITT: Eight.

18 MR. HOWARD: Eight.

19 CHAIRMAN ARMSTRONG: Without objection,  
20 so ordered.

21 (AG Exhibit 8 admitted.)

22 Q So, Mr. Wohnhas, you have in front of  
23 you the Company's response to PSC 5-10, do you not?

24 A I do.

25 MS. ERNST: Thank you, sir.

1 Q Were you here yesterday when Mr. Pauley  
2 testified?

3 A Yes.

4 Q And when I asked him about the  
5 percentage increase overall that the Company had --  
6 Kentucky Power had requested in 2011-401, that  
7 increase was approximately 31 percent, right?

8 A That is correct.

9 Q If I'm looking at column one, two,  
10 three, line 13, percentage change, you see the  
11 25.59 percent?

12 A Well, it's column one in the way I have  
13 headed. You're talking about the DFGD filing of  
14 the --

15 Q That's correct, yes.

16 A Okay. I see the 25.59 percent, yes.

17 Q And again, we're trying to do  
18 apples-to-apples comparison here, are we not?

19 A Yes, we are.

20 Q Mr. Pauley said the increase under 401  
21 was 31 percent. This number is different, is it not?

22 A It is.

23 Q How so?

24 A All right. If I can go through the  
25 whole document, I think, at one time, it would be very

1 helpful. And I -- and I thank the Commission Staff  
2 for asking the question, because it does put  
3 everything on an apples-to-apples basis.

4 Column one, as it's identified, is the  
5 scrubber filing, 401. And if you look at line 1, you  
6 see the 177,699. That was the amount that was filed  
7 as part of the scrubber filing.

8 You have to remember that the scrubber  
9 filing was an environmental filing. It was asking for  
10 that environmental project, as you stated, Mr. Howard,  
11 as part of this environmental tariff that we -- that  
12 we have in Kentucky now. We were asking approval of  
13 that project, and in doing that, you basically provide  
14 an estimate of the costs that would be incurred if  
15 it's approved. So the 177 was -- is pulled directly  
16 from that 401 filing.

17 If you were to take that 177,699, divide  
18 it by the revenues that was at that point in time,  
19 which were 2011, which were roughly 565 million, you  
20 would calculate the 31 percent that Mr. Pauley  
21 testified to yesterday, and it was part of that 401  
22 case.

23 What we have done here, in trying to get  
24 everything on the apples-to-apples basis, during the  
25 401 scrubber filing, we followed the regulations in

1 filing and in the advertisements and such that this  
2 was strictly for the scrubber.

3 There were data requests during that  
4 proceeding asking about other things that were going  
5 to happen during this time period of scrubbing Big  
6 Sandy 2 that would have a total impact on the  
7 ratepayer, but that wasn't, you know, a part of the  
8 actual filing.

9 What this does here is -- and if you  
10 look at -- is makes some adjustments to that filing  
11 based on things that were beyond the scrubber filing.

12 Line 2, Big Sandy Fuel Savings. Because  
13 of -- and as what was brought out during that hearing,  
14 by going to scrubbing Big Sandy 2, we would now  
15 have -- be able to purchase, at a cheaper cost,  
16 high-sulfur coal. So it's a fuel savings that goes to  
17 the customers, \$18.2 million.

18 Line 4, this is the pool elimination.  
19 We already -- as we were talking yesterday, Vice-Chair  
20 Gardner said, in asking are we at deficit or a  
21 surplus. We're a deficit, so we get charges for that  
22 pool. This takes those charges out.

23 Line 5 are the envir -- are  
24 environmental costs related to surplus companies  
25 that -- when we were a member of the pool. Ohio Power

1 was a surplus company, so as they provided assistance  
2 to us, we got a portion of those environmental pool  
3 costs, and so we take that out.

4 So we have an adjusted cost of service  
5 impact, line 11.

6 And what was also asked of us is that,  
7 you know, from 2011 to 2012, the revenues changed, and  
8 they continue to change, and so what we used, in  
9 trying to be consistent in all these columns, is the  
10 revenues that we just filed in the -- the June 28th  
11 filing of the rate case. That's 5-11.

12 You will notice that that's about  
13 \$55 million less than what was in 2011. The Company's  
14 revenues have reduced that much, mainly due to the  
15 economics of what's going on in the country, but  
16 hitting Eastern Kentucky. But when you make that  
17 calculation, you get 25.59 percent.

18 So that's the scrubber filing adjusted  
19 for things that we know were going to change at that  
20 point in time.

21 I will tell you, there was a comment  
22 made earlier that scrubber costs are decreasing. The  
23 scrubber costs have not dis -- have not decreased. If  
24 you take the 177,699 up on line 1, divide it by the  
25 current revenues, you know, because our revenues have

1 decreased to 511,321, that 31 percent that has been  
2 quoted increases to 34.75 percent. The cost of the  
3 scrubber has not decreased from the time we filed.

4 Column two, then. This is the base rate  
5 freeze period. The \$44 million that is -- well, let  
6 me back up one thing to make sure -- I want to make  
7 clear. Columns two and three are going to be talking  
8 Mitchell, but they are columns that must stand alone.  
9 All right? And I'll explain as we go through here.

10 Two is during the -- and this is the  
11 \$44 million that's going to be collected through the  
12 asset transfer rider. It is not all of the Mitchell  
13 cost, it is a concession on the part of the Company,  
14 and our earnings will take a drop because of this, but  
15 there are other things in the -- in the settlement  
16 agreement that are a benefit and is why we have agreed  
17 to this.

18 We currently have also a proceeding, and  
19 you're well aware, in Virginia and West Virginia.  
20 Fortunately for both of those jurisdictions, there's  
21 not a rate increase being involved at the same time  
22 with this transfer. All right. And it's just due to  
23 the differences between the three jurisdictions.

24 So as we look then again at AEP as a  
25 whole, is Kentucky Power going to take a hit

1 earningswise? Absolutely. Our hope, though, is, as  
2 part of that AEP system, that one of my sisters can  
3 take care of me, and we take care of each other, and  
4 we have over the years, and that's -- so that's part  
5 of the concession.

6 The only adjustment we make to that 44  
7 million is to flow through the Mitchell fuel savings.  
8 Then you see an adjusted cost of service of 27 million  
9 divided by the same \$511 million in revenue. So this,  
10 during this base rate freeze overlap period, is only  
11 five percent, in comparison to, on an apples-to-apples  
12 basis, 25 percent for the scrubber.

13 Column three is again looking at  
14 Mitchell in total. All right? If you look at the --  
15 line one, the \$81 million, that is the total cost of  
16 Mitchell, not just an incremental. That's the total  
17 cost of service for Mitchell. And if you look at it  
18 in comparison to column one, the scrubber, you see  
19 it's \$81 million cost of service versus Big Sandy  
20 scrubbing, 170 -- almost \$178 million.

21 We make adjustments so that we're again  
22 staying on an apples-to-apples basis. We reduce the  
23 Mitchell fuel savings. We take out the pool. We take  
24 out the environmental costs related to the pool. We  
25 then add in lines 7, 8, and 9, estimated costs related

1 to Big Sandy Unit 2 from decommissioning costs, the  
2 unamortized depreciation balance, the Big -- the study  
3 cost. Everything related to Big Sandy we add what  
4 would be an impact that we're going to continue to  
5 recover. All right. Continue to recover.

6 Line 11 is the adjusted \$71 million for  
7 Mitchell. That, again, is compared to scrubbing Big  
8 Sandy Unit -- Big Sandy Unit 2, column one, of  
9 \$130 million. Much cheaper than scrubbing Big Sandy.

10 If we look at, again, the apples to  
11 apples, the same jurisdictional revenues, the total  
12 impact for Mitchell is 13.98 percent versus 25.59 --  
13 59 percent for scrubbing Big Sandy.

14 Q And in regard to that explanation, what  
15 is line 14, the 8.21 percent O, "Does not reflect  
16 changes in other (non-Mitchell) costs or revenue, if  
17 any, that may be part of future rate case"?

18 A This, as I -- as I spoke to you earlier,  
19 Mr. Howard, the fact that we have not looked into --  
20 when you have a -- a base rate case, you -- we open up  
21 our books in total. So this does not take into  
22 account general operating increases or whatever that  
23 may occur at the time of the rate case filing.

24 This is strictly narrowing in on  
25 Mitchell-Big Sandy generation-type costs, so this



1 doesn't look if you were to adjust for the  
2 annualization of your salaries, to do something with  
3 transmission costs, to do something with the  
4 distribution reliability vegetation spend. It has  
5 nothing to do with those. Those numbers are not  
6 included in here.

7 Q Okay. And you've already indicated that  
8 you will be updating or trying to quantify the numbers  
9 in regard to paragraph 14 in the stipulation?

10 A Yes.

11 Q And that could cause the numbers at row  
12 13, column 3 to increase?

13 A I would not expect them to. I think all  
14 we're going to be giving you is the support behind  
15 that that supports this here. So I don't anticipate  
16 those changing. I'm just giving you the support.

17 Q Okay. So if I'm understanding  
18 correctly, if this stipulation is approved, the rates  
19 go up 5.33 percent on 1-1-14?

20 A That is correct.

21 Q And then at some point in time, after  
22 the stayout, the rates go up an additional -- as best  
23 the Company can estimate at this point in time,  
24 13.98 percent?

25 A No, not an additional. No. An

1 additional eight for a total of 13.98 percent. That's  
2 key here. It's not an additional 13 percent. That is  
3 the total impact for the Mitchell.

4 So it's 5.3 plus the eight. If you take  
5 the 533 and the 821, you don't tie exactly to the  
6 13.98, because you're earning a return for a period of  
7 time in that 17-month period, and so the math doesn't  
8 cleanly calculate out, because -- as the way that it's  
9 laid out here, but it's basically -- the total impact  
10 of Mitchell is 13.98 percent.

11 Q Okay. I asked Mr. Pauley some questions  
12 about the RFP process yesterday.

13 VICE-CHAIR GARDNER: Excuse me.

14 Q Were you here?

15 VICE-CHAIR GARDNER: Mr. Howard, can I  
16 ask just a couple questions --

17 MR. HOWARD: Oh, certainly.

18 VICE-CHAIR GARDNER: -- before we leave  
19 this? Thank you. I appreciate that.

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## EXAMINATION

1  
2  
3 By Vice-Chair Gardner:  
4

5 Q Mr. Wohnhas, does the 81 million  
6 Mitchell going forward include -- or where is the FGD  
7 that is appearing in the -- in the settlement  
8 agreement because of the environmental surcharge?

9 A Big -- I'm sorry. Could you ask that  
10 again? I'm sorry.

11 Q Yes. Paragraph six of the settlement  
12 agreement says, (Reading) When base rates are set in  
13 the base rate case, all costs associated with Mitchell  
14 Units 1 and 2 FGD equipment will be recovered through  
15 the environmental surcharge tariff and excluded from  
16 base rates.

17 So where is that included in your third  
18 column?

19 A It is in the -- we have not set -- it's  
20 in the \$81 million. It's -- because to the point,  
21 Vice Chairman, is that we didn't go to the extent of  
22 trying to make it between base and the environmental  
23 surcharge. This was just an overall impact on the  
24 customer, so it's all-inclusive. It's not separated  
25 out there.

1 Q Okay.

2 A So it would be in the line 1.

3 Q Okay. And is there -- will -- in the  
4 Mitchell fuel savings in line 3, where -- now, that's  
5 the savings because of using Mitchell coal; is that  
6 right? Or the lower sulfur coal. Higher sulfur coal.

7 A It's the higher sulfur coal, which is a  
8 cheaper -- cheaper cost per MMBtu.

9 Q Okay. In the -- in this overlap period,  
10 aren't Kentucky customers going to still be paying for  
11 coal through the in -- for Big Sandy under the fuel  
12 adjustment clause?

13 A But the way the fuel adjustment clause  
14 work is our internal customers get -- the cheapest  
15 coal prices flow through to them. So if the Mitchell  
16 unit is the cheaper generation, then that is what goes  
17 to our internal customers, and then if Mitchell were  
18 cheaper than Big Sandy, then Big Sandy, if both were  
19 running, would then be sold out on the market. So the  
20 internal customers are getting the cheapest fuel.

21 Q Okay. And so the fuel adjust --  
22 although there's two units that would be owned by  
23 Kentucky Power, there -- there's not going to be  
24 double the fuel, because the fuel -- for example, if  
25 Big Sandy gets sold -- if its power gets used by

1 Kentucky customers, then it would be the cheapest, and  
2 if it's not and it's sold on the market through PJM,  
3 then those -- then that's just not included in the  
4 fuel adjustment clause; is that correct?

5 A Well, it's all part of the calculation  
6 you have here. If you -- if you just try to picture  
7 the fuel adjustment clause, you have your internal  
8 generation numbers, then you have your purchases, less  
9 your sales. So you would have, in the internal  
10 generation, Big Sandy and Mitchell. All right? We  
11 still could have some purchases for whatever reason  
12 that are there.

13 Then in the sales, all right, we're  
14 going to sell everything that's not used internally,  
15 so -- and we would keep internally the cheapest fuel,  
16 then all the other sales would go off-market.

17 So the fuel adjustment clause does not  
18 change in its layout, in its -- we just add another  
19 line under the internal generation for Mitchell, so  
20 that you would see Big Sandy's numbers, Mitchell's  
21 numbers, and be able to follow that through.

22 Q So then -- so then the way in which the  
23 customers won't be charged is by way of a larger  
24 off-system sales?

25 A That's correct.

1 Q Okay.

2 A Assuming -- you know, assuming both  
3 units are still running. You know, I mean, when  
4 they're -- they're running. If one happens to be  
5 down, for instance, for a period of time, you know,  
6 you may only have -- you know, if it's under some  
7 maintenance or such, you may only have the Mitchell  
8 units running, so it's just those that are showing  
9 there.

10 But, you know, assuming both are running  
11 and operating, you know, those sales go to the  
12 off-system, and then, you know, depending on what's  
13 approved, if it's the settlement agreement, those  
14 system sales would be kept by the Company as part of,  
15 you know, the mitigation of only getting \$44 million  
16 of the total Mitchell asset right now.

17 Q All right. I'm going to have some more  
18 questions, so I'm not going to -- I don't want to  
19 interrupt, but I just have one more quick question on  
20 this.

21 Yesterday you heard Mr. Kollen refer  
22 to -- or you -- your-all's data request where he in --  
23 he said that the -- in comparing the 44 million, he  
24 compared it to roughly 140 million, 137 million for  
25 12 months, and said that that's about a \$100 million

1 saving, but it looks like your July 15th going forward  
2 is 81 million, not -- not 137,800,000. Why is that  
3 different?

4 A I don't -- I can't answer that right now  
5 without looking at the details of -- and I -- I have  
6 not, of his -- of his calculations, so --

7 Q Well, I think this is actually -- I  
8 don't --

9 A My quick --

10 Q I'll come --

11 A -- just analysis -- not analysis, but,  
12 you know, is the fact that, you know, it -- it's  
13 looking at two different -- I mean, the same analysis,  
14 but with different adjustments --

15 VICE-CHAIR GARDNER: Okay. Well,  
16 let's --

17 A -- and so --

18 VICE-CHAIR GARDNER: -- let's just come  
19 back and let you go on. I don't want to --

20 MR. HOWARD: I'll be pretty brief,  
21 Mr. Vice Chairman.

22 VICE-CHAIR GARDNER: No, take your time,  
23 please. I'm not --

24

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## FURTHER CROSS-EXAMINATION

1  
2  
3 By Mr. Howard:

4  
5 Q At the end of this proverbial day, if I  
6 may, Mr. Wohnhas, when the Mitchell -- if the partial  
7 stipulation is approved and the Company then comes in  
8 later on and requests recovery for the Mitchell  
9 case -- or for the Mitchell case, base rates, FAC,  
10 ECR, the whole kit and caboodle, what type of an  
11 increase do you expect that the Company will be  
12 requesting?

13 A Again, you have to, in relationship just  
14 to Mitchell and the retirement costs, generation-type  
15 of costs around Big Sandy, it's the 13.98 percent  
16 would be the total impact for the Mitchell on the cost  
17 of service to ratepayers.

18 On -- I cannot give you an estimate on  
19 what -- because of a general rate case proceeding,  
20 what normal cost of business, T&D-type costs would be  
21 then added, subtracted, you know, what those costs  
22 would be. We don't know those numbers.

23 Q So you --

24 A I just have to clarify that the -- it's  
25 13.98 percent for Mitchell and recovery of the costs



1 for -- of certain -- because of the retirement of Big  
2 Sandy Unit 2 and the coal-related costs for Big Sandy  
3 Unit 1.

4 COMMISSIONER BREATHITT: But you didn't  
5 know the retirement cost?

6 THE WITNESS: No. I said I know the  
7 cost of service. I would have to get you the details  
8 for the -- the estimated costs that -- for -- are for  
9 those points, Commissioner Breathitt.

10 I don't know them off the top of my  
11 head. We have those, but it's behind the scenes, and  
12 I just don't have them readily to speak to, and that's  
13 what we're going to get in the data request.

14 Q And so when you provide that  
15 post-hearing data request, could you then, if need be,  
16 update PSC 5-10?

17 A If needed be.

18 MR. HOWARD: No further questions at  
19 this time, Mr. Chairman. Thank you. Thank you,  
20 Mr. Wohnhas.

21 THE WITNESS: Thank you.

22 CHAIRMAN ARMSTRONG: At this time we're  
23 going to have about a ten-minute break, then come  
24 back.

25 (Recess from 11:02 a.m. to 11:19 a.m.)

1 CHAIRMAN ARMSTRONG: Mr. Wohnhas, you  
2 can stay right there. We have a member of the public  
3 who has asked to be heard.

4 MR. NGUYEN: Mr. Chair, I don't know if  
5 the -- we're back on on the Internet.

6 CHAIRMAN ARMSTRONG: We're not on yet.

7 MR. NGUYEN: Okay. I'm sorry.

8 CHAIRMAN ARMSTRONG: I'm just educating.

9 COMMISSIONER BREATHITT: Public service  
10 announcement, PSA.

11 CHAIRMAN ARMSTRONG: Mr. Armstrong.

12 MR. ARMSTRONG: Yes, sir.

13 CHAIRMAN ARMSTRONG: Are you here?

14 MR. ARMSTRONG: Yes, sir.

15 CHAIRMAN ARMSTRONG: You're not related  
16 to me, are you?

17 MR. ARMSTRONG: Just on the good side.  
18 No.

19 CHAIRMAN ARMSTRONG: I'm going to allow  
20 you to make a public comment. I understand you are  
21 the superintendent of schools, and I think I met you  
22 maybe two years ago when I had a hearing there.

23 MR. ARMSTRONG: Yes, sir.

24 CHAIRMAN ARMSTRONG: Come on down, and  
25 I'm going to let you make a few comments, and then --

1 so we'll get that in the record too, because I'm going  
2 to turn it on now. So I want you to give us your name  
3 and where you live and what you do.

4 MR. ARMSTRONG: Yes, sir. Thank you,  
5 Mr. Chairman. And again, from one cousin to the  
6 other, I appreciate the time this morning.

7 My name is Mike Armstrong. I'm the  
8 superintendent of schools in Lawrence County, in  
9 Louisa, which is the home of the Big Sandy Generating  
10 Plant.

11 I will just offer that my father retired  
12 from the Big Sandy plant, and thanks to the history of  
13 the plant there that -- not only food on the table,  
14 but a roof over our head and paid for my education,  
15 and my dad continues to -- my dad and mother continue  
16 to enjoy the benefits of their retirement from the  
17 Kentucky Power Company.

18 I am Mike Armstrong, the superintendent  
19 of Lawrence County schools. My testimony today is  
20 specific to the rate increase filed by the Kentucky  
21 Power Company. A generalized calculation based on the  
22 anticipated increase would mean an approximate  
23 increase of about \$200,000 per year in electric  
24 utility bills for Lawrence County schools. This  
25 increase equates to about four certified teaching

1 positions that we would have to find money for  
2 otherwise.

3 This increase coupled with the  
4 anticipated proportionate reduction in school property  
5 taxes produced by the Big Sandy generating plant in  
6 Lawrence County, Kentucky, would have a negative  
7 impact on Lawrence County schools and would further  
8 reduce our teaching and support staff.

9 Taken to a larger scale, it is  
10 imperative that the Kentucky Public Service Commission  
11 likewise consider the additional costs and negative  
12 impact spread across all of the public and independent  
13 school systems in the Kentucky Power Company service  
14 area. In effects -- in effect, Kentucky's tax-funded  
15 schools will ultimately pay millions more in electric  
16 bills.

17 I do want to compliment the Kentucky  
18 Power Company for putting forward a plan similar to  
19 that currently adopted by LGE, KU, and TVA in  
20 cooperation with the Kentucky Public Service  
21 Commission that supports our school energy managers.

22 The work of these limited school energy  
23 managers has been crucial in helping reduce our  
24 utility consumption. However, the presence and  
25 efforts of the school energy managers would do little

1 to offset the impact of the requested rate increase.

2 I would like to respectfully propose  
3 that the Kentucky Public Service Commission, in  
4 cooperation and collaboration with all of the electric  
5 generating companies in the Commonwealth, and perhaps  
6 even in cooperation with the Kentucky General  
7 Assembly, determine a new and reasonable rate specific  
8 only to public schools that would allow all 173 school  
9 districts across the Commonwealth to better function  
10 as good stewards of taxpayers' dollars.

11 Lawrence County schools has reached the  
12 point whereby we can no longer do more with less. A  
13 potential but significant increase in our electric  
14 utility bills will only further erode our  
15 legislatively mandated responsibility to graduate  
16 college and career-ready students. This further  
17 reduction in our economic well-being forebodes a  
18 gloomy future for Kentucky's children and youth.

19 Thank you, Mr. Chairman.

20 CHAIRMAN ARMSTRONG: Thank you very  
21 much. Appreciate your being here as well.

22 We will now turn our attention back to  
23 our witness here, Mr. Wohnhas. And your witness.

24 MR. OVERSTREET: Your Honor, would  
25 Staff -- does the Staff have any questions, I guess?

1 MR. NGUYEN: Yes, we do have a couple.

2 MR. OVERSTREET: Would you prefer I go  
3 first or Staff?

4 CHAIRMAN ARMSTRONG: I prefer that Staff  
5 go first.

6 MR. OVERSTREET: Yeah. Okay.

7 MR. NGUYEN: It won't take too long.

8

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11

CROSS-EXAMINATION

12

13 By Mr. Nguyen:

14

15 Q Good morning, Mr. Wohnhas.

16 A Good afternoon.

17 THE WITNESS: Can I clarify something  
18 just before we start?

19 CHAIRMAN ARMSTRONG: Sure.

20 THE WITNESS: Mr. Howard, you asked  
21 about the Mitchell depreciation rates and if it was  
22 part of the record, and during the break, if you were  
23 to look at Commission Staff response to 1-62, part C,  
24 you will see the Mitchell depreciation rate by plant  
25 account.

1 MR. HOWARD: Thank you, Mr. Wohnhas.

2 Then there is no reason for a  
3 post-hearing data request on that matter,  
4 Mr. Overstreet.

5 MR. OVERSTREET: Thank you, sir.

6 THE WITNESS: Thank you.

7 MR. NGUYEN: You're welcome.

8 Q Can you refer to page 13 of your  
9 supplemental testimony that you filed in support of  
10 the stipulation settlement agreement? And that  
11 concerns the fuel savings associated with the Mitchell  
12 station as compared to the Big Sandy Unit 2 fuel  
13 costs.

14 A I'm at page 13.

15 Q Okay. Do you see that the amount that  
16 you had stated was approximately 16.7 -- 75 million in  
17 annual fuel savings?

18 A Yes, sir.

19 Q Okay. Do you anticipate that there  
20 would be any variance in that estimated amount or --  
21 and if so, would there be any significant variance  
22 from that?

23 A I wouldn't -- I mean, it is based on  
24 historic information at the Mitchell unit, so outside  
25 of market changes for -- for the cost, that would

1 be -- I would not anticipate any material changes from  
2 that, unless, again, the market would change  
3 drastically.

4 Q Okay. All right. And you had -- in  
5 response to Mr. Howard's question regarding AG  
6 Exhibit 8 and the estimated impact of the Mitchell  
7 transfer, if approved, during the interim period, I  
8 would characterize it, being 5.3 per -- 5.33 percent.  
9 Do you recall that?

10 A Of the -- of the -- the nonbase rate  
11 period?

12 Q Correct. Yes.

13 A Yes.

14 Q Yes.

15 A 5.33 percent; yes, sir.

16 Q Yes. During the 2014 -- January 2014 to  
17 June 2015 period.

18 A Yes, sir.

19 Q And you said that that impact would be  
20 seen at the beginning of the year, January 1, 2014, if  
21 the Commission approves the acquisition of Mitchell?

22 A Yes, because it's a rider.

23 Q Okay.

24 A It's -- and so it would go into effect  
25 at the beginning of the year, and the way the tariff



1 is shown, you've got the two-month lag because of the  
2 actual, and then it there would be true-ups, but it  
3 would start effective 1-1-2014.

4 Q Okay. So the proposed settlement  
5 agreement includes that asset transfer rider as part  
6 of the exhibit to that settlement?

7 A Yes, sir.

8 Q Okay. And that's for -- under the terms  
9 of that rider, would each of Kentucky Power's customer  
10 classes be charged higher rates as a result?

11 A I mean, to answer that, the rider would  
12 be a charge, yes. So they would have their -- their  
13 base rates don't change, but then on top of that would  
14 be this asset transfer rider --

15 Q Okay.

16 A -- which would be an increase for this  
17 period of time.

18 Q Okay. And has Kentucky Power complied  
19 in this case with all the Commission's requirements  
20 for requesting general adjustments in existing rates,  
21 including the requirement of notice to customers of  
22 the proposed rider?

23 A I'm going to say that as part of the --  
24 being it's part of the stipulation settlement  
25 agreement, I would say that we have, to the best of my

1 knowledge.

2 Q And I don't want to get into -- you  
3 know, to legal questions, but typically if there are  
4 proposed rates and that's required by Kentucky  
5 Commission's regulations to publish notice, how are  
6 those typically done?

7 A I don't know that I know the answer to  
8 that, sir.

9 Q Okay. And in the settlement, there's  
10 also an exhibit that's attached to the settlement with  
11 respect to asset transfer rider two, correct?

12 A That is correct.

13 Q And that's to recover, subsequent to the  
14 base rate filing, the depreciation -- unrecovered  
15 depreciation of the retirement of Big Sandy Unit 2 as  
16 well as any of the noncoal-related depreciation for  
17 Big Sandy Unit 1; is that correct?

18 A That is correct.

19 Q Okay. So is Kentucky Power requesting  
20 approval of that rider in this case as part of the  
21 filing of the settlement agreement?

22 A Yes, it is.

23 Q Okay. And will that have an impact on  
24 rates that customers will see, if approved?

25 A Yes, at the time that the -- the asset

1 transfer rider two would go into effect, yes, it would  
2 increase, again, as a rider, the overall impact on the  
3 customers.

4 Q Okay. So same question as to asset  
5 transfer rider. Has Kentucky Power complied with all  
6 of Kentucky Public Service Commission's regulations  
7 with respect to publication of notice of changes in  
8 existing rates?

9 A Again, number one, we have not noticed  
10 anyone in the public for these.

11 Q Okay.

12 A And if that -- being a settlement, and  
13 if that still needs to be done, you know, from a legal  
14 standpoint, you know, we have not done that to this  
15 point.

16 Q Okay. Can you turn to page 5 of the  
17 stipulation and settlement agreement? It's the first  
18 full sentence at the very top.

19 A Page 5 of my testimony or the agreement?

20 Q I'm sorry. Of the stipulation and  
21 settlement --

22 A Okay.

23 Q -- agreement itself.

24 A That's okay. I'm on page 5.

25 Q Okay. That sentence states that

1 Kentucky Power shall propose depreciation rates that  
2 reflect a 2040 retirement date for the Mitchell units  
3 in Kentucky Power's base rate case.

4 A Yes, sir.

5 Q Okay. How was a 2040 retirement date  
6 arrived at?

7 A That is the date that's been consistent  
8 with the -- the evaluation of the alternative of  
9 Mitchell currently. And I think it was asked  
10 yesterday that the current Ohio Power depreciation has  
11 it being retired at 2031 as far as the rates were  
12 recovered.

13 But it's what we were -- would do when  
14 we do our depreciation study at the next base rate  
15 case, we would make that based on 2040, because that  
16 is currently the expected life of the Mitchell units.

17 Q And that was based upon the modeling  
18 that was conducted or --

19 A Well, I mean, the modeling takes the  
20 information that we give it, and so internally within  
21 the system, we feel that that is -- an expected  
22 25 years added to the life of it now is the life  
23 expectancy of the units.

24 Q Okay. I'm trying to recall Mr. Becker's  
25 testimony yesterday with respect to the parameters of

1 the database itself stretching out only to 2040, and I  
2 thought that was the reason why that 2040 date was  
3 there for the -- for the modeling period of the  
4 analysis.

5 A I was here and heard Mr. Becker's  
6 statements. I can't speak to the Strategist and  
7 exactly how and -- and remember his comments. I can  
8 just tell you that from a -- strictly from a life  
9 expectancy and talking with our generation folks with  
10 the Mitchell unit, it was expected to be 2040.

11 Q Okay. Okay.

12 A And that's the best I can give you at  
13 this point.

14 Q Sure. That's fair enough. Thank you.

15 MR. NGUYEN: If you'll give me one  
16 second. I'm sorry.

17 CHAIRMAN ARMSTRONG: Uh-huh.

18 Q Were there any support that was filed in  
19 this case to sort of establish that 2040 retirement  
20 date, or expected retirement date?

21 A I can't recall. The best I could give  
22 you right now is that we'll check to see if there's  
23 something been filed. I just don't recall.

24 Q Okay. If you can check on that and  
25 provide that as a post-hearing data request, or if

1 there's another witness that could testify more  
2 directly on that question.

3 A I mean, Mr. Weaver may. You know, I  
4 don't -- I don't to tie him --

5 Q Sure.

6 A -- down to that, but, you know, he may  
7 know if there's something specific, but if not -- you  
8 know, if there's something in the record, we'll point  
9 it to it.

10 Q Okay.

11 MR. OVERSTREET: Mr. Nguyen.

12 MR. NGUYEN: Yes.

13 MR. OVERSTREET: I think Mr. LaFleur,  
14 who is going to testify today, can address that.

15 MR. NGUYEN: Okay. All right. Thank  
16 you. Those are all the questions I have.

17 MR. OVERSTREET: Thank you, Your Honor.  
18 I'm sorry.

19 CHAIRMAN ARMSTRONG: Go ahead.

20 MR. OVERSTREET: I'm sorry. I didn't --  
21 I'm sorry. I didn't mean to step on your toes.

22 VICE-CHAIR GARDNER: You're not. You're  
23 not.

24

25

\* \* \*

## REEXAMINATION

1  
2  
3 By Vice-Chair Gardner:  
4

5 Q First, Mr. Wohnhas, if I could follow up  
6 on a couple things that Mr. Howard was kind enough to  
7 let me begin asking questions about, and then it just  
8 got too complex for me to do that. So my first  
9 question is: Your AG Exhibit Number 5, which  
10 includes -- or which is really --

11 A Could -- sir, could I get a copy of that  
12 so --

13 MR. GISH: We're going to get him a copy  
14 of that.

15 A Please.

16 Q Sure. Or what it is -- where it's found  
17 is Attorney General's Supplemental Set of Data  
18 Requests, item number 12, page 1 and 2.

19 A I just want a copy in front of me.

20 Q Oh, absolutely. Certainly.

21 VICE-CHAIR GARDNER: So it's either 5,  
22 AG Number 5 or Attorney General's Supplemental Set of  
23 Data Requests, Item Number 12, dated March the 8th,  
24 page 1 of 2.

25 MR. GISH: I think our copy went with

1 the witness, the last witness yesterday.

2 MS. ERNST: I've got it if you don't.

3 MR. GISH: Okay. Okay.

4 MS. ERNST: Okay.

5 MR. GISH: Thank you.

6 A And if you'll give me just a moment to  
7 look at it, please.

8 Q Sure.

9 A All right, sir.

10 Q Now, did you prepare this chart, or  
11 under your direction?

12 A Yes.

13 Q Okay. So -- and you were here yesterday  
14 when Mr. Kollen indicated that -- as he was talking,  
15 he used that number on line 21 of the Mitchell revenue  
16 requirement at 137,800,000, and that's based on a  
17 12-month period, and he basically said, "Okay. That's  
18 140 million, and the -- what -- what the Mitchell  
19 transfer cost of service impact is an additional 44  
20 million, so that's roughly \$100 million in savings the  
21 Company is giving.

22 A I recall that --

23 Q Okay.

24 A -- discussion, yes.

25 Q So can you tell me the difference



1 between your column 3 in AG Exhibit 8, which has the  
2 cost of service impact at -- and maybe I'm looking  
3 at -- okay. So tell me the -- help me understand the  
4 difference in that.

5 A No problem. Now, as I see it, the -- if  
6 you go to -- and probably the easiest way, just  
7 quickly, if you go to page 2 of 2 of attachment one  
8 that we provided, the second page there.

9 Q Is that this? Or is that --

10 A That would be --

11 Q -- your Number 8?

12 A Yes, AG 8 is -- and page 2; yes, sir.  
13 You will notice, you know, it's how -- in getting to  
14 the \$81 million, basically we took out -- you see a  
15 big credit up there, the estimated Big Sandy net book  
16 value, 225,795. Do you see that number in parens?

17 Q Yes.

18 A All right. So -- and what we were  
19 doing -- back to the 137. That number is not taken  
20 out there, so -- and if you look at -- back to page 1  
21 of the attachments, under line 8, we added in, only it  
22 is over a 25-year life of straight line versus -- so  
23 the numbers that was used initially when this document  
24 was prepared to answer AG 212 --

25 Q Were the gross costs and not the annual

1 costs?

2 A That's -- that's right. And so, you  
3 know, again, just trying to -- at the point in time,  
4 you know, there was no discussions in the settlement  
5 about this 25-year and such, so that's why. They're  
6 basically the same numbers, just shown in a different  
7 type of format, sir.

8 I think they are, as -- and with Witness  
9 Kollen, very, very compatible --

10 Q Okay.

11 A -- to one another. I hope that helps.

12 Q Well, it does, and maybe I need help,  
13 then, on the -- not the most recent one, but this  
14 chart that Mr. Kollen referred to yesterday. What is  
15 this, then? How would you describe this?

16 A Well, you're talking about 2-12, looking  
17 at 2012 data?

18 Q Yes, sir.

19 A I mean, it is very similar, you know,  
20 it's just -- it's at a different point in time, but it  
21 is looking at, you know, the estimated Mitchell cost  
22 as well as, you know, pool-related adjustments and  
23 such based on 2012 data, and, you know, coming up with  
24 what an impact would be to the customers.

25 The purpose of 5-10 was, number one, to

1 get apples to apples from the standpoint of the  
2 revenue that we're using and all at the different time  
3 points versus -- 2011 versus 2012 versus whatever.

4 But also, you know, the pool numbers  
5 change as far as how much is on the books in  
6 relationship to the deficit that we were paying. In  
7 the last two years the MLR, as is currently out there,  
8 has been much less for Kentucky Power than in  
9 previous, so that pool amount changes.

10 If you notice, we have 21 million at  
11 this point in time, and in this it was 50 -- almost 58  
12 million. You know, it has to do with the MLR and  
13 looking at the different times, Vice-Chairman.

14 Q Okay.

15 A It's the same analysis, it's just  
16 looking at -- and we're trying to boil it down to just  
17 get to the Mitchell, and -- and which in total, that's  
18 where the 137, you take the 81, you adjust it back up  
19 for what's taken out. It's very comparable.

20 Q Okay. Let me ask another question.  
21 You-all have since filed a base rate case, and part of  
22 the settlement agreement is to withdraw that; is that  
23 right?

24 A That is correct, sir.

25 Q Okay. And what is the rough percentage

1 increase that you-all are asking in that base rate  
2 case?

3 A In the base rate case, the overall  
4 increase is 23.39 percent.

5 Q Okay. And what are the assumptions? Is  
6 the assumption we -- that the Commission approves the  
7 purchase of Mitchell absent the settlement?

8 A Yeah. Yes. With the -- the base --  
9 because the settlement was not approved, and in order  
10 to meet the regulatory guidelines set up in the  
11 statutes of the -- of Kentucky, we had to get that  
12 case filed so that it would be effective roughly  
13 January 1st, 2014.

14 So it would -- it is asking for all of  
15 Mitchell plus, and as I was telling Mr. Howard, it  
16 opens up our books to all the adjustments, not just  
17 Mitchell and generation type of adjustments.

18 Q Okay. But the assumption is that the  
19 Commission approves Mitchell and there is no  
20 settlement?

21 A That is correct.

22 Q Okay. And is -- and in your --

23 A We would prefer the settlement.

24 Q Sure. So your one -- so the rates  
25 that -- the 23 percent would go, is it January 1 of

1 2014?

2 A That is correct. That's when they're --  
3 the effective date that we anticipate.

4 Q Okay. Well, that helps me a little bit,  
5 because, again, now that I have a better understanding  
6 of AG Exhibit 8, what you-all are asking. So that's  
7 not -- okay.

8 So let me ask you a question back on the  
9 fuel adjustment clause issue. So help me understand  
10 the relationship between the fuel adjustment clause  
11 with the two generating plants that Kentucky Power  
12 customers are proposed to own and the off-system sales  
13 rider which now provides a limit, or they'll get 15  
14 million and any above that goes to the Company.

15 A And as I thought about it, I probably  
16 wasn't as clear as I -- as I need to be.

17 Q Okay.

18 A Talking just the fuel adjustment clause  
19 for a moment, all right, the generation that is --  
20 that is used, all right, is economically dispatched on  
21 the system. And the fuel cost that we incur, and if  
22 it's Big Sandy and Mitchell, the cheapest fuel cost  
23 gets allocated or directed to Kentucky Power's  
24 internal customers.

25 Q Okay.

1           A       All right.  And those fuel costs are  
2 really -- and I'll say it's our internal generation,  
3 which is -- will be, if, assuming it's approved, the  
4 Mitchell units, the Big Sandy units.  It would also  
5 include any purchases from our Rockport agreement as  
6 that -- as part of it, and any other purchases.

7           Q       Okay.

8           A       All right.  And so those -- looking at  
9 those costs, all right, we take then the cheapest  
10 that -- based on economic dispatch, whatever is the  
11 cheapest, and that goes to our internal customers, and  
12 through the fuel adjustment clause, that is what they  
13 pay.

14          Q       Okay.

15          A       We realize that the next step is that I  
16 will have, during this -- this period of time when I  
17 have both Mitchell and Big Sandy running, that, you  
18 know, it is very, very possible and we hope to have  
19 excess generation to sell on the market.

20          Q       And, in fact, you-all modeled that at 15  
21 to 30 million above the --

22          A       It's thir -- above, during the -- if the  
23 settlement is approved --

24          Q       Right.

25          A       -- during that time.  You know, and the

1 risk is all on Kentucky Power. All right. And it --  
2 and it -- that risk is based on market --

3 Q Sure.

4 A -- market prices, market --

5 Q Sure. I under -- I understand.

6 A Okay. And so then those sales that are  
7 beyond what is needed for our internal load will then  
8 be used in the calculation of the system sales clause  
9 and the revenues that are achieved there.

10 Q Okay.

11 A Does that help?

12 Q Yes.

13 A Okay.

14 Q Yes. The -- before I start heading into  
15 the agreement itself, let me ask one general question,  
16 and that has to do with Kentucky statutes. And I'm  
17 not going to ask you a legal question, but it's  
18 278.2201 and subsequent, which is affiliate  
19 transactions.

20 Now, let's assume for a moment, and I  
21 almost think it's everybody's assumption in this case,  
22 that the -- but maybe not, that the affiliate  
23 transaction will apply, and therefore, even --  
24 notwithstanding the fact that there's a settlement,  
25 the purchase price has to be the cost versus market

1 value. Okay? Whichever is the least.

2 Now, let me ask this: What -- tell me  
3 where in the record or what is the evidence of the  
4 market price for Mitchell? And if you need me to go  
5 talk to someone else, but what is this -- what is  
6 Kentucky Power's position as to what evidence there is  
7 of the market price for Mitchell?

8 A I think there's three pieces of  
9 evidence, and each of these -- and they're -- each of  
10 these are coming-up witnesses that will help with  
11 this, to say that there is a dollar amount, and I  
12 believe that is in the record.

13 But if you go to Mr. McDermott's  
14 rebuttal testimony, all right, that whole rebuttal  
15 testimony is about the benchmarking, demonstrating  
16 that the market price for similar products, all right,  
17 is -- that what we have is greater than the transfer  
18 price of Mitchell.

19 Also, if you go to Mr. Weaver's rebuttal  
20 testimony, pages 17 and 19, he uses the combined cycle  
21 build as a proxy because -- and the idea behind that  
22 is, if we were to build something, we don't think  
23 we're going to be building any new coal units here  
24 soon, so the combined cycle gas would be the -- what  
25 more than likely would be built. So that's one.



1 That's another one way.

2 He also -- in Mr. Weaver's stacking  
3 analysis that he had to use in the RFP I think also  
4 supports this, and you can talk to Mr. Weaver.

5 And then lastly, Mr. Fransen, in his  
6 rebuttal testimony talking about specific transactions  
7 that have been out there in the newspaper, and he can  
8 address those.

9 All of those, Vice-Chairman, I think  
10 lead to the idea that the fair value of Mitchell is  
11 higher than the net book value.

12 Q Okay. And that's exactly what I wanted.

13 A Okay.

14 Q I appreciate that.

15 A You're welcome.

16 Q Okay. So we didn't see the agreement  
17 until basically last Friday, although it was filed on  
18 Wednesday, because we were in a hearing, and so I  
19 apologize for having -- what I'm about to do, which is  
20 ask a bunch of questions related to the agreement  
21 itself, and I hope and I'll try not to go over  
22 anything Mr. Howard asked.

23 So there is no ceiling or cap on the 536  
24 million, is there?

25 A No. The 500 -- you know, a couple

1 things. I know you asked yesterday about the 536  
2 million, and also, if you -- if you can refer to,  
3 actually, two different places. In my testimony,  
4 Exhibit 3 is a reconciliation of the 519 to the 536,  
5 and then greater detail is in Commission Staff 1-2.  
6 It lists all the projects that we anticipated during  
7 the 2012-2013 time frame.

8 And, you know, mainly there's one big  
9 project, which is there's a fly ash pond and haul road  
10 and such that's being built, and Witness Walton can,  
11 if you wanted any details on that.

12 But that's what was done in getting from  
13 the 519 to the 536. You know, this is a -- this is an  
14 operating plant that we want to go for 25 years, so  
15 we're going to be spending money, as appropriate, as  
16 prudent, going forward, and so to have an increase  
17 from 519 to 536 isn't unusual. It may increase, but  
18 then it'll start to decrease depending on what needs  
19 to be done at the plant.

20 So we don't see anything of any material  
21 change between now and the end of 2013 when the plant  
22 is scheduled to be transferred over at net book value.

23 Q Okay. The FGD equipment will be  
24 recovered through the environment -- this is paragraph  
25 6 of the agreement. Through the environmental

1 surcharge beginning with the base rate case?

2 A Yes, sir.

3 Q Do we know what those costs are?

4 A I mean, we do, because at -- that plant  
5 is already in service. All right. I don't have it  
6 off the top of my head how much that is.

7 Q Could you-all -- could you get that?

8 A Yes. I mean, we can provide that.

9 Q And so is that going to be -- in June of  
10 2015, is that going to be the only cost in the  
11 environmental surcharge?

12 A No.

13 Q Is that going to be the only cost  
14 related to Mitchell in the environmental surcharge?

15 A No.

16 Q Okay.

17 A The -- you know, the environmental  
18 surcharge is going to -- you know, if we have Mitchell  
19 units --

20 Q Well, why is this -- why is this a  
21 separate item, then, in the settlement agreement?

22 A And I'm glad you asked that, because I  
23 didn't fully, probably, answer Mr. Howard completely  
24 when he asked if there was any impact on the customers  
25 and I said zero between base.

1           There is a benefit to the customers in  
2 the fact that the declining depreciation and  
3 consumables you'll be recovering up front through the  
4 early terms of this -- of you having it in the  
5 environmental surcharge, and that's a -- and that's a  
6 benefit to the customers.

7           The reason for the FGD to be run through  
8 there is they were the biggest environmental cost at  
9 Mitchell.

10           Again, there is nothing within the  
11 statutes that says that we can't have all of our  
12 environmental costs stay in the surcharge and not  
13 transfer them to base rates. Kentucky Power has just  
14 chosen historically at base rate times to move those  
15 environmental costs to base rates.

16           Q     So is that a relatively new cost to  
17 Mitchell or --

18           A     Well, it was -- the scrubbers were put  
19 on in 2007, '8 -- I think 2006 to '8 time frame, so  
20 relatively new, but not -- you know, not last year.

21           Q     Okay. Again, I'm -- I still don't  
22 understand why this is picked out. Why didn't you  
23 also say SCR? Why didn't you also say ash pond? Why  
24 didn't you also say those will be in the environmental  
25 surcharge?

1           A       That was part of the comprehensive  
2 package of the settlement and what the parties  
3 discussed and agreed to, sir.

4           Q       Are you -- but you're not saying -- just  
5 because you're picking out the FGD and saying it is  
6 going to be in the environmental surcharge, your  
7 testimony is you're not saying that other Mitchell  
8 environmental costs will not be in the environmental  
9 surcharge?

10          A       Yeah, on a going-forward basis, what --  
11 and we don't -- at this point in time there's no plan  
12 to have any environmental costs be recovered through  
13 the environmental surcharge that have already been  
14 installed, other than the Mitchell FGD scrubbers.

15          Q       Okay.

16          A       But on a going-forward basis, any new  
17 Mitchell environmental will flow through.

18          Q       Okay.

19          A       Does that --

20          Q       Yes. That answers my question.

21          A       Okay.

22          Q       All right. I'm sorry I wasn't asking it  
23 clearly enough.

24          A       No, no, it's --

25          Q       Okay. Okay. Mr. Howard asked you

1 questions about -- in paragraph 15 of the settlement  
2 regarding forced outage and, you know, the  
3 significance of that. Paragraph 15 of the settlement  
4 agreement.

5 A Yes, sir.

6 Q And in a nut -- basically, what this  
7 means is that that -- that because it's going to be --  
8 an outage will be labeled as a forced outage -- excuse  
9 me.

10 Then what that means is that the -- you  
11 will be able to recover through the FAC potentially at  
12 higher cost, because --

13 A During this period of time of the base  
14 rate freeze, that could be a possibility.

15 Q Okay.

16 A Yes.

17 VICE-CHAIR GARDNER: What I'd like to  
18 ask as a data request is for calendar year 2012, if  
19 this particular change was in effect, what would be  
20 the revenue difference. Does that make sense? Under  
21 the change.

22 MR. OVERSTREET: So we would use  
23 calendar year 2012 Big Sandy fuel costs.

24 VICE-CHAIR GARDNER: Two, Unit 2.

25 MR. OVERSTREET: Unit 2, and for those

1 instances, if any, there was a forced outage, what  
2 effect this provision would have.

3 VICE-CHAIR GARDNER: Well, what -- as I  
4 understand paragraph 15, it's broader than what you  
5 just said, and it seems like --

6 MR. OVERSTREET: Are you -- then I  
7 apologize, Mr. Vice-Chair. I thought you were talking  
8 about the first sentence of paragraph 15, which  
9 referred --

10 VICE-CHAIR GARDNER: Well, I am. No  
11 outage associated will be treated as a forced outage,  
12 which means it'll be treated as a planned outage,  
13 right?

14 MR. OVERSTREET: Right, but planned  
15 outages would already be treated -- we'll -- I  
16 understand what you're asking and I'll provide the  
17 information.

18 VICE-CHAIR GARDNER: Okay. Thank you.

19 Q Is there any question that Big Sandy 2  
20 can be retired on May 31st, 2015? My question goes  
21 to: Could PJM determine that it's a must-run unit and  
22 it has to continue?

23 A I'm going to ask that you defer that  
24 question to Mr. McManus.

25 Q Okay.

1           A       I think I know what the answer is, but  
2 he's the expert, and I don't want to possibly mess up  
3 the record, so I'm going to ask you to ask  
4 Mr. McManus.

5           Q       Okay. And so I've got a question, then,  
6 on paragraph 16 about -- related to that, I believe,  
7 which is the retirement prior to May 31st shall be  
8 considered a force majeure event, and I'm -- and then  
9 we're getting into the PJM tariff.

10                   So would you like me to also -- I mean,  
11 the question is: This is of the settlement, so  
12 where -- where is force majeure -- what are the  
13 consequences of force -- of being a force majeure?  
14 Where is the definition of force majeure? Is that in  
15 the PJM tariff? So that's my question.

16                   And it says, (Reading) For purposes of  
17 this provision, Big Sandy Unit 2 shall be deemed  
18 retired upon review of the retirement as required by  
19 PJM tariff.

20           A       What we can do is, it is -- it is  
21 described in the tariff. I don't think we have that  
22 tariff as part of the record of this case, and, I  
23 mean, we can provide that tariff if that --

24                   MR. OVERSTREET: And, Mr. Gardner, I  
25 think Mr. Munczinski can also provide further



1 information on that.

2 VICE-CHAIR GARDNER: Okay.

3 Q Yeah, my question is: Why did -- in  
4 effect, which did you-all use the term "force majeure  
5 event"? What does that mean vis-à-vis PJM? I mean --

6 A Well, force majeure may not be the --

7 Q I know what it means. I mean, I know,  
8 but -- but why did you-all use that here, because  
9 that -- is that in our statutes that we use the term  
10 "force majeure"?

11 A Well, it's more to -- you know, within  
12 PJM, part of that tariff, what I know is that they  
13 have to -- they have to approve -- I mean, we have --  
14 we have -- we have put Big Sandy into the FRR market,  
15 and we do that three years in advance, so it is in  
16 there as a unit that's going to -- that's going to  
17 operate, and if some condition happens at Big Sandy,  
18 you know, that -- that's going to bring it down, just  
19 part of the tariff says we've got to go through and --  
20 and PJM is going to do their analysis, says, okay,  
21 this is a unit that -- that needs to be retired to  
22 meet the retirement within PJM. Because we're part of  
23 PJM was why the language is connected there.

24 Q So is that a -- I mean, is that -- using  
25 the term "force majeure event," is that for PJM

1 purposes or is it for Commission purposes, or do you  
2 want me to ask somebody else?

3 MR. OVERSTREET: I'm sure Mr. Munczinski  
4 can answer it, or I'd be happy to answer it.

5 VICE-CHAIR GARDNER: I mean, I'm okay  
6 with you answering it.

7 MR. OVERSTREET: It has -- the concept  
8 is is that we have, while -- this period from  
9 January 1 to May 31 of 2015, we have a base rate  
10 freeze.

11 VICE-CHAIR GARDNER: Right.

12 MR. OVERSTREET: The force majeure  
13 concept has nothing to do with PJM. The -- our  
14 ability to invoke it is triggered or is governed by  
15 certain PJM retirement requirements, but the force  
16 majeure goes to that base rate freeze.

17 And what this allows us to do is, the --  
18 negotiated with the parties was that in the event Big  
19 Sandy were required to be retired prior to when we  
20 anticipate it to be retired, then we could go to the  
21 Commission and make -- and try to make our case under  
22 278.190 that the -- that the Company's credit and  
23 operations are being materially impaired or damaged  
24 and seek this limited rate relief, and that's where  
25 the force majeure comes in.

1 VICE-CHAIR GARDNER: Okay. So if, for  
2 example, six months into -- you know, the middle of  
3 2014 a turbine goes out or something like that and  
4 it's too expensive to repair it, then you could invoke  
5 this coming before us?

6 MR. OVERSTREET: We could invoke it and  
7 we could seek this limited rate increase, but it's --

8 VICE-CHAIR GARDNER: PJM has to approve  
9 it first?

10 MR. OVERSTREET: Well, PJM has to say  
11 that it -- that the unit has to be retired, okay, but  
12 it would only be if the consequence of the -- of the  
13 early retirement --

14 VICE-CHAIR GARDNER: Right. Right.

15 MR. OVERSTREET: -- is to materially  
16 impair or damage --

17 VICE-CHAIR GARDNER: Right. Right. I  
18 understand that causation.

19 MR. OVERSTREET: So it's not just an --  
20 it's just not a --

21 VICE-CHAIR GARDNER: Right.

22 MR. OVERSTREET: -- get-out-of-jail-free  
23 card at all.

24 VICE-CHAIR GARDNER: Okay.

25 MR. OVERSTREET: I don't think Mr. Kurtz

1 would have let me get away with that.

2 MR. KURTZ: That was actually  
3 Mr. Howard's language on force majeure, even though --

4 MR. HOWARD: Those were settlement  
5 talks. Those aren't -- that's -- that's not even  
6 admissible.

7 I know we got into a slight dialogue  
8 there that the AG did use the term of "force majeure,"  
9 but we're -- that particular settlement talks were  
10 broken down because we refused to go along with this  
11 particular remedy.

12 MR. OVERSTREET: Exactly.

13 VICE-CHAIR GARDNER: And I didn't -- by  
14 that being attributed to you, I certainly didn't, you  
15 know, consider you --

16 MR. HOWARD: No, there was just a little  
17 discourse or a little levity here, Mr. Vice-Chairman.

18 Q In your testimony you use "cumulative  
19 present worth." Is there any difference between that  
20 and net present value revenue requirement?

21 A Well, I think the idea of cumulative  
22 present worth is looking out over the time period that  
23 we're having and it's what we use because, you know,  
24 going out through 2040, it's that worth, cumulative,  
25 over the period of time that we're there.

1 Q So in order to -- okay. In order to get  
2 that, did you compare the cumulative present worth of  
3 different proposals?

4 A Yes, and in Scott Weaver's -- in all his  
5 analysis, you know, and he can, you know, direct you  
6 through that, everything is on a cumulative present  
7 worth basis so that it's apples to apples.

8 Q You were asked, I believe, to provide  
9 information about -- if any, I think, about how 2040  
10 was selected. Is there anything -- I think you were  
11 asked that; is that correct? Or will you --

12 A And -- yeah, and we said that -- we kind  
13 of then basically said it would be better to ask  
14 Mr. LaFleur.

15 Q Okay. Now, do -- does the record show  
16 how 2031 was selected by Ohio Power?

17 A The record doesn't show why it was  
18 selected, it was just the term that -- that was the  
19 time that, in going back and looking, that it is  
20 currently being depreciated over was 2031. Nothing in  
21 the record dictates how and when that date was  
22 determined.

23 Q I apologize for -- let me ask this: In  
24 general, with respect to paragraph 21, do the  
25 provisions of 21 apply -- there's clearly an emphasis

1 on concerns about carbon and impact on carbon, and  
2 there's language in here about -- environmental laws  
3 or regulations are mentioned.

4 Does -- is this limited to carbon or  
5 are -- do the provisions of this paragraph apply to  
6 any environmental regulations that impose additional  
7 costs on Mitchell?

8 A I think, you know, again, this paragraph  
9 was strictly added as we -- because it was not in the  
10 original MOU, memorandum of understanding, that was  
11 filed on May 28th. It was because of President  
12 Obama's speech thereafter. And so the intent of  
13 paragraph 21 was strictly around the greenhouse gases,  
14 the carbon.

15 Q Okay. So if there's -- if, for example,  
16 the Cross-State Air Pollution Rule is reinstated by  
17 the Supreme Court and there are additional costs  
18 related to that or MATS, does -- I mean, you might  
19 have to do a baghouse or whatever, none of those would  
20 invoke the paragraph 21? It's just carbon?

21 A Paragraph 21 is just carbon. The  
22 Company believes that the Commission has the right, as  
23 it always has, if -- if there is some type of, to use  
24 your term, environmental changes invoked of whatever  
25 that might be, to, you know, question or bring before

1 the Commission the Company to discuss or to question,  
2 you know, if we were going to add, you know, something  
3 to the Mitchell units or whatever.

4 We did not see that paragraph 21 changed  
5 that. We added 21 just in trying to make sure, from a  
6 carbon tax, because that was the issue before  
7 everyone, that it was clear that it could be done.

8 Q Okay. When is your-all's next IRP due?

9 A Our next IRP, based on the extension  
10 that we got last year, is due on December -- by  
11 December 31st, 2013.

12 Q On para -- in your -- excuse me. On  
13 page 37 of your testimony, the very last sentence of  
14 that page says, (Reading) Paragraph 21 A also  
15 identifies certain ratemaking treatment associated  
16 with the retirement of Big Sandy Units 1 and 2 for  
17 Kentucky ratemaking purposes.

18 Is that right or does that -- should  
19 that have been Mitchell 1 and 2? I didn't see  
20 anything in 21, and maybe I messed up.

21 A Just give me a second. At the time, I  
22 believe it should be Mitchell Units 1 and 2.

23 MR. OVERSTREET: Yeah, Mr. Chairman --

24 A That's a typo.

25 MR. OVERSTREET: -- that's what happens

1 when you're writing testimony at 2:00 o'clock in the  
2 morning.

3 Q Well, when you -- yeah. That's good.  
4 No problem. I just wanted to make sure.

5 A No. Thank you.

6 Q The -- on page 42 of your testimony, the  
7 third bullet talks about you-all with -- you're  
8 summarizing and you're talking about withdrawing your  
9 base rate case. Do you see that bullet?

10 A I do, sir.

11 Q My question is: You said without rate  
12 mitigation and with the transmission adjustment. What  
13 is that talking about?

14 A If, in the -- in the rate case filing,  
15 you will notice that there is two numbers that was  
16 filed, one says with a transmission adjustment, which  
17 gets us down to the 23.39 percent. We're just trying  
18 to clarify in this that in relationship to the -- what  
19 was filed in the rate case, to what that compares to  
20 in that rate case, the number that we're using, the  
21 23.

22 Q And tell me what the "transmission  
23 adjustment" even means.

24 A The transmission adjustment is, as we do  
25 allocations of -- between the classes, there's one --



1 as we normally do our class allocation, there's one  
2 piece with transmission costs that we kind of do after  
3 the fact or a little later in the process, so we show  
4 it with an allocation, then do a transmission  
5 adjustment to change the allocation.

6 Q Okay.

7 A At a high, simple explanation.

8 Q Let me ask this: In the prior case,  
9 the -- it mentions that -- and let me ask if you  
10 remember this, that the demolition costs in June of  
11 2005 were estimated to be 32 million, and this is at  
12 Big Sandy, and that that was updated in 2009 to be 43  
13 million. Do you recall that?

14 A And "prior case," you're talking about  
15 the 401 case?

16 Q Yes, sir.

17 A I do recall that, yes.

18 Q Do you know what -- I mean, now we're  
19 four years later. Do you know what that number is  
20 now? Have you-all gotten an estimate?

21 A I mean, I believe in the rate case we  
22 have the number that -- in this current rate case. I  
23 don't recall that number off the top of my head, but  
24 it is in the current rate case that was filed --

25 Q Okay.

1 A -- back on June the 28th.

2 MR. OVERSTREET: Do you want us to  
3 provide that?

4 VICE-CHAIR GARDNER: Sure. That would  
5 be great. Thank you.

6 Q Do -- is there in the record or have  
7 you-all been asked to provide, and I apologize if you  
8 have been, the -- what the net book value is for Big  
9 Sandy 2?

10 A The net book value for Big Sandy 2 as of  
11 March of this year is, in round numbers, \$225 million.

12 Q So that's where that number is in that?

13 A Yes.

14 VICE-CHAIR GARDNER: Okay. All right.  
15 That's all I have. Thank you. Thank you.

16 CHAIRMAN ARMSTRONG: Questions?

17 COMMISSIONER BREATHITT: Yes.

18

19 \* \* \*

20

21 EXAMINATION

22

23 By Commissioner Breathitt:

24

25 Q Mr. Wohnhas, how are you?

1 A I'm fine.

2 Q I had a couple of questions about the  
3 coordination of what's happening here and in West  
4 Virginia and Virginia. And the proceedings in  
5 Kentucky, West Virginia, and Virginia are on three  
6 separate tracks, correct?

7 A Yes. They're close, but they're three  
8 separate tracks, yes.

9 Q And I assume your counterpart is  
10 testifying in the other two proceedings?

11 A Yes. I mean, there's -- we have  
12 counterparts that are testifying --

13 Q Yes.

14 A -- in those, yes. Some -- we may have  
15 some that are also testifying here that have  
16 testified --

17 Q Right.

18 A -- in those as well.

19 Q But you're not testifying --

20 A No.

21 Q Do you know if settlements have been  
22 filed in the other two state jurisdictions?

23 A I know that in West Virginia that  
24 they're in discussions, but nothing has been filed.  
25 And in Virginia, there -- there has been nothing filed

1 settlementwise. They've had their hearings already  
2 and briefs, but --

3 Q In which state?

4 A In Virginia.

5 Q But not West Virginia?

6 A In West Virginia, the hearings begin  
7 next Tuesday, and they're having settlement  
8 discussions, but there's no settlement been filed.

9 Q Is there a scenario whereby, if there is  
10 a significant delay in one or more of the states, that  
11 our proceeding becomes strained or impaired?

12 A I would hope not. The -- you know,  
13 there -- we've been working with -- clearly with all  
14 three of them simultaneously, and, you know, the  
15 records are public across the three, as you're aware,  
16 so -- and in all three jurisdictions they seem to be  
17 moving forward appropriately as -- you know, timely as  
18 possible. You know, to what could happen, I don't  
19 know, but I don't see that --

20 Q I realize that --

21 A -- as an issue right now.

22 Q -- that's a hypothetical.

23 A I understand, but right now, you know,  
24 the -- again, the Virginia has already been heard and  
25 they're briefed and waiting for an order. There's

1 discussions in West Virginia in the hearing, and, you  
2 know, this is proceeding. So at this point in time  
3 I'm not aware of anything.

4 Q Is the total -- total outcome of the  
5 Mitchell plant based on favorable rulings from all  
6 three states at roughly the same time --

7 A That would be --

8 Q -- for --

9 A -- our best hope, you know, is that, you  
10 know, we have -- and, you know, all of them agree to  
11 the 50 percent transfer and we move forward. There's  
12 going to be, you know, depending -- you know, we're  
13 working on a -- we have a settlement before the  
14 Commission. I don't know what West Virginia will end  
15 up with, and we know what Virginia, but, you know, our  
16 hope is that, yes, all of them come together by no  
17 later than the end of August for the purposes of that.

18 You know, once those agreements -- if we  
19 get the approvals, there is a lot of work to do and  
20 additional paperwork and stuff to get these  
21 transactions completed by the end of the year, and so  
22 that would be our hope.

23 Q And going through the settlement, the --  
24 I notice that there is the settlement on page 12. Or  
25 maybe it's paragraph 12. Wait a minute. Let me see.

1 Just a second. It's page 12.

2 I notice that there is collaboration  
3 that -- on the environmental that is between the  
4 parties, and another element is that -- so there's  
5 collaboration that -- on the environmental that is  
6 done by parties here. There is joint ownership of  
7 Mitchell, and with the running of the power plant by  
8 West Virginia power plant employees, and then there  
9 are three commissions, three sets of orders, and three  
10 timelines.

11 So my question is: How workable do you  
12 think this is for a transition and for steady  
13 regulation if there's collaborations and the power  
14 plant being run in another state by -- I mean, how do  
15 you think that's all going to work? I'm sure you've  
16 thought about it.

17 A We think that it's very doable. I  
18 mean -- and Mr. Munczinski can add a lot of flavor to  
19 this because of his dealings across the AEP system,  
20 but we -- you know, we currently have operating  
21 agreements between sister companies and states and  
22 deal with multiple jurisdictions in relationship to  
23 the ownership of power plants.

24 So though it may be new for Kentucky  
25 Power, but, you know, we are part of -- even though

1 it's not in an operating agreement, you know, the  
2 Rockport facility, which is outside the state of  
3 Kentucky.

4 So, you know, this is something that AEP  
5 as a whole and the operations of the different sister  
6 companies, you know, do currently, continue to do, and  
7 I believe we do well, and in working with them.

8 It does take an extra step to deal in  
9 multiple jurisdictions and how that works, and we have  
10 a very good working relationship. You know,  
11 Mr. Pauley, as president, you know, reports to  
12 Mr. Patton of APCo, and they have a great working  
13 relationship in dealing with the things that go on  
14 across the state.

15 So, you know, I believe it's very  
16 doable, and though with any cross-state commitment  
17 between two companies, you just have to work out --

18 Q And who -- would you or another witness  
19 be able to elaborate a little more on paragraph 19 of  
20 the agreement on the RFP for the wind?

21 A Well, I mean, what this is is part of  
22 our discussions between the parties. It was agreed  
23 that as part of each IRP filing -- so as I stated  
24 earlier, that our next IRP filing would be due at the  
25 end of 2013, that we would issue a request for

1 proposal of a hundred megawatts of wind. And it is  
2 nonbinding. It's a request out there to see what is  
3 available.

4 And so that will be part of the process  
5 as we evaluate, as we do in every RFP filing, all of  
6 our resources and what the planning is for the -- for  
7 the upcoming period. You know, we would do this every  
8 three years with the IRP filing.

9 Q And I think yesterday I was asking --  
10 COMMISSIONER BREATHITT: Is it  
11 Mr. Decker, the witness?

12 MR. GISH: Mr. Becker.

13 COMMISSIONER BREATHITT: Becker.

14 Q On -- I think he uses that Strategist  
15 software to do the IRP modeling?

16 A He does. And I misspoke a little bit,  
17 and I want to -- I want to clarify it. The paragraph  
18 19 is asking for a request for proposal just for this  
19 upcoming IRP filing. I said the every three years --

20 Q You said --

21 A -- and that's -- that's improper.

22 Q Yes, I heard you say that.

23 A It's just for this next period, and I  
24 apologize.

25 Q And then -- so you issue the RFP, the



1 bids come in, they're nonbinding, and is it -- I know  
2 the Commission -- will the Commission get those bids  
3 as part of the IRP filing or will they just be  
4 incorporated, will something be incorporated into the  
5 IRP, or do you know that?

6 A Though we haven't discussed the details  
7 yet, you know, my thought was as part of that IRP  
8 filing that the Commission would see the results of --  
9 you know, and if we have to, you know, make that part  
10 confidential or whatever, as we would follow whatever  
11 the protocol, but we honestly haven't went through the  
12 specifics as to how that is going to be issued and the  
13 mechanics yet.

14 COMMISSIONER BREATHITT: Okay. I think  
15 that's all I had.

16 MR. OVERSTREET: Redirect?

17 CHAIRMAN ARMSTRONG: Redirect.

18 MR. OVERSTREET: Yes. Thank you.

19  
20 \* \* \*

## REDIRECT EXAMINATION

1  
2  
3 By Mr. Overstreet:  
4

5 Q Mr. Wohnhas, I'm going to ask Mr. Gish  
6 to hand you Mr. Weaver's supplemental testimony at  
7 page 7 to clear up a question that Vice-Chair Gardner  
8 asked, just so that we're clear.

9 And Vice-Chair Gardner asked you, as I  
10 understood the question, and maybe I misunderstood the  
11 question, but what is the relationship between net --  
12 excuse me -- net present value and cumulative  
13 present worth, and if you'll look, I think it's  
14 footnote four. Would you just read that, please?

15 A It says, (Reading) CPW is equivalent to  
16 net present value which was specified in the  
17 Commission's May 28th order.

18 Q And is CPW, is that cumulative present  
19 worth?

20 A Cumulative present worth.

21 Q Thank you. And --

22 VICE-CHAIR GARDNER: Excuse me. Where  
23 was that again, please?

24 MR. OVERSTREET: It's --

25 VICE-CHAIR GARDNER: Page.

1 MR. OVERSTREET: Mr. Weaver's  
2 supplemental testimony. I believe it's page 7,  
3 footnote four, but it's footnote four, whatever page  
4 it would appear on.

5 VICE-CHAIR GARDNER: Okay. Thank you.

6 MR. OVERSTREET: I had my thumb there  
7 and lost it. I apologize. Yes, it is page 7, Weaver  
8 supplemental, footnote four.

9 Q Mr. Wohnhas, Mr. Howard asked you  
10 about -- he was asking questions centering around  
11 this, the estimated \$536 million net book value of the  
12 Mitchell units on the transfer date. Do you remember  
13 that?

14 A Yes.

15 Q Okay. And he asked you, you know, in  
16 words or substance, is there any sort of independent  
17 analysis of those values and whatnot. And I think you  
18 indicated that the Company's internal auditors, of  
19 course, audit that. Isn't it also true that the  
20 Company engages a public accounting firm to audit  
21 those values?

22 A Yes. We have an external, which is what  
23 I meant to say, and I said internal, of Deloitte and  
24 Touche that examine all of our books of record in  
25 compliance with Sarbanes-Oxley. So the books are

1 audited internally, externally, to make sure that the  
2 numbers are accurate.

3 Q And Sarbanes-Oxley carries with it  
4 criminal penalties for certain misreporting of values;  
5 is that not correct?

6 A Yes, it does.

7 Q Okay. Now, Mr. Howard also, talking  
8 about paragraph 6 of the stipulation and settlement  
9 agreement -- I apologize. Let me turn to it real --  
10 very quickly. And that's -- it starts on page 6 of  
11 the agreement and continues onto page 7. And this is  
12 the provision that Vice-Chair Gardner was also asking  
13 you about, and this is the provision that all costs  
14 associated with the Mitchell Unit 1 and 2 scrubbers  
15 will be recovered through the environmental surcharge  
16 and excluded from base rates. Okay?

17 A Yes.

18 Q Are you with me? Those costs, because  
19 they are recovered through the environmental  
20 surcharge, they're reviewed by the Commission through  
21 its environmental surcharge proceedings; is that not  
22 accurate?

23 A That is correct.

24 Q How often do those proceedings occur?

25 A Every six months.

1 Q And then there's a -- just help me out.  
2 I'm getting tired. Is it -- isn't there a two-year  
3 review also or is that fuel costs only?

4 A That's fuel costs only.

5 Q Okay. All right. Thank you. Also with  
6 respect to paragraph 6, and it came up both with  
7 Mr. Howard and Vice-Chair Gardner, and I think the  
8 Vice-Chair's question, and as was Mr. Howard's, is  
9 why -- what's the benefit of single -- singling out  
10 the scrubber costs and recovering them through the  
11 environmental surcharge versus base rates?

12 A Well, as I -- as I stated to  
13 Vice-Chairman Gardner, it's recovery of the declining  
14 depreciation and consumables on a monthly basis versus  
15 being only done at a base rate time. So it's a --  
16 it's a quicker recovery to -- and benefits the  
17 customer.

18 Q Okay. You say "recovery," but the  
19 effect of the declining --

20 A The effect of the declining  
21 depreciation, yes.

22 Q Is more quickly given to the customer;  
23 is that correct?

24 A Yes.

25 Q Okay. Mr. Howard was also asking you

1 questions about the -- I believe it was paragraph 10,  
2 and that's the \$100,000 per year for five years that  
3 the Company will donate for economic development  
4 support in Lawrence and adjoining counties.

5 A The contiguous counties, yes.

6 Q Contiguous, I -- yeah. Okay. That --  
7 is that ratepayer money?

8 A No, that is stockholder money.

9 Q And notwithstanding the fact it's  
10 stockholder money, I think you testified that you're  
11 willing to work with the Commission on some sort of  
12 reporting requirement?

13 A That is correct.

14 Q And I guess it could be along the lines  
15 of the reporting that we do with the LI -- the  
16 Company's contributions for LIHEAP?

17 A It could be.

18 Q Okay. And there was also questions  
19 about the DSM programs. Do you remember those?  
20 Vaguely?

21 A Yes.

22 Q Okay. And I have a couple questions  
23 about that. The programs that -- whether it's an  
24 expansion of an existing program or a new program,  
25 before they're presented to the Commission for review,

1 does the Company work with any group to decide what  
2 programs should be presented to the Commission?

3 A Yes. We have what's called a Kentucky  
4 collaborative, which is made up of various groups. We  
5 have people who represent residential. We have -- the  
6 schools are represented. We have commercial  
7 participants who are -- would be a commercial  
8 customer. We have those who represent the community  
9 action agencies on this -- this group that we bring  
10 all of our projects and even when they are not  
11 projects, updates as to where we stand on our DSM  
12 filings, and normally we do that approximately every  
13 six months.

14 Q Is the Attorney General also a  
15 participant in that?

16 A The Attorney General is a participant in  
17 that as well, and as part of the settlement, the  
18 Sierra Club has been offered the opportunity to -- at  
19 their will, to participate in some manner.

20 Q Okay. And with respect to Mr. Woolf's  
21 testimony yesterday, he expressed a concern about the  
22 fact that there -- the Company doesn't offer any  
23 industrial DSM programs. Do you remember that?

24 A I do remember that.

25 Q Has the Company in the past offered such

1 programs?

2 A Yes. We had all three, residential,  
3 commercial, industrial programs at a point in time.

4 Q And why -- did the Company seek  
5 Commission approval to discontinue those programs,  
6 the -- I'm sorry, the indust -- the programs for the  
7 industrial customers?

8 A I mean, yes, we had programs, and as  
9 part of -- there is the opt-out provision, and the  
10 programs that we presented and had approved, the  
11 industrial customers, you know, opted out, and so we  
12 had no participation whatsoever, even though we tried  
13 very hard to get participation, so -- and I don't  
14 remember what year it was, but we did ask for those --  
15 the industrial programs to be eliminated.

16 Q And, of course, the fact that the  
17 cust -- the industrial customers don't participate in  
18 the Company's program doesn't present the Marathons of  
19 the world from having their own energy efficiency and  
20 DSM programs?

21 A And that's correct, and for a lot of our  
22 industrial customers that is, you know, what they have  
23 proclaimed that they do, because of their  
24 understanding of their internal workings of their  
25 plants, that they are doing many energy-efficiency-



1 type programs within theirs.

2 I will state that, you know, there is a  
3 collaborative that is being led by the Commission to  
4 look at the industrial again to decide if there is  
5 something that can be done in the industrial sector to  
6 get industrial energy efficiency demand side programs,  
7 you know, back within Kentucky, but that has just --  
8 we've had one meeting and it's early stages, but, you  
9 know, we are participating in that as well.

10 Q We've also heard, both yesterday and  
11 today, with respect to DSM. Are there DSM programs  
12 that are available to schools?

13 A Yes, there is. We have specifically --  
14 and it's more than just the schools, but the  
15 commercial incentive program is a program that's open,  
16 you know, to all commercial customers, but also in  
17 that is the schools.

18 Q And with respect -- do you have any  
19 information with respect to the kWh savings, if you  
20 will, associated with the Lawrence County schools?

21 A Yes, I do. During 2012, there were nine  
22 different projects that the Lawrence County school  
23 system took advantage of under this commercial  
24 incentive program that saved them just over a million  
25 kilowatt hours during 2012, you know, at a cost of

1 just under \$70,000.

2 So -- and there were five other school  
3 systems in our service territory that also took  
4 advantage of that at different times during 2012.

5 So we are working with the schools, and,  
6 you know, have been in specifically the Lawrence  
7 County school system, working with them.

8 Q. And Mr. Howard was asking you some  
9 questions about paragraph 13, and that's the paragraph  
10 where the Company agrees to proceed to file an -- if  
11 this stipulation and settlement agreement is approved,  
12 to file an application for a certificate of public  
13 convenience and necessity to convert Big Sandy Unit 1  
14 to natural gas.

15 Do you remember those questions?

16 A I do.

17 Q Okay. And you were very careful in your  
18 answers to limit your answers to the context of  
19 paragraph 13. Do you remember that?

20 A I do.

21 Q And to avoid having to go into  
22 confidential session now, is there a witness here who  
23 can put the Company's willingness to do this in a  
24 bigger context?

25 A Yes. That would be Witness Karrasch and

1 also Witness Weaver.

2 Q And they would present the results of  
3 our RFP, correct?

4 A That is correct.

5 Q Okay. Thank you. There was also some  
6 questions about the Company's ability or the fact that  
7 under the agreement, the agreement provides that the  
8 Company will be required -- will be allowed to recover  
9 its retirement costs for Big Sandy Unit 2.

10 A Yes.

11 Q Is that -- is it standard ratemaking  
12 treatment for a company to be able to do that?

13 A Yes, it is.

14 Q Paragraph 15 also was a subject of  
15 discussion, and this is the -- and I really want to  
16 focus on the first sentence, which is -- this is the  
17 sentence that deals with the retirement of Big Sandy  
18 Unit 2, or an outage associated with Big Sandy Unit 2.

19 Do you see that?

20 A Yes, I do.

21 Q Okay. And you touched on this, but I  
22 want to give you an opportunity to expand. Through  
23 December 31, 2013, if there was an outage at Big Sandy  
24 Unit 2, where would the Company go, in most cases, to  
25 get the replacement energy?

1           A       Through 2013, we would go to our current  
2 AEP integrating agreement, which is -- we call it the  
3 pool.

4           Q       Okay. So you would go to the pool to  
5 get that, right?

6           A       Yes, we would.

7           Q       Now, starting January 1, which just  
8 happens to be the starting date for this provision, is  
9 that pool agreement going to be there anymore?

10          A       No. It expires at the end of 2013.

11          Q       So does this serve as a risk mitigation?

12          A       Absolutely.

13          Q       Okay. Mr. Howard also asked you some  
14 questions about paragraph 21 C, and specifically  
15 about -- I'm sorry, 21 A, and specifically about the  
16 provision that refers to 278.260, which is the  
17 complaint proceeding. Do you see that?

18          A       Yes, I do.

19          Q       Okay. That's not the only one -- that's  
20 not the only provision where costs can be reviewed and  
21 questioned, is it? And in particular I would direct  
22 your attention to 21 A, first sentence.

23          A       That's correct. I mean, we have the  
24 ongoing environmental compliance filings that will  
25 continue as are currently structured in the

1 Commonwealth.

2 Q And it could come up in the case of a  
3 base rate case, right?

4 A That is correct.

5 Q Okay. Mr. Nguyen asked you, and he was  
6 very careful not to ask you for a legal opinion, so  
7 I'll do the same, about the Commission's regulations  
8 with respect to notices for general rate cases. Has  
9 the Company, in fact, within the last couple weeks,  
10 published a notice for a general rate adjustment?

11 A Yes, we did, for the 2013-00197 case  
12 filed on June 28th.

13 Q And would the rates that would go into  
14 effect as a result of this stipulation and settlement  
15 agreement supplant that general rate case, the rates  
16 that would come out of that general rate case?

17 A If approved, yes.

18 Q If approved. And, in fact, you're going  
19 to withdraw it?

20 A That is correct.

21 Q And is it, to your knowledge, not  
22 uncommon, in the case of a settlement, to wind up with  
23 rates different than the rates that were initially  
24 published?

25 A That is correct. In the last two

1 rate -- base rate cases, we ended up with different  
2 rates than was originally filed in each of those  
3 cases.

4 Q Vice-Chairman Gardner was asking you  
5 questions, and I think Mr. Howard did too, about the  
6 estimated \$536 million net book value for the Mitchell  
7 units on the transfer date.

8 Are those -- is that \$536 million -- was  
9 that pulled out of the blue?

10 A No. I mean, those are -- as a matter of  
11 fact, the \$519 million is a book number, and then it  
12 is adjusted for, as is showed in my Exhibit RKW 3, for  
13 anticipated charges of capital expenditures that would  
14 be incurring.

15 And, you know, whether or not those  
16 capital expenditures get completed by the end of 2013  
17 may adjust that 536 slightly, but assuming they were  
18 all to be completed, then it -- you know, the 536  
19 would be a very, very close estimate.

20 Q And where do those capital expenditures  
21 come from?

22 A From --

23 Q What is -- what is the source of those  
24 capital expenditures?

25 A From, you know, internal of AEP. For

1 Kentucky Power, it is our capital that we are using,  
2 you know, for Big Sandy. If it's for Mitchell, at  
3 this point in time it would be Ohio Power, in their  
4 budget for their capital expenditures. So it's all  
5 within the whole AEP system.

6 Q And these budgets, are they just  
7 aspirational goals or are they tightly controlled?

8 A No, they are -- they're very tightly  
9 controlled. It's -- you know, it is something that,  
10 you know, when we look at the AEP system and look at  
11 its total earnings projections that we go out and --  
12 and Mr. Munczinski can clearly explain what he does  
13 when he goes out and meets with the finance community.

14 You know, we have targets that are set  
15 on earnings and such, and so that, as that is there,  
16 everything -- even though it's built upwards,  
17 everything comes down and each of the operating  
18 companies are given budgets that they have to adhere  
19 to.

20 There are -- during the course of the  
21 year, there are fluctuations where one operating  
22 company may shift some of its capital or O&M budget to  
23 another due to projects being delayed or a need for  
24 something that has -- that has come up, but in the  
25 total big picture of AEP, we control that, you know,

1 because the earnings that are out there to the public  
2 are very important, so it is very tightly controlled.

3 Q And so would it be fair to say that you  
4 have a great deal of confidence that the \$536 million  
5 is a -- is a reasonable estimate?

6 A Yes, I do.

7 Q And did I hear you, would it be fair to  
8 draw from your testimony that you don't expect any  
9 sort of material variation from that amount?

10 A That is correct.

11 Q I think Commissioner Breathitt was  
12 ask -- asked a series of questions about the effect of  
13 a delay, either here -- well, let -- because we're  
14 talking about Kentucky, let's just focus on that.

15 If the Commission were to deny the  
16 Mitchell transfer or if there was a significant delay  
17 in an approval of a Mitchell transfer, you testified  
18 that -- well, let me back up.

19 You testified that the -- that the  
20 August 30th date was driven by a need to take the  
21 steps that are -- that would be required to carry out  
22 the approval.

23 Do you remember --

24 A That is correct.

25 Q Okay. I want to ask you the flip side



1 of that, which is: If there's a delay or if there is  
2 a denial, is there a requirement -- I mean, will --  
3 can the -- can the Company just -- can the status quo  
4 stay? Can the Company just live on Big -- with Big  
5 Sandy?

6 A The answer to that's -- that's -- the  
7 answer to that is no. From a standpoint, if it's  
8 delayed, you know, at what point in time an order  
9 would come out as to when we could get all the  
10 transactions, it puts that in jeopardy.

11 If it's denied, Big Sandy is going to  
12 continue to operate, but only through the middle of  
13 2015, and -- you know, and then we are talking about  
14 what do we do to be on beyond the retirement of Big  
15 Sandy 2, which in the time frame that we would have,  
16 the simple and -- and where we would quickly go to is  
17 that we go -- we have to go to market in order to  
18 cover that, whatever the time period might be, and --  
19 and which is part of the purpose of Mr. Munczinski's  
20 testimony, to show you don't want to go to market.

21 Q Well, he -- on January 1, 2014, if you  
22 don't have Mitchell, there are going to be days when  
23 you're going to have to go to market?

24 A We'll go to market, and we don't have  
25 the pool effective January 1st, 2014, so, you know, we

1 will be going to market through the PJM when the  
2 situation would arise, correct.

3 Q And Mr. Weaver's analysis shows that, at  
4 least over the long term, that's a much more expensive  
5 option?

6 A Over the long term, that's a much more  
7 expensive proposition, yes.

8 MR. OVERSTREET: I think that's all I  
9 have, Your Honor.

10 MR. HOWARD: One cross, Mr. Chair, if I  
11 may, and I'll be done.

12 CHAIRMAN ARMSTRONG: Okay.

13 MR. HOWARD: That way hopefully we can  
14 be finished with this witness.

15

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17

18 RECROSS-EXAMINATION

19

20 By Mr. Howard:

21

22 Q Mr. Wohnhas, I had asked you earlier if  
23 you -- if Kentucky Power did an independent audit of  
24 Mitchell, and your response was no, and then  
25 Mr. Overstreet a minute ago asked you if there was, in

1 fact, an independent audit and you said yes, correct?

2 A Of the accounting numbers, yes. They  
3 have been -- they are continually audited, both  
4 internally, externally, through -- so yes.

5 Q Right. For the costs for Mitchell?

6 A Right.

7 Q Okay. May we obtain, by way of a  
8 post-hearing data request, a copy of that report?

9 A Well, with -- I mean, what it is is  
10 it -- it looks at the numbers from a standpoint -- the  
11 only annual report that -- or that you're going to get  
12 from Deloitte and Touche is the annual look at as we  
13 file our financials.

14 They look at the numbers quarterly,  
15 monthly. I don't know that there is a -- and I can  
16 check. I don't know that there is any type of a  
17 formal report that's issued by Deloitte and Touche  
18 that says, "These numbers have been reviewed at this  
19 point in time." I just know that they're -- that  
20 we're in constant contact with our internal auditors  
21 as well as our external auditors to review all of our  
22 book numbers.

23 MR. OVERSTREET: We'll provide you with  
24 our latest audited financials.

25 MR. HOWARD: Yeah, I mean, I just want

1 to make sure, because the question I had asked was,  
2 was there an independent audit of the net book value  
3 of the Mitchell units. His response was no. On your  
4 questioning his response was yes, so I want a copy of  
5 that report, and I'm asking for that by way of a  
6 post-hearing data request.

7 MR. OVERSTREET: I understand --

8 THE WITNESS: Okay.

9 MR. OVERSTREET: -- your request, and  
10 we'll provide you with the most recent audited  
11 financial statements, which, as a matter of, you know,  
12 practice would have to include -- and I'm -- and, I'm  
13 sorry, I misspoke. I was thinking Kentucky Power, but  
14 if you're talking Mitchell, it's Ohio Power that you  
15 want, right?

16 MR. HOWARD: Well, I had asked earlier  
17 if there was --

18 MR. OVERSTREET: Right. We'll provide  
19 you those audited financial statements.

20 MR. HOWARD: Okay. And I want to make  
21 sure that it's clear that it shows the net book value  
22 as determined by an independent auditor. That's what  
23 I'm requesting, because it was my understanding he  
24 originally said no, then on your questioning he said  
25 yes.

1 THE WITNESS: Understood.

2 MR. HOWARD: Thank you.

3 MR. KURTZ: Mr. Chairman, could I make a  
4 data request for this witness, a post-hearing data  
5 request?

6 MR. NGUYEN: I've got a couple of  
7 questions to follow up too, Your Honor.

8 CHAIRMAN ARMSTRONG: I know. I'm going  
9 to break for lunch and come back with this witness, to  
10 finish up.

11 MR. KURTZ: Thank you.

12 CHAIRMAN ARMSTRONG: So Staff has  
13 questions, I might even have a question, you have a  
14 question, and --

15 COMMISSIONER BREATHITT: I might have  
16 one follow-up too.

17 VICE-CHAIR GARDNER: None for me.

18 MR. OVERSTREET: I asked too many  
19 questions, Your Honor.

20 COMMISSIONER BREATHITT: You do too,  
21 Jim? Jim said he has three more.

22 CHAIRMAN ARMSTRONG: We will adjourn  
23 until 2:00 o'clock.

24 (Recess from 12:53 p.m. to 2:06 p.m.)

25 MR. HOWARD: Mr. Chairman, I think that

1 the AG had concluded with its cross by asking a  
2 post-hearing data request of Mr. Overstreet regarding  
3 the copy of the independent financial audit report of  
4 the net book value of the Mitchell unit, and I think  
5 that's where we stood at the time. Correct, Mr.  
6 Overstreet?

7 MR. OVERSTREET: That was the last  
8 exchange.

9 MR. HOWARD: Thank you, sir.

10 CHAIRMAN ARMSTRONG: Mr. Kurtz.

11 MR. KURTZ: Yes. Thank you, Your Honor.  
12

13 \* \* \*

14  
15 CROSS-EXAMINATION  
16

17 By Mr. Kurtz:

18  
19 Q Mr. Wohnhas, I want to make a data  
20 request, but I want to just make sure I understand  
21 first. This exhibit, AG 5, which is 2-12 data  
22 response, where it shows the fixed cost of owning  
23 Mitchell at \$137.8 million. Do -- do you remember  
24 that ex --

25 A Yes.

1 Q -- hibit?

2 A Yes, I do.

3 Q Okay. That's the fixed cost of owning  
4 Mitchell stand-alone, just owning -- just Mitchell by  
5 itself; is that --

6 A Correct.

7 Q -- right? Okay. Here is my confusion  
8 with the data request. On pa -- on AG 8, page 2 of 2,  
9 where you came up with \$81 million.

10 A Correct.

11 Q Okay. That's the cost of owning  
12 Mitchell by itself less the savings you get from  
13 pooling Big Sandy 2 out of rate base; is that correct?

14 A Correct. That number is shown on there  
15 as a reduction to the number. Correct.

16 Q Can you break out page 2 of 2 to show,  
17 based upon these numbers, what the stand-alone costs  
18 of owning Mitchell is? Presumably, it'll be close to  
19 the 137 million. And then also show separately what  
20 the savings are from pooling Big Sandy 2 out of rate  
21 base?

22 So in other words, instead of having it  
23 all mixed up together, showing -- show those -- those  
24 two things separately.

25 A We'll attempt to do that.

1 Q Thank you, sir.

2 MR. NGUYEN: Your Honor, I've got a  
3 couple questions, if I may.

4 CHAIRMAN ARMSTRONG: Yes.

5

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8

RECROSS-EXAMINATION

9

10 By Mr. Nguyen:

11

12 Q Mr. Wohnhas, in the rate case filing  
13 that was filed June 28th, was the asset transfer rider  
14 tariff filed as part of that case?

15 A No, it was not.

16 Q Okay. Is Kentucky Power specifically  
17 seeking approval from the Commission the asset  
18 transfer rider tariff as well as it asks for -- asset  
19 transfer rider two tariff that was attached to -- that  
20 were attached to the stipulation and settlement  
21 agreement that was filed as part of this case?

22 A As part of the settlement, we're asking  
23 for approval of those, correct.

24 Q Okay. And if the Commission approves  
25 those, if the Commission approves the settlements,



1 Commission would then also approve those two tariff  
2 riders, correct?

3 A That is correct.

4 Q And that would allow Kentucky Power,  
5 insofar as recovery of the \$44 million during the base  
6 rate freeze period, to recover that through the ATR  
7 mechanism; is that correct?

8 A That would be correct.

9 MR. NGUYEN: Okay. Okay. Those are all  
10 the questions I have. Thank you.

11 VICE-CHAIR GARDNER: Got a couple.  
12 Thank you.

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#### REEXAMINATION

17

18 By Vice-Chair Gardner:

19

20 Q Let me make sure I understand. If this  
21 is approved, there will be no -- beginning January the  
22 1st, 2014, there will be no costs in the environmental  
23 surcharge mechanism other than the FGD costs for  
24 Mitchell? Or maybe I've got my date wrong.

25

A Well, I just need to clarify. When you

1 said, "If this is approved." I need to understand  
2 what you're --

3 Q The --

4 A -- saying.

5 Q -- settlement is approved.

6 A Okay. I just -- thank you.

7 Q Sure.

8 A I needed --

9 Q If the settlement is approved, then --  
10 and it might be May of 2015, there will be no FGD --  
11 there would be no environmental costs in the  
12 environmental surcharge mechanism except for the  
13 Mitchell FGD costs initially?

14 A Assuming -- and -- and just one  
15 clarifying. Assuming that with the base rate filing  
16 that we're going to make, that we shift all of the --  
17 as we have in the past, which I don't see anything  
18 happening differently, all the environmental costs  
19 that's currently in the environmental surcharge for  
20 Big Sandy and whatever that's currently being  
21 recovered through there, all of that shifts to base  
22 rates, then what you're saying is correct.

23 Q Wait a minute. But -- but that -- I  
24 guess that's -- but will the -- there won't -- but --  
25 but there won't be Big Sandy in twenty five -- May --

1           A       That's what I'm saying. That stuff will  
2 all move out. You know, it would -- currently,  
3 there's --

4           Q       Will move out of the surcharge --

5           A       Right.

6           Q       -- mechanism --

7           A       -- and be out completely for the Big  
8 Sandy.

9           Q       Okay.

10          A       Yes.

11          Q       Okay.

12          A       But -- so I'm just prefacing, but  
13 there -- so yes, basically, you're correct. As of  
14 1-1 -- or as of -- when the base rates would go into  
15 effect, it would just be the -- going forward the --

16          Q       Mitchell --

17          A       -- Mitchell --

18          Q       -- FGD?

19          A       -- 1 and 2, FGD, and then the additional  
20 environmental costs incurred at both Big -- Mitchell  
21 --

22          Q       Going forward?

23          A       -- going forward.

24          Q       Okay.

25          A       And Rockport. All right. We -- we --

1 Q Correct.

2 A -- still collect these --

3 Q Correct.

4 A -- through Rockport.

5 Q Correct. But no Big Sandy?

6 A No Big Sandy.

7 Q Okay. Could you look at, on your  
8 rebuttal testimony, page 4? The question about KIUC's  
9 proposal exposes Kentucky Power's customers to  
10 unnecessary financing and market risks.

11 A I am there, sir.

12 Q Okay. Do you remember that testimony?

13 A Yes, I do.

14 Q Now, are you -- are you saying that if  
15 this settlement is not approved, the Commission could  
16 not assume that the Mitchell would be available in  
17 seven -- you know, in 20 -- May of 2015 at the same  
18 price, because there's going to be additional  
19 financing costs to AEP companies that would increase  
20 the cost. Is that what you're saying?

21 A At a high level, when it get -- if it  
22 doesn't transfer to us, AEP Generation Resources would  
23 take ownership of -- of that asset, and, you know,  
24 they're going to do what they need to do to maximize  
25 that asset.

1                   And so -- and so there -- they may need  
2 to get required financing for any long-term PPAs or  
3 whatever it's set up for that unit, and so if  
4 somewhere down the -- the line it even was available,  
5 those costs are going to get passed on to whomever  
6 the -- the ownership or whoever gets passed down to.  
7 So even if it is available, it'd be more likely at a  
8 higher cost.

9                   Q       Okay. Let me -- could you -- one final  
10 question. Could you look at paragraph number 20 on  
11 page 11 of the -- of the stipulation, please?

12                  A       Paragraph 20?

13                  Q       Yes, on page 11 of the settlement  
14 agreement.

15                  A       Yes.

16                  Q       This says that the Company's application  
17 in 2013, 144, and this is the EcoPower matter; is that  
18 right?

19                  A       That is correct.

20                  Q       And that's -- that -- so it's already  
21 been filed with the Commission; is that right?

22                  A       It was filed with the Commission, and  
23 then it was actually -- an amended filing was made on,  
24 I believe, July the 3rd that amended it slightly on  
25 some dates by a month, but yes, it is before the

1 Commission.

2 Q Okay. And it's my understanding that --  
3 that the Kentucky Power's application is contingent on  
4 the -- one of the conditions is that the Commission  
5 approve the 50-percent purchase of -- of Mitchell; is  
6 that correct?

7 A The REPA has that stipulation in there  
8 that --

9 Q The REPA?

10 A The -- the -- the -- the purchase  
11 agreement between Kentucky Power Company and EcoPower  
12 is that if the Mitchell transfer is not approved, then  
13 the -- that agreement between Kentucky Power and  
14 EcoPower is void.

15 Q Why is that?

16 A The -- the Mitchell asset is what we  
17 need as -- when you look at our base supply of  
18 capacity for the long term.

19 Without that base supply, the additional  
20 58 megawatts of EcoPower in and of -- by itself is not  
21 going to help us with that baseload capacity, and so  
22 that we would have to go back and decide what we were  
23 going to do at a baseload to cover for our internal  
24 customers and then decide if and when we would then do  
25 something additional with EcoPower.

1 VICE-CHAIR GARDNER: Okay. That's all.  
2 Thank you.

3 COMMISSIONER BREATHITT: I had one more.  
4

5 \* \* \*

6  
7 REEXAMINATION

8  
9 By Commissioner Breathitt:

10  
11 Q This is another follow-up to the  
12 questions I asked about the three state jurisdictions.  
13 Are -- is our matter, the West Virginia party, and the  
14 Virginia matter all stand alone or do they fit  
15 together like a puzzle?

16 For example, if West Virginia tweaks  
17 their finding a bit differently from their application  
18 or if Virginia does or if we do -- or if we do, what  
19 happens to -- are they stand alone, and the other two  
20 can do what they want, or do they have to fit  
21 together?

22 A Well, they are stand-alone --

23 Q 'Cause I haven't read their filings.

24 A Understood. They are stand-alone in the  
25 fact that they're three separate filings, and we --

1 and we've discussed that, and -- but yet they're still  
2 joined in the fact that, you know, what we would  
3 prefer and what we have asked is for all of them to  
4 approve, and it fits very nicely.

5 If there are -- if one of the  
6 jurisdictions were to approve something different,  
7 whatever that may be, you know, we would have to step  
8 back, and depending on what that is, decide if we  
9 could move forward, if we'd have to go back to FERC.  
10 I mean, there's just a whole litany of things that  
11 could happen if one of the other jurisdictions would  
12 not authorize a full 50-percent share of the Mitchell  
13 units.

14 COMMISSIONER BREATHITT: Thank you.  
15 That's all I have.

16 CHAIRMAN ARMSTRONG: Any more redirect?  
17

18 \* \* \*

19  
20 REDIRECT EXAMINATION

21  
22 By Mr. Overstreet:

23  
24 Q Mr. Wohnhas, I understood your -- your  
25 answer to Commissioner Breathitt, but it was always my



1 understanding that -- and I understand about FERC.  
2 Just put FERC aside. Is it not true that -- that  
3 Kentucky Power wants this 50-percent interest in  
4 Mitchell?

5 A Absolutely.

6 Q And -- and -- and its desire and its  
7 willingness to go forward with the transaction is  
8 dependent upon what this commission does, not what the  
9 West Virginia or Virginia commissions do, right?

10 A That's true.

11 Q And -- and so that if this commission  
12 were to approve it, and West Virginia or Virginia were  
13 to do something different, AEP may have to figure out  
14 what happens to the other 50 percent, but it -- it  
15 appears, as far as you know, that Kentucky would go  
16 forward with its 50 percent?

17 A That is the cor -- that is -- that is  
18 correct.

19 COMMISSIONER BREATHITT: Thank you.  
20 Thank you.

21 MR. NGUYEN: No further questions, Your  
22 Honor.

23 CHAIRMAN ARMSTRONG: Any more questions  
24 of this --

25 MR. OVERSTREET: No. No. No, Your

1 Honor.

2 CHAIRMAN ARMSTRONG: Thank you, Mr.  
3 Wohn -- Wohnhas.

4 THE WITNESS: Thank you.

5 CHAIRMAN ARMSTRONG: You're excused.

6 MR. OVERSTREET: Oh. I'm sorry, Your  
7 Honor. The ne -- our next wis -- wit -- try it -- try  
8 again. Our next witness is Mr. McManus, and Mr. Gish  
9 will present him.

10

11

\* \* \*

12

13 JOHN MCMANUS, called by Kentucky Power  
14 Company, having been first duly sworn, testified as  
15 follows:

16

17 DIRECT EXAMINATION

18

19 By Mr. Gish:

20

21 CHAIRMAN ARMSTRONG: Speak loud and  
22 clear your name?

23 THE WITNESS: John McManus.

24

25

CHAIRMAN ARMSTRONG: And where do you  
live?

1 THE WITNESS: In Columbus, Ohio.

2 CHAIRMAN ARMSTRONG: And where do you  
3 work?

4 THE WITNESS: I work for American  
5 Electric Power. I'm vice president of environmental  
6 services.

7 CHAIRMAN ARMSTRONG: And why are you  
8 here?

9 THE WITNESS: I'm here to address  
10 current and pending environmental regulations that  
11 have implications for AEP's power plant fleet, in  
12 particular, of Mitchell and Big Sandy plants.

13 CHAIRMAN ARMSTRONG: Your witness.

14 Q Okay. Morning, Mr. McManus. Or good  
15 afternoon, Mr. McManus. Did you cause to have filed  
16 in this case direct testimony?

17 A Yes, I did.

18 Q Did you cause to have filed in this case  
19 responses to data requests?

20 A Yes.

21 Q And do you have any corrections to your  
22 direct testimony?

23 A I have some updates to that testimony  
24 that reflect sort of changes in the regulatory  
25 schedule on some of the issues I addressed.

1 Q Okay. And can you explain what those  
2 updates are?

3 A Yes. On page 4 of the direct testimony,  
4 at line 14, there is discussion of the obligations for  
5 Big Sandy Unit 2 under the AEP New Source review  
6 consent decree. The parties to that consent decree  
7 earlier this year entered into a modification that  
8 changed the Big Sandy Unit 2 obligation.

9 Q And what -- and what was that change?

10 A Yeah. The -- as stated here on line 14  
11 and 15, the previous requirement had been to install a  
12 flue gas desulfurization system by December 31st,  
13 2015. The new requirement is that Big Sandy Unit 2,  
14 by the same date, December 31st, 2015, either retrofit  
15 push control equipment, repower, retire, or refuel the  
16 unit.

17 On page 7, at line 11, there is a  
18 paragraph that discusses greenhouse gas regulation,  
19 and particularly at the bottom of the page, the last  
20 sentence, talks about EPA's process for developing  
21 greenhouse gas regulations for existing power plants,  
22 and that the agency had indicated it -- currently, at  
23 the time that this was written, it did not have plans  
24 to move forward with that regulation.

25 Since then, and then just very recently,

1 President Obama announced a climate plan that directed  
2 EPA with a specific schedule to develop those  
3 regulations.

4 So that the actual process started about  
5 two and a half years ago, that EPA, under the Clean  
6 Air Act, was going to develop this regulation, but  
7 there was not a specified schedule. We now have a  
8 schedule that -- that EPA will work under to develop  
9 those regulations.

10 Q And in that climate action plan, the  
11 president outlines a coordination between the states  
12 and industry and other stakeholders. Have you, as the  
13 vice president of environmental services with AEP,  
14 been invol -- involved in those sort of stakeholder  
15 meetings with the EPA?

16 A Yes, I have in the past, and not yet on  
17 the -- that we have not met with states yet on the  
18 greenhouse gas regulations.

19 When EPA announced in late 2010 they  
20 were going to develop this type of regulation, they  
21 started a stakeholder process. In February of 2011, I  
22 participated in a stakeholder meeting for the power  
23 sector with US EPA.

24 Q And do you anticipate continuing to work  
25 with -- being part of that stakeholder process going

1 forward?

2 A We don't know yet exactly how EPA is  
3 going to structure that, but we would anticipate  
4 participating with the agency and with our states as  
5 they start to -- to look at this.

6 This particular part of the Clean Air  
7 Act that EPA is using re -- requires EPA to establish  
8 guidelines for greenhouse gas regulations, and then  
9 the states to implement those guidelines as part of  
10 their state implementation plans.

11 So ultimately, the states determine what  
12 they will do, as long as it meets the overall  
13 guidelines that EPA establishes.

14 So there will be an opportunity, as EPA  
15 develops the guidelines themselves, in a public review  
16 process to participate, and then as the states start  
17 to develop the implementation plans, we would  
18 anticipate working with our states on that process as  
19 well.

20 Q And any other updates?

21 A Yeah. On page 8. At line 1, there's a  
22 paragraph on the Clean Water Act 316 B rule. This  
23 addresses cooling water intakes. It -- the first  
24 sentence there indicates a deadline for a final rule  
25 of June 27.

1 EPA announced on that day that they were  
2 extending that deadline to November 4th. So we do not  
3 yet have a final 316 B rule. We should have one in  
4 November, unless it's extended again.

5 And then on line 9, there's a paragraph  
6 on steam electric effluent limitation guidelines.  
7 That paragraph indicates EPA's intention to issue a  
8 proposed rule in April and a final in May of 2014.

9 EPA has issued that proposal at -- at  
10 this time, and we are in the public comment period,  
11 which now extends to September 20th for comments on  
12 that regulation.

13 Q And -- and you have reviewed the  
14 proposed steam electric effluent limitation guideline  
15 rule; is that correct?

16 A We are in the review process now. We've  
17 started to read through the rule and -- so that we can  
18 understand what EPA is proposing and -- and develop  
19 our comments on it.

20 Q And does what's in the proposed rule  
21 represent a material change from what you anticipated  
22 would be in the steam effluent limitation guidelines?

23 A Yeah, and generally I would say no. EPA  
24 has proposed eight different options.

25 So it -- it's a bit of a complicated

1 proposal, and that's why we're still reviewing it, but  
2 our initial look at it suggests what we had assumed.

3 In our long-term planning for additional  
4 environmental controls at our coal power plants is  
5 within the ballpark of the options, the range of  
6 options EPA has proposed.

7 Q Any more updates?

8 A That was it.

9 Q Okay. So with the updates that you've  
10 just scu -- just discussed, if I were to ask you the  
11 same questions that are in your prefiled testimony,  
12 would you give the same answers?

13 A Yes.

14 MR. GISH: Mr. Chairman, I turn the --  
15 tender the witness for cross-examination.

16

17 \* \* \*

18

19 CROSS-EXAMINATION

20

21 By Ms. Hans:

22

23 Q Afternoon, Mr. McManus.

24 A Good afternoon.

25 Q Jennifer Hans. I don't -- I believe



1 that I was here at the case when you testified last  
2 year, but we didn't get to meet, so I wanted to  
3 make -- make sure. Jennifer Hans.

4 Just to get it on the record. I am  
5 correct, am I not, that you testified in Kentucky  
6 Power's proceeding before this Commission seeking  
7 authority to equip the Big Sandy Unit 2 with an FGD  
8 and related environmental controls; is that correct?

9 A That's correct.

10 MS. HANS: And just for the record,  
11 Counsel, it's 2011-00-401. That -- that particular  
12 case.

13 Q And you were presented by the Company,  
14 is it correct, to answer questions and  
15 cross-examination on May 1st of last year?

16 A That sounds about right --

17 Q Does that sound --

18 A -- in terms of timing, yes.

19 Q Subject to check --

20 A Yes.

21 Q -- that -- on that date? Okay. And do  
22 you recall during your testimony questions being asked  
23 regarding the 2007 consent decree, the New Source  
24 requirement consent decree, and whether that -- and I  
25 believe this was the Vice Chair's questioning.

1 Whether that consent decree was consistent with EPA's  
2 SOx and NOx requirements under the rulemaking that  
3 existed at that time requiring Kenpo -- Kentucky Power  
4 Company to install an FGD and to continue operation of  
5 the SCR system on the Big Sandy Unit 2? Do you recall  
6 that exchange?

7 A In general --

8 MR. GISH: And, Mr. Chairman, if --

9 A -- but, you know, without seeing  
10 specifically a transcript, I can't say for sure.

11 Q Understood.

12 MS. HANS: And just for the record, Your  
13 Honor, and -- and for the -- for counsel, and I'm  
14 going to ask some general questions about this, so --  
15 but for the record, what I'm referencing is testimony  
16 that's available on the public record on May 12, 2012,  
17 with regard to the 2011-00401 case, and it -- I can  
18 give you a specific cite as to where it appears, but  
19 fundamentally I'm just trying to ask if the consent  
20 decree was consistent with EPA's SOx and NOx  
21 requirements at that time.

22 There was an exchange between the Vice  
23 Chair. I'm just trying to kind of get an update to  
24 that information.

25 MR. GISH: And, Mr. Chairman, to the

1 extent that she's going to ask specific questions  
2 about his testimony in a prior case, then we need to  
3 have copies of that testimony for him to refer --  
4 refer to.

5 MS. HANS: Well, Your -- Your Honor, as  
6 you -- as you're aware, the -- the record of the  
7 proceedings are electronic in this case.

8 I can play it, pull it up and play it  
9 for them, but we don't do transcribed here in Kentucky  
10 for -- for purposes of the record. So there's not a  
11 written transcript prepared by the Company for him to  
12 read.

13 CHAIRMAN ARMSTRONG: In citing that as a  
14 prod or reminder of his testimony to answer questions,  
15 I'm going to let that happen.

16 MR. GISH: Okay. Yeah. Thank you, Your  
17 Honor. That's fine.

18 Q And, again, Mr. McManus, I'm just trying  
19 to get an update, so I'll just try to rephrase the  
20 question so you understand.

21 Based on the consent decree, and I know  
22 that there's been updates to that 2007 consent decree,  
23 but the consent decree that was in place when we came  
24 back in -- when we came back last -- when we came in  
25 for the hearing last year, was that consent decree

1 consistent with EPA's SOx and NOx requirements, their  
2 rulemakings, existing at that time with regard to  
3 Kentucky Power Company's application to install an FGD  
4 and SCR system?

5 In other words, and I'm going to -- I'm  
6 going to have to recall as well. Was there any  
7 difference between what the consent decree required  
8 and what the EPA regulations required, at that time,  
9 with regard to the Big Sandy Unit 2 application last  
10 year?

11 A The consent decree, at that time, had a  
12 specific requirement and date for installation of the  
13 flue gas desulfurization system. The regulations in  
14 place at that time, if -- thinking of the timing on  
15 this, would have been the Clean Air Interstate Rule.

16 Because the Cross-State Air Pollution  
17 Rule had been stayed at that time, the Clean Air  
18 Interstate Rule is a rule that is based on sort of a  
19 flexible compliance approach utilizing allowances, and  
20 you make decisions on, you know, where you want to  
21 install controls.

22 So the -- the structure of the consent  
23 decree and the Clean Air Interstate Rules are a little  
24 bit different, but, generally, they're consistent in  
25 terms of addressing reductions of SO2 and NOx

1 emissions.

2 Q Thank you very much. And you  
3 referenced, in your preface to your testimony,  
4 changes, the -- the third joint modification of the  
5 consent decree. Do you have a copy of that with you?  
6 I believe that we actually entered it into --  
7 yesterday as AG hearing Exhibit Number 7.

8 A I have a copy.

9 Q Okay. Thank you. And I presume that  
10 you're aware, you -- you -- and you've read and had an  
11 opportunity, perhaps were even involved in  
12 negotiations with regard to the third --

13 A Yes.

14 Q -- consent --

15 A I'm familiar --

16 Q -- modification?

17 A -- with it.

18 Q Okay. Very good. So if I could turn  
19 your attention, then, I just have some questions  
20 regarding this, to page 7 of the modification. And I  
21 believe you've already stated this, but I just wanted  
22 to point it out for the record at page 7.

23 There is, on that page, a table that I  
24 believe you've previously identified that's under  
25 paragraph 87 -- 87, and it indicates that there has

1       been a change with regard to the consent decree with  
2       regard to Big Sandy Unit 2, and I think you stated it  
3       earlier, but if you could just confirm what that  
4       modification is.

5               A       Yes. The previous requirement was to  
6       install -- stall a flue gas desulfurization system on  
7       Big Sandy Unit 2 by December 31st, 2015. The modified  
8       requirement is to either retrofit the unit, retire the  
9       unit, repower the unit, or refuel the unit by the same  
10      date. December 31st, 2015. And there are specific  
11      definitions for each of those terms within the body of  
12      the consent decree.

13              Q       And you know exactly where I'm going.  
14      So as you understand it, does this revised language as  
15      to the term retrofit, as defined in the consent  
16      decree, still require both an FGD and the continuing  
17      use of an SCR on the Big Sandy Unit 2 were it to  
18      continue operation?

19              A       The retrofit definition is on page 5 of  
20      this document at paragraph 56. If you read through  
21      that, it does essentially require what you indicated.  
22      Installation of a -- now it's a wet or dry FGD system  
23      and the SCR system. So if the retrofit option was  
24      chosen, we would have to meet that definition of a  
25      retrofit.

1           Q       Very good. Thank you very much. I  
2 appreciate that. Also, in that -- in the prior  
3 proceeding, 2011-00-401, you indicated you filed  
4 testimony, and that included your rebuttal testimony;  
5 is that correct? You filed rebuttal testimony as well  
6 as direct?

7           A       I don't recall --

8           Q       Okay.

9           A       -- specifically, ma'am.

10          Q       That's fine. I have a -- I have a copy  
11 that I'll distribute for reference purposes.

12                   MS. HANS: And just for the record, Your  
13 Honor, what we're handing out should be, and I'll  
14 certainly ask the witness to verify this, the full  
15 rebuttal testimony that he filed in this -- in the  
16 prior case, 2011-00-401.

17                   I believe it consists of nine pages of  
18 testimony plus his authorization, signature page, but,  
19 Counsel, feel free to correct me if that does not look  
20 complete to you.

21          A       It looks complete.

22          Q       Thank you very much. And if I could  
23 turn your attention in your te -- in your rebuttal  
24 testimony to page 8. And there's a response at that  
25 page, beginning on page 13. I'm going to make sure

1 that I'm referencing it correct as well. Just let me  
2 know when you're there.

3 MR. GISH: What page are you on?

4 A This is page 8?

5 Q I'm sorry. Page 8. Page 8. The  
6 question actually begins at -- at line 9. And I'm  
7 going to start -- I'm going to ask re -- regarding  
8 line -- your -- your response to that question  
9 starting at lines 13. That's where my question is. I  
10 just wanted to give you an opportunity to review that.

11 A Okay.

12 Q So in this response, is it not the case  
13 that you were, in essence, criticizing witness Lane  
14 Kollen's recommendation to restart the retrofit  
15 process at a date that would occur after the consent?  
16 And I'm -- this is the NCR compliance deadline, but as  
17 I understand it, correct me if I'm wrong, that is in  
18 reference to the consent decree, that that would occur  
19 after it would require the consent of all the  
20 signatories in order to modify the consent decree.

21 And then you go on to explain in that  
22 testimony that AEP had not requested any change as  
23 significant as one posed by witness Kollen, and that  
24 AEP would have no ability to compel the other parties  
25 to agree to such a significant change.



1                   Is that a correct summary of your  
2 testimony in that matter?

3                   A       I'm not sure I'd use the word criticize  
4 as much as to address an aspect of witness Kollen's  
5 recommendation as it related to the requirements of  
6 the consent decree.

7                   Q       Okay. And then with respect to what --  
8                   MS. HANS: And let me just go ahead and  
9 pause for one moment, Your Honor, and ask for the  
10 court -- the -- the Commission to accept this as AG  
11 Exhibit Number 9.

12                   MR. GISH: No --

13                   MS. HANS: I believe we're at 9.

14                   MR. GISH: No objection.

15                   CHAIRMAN ARMSTRONG: Yes.

16                   MS. HANS: Okay.

17                   CHAIRMAN ARMSTRONG: Without objection,  
18 so ordered.

19                   (AG Exhibit 9 admitted.)

20                   Q       Could I have you turn back, Mr. McManus,  
21 to the third joint modification to the consent decree,  
22 which is AG Number 7? And I would turn your attention  
23 back to that chart on page 7, paragraph 87.

24                   And after the -- the -- the first two  
25 sections, there are -- there is a section, the

1 third -- the third section in that chart relates to  
2 the first Rockport unit; is that correct?

3 A That's correct.

4 Q And the area following that and falling  
5 over onto -- or the table section following that and  
6 following over onto page 8 references the second  
7 Rockport unit; is that correct?

8 A That's correct.

9 Q And in this modification, is it true  
10 that AEP renege -- renegotiated with the other parties  
11 to this consent decree regarding the Rockport units?

12 A The modification has changes to the  
13 Rockport unit in addition to a number of other changes  
14 to the consent decree.

15 Q So it is correct that the other parties  
16 had to agree to those changes to the Rockport unit; is  
17 that correct?

18 A That's correct.

19 Q Okay. And in particular, the  
20 modifications, as referenced in this table with regard  
21 to the Rockport unit, permit AEP to have more than ten  
22 years to resolve whether to ri -- retire, retro fit,  
23 refuel, or re -- or repower those units, does it not?

24 A The change for the Rockport units  
25 requires the installation of control technology at the

1 Rockport units, actually, earlier than the original  
2 date, and then at a period in time roughly ten years  
3 into the future, to have a decision on whether to add  
4 additional controls on the -- under the retro --  
5 retrofit definition to retire, repower, refuel.

6 Q So -- and just -- just so that I  
7 understand. In that -- in the third column over, when  
8 it re -- re -- when it's discussing the modified SO2  
9 pollution control, and with re -- respect to those two  
10 Rockport units, the same language appears, retrofit,  
11 retire, repower, or refuel, and those dates, the --  
12 those modified dates, extend more than ten years  
13 beyond what was originally agreed to; is that not  
14 correct?

15 A The modified dates for the retro,  
16 retire, repower, refuel requirement, it's not quite  
17 ten years.

18 Q Yeah.

19 A The original dates were the end of  
20 2017 --

21 Q Teen and '19?

22 A -- and 2019. So it's a little less than  
23 ten years.

24 MS. HANS: Little less than ten years.

25 Thank you very much. No further questions at this

1 time.

2 MR. NGUYEN: Just a few questions, Your  
3 Honor.

4  
5 \* \* \*

6  
7 CROSS-EXAMINATION

8  
9 By Mr. Nguyen:

10  
11 Q Good afternoon, Mr. McManus.

12 A Good afternoon.

13 Q You had mentioned the president's  
14 climate action plan earlier?

15 A Yes.

16 Q And you had also mentioned that the  
17 president's directed EPA to begin the process to start  
18 drafting the final rules for greenhouse gas emissions  
19 for existing power plants; is that correct?

20 A The -- what the president directed EPA  
21 to do was, under a specified schedule, to develop a  
22 proposed rule for existing sources -- existing power  
23 plants under the New Source Performance Standard  
24 provision of the Clean Air Act by June 1st of next  
25 year to develop a final set of guidelines, again,

1 these are guidelines that the states would then work  
2 to implement, to have the final rule by June 1st of  
3 2015, and then for the states to develop their state  
4 imple -- implementation plans and address these  
5 guidelines by June 30th of 2016.

6 So that the -- and -- and again, I  
7 indicated that the process -- this process really  
8 started two and a half years ago. Excuse me.

9 In December of 2010 when EPA announced  
10 that they were going to develop New Source performance  
11 standards for both new and existing plants, EPA had a  
12 schedule at the time that -- that seemed ambitious,  
13 turns out it was ambitious, and they had not been  
14 working on the existing source rule as far as we  
15 understood. Now they have a specified schedule to  
16 develop that rule.

17 Q Okay. Were you involved in any of the  
18 inputs that were provided to Mr. Weaver in terms of  
19 his running the model in assessing the evaluation of  
20 the cost effectiveness of the Mitchell acquisition?  
21 And in particular, the carbon pricing that was -- or  
22 the carbon scenario that was -- that was assumed under  
23 that modeling.

24 A I guess I'd say I was involved in -- in  
25 discussions on -- on how to do that. In terms of the

1 actual carbon pricing that was used, I was not  
2 involved in -- in setting that pricing. I think  
3 witness Bletzacker can address the specific pricing  
4 that we used.

5 Q Okay. But there was also a timing  
6 component to that assumption as well --

7 A Yes.

8 Q -- is that correct?

9 A That's correct.

10 Q Okay. Were you involved in the  
11 discussions with respect to the timing?

12 A Yes, and -- and the -- the approach that  
13 we've taken in the past and in using a carbon price  
14 was on an assumption that -- that at some point there  
15 would be Congressional action, legislation to put in  
16 place some mechanism that -- where you -- you would  
17 have a value for carbon. Whether it's an actual tax  
18 or a market-based allowance program.

19 And as -- we've had that approach for a  
20 number of years now. As time has gone on, and  
21 Congress has not acted, we've tended to look at how --  
22 what the schedule might look like for that from a  
23 practical standpoint of passing legislation,  
24 developing regulations, having an implementation  
25 period before they go into effect, and -- and in

1       laying that all out took us eventually out to 2022,  
2       which is what we're using in this particular analysis.

3               Q       Okay. But there was also an earlier  
4       case of 2017; is that correct? So you had an early  
5       case and a later case of 2022?

6               A       I believe that Mr. Weaver did run a  
7       sensitivity case with an earlier date on it.

8               Q       Okay. As well as no carbon pricing; is  
9       that correct? Do you recall?

10              A       You can check with Mr. Weaver on -- on  
11      that. I believe that's the case, but I'm not sure.

12              Q       Do you -- do you know what carbon  
13      pricing was assigned to the input parameters that  
14      was -- that was ran by Mr. Weaver under the Strategist  
15      modeling?

16              A       I believe it starts at \$15 a ton and  
17      then escalates, but I don't know all the details of  
18      that.

19              Q       Okay. And do you think that that \$15  
20      per ton is a reasonable assumption?

21              A       I think in general, it's reasonable.  
22      The -- the -- the challenge that -- that we have in  
23      trying to factor in the risk from carbon regulation,  
24      and -- and there's clearly, you know, a risk, we  
25      recognize that, we have for a long time, is that we

1 had assumed it would be based, as I indicated, on some  
2 legislative action, put a new program in place.

3 That has not happened. We now have EPA  
4 with a specific schedule directed by the president  
5 developing a regulatory program under the existing  
6 Clean Air Act. So the -- that -- how that regulatory  
7 program develops and what it will require is very  
8 difficult to assess at this time.

9 So do we have a perfect match to that?  
10 No, I don't think we do, but we -- I think we do have  
11 a reasonable approach to factor in some carbon risk  
12 into the analysis.

13 Q And that -- those ranges of 15 to, I  
14 guess it tops out at maybe just a little above \$16 are  
15 reasonable, in -- in your opinion?

16 A At this point in time, I believe it's a  
17 reasonable approach.

18 Q Okay. I'd like to hand out an article  
19 that was recently published in Bloomberg Businessweek.

20 MR. NGUYEN: Can you pass these out  
21 (indicating)?

22 MS. COLE: Yes.

23 Q And it discusses President Obama's  
24 administration in setting energy -- in setting new  
25 efficiency standards for microwave ovens and setting a



1 societal cost associated with carbon. Are you aware  
2 of that, by chance?

3 A I'm aware of the concept. I'd like to  
4 look at the --

5 Q Okay. Sure.

6 A -- article.

7 Q Sure. I will give you time to -- to --  
8 MS. COLE: We have one copy left.

9 COMMISSIONER BREATHITT: I have an extra  
10 one. You gave --

11 MR. NGUYEN: Yeah. The Commission has  
12 it.

13 COMMISSIONER BREATHITT: You gave me one  
14 at the bench yesterday.

15 A I have one.

16 MS. COLE: Okay.

17 MR. HOWARD: Mr. Nguyen, what was the  
18 date of that article, if I may ask?

19 MR. NGUYEN: June 20th.

20 MS. HANS: Thank you.

21 MR. HOWARD: Try to find it real quick.

22 Q Are you --

23 A Yes.

24 Q Had a chance to read? Does this article  
25 discuss new efficiency standards for a microwave oven

1 that's been established by the department of energy  
2 and assigning a carbon cost figure? Is that correct?

3 A The -- the process that I think this is  
4 describing is when the department of energy did this  
5 regulation, they had to do a regulatory impact  
6 assessment, and then to -- to -- to look at the cost  
7 effectiveness of the requirements that they were  
8 proposing to put in place.

9 And in their regulatory impact  
10 assessment, they utilized what's called a social cost  
11 of carbon concept with a value of -- of carbon. So  
12 that if you look at -- at carbon emissions avoided  
13 because of a more efficient device, in this case,  
14 microwave ovens, you can look at -- you have it in a  
15 way to sort of economically look at is that a  
16 cost-effective approach to reducing carbon emissions  
17 or not.

18 Q Okay.

19 A And that's the concept.

20 Q Okay. And you read the one, two, three,  
21 four, the fifth paragraph down? Beginning where it  
22 says, (Reading) The provision of the administration.  
23 Just that first sentence.

24 A (Reading) The provision of the  
25 administration has now slipped into the microwave

1 regulations updates has carbon cost figure with a much  
2 higher one. Thirty-eight dollars a ton. An increase  
3 of sixty percent.

4 Q Okay. And then continue on with the  
5 sentence as well.

6 A (Reading) Assigning a higher social cost  
7 to carbon has the effect of making coal mining, oil  
8 drilling, and other heavy industry appear more  
9 environmentally costly to regulators than before.

10 Q And then can you go down to the next  
11 paragraph, the second sentence beginning where it says  
12 "the EPA"?

13 A (Reading) The EPA will soon issue rules  
14 to cut power plant emissions, which could force  
15 coal-fired plants to cut production or shut down.

16 Q And then that last sentence there.

17 A (Reading) Because of the new social cost  
18 of carbon, which makes the plants appear to be taking  
19 a heavier toll on the environment, the rules will be  
20 easier for the administration to justify.

21 Q What's your take on -- on -- on -- on  
22 this new, I guess, societal cost of -- of carbon  
23 that's been assigned by the DOE in terms of the  
24 efficiency for microwave ovens and its ripple effect  
25 to, perhaps, the EPA assigning a similar carbon price

1 in its promulgation of its regulations with respect to  
2 CO2?

3 A Well, I think, one, an article in  
4 Bloomberg Businessweek, I'm not sure that it  
5 accurately describes exactly what's going on here. I  
6 don't know that the reporter understands this, so I'm  
7 not taking this at face value.

8 The -- the -- the concept, as I  
9 understand, in terms of social cost of carbon is -- is  
10 an effort to look at, from a starting assumption, if  
11 greenhouse gas emissions cause climate change, then  
12 there's an adverse effect of that climate change on  
13 either public health, on the environment, over a long  
14 period of time, you know, 'cause we're talking an  
15 issue here that really is a decadal issue, is there a  
16 way to quantify in economic terms that impact and put  
17 a value on it?

18 So that's what EPA is attempting to do  
19 here in -- in developing this concept of a social cost  
20 of carbon. And it's -- the -- the little bit that I  
21 know about the process, it's -- it's a fairly  
22 subjective process.

23 I'm sure that they use a lot of  
24 different models to model out what might happen under  
25 a changed climate 50 years from now, 100 years from

1 now, but then you have to put a value on that change  
2 and then bring that value economically back to current  
3 dollars.

4 So it -- to me, it's a process that  
5 really merits a lot of review and scrutiny in terms of  
6 how the -- the dollar value is developed, and does  
7 that dollar value make sense, and what are the ranges  
8 around that dollar value, and this article just uses a  
9 single number, but I'm assuming there's a range around  
10 that, and -- and what does that range mean. So it's a  
11 pretty complex process that comes up with this dollar  
12 value.

13 And -- and the other thing that -- that  
14 I think is important to understand is this is an  
15 attempt to put a dollar value on potential, as I  
16 indicated, either public health or environmental  
17 impacts from a changed climate going forward. That's  
18 very different than what it might cost to reduce CO2  
19 emissions or to mitigate carbon emissions.

20 So it's -- it's -- to me, it's not a  
21 value that you would use to compare to, well, what  
22 would it cost you to reduce carbon emissions by -- by  
23 improving the efficiency of a power plant. That's a  
24 mitigation cost. This is a very different cost, and  
25 they're not comparable.

1           Q       Okay.  So -- so you don't agree with  
2       the -- I guess, with the premise of the article that  
3       the DOE's however rigorous analysis that they went  
4       through to come up with the carbon -- the societal  
5       cost of carbon at \$38 per ton would translate into  
6       sort of a similar figure that could be adopted by or  
7       developed by the EPA in terms of assessing the impact  
8       of greenhouse gas in addressing any sort of  
9       regulations that they may or may not undertake with  
10      respect to greenhouse gas?

11           A       The -- the concept of social cost of  
12      carbon could be used in the context of developing a  
13      regulation on greenhouse gases for power plants, but,  
14      again, it's -- it's looking -- it's not looking at  
15      what the cost that regulation might be, the mitigation  
16      cost.  It's looking at a different concept.

17                    So I would expect EPA, as they develop  
18      their regulation, they might use this as part of their  
19      regulatory impact analysis as well.

20                    But the other thing that's important to  
21      understand, as EPA develops the New Source Performance  
22      Standard for existing plants, it's under the existing  
23      Clean Air Act.

24                    And a part of the -- the -- the existent  
25      Clean Air Act has certain requirements that EPA has to

1 follow for establishing these guidelines, and those  
2 requirements include there has to be technology  
3 available that EPA can base whatever guidelines it  
4 establishes on.

5 And -- and so that -- that there is --  
6 there is a lot of sort of steps EPA is going to have  
7 to go through in justifying whatever the guidelines it  
8 develops are based on -- and -- and sort of the term  
9 that people use is the best system of emission  
10 reductions, which factors in is technology available?  
11 What can that technology achieve?

12 So the -- they're going to have to build  
13 a very strong foundation to meet -- to meet -- in my  
14 opinion, to meet the legal requirements of Clean Air  
15 Act in this particular provision that's in the Clean  
16 Air Act.

17 MR. NGUYEN: Okay. Can I move this as  
18 Staff's Exhibit 1, Your Honor?

19 CHAIRMAN ARMSTRONG: Objections? So  
20 ordered.

21 (Staff Exhibit 1 admitted.)

22 Q Can you provide what you think would be  
23 estimates in the future for mercury controls?

24 A Could you repeat the question? I  
25 didn't --

1 Q Sure. Could you provide any estimates  
2 of the future costs of any sort of air control quality  
3 systems that would control the mercury emissions?

4 A It's -- it's hard to answer. To control  
5 them to what level? On -- on what type of a power  
6 plant? I mean, we have a mercury requirement in place  
7 now with a deadline that's approaching under the --  
8 the MATS rule, the Mercury and Air Toxics Standard  
9 rule. If you're --

10 Q Right. So under -- under the MATS  
11 standards, do you have an estimate of the cost -- give  
12 me one second. Would you know if the Mitchell units  
13 have any continuous emissions monitor installed on  
14 the -- on the station?

15 A For what par -- parameter?

16 Q For -- for total merc -- for -- for  
17 total mercury emissions as well as particulate matter.

18 A Okay. 'Cause we have continuous  
19 monitors for sulphur dioxide and nitrogen oxides, and  
20 we've had those for over 20 years now. We do not yet  
21 have a continuous monitor for mercury.

22 We're still evaluating our monitoring  
23 approach, because under the MATS rule, we will have to  
24 monitor for mercury.

25 We do have a continuous particulate



1 monitor on one unit that was installed late last year.  
2 We've been struggling with -- with operating that  
3 monitor. We're not very confident in the data it's  
4 providing at this time, but we do have other  
5 information as -- using the MATS rule where we have --  
6 will have a mercury requirement, a particulate matter  
7 requirement, and hydrochloric acid requirement.

8 We do have data that we've collected  
9 do -- using stack tests to -- to get a sense for where  
10 our emissions are now as it relates to those  
11 requirements that will go into effect in -- in April  
12 of 2015.

13 But we -- we don't have a continuous  
14 mercury monitor, and our continuous particulate  
15 monitor is not giving us what we think reliable data  
16 at this time.

17 Q And until you have the continuous  
18 emissions monitors for both mercury and particulate  
19 matter, is it fair to say that you wouldn't know  
20 whether or not the Mitchell station is in compliance  
21 with the MATS regulation once it becomes in effect?

22 A We -- we won't know for sure until we're  
23 actually in a compliance period, and we're doing the  
24 compliance monitoring that's required under the rule,  
25 but based on the information that we have, and not

1 just at Mitchell, but at our other coal-fired units  
2 that have similar control configurations as Mitchell,  
3 a sulfur dioxide scrubber and a selective catalytic  
4 reduction system and electrostatic precipitator, we  
5 have a fair amount of data that gives us a high level  
6 of confidence that Mitchell, as it's configured now,  
7 will meet the requirements of the MATS rule.

8 Q Okay. And is there any anticipated time  
9 frame in which Mitchell -- the Mitchell stations will  
10 be fitted with a continuous monitoring control for  
11 mercury?

12 A The -- the requirement, you know -- you  
13 know, will be when MATS goes into effect. I don't  
14 know the schedule exactly on our installation of -- of  
15 that equipment.

16 As we look at MATS, we have to comply  
17 with that for all of our coal-fired plants across the  
18 AEP system. And so we look at, you know, requirements  
19 unit by unit, plant by plant, what does that total  
20 program look like.

21 And so we're still in the process of  
22 developing that schedule for installation of mercury  
23 monitors to meet the -- the actual compliance  
24 requirement.

25 Q Okay.

1                   COMMISSIONER BREATHITT: What is the  
2 compliance date again?

3                   THE WITNESS: It's April of 2015.

4                   COMMISSIONER BREATHITT: So that would  
5 need to be in place by then?

6                   THE WITNESS: We would want them  
7 installed before then, have some operating experience  
8 to, one, be comfortable that we know how to operate,  
9 and, two, be confident that the data we're getting  
10 is -- is data that's reliable that we can submit for  
11 compliance purposes.

12                  Q       But currently, for the control of  
13 mercury emissions, I guess as well as particulate  
14 matter, at the Mitchell station would be the  
15 electrostatic precipitators; is that correct?

16                  A       For particulate matter, it'd be the  
17 elec -- electrostatic pretic -- excuse me.  
18 Precipitators. For mercury, on the type of coal that  
19 Mitchell burns and -- and the -- the form of -- the  
20 chemical form of the mercury that -- the results from  
21 that, the combination of the selective catalytic  
22 reduction system and the wet scrubber is the primary  
23 control for mercury, to -- to reduce mercury.

24                  Q       And you said that -- that there is stack  
25 testing that's done currently to obtain the emissions

1 level of mercury; is that correct?

2 A We have some stack tests, and we have  
3 some short-term data with what's called a sorbent trap  
4 monitoring system where -- where you put this device  
5 in the stack. You draw a flue gas sample through it  
6 for a period of time, you know, maybe a week or two  
7 weeks, and then you analyze the mercury that's in that  
8 sorbent trap.

9 So we have some short-term data, and  
10 again, not just at Mitchell, but, you know, once we  
11 knew that MATS was, you know, a certain day, we had a  
12 proposal, we started testing a lot of our units to get  
13 a sense for what our current re -- emissions were so  
14 that that would allow us to -- to develop plans if we  
15 needed that additional control.

16 So we have some data specific to  
17 Mitchell. We have data at similar units with the  
18 similar control configuration that Mitchell has that  
19 gives us this confidence.

20 Q Okay. So currently, based upon the  
21 stack testing data, the Mitchell station is in  
22 compliance with mercury emissions under the MATS  
23 regulation?

24 A Well, we don't have a com --

25 Q Well --

1           A       -- pliance requirement right now, but  
2 the data we have --

3           Q       Right.

4           A       -- gives us confidence that we will --  
5 we meet the limit that will go into effect on April of  
6 2015.

7                   MR. NGUYEN: Those are all the questions  
8 I have.

9  
10                           \*                           \*                           \*

11  
12                                           EXAMINATION

13  
14 By Chairman Armstrong:

15  
16           Q       Mr. McManus, were you here this morning  
17 when Mr. Wohnhas testified?

18           A       Yes, I was.

19           Q       Did you hear all of his testimony?

20           A       I believe so.

21           Q       In your opinion, your professional  
22 opinion, what's the likelihood that the Mitchell units  
23 will be operating in the date of 2040, as Mr. McManus  
24 mentioned?

25           A       From the standpoint of the physical

1 condition of the units, I have to defer that to Mr.  
2 LaFleur, in terms of the -- the physical condition and  
3 what it would take to operate that much in the future.

4 Q Would you know how old they would be?

5 A Well, they'd be in operation in the  
6 early '70s, so they'd be close to 70 years old by  
7 2040.

8 Q Have you ever worked in a 70-year-old  
9 plant?

10 A I've not worked in a power plant in my  
11 career. I've worked in our corporate environmental  
12 department.

13 Q How many plants are 70 years old, to  
14 your knowledge today, in the constellation of AEP?

15 A I believe our oldest coal unit today is  
16 69 years old, and that's the Glen Lyn Unit 5 in  
17 Virginia.

18 Q Have there been units retired earlier  
19 than 69?

20 A Yes.

21 Q How many?

22 A I mean, going back over AEP's history, I  
23 don't have a sense, you know, for units that were  
24 built in the early part of the last century.

25 Q Can Mis -- Mr. Weaver testified to that?

1           A       Mr. LaFleur will have more information  
2 on it. Again, I don't know how far back in time, but  
3 --

4           Q       Absent any other testimony, the  
5 president's press conference and his leading out of  
6 form of going forward with the carbon emissions, et  
7 cetera, could a 70-year-old plant meet those, in your  
8 opinion?

9           A       Well, we don't have any -- any --

10          Q       I know --

11          A       -- specifics --

12          Q       -- you don't have any.

13          A       -- at this point.

14          Q       You're close to it. Do you believe  
15 your -- the 70-year-old plants be able to meet those  
16 standards?

17          A       I'm not sure how to answer it. There  
18 are no standards proposed --

19          Q       I know there's --

20          A       -- at this time --

21          Q       -- no standards.

22          A       -- so I really don't know what to  
23 compare a plant and whether it's 70 or 60 or 50,  
24 because we have no -- no specifics at this time. All  
25 we have, from what the president announced, is a

1 schedule --

2 Q Could --

3 A -- that EPA is to follow.

4 Q Could they be operating at the  
5 60-percent capacity standard Mr. Wohnhas mentioned?

6 A I think it could, but, you know, I can't  
7 say for sure. You know, part of it is the physical  
8 condition of the equipment, and Mr. LaFleur can  
9 address that.

10 CHAIRMAN ARMSTRONG: Okay. Questions?

11 VICE-CHAIR GARDNER: Thank you.

12 CHAIRMAN ARMSTRONG: Vice Chair.

13 VICE-CHAIR GARDNER: Thank you, sir.

14

15 \* \* \*

16

17 EXAMINATION

18

19 By Vice-Chair Gardner:

20

21 Q Mr. McManus, how long have you been in  
22 the dealing with environmental issues with AEP?

23 A I've worked for almost 36 years now in  
24 our environmental organization.

25 Q Okay. Why -- were you involved in the



1 decision to scrub Mitchell ra -- the Mitchell units  
2 rather than Big Sandy?

3 A I was involved in the process to  
4 evaluate the requirements that existed at the time  
5 that drove those decisions and -- and to sort of  
6 evaluate where the most cost-effective reductions  
7 would occur.

8 Q And so did the company determine,  
9 company meaning American Electric Power, determine  
10 that it was more cost effective to scrub the Mitchell  
11 units than it was Big Sandy?

12 A In effect, the -- the regulatory program  
13 that we are under, and I mentioned it before, the  
14 Clean Air Interstate Rule, as well as the underlying  
15 acid rain allowance program that went into effect in  
16 1995 provide flexibility in -- in that you don't have  
17 to meet a specific limit at a specific unit as long as  
18 your total emissions are within the allowances that  
19 you hold.

20 And so it provides the opportunity to  
21 look for where the most cost-effective reductions  
22 would occur, and -- and as part of that process that  
23 the Company went through a decade ago to evaluate  
24 that, the -- the cost effectiveness controls at  
25 Mitchell was better than at Big Sandy plant.

1           Q     Okay. Did -- did you provide any cost  
2 data to Mr. Weaver for any sort of retrofits that  
3 might be required, any sort of environmental retrofits  
4 that might be required on Mitchell units?

5           A     Yeah. I did not provide the cost  
6 information. The process that -- that we go through  
7 is through -- to try and anticipate what new  
8 environmental requirements might go into effect and  
9 what they might require, and so that the organization  
10 I'm in provides input on that as we look at, you know,  
11 if EPA proposes a new regulation, to evaluate what  
12 that might require.

13                     We'd then work with our engineering  
14 organization and our projects organization to evaluate  
15 what technologies might be available to meet new  
16 limits and what the cost of those technologies would  
17 be, and it's that information that ultimately is -- is  
18 provided to Mr. Weaver.

19           Q     Okay. Well, let me be specific then.  
20 With respect to the model that Mr. Weaver used, my  
21 understanding from what you just said is you didn't  
22 provide the cost data for him for potential retrofits.  
23 Is that a fair statement? You were --

24           A     That's correct.

25           Q     Okay. So -- but my understanding is you

1 would have told him what potential areas or retrofits  
2 might be needed on the Mitchell units; is that  
3 correct? Or you would have told the next group, the  
4 engineering group, to develop numbers with respect to  
5 that; is that --

6 A Right. So -- so the -- it's sort of a  
7 collaborative process. First my group would identify  
8 what the new requirement is. Does it require, you  
9 know, water treatment technology? Does it require you  
10 to -- to eliminate an ash pond?

11 Q Okay. Let me -- let me stop you there.

12 A Okay.

13 Q So what -- what -- in that process,  
14 because you know they're going to be modeling the  
15 costs of Mitchell, so what -- what environmental  
16 retrofits did you communicate they should model or  
17 that -- that the next step should get costs for -- for  
18 this -- for the models that he used for this case?

19 A The -- and -- and -- and this is done  
20 for -- across the fleet. It's not just at Mitchell  
21 plant as we evaluate the impact of, you know, rule by  
22 rule on any of our coal units and then develop cost  
23 information. So the cost information that Mr. Weaver  
24 has for Mitchell comes from a broader effort that  
25 looks at -- at the whole fleet.

1 Q Okay. So is there anyone here who would  
2 testify as to what those cost figures were, who  
3 developed those cost figures fleet-wide that then Mr.  
4 Weaver's group could pick out the specific --

5 A Yeah.

6 Q -- costs?

7 A I think Mr. Walton, who's in our  
8 projects group, would be closest to the actual  
9 development of the costs.

10 Q Okay. The -- did -- let me ask this:  
11 Are there -- in the -- in the -- the consent -- the  
12 2007 New Source review consent decree for AEP, are  
13 there any penalties for failure to comply with the  
14 consent decree as modified originally? Are there  
15 penalties?

16 A Yes, there are.

17 Q And what are -- tell me what those  
18 penalties are.

19 A I don't have the specifics of them with  
20 me now, but there is an entire section of the consent  
21 decree that identifies what those penalties would be.

22 Q Are they per-day fines?

23 A They're probably per-day fines, but just  
24 stepping va -- back from that. The -- whether it's  
25 under the consent decree or whether it's under the

1 MATS rule or another environmental requirement, most  
2 of the environmental statutes are structured so that  
3 there are fines associated with noncompliance. We  
4 don't look at that in terms of making --

5 Q No.

6 A -- decisions.

7 Q But I'm asking -- I understand that, but  
8 I'm asking you the question then. Do you know if AEP  
9 continued to operate Big Sandy 2 past April 15th,  
10 2015, what the penalty would be if -- in other words,  
11 if it didn't do either, you know, plan to shut it down  
12 or retrofit with a -- and I know it's too late to try  
13 to get that completed now, but if it -- if it  
14 continued to operate, do you know what that fine would  
15 be?

16 A I don't know the specific number, but I  
17 mainly don't know it because we won't operate out of  
18 compliance.

19 Q Okay. What -- what I'd like is I'd like  
20 the -- the fines per day, that schedule, I guess, from  
21 the consent decree, and then I'd also like the fines  
22 that EPA would -- so we're looking at just MATS, 2015,  
23 if -- if Big Sandy continued to operate, what the  
24 fines EPA would -- would -- would render against  
25 Kentucky Power for continuing to operate. Okay. Is

1 that --

2 MR. OVERSTREET: And would you want any  
3 other sort of penalty or enforcement action such as an  
4 injunction to shut the --

5 VICE-CHAIR GARDNER: Sure.

6 MR. OVERSTREET: -- plant down or --

7 VICE-CHAIR GARDNER: Sure, but I'm most  
8 interested in the penalties. But yes, the injunction  
9 as well.

10 A Yeah, and that -- and just in general --  
11 and -- and one reason I say we -- we really don't look  
12 at the fines aspect of it. Typically, environmental  
13 statutes also have provisions that if you knowingly  
14 and willfully operate in violation of environmental  
15 requirements, it's a criminal offense.

16 Q Okay.

17 A And --

18 Q If you could put that in --

19 A So it's just not --

20 Q -- there --

21 A -- our approach.

22 MR. OVERSTREET: We'll give you a --

23 Q Okay. I mean, we hear, you know, rumors  
24 of a million a day, but -- but that may be small  
25 compared to you going to jail, right?

1           A     A fair amount of compliance data goes to  
2     EPA under my name, so that's --

3           Q     Okay.

4           A     -- absolutely an incentive.

5           VICE-CHAIR GARDNER:   Okay.   So if we  
6     could just get that, that would be helpful.

7           MR. OVERSTREET:   We'll -- we'll give a  
8     full parade of horrors.

9           Q     Okay.   You indicated that -- do you know  
10    what day or what year Congress or the Senate didn't  
11    act on cap and trade?   Is that 2011 or 2010?   Do you  
12    remember?

13          A     I think it was 2010.

14          Q     Okay.   So earlier you indicated that --  
15    that you-all, when you were looking at this, you  
16    looked at what the legis -- you were looking at it  
17    from a legislative point of view, but certainly since  
18    2010, everybody assumes that no legislation will be  
19    coming, so I assume AEP has been looking at it from  
20    what EPA might do.   Is that a fair statement?

21          A     We're starting -- I mean, we're -- we're  
22    clearly thinking about that, but, again, without a  
23    specific proposal -- and even in conversations we've  
24    had with EPA, I mentioned the stakeholder meeting in  
25    February of 2011, there has not been information or

1 details on what approach they're thinking of taking.  
2 So that -- that makes it difficult to try and model  
3 something different, so that's why we continue to use  
4 the --

5 Q And I don't doubt --

6 A -- model pricing.

7 Q And I don't doubt that, but -- but you  
8 certainly knew since 2010 that it wasn't going to be  
9 Congress?

10 A Yeah. Pretty reasonable that -- that  
11 you knew once they -- they missed that opportunity.

12 Q Okay. The -- now, was -- was the  
13 Mitchell -- were the Mitchell units included in the  
14 consent decree?

15 A Yes.

16 Q Okay. Are the -- are the Mitchell units  
17 in compliance with the consent decree?

18 A Yes, they are. I be -- yeah. That --  
19 yeah. That the requirement in the consent decree --

20 Q The -- the original --

21 A -- was --

22 Q -- consent decree?

23 A The original consent decree was to  
24 install -- have scrubbers, have FGDs installed and  
25 SCRs the -- installed by the end of 2007 on one unit,



1 and the end of 2009 -- or the end of 2008 on the  
2 second unit, and -- and those -- that equipment is  
3 installed, it is in compliance with the consent  
4 decree, and the modification from earlier this year  
5 did not change that requirement.

6 Q Okay. So -- so there -- at least with  
7 respect to the consent decree, you can give assurance  
8 to Kentucky customers that those Mitchell units are in  
9 compliance with the 2007 consent decree?

10 A Yes. As long as we continue to operate  
11 that equipment, which is, obviously, our plan.

12 Q Okay. And -- and one of the reasons why  
13 you know is the consent decree didn't measure output,  
14 unlike the MATS rule, did it? It just required  
15 particular technology to be installed. It didn't say  
16 how much mercury or how much sulfur. Isn't that  
17 correct?

18 A That's correct, on a unit-by-unit basis.  
19 So the --

20 Q Okay.

21 A -- technology requirements per unit for  
22 the eastern AEP coal plants, there is a total cap on  
23 SO2 and NOx emissions year by year. So that as long  
24 as we operate all of those units within that cap, then  
25 we meet the -- you know, sort of the -- the emissions

1 metric, but unit by unit, it's just a technology --

2 Q The emissions -- the -- the -- the  
3 eastern part of the United States, the total emissions  
4 was part of the consent decree?

5 A For AEP's units and -- and what we  
6 consider our eastern fleet.

7 Q Okay.

8 A Yes.

9 Q And -- and tell me again on Mitchell  
10 when the FGD was installed.

11 A I believe the end of 2007, they were in  
12 operation.

13 Q Okay. The SCR was installed?

14 A By the end of 2008.

15 Q Okay.

16 A I'm not sure the exact dates they went  
17 into service, but -- but those were the deadlines.

18 Q Okay. Why did -- when -- when you-all  
19 came in here last year for your proposal for an FGD on  
20 Big Sandy, why did you-all propose a dry FGD rather  
21 than a wet? Because isn't -- isn't the -- Mitchell's  
22 a wet FGD?

23 A Mitchell is a wet FGD. That's correct.

24 Q Okay. So why did -- when you-all came  
25 in with the Big Sandy, why did you propose a dry FGD

1       rather than a wet?

2               A       And I can give you sort of a general  
3       level of my understanding. Mr. Walton was involved in  
4       that actual technology evaluation, but in -- in the  
5       time period from when we made initial decisions on the  
6       scrubbers for Mitchell, Mountanier, and Amos, we  
7       applied essentially that same technology for those  
8       units, and the best technology for high SO2 removal  
9       efficiency on higher-sulfur coals was a wet FGD.

10               Since that time period, technology --  
11       dry scrubber technology has advanced, and the -- to --  
12       from a technology that used to be mostly applicable of  
13       -- to very low-sulfur coals to the -- the technology  
14       we proposed for Big Sandy that could be used on a  
15       higher-sulfur coal.

16               There are advantages to a dry technology  
17       over wet technology just in terms of the amount of  
18       water you use and -- and things like that. So  
19       that's -- that's my understanding of it was technology  
20       development over time that led to what we thought was  
21       a better technology choice.

22               Q       Okay. I think what you said in your  
23       testimony about the -- the MATS rule is -- is  
24       consistent with your answers to questions from  
25       commission counsel about MATS, where your testimony

1 you talk about -- you don't say it -- it is in  
2 compliance or will be in compliance with MATS, you say  
3 it's expected to be.

4 And so, as I understand your testimony,  
5 you-all are going to ins -- install continuous  
6 emission monitors on -- on the two mish -- with  
7 respect to mercury and particulate matter; is that  
8 right?

9 A We'll be installing a form of a  
10 continuous monitor for mercury. The compliance method  
11 for particulate under the MATS rule allows us to do  
12 periodic stack tests, just a short-term stack test.

13 Q With respect to particulate matter?

14 A For particulate matter.

15 Q Okay.

16 A And our current plan is -- is to -- to  
17 perform stack test. We've had a stack test  
18 requirement at most of our plants going back, you --  
19 you know, literally decades for some units, because  
20 we've had particulate limits in place, you know, going  
21 back to the 1970s. So we understand stack -- stack  
22 testing methodology. We understand its cost.

23 That's the basis for particulate data at  
24 Mitchell, and -- and these are compliance tests that  
25 we have to submit to state agencies. We plan to use

1 stack tests for particulates going forward in a  
2 monitor for mercury.

3 Q Okay. And so this is -- we're in July  
4 of 2013. You -- if the continuous emission monitor  
5 for mercury is ins -- is installed, and it -- it shows  
6 that -- that mercury -- that there's not enough  
7 mercury being removed or it doesn't meet the MATS  
8 deadline, what will you-all do?

9 A There may be some things that we can do  
10 with the -- the operation of the scrubber itself. I  
11 indicated that the mercury removal essentially occurs  
12 primarily in the scrubber itself.

13 So there may be some -- some things we  
14 can do to try to enhance that mercury removal that  
15 are -- are, you know, low sort of capital-intensive  
16 approaches, 'cause we wouldn't have time, you know, to  
17 do a large capital project at that point.

18 Q Okay. Have -- have you-all asked -- so  
19 short of that, I mean, you would have to shut it down  
20 until you com -- were in compliance, right? Because  
21 of the fines and things you just talked about.

22 A We may -- we might have to shut it down.  
23 We might be able to just short of curtail operation a  
24 little bit, so you're not operating at full load. You  
25 may get better mercury removal at lower load.

1                   If we thought we needed more time for  
2                   technology installation, we could discuss with West  
3                   Virginia an extension of the April 2015 compliance  
4                   deadline.

5                   Q       But you haven't talked to them to get an  
6                   ex -- extra year at this point?

7                   A       Not for Mitchell, 'cause we don't  
8                   believe that -- that we need it.

9                   Q       Okay. The -- do you expect to incur the  
10                  cost for the emission monitors in this calendar year?

11                  A       I'm not sure on that. Mr. Walton may  
12                  have a better sense of -- of the schedule for that,  
13                  but we may start to see some of that cost this year.

14                  Q       Okay. Do you know what the cost is?

15                  A       I do not.

16                  Q       Who would know that?

17                  A       It's -- we might have to check that, but  
18                  Mr. LaFleur and Mr. Walton might have a better sense  
19                  than I do or we may need to check that for you.

20                  Q       Okay. Let me go to another rule.  
21                  Current -- and this is the transport rule, basically.  
22                  CAIR, CSAPR.

23                  A       Uh-huh.

24                  Q       Currently, CAIR is in effect; is that  
25                  right?

1 A That's correct.

2 Q Okay. And -- and does -- is -- is  
3 Mitchell in -- I know this is not a -- necessarily a  
4 unit by unit, but -- but do -- do you expect any  
5 issues with respect to CAIR at Mitchell?

6 A No. None at all.

7 Q Okay. And what about the -- I mean, the  
8 Supreme Court has taken cert on the CSAPR. What --  
9 what would be -- would -- would Mitchell need any  
10 additional retrofits if CSAPR were implemented?

11 A When we were looking at CSAPR, before it  
12 was stayed and then vacated and evaluated what  
13 additional reductions we might need, we did not  
14 identify anything at Mitchell plant.

15 The -- the CAIR program and the CSAPR  
16 program are aimed at sulfur dioxide and nitrogen oxide  
17 emissions from -- from power plants. So Mitchell with  
18 the scrubber, with the SCR, has really the best  
19 technology that you can use to address that.

20 So -- so we are fairly confident that as  
21 EPA goes forward and decides what to do with CSAPR,  
22 if -- depending on the Supreme Court's review and  
23 things like that, that Mitchell is -- is  
24 well-positioned for those two emissions.

25 Q Okay. And my understanding is that EPA

1 missed -- since we're in the whole SO2 area, EPA  
2 missed a June 4 deadline on SO2. Are -- are you  
3 familiar with that? On whether to do a different --  
4 go to a one-hour standard or not.

5 A And I'm familiar with the issue.  
6 There -- EPA put in place a new ambient air quality  
7 standard for sulfur dioxide a few years ago based on a  
8 one-hour averaging period.

9 EPA in the states are still in the  
10 implementation process for that, and -- and -- and as  
11 part of that implementation process of identifying  
12 areas that attain that standard or -- or don't attain  
13 it, that -- that have air quality above that standard,  
14 I believe that might have been the deadline that --  
15 that's passed.

16 So they -- EPA in the states, since the  
17 standard was set, have been kind of struggling with  
18 how that implementation process is supposed to work,  
19 and so it's taken longer than -- than originally  
20 intended.

21 Q Do you -- is Mitchell in compliance --  
22 would it be in compliance with that?

23 A The -- the way an ambient standard  
24 works, that that's an air quality standard not at a  
25 stack, but, you know --



1 Q Let me --

2 A -- where people are.

3 Q Let me ask you. As a result of -- if  
4 that is implemented or finally implemented, would  
5 there be any additional controls that AEP would need  
6 at Mitchell?

7 A We don't think so, because it has a very  
8 high efficient -- high-removal efficiency scrubber  
9 already installed. Its SO2 emissions are very low.

10 Q Okay. Let me ask about the NAAQS PM2.5.  
11 Does Mitchell need anything for that?

12 A We don't think so for that as well. As  
13 EPA has been implementing that air quality standard,  
14 it's really the CAIR rule and the CSAPR rule that was  
15 a mechanism to address PM2.5, from an interstate  
16 transport basis, that sulfur dioxide and nitrogen  
17 oxides in the atmosphere to convert to particulates,  
18 and it gets measured in PM2.5.

19 So, again, with the level of SO2 and NOx  
20 control we have at Mitchell plant, we believe it's  
21 well-positioned for that standard as well.

22 Q Okay. Were -- with respect to -- and I  
23 know you mentioned 316 B before. Were those costs  
24 modeled? Potential additional costs of 316 B modeled.

25 A Yes, there were. The -- the Mitchell

1 units have what's called closed-cycle cooling. They  
2 have cooling towers already.

3 The 316 B proposal that EPA issued has  
4 requirements related to two aspects of -- of a cooling  
5 water system, and it requires what we believe may be  
6 an update -- an upgrade to the intake screens of that  
7 cooling water system. We included an estimate of the  
8 cost of updating the intake screens in the modeling.

9 Q And do you know what that cost was?

10 A I don't know the dollar specific.

11 Q Okay.

12 A I believe it may be in an exhibit in Mr.  
13 Weaver's testimony.

14 Q Okay. Likewise, I think you talked  
15 about the effluent limitations guidelines, which were  
16 those costs modeled as well?

17 A We took our best guess at what that --  
18 that new rule might require in terms of additional  
19 wastewater treatment technology at our plants, and we  
20 incorporated an estimate for that in the modeling as  
21 well.

22 Q Okay. What about coal combustion  
23 residuals? Were there any additional costs modeled  
24 for that?

25 A We -- we have evaluated that rule for

1 all of our units. At Mitchell -- and I think there  
2 was mention already to some ongoing project at --  
3 projects at Mitchell to convert the units to dry fly  
4 ash handling, to install a landfill.

5 Those are driven by the current water  
6 permit that the plant has, the MPDS permit, but those  
7 actions are the -- the very same actions that we  
8 anticipated we might have to do with the coal  
9 combustion residual rule.

10 So we're actually, in a lot of respects,  
11 ahead on the coal combustion residual with Mitchell  
12 because of work that's ongoing now at the plant.

13 Q What -- are there going to be more costs  
14 because there's a wet FGD rather than a dry?

15 A No. At Mitchell --

16 Q Not with res --

17 A -- the byproduct --

18 Q Not with respect to coal combustion  
19 residuals?

20 A No.

21 Q Okay.

22 A I don't believe so. Yeah.

23 Q Okay. There -- there's another rule  
24 proposed dealing with startup and shutdown issues.  
25 Are you familiar with the com -- the -- that issue?

1 A Yes.

2 Q Is AEP going to submit any comments on  
3 that or --

4 A Yeah. We plan to participate in that  
5 rulemaking.

6 Q Okay. Were any costs modeled for that?

7 A No.

8 Q Whi -- which -- with respect to the  
9 difference between a dry and a wet FGD, which -- which  
10 has higher maintenance costs? Which has higher O&M  
11 costs?

12 A I don't have a good sense for which  
13 might be higher.

14 Q Who would?

15 A Mr. Walton.

16 Q Now, on the consent decree, Rockport was  
17 allowed to use a dry sorbent injection for sulfur.  
18 Why -- why wasn't DSI proposed for Big Sandy rather  
19 than a dry FGD?

20 A The -- the main difference between Big  
21 Sandy Unit 2 and Rockport in that context is the  
22 existing electrostatic precipitators.

23 So as we look ahead at the requirements  
24 we have to meet, and we've talked about the  
25 particulate limit in the MATS rule, we would need a

1 technology that would allow us to meet not just the  
2 consent decree or a modified consent decree but allow  
3 us to comply with MATS.

4 Big Sandy's current particulate limit is  
5 about eight times higher than the new limit under the  
6 MATS rule. It -- the existing precipitator allows the  
7 unit to operate and comply with that limit, but it's  
8 not possible at all to meet the new MATS particulate  
9 limit with the existing precipitator.

10 Q So Big Sandy has an electrostatic pre --

11 A Yes.

12 Q -- cipitator? Does Rockport have an  
13 electrostatic --

14 A Yes, it does.

15 Q But -- so does Rockport not need to  
16 comply with MATS?

17 A It -- it -- it will need to comply with  
18 MATS, and -- and that's kind of where I was going. So  
19 the existing precipitator at Big Sandy cannot meet the  
20 MATS rule. We would have to replace it.

21 Rockport precipitators are much larger,  
22 they're -- they're more efficient, and it -- it goes  
23 to the timing of when those units were built, and the  
24 design of the precipitator is based on the coal that  
25 Rockport was going to burn.

1           So we can currently meet the MATS  
2 particulate limit at Rockport now with the existing  
3 precipitators, but at Big Sandy, we would have to  
4 replace them.

5           And then when you look at the other MATS  
6 requirements, having to install dry sorbent injection,  
7 activate a carbon for mercury, and you go down that  
8 path for Big Sandy 2, you end up at -- at a technology  
9 that's essentially very close to the -- the -- the dry  
10 NIDs technology that we proposed a year ago.

11           Whereas at Rockport, because of the  
12 existing precipitators, we can install dry sorbent  
13 injection. We can get some SO2 reduction and meet all  
14 the MATS requirements with the equipment that -- that  
15 is installed there now.

16           Q       In the 2011-401 case, there is an  
17 indication that O&M costs for -- for the dry FGD would  
18 be \$46 million. Are you aware of that?

19           A       No.

20           Q       And who -- who would have done that?

21           A       Mr. LaFleur might be aware of that. Mr.  
22 Walton might be the better witness --

23           Q       Okay.

24           A       -- for that.

25           VICE-CHAIR GARDNER: Okay. Thank you,

1 sir. Thank you.

2 MR. GISH: Just a couple, very short  
3 redirect, if you -- if you don't mind.

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REDIRECT EXAMINATION

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9 By Mr. Gish:

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11 Q Mr. Wohnhas -- I'm sorry. That's  
12 annoying. Mr. McManus, you have testified that the --  
13 the due date to either retrofit, refuel, retire, or  
14 repower the Big Sandy Unit 2 was December 31, 2015; is  
15 that correct?

16

A That's correct.

17

18 Q But the anticipated retirement date of  
19 Big Sandy Unit 2 is -- is before that, correct?

19

A That's correct.

20

21 Q And -- and what is driving the earlier  
22 anticipated retirement date of Big Sandy Unit 2?

22

23

A It's -- would be the MATS compliance  
24 deadline.

24

25

Q And you testified, in response to  
25 questions by -- by Mr. Nguyen, regarding the Company's

1 2022 carbon -- the start of their carbon price; is  
2 that correct?

3 A Yes.

4 Q And you also testified regarding the  
5 schedule that EPA has proposed for proposing rules --  
6 or sorry. Guidelines, then the state to implement  
7 those guidelines through revised SIPS under existing  
8 source greenhouse gas regulations; is that correct?

9 A Yes.

10 Q And do you -- do you anticipate or --  
11 that the -- the timeline -- or how do you anticipate  
12 the timeline of rules being implemented through the  
13 state implementation plans in any compliance per --  
14 time period lining up with the 2022 carbon date?

15 A That -- it -- it's difficult, you know,  
16 to -- to project, because there's a lot of  
17 uncertainty, but the schedule that I described that  
18 President Obama had in his memorandum to the EPA would  
19 require the states to submit their state  
20 implementation plans to EPA by the end of June 2016.

21 EPA will then have to approve those  
22 plans, and if that's -- all the states actually can  
23 meet that schedule, EP will -- EPA will have 50 plans  
24 to approve, and that's going to be, you know, a  
25 challenge, I think.



1            Depending on what is required in those  
2 plans, typically, environmental programs that we've  
3 seen over the last 20 years or so that -- that are  
4 addressing the entire coal fleet or fossil plant fleet  
5 at the same time, there is an implementation schedule,  
6 because it just takes time to put new things in place.

7            So if these state implementation plans  
8 have any meaningful requirements, I think you would --  
9 I would expect to see some implementation period of  
10 some small number of years.

11           And so if you take, you know, middle of  
12 2016, add a few years to that, you're getting to, you  
13 know, the 2020, 20 -- 2021 time period, potentially,  
14 and that's not allowing for potential delays due to  
15 litigation or just the regulatory development process.

16           I think one example, if you look at the  
17 regional haze program that EPA has put in place  
18 that -- that had requirements for states to have their  
19 SIPS in place a number of years ago, and EPA is still  
20 working with some states on finalizing those plans  
21 well past the original schedule that everyone  
22 anticipated, just because it's taken a lot longer than  
23 people thought.

24           Q        And -- and one -- one final question.  
25 You were -- were asked questions about whether or not

1 the -- you could be absolutely certain that the  
2 Mitchell plants would be compliant with the MATS  
3 requirements when they go into effect in 2015.

4 Do you have any reason to believe that  
5 the Mitchell plant will -- will not be in compliance  
6 on 2015?

7 A No.

8 MR. GISH: All right. No further  
9 questions.

10 MR. NGUYEN: No further questions, Your  
11 Honor.

12 CHAIRMAN ARMSTRONG: Thank you, Mr.  
13 McManus.

14 THE WITNESS: Okay. Thank you.

15 MR. OVERSTREET: Mr. Chairman, may Mr.  
16 McManus be excused?

17 CHAIRMAN ARMSTRONG: He may.

18 MR. OVERSTREET: And our -- if the  
19 Commission wants to proceed, our next witness is Karl  
20 R. Bletzacker, and Mr. Gish will present him also.

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1                   KARL R. BLETZACKER, called by Kentucky  
2 Power Company, having been first duly sworn, testified  
3 as follows:  
4

5                   DIRECT EXAMINATION  
6

7 By Mr. Gish:  
8

9                   CHAIRMAN ARMSTRONG: Have a seat. Speak  
10 up loud and clear. Your name?

11                   THE WITNESS: My name is Karl  
12 Bletzacker.

13                   CHAIRMAN ARMSTRONG: And what do you do?

14                   THE WITNESS: I'm the director of  
15 fundamental analysis for American Electric Power  
16 Service Corporation.

17                   CHAIRMAN ARMSTRONG: How long have you  
18 done that?

19                   THE WITNESS: Almost ten years.

20                   CHAIRMAN ARMSTRONG: And why are you  
21 here?

22                   THE WITNESS: I'm here to represent the  
23 Company's long-term North American energy market  
24 forecast.

25                   CHAIRMAN ARMSTRONG: Your witness.

1 MR. GISH: Thank you, sir.

2 Q Mr. Bletzacker, did you have cause to be  
3 filed in this case direct testimony, rebuttal  
4 testimony, and responses to data requests?

5 A I did.

6 Q And do you have any corrections to your  
7 direct testimony, rebuttal testimony, or any data  
8 requests?

9 A I do not.

10 Q If I were to ask you the same questions  
11 today that are included in your direct testimony and  
12 rebuttal testimony, would you give the same answers?

13 A Yes, I would.

14 MR. GISH: Thank you. Mr. Chairman, the  
15 witness is available for cross-examination.

16 MS. HANS: No questions, Your Honor.

17 MR. NGUYEN: Yes. Just a few. Thank  
18 you.

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## CROSS-EXAMINATION

1  
2  
3 By Mr. Nguyen:  
4

5 Q Good afternoon, Mr. Bletzacker.

6 A Good afternoon.

7 Q Can you refer to page 9 of your rebuttal  
8 testimony, lines 3 through 12? Just let me know --

9 A Yes. I'm there.

10 Q -- when you're there.

11 A I'm there.

12 Q Okay. Based upon this part of your  
13 testimony, you -- I think you've stated that you've  
14 reran the Aurora model and updated certain projection  
15 of commodity prices; is that correct?

16 A That's correct.

17 Q Okay. And those updated projections of  
18 the commodity prices were based on the EIA annual  
19 energy outlet for 2013; is that correct?

20 A That is correct.

21 Q Okay. And in your testimony, as well as  
22 responses to data requests in this proceeding, you  
23 stated that there was not a need to update the AEP  
24 fundamental forecast; is that correct?

25 A That's correct.

1           Q     Okay.  Would you consider the analysis  
2 discussed in your rebuttal testimony as an update to  
3 the AEP fundamental forecast?

4           A     Absolutely not.

5           Q     Okay.  And why not?

6           A     This was a -- a response to I believe it  
7 was Mr. Hayet's ala carte forecast that involved some  
8 parts of an -- of an EIA forecast, some parts  
9 involving futures, some parts involving just oth --  
10 other sources.

11                     We wanted to propose the notion or to  
12 prove the notion that when you take the EIA forecast,  
13 adjust it for the things that it doesn't include, it's  
14 so important to note that the EIA forecast doesn't  
15 include things that -- or -- or it's based on the  
16 assumption that laws and regulations remain unchanged.  
17 So there is no CO2 in the EIA forecast.

18                     So in order to adjust the EIA forecast  
19 for something such as CO2 or -- or anything else,  
20 these -- these adjustments need to be made.

21                     Of course, those are made based on  
22 elasticities and other things that we have identified  
23 in our -- in our proposal.  But it is certainly a  
24 modification of the EIA forecast, not the AEP's  
25 fundamentals forecast.

1 Q Okay. And can you refer to Commission  
2 staff's data request 4-2? It's Attachment 1. And  
3 that was an update to, actually, Mr. Weaver's exhibit  
4 SCW 3 to his original direct testimony. That updated  
5 all of the data inputs that you had developed.

6 MR. GISH: Mr. Nguyen --

7 Q That was --

8 MR. GISH: -- can you repeat the -- the  
9 date --

10 MR. NGUYEN: Sure. It's staff data  
11 request 4-2, Attachment 1.

12 MR. OVERSTREET: You wouldn't have an  
13 extra copy, would you, Mr. Nguyen?

14 MR. NGUYEN: Yes, I do.

15 MR. OVERSTREET: Thank you.

16 A 4-2, Attachment 1.

17 MR. HOWARD: Hold on for -- where was it  
18 in the record?

19 MR. NGUYEN: Kentucky Power responses to  
20 Commission staff's fourth data request, item number 2,  
21 Attachment 1.

22 MR. HOWARD: Okay.

23 A I believe, Mr. Nguyen, I have that in  
24 front of me now.

25 Q Okay. And I'm just going to ask you

1 some general questions with respect to this.

2 This is an update to Mr. Weaver's  
3 exhibit SCW 3 that contained your -- or the data  
4 assumptions that were initially ran by Mr. Weaver's  
5 group; is that correct?

6 A It's correct that I created a new  
7 long-term North American energy market forecast for  
8 Mr. Weaver's use in this rebuttal.

9 Q Okay. And -- and -- and this attachment  
10 is it?

11 A Yes.

12 Q The updated long-term North American  
13 fundamentals forecast?

14 A Yes. That's part of it. Correct.

15 Q Okay. And you -- you talked about CO2,  
16 but it all -- it appears that CO2 in the coal price  
17 projections for both the North Ameri -- North  
18 American -- the -- the NAPP and the CAPP coal prices  
19 have not changed; is that correct?

20 A I want to make sure I understand your  
21 question. Your question is had -- was CO2 values  
22 changed or you were --

23 Q Have not --

24 A -- interested in the changing of the  
25 pri -- of the coal prices?



1 Q That it appears that both the prices for  
2 CO2 as well as prices for coal have not changed?

3 A That's correct.

4 Q Okay. Okay. Can we go back to page 9  
5 of your rebuttal testimony?

6 A Yes. I'm there.

7 Q Scratch that. Let me -- let me --  
8 strike that for now.

9 Let's get back to -- to -- to -- to --  
10 to this attachment. Can you explain why CO2 prices as  
11 well as the price for coal projections were not  
12 changed when you updated the long-term commodity price  
13 forecast scenarios?

14 A Well, the purpose of this rebuttal was  
15 to -- to make appropriate changes to the EIA forecast  
16 to include things that it inherently doesn't include.  
17 I stated before it doesn't include provisions for  
18 reasonably known and upcoming regulations.

19 So we chose to change the gas price  
20 forecast as amended by the existing elasticities that  
21 the EIA gave for -- for gas price relative to demand,  
22 and there was -- there was not a need to change CO2  
23 prices or a need to change coal prices accordingly.

24 All these factors are certainly  
25 inextricably linked. There are changes in demand that

1 are related to fuel prices, and there's a change in  
2 demand related to a change in -- in gas price, but  
3 there was no need to make those changes.

4 Q Okay. And I'm trying to sort of  
5 understand the reasons why for the CO2 prices  
6 remaining constant, but I'm still not having a clear  
7 understanding as to why the coal prices didn't remain  
8 constant or -- or the reasoning behind that.

9 A I think it's probably best to step back  
10 and -- and say what -- look at what the purpose of  
11 this -- this -- this run was.

12 This run would probably best be  
13 identified as -- as -- as a -- as a sensitivity, as a  
14 change of parameters, ones that we could easily  
15 follow, in order to yield a result that then could be  
16 compared to Mr. Weaver's analysis of the -- of the --  
17 the various options, and -- and with a change of gas  
18 prices, there was -- there was really no change in  
19 the -- in the results of our -- of our -- of his  
20 analysis.

21 Q Okay.

22 A So there -- there wasn't a need to -- to  
23 make those changes. I would suggest -- I guess that an  
24 offering would be would you -- why wouldn't you  
25 include the coal prices of the EIA? But there --

1 there -- there is -- was not a need to do this,  
2 because this was a sensitivity analysis.

3 Q Okay. Did the EIA outlook for 2013 have  
4 prices for -- coal price projections for both NAPP and  
5 CAPP?

6 A Yes.

7 Q Okay. But you didn't update your  
8 projections based upon those that were provided in the  
9 EIA outlook 2013?

10 A And please be -- please understand that  
11 I'm uncomfortable referring to those as an update.  
12 That's the EIA -- EIA's forecast of those commodities.  
13 Our view of the commodities is based in our -- can be  
14 found in our long-term projection.

15 This particular rebuttal was a  
16 sensitivity based on gas prices and other things but  
17 didn't include coal --

18 Q Okay.

19 A -- or CO2.

20 Q Okay. Okay. Okay. Now -- now, can you  
21 refer to page 9 of your rebuttal testimony, at line  
22 11? And, you know, you -- you described the price  
23 that the -- the revised price projection for -- for  
24 natural gas, on-peak energy, off-peak energy, and  
25 capacity as fitly joined.

1                   Can you elaborate on what you mean by  
2 when you say fitly joined?

3                   A       Well, fitly joined is -- I guess a  
4 similar term for that would be inextricably linked.  
5 So often we run into situations where a consultant  
6 will change one component of a forecast without  
7 looking at the appropriate changes in another.

8                   CO2 is a very good example.  Someone  
9 would like to impose a higher CO2 tax or value.  
10 Recognizing that that would impair some co -- some  
11 coal dispatch, would likely probably include some  
12 increase in gas dispatch, increased gas demand, that  
13 should probably increase some gas price.

14                   So these things are all inextricably  
15 linked or fitly joined such that you -- you need to  
16 keep in mind the -- the movements of all the -- all of  
17 the inputs.

18                   Q       Okay.  So based upon that testimony,  
19 prices for CO2 or -- or coal prices would not be  
20 considered to be inextricably joined with projections  
21 for natural gas, on-peak, off-peak energy as -- and --  
22 and capacity.  Is that your testimony?

23                   A       Well, the testimony is that this was a  
24 scenar -- a sensitivity that made changes to rebut the  
25 testimony of Mr. Hayet, and that the -- the components

1 or the inputs to that forecast were -- were adjusted  
2 accordingly, but we did keep the coal prices and  
3 carbon prices the same -- or the coal prices and CO2  
4 prices the same.

5 Q Okay. So in your view, you did not see  
6 any need to adjust the coal prices or the CO2 prices,  
7 because it wouldn't impact the results of the modeling  
8 one way or the other?

9 A Well, a better way to look at that would  
10 be that we -- we felt it important to leave the coal  
11 prices where they were, so transparency of the process  
12 here, rather than have one more variable of change  
13 to -- to see the difference.

14 And there -- there are reasons why a  
15 coal price, for instance, could stay the same when  
16 another component changes. So you may have depressed  
17 coal demand. You'd expect -- expect depressed coal  
18 prices. However, you may have some exports of coal at  
19 the same time.

20 So it's not a violation of something  
21 being fitly joined if a price stays the same, but for  
22 the transparency of this testimony, they were -- they  
23 were left the same.

24 Q Okay. Can you refer to your rebuttal  
25 testimony at page 10, lines 2 through 3? And you

1 state that Mr. Weaver's analysis, based upon  
2 Attachment 1, was based on, quote, balance prices,  
3 unquote.

4 Do you see that?

5 A Yes. The phrase is balanced outcome.

6 Q I'm sorry. It's -- it's that next  
7 sentence where it says, (Reading) These balanced  
8 prices were used to determine the intended energy  
9 capacity and other values utilized by the Company,  
10 Witness Weaver in his rebuttal testimony.

11 A I see that.

12 Q Okay. How could the price projections  
13 be considered balanced when some were updated and some  
14 were not?

15 A Well, this balance is referring to the  
16 EIA's view of elasticity. Elasticity means that they  
17 show a chan -- yearly change in price and a yearly  
18 change in, say, gas demand.

19 You can take from that yearly change in  
20 gas price and yearly change in gas demand that a very  
21 little increase in demand resulted in a very lar -- re  
22 -- would result in a very large increase in gas -- in  
23 gas price.

24 It's a very objective thing. There's  
25 no -- nothing subjective about it. It's strictly

1 mathematics on their tables.

2 And by making the gas price be adjusted,  
3 by having the -- by adjusting the gas price according  
4 to changes in demand, according to changes in demand  
5 related to CO2, for instance, it's that balance that  
6 we're referring to, the balance of having supply and  
7 demand yield a price that is in keeping with the  
8 sources of you -- of -- of the fundamental analysis.  
9 In this case, the source would be the EIA.

10 Q Okay. But you kept the price of CO2 and  
11 coal prices constant.

12 A Well, certainly, the EIA didn't include  
13 anything relative to CO2, and for coal prices, I think  
14 it helps the analysis be much more transparent to see  
15 the moving pieces and parts more clearly, which is  
16 primarily natural gas prices.

17 Q Okay. So the focus was on natural gas  
18 prices rather than coal prices; is that correct?

19 A That was -- that was a major driver.

20 MR. NGUYEN: Okay. Give me one second,  
21 Your Honor.

22 Q So stated another way, and let me know  
23 if this is a fair characteriza -- characterization  
24 of -- of what your testimony has -- has been, is that  
25 changes in the projections of natural gas and power

1 prices will not have any effect on your projections of  
2 coal prices?

3 A Please state that again.

4 Q Sure. The changes that you've -- the  
5 revisions that you've made in the projections of  
6 natural gas and market prices of power would not have  
7 any effect on your projections of coal prices given  
8 that you kept the price of coal constant?

9 A The -- it is possible for them to have  
10 an effect, but in this analysis, they didn't.

11 Q Okay. When do you anticipate the AEP  
12 fundamental analysis and projections will be updated?

13 A Oh, we update those -- or I should -- I  
14 should say we review those, our fundamentals,  
15 constantly. We have a couple different advantages.  
16 We have access to some of the best consultancies in  
17 the United States, PIRA, CIRA, and Wood Mackenzie,  
18 that are providing us insight daily, if not -- if not  
19 hourly.

20 We certainly -- I work for the largest  
21 generator of electricity in the United States, one of  
22 the largest generators of electricity in the United  
23 States, and we have all sorts of in-house expertise.

24 So -- so we, you know, are -- are in a  
25 position to be comfortable with the forecast that we



1 have to date. When we see a chan -- long-term -- a  
2 change in long-term drivers, we will make that change.

3 But it's important to note that, using  
4 natural gas as an example, for each successive  
5 forecast since 2005, natural gas prices have lowered.  
6 Been lower.

7 So we've reached a point to where the  
8 threats to the upside of natural gas prices have  
9 really started to exceed those continued threats to  
10 the downside, and this is a point where there's really  
11 a pause. There's no change in long-term drivers, so  
12 we will come up with a long -- new long-term forecast,  
13 and those drivers justify the change.

14 Q Can you give me an example of what those  
15 drivers -- long-term drivers may be?

16 A Well, the ones that we're watching and  
17 looking for are those threats to the upside. We're  
18 looking for LNG exports. Good possibility there. The  
19 EIA even identifies some of those. We're looking for  
20 natural gas used for transportation.

21 There is the potential addition of cost  
22 to natural gas exploration and production due to maybe  
23 some environmental regulations, fracking groundwater  
24 regulations, and I'm sure that service companies and  
25 landowners in these new areas and these new booms were

1 probably extracting greater royalties and rents for  
2 the extraction of minerals on their property.

3 None of those are to the point to where  
4 it justifies a change today, but when they do, we will  
5 make that change.

6 Q Can you refer to your direct testimony  
7 at page 12? At lines 10 to 16.

8 A I'm there.

9 Q Okay. And this is where you state that  
10 '22 is the earliest reasonable projection as to when  
11 climate legislation could become effective; is that  
12 correct?

13 A That's what that states.

14 Q Okay. And we've just had a recent  
15 discussion with Mr. McMan -- McManus with respect to  
16 the president's speech on -- outlining his climate  
17 action plan. Do you not believe that the federal  
18 government may regulate carbon sooner than 2022?

19 A Well, again, I mentioned that one of  
20 the -- of the many advantages we have, working for AEP  
21 is certainly one of them, and I'm able to tap into the  
22 collective wisdom of Mr. McManus, policy folks and  
23 others, and I think that our view, our current view of  
24 2022 is -- is a reasonable view, and if we had an  
25 inclination that it could be earlier, we would have

1 done our analysis that way.

2 So the answer is no, we don't believe  
3 that there is a practical reason to do our long-term  
4 modeling at -- at an implement -- implementation time  
5 sooner than 2022.

6 MR. NGUYEN: Okay. Thank you, Your  
7 Honor. That's all I have.

8 CHAIRMAN ARMSTRONG: Questions?

9 VICE-CHAIR GARDNER: Thank you.

10

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#### EXAMINATION

14

15 By Vice-Chair Gardner:

16

17 Q Mr. Bletzacker, just a couple questions  
18 just following up on that.

19

20 So even though the -- the driver of --  
21 potential driver of carbon or CO2 price would be  
22 regulation at this point rather than legislation, and  
23 your testimony deals with legislation?

23

24

A I don't know that I intended a  
24 distinction between the two.

25

Q Okay. All right. That's fair. Were

1 you here during the testimony of Mr. Pauley yesterday?

2 A Yes, sir; I was.

3 Q Did you hear him mention your name?

4 A Yes.

5 Q Okay. So --

6 A I'm trained to do that.

7 Q Pardon me?

8 A I am trained to do that.

9 Q To listen for your name?

10 A Yes.

11 Q That's good. That's good. I like that.

12 So let me ask you the context in which  
13 your name was mentioned. If my notes are correct,  
14 when I asked him about Mr. Woolf's suggestion that AEP  
15 should have looked at a Waterford plant in Ohio, a  
16 gas-fired plant CT, and the Lawrenceburg plant in  
17 Indiana, and he referred those questions to me, as my  
18 notes indicate; is that correct?

19 A Well, if he did, I think that would  
20 probably be inappropriate. I'm here to represent the  
21 long-term North American long -- long-term energy  
22 forecast --

23 Q Okay.

24 A -- or market forecast.

25 Q Well, let me ask you this: What did he

1 mention your name for?

2 A I think it's to -- to caddy for him this  
3 Saturday.

4 Q Okay.

5 A I'm sorry. I don't recall.

6 Q Okay.

7 VICE-CHAIR GARDNER: Then let me ask  
8 counsel for AEP that I'd like to ask questions on this  
9 of some witness who's here.

10 MR. OVERSTREET: I think Mr. Gish could  
11 have a follow-up question that will hone a little more  
12 closely in on -- on what we understood the question to  
13 be, but if -- if beyond that, I would think that,  
14 perhaps, Mr. Munczinski would -- would be --

15 VICE-CHAIR GARDNER: Okay.

16 MR. OVERSTREET: -- an appropriate  
17 person.

18 VICE-CHAIR GARDNER: Okay. Go ahead.  
19 I'm sorry. So that's all I have for now.

20 CHAIRMAN ARMSTRONG: This witness, any  
21 other questions?

22 MR. OVERSTREET: I think Mr. Gish can  
23 help Vice-Chairman Gardner out, but -- to focus Mr.  
24 Bletzacker on a --

25 CHAIRMAN ARMSTRONG: Okay.

1 MR. OVERSTREET: -- particular issue.

2 CHAIRMAN ARMSTRONG: All right.

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REDIRECT EXAMINATION

7

8 By Mr. Gish:

9

10 Q Mr. Blet -- Mr. Bletzacker, the -- if  
11 I -- if I understand the -- the discussion, if I  
12 remember the discussion yesterday regarding the  
13 Waterford and Lawrenceburg plants, and the -- the --  
14 the ability of a natural gas plant to serve as a  
15 baseload generating unit for a winter-peaking facility  
16 such as Kentucky Power, what -- what potential  
17 concerns would you have regarding using a natural gas  
18 facility as a winter -- as a baseload unit for a  
19 winter-peaking facility like -- winter --  
20 winter-peaking utility like Kentucky Power?

21 A Yes. I'm with you. And Vice-Chairman  
22 Gardner, I -- I want to let you know I have bought  
23 natural gas for u -- for a utility for over 20 years,  
24 and there are two components to keep in mind.

25 Certainly is the firmness of the

1 transportation to go from source to sync, where you  
2 purchase the gas to where you deliver the gas to.

3 So with that firm transportation, you  
4 have a permanent path. You're in a -- and you're in a  
5 good position to make sure that you'll receive the --  
6 the gas that you've purchased.

7 When you don't have a permanent path,  
8 and especially if you're a winter-peaking utility, you  
9 run into the other health and human needs customers  
10 and, perhaps, other industrial customers that are also  
11 looking for natural gas at a peak time.

12 So for a winter-peaking utility, it is  
13 very difficult, unless you pay those demand charges,  
14 which means every day you will be charged for that  
15 space in the pipe. Those days you use it, you're  
16 happy to have it. Those days you don't use it, you  
17 need to find another home for that transportation.

18 You are -- you -- I guess we could say  
19 you're at risk when you use an interruptible  
20 transportation mode to get gas to a winter-peaking  
21 demand sour -- demand sync.

22 VICE-CHAIR GARDNER: Okay. Let me  
23 follow up with that.

24  
25

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## REEXAMINATION

1  
2  
3 By Vice-Chair Gardner:  
4

5 Q Specifically, does -- does AEP have any  
6 gas plants that are used for baseload generation that  
7 are winter-peaking?

8 A Well, I'd love to help you with that. I  
9 am just not as familiar with the AEP units as -- as  
10 you would think I would be.

11 Q Okay. Did -- were you -- was your input  
12 on this concern that you've expressed, did -- were --  
13 was your input requested as AEP was deciding not to  
14 use the Lawrenceburg and Waterford plants?

15 A My input was not requested relative to  
16 any unit disposition, but I have been -- I've received  
17 questions over time about the -- the risks that would  
18 be associated with using natural gas during  
19 winter-peaking times.

20 Q I mean, isn't that just a -- almost a  
21 national debate at this point --

22 A Yes, it is.

23 Q -- on this issue? Okay. And --

24 A Yes, it is.

25 Q -- is it -- okay. But -- but as it



1 relates to my narrow question about why did the  
2 Waterford and Lawrenceburg plants not be considered,  
3 you were not involved in that?

4 A No, sir. I'm sorry. I wasn't.

5 VICE-CHAIR GARDNER: All right. Thank  
6 you.

7 MR. GISH: We have no further questions,  
8 Your Honor.

9 CHAIRMAN ARMSTRONG: We're going to  
10 break for about a five to ten-minute break, but I want  
11 the counsels up here to chat with you for a minute.

12 MR. OVERSTREET: Absolutely.

13 MR. GISH: Absolutely.

14 CHAIRMAN ARMSTRONG: You're dismissed.  
15 I'm sorry.

16 COMMISSIONER BREATHITT: You want to go  
17 off?

18 (Recess from 4:07 p.m. to 4:26 p.m.)

19 MR. OVERSTREET: Mr. Chairman, the  
20 Company's next witness is Matt Fransen, and Mr. Garcia  
21 will present him.

22 MR. GARCIA: Thank you, Your Honor.

23 CHAIRMAN ARMSTRONG: Mr. Garcia.

24

25

\* \* \*

1 MATTHEW D. FRANSEN, called by Kentucky  
2 Power Company, having been first duly sworn, testified  
3 as follows:

4  
5 DIRECT EXAMINATION

6  
7 By Mr. Garcia:

8  
9 CHAIRMAN ARMSTRONG: Have a seat. Speak  
10 up loud and clear. Your name?

11 THE WITNESS: My name is Matt Fransen.

12 CHAIRMAN ARMSTRONG: And what do you do,  
13 Matt?

14 THE WITNESS: I am the director of  
15 strategic initiatives for AEP Service Corporation.

16 CHAIRMAN ARMSTRONG: And you are here to  
17 do what?

18 THE WITNESS: I am here as a rebuttal  
19 witness to address issues related to the net book  
20 value of the Mitchell plant relative to third-party  
21 transaction prices.

22 CHAIRMAN ARMSTRONG: Very well.  
23 Welcome.

24 THE WITNESS: Thank you.

25 CHAIRMAN ARMSTRONG: Your witness.

1 MR. GARCIA: Thank you, Your Honor.

2 Q Mr. Fransen, you've caused rebuttal  
3 testimony to be filed in this case that consists of 12  
4 pages of questions and answers and three exhibits?

5 A Yes, I did.

6 Q And these were prepared by you under  
7 your supervision?

8 A They were.

9 Q Do you have any corrections, deletions,  
10 or changes?

11 A I do not.

12 Q And you also submitted data responses to  
13 discovery requests from the parties?

14 A That is correct.

15 Q And to the best of your knowledge, the  
16 answers that you provided were true and correct?

17 A Yes.

18 Q If I were to ask you the same questions  
19 today, would you give me substantially the same  
20 answers?

21 A I would.

22 MR. GARCIA: Your Honor, Mr. Fransen's  
23 available for cross-examination.

24 CHAIRMAN ARMSTRONG: Thank you, Mr.  
25 Garcia.

1 MS. HANS: No questions at this time,  
2 Your Honor.

3 MR. NGUYEN: Just a few questions, Your  
4 Honor. Thank you.

5  
6 \* \* \*

7  
8 CROSS-EXAMINATION

9  
10 By Mr. Nguyen:

11  
12 Q Good afternoon, Mr. Fransen.

13 A Good afternoon.

14 Q Were you here yesterday?

15 A Yes, sir; I was.

16 Q Okay. I had asked Mr. Pauley a couple  
17 of questions, and he had deferred those to you.

18 A Okay.

19 Q Do you recall those?

20 A Yeah. I know -- I recall him --

21 Q Deferring some of those questions?

22 A -- directing a couple questions to me.

23 Q Okay. The first one was: Would you  
24 agree, given the current market of existing coal  
25 plants, that it is possible that the market value of

1 the Mitchell units could be less than the net book  
2 value?

3 A In -- in my opinion and based on the  
4 body of evidence that I've seen before me, I believe  
5 that in the instance of the Mitchell units, that  
6 they're not below their current net book value.

7 Q Okay. And when you say the body of  
8 evidence, what body of evidence are you referring to?

9 A Looking at Witness Weaver's Strategist  
10 analysis, and looking at the net book value of the  
11 Mitchell plant, and looking at the different options  
12 that Weaver -- that Witness Weaver ran through his  
13 analysis relative to that of a new build CCGT versus  
14 the market.

15 In both instances, the value of Mitchell  
16 was at least 300 to \$400 million more competitive than  
17 the market.

18 Q Okay. Any other analysis other than  
19 what's been relied upon that's been filed in the  
20 record on behalf of Kentucky Power?

21 A As far as analysis goes, in -- in my  
22 line of business and in -- and over ten years of doing  
23 valuation work, the best method of valuation for  
24 baseload plants or plants that produce a lot of  
25 energy, it's important to look at discounted cash

1 flow.

2 Previously today, people spoke about --  
3 there is dialogue about cumulative present worth or  
4 net present value. In my line of work, we call it a  
5 DCF or discounted cash flow.

6 So it's -- and because it's -- that's  
7 the most important and, perhaps -- or, in my opinion,  
8 the only appropriate valuation methodology for a plant  
9 such as Mitchell, that is the -- the only methodology  
10 that I -- that I would recommend here in this case.

11 Q Okay. And you said that the -- the  
12 methodo -- the methodology that was utilized in this  
13 case is similar or akin to a discounted cash flow  
14 analysis for Mitchell?

15 A Well, your -- your question was that the  
16 evidence presented in this case was a discounted cash  
17 flow analysis?

18 Q Yes.

19 A Yeah. While -- while not -- and while  
20 it wasn't used to develop an explicit market valuation  
21 for Mitchell, you could use Witness Weaver's  
22 Strategist analysis to arrive at the conclusion that  
23 the Mitchell market value is greater than its net book  
24 value.

25 Q Okay. And would that have to be a

1 different set of analysis that -- that needs to be  
2 run?

3 A No. No. You -- it's just pairing up  
4 the -- the sets of analysis. So if you looked at the  
5 net book value of \$536 million and then compared,  
6 running that option, the Mitchell portfolio option  
7 through the Strategist model, and compared that to a  
8 market option or a new build CCGT option, you could  
9 look at that -- the difference in those cumulative  
10 present worths, add that to the net book value, and  
11 that would imply the market value for the Mitchell  
12 units.

13 Q Okay. Does the discounted cash flow  
14 analysis account for the 42-year age difference of  
15 Mitchell versus a new build combined cycle unit?

16 A I'm not -- I'm -- I'm not aware of  
17 what -- what age assumptions were included in Witness  
18 Weaver's analysis.

19 Q Okay. Can you identify any transactions  
20 of power plants that have been made in the last two  
21 years that you would consider to be fair market value?

22 A Well, I'm -- I'm not aware of any  
23 comparable sales of plants that are -- plants that are  
24 comparable to the proposed Mitchell transfer.

25 Q Okay. And I know in your rebuttal

1 testimony at the very end, you said that there weren't  
2 any directly -- hang on.

3           You were asked -- and this is on page 12  
4 of your rebuttal testimony. You were asked: Are you  
5 aware of any recent coal plant transactions which were  
6 directly comp -- comparable to the Mitchell plant  
7 transfer, and your response was, no, that you were  
8 not.

9           Is that a correct --

10          A       Yeah, it's correct.

11          Q       -- accurate response?

12          A       I still stand by that --

13          Q       Okay.

14          A       -- response.

15          Q       And when you -- when you were asked  
16 to -- in terms of recent coal plant transactions, how  
17 recent were you going back?

18          A       I'd say two years or so.

19          Q       Okay. Did you go back any further than  
20 just two years? In the near term? Five, maybe seven  
21 years?

22          A       I'd have to go back and review data. I  
23 think through data requests, I had provided at least  
24 two years' worth of data.

25          Q       Okay.



1           A       At least back through beginning of 2012  
2       or 2011.

3           Q       Okay. So you provided that in response  
4       to a data request? Is that what you said? Is that  
5       what you -- you said?

6           A       Yes.

7           Q       Okay. And you were specifically asked  
8       just to provide that within the last two years?

9           A       I -- I believe a data request was -- and  
10       I -- and I may get this confused between the different  
11       West Virginia, Virginia, Kentucky cases, because I've  
12       responded to a lot of data requests.

13          Q       Okay.

14          A       But I believe a request may have been,  
15       "Please provide any -- any analysis that your group  
16       has -- has made available to AEP."

17          Q       Okay. Is there any significance in  
18       going beyond the two-year period?

19          A       Well, it's -- I mean, it sort of depends  
20       on your definition of -- of recent. I mean, to me,  
21       recent could be two years. You need to look at how  
22       the market's changed. If you want relevance for  
23       comparable valuations, you should be recent.

24          Q       All right. So I'm asking you in -- you  
25       know, based upon your -- your knowledge and -- and

1 background and market valuation, the mo -- the closer  
2 in time it is to a -- if you want to compare a  
3 transaction, the closer in time to that -- for that  
4 comparison would be more -- a better reflection of  
5 what the fair market value would be, correct, as  
6 opposed to a longer distance --

7 A I think --

8 Q -- in time?

9 A -- timing, among many other variables,  
10 can make a transaction more comparable to this  
11 proposed transfer.

12 Q Sure. Sure. And then when you say  
13 which -- you know, which are directly comparable to  
14 the Mitchell plant, are you -- directly comparable in  
15 terms of the age, size, environmental compliance  
16 projects? Those are all of the items that you will  
17 look in terms of directly comparable?

18 A And I believe I included within my  
19 rebuttal testimony an exhibit, MDF-2R. I probably  
20 listed out 30 different items, some other important  
21 ones, and ones that -- that we could address within  
22 some of the comparable -- or with some of the  
23 Intervenors proposed as comparable transactions.

24 It's -- it's important to review a  
25 transaction in that was it a bundle of assets of

1 varying quality, of varying environmental controls?  
2 In what manner was that -- may that portfolio have  
3 been sold in? Was the seller of the portfolio a  
4 willing seller? Who were the potential acquirers of  
5 that portfolio? What was the location of the  
6 portfolio? What was the age of the portfolio?

7 Back to location. What's the -- the  
8 distance that coal would have to travel? What ISO  
9 might you be in? Various factors like that.

10 Q Okay. Based on all those factors, won't  
11 that make a very complicated comparison? I mean,  
12 could you ever make a comparison as to fair market  
13 value based upon consideration of all of those  
14 factors?

15 A Well, looking -- looking at the three  
16 transactions that the Intervenors pointed to, I  
17 believe you can't make any comparable tran -- or any  
18 comparison to the Mitchell units.

19 Q But just in general, if you were just --  
20 I mean, those are a lot of factors that you would have  
21 to line up.

22 A And that's -- I mean --

23 Q That'd just make that comparable so  
24 difficult to -- to -- to do.

25 A I mean, it -- and as I started out in my

1 oral testimony, in my opinion, the only appropriate  
2 valuation methodology for baseload plants such as  
3 Mitchell is using a cash flow analysis.

4 Q Okay. And correct me if I'm wrong.  
5 Your opinion was that a cash flow analysis was done in  
6 this instance based upon the cumulative present worth  
7 modeling that was conducted by Mr. Weaver; is that  
8 correct?

9 A If I -- if I heard your -- your question  
10 correctly, there is evidence in this case supported by  
11 Witness Weaver as to the cash flow valuation for  
12 Mitchell.

13 Q Okay. Would an independent appraisal  
14 have been helpful to determine fair market value of  
15 Mitchell in this matter?

16 A I don't -- I don't believe we would have  
17 come to a different conclusion. I believe Mr.  
18 Weaver's analysis, in conjunction with the support of  
19 the other expert witnesses, put together a body of --  
20 of work that's representative of -- of the valuation  
21 or where a third-party valuation would have come.

22 Q Would it lend more credence to the  
23 analysis that was already conducted by -- internally  
24 conducted by Kentucky Power?

25 A Well, any -- anytime that -- that you --

1 you run through this type of process, and we come to  
2 the valuation that we've come to, it certainly adds  
3 credence for additional parties to confirm the same  
4 conclusion.

5 Q Was there any consideration of having an  
6 independent appraisal conducted for Mitchell in this  
7 instance?

8 A Yeah, I'm -- I'm not aware. I was  
9 brought into the process as a rebuttal witness.

10 Q Okay. Sure. Do you know how -- how  
11 much time and effort it would take for an independent  
12 appraisal to be conducted for Mitchell? Or just in  
13 general.

14 A I don't believe I've ever worked with an  
15 independent appraiser on the valuation of a baseload  
16 asset, so I would not be aware of how much time it  
17 would take.

18 MR. NGUYEN: Okay. Okay. Those are all  
19 the questions I have. Thank you.

20 CHAIRMAN ARMSTRONG: Questions?

21 VICE-CHAIR GARDNER: Thank you.

22

23 \* \* \*

24

25

## EXAMINATION

1  
2  
3 By Vice-Chair Gardner:  
4

5 Q Mr. Fransen, I have a few questions.

6 So currently, are the -- is -- is -- are  
7 the -- is the value of coal plants increasing or  
8 decreasing?

9 A It's a -- it's a tough question to --  
10 to --

11 Q You mean --

12 A -- answer in general. You know, the --  
13 one of the articles that an intervenor pointed to, I  
14 believe Witness Kollen, was a Wall Street Journal  
15 article that he relied upon to pull certain values for  
16 recently-traded bundles of assets.

17 The point of that article was that  
18 there's a lot of retirements in the US of coal plants,  
19 and that's going to make the supply side of the  
20 demand/supply equation tighter, thus driving up  
21 prices.

22 That -- I believe that -- the title of  
23 that article was Life After Death of Coal, and the  
24 point was that if, you know, these -- these private  
25 equity funds are coming in and -- and buying these

1 unregulated portfolios from regulated companies that  
2 were divesting of those unregulated merchant  
3 portfolios, that -- that they're buying low, and they  
4 may enjoy quite an upside.

5 So, you know, based on that intervenor's  
6 article, you would assume, or that the writer of that  
7 news article was saying that the value would be  
8 trending upward.

9 Q Yeah. But -- but I'm asking your  
10 opinion. I mean, you're the -- you're -- you're the  
11 expert on valuation --

12 A Uh-huh.

13 Q -- of coal -- of baseload coal plants.  
14 Is the va -- in your opinion, is the -- are the values  
15 of coal plants increasing or decreasing?

16 A I believe we've -- we've -- we've come  
17 to the bottom of valuations, and right now, acquiring  
18 baseload coal assets provides a lot of upside option  
19 value. So I would believe -- I believe that those  
20 values would be increasing.

21 Q Tell me why you believe we've reached  
22 the bottom of -- of the -- of the valuation of the  
23 assets.

24 A I'd go back to a lot of the -- the  
25 fundamentals arguments that -- that Witness Bletzacker

1 provides. That, you know, we've -- we've come to that  
2 stagnation point of -- of demand, and we see a lot of  
3 supply being removed from the market. So I believe  
4 in -- in the future, market prices would increase as  
5 demand improves.

6 Q What about the -- did I understand that,  
7 in answer to a question from Counsel Nguyen, that  
8 there -- that you weren't aware of age issues entering  
9 into this valuation by Mr. Weaver? Did I understand  
10 you correctly on that point?

11 A I believe I stated that in looking at  
12 Mr. Weaver's analysis, I didn't -- I didn't review age  
13 of assets within that analysis.

14 Q When -- when you're evaluating the --  
15 well, when you're trying to determine the valuation of  
16 an asset, whether it's a car or a house or a coal  
17 plant, isn't age important? Isn't that a factor that  
18 has relevance?

19 A It -- it has relevance inasmuch as you  
20 use a future forecasted cash flow stream, and you need  
21 to understand how -- how far out to model that stream.  
22 I understand that -- that, in my understanding,  
23 Witness Weaver's analysis goes out to the year 2040  
24 and provides a cumulative present worth.

25 Q Okay. And -- and tell me -- tell me



1 what you mean by discounted cash flow. That -- that  
2 that's the analysis that Mr. Weaver did was use a  
3 discounted cash flow. Does that mean revenue from the  
4 unit?

5 A Yes. So his -- his analysis provides  
6 the cumulative present worth of production costs and  
7 incremental fixed costs. So from the Company's  
8 perspective, what -- what is the total revenue  
9 required from that portfolio option.

10 So it provides all that -- all those  
11 cash flows that you need for that asset over that time  
12 period on a present worth basis cumulative.

13 Q And it -- is that because in the crazy  
14 world of utilities, that you -- in regulated  
15 utilities, they will be able to recover those costs,  
16 because that's what goes to determine what the revenue  
17 they recei -- utilities receive; is that right?

18 A That's -- that's correct. So when Mr.  
19 Weaver runs one portfolio, that includes the Mitchell  
20 units, you understand the -- the cost of Mitchell.

21 And when Mr. Weaver runs another  
22 portfolio that includes the market, you understand the  
23 cost or the value of the market, and you -- you arrive  
24 at a valuation and you com -- compare, contrast those  
25 two.

1           Q       Is there any difference between -- right  
2 now, in your opinion, between coal plants in a  
3 regulated market and coal plants that exist in a  
4 deregulated market or that are merchant? Does that  
5 fact alone enter into determining the valuation of a  
6 coal plant?

7           A       I don't -- I don't believe so in -- in  
8 how you analyze, how I would analyze Mr. Weaver's  
9 data.

10          Q       Okay. Well --

11          A       Meaning you're -- you're -- you're  
12 comparing the Mitchell portfolio to that of a -- of a  
13 market portfolio, so that would be a deregulated --

14          Q       Well --

15          A       -- perspective.

16          Q       Okay. Well -- well, let me ask this  
17 question: So -- so earlier, in res -- were you --  
18 were you here when Mr. Wohnhas answered the question  
19 about related transactions and went through who -- who  
20 the different witnesses were, and that there were  
21 three different -- there were three different people  
22 that I should talk to, and he listed you for specific  
23 transactions.

24                   Now, what I'm hearing you say, just so I  
25 understand, is that you didn't do any independent

1 val -- evaluation. You -- you looked at his data that  
2 he prepared, and based on that, you concluded that the  
3 \$536 million cost is less than what the market would  
4 be. Is that a fair statement?

5 A Yes.

6 Q How -- how long did you study -- did --  
7 did you have any input into Mr. Weaver's modeling on  
8 the front end?

9 A I did not.

10 Q Okay. So you didn't tell him -- if --  
11 if you were to -- if -- if you were -- and if someone  
12 was to call you, and I don't even know if this is how  
13 you do it in AEP, but if someone was to come to you  
14 and say, "I'd like to know what the value of this is,"  
15 would you -- would you typically give -- let's do it  
16 within the AEP system.

17 Many times, do you tell them what  
18 factors you want to include or how to do it?

19 A When -- when an opportunity comes to us,  
20 we -- we may, independently with -- within AEP,  
21 construct a discounted cash flow model for a plant.

22 Q Okay.

23 A Other times we've gone to Mr. Weaver's  
24 group to -- to ask his group to run that analysis  
25 through.

1 Q Okay.

2 A And in the case of us establishing our  
3 own independent -- well, us constructing a DCF, we  
4 would -- we do rely upon the same internal experts as  
5 those that inform Mr. Weaver for his Strategist  
6 analysis.

7 That would include witnesses like  
8 Karl -- Witness Bletzacker, Witness McManus, Witness  
9 LaFleur, Witness -- I mean, I could go on and on.  
10 It's -- it's the same -- a lot of the same sources.

11 Q But it doesn't -- but in this case --  
12 but your group has the ability to do that, quote,  
13 independently? In other words, you-all do that  
14 sometimes apart from relying on Mr. Weaver's group?

15 A Yeah. Yeah, we do.

16 Q Okay. Did -- in -- in your review of  
17 Mr. Weaver's model and the assumptions that were made,  
18 were -- did you have any observations that there were  
19 factors that you wouldn't have included or factors  
20 that you -- that he should have included?

21 A I did not, nor did I do a -- so to  
22 speak, a deep dive on his analysis.

23 Q So -- so coming back to my earlier  
24 question. You really, in fact, relied on the  
25 credibility of his group, that you used them in the

1 past, relied on them, and -- and then -- then you  
2 relied on the analysis that he did; is that fair?

3 A Yeah. That's fair.

4 Q Okay. I have one final question. Would  
5 the -- if this Commission denied or one of the other  
6 two commissions denied the purchase, or if all three  
7 commissions, let's do it that way, denied the purchase  
8 of the Mitchell plant, would that diminish the value  
9 of the Mitchell plant and make it more like Exelon or  
10 somebody trying to divest themselves of a unit?

11 A No. I don't believe so. I don't  
12 believe the value would be any different from the  
13 analysis that Witness Weaver has already put forward.

14 Q Okay. And tell me why -- because when  
15 you say at the top of page 8 of your rebuttal  
16 transaction -- excuse me. Of your rebuttal testimony,  
17 in evaluating the Exelon transaction, you say -- the  
18 last sentence says, (Reading) Thus this transfer is  
19 not comparable to the transfer of 50 percent of the  
20 Mitchell plant.

21 Why isn't it comparable? I mean, and  
22 that -- that -- because you said they had to divest  
23 themselves. They were trying to get whatever price  
24 they could. So that assumption wouldn't happen in  
25 this case if the -- the three Commissions here denied

1 the purchase of Mitchell?

2 A Oh. Is your -- is your question would  
3 AEP have to divest that share of Mitchell outside of  
4 the corporate family?

5 Q I was actually making the assumption  
6 that that would be the case, and -- and so --

7 A In my -- in my opinion, that would --  
8 would not be likely. We see a high value in -- in  
9 that plant --

10 Q Okay.

11 A -- as well as the other plants that are  
12 transferring to our generation resources, and we are,  
13 in fact, setting up a shop to -- to create a lot of --  
14 a lot of value, enjoy a lot of value out of those  
15 plants.

16 VICE-CHAIR GARDNER: Okay. One more --  
17 let me just check one more thing. Okay. That's all.  
18 Thank you, sir.

19 THE WITNESS: Thank you.

20 VICE-CHAIR GARDNER: Thank you.

21 CHAIRMAN ARMSTRONG: Mr. Fransen, I just  
22 have one question.

23

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## EXAMINATION

1  
2  
3 By Chairman Armstrong:  
4

5 Q What was the date of 2040 used in the  
6 modeling? You know how that was arrived at?

7 A No. I think that would be a question  
8 for Mr. Weaver, who did the --

9 Q But did you --

10 A -- the modeling.

11 Q Were you privy to that?

12 A None of the decision-making around that,  
13 no.

14 COMMISSIONER BREATHITT: I have one.

15 CHAIRMAN ARMSTRONG: Commissioner.  
16

17 \* \* \*

## EXAMINATION

18  
19  
20  
21 By Commissioner Breathitt:  
22

23 Q Mr. Fransen, you are the rebuttal  
24 witness for the Sierra Club and KIUC, correct?

25 Primarily?

1           A     Yeah.  On -- on behalf of Kentucky  
2     Power --

3           Q     Yes.

4           A     -- I rebut the testimony --

5           Q     Yes.

6           A     -- for theirs.

7           Q     On page 11 of your rebuttal testimony,  
8     on line 9, you -- you talk about the other cited  
9     transactions were not fully equipped with modern  
10    environmental controls.

11          A     Yes.  I see that.

12          Q     And on Mr. Woolf's testimony, can you --  
13    on page 46 of Mr. Woolf's testimony.

14          A     Yeah.  I don't have that in front of me,  
15    but might be able to follow along.

16                   MR. OVERSTREET:  We'll -- we'll get it  
17    for you.

18          A     You referenced page 46?

19          Q     Yes.  Lines 5, 6, and 7.  It's talking  
20    about the Exelon Power sales of its three Maryland  
21    power plants.

22          A     Yes.  I see that.

23          Q     And on line 5, can you read starting  
24    with "It is noteworthy"?

25          A     Yes, I can.  (Reading) It -- it is



1 noteworthy that two years before the sale, the owners  
2 of these plants invested one billion retrofitting the  
3 plants with environmental controls in anticipation of  
4 federal environmental regulations.

5 Q And could you read the next sentence  
6 too, please?

7 A (Reading) Despite these large capital  
8 investments, these coal plants were sold for roughly  
9 22 percent of the price the Company is paying for the  
10 Mitchell purchase.

11 Q And in your rebuttal testimony, you were  
12 talking about the various examples in the Sierra Club  
13 and the KIUC witnesses citing examples of sales that  
14 demonstrated the market value is far lower than the  
15 net book value.

16 In your testimony, you -- I wanted to  
17 understand better your line that's -- that talked  
18 about these were not equipped with modern -- modern  
19 environmental controls, yet Mr. Woolf's testimony says  
20 a billion dollars was spent on modern environmental --  
21 on environmental controls.

22 A I believe I can -- I can help with that.  
23 I believe he was referring to the Brandon Shores  
24 plant, perhaps not the Crane and Wagner plants as  
25 being fully controlled. And he was -- he was -- so

1 that's how I stand by not fully environmentally  
2 equipped.

3 Let me confirm one thing here.

4 So a lot of -- a lot of the reason  
5 behind such a low valuation for the -- a low  
6 transaction price for the Exelon plants were that  
7 primarily every strategic company in PJM was precluded  
8 by FERC order from participating in the acquisition  
9 process for the Exelon portfolio.

10 The only remaining strategic that --  
11 that had customers to serve was NRG, who was  
12 undergoing a merger acquisition of GenOn. GenOn  
13 itself was one of the named precluded companies from  
14 acquiring that portfolio, and because there was such  
15 a -- a limited buyer base, they were left with just  
16 private equity funds.

17 In fact, Riverstone was the ultimate  
18 acquirer of that portfolio. I believe that had a  
19 significant impact on the price that that portfolio  
20 fetched.

21 Q But throughout those testimonies, it --  
22 there were examples of market prices being quite a bit  
23 lower than net -- than the net book value of Mitchell,  
24 and you -- do you have a reaction to the comment I  
25 just made?

1           A       Yeah. I have -- yes. Yes, I do. So  
2 the -- those portfolios that were sold are in -- are  
3 in no way comparable to the Mitchell units that are --  
4 AEP is proposing to transfer to Kentucky Power.  
5 The -- so we just spoke about the Exelon portfolio.

6                   For the Dominion portfolio, which  
7 included a plant in the New England ISO that last year  
8 had a combined 20 percent capacity factor, drastically  
9 lower than the Mitchell units, and relied on long-haul  
10 coal transportation, in fact, some from South America.

11                   Also in that New England ISO region,  
12 they have to participate in Regional Greenhouse Gas  
13 Initiative, or RGGI, where they, in fact, to date pay  
14 a carbon penalty or a carbon tax per ton.

15                   The Ameren transaction, the -- which is  
16 the -- the third portfolio that's been referenced  
17 throughout testimony, was a sale to Dynegy. That  
18 portfolio is in MISO, a region different from the --  
19 the PJM ISO that Kentucky Power is in. A -- a more  
20 depressed energy price region without -- in fact, they  
21 don't have the capacity market, the RPM market that  
22 PJM has.

23                   That was a portfolio of over 4,000  
24 megawatts, and the importance of that is it took, I  
25 believe, 14 units to make up that 4,000-megawatt

1 portfolio, and it's -- it's very difficult for  
2 companies to be able to absorb that size portfolio.

3 In fact, when plants the size of -- of  
4 Mitchell are sold, you could -- you could assume that  
5 regulated utilities may be interested for their  
6 integrated resource plan, that they would have the  
7 appetite for such plants, but for a -- a  
8 4,000-megawatt, 14-unit portfolio, you're going to  
9 have a greatly reduced number of -- of buyers.

10 In fact, Dynegy, who had just come out  
11 of bankruptcy, made the acquisition of that Ameren  
12 portfolio. And I had -- I had read on -- on June --  
13 on June 6th, the Illinois Pollution Control Board in  
14 its docket PCB12-126 that Illinois Pollution Control  
15 Board denied the motion of a transfer of a pollution  
16 control variance to Dynegy for that asset acquisition.

17 So there's a -- there's a lot of -- lot  
18 of risk in those portfolios, and certainly that risk  
19 was priced in and lowered the valuation, which are  
20 large bundles of not fully scrubbed and NOx-controlled  
21 units. That reduces the valuation price.

22 These plants are mostly out of region.  
23 These -- these plants were acquired by either private  
24 equity funds or merchant companies that have higher  
25 discount rates, and they'll bid in for those

1 portfolios at reduced prices so that they can earn  
2 their 20-percent returns or so.

3 It's all those reasons that those  
4 portfolios are not directly comparable to the Mitchell  
5 unit transfer.

6 Q And you answered a question from Mr.  
7 Nguyen, I believe, I didn't take it down verbatim, but  
8 you said that the market -- a comparison of market  
9 prices is higher than Mitchell? Did you say -- you  
10 said new builds or market is higher than Mitchell?

11 A I don't recall --

12 Q Okay.

13 A -- that dialogue.

14 Q Well, let me ask you if you -- if you  
15 did any -- in your rebuttal, is there any analysis you  
16 did about market prices?

17 A Not -- not in my rebuttal.

18 Q Right.

19 A The only market prices that I would see  
20 would be through Witness Weaver's analysis.

21 COMMISSIONER BREATHITT: Okay. I'll ask  
22 him.

23 CHAIRMAN ARMSTRONG: Redirect?

24 MR. GARCIA: Thank you, Your Honor.

25

\* \* \*

## REDIRECT EXAMINATION

1  
2  
3 By Mr. Garcia:  
4

5 Q Just staying on -- on topic, Mr. -- Mr.  
6 Fransen. Commissioner Breathitt just asked you a few  
7 questions about, generally, the environmental controls  
8 mentioned in the testimony of Mr. Woolf.

9 Can I direct you to page 5 of your  
10 rebuttal testimony, and can you walk me through Table  
11 1? See if that could clarify the environmental  
12 controls of the assets in the three transaction  
13 portfolios that you mentioned there in comparison with  
14 the Mitchell units, please?

15 A Yeah. Yes, I can do that. So on page 5  
16 of my rebuttal testimony, Table 1, the purpose of this  
17 table was to distinguish the -- first the -- the coal  
18 fuel generation from that -- the gas and oil fuel, so  
19 there's -- there's kind of two sections to that table.  
20 A top side and a bottom side.

21 For Mitchell, the 780 megawatts is fully  
22 scrubbed, meaning FGD, and NOx con -- NOx controlled,  
23 so it has SCRs.

24 For the Exelon sale, that portfolio was,  
25 for the coal plants, 61-percent scrubbed and with SCR.

1 It also had another 550 megawatts of noncoal fuel  
2 generation.

3 For the Dominion sale, only 38 percent  
4 of the coal portfolio had scrubbers and SCRs, and for  
5 the Ameren sale, it was only one-third, or 33 percent,  
6 of the coal fleet was scrubbed or with SCR.

7 Q And with that information, sir, can you  
8 tell me whether you can isolate within a particular  
9 portfolio the value of one asset that may have  
10 controls that would be, for example, within the 61  
11 percent given the value of the whole portfolio?

12 A No. You -- you -- you absolutely  
13 cannot -- you can't -- you can't distinguish  
14 valuations for scrubbed, nonscrubbed, coal verse gas.  
15 I mean,  
16 in -- investors in -- purchasers of any of these  
17 portfolios may have ascribed negative values for  
18 certain units verse positive units for other units,  
19 and you just can't distinguish that by -- one, by  
20 looking at newspaper articles, or two, by even any of  
21 the other information that I've seen, you can't  
22 distinguish between the different units.

23 Q So do I understand correctly, if there  
24 is a negative value ascribed to one of the assets in  
25 the bundle, that that -- that actually would lower the

1 value that an asset would have in isolation if it was,  
2 say, about market value?

3 A Yeah. That's -- that's correct. Even  
4 if you were to ascribe the en -- entire price of a  
5 portfolio to one unit and say that that's the value of  
6 that unit on a dollar-per-kW basis, that may not even  
7 be correct, you know, due to the fact that certain  
8 units may have been negative values, which would then  
9 drive up the price of the remaining unit where all the  
10 value was.

11 Q And specifically regarding the  
12 transaction with Exelon, I thought you made reference  
13 to this, but just to clarify the record. Were there  
14 any restrictions imposed by FERC as to who could  
15 participate in the acquisition of those assets?

16 A Yeah, and I believe I footnoted that on  
17 my rebuttal testimony, page 8, footnote 2, there were  
18 eight entities that were precluded by the FERC from  
19 purchasing the Exelon portfolio.

20 Q And why were they excluded, if you know?

21 A As far as I'm aware, they were excluded  
22 because they owned at least -- they -- they were  
23 owners of at least three percent or more of capacity  
24 within PJM.

25 Q And that would have what effect?



1           A       Well, the -- the -- I'm not exactly sure  
2 why -- why the FERC chose three percent or not.

3           Q       But it -- would it have an effect on --

4           A       Oh, on the -- on the price?

5           Q       For example.

6           A       Yeah, and I -- I think I and -- put that  
7 into oral testimony now, but if you preclude all of  
8 the strategic investors, strategic companies within  
9 PJM from bidding on a portfolio, you're left with --  
10 with very few bidders that can take this size of  
11 portfolio, which drives down the -- the execution  
12 price.

13          Q       And from the point of view of the  
14 restriction imposed by FERC, if you know, was there  
15 any consideration about the fact in power market that  
16 concentrate -- the concentration of these assets would  
17 have if they were transmitted in a way other than with  
18 the restriction imposed by FERC? Do you know?

19          A       Are you asking me about market power --

20          Q       Correct.

21          A       -- issues? I mean, that was at -- the  
22 purpose of the FERC order was because Exelon in  
23 constellation, were deemed to have market power,  
24 meaning they -- they failed the market concentration  
25 test that -- that FERC -- FERC puts forward, or it's

1 called an HHI test, and what they wanted to do was  
2 prevent market power.

3 So it's very -- it's very important to  
4 have -- and in -- in this instance we do have a FERC  
5 order that's allowed Kentucky Power to -- to acquire  
6 the Mitchell plants, whereas Exelon, they had to  
7 divest.

8 Q And that FERC order that you just  
9 mentioned that authorizes the transfer of the Mitchell  
10 units would indicate that there were no concerns of  
11 the influence of the transfer of the Mitchell unit to  
12 power markets, correct?

13 A That's correct.

14 Q Okay. You also made reference, in  
15 connection with questioning from Vice-Chair Gardner,  
16 Vice-Chairman, about the difference between the value  
17 of an asset for a regulated entity and for an  
18 unregulated entity, and I don't want to -- to -- to  
19 recreate this testimony, but just -- just as a  
20 starting point.

21 From the point of view of the holder of  
22 the assets, does it make a difference whether the  
23 holder of the assets, for the termination of market  
24 value, is a regulated or unregulated entity?

25 A No, it doesn't.

1 Q And why is that?

2 A The you -- you look at -- at the value  
3 of that asset in the market, and the markets, it's not  
4 dictated in this sense by whether you're regulated or  
5 unregulated. You're looking at -- at market prices.

6 So you're -- you're coming up -- you're  
7 establishing a market valuation. Whether you're a  
8 regulated owner or an unregulated owner -- owner,  
9 you're bidding that asset into PJM.

10 Q Now, from the point of view of an entity  
11 acquiring these assets, does it make a difference  
12 whether they acquire of an asset that was in the  
13 market was a regulated entity or a unregulated entity?

14 A If you're -- if you're asking me does it  
15 matter paying lower of -- of costs or market, does it  
16 matter if you're regulated --

17 Q Let --

18 A -- or unregulated?

19 Q Let me ask it a little different.

20 Is the value of an asset different for  
21 an entity acquiring an asset, does an unregulated  
22 entity look at acquisition of an asset in a way  
23 different or the same as a regulated entity?

24 A They -- they certainly utilize those  
25 assets differently. One of the -- one of the values

1 of Kentucky Power or -- or the AEP fleet is you can  
2 take a more holistic view of how those assets are  
3 used, and you may get more -- more synergies out of  
4 how you dispatch those as a holistic fleet.

5 So you may arrive at a -- at a different  
6 valuation for that purpose than how an unregulated  
7 company would.

8 Q Would a regulated or an unregulated  
9 entity, for example, be looking at options in the  
10 market in a -- in a different way as to how they value  
11 their assets from their point of view?

12 A Certainly. I mean, there's -- there's  
13 different costs of capital for regulated companies  
14 verse unregulated. I mean, that's -- that's one  
15 example.

16 Q Thank you. Would, for example, be -- an  
17 element of the short-term against the long-term use of  
18 the assets be of concern, or would it make a  
19 difference between how a regulated entity and an  
20 unregulated entity look at these assets?

21 A Yes, and regulated entities are more  
22 long term in perspective for their valuation, trying  
23 to strive for certainty and reduced volatility for its  
24 customer base.

25 Whereas, like, private equity funds like

1 Riverstone who acquired the Exelon portfolio or Energy  
2 Capital Partners who acquired the Dominion portfolio,  
3 they're -- they are much more short term in nature,  
4 because they generally want to have a liquidity event  
5 after five to seven years for their investors.

6 Q Uh-huh. And another aspect that was  
7 referred to, and I think it would be helpful, are you  
8 familiar with the term "willingness to hold" in this  
9 context?

10 A Willingness to hold is -- you know, for  
11 AEP, we are willing holders of these assets, whether  
12 they're in a regulated company or our -- to be  
13 newly-formed AEP Generation Resources, whereas the  
14 owners of the portfolios that had executed  
15 transactions were not willing holders. They were  
16 forced to sell, either by FERC mandate or by corporate  
17 board mandate, for the purpose of their shareholders  
18 and bond holders.

19 Q And I think that it was in -- in  
20 connection with questioning by Vice-Chairman Gardner  
21 that you were asked that whether if the transactions  
22 were, for example, disapproved in Virginia, West  
23 Virginia, and Kentucky, whether these assets would  
24 basically leave the AEP family and would be, these are  
25 my words, put in the -- in the -- in the chopping

1 block for disposition.

2 And in light of what you were just  
3 talking about, willingness to hold, can you explain to  
4 me what would be the view of these assets within the  
5 AEP family? Whether they would be put up for sale or  
6 they would be held.

7 A If it -- if they were not held within  
8 West Virginia, Virginia, or Kentucky, we would allow  
9 that -- transfer to Generation Resources along with  
10 the rest of that Ohio portfolio that's transferring  
11 there, and we would hold them there.

12 We would continue to set up the shop  
13 that we're setting up there with retail sales,  
14 wholesale, marketing sales and look to con -- contract  
15 those assets and make them -- make them look as  
16 contract and as regulated as possible but -- but  
17 certainly enjoy the -- the market valuation that we  
18 spoke about earlier.

19 Q And does that tell you anything about  
20 the comparison between their fair market value and  
21 their net book value?

22 A Well, again, that the fair market value  
23 would exceed the net book value.

24 Q And why -- why -- why would those two  
25 factors be related? What -- what -- what's the

1 connection, if any?

2 A Well, that -- that if -- if you have an  
3 asset that's -- that's worth value, you -- you hold it  
4 or else you impair it, and these assets are -- are  
5 worth more than their book value.

6 Q So if their net book value was -- well,  
7 let me -- if their net book value was greater than  
8 their willingness to hold value, would these assets be  
9 more likely to be disposed of in a market transaction  
10 than if it's otherwise?

11 A If the net book value were worth more  
12 than the willing to hold value?

13 Q Correct.

14 A If the net book value were -- so the net  
15 book value is the -- the fair market value? Or  
16 they -- I'm getting a little --

17 Q Yeah.

18 A -- spin on there.

19 Q And I apologize. I probably I made up.  
20 I -- I better withdraw that question. Let me see if I  
21 can ask it in a different way.

22 You indicated that there is a  
23 willingness to hold point, correct?

24 A Correct.

25 Q Right. And if the net book value of

1 those assets, it's greater than that willingness to  
2 hold point, and these assets were not being held by a  
3 regulated entity but by the unregulated entity, would  
4 that create an incentive for those assets to be put in  
5 the market or not?

6 A And I'm -- I'm sorry. My ha -- my  
7 mind's not right --

8 Q Yeah. I'm --

9 A -- on that one.

10 Q -- probably asking the wrong question,  
11 so I better withdraw it. Let me go from a different  
12 direction.

13 You mentioned that the discounted cash  
14 flow analysis could be used as a proxy to determine  
15 the market value of the Mitchell plant, correct?

16 A That's correct.

17 Q Okay. And how -- how does that  
18 methodology provide you a proxy for the market value?

19 A How does discounted cash flow --

20 Q Yes.

21 A -- provide a -- I mean, discounted cash  
22 flow would be the market value. It's the --

23 Q Right, and --

24 A -- it's the present value of all of  
25 your -- the future cash flows that you forecast for



1 the output of the plant, and that -- then that  
2 variable value.

3 Q Right. And is that different from what  
4 Mr. Weaver provides in his analysis?

5 A It's the -- that's the exact same  
6 information that Mr. Weaver provides.

7 Q And based on that information that would  
8 indicate that the fair market value of the assets,  
9 it's greater than their net book value?

10 A That's -- that's correct.

11 Q Do you have a sense of by what margin or  
12 should I -- should we get that from Mr. Weaver?

13 A Mr. -- I'm sure Mr. Weaver could provide  
14 it within his different scenarios.

15 Q Okay. Do you know how Mitchell compares  
16 nationally in terms of efficiency and heat rate?

17 A In discussions with Mr. Weaver about the  
18 thermal efficiency of the -- of the Mitchell units,  
19 I've -- he stated to me that it was in the 92nd  
20 percentile of coal plants in the United States.

21 Q And you indicated in your discussion  
22 with staff counsel that an independent appraiser would  
23 likely have reached the same conclusion as the  
24 analysis provided of Mr. Weaver about the fair market  
25 value of the Mitchell plant. Why do you reach that

1 conclusion?

2 A I believe they would arrive at the same  
3 fundamental forecast as Witness Bletzacker's, and that  
4 forecasting forms the Strategist model that Witness  
5 Weaver provided analysis on in that independent  
6 evaluator would arrive at the same cash flows for the  
7 output of that plant, which would present-value back  
8 to the same valuation we're -- that we're seeing from  
9 Weaver's analysis.

10 Q And you also indicated that, in your  
11 opinion, the discounted cash flow method of valuation  
12 of an asset like Mitchell was preferable to an asset  
13 valuation that was, for example, based on comparable  
14 asset sales or comparative valuation. Is -- did I  
15 state that correctly?

16 A Yeah. That's --

17 Q And --

18 A -- that's correct.

19 Q And why is that?

20 A Well, for -- for baseload-generating  
21 plants that produce a lot of energy value, you need to  
22 look at and evaluate those future cash flows. Looking  
23 at just on a dollar-per-kW basis doesn't -- you can't  
24 ascribe it that way to a baseload asset. It works for  
25 peaking units, you know, much, much better, because

1 the value of -- of peakers isn't derived so much from  
2 energy value but from capacity value.

3 Example would be is if -- if I woke up  
4 in Franklin County, Ohio, one morning, and I were to  
5 read that the -- the Delaware County Fairgrounds horse  
6 track were sold for a certain value, I certainly  
7 wouldn't expect to be able to ascribe that on a  
8 comparable basis to Keeneland or Churchill Downs or  
9 anything like that.

10 It takes more robust valuation for  
11 idiosyncratic assets such as Mitchell or baseload  
12 units.

13 Q Thank you. And for an asset like that,  
14 you probably already told me this, but are you aware  
15 of any assets that are, for example, for sale in PJM  
16 that would be comparable?

17 A None that I'm aware of.

18 Q And are you aware of any transactions  
19 that have occurred nationally involving coal-fired  
20 plants that actually were sold, if you know, at value  
21 that was greater than at net book value?

22 A Well, and I was here for the dialogue  
23 between Witness -- KIUC Witness Kollen and  
24 Commissioner Breathitt yesterday, and I -- and I  
25 agreed with the ones that he pointed out in Virginia

1 and West Virginia.

2 I'm also aware of a utility in Louisiana  
3 that hosted an RFP for energy and capacity and its  
4 unregulated arm bid in a unit at a  
5 higher-than-net-book value and was awarded that  
6 contract. So it -- it basically won at a  
7 higher-than-net-book-value price.

8 Q What does that tell you of the potential  
9 market for -- or the market value for the Mitchell  
10 plants, if anything?

11 A That the market value isn't -- in my  
12 mind, it's substantiated by -- by other transactions  
13 such as those that the fair market value is higher  
14 than the book value.

15 MR. GARCIA: Thank you, Mr. Fransen. I  
16 have -- I have no other questions.

17 CHAIRMAN ARMSTRONG: Thank you. Any  
18 other questions?

19 MR. NGUYEN: No further questions from  
20 the Staff.

21 MS. HANS: What -- we just have -- very  
22 briefly.

23

24

25

\* \* \*

## RECROSS-EXAMINATION

1  
2  
3 By Ms. Hans:

4  
5 Q Were you present dur -- during Mr.  
6 Wohnhas' testimony --

7 A Uh-huh.

8 Q -- Mr. Fransen?

9 A Yes. This morning, I was.

10 Q Uh-huh. And do you recall from that  
11 testimony that he was asked what the net book value of  
12 Big Sandy 2 was as of March 13th? He indicated it was  
13 \$225 million; is that correct, based on what you --  
14 what you heard him testify to?

15 A I don't recall.

16 Q Did you or your group conduct any recent  
17 valuation of the Big Sandy 2 assets which would have  
18 suggested that it was -- its net book value is less  
19 than half of the proposed 50-percent interest in  
20 Mitchell with respect to what you-all evaluated the  
21 net book value of it at 536 million?

22 A I didn't know that such a valuation.

23 MS. HANS: Okay. No -- no further  
24 questions.

25 MR. NGUYEN: No questions, Your Honor.

1 CHAIRMAN ARMSTRONG: Thank you, sir.  
2 You're excused.

3 MR. GARCIA: Thank you, Your Honor.

4 THE WITNESS: Thank you.

5 CHAIRMAN ARMSTRONG: We'll take a break  
6 to adjust our clerk.

7 MR. OVERSTREET: Certainly. And how  
8 long would that be, Your Honor?

9 CHAIRMAN ARMSTRONG: Not long.

10 MR. OVERSTREET: Not long. All right.

11 CHAIRMAN ARMSTRONG: Five minutes.

12 HEARING CLERK: Five minutes?

13 MR. OVERSTREET: Five minutes.

14 HEARING CLERK: Good. Thank you.

15 CHAIRMAN ARMSTRONG: We're changing --

16 MR. OVERSTREET: Sure.

17 CHAIRMAN ARMSTRONG: -- clerks.

18 (Recess from 5:26 p.m. to 5:34 p.m.)

19 CHAIRMAN ARMSTRONG: We're on. Your  
20 next witness.

21 MR. OVERSTREET: Thank you, Mr.  
22 Chairman. The next witness is Jeff LaFleur, and Mr.  
23 Gish will present him.

24

25

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1 JEFFREY LAFLEUR, called by Kentucky  
2 Power Company, having been first duly sworn, testified  
3 as follows:  
4

5 DIRECT EXAMINATION  
6

7 By Mr. Gish:  
8

9 CHAIRMAN ARMSTRONG: Have a seat. Speak  
10 loud and clear. Your name?

11 THE WITNESS: Jeffrey LaFleur.

12 CHAIRMAN ARMSTRONG: Where do you work,  
13 Mr. LaFleur?

14 THE WITNESS: I work in -- I'm vice  
15 president of generating assets for APCo and Kentucky  
16 Power. I work out of Charleston, West Virginia.

17 CHAIRMAN ARMSTRONG: And how long have  
18 you worked with this company?

19 THE WITNESS: Thirty years.

20 CHAIRMAN ARMSTRONG: And what brings you  
21 here?

22 THE WITNESS: My testimony describes the  
23 Mitchell plant and why it will be a valuable asset,  
24 long-term asset, for the customers of Kentucky Power  
25 to supply energy and capacity.

1 CHAIRMAN ARMSTRONG: Your witness.

2 MR. GISH: Thank you, Mr. Chairman.

3 Q Mr. LaFleur, did you cause to have filed  
4 in this case direct and rebuttal testimony?

5 A I did.

6 Q Have you caused to have filed in this  
7 case responses to data requests?

8 A I did.

9 Q And do you have any corrections to your  
10 testimonies or your responses to data requests?

11 A No, I do not.

12 Q And if I were to ask you the same  
13 questions that were asked in your -- that was asked in  
14 your testimonies today, would you give the same  
15 responses?

16 A I would.

17 MR. GISH: Mr. Chairman, I tender Mr.  
18 LaFleur for cross-examination.

19 MS. HANS: No questions, Your Honor.

20 MS. COLE: Your Honor, may I proceed?

21 CHAIRMAN ARMSTRONG: You may.

22 MS. COLE: Thank you.

23

24

25

\* \* \*



## CROSS-EXAMINATION

1  
2  
3 By Ms. Cole:

4  
5 Q Good evening, Mr. LaFleur.

6 A Good evening.

7 Q Now, based on Kentucky Power's plan, the  
8 Mitchell plant -- the Mitchell plant will operate  
9 until it's about 70 years old; is that correct?

10 A Sixty-nine, I think, is the number.

11 Q So you believe it'll operate until it's  
12 about 69 years old?

13 A I believe the plant will operate -- will  
14 exceed that age, yes.

15 Q Are there many units of a similar site  
16 to Mitchell operating at approximately 69 or 70 years  
17 of age?

18 A We have ten units right now in AEP that  
19 are over 60 years old. None of these units would be  
20 retired before they were 70 due to any physical  
21 limitation. These units are being retired because of  
22 economic analysis around the MATS compliance.

23 Q Do you know the age of the oldest  
24 operating unit currently?

25 A Currently, I have one unit under me that

1 is 69 years old.

2 Q And do you know where that is?

3 A It's in Glen Lyn, West Virgin -- Glen  
4 Lyn, Virginia. Excuse me.

5 Q Is that a coal-fired plant?

6 A It is.

7 Q What is the size of that unit?

8 A It's approximately 130 megawatts,  
9 something like that.

10 Q Do you know the heat rate of that unit?

11 A Not off the top. I don't.

12 Q Is it something that you could provide  
13 or counsel could provide --

14 A Sure.

15 Q -- in a post data request? Do you know  
16 the E4 for that unit?

17 A The E4 for that unit is probably in the  
18 seven- to ten-percent range.

19 Q And do you know the capacity factor of  
20 that unit?

21 A The capacity factor is very low on that  
22 unit due to the fuel costs there. It's -- it's  
23 probably around -- below ten percent.

24 Q Drawing your attention back to the  
25 Mitchell plant. What is the approximate projected

1 capacity factor for the Mitchell plant between the  
2 ages of 60 to 70 years?

3 A Well, the capacity factor of that  
4 unit -- of -- of any of the units, it will be highly  
5 dependent on the market. The Mitchell plant currently  
6 is dispatched daily. Five-year average is running in  
7 the 60 -- 60s capacity factor, 65-percent capacity  
8 factor.

9 I believe in Mr. Weaver's model that  
10 mainly due to the carbon tax, the capacity factor  
11 drops off a little bit in the latter years. It  
12 remains to be seen if that happens or doesn't.

13 Q Well, speaking specifically to the  
14 Mitchell plant when it gets to 60 or 70, can you --  
15 can you elaborate on your last answer or could you  
16 give an approximate capacity factor when we get out to  
17 that age as opposed to five years from now?

18 A It will have the ability to have  
19 capacity factors in the 80s. The age of the unit -- I  
20 think one thing that maybe is not completely  
21 understood is a power plant is a system of parts.

22 For instance, in 2007, we put about a  
23 billion dollars of equipment in there. That -- that  
24 equipment, those fans, those scrubbers, they're six  
25 years old. They're not forty years old. They're six

1 years old.

2 The parts that we don't replace, as time  
3 goes by, we inspect. The turbines, which is a very  
4 high-value part, AEP has a standard across the whole  
5 fleet on how often we pull these turbines apart and  
6 inspect them.

7 And very -- very similar to how you  
8 would have a diagnosis run on yourself to check your  
9 sugar, your cholesterol, and your blood pressure, we  
10 have tests that we run, metallurgical tests, erosion,  
11 whether or not we see creep mechanisms. We run those  
12 tests on those individual pieces of equipment,  
13 high-pressure piping, turbines, the boiler, headers in  
14 the boiler.

15 We're very -- it's a very specific  
16 inspection. Our engineers evaluate that. Third-party  
17 vendors evaluate that. Management, including myself,  
18 look at that, and we determine from those tests and  
19 the condition of that equipment when the next  
20 inspection needs to occur and what type of investment  
21 we need to make.

22 Q Focusing back on the capacity factor for  
23 Mitchell. You stated that it may be able to get  
24 into -- stay in the 80s or get into the 80s even when  
25 it's between 60 and 70 years of age.

1           Do you know of any existing units that  
2           are operating now that are of that vintage, that are  
3           between 60 and 70 years, and have capacity factors up  
4           into the 80s?

5           A       Well, when you look at a unit today  
6           that's 60 or 70 years old, you got to remember that  
7           technology was developed in the '40s. I mean, you  
8           look at aerospace. You look at automobiles.  
9           Equipment developed in the '40s is not the same as  
10          equipment that was developed in the '70.

11          This equipment was developed in the  
12          '70s. Huge, huge expansions in technology around  
13          metallurgy. That's the reason why these are  
14          supercritical units. That's the reason why they're  
15          high-temperature units. That's the reason why the  
16          efficiency is so good, as was testified.

17          The Mitchell units are -- I mean, those  
18          two units are the -- two of the jewels of AEP. It's  
19          got some of the lowest heat rate in the United States.  
20          Therefore, I believe those units will be very  
21          competitive going forward.

22          Most of the units that we're running now  
23          that are in the 60s, you know, they're subcritical  
24          units. Their heat rate is around ten five versus a  
25          Mitchell unit, around nine five, nine seven. Much

1 different technology between them and a Mitchell unit.

2 Q Are you aware of any units with the  
3 similar size of the Mitchell unit outside of the AEP  
4 that are fully compliant and currently operating?

5 A There are other utilities, we could  
6 probably supply that, that also have retirement dates  
7 over 60 years old for their units as well.

8 Q If you could supply that as well as the  
9 capacity factor, that would be helpful.

10 MR. GISH: Certainly.

11 Q In your professional opinion, Mr.  
12 LaFleur, will higher carbon taxes drive capacity  
13 factors down in general?

14 A Any -- I mean, the -- the -- you're  
15 talking about carbon tax or --

16 Q Yes, sir.

17 A As Mr. McManus testified, the -- the  
18 whole carbon regulation has not been determined. Very  
19 likely, we could see carbon regulation that deals with  
20 efficiency improvement.

21 Efficiency improvement is something we  
22 do on a regular basis, we look at. That's one of the  
23 reasons why, when we added the scrubbers to Mitchell,  
24 and all that auxiliary load, the heat rate is still  
25 very close to an unscrubbed unit by Big Sandy 2.

1 We -- we implemented efficiency improvements.

2 If that's the case, no, I don't think  
3 that it will affect the capacity factor. If it's a  
4 pure tax, and it's a cost on the unit, sure. That  
5 affects any unit, if there is a tax.

6 Q So would you agree that in order for the  
7 ratepayers in Kentucky to recover their investment in  
8 the Mitchell u -- in the Mitchell plant, the Mitchell  
9 plant would have to operate for the next 30 years at  
10 the levels projected in the Company's testimony and  
11 modeling?

12 A As far as recovery and the cash flow, I  
13 think you need to ask that to Mr. Weaver.

14 Q Mr. Weaver?

15 A Yeah. You know, I have no problem  
16 testifying that that unit physically is capable of  
17 doing it, and -- and I believe it will do it.

18 Q Well, I'm going to ask you a  
19 hypothetical. For the sake of illustration, assume  
20 that \$536 million purchase price is all of the capital  
21 expended on Mitchell.

22 If Mitchell were retired early, say in  
23 15 years, would there not be about \$250 million in  
24 stranded costs? Is that something that you feel  
25 comfortable speaking to?

1           A        You -- you know, we talked about the  
2 capital inputs into the model, and they came right out  
3 of our budgets. I believe the capital investment  
4 through -- through 2040, the -- the time frame we're  
5 talking about here, is more than the book value  
6 currently. I think in that model, it's over \$600  
7 million, the capital.

8                    It's critical to -- to meet the capacity  
9 and O&M -- I mean the capacity and the availability  
10 that we're talking about on these units, it's critical  
11 that we have the proper O&M and capital investment in  
12 the unit.

13           Q        So --

14           A        Speculating on not spending capital on  
15 it would be an uncontrolled plan.

16           Q        So are you not comfortable in agreeing  
17 that if it were to be retired early, that there would  
18 be \$250 million in stranded costs? Is that something  
19 that you would agree with or no?

20           A        Whatever the book value is at that time.  
21 I don't quite understand what you're calling stranded  
22 costs.

23                    We have depreciation schedules on all of  
24 our units. You know, units retire early. They may  
25 retire after that. Is that what you're talking about?



1 Book value left after the retirement.

2 Q That is. Yes.

3 A It's possible you could have that.

4 Q Do you know who would be responsible for  
5 such costs?

6 A Say again.

7 Q Do you know who would be responsible for  
8 those costs?

9 A As far as recovering that cost?

10 Q Yes, sir.

11 A The customers of Kentucky Power.

12 Q Can you speak to whether or not any Ohio  
13 customers or AEP shareholders would -- would share in  
14 that responsibility?

15 A I'm sure that would be in a red --  
16 regulatory proceeding, if we retired a unit. I think  
17 it would just be speculation on my part.

18 Q Getting back more into your testimony.  
19 In your professional opinion, do you believe the  
20 Mitchell units stand a good chance of running for 30  
21 more years?

22 A I've testified to that. Absolutely. I  
23 think they will run past that.

24 Q Is there -- you spoke a little bit to  
25 this earlier, but could you elaborate as to whether or

1 not there's ever been any major construction or  
2 replacement at either Mitchell 1 or 2 and the life of  
3 the units as to the rotor, the turbine, the boiler,  
4 other major equipment?

5 A Absolutely.

6 Q Could --

7 A We --

8 Q -- you --

9 A We have -- we have replaced equipment.  
10 If you look at the capital budgets, we're planning on  
11 replacing equipment. Replace motors every day.

12 In 2007, all, you know, the ID fans were  
13 replaced. Those are 14,000-horsepower fans. Huge  
14 replacements. We've replaced boiler components.  
15 We've upgraded turbines.

16 The -- the capital plan we have in the  
17 model for the Mitchell units is to continue to run  
18 these units for at least through the analysis period  
19 whether the transfer occurs or not. These are  
20 valuable assets, and they are going to run.

21 Q I'd like to turn your attention towards  
22 your direct testimony.

23 A Okay.

24 Q Page 4, lines 10 through 14. If you'll  
25 let me know when you're there.

1 A What line was it?

2 Q Ten through fourteen.

3 A Okay.

4 Q If you could read -- if you could read  
5 those sentences starting with "state of the art."

6 A (Reading) State of the art fuel blending  
7 facilities were installed so that coal received by  
8 barge, rail, or conveyor can be blended to meet a  
9 target sulfur content.

10 The Mitchell units accept a low sul -- a  
11 low- and high-sulfur coal blend up to four and a half  
12 pounds SO<sub>2</sub> per mmb2u. The fuel blend typically  
13 contributes to lower fuel costs at the plant since  
14 higher sulfur coals tend to cost less than lower  
15 sulfur coals.

16 Q Thank you. Could you discuss with  
17 everyone Kentucky Power Company's historical purchase  
18 of coal in the Central Appalachian region?

19 A Kentucky Power's?

20 Q Yes. If you know.

21 A That's -- I don't think I can give you a  
22 historical view.

23 Q Can you speak at all to their historical  
24 purchase of coal in Kentucky or no?

25 A No. I don't think I can.

1 Q Do you know anything about their future  
2 plans for -- or their plans for the future purchase of  
3 coal in the Central at -- at -- Central Appalachian  
4 region or in Kentucky?

5 A Sure. You know, all of our coal plants,  
6 as far as Kentucky coal, mined coal, or Central App  
7 coal, whether it's mined in West Virginia, Kentucky,  
8 or Virginia, we buy from all of those companies. All  
9 of those are included into -- in our market, in our  
10 solicitations for Central App coal.

11 Q Can you discuss generally the amount of  
12 coal reserves that Kentucky Power Company has at this  
13 time? Both in Appalachia and in Kentucky.

14 A No. I don't know the amount of coal  
15 reserves we have, no. You're talking about Kentucky  
16 Power has?

17 Q Yes, sir.

18 A I cannot.

19 Q If you could refer back to your direct  
20 testimony. Page 4 again, but lines 16 and 17. Let  
21 me --

22 A Okay.

23 Q -- know when you're there. You state  
24 there that upgrades to the electrostatic precipitator  
25 are also planned at each unit. Are you referring to

1 the Mitchell units there?

2 A I am.

3 Q And when asked: Are the costs of the  
4 upgrades to the electrostatic precipitators already  
5 included in the application, and that is actually in  
6 the Attorney General's initial set of data requests,  
7 wherein you refer to the Weaver exhibit.

8 Can you describe to everyone the  
9 upgrades that you're talking about a bit?

10 A The upgrades to the precipitator are  
11 just part of that -- the replacement and -- and  
12 upgrade required to keep the precipitator running at  
13 top performance. It's not directly related to MATS,  
14 but it is required to continue to have the  
15 environmental performance that we need.

16 So it's -- it's just one of the  
17 investments in that piece of equipment that's  
18 necessary.

19 Q Approximately how often do these  
20 upgrades take place?

21 A On the precipitators? Well, again, it  
22 -- we would determine that through inspections.  
23 The -- I don't think we have a periodic replacement of  
24 that equipment. It would be an assessment of the  
25 condition of the equipment.

1           Q     And how often, approximately, do these  
2 inspections take place?

3           A     Generally, a major inspection is every  
4 two to three years.

5           Q     Can you speak to the overall  
6 environmental impact of these upgrades?

7           A     Well, it would be more of an  
8 environmental -- it wouldn't affect -- we're going to  
9 run within our environmental compliance. What it  
10 could affect is the E4, or it could derate the unit if  
11 we didn't keep maintaining this equipment.

12          Q     Could you speak to that a bit more?  
13 What do you mean when you say that?

14          A     Well, we're go -- we're going to run  
15 within our permits, right? So if you let the  
16 equipment deteriorate, and it's not performing up to  
17 par, you may not be able to achieve full load. So you  
18 would have to de -- you would have to actually run at  
19 a lower u -- a lower load.

20                   So to maintain the performance that we  
21 need for full output, we need to make that investment.

22          Q     Could you now refer to your direct  
23 testimony on page 5, lines 3 through 5? Let me know  
24 when you're there.

25          A     Okay.

1           Q     Here you discuss additional major  
2 capital environmental investments, specifically plans  
3 to build a new landfill and an associated haul row --  
4 road which are in progress at the Mitchell plant; is  
5 that correct?

6           A     That's correct.

7           Q     For how long have these projects been  
8 going on?

9           A     To get -- now, realize that Mitchell is  
10 not under -- under my purview right now.

11          Q     Yes, sir.

12          A     Probably Mr. Walton could give you when  
13 it started. I think most these projects are going to  
14 complete by first of 2015, but I'm not real sure when  
15 they were started, and I think it's been a year or  
16 two.

17          Q     Do you know the approximate cost of when  
18 they -- what the approximate cost will be when they  
19 are complete?

20          A     I don't know the exact number, but I do  
21 know that we provided a data request with those  
22 numbers.

23          Q     And if you could stay on line 5 with me,  
24 but go to -- I'm sorry. Page 5 with me, but go to  
25 lines 19 through 23.

1 A Okay.

2 Q And could you read those lines into the  
3 record?

4 A You want me to start with 18?

5 Q If you could, please.

6 A (Reading) Mitchell Units 1 and 2 were  
7 the -- the first of the 800-megawatt units in AEP's  
8 eastern fleet to have FGD and SCR systems installed.

9 Since the installation of these systems  
10 at Mitchell units, plant personnel have been able to  
11 proactively optimize performance of its equipment and  
12 manage fuel costs in an effort to provide customers  
13 with reliable and cost-effective electricity.

14 You want me to continue?

15 Q No.

16 A Okay.

17 Q If I could have one moment. Actually,  
18 if you could read that next sentence as well.

19 A (Reading) The Mitchell units have  
20 demonstrated their value through their generating  
21 performance.

22 Q Could you tell us how plant personnel  
23 has been able to proactively optimize the performance  
24 of the equipment and also manage the fuel costs?

25 A Well, when we started the units right



1 after the scrubber rebuilds, under CAIR, you know, it  
2 was -- as Mr. McManus explained, achieving the SO2  
3 credits, the scrubbing efficiency was real important,  
4 because it was -- we have an allowable limit for the  
5 whole eastern company.

6 As -- as we -- since Mitchell was one of  
7 the scrubbers going on, Mountanier and Mitchell went  
8 in about the same time, it was critical that these  
9 units, that we scrubbed as much SO2 out of the fuel  
10 stream as we could to give us those credits.

11 So we went through an optimization to  
12 continue to improve the efficiency of removal, and  
13 that was just one of the ways that we created value.

14 Q And how have you managed the fuel costs  
15 of these units?

16 A The fuel co -- well, adding the  
17 scrubbers, we were able to burn a higher percentage of  
18 Northern App coal, which tends -- at least in today's  
19 market is ten to twelve percent lower in price than  
20 the Central App coal. So, you know, we were able to  
21 lower the overall coal price of the unit.

22 Also, with the Wallboard plant that was  
23 constructed by Certain Teed across the street, by  
24 managing and optimizing, we have a spec on what the  
25 gypsum coming out of the scrubber is that allows us to

1 lower our disposal cost of the gypsum.

2 So all of those items are -- are just  
3 some examples of how we've created value at Mitchell.

4 Q Do you know the approximate cost of  
5 the -- of these systems?

6 A The -- the Wallboard plant is -- is  
7 owned and operated by Certain Teed. That's -- it's a  
8 third party.

9 Q And the last line that you read, on  
10 lines 22 and 23, which was, (Reading) The Mitchell  
11 units have demonstrated their value through their  
12 generating performance. What did you mean in your  
13 testimony that they have demonstrated their value  
14 through their generating performance?

15 A Well, I thought I just explained that.

16 Q Well --

17 A Yeah. Bring -- lower costs. Bringing  
18 in lower costs to the customer for the generation.

19 Q If we can move on to your rebuttal  
20 testimony.

21 A Okay.

22 Q Page 2, lines 11 through 13.

23 A What line?

24 Q Eleven through thirteen.

25 MR. GISH: What page again? I'm sorry.

1 MS. COLE: It's page 2.

2 Q If you'll let me know when you're there.  
3 I'll let you know when I'm there.

4 A Okay.

5 Q You say there that, (Reading) As  
6 discussed by company witness Pauley, beginning January  
7 1st of 2004, Kentucky Power will not be able to rely  
8 on other members of the interconnection agreement to  
9 meet its capacity and energy needs. Is that correct?

10 A That's correct.

11 Q What did you mean by that statement?

12 A Basically, the pooling agreement goes  
13 away.

14 Q Is that -- is that all you meant?

15 A Yeah. There's no backup, other than a  
16 market for Big Sandy 2, or -- or all the Big Sandy  
17 units.

18 Q Is it your understanding that in  
19 December of 2010, Mr. Pauley sent a letter requesting  
20 the interconnection agreement to terminate on January  
21 1st of 2014?

22 A Repeat that, please.

23 Q Is it your understanding that in  
24 December of 2010, Mr. Pauley sent a letter requesting  
25 the interconnection agreement to terminate on January

1 1st, 2014?

2 A That's my understanding. Yeah.

3 Q From an operating perspective, do you  
4 know why in 2010 Mr. Pauley would request the  
5 interconnection agreement to terminate on January 1st,  
6 2014, when it was generally known that something had  
7 to be done at Big Sandy Unit 2 if it were to operate  
8 after June 5th, 2015? June 1st, 2015.

9 A I mean --

10 Q Sorry.

11 A -- Mr. Pauley testified to that. I  
12 think you need to ask him that question.

13 Q So you do not know, from an operating  
14 perspective, why that might be?

15 A No.

16 Q Okay. Do you think it may have been  
17 better for Kentucky Power Company for the  
18 interconnection agreement to terminate on or after  
19 June 1st, 2015, after the decision on Big Sandy Unit 2  
20 had been made?

21 A I don't. I don't know.

22 Q Don't know. If we could go back to your  
23 rebuttal testimony on page 2, lines 13 through 17.

24 Let me --

25 A Thir --

1 Q -- know when you're there.

2 A Thirteen through seventeen?

3 Q Yes, sir.

4 A Okay.

5 Q Could you read the sentence beginning  
6 with "consequently"? The end of that line on 13.

7 A Okay. (Reading) Consequently, the  
8 Mitchell units will provide Kentucky Power with  
9 sufficient own resources to meet existing Kentucky  
10 jurisdictional customer needs and an available  
11 generation hedge to mitigate potential risk of  
12 operational failure at Big Sandy plant prior to the  
13 retirement of its units.

14 Q Does the purchase of the Mitchell units  
15 also provide an available generation hedge to mitigate  
16 potential risks of operation failures at the Mitchell  
17 plant prior to the retirement of the Big Sandy units?

18 A Say it again.

19 Q Does the purchase of the Mitchell units  
20 also provide an available generation hedge to mitigate  
21 potential risks of operation failures of the Mitchell  
22 units prior to the retirement of the Big Sandy units?

23 A The purchase of the -- you said Mitchell  
24 units twice.

25 Q So does the purchase of the Mitchell

1 units provide this generational hedge to mitigate  
2 potential risks of operation failures at the Mitchell  
3 plant prior to the retirement of the Big Sandy units?

4 A I don't understand.

5 Q I'm sorry. I meant Big Sandy.

6 A Oh, okay. Okay.

7 Q I know. I was confusing myself.

8 A That makes more sense.

9 Q I'm sorry. It's been a long day. Let's  
10 try it one more time --

11 A Okay.

12 Q -- but --

13 A Okay.

14 Q On the same page. Does the purchase of  
15 the Mitchell units also provide a generational hedge  
16 to mitigate potential risks of operational failures at  
17 the Big Sandy plant prior to the retirement of that  
18 unit? Of those units?

19 A That's what I meant. That's exactly  
20 what I meant.

21 Q Okay. Good.

22 A Operate -- I mean, you say operational.  
23 Any -- any issue that we may have with the Big Sandy  
24 plant, the Mitchell units would provide that hedge.

25 Q Okay. And would you agree that with the

1 purchase of the Mitchell units, the Kentucky Power  
2 Company will have 2.25 megawatts of installed  
3 capacity, which would be 1,078 Big Sandy plus 393  
4 megawatts of Rockport plus 780 megawatts at Mitchell?  
5 Would you agree with that statement?

6 A Subject to check your math.

7 Q Subject to check. That's fair. Would  
8 you also agree that Kentucky --

9 A You're talking about just in that period  
10 of time during that rate base fro -- freeze period,  
11 right?

12 Q Yes.

13 A The capacity --

14 Q That's correct.

15 A -- just during that period?

16 Q That's correct.

17 A Okay.

18 Q So subject to check, you would agree  
19 with that statement?

20 A Okay. Yes.

21 Q Yes. Would you also agree that Kentucky  
22 Power's peak load asset on January 23rd of 2013, was  
23 1,407 megawatts?

24 A I'm not -- I'm not aware of that number.

25 Q Okay. If we could go back to your

1       rebuttal testimony, page 3, lines 4 through 6.  If  
2       you'll let me know when you're there.

3               A       Okay.

4               Q       And lines 4 through 6 say, (Reading) In  
5       this instant, Kentucky Power's ownership of Mitchell  
6       Units 1 and 2 would mitigate the loss of capacity and  
7       energy needs for the Company's customer; is that  
8       correct?

9               A       That's correct.

10              Q       Did Kentucky Power consider other  
11       hedges, including energy and capacity purchases from  
12       the market, to cover this potential risk at a lower  
13       cost?  If you know.

14              A       I'm not aware of any.  I'm just  
15       testifying to what the Mitchell transfer would provide  
16       the Ke -- Kentucky customers.

17              Q       If we could stay at your rebuttal  
18       testimony on page 3, but look at lines 10 through 14.  
19       And if you could read that first sentence that begins  
20       with "for example."

21              A       (Reading) For example, the unforeseen  
22       failure of a major component at Big Sandy Unit 1 or 2,  
23       such as a turbine, before June 1, 2015, would require  
24       a major capital investment or significant O&M  
25       expenditures.



1 Under such circumstances, Kentucky Power  
2 would carefully consider whether the least-cost option  
3 would be to undertake the repairs or to avoid  
4 incurring that expense.

5 Q And do you still agree with that  
6 statement?

7 A I do.

8 Q Would this be an instance where  
9 purchasing the Mitchell units would be a hedge to  
10 mitigate potential risks of operation or --  
11 operational failures at the Big Sandy plant prior to  
12 the retirement of those units?

13 A Yeah. They -- the Mitchell transfer  
14 would protect against the exposure to the market in  
15 case that happened.

16 Q If we could stay with your rebuttal  
17 testimony on page 8, lines 1 through 6. If you'll let  
18 me know when you're there.

19 A What lines again?

20 Q Page 1 through si -- I'm sorry. Lines 1  
21 through 6.

22 A Okay.

23 Q Would you agree -- or would you explain  
24 why a capacity factor alone is a poor measure of unit  
25 performance?

1 A Why it's a poor measure?

2 Q Yes.

3 A The -- I don't -- I don't think any --  
4 any -- any -- any of these factors could be looked  
5 alone --

6 Q Okay.

7 A -- to determine the performance of a  
8 unit.

9 Q Why?

10 A Because they just don't give you enough  
11 information. As I mentioned here, I think I'm  
12 referring to some of the units that were in the  
13 newspaper article, the third-party units.

14 You know, very low-capacity factors of  
15 scrubbed units in a market, what -- it doesn't tell  
16 you the whole story. It just tells you there's  
17 something else to the story.

18 Could be transmission congestion. Could  
19 be high fuel costs. Could be poor-quality maintenance  
20 and operation of the unit. Could be a lot of  
21 different things, but it is one indicator of -- of a  
22 unit.

23 Q If you could turn to your rebuttal  
24 testimony on page 10, lines 1 through 11. Let me know  
25 when you're there.

1 A Okay.

2 Q Could you explain to us why Kentucky  
3 Power did not solicit proposals to purchase 50 percent  
4 of Mitchell Units 1 and 2 to determine its fair  
5 mark -- or its true market value?

6 A Now, what was the question again?

7 Q Could you explain why Kentucky Power did  
8 not solicit proposals to solicit 50 percent of  
9 Mitchell Units 1 and 2 to determine its true market  
10 value?

11 A I think Mr. Weaver is going to be  
12 testifying here shortly. The robust model that he  
13 ran, I think, was sufficient to give you a complete  
14 view of what the market as well as other options would  
15 provide.

16 Q So you think that the model was  
17 sufficient instead of soliciting the proposals?

18 A I do.

19 Q Now, should the Commission approve the  
20 Mitchell acquisition as proposed by Kentucky Power,  
21 are you aware that coal contracts filed pursuant to  
22 the Commission's fuel adjustment process are deemed to  
23 be open to public disclosure?

24 A The Mitchell fuel contracts?

25 Q Yes. Mitchell acquisition, and -- and,

1 therefore, the Mitchell fuel contract. That's right.

2 A Clearly, if the transfer is approved,  
3 Kentucky Power will -- will own those assets, and they  
4 will be subject to all the regulation of this  
5 commission.

6 Q So you would agree that they are deemed  
7 to be open to public disclosure?

8 A If that's -- if that's the rule.

9 Q Now, earlier today, my co-counsel asked  
10 your Mr. Wohnhas whether support existed in the record  
11 for that year, the 2040, as the life expectancy for  
12 the Mitchell unit.

13 Could you point to where the life  
14 expectancy ending in 2040 is in the record, or if not,  
15 can you explain why 2040 is the year to which everyone  
16 is pointing for the life expectancy of the Mitchell  
17 units?

18 A We -- we -- we constantly are doing  
19 studies on different options, equipment, adding  
20 equipment, not adding equipment. I, as well as our  
21 engineering department, has input into those studies.  
22 Mr. Weaver would -- I think, can explain his process,  
23 but I did weigh in on whether or not those units could  
24 run till 2040.

25 We did the same thing on the Big Sandy 1

1 fuel -- gas conversion, whether that unit could run  
2 for 15 years. The same with the Clinch River gas  
3 conversion.

4 And, like I said, we look at our  
5 assessments that we have done, engineering assessments  
6 as well as third-party assessments on individual  
7 pieces of equipment, and collaboratively we look -- we  
8 decide whether or not there are any indications that  
9 would keep us from making during that evaluation  
10 period, and the -- and that's what we did.

11 We know of no indication, any  
12 life-threatening indication, such as creep or any  
13 other indication, that would end the life of those  
14 units.

15 MS. COLE: Your Honor, if I could have  
16 one moment.

17 CHAIRMAN ARMSTRONG: You may.

18 MS. COLE: No further questions at this  
19 time. Thank you.

20 CHAIRMAN ARMSTRONG: Questions?

21 VICE-CHAIR GARDNER: Yes, sir.

22  
23 \* \* \*

## EXAMINATION

1  
2  
3 By Vice-Chair Gardner:  
4

5 Q Mr. LaFleur, you indicated that on --  
6 earlier that there were ten units in the system that  
7 you knew of that exceeded, I think you said, 60 years  
8 that were operational. How many plants was that  
9 sample, or how many plants does that include? Ten out  
10 of how many?

11 A Oh. I don't recall how many units --

12 Q I mean, is it a --

13 A -- but, I mean --

14 Q Is it 1,000?

15 A Just in APCo, just under me, we've got  
16 eight.

17 Q And how many units are in APCo?

18 A Well, the -- well, instead of giving you  
19 how many, you want me to just name them for you? I  
20 mean, they --

21 Q Are we talking thirty? Fifty? Forty?

22 A No. It's -- it's in the 30 range.

23 Q Okay. Now, I got confused, because do I  
24 understand that you cur -- that -- that you currently  
25 are not responsible for Mitchell?

1 A I'm currently not -- that is correct.

2 Q Okay. And you --

3 A It's under Ohio Power.

4 Q Okay. And you haven't been since 2008;  
5 is that correct?

6 A That's correct.

7 Q Okay. So your -- your testimony about  
8 the current -- or you're relying on your experience  
9 while you were there to 2008 and Mr. Walton; is that  
10 right? Or who -- who are you relying on for the --

11 A No, sir.

12 Q Current --

13 A When -- when we started the process, I  
14 basically evaluated all of Mitchell's budgets, their  
15 operating plans. I've met with the plant manager and  
16 the management team there. I've been to the plant  
17 several times, and I did my own assessment of where we  
18 were.

19 Q So you did your own due diligence, so to  
20 speak?

21 A Correct.

22 Q Okay.

23 A And remember, the Mitchell 1 and 2 Units  
24 are basically sister units to Amos 1 and 2 that I am  
25 over as well as Big Sandy 2.

1 Q Okay.

2 A They're all the 800-megawatt-class unit.

3 Q About the same age?

4 A About the same age.

5 Q Okay. Now, the -- so with respect to  
6 the -- the -- you examined the capital plan or budgets  
7 for -- for Mitchell; is that right?

8 A Correct.

9 Q And how far out do those budgets go?

10 A They pro -- subject to check, I think  
11 they're ten-year budgets.

12 Q Okay. In your experience, do the  
13 budgets for capital expenditures increase with the age  
14 of a unit? In other words, let me just -- like, would  
15 a 20-year-old unit have less capital expenditures in  
16 its budget, all things being equal, than a 60-year-old  
17 unit?

18 A Well, we've gone through a lot of  
19 different things over the years. If you're looking at  
20 just the capital to maintain the unit, there's one --  
21 there's one answer, but you can't really relate that  
22 to if you add a scrubber or, you know, you make a big  
23 retrofit.

24 Q Okay. I've got some questions about the  
25 scrubbers in a second that --



1 A Okay.

2 Q Let's --

3 A But let's say you were just maintaining  
4 the unit. We're maintaining the unit to continually  
5 produce at a performance level that the market will  
6 bear. Okay? And right now, it's a baseload unit.

7 Some of our units that are in the  
8 60-year-old range, their capital budgets have reduced  
9 greatly over the last seven years.

10 Q Were -- were -- Kentucky Power's being  
11 asked to purcha -- purchase these units for baseload  
12 for the next 30 years.

13 A Right.

14 Q So will -- would -- we -- would you  
15 expect any part of the nonpollution-related budgets --

16 A Right.

17 Q -- nonpollution capital budgets to  
18 increase during the course of that 30-year period?

19 A No.

20 Q No. Okay. So there's no -- so when a  
21 person models older plants and the life of older  
22 plants, you're saying that --

23 A It's pretty consistent.

24 Q It's consistent.

25 A Because if you're maintaining a unit at

1 a constant performance level, you're constantly  
2 repairing, and you're constantly replacing equipment.

3 So it's not like you go from a  
4 ten-year-old to all of a sudden you're 60 years old.  
5 I mean, it's year after year, you're evaluating that  
6 equipment, and if the performance level drops too far  
7 on an individual piece of equipment, you're going to  
8 replace that piece of equipment.

9 Q This is a different answer than I got,  
10 and I can't remember which utility told me that, but  
11 that's --

12 A Well --

13 Q -- why I'm --

14 A -- if -- now, if their -- if their  
15 condition is down here, and all of a sudden the market  
16 changes, and they want to perform up here, then there  
17 could be an accelerated capital investment needed to  
18 get to that level of performance.

19 Q Okay. But -- but just in general, there  
20 is -- to maintain the Mitchell plant at the level it  
21 is now, the cap -- there's not going to be any -- the  
22 -- the capital spend, the O&M spend, apart from  
23 their -- the -- their environmental retrofits, should  
24 be relatively constant?

25 A Relatively constant.

1 Q Does -- does the -- having scrubbers or  
2 SCRs increase the maintenance of the rest of the  
3 plants?

4 A Sure.

5 Q Okay. And do the capital budgets of  
6 these units include additional maintenance because of  
7 the -- okay.

8 A They do.

9 Q All right.

10 A We --

11 Q You --

12 A We basically -- we basic -- we have --  
13 we reviewed, and I reviewed, and some of my staff  
14 reviewed the O&M and capital budgets. Again, we've  
15 been scrubbed since 2007. SCR and scrubbed. We  
16 looked at that. Amos 1 and 2 is scrubbed.

17 And so I'm looking at more than just the  
18 Mitchell units. I'm looking at other units and  
19 comparing to make sure that if we're replacing  
20 something on a different plant, that, you know, it's  
21 just sharing best practices, basically.

22 Q Okay.

23 A The only caveat to your -- to your  
24 question is if we were to get into some type of  
25 inflationary period, commodity markets go crazy,

1 copper, steel, that could change our O&M and capital

2 --

3 Q Okay.

4 A -- projection.

5 Q Ba -- basically, and I'm overstating  
6 this, but that there is no potential useful life for a  
7 baseload coal plant, because there are capital  
8 investments occurring all of the time, and it could go  
9 on forever, conceivably?

10 A Conceivably.

11 Q Is that also true for SCRs and  
12 scrubbers?

13 A Yes, sir.

14 Q What's -- of the -- are there scrubbers  
15 of the same type and wet F -- wet scrubbers like  
16 you've got there and SCRs similar that were put in, as  
17 you indicated, in 2007, 2008, that range, are they --  
18 what's the longest of those that are on the AEP  
19 system? Do they -- or under your purview at this  
20 point.

21 A Under my purview, we put Mountanier and  
22 Mitchell -- well, Mitchell's not under my purview  
23 right now. Mountainier was put on about the same  
24 time, scrubbers.

25 Now, SCRs, Big Sandy 2's SCR was put on

1 I believe before the Mitchell SCR's.

2 Q Which was --

3 A So -- huh?

4 Q Which was, like, early 2000?

5 A I think Big Sandy's was around 2004,  
6 maybe, 2003.

7 Q What -- what experience do we have to  
8 know that they would last 40 years or 30 years?

9 A Well, understand in the SCR, you have --  
10 the type of equipment you had, the catalyst that it  
11 uses is replaced on a periodic basis. It's on a  
12 program that we replace the catalyst.

13 The ammonia system that where we create  
14 the ammonia from urea, it's a series of pipes and  
15 tanks and pumps, just like the rest of the power  
16 plant. It's -- it's a big system. You know, it cost  
17 millions of dollars, but it's made up of a lot of  
18 small parts.

19 Q Okay. Do -- do you know what the O&M  
20 cost is for the Mitchell scrubbers?

21 A Not individually. I mean, we may be  
22 able to break that out.

23 Q All right. You mean between the two  
24 units or --

25 A No. I mean, the -- but from the O&M

1 budget. The total O&M budget.

2 Q Is -- does in the range of 45 million  
3 sound high or --

4 A That sounds high.

5 Q Okay.

6 A But it -- and it depends on -- I mean,  
7 you got -- when you're talking about O&M budget, we  
8 need to be very specific if we're talking about  
9 limestone included in that or not.

10 Q Okay. Let me -- let me ask this: Other  
11 than the -- upgrading the electrostatic  
12 precipitator -- and by the way, what is the  
13 approximate cost of doing that?

14 A I don't think I have that with me.

15 Q Is that in -- do you know what the  
16 budget --

17 A It's -- it's in our -- it's in our  
18 project.

19 Q Okay. And, likewise, do you know what  
20 the landfill costs would be? The landfill costs.

21 A The dry fly ash, I think, is the  
22 largest. It's a couple hundred million. We -- we --  
23 those large capital projects, the landfill, the haul  
24 road, and the drive fly ash, we provided that in a  
25 request, information request.

1 Q Okay. And those projects are under way  
2 right now?

3 A They're under way, and, you know,  
4 they're part of the compliance.

5 Q Sure. And approximately when would they  
6 be completed?

7 A I think all of that is complete by the  
8 first of '15. Mr. Walton would probably be able to  
9 verify that.

10 Q Okay. Are -- are you aware of any other  
11 environmental budgeted items in the Mitchell capital  
12 plan other than the -- the electrostatic precipitators  
13 and the -- the landfill-related matters?

14 A Well, the land -- even the precipita --  
15 the landfill is, order of magnitude, larger than  
16 anything we've got. Every year there's small capital.

17 Q But are you aware any of big ones?

18 A We have -- like Mr. McManus testified,  
19 we have capital in there to addressed, you know,  
20 estimates around some of the other environmental  
21 rules.

22 Q Do you know -- how much does it cost to  
23 put in a continuous emission monitor for mercury?

24 A The mercury ones? I think they're  
25 around a million each.

1 VICE-CHAIR GARDNER: Okay. That's all.  
2 Thank you, sir.

3 COMMISSIONER BREATHITT: I have one, or  
4 a couple.

5 CHAIRMAN ARMSTRONG: Commissioner.

6

7 \* \* \*

8

9

EXAMINATION

10

11 By Commissioner Breathitt:

12

13 Q Mr. LaFleur, in your background, you  
14 stated that from 2003 to 2008, you were VP of region  
15 two generate -- generation assets, and that included  
16 Big Sandy?

17 A That included Big Sandy and Mitchell.

18 Q Yeah. And yesterday -- I almost said  
19 two days ago, but yesterday, Mr. Pauley testified on  
20 redirect from Mr. Overstreet, I think we were in  
21 confidential session, but this comment isn't, that  
22 Mitchell 1 and 2 and Big Sandy are considered sister  
23 plants.

24 A That's correct.

25 Q And you state on page 2 of your direct,



1 line 16, 15 and 16. Are you there?

2 A Yeah.

3 Q Just can you read line 15 and 16?

4 A Starting with --

5 Q I guess it's --

6 A -- "the purpose"?

7 Q Yes.

8 A (Reading) The purpose of my testimony is  
9 to describe the Mitchell plant, and why it will serve  
10 as a valuable generation asset to Kentucky Power  
11 Company for meeting the capacity energy requirements  
12 of its customers.

13 Q So if you know, if the Big Sandy plant  
14 and the Mitchell plant are sister plants --

15 A Big Sandy 2.

16 Q Big Sandy 2, and your five years of  
17 being more involved with Big Sandy than you are now,  
18 why do you think there's been an underinvestment in  
19 Big Sandy 2 in order to keep that plant viable, up to  
20 date, and technologically current so that this  
21 sentence in your testimony, the valuable generation  
22 asset to Kentucky Power could be the Big Sandy 2 plant  
23 instead of the Mitchell plant?

24 A Big Sandy 2 plant is a good plant. We  
25 have invested in Big Sandy 2 plant and kept it up.

1 It's had great performance. It just doesn't have a  
2 scrubber.

3 Q But that --

4 A It's -- it's --

5 Q Oh, I'm sorry.

6 A It's -- it's not located on an Ohio  
7 River, and it's -- you know, it burns Central App  
8 coal. And so when all the evaluations were dur --  
9 done, Mitchell, whether -- where its location is,  
10 right next to the Northern App coalfields, it made a  
11 lot more sense to scrub that unit when that decision  
12 was made, and, you know, it was done in 2007, that  
13 that investment was depreciated.

14 I mean, you're looking at 536 million  
15 for Mitchell. State-of-the-art plant, fully scrubbed,  
16 and you can't even build a scrubber for that anymore.

17 Q But why do you not think those  
18 investments were made at Big Sandy 2 in order for that  
19 to be the viable plant we would be talking about  
20 today?

21 A The -- and I was operating Big Sandy at  
22 the time. We did an exhaustive model to determine  
23 where the most cost-effective place to put these  
24 scrubbers were at the time.

25 Q But could you not have put them on both

1 plants?

2 A It's a lot -- as you know, it's a lot of  
3 capital. We were -- the schedule we had to put these  
4 scrubbers on was in line with the requirements of  
5 CAIR, and we didn't want to -- we didn't want to raise  
6 anybody's rates.

7 And every time we added a scrubber, it  
8 was raising someone's rates by a large amount.  
9 Similar to the amount we're talking about for Big  
10 Sandy 2.

11 So it -- most folks didn't want us to  
12 add scrubbers. So it was important to have a strong  
13 model to convince those commissions that this makes  
14 the most sense for the eastern fleet, and we operate  
15 as a fleet. We had a pooling agreement.

16 We shared the cost of those through the  
17 pooling agreement, and we had a strong model to show  
18 where the best place for the entire eastern fleet was  
19 to install those scrubbers.

20 And, I mean, we're caught in a timing  
21 issue here, and, you know, Big Sandy didn't get a  
22 scrubber.

23 Q Thank you. That was a full answer.  
24 It's been bugging me for the past couple of days.

25 A I meet with those employees, and we have

1 a lot of fine employees at Big Sandy, and we're going  
2 through some tough times.

3 COMMISSIONER BREATHITT: Thank you.

4 CHAIRMAN ARMSTRONG: Redirect?

5 MR. GISH: Yes. Yes, Mr. Chairman.

6 Just a few.

7  
8 \* \* \*

9  
10 REDIRECT EXAMINATION

11  
12 By Mr. Gish:

13  
14 Q Earlier in the testimony in this case,  
15 there's been some questions about operating agreements  
16 where one utility operates a power plant, and  
17 another -- where another utility has a partial  
18 ownership of that power plant.

19 Are you aware of any other operating  
20 agreements with -- within the AEP fleet?

21 A Right. Under the units that I have at  
22 APCo, I operate under multiple operating agreements.  
23 Multi-state as well as multi-jurisdiction. Our  
24 references to dual jurisdiction, but in APCo, for  
25 instance, at the Clinch River plant even, that's not

1 an operating agreement, but we have to get  
2 certificates of need and convenience from Virginia as  
3 well as West Virginia.

4 Any -- anything that we do at Amos, Amos  
5 3, two-thirds of Amos 3 is owned by Ohio Power, a  
6 third is owned by APCo. We have an operating  
7 agreement.

8 Sporn plant, the four small units of  
9 Sporn plant, two units are opened by Ohio Power, two  
10 units are owned by APCo. APCo operates them. AP --  
11 APCo operates Amos as well. So, yeah, we're very  
12 familiar with working with these operating agreements.

13 Q And in your experience in working with  
14 operating agreements, have you found them to be  
15 difficult?

16 A I've never had an issue. We've never  
17 had an issue with an operating agreement. You know,  
18 we're regula -- all the units operate in regulated  
19 units. We understand the jurisdictions that we  
20 operate in and the requirements, and we meet the --  
21 we -- we haven't had an issue. We meet those  
22 requirements.

23 Q And in the response to your questions --  
24 the questions from Vice-Chairman Gardner earlier, you  
25 mentioned that the product -- you know, budgets could

1 change if commodity prices were impacted by inflation.  
2 That -- that is unrelated to the age of any unit; is  
3 that correct?

4 A That's correct.

5 Q And you also were asked questions about  
6 the -- the budgeted costs of environmental projects  
7 in -- in -- are anticipated in the near future for  
8 Mitchell.

9 MR. GISH: May I approach the witness  
10 to -- to show him an exhibit?

11 CHAIRMAN ARMSTRONG: Sure.

12 Q Are you familiar with this exhibit, Mr.  
13 LaFleur?

14 A I am.

15 Q Okay. Is that Exhibit SCW 4?

16 A I'm looking for the top. Yes.

17 Q And -- and so that -- that exhibit shows  
18 the --

19 A Environmental capital.

20 Q Okay. And those -- that's part of whose  
21 testimony? Is -- is SCW Scott C. Weaver?

22 A It is.

23 Q And --

24 A Got to look all over it.

25 Q And earlier today, Miss Cole asked you

1 about the generation hedge benefit that having  
2 Mitchell plant would have with regard to Big Sandy  
3 unit; is that correct?

4 A That's correct.

5 Q But that's not the purpose of the  
6 transfer of the Mitchell unit --

7 A That --

8 Q -- Kentucky Power?

9 A That's correct.

10 Q Yeah. That --

11 A It's an interim period of time.

12 Q Right. The purpose of the transfer of  
13 the Mitchell unit is to provide long-term capacity and  
14 energy to Kentucky Power customers?

15 A That's correct.

16 Q And finally, can you turn to page 6 of  
17 your direct testimony?

18 A Okay.

19 Q And is -- do you see the question and  
20 answer that begins on line 16?

21 A Yes.

22 Q And would this be the evidence in the  
23 record that the Mitchell units could last through at  
24 least 2040?

25 A Yes.

1 MR. GISH: Okay. Thank you. No further  
2 questions, Mr. Chairman.

3 MS. COLE: Your Honor, we do have a  
4 couple of follow-up questions. If I could proceed.

5 CHAIRMAN ARMSTRONG: You may.  
6

7 \* \* \*

8  
9 RE-CROSS-EXAMINATION

10

11 By Ms. Cole:

12

13 Q Mr. LaFleur, in speaking with  
14 Vice-Chairman Gardner, you discussed the Atmos units  
15 to some extent; is that correct?

16 A Amos?

17 Q Amos. Sorry.

18 A Correct.

19 Q Regarding the Amos units. What is the  
20 retirement date for the Amos 800-mill -- megawatt  
21 units? Do you know?

22 A I don't have that date with me, and I  
23 don't -- I don't know when the last depreciation study  
24 was done.

25 Q Could you provide them in a post data --



1 a post-hearing data request? Or could it be provided  
2 in a post-hearing data request?

3 A Yeah. I would imagine we can.

4 THE WITNESS: Can you?

5 MR. GISH: We'll -- we'll -- we'll look  
6 and get that to you.

7 A Those -- I don't know if those dates are  
8 confidential or not.

9 MR. GISH: No.

10 MR. OVERSTREET: We'll -- we'll --  
11 we'll --

12 MR. GISH: We'll get them to you.

13 MS. COLE: Thank you.

14 Q Additionally, do you know whether or not  
15 Kentucky Power assumes all environmental site issues,  
16 including the Superfund decon -- contamination costs?

17 A Where?

18 Q If there are any.

19 A At Mitchell, you're talk --

20 Q Yes, please. At Mitchell.

21 A The -- you talking about if the transfer  
22 occurs, Kentucky Power owns Mitchell -- 50 percent of  
23 Mitchell, would they assume the liability?

24 Q Yes. If the acquisition of the Mitchell  
25 units occurs, if that transfer occurs, will Kentucky

1 Power assume all of the environmental site issues,  
2 including the Superfund decon -- decontamination  
3 costs?

4 A As far as I know, they will.

5 MS. COLE: If I could have one moment.  
6 Nothing further.

7 MR. GISH: One tiny redirect, if you  
8 don't mind.

9 CHAIRMAN ARMSTRONG: You may.

10 MR. GISH: Yeah.

11

12

\* \* \*

13

14

REDIRECT EXAMINATION

15

16 By Mr. Gish:

17

18 Q Mr. LaFleur, in response to that last  
19 question, you said Kentucky Power would assume the  
20 liabilities for environmental site conditions. It  
21 would assume up to a 50-percent amount of --

22 A Correct. Correct. Their portion of the  
23 ownership.

24

25

MR. GISH: No fu -- no further  
questions. Hold on. Have a -- can I have a moment?

1 I do have one additional question. My --

2 CHAIRMAN ARMSTRONG: Proceed.

3 MR. GISH: And I appreciate your  
4 indulging me.

5 Q Mrs. Cole -- Miss Cole asked you about  
6 the Amos units. Do you have any reason to believe  
7 that the -- the life of the Amos units would be any  
8 different than the life of the Mitchell units?

9 A No.

10 MR. GISH: Now we are -- have no further  
11 questions.

12 CHAIRMAN ARMSTRONG: Commissioner, your  
13 witness.

14 VICE-CHAIR GARDNER: If I could, just a  
15 couple quick follow-ups.

16  
17 \* \* \*

18

19 REEXAMINATION

20

21 By Vice-Chair Gardner:

22

23 Q Are there any Superfund issues of  
24 liability at Big Sandy?

25 A Not that I'm aware of.

1 Q Okay. Again, following up to counsel's  
2 question about depreciation. Tell me how in  
3 determining the depreciation schedule is the life  
4 determined for a particular unit.

5 In other words, were you involved in the  
6 process at any point where the depreciation was listed  
7 at the -- or determined to be 31 years for --

8 A For Mitchell?

9 Q Excuse me. For 2031 for Mitchell while  
10 it's under Ohio Power, were you involved in that  
11 decision?

12 A I don't remember. I usually am  
13 involved. When the -- we usually do depreciation  
14 studies when the Commission --

15 Q Sure.

16 A -- asks us to do one. We  
17 are operations. We are involved. Engineering's  
18 involved assessing the life of the units to --

19 Q Were you involved in the decision to  
20 increase it from '31 to -- excuse me. 2031 to 2040?

21 A For the study?

22 Q Yes, sir.

23 A Yes.

24 Q Okay. Was there -- and you agree with  
25 that?

1 A I agree with it. Yes.

2 Q Should it be longer than that?

3 A Well, as you know, when you do  
4 depreciation studies, there's a lot of parties  
5 involved, and not just the Company. Usually the  
6 Commission weighs in on that and staff. Everyone  
7 weighs in on that. There seems to be a lot of folks  
8 interested in it, 'cause it affects rates so much.

9 I guess there is -- there becomes a  
10 period that everybody feels comfortable with not going  
11 any further out. But, you know, we -- we talk about  
12 the life of these units, and we are not making any  
13 investments necessarily that's taking that unit from a  
14 2031 to further out to 2040.

15 What it is is as you move in time, and  
16 you do your assessments, you're just recognizing that  
17 the -- the unit will run that long.

18 Q Did you argue that it should be longer  
19 than 2040?

20 A No. I think we were comfortable with  
21 the not going -- going 30 years, I think the  
22 engineering and everybody was comfortable with that.  
23 But clearly, there's no reason why it wouldn't go  
24 longer.

25 Q But you didn't argue for that?

1           A       No.  I mean, 2040 was what the study  
2 was.

3           MR. GISH:  I do, and I feel I'm running  
4 on thin ice here.

5

6                   \*                   \*                   \*

7

8                                   REDIRECT EXAMINATION

9

10 By Mr. Gish:

11

12           Q       But Mr. Gar -- Vice-Chairman Gardner  
13 asked you if there are any Superfund-related issues at  
14 the Big Sandy plant, and you responded no.  Do you  
15 know of any Superfund-related issues at the Mitchell  
16 plant?

17

          A       No.

18

          MR. GISH:  Okay.  No further questions.

19

          CHAIRMAN ARMSTRONG:  Mr. LaFleur, thank  
20 you very much --

21

          THE WITNESS:  Thank you.

22

          CHAIRMAN ARMSTRONG:  Thank you for your  
23 cooperation.  You're excused now.

24

          MR. OVERSTREET:  Our next witness, Your  
25 Honor, is Mr. Walton, and Mr. Gish will present him.

1 CHAIRMAN ARMSTRONG: Good evening, Mr.  
2 Walton.

3 MR. WALTON: Good evening.  
4

5 \* \* \*

6  
7 ROBERT LEE WALTON, called by Kentucky  
8 Power Company, having been first duly sworn, testified  
9 as follows:

10

11 DIRECT EXAMINATION

12

13 By Mr. Gish:

14

15 CHAIRMAN ARMSTRONG: Please sit down and  
16 speak up. Your full name?

17 THE WITNESS: My name is Robert Lee  
18 Walton.

19 CHAIRMAN ARMSTRONG: And what do you do?

20 THE WITNESS: I am managing director of  
21 projects for the American Electric Power Service  
22 Corporation in Columbus, Ohio.

23 CHAIRMAN ARMSTRONG: Have you done that  
24 very long?

25 THE WITNESS: Twenty-six years.

1 CHAIRMAN ARMSTRONG: And why are you  
2 here?

3 THE WITNESS: Here to provide supporting  
4 testimony on the rebuttal related to the scrubber  
5 study performed on Big Sandy Unit 2 between 2004 and  
6 2012.

7 CHAIRMAN ARMSTRONG: Your witness.

8 MR. GISH: Yeah. Thank you, Mr.  
9 Chairman.

10 Q Mr. Walton, did you cause to have filed  
11 in this case rebuttal testimony?

12 A I did.

13 Q And do you have any corrections to your  
14 rebuttal testimony?

15 A No, I don't.

16 Q And if I were to ask you the same  
17 questions that were included in your rebuttal  
18 testimony, would you give the same responses?

19 A I would.

20 MR. GISH: Mr. Chairman, I tender Mr.  
21 Walton for cross-examination.

22 MR. HOWARD: No cross, Mr. Chairman.

23 MS. COLE: No cross.

24

25

\* \* \*



## EXAMINATION

1  
2  
3 By Vice-Chair Gardner:  
4

5 Q Mr. Walton, in your experience, do you  
6 have -- are there any cases where a regulatory asset  
7 has been approved for expenses that are nine years  
8 old?

9 A I'm not sure I understand your question.

10 Q Well, have -- in looking at your  
11 testimony, my understanding is that you are talking  
12 about the -- the investigations of the scrubber  
13 retrofit alternatives for Big Sandy 2?

14 A That's correct.

15 Q All right. And you countered Mr. Kollen  
16 in his direct testimony with saying, these are my  
17 words, not his, you know, you-all went from 2004 to  
18 2006. It was suspended for four year, and you picked  
19 it up again, and you're lumping it all together now  
20 seeking recovery -- excuse me -- prospectively. Isn't  
21 that correct?

22 A I think that, yes, that's what he was  
23 reporting, in fact, trying to, I think, put forth that  
24 we conducted, actually, two studies instead of the  
25 single study that we did conduct.

1 Q Okay. So my question is: You-all were  
2 seeking recovery for some expenses that were incurred  
3 as long ago as nine years; is that correct?

4 A That is correct.

5 Q Okay. Have you ever been involved in  
6 studies of any kind where the length of time before  
7 recovery was sought was nine years ago?

8 A Not myself personally, no.

9 Q Okay. What's the -- what's the -- prior  
10 to this case, what's the longest back in time where  
11 you have participated in a study or work where  
12 recovery is sought?

13 A I think that, you know, on several  
14 projects, and I think one of them was one of the  
15 questions that was brought up previously as it relates  
16 to landfill work. Typically, on a landfill project,  
17 there is work performed up to two years in advance  
18 before the actual field construction starts.

19 That has to do with the permitting  
20 process, the engineering design work that needs to be  
21 done, so forth and so on. So, you know, that would  
22 probably be the -- the time frame that I would  
23 reference as it relates to your question.

24 VICE-CHAIR GARDNER: Okay. Thank you.  
25 That's all.

1 CHAIRMAN ARMSTRONG: Thank you, Mr.  
2 Walton.

3 MR. OVERSTREET: May he be excused?

4 CHAIRMAN ARMSTRONG: He may, and thank  
5 you for your cooperation and your candor.

6 THE WITNESS: Thank you.

7 MR. OVERSTREET: Your Honor, our next  
8 witness is Phil Nelson, and -- and Mr. Garcia will  
9 present him.

10

11

\* \* \*

12

13 PHILIP J. NELSON, called by Kentucky  
14 Power Company, having been first duly sworn, testified  
15 as follows:

16

17 DIRECT EXAMINATION

18

19 By Mr. Garcia:

20

21 CHAIRMAN ARMSTRONG: Have a seat. Speak  
22 up loud and clear. Your full name?

23 THE WITNESS: Philip J. Nelson.

24 CHAIRMAN ARMSTRONG: What do you do,  
25 Philip?

1 THE WITNESS: I'm managing director of  
2 regulatory pricing analysis for the AEP Service  
3 Corporation.

4 CHAIRMAN ARMSTRONG: And how long have  
5 you done that?

6 THE WITNESS: That particular job has  
7 probably been two, three years.

8 CHAIRMAN ARMSTRONG: And before that?

9 THE WITNESS: I've been in various  
10 positions with AEP for about 34 years.

11 CHAIRMAN ARMSTRONG: And what brings you  
12 here?

13 THE WITNESS: I'm addressing a limited  
14 issue was raised by Mr. Kollen about proceeding in  
15 Ohio, and the issue he raised that we were somehow  
16 double-recovering Mitchell costs, which I demonstrate  
17 through my testimony that he's incorrect.

18 CHAIRMAN ARMSTRONG: Mr. Garcia.

19 MR. GARCIA: Thank you, Your Honor.

20 Q Mr. Nelson, you caused testimony in this  
21 proceeding, rebuttal testimony that consists of ten  
22 pages of questions and answers and one exhibit?

23 A Yes.

24 Q And were those prepared by you under  
25 your supervision?

1 A They were.

2 Q If I were to ask you the same questions  
3 today, would you provide substantially the same  
4 answers?

5 A I would.

6 Q Do you have any corrections or  
7 deletions?

8 A No, I do not.

9 MR. GARCIA: Your Honor, Mr. Nelson is  
10 available for cross-examination.

11 MR. HOWARD: No cross, Mr. Chairman.

12 MS. COLE: No questions.

13 CHAIRMAN ARMSTRONG: Sorry, Mr. Nelson.

14 THE WITNESS: I've enjoyed the  
15 proceedings so far.

16 MR. OVERSTREET: Our next witness, Your  
17 Honor, is Mr. Karl McDermott, and Mr. Garcia will  
18 present him.

19

20

\*

\*

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21

22

23

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25

1                   KARL A. MCDERMOTT, called by Kentucky  
2 Power Company, having been first duly sworn, testified  
3 as follows:

4  
5                   DIRECT EXAMINATION

6  
7 By Mr. Garcia:

8  
9                   CHAIRMAN ARMSTRONG: Have a seat. Your  
10 full name?

11                   THE WITNESS: Karl A. McDermott.

12                   CHAIRMAN ARMSTRONG: And what do you do,  
13 Doctor?

14                   THE WITNESS: I am a professor at the  
15 University of Illinois and a special consultant at the  
16 National Economic Research Associates.

17                   THE COURT: And how long have you done  
18 that?

19                   THE WITNESS: I've been at the  
20 university since 2008, and I've been with NERA since  
21 around 1998.

22                   CHAIRMAN ARMSTRONG: And what brings you  
23 here?

24                   THE WITNESS: I'm testifying on behalf  
25 of Kentucky Power regarding the methodology that Mr.

1 Weavers used to calculate the market proxy.

2 CHAIRMAN ARMSTRONG: Thank you.

3 Welcome. Please --

4 MR. GARCIA: Thank you --

5 CHAIRMAN ARMSTRONG: -- proceed.

6 MR. GARCIA: -- Your Honor.

7 CHAIRMAN ARMSTRONG: Mr. Garcia.

8 Q Dr. McDermott, did you cause in this  
9 case to be filed rebuttal -- I'm sorry. Direct  
10 testimony consisting of 15 pages of questions and  
11 answers and an appendix A?

12 A Yes.

13 Q And were these prepared by you or under  
14 your supervision?

15 A Yes.

16 Q If I were to ask you those questions  
17 again today, would you give me substantially the same  
18 answers?

19 A Yes.

20 Q Do you have any changes, deletions, or  
21 updates to your testimony?

22 A No, sir.

23 Q And did you also submit rebuttal  
24 testimony consisting of 12 pages of questions and  
25 answers?

1 A Yes, I did.

2 Q And those, likewise, were prepared by  
3 you under your supervision?

4 A Yes.

5 Q And if I were to ask you the same  
6 questions today, you would provide substantially the  
7 same answers?

8 A Yes.

9 Q And did you also provide supporting  
10 answers for discovery requests in this case?

11 A Yes.

12 Q To your knowledge, all those are true  
13 and accurate?

14 A Yes.

15 MR. GARCIA: Thank you. Your Honor, Mr.  
16 McDermott is -- Dr. McDermott is ready for  
17 cross-examination.

18 CHAIRMAN ARMSTRONG: Go ahead.

19 MS. HANS: Just a few questions, Your  
20 Honor.

21 CHAIRMAN ARMSTRONG: Proceed.

22

23 \* \* \*

24

25



## CROSS-EXAMINATION

1  
2  
3 By Ms. Hans:

4  
5 Q Good day, Mr. McDermott.

6 A Good evening. Or, well, evening, I  
7 guess.

8 Q Good evening. That's fine. Could you  
9 for -- for us first refer to your direct testimony in  
10 this proceeding at page 6? Just let me know when you  
11 get there.

12 A I am there.

13 Q Okay. And in this -- on this -- on this  
14 page, just to summarize your testimony here, you're  
15 discussing the process that the Kentucky Commission  
16 uses to evaluate proposals such as the Kentucky Power  
17 Company's proposal being considered today; is that  
18 correct?

19 A That's correct.

20 Q And -- and at the same page, line 16, if  
21 you could refer to that line. You testify that the  
22 approach used by the Commission may be generally  
23 explained in the Commission's recent decision in Case  
24 Number 2011-00-375; is that correct?

25 A That's correct.

1 Q Okay. And we have a copy of that order  
2 we'll pass out. May I presume that you've read that  
3 order?

4 A Yes.

5 Q Okay. And we'll -- we just wanted  
6 everyone to have it to reference.

7 A Thank you.

8 Q In particular, just for your reference,  
9 I'm going to refer you to page 18 of that order.

10 A I'm there.

11 Q There's a highlighted page -- and  
12 just -- just for the record, just to clear it up, and  
13 I apologize. Let me step back one second. This is  
14 the final order with regard to LG&E, KU's CPCN  
15 regarding environmental controls; is that accurate?

16 A Yes, ma'am.

17 Q Okay. And could you read the  
18 highlighted paragraph on page 18 into the record?

19 A (Reading) As to environmental  
20 Intervene -- Intervenors' arguments that the joint  
21 applicants' RFP process produced a limited array of  
22 renewable energy resource proposals, the Commission  
23 finds that the joint applicants' RFP process to be  
24 reasonable.

25 The RFP was sufficiently comprehensive,

1 and six-weeks' deadline provided reasonable notice to  
2 potential energy suppliers to produce a complete and  
3 comprehensive response.

4 The Commission further finds that the  
5 evidence supporting the joint applicants' proposal as  
6 being least cost when prepared to scenarios which  
7 assumes Environmental Intervenor's robust DSM position  
8 and purchasing the largest quantity of wind achievable  
9 from the RTP options.

10 Q Thank you. So after reading that and  
11 reading the Commission's order in that case, which you  
12 have specifically referenced in your testim --  
13 testimony as the standard, is it not reasonable to  
14 conclude that the Kentucky Commission has found that  
15 an RFP process is the reasonable and even preferred  
16 approach to benchmarking or analyzing a proposal such  
17 as the one presented in this case?

18 A I'll have to read a little bit more  
19 around here to familiarize myself, if that's all  
20 right.

21 MS. HANS: While he's referencing it, if  
22 we could just have this -- this exhibit marked. I  
23 believe this will be 10. AG's exhibit hearing --  
24 hearing Exhibit Number 10. Thank you for your  
25 indulgence, Your Honor.

1                   CHAIRMAN ARMSTRONG:  No objection.  So  
2  ordered.

3                   (AG Exhibit 10 admitted.)

4                   A        What I'm trying to re -- remind myself  
5  is whether or not the RFP being discussed in this  
6  paragraph is with respect to the entire process or the  
7  renewable aspects.

8                   Q        Well, I mean, I understand your concern,  
9  but you did cite and reference in your testimony that  
10 in -- that this case, in essence, served as a model  
11 for the approach that the Commission would use with  
12 respect to a benchmarking tool, in essence, in terms  
13 of analyzing generation and planning decisions, did  
14 you not?

15                  A        Well, with regard to the idea that there  
16 would be the need to demonstrate that the proposed  
17 facilities did not result in wasteful duplication.

18                  Q        And you -- but you did -- and you also  
19 referred to this -- you also indicated, excuse me, in  
20 earlier testimony today that you had reviewed this  
21 order in preparing your testimony; is that correct?

22                  A        That's correct.

23                  Q        Okay.  So based on that -- the -- the  
24 information that you supplied into the record and your  
25 additional review, do you think it's reasonable to

1 conclude that the Kentucky Commission has found that  
2 an RFP process is the reasonable and even preferred  
3 approach to benchmarking or analyzing a proposal such  
4 as the one presented in this case?

5 A I believe it's one of the approaches  
6 that the Commission has adopted.

7 MS. HANS: Thank you. No further  
8 questions, Your Honor.

9 MR. NGUYEN: A couple questions, Your  
10 Honor. Thank you.

11 CHAIRMAN ARMSTRONG: Proceed.

12

13

\* \* \*

14

15

CROSS-EXAMINATION

16

17 By Mr. Nguyen:

18

19 Q Good after -- good evening, Dr.  
20 McDermott?

21 A Good evening.

22 Q Were you here just a little earlier in  
23 my discussions with, I think it was Mr. Fransen, with  
24 respect to -- I believe it was Mr. Fransen, with  
25 respect to independent appraisal? Do you recall --

1 A Yes.

2 Q -- that?

3 A Yes. I do recall that.

4 Q Okay. And you presented testimony  
5 regarding valuation; is that correct?

6 A Correct.

7 Q Okay. Are you familiar with the  
8 independent appraisal process as it relates to  
9 appraising the fair market value of a power plant?

10 A I'm generally familiar with data.

11 Q Okay. Would it be reasonable in this  
12 case for Kentucky Power to have conducted an  
13 independent appraisal to offer, in addition to their  
14 internal market proxy modeling, as an objective  
15 corroboration for their internal results?

16 A Again, I think that the process that the  
17 Company has used when evaluating the options captures  
18 essentially -- just like an RFP process would,  
19 potentially capture that information.

20 It captures the same information that  
21 would occur in an independent appraisal, and I don't  
22 think you're going to get any additional information  
23 as a result of that.

24 Q Did you review Mr. Weaver's modeling of  
25 that particular moxy -- market proxy --

1 A Well, with the income --

2 Q -- simulation?

3 A -- approach and every -- I reviewed in  
4 general the approach he's taken. I did not verify or  
5 quantify any of the -- the assumptions.

6 Q Okay. So, for instance, you did not  
7 verify any of the -- or -- or did you verify the --  
8 the costs of the combined cycle natural gas that was  
9 used in Mr. Weaver's analysis?

10 A No, I did not.

11 Q Okay. Did you review or analyze any of  
12 the resource cost projections such as gas, coal,  
13 energy market prices that were used in Mr. Weaver's  
14 analysis?

15 A No. That's -- in a sense, that's what  
16 this process has done is kick the tires on the model,  
17 and all the participants in the case have made  
18 alternative suggestions and provided different  
19 scenarios.

20 Q But weren't you retained specifically to  
21 address that particular --

22 A No.

23 Q -- question?

24 A I was retained to just examine whether  
25 or not the general approach that was taken, the

1 methodology that was applied, is a reasonable  
2 methodology in this --

3 Q Okay.

4 A -- case.

5 Q But one could argue that the methodology  
6 that was applied would be reasonable if the  
7 assumptions were, in fact, determined to be  
8 reasonable. So how could you arrive at that general  
9 conclusion without sort of digging into the underlying  
10 assumptions?

11 A Again, you can -- I believe this process  
12 has done that. And all I'm saying is that the type of  
13 analysis that the Company has performed and Mr. Weaver  
14 in specific is typical of the type of analysis that's  
15 conducted by commissions around the country when  
16 they -- when they perform this type of analysis.

17 Q But you personally did not perform any  
18 in-depth review of any of the assumptions that  
19 were --

20 A I did not.

21 Q -- conducted by Mr. We -- Mr. Weaver?  
22 Could you tell me how long an independent appraisal  
23 process would take? What -- you know, if -- if you --  
24 if you know. General try -- time frame or --

25 A Offhand, I couldn't tell you.



1 MR. NGUYEN: Okay. Okay. Those are all  
2 the questions I have, Your Honor. Thank you.

3 CHAIRMAN ARMSTRONG: Questions?

4 VICE-CHAIR GARDNER: Thank you.

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EXAMINATION

9

10 By Vice-Chair Gardner:

11

12 Q Mr. McDermott, let me ask you a  
13 question. Should the utility always choose the  
14 least-cost option?

15 A Well, I believe they should be trying to  
16 choose the least-cost option. I know that the  
17 difficulty that the Commission has to make decisions  
18 which have to weigh a lot of other information and --  
19 and alternatives, and if -- if the Company has given  
20 you the least-cost option, then that's part of the  
21 information set you have to work with.

22 Q Does -- does -- does Kentucky require  
23 least-cost options?

24 A I believe they -- the -- the -- the rule  
25 states that.

1 Q Did you -- when you reviewed, in -- in  
2 general, as I understand it, from your just prior  
3 testimony, what Mr. Weaver did, did you find -- did  
4 you question any of the assumptions or -- that went  
5 into the model?

6 A Well, I asked questions about, you know,  
7 how was demand side management handled and, you know,  
8 making sure that the process incorporated all of the  
9 reasonable elements that this type of analysis  
10 should -- should include.

11 Q Did you meet with Mr. Weaver?

12 A No.

13 Q Did you talk to Mr. Weaver?

14 A He was involved in a telephone call or  
15 two that I was involved.

16 Q Did -- what -- what did you actually  
17 review documentwise that's in this case?

18 A Primarily, the -- the way his testimony  
19 was laid out, and then I asked questions about, you  
20 know, where certain information is being applied and  
21 making sure that it was as comprehensive as possible  
22 to capture the elements I think were necessary.

23 Q Okay. And how long would you say the  
24 conversations were?

25 A Offhand, I can't recall, but not --

1 not -- not all day or anything like that, no.

2 Q Less than a day all total?

3 A Oh, off total, yes.

4 Q Less than half a day all total?

5 A I can -- I think so.

6 Q As -- as part -- you reviewed his  
7 testimony. Did you also review the -- the actual -- I  
8 think we heard there were 50-something iterations  
9 performed. Did you review those?

10 A I did not go into all of the detail, but  
11 I asked whether or not there were sensitivity runs  
12 done, what kind of sensitivity runs were done, looking  
13 at the various risk analysis that was performed so  
14 that you understand that there was some robustness to  
15 the estimation process.

16 Q And it's your belief that -- that an RFP  
17 is unnecessary?

18 A Right, because I think the participants  
19 in any RFP process would make the same types of  
20 calculations that Mr. Weaver did to get to their --  
21 their ana -- their bids. So they would look at the  
22 market data.

23 And, you know, when you think about it,  
24 if I own a power plant, and I have the opportunity to  
25 bid into a particular process, what are my

1 alternatives? Well, I could sell power to the market.

2 Well, Mr. Weaver's analysis employed  
3 market proxies to develop an alternative price to  
4 compare to the original cost depreciated value.

5 Q What were the market proxies that he  
6 used?

7 A PGM prices.

8 Q Did -- so if one -- if one -- was there  
9 anything else that was a proxy for the market other  
10 than PJM prices?

11 A Well, the cost of entry was also  
12 modeled.

13 Q What -- what does that mean?

14 A That means that one of the alternatives  
15 a supplier has is that they could build a new unit in  
16 order to supply the power that they would want to bid  
17 in.

18 And in this case, it was a combined  
19 cycle unit that they were using as the proxy, and  
20 those costs are pretty well-known in the marketplace,  
21 and so those can be accurately assessed and used as  
22 another benchmark for what costs you would offer.

23 Q So -- so one of the proxies was the --  
24 what it would cost to construct an 800-megawatt  
25 combined cycle? Is that what -- is that --

1           A       Basically, that's the al -- the  
2 alternative is combined cycle unit, yes.

3           Q       Is -- is -- I mean, I'm trying to  
4 understand. Is that one of the proxies that he used  
5 was the cost to AEP to construct an 800-megawatt  
6 combined cycle gas turbine? I'm ju -- I think I'm  
7 just trying to --

8           A       Right. No.

9           Q       -- follow up on what I understood you to  
10 say.

11          A       No. I un -- I understand, and I'm  
12 trying to recall if it was exactly 800 megawatts or  
13 not, and -- and offhand, I cannot recall whether that  
14 was the exact unit that he was using to cost it out.

15                    But what you're looking for there is the  
16 cost of a new entry, which is also provided by the PJM  
17 organization itself. They -- they provide a cost of  
18 new entry, and I believe he may have used that as  
19 well.

20          Q       Okay. Was there anything else he used?

21          A       Those are the two primary market  
22 proxies.

23          Q       If -- if one does modeling in -- in --  
24 instead of a -- instead of an RFP, because it's --  
25 it's a proxy for what someone wanting to bid would be,

1 wouldn't it be important to have accurate inputs? For  
2 example, commodity prices.

3 A Well, again, when you're looking at what  
4 the market is providing, the alternative that you face  
5 as a supplier is selling that power into the PJM  
6 market.

7 And so all you need to do is look at  
8 that as whether or not that alternative is available  
9 to you, and then when you assess what would be my  
10 market value if I could sell my power in that place  
11 and then compare that to the original depreciated  
12 cost, as he found, all of those alternatives were  
13 above the cost of the -- of the Mitchell transfer at  
14 the historic depreciated cost.

15 Which doesn't surprise me, because it is  
16 an older unit, and -- and you are getting sort of this  
17 depreciated, you know, historical cost number, which I  
18 would expect it to -- to be less than a lot of the  
19 market proxies. So I wasn't surprised by what he  
20 found.

21 VICE-CHAIR GARDNER: I think that's all  
22 I have. Thank you.

23 CHAIRMAN ARMSTRONG: Questions?  
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## EXAMINATION

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By Commissioner Breathitt:

Q Mr. -- Dr. McDermott, how are you? I remember crossing paths with you back in the '90s at NARUC meetings.

A I had to report to your committee and present information from the ERE committee. Yes, ma'am.

Q On page 11 of your testimony, what are construction proxies?

A That was the -- the cost of new entry that we were just --

Q Just discussing?

A -- speaking about.

Q Okay.

A Yes.

Q That would be the cost of a new --

A A new plant being built. In this case, the combined cycle plant.

Q Were you aware that AEP got a bid for a new gas-fired power plant?

A In -- in --

Q In this case.

1 A Is that with regard to the 250 R --

2 Q Yes.

3 MR. GARCIA: Your Honor --

4 CHAIRMAN ARMSTRONG: Proceed.

5 MR. GARCIA: -- I would like only to  
6 caution the witness to the extent he has any  
7 confidential information, not to disclose it.

8 Q That was -- that was my only question,  
9 just if he was aware that --

10 A Yes, ma'am.

11 MR. GARCIA: Oh, thank you, Your Honor.

12 Q -- the Company had received one.

13 A Yes, ma'am.

14 Q And just to confirm your statement on  
15 line 15 and 16.

16 A That's on --

17 Q You --

18 A -- which page?

19 Q Eleven. You restate that Mr. Weaver's  
20 analysis indicates the cost of a new plant is higher  
21 than -- than this proposal?

22 A Yes, ma'am.

23 COMMISSIONER BREATHITT: I think that's  
24 all I have. Thank you.

25 MR. GARCIA: Just very few, Your Honor.



1 Thank you.

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REDIRECT EXAMINATION

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By Mr. Garcia:

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Q Mr. McDermott, do you recall that you  
10 were asked by consumer counsel some questions about  
11 the case AG -- yeah. Attorney General. I'm sorry.  
12 AG Exhibit 10?

13

A Yes.

14

Q And if I understood your testimony  
15 correctly, you mentioned that an RFP would not be the  
16 only approach in order to make a determination about  
17 what's available in the market?

18

A Right. An RFP process can be a  
19 reasonable process, particularly for products that are  
20 standardized. For -- I mean, for example, we use RFPs  
21 to, you know, buy new poles to hang wires on, and  
22 'cause the poles are standardized, we would have RFPs  
23 that would look at, maybe, new trucks for the, you  
24 know, service provision.

25

And in the case of the combined cycle

1 units and the type of capacity that's used to fit in  
2 as intermediate power that's cycling, RFP proxies can  
3 be -- or RFP processes can be appropriate for  
4 acquiring that kind of power.

5 But it's not necessary and effective in  
6 all types of -- of purchases, because in the case of  
7 some types of products, like baseload power, they're  
8 rather idiosyncratic.

9 The -- the -- the comparison isn't  
10 really sort of like buying houses. It's more like  
11 buying the Empire State Building or, you know, the  
12 Hancock Building in Chicago, and those are rather  
13 specialized items.

14 Q So in this situation that we have before  
15 us, is it reasonable not to have done an RFP and go  
16 with an alternative method?

17 A Well, that's what my testimony says is  
18 that, indeed, you know, the -- the -- the approach  
19 that Mr. Weaver has employed actually captures all the  
20 same information, and I think in a better way because  
21 of the idiosyncratic nature of the product that we  
22 were looking at in this case.

23 Q So in your opinion, there are situations  
24 in which an RFP may be useful, but there are situ --  
25 situations in which -- where it wouldn't be necessary?

1 A Yes. That's correct.

2 Q And that would be the case with the  
3 analysis that was done in order to determine whether  
4 the Mitchell unit was the least-cost option for  
5 Kentucky Power in this case?

6 A Right. That's what I said in my  
7 testimony.

8 Q And in your opinion, is using the market  
9 value proxies that were used in the analysis of Mr.  
10 Weaver a reasonable approach to make that  
11 determination of whether these are the least-cost  
12 options that have -- using an RFP as the baseline?

13 A Yes.

14 Q And why is that?

15 A Okay. Well, again, as I was saying,  
16 that I believe you capture all of the relevant  
17 information that any bidder would be applying to make  
18 a bid into the RFP. So once you have all that  
19 information, the RFP doesn't really actually add any  
20 additional value.

21 Q And throughout the -- the -- the  
22 hearing, there has -- has also been mention question  
23 about using an RFP, actually, to make a valuation of  
24 the Mitchell plant. Do you have an opinion about  
25 that?

1           A       Well, again, that to try to use an RFP  
2 to value that, we are looking at very idiosyncratic  
3 information. The -- the plant is -- is a very  
4 specialized asset.

5                    It's one of the reasons why it's very  
6 hard to use those other purchases that have been made  
7 recently, that to use as a method of valuing what  
8 Mitchell would be worth.

9                    For example, you know, in -- in the  
10 Ameren sale, units like Coffeen might be part of the  
11 package. Coffeen has -- is out in the corn fields,  
12 has a single railroad to deliver coal to it.

13                   How do you assess a premium that would  
14 exist in the case of Mitchell, which has mine-mouth  
15 coal, river transportation as well as railroad  
16 transportation, and my guess is you can even bring  
17 coal in by truck.

18                   So you have sort of at least a trifecta  
19 there that -- that would add a premium value to a site  
20 like Mitchell that you wouldn't have in the case of a  
21 Coffeen unit.

22                   And so to try to take the average price  
23 or something like that from those R -- those -- those  
24 sales, it's hard to make a transfer and say that can  
25 give you a value for Mitchell. It's just very

1 difficult, I think.

2 Q And if -- if I understand correctly,  
3 also, there was some discussion about your review of  
4 Mr. Weaver's methodology in order to use the  
5 calculation that he made about the market proxy in  
6 order to determine what the market value of the plants  
7 were compared to its net book value, correct?

8 A Yes.

9 Q In -- in your opinion, is the fact that  
10 these proceedings are actually ongoing and give any  
11 indication about whether that's a reasonable approach  
12 in order to -- to make a determination about basically  
13 what's out there without conducting an RFP?

14 A Right. I mean, anyone could come at any  
15 time and offer, you know, a unit into this process and  
16 let people know that they have something.

17 MR. GARCIA: I have no further  
18 questions, Your Honor.

19 CHAIRMAN ARMSTRONG: Please proceed.

20 MS. HANS: Just a few.

21 CHAIRMAN ARMSTRONG: General.

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## RE CROSS-EXAMINATION

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By Ms. Hans:

Q So it's your testimony that the use of the model in this case is the correct approach?

A Yes.

Q And did you read, review, or otherwise analyze the Strategist or Aurora models conducted by Mr. Weaver?

A I just looked at his testimony and how he employed those models to arrive at that.

Q So you did not run those models, nor did you review those models?

A No, ma'am. I did not.

Q You also were -- were talking a little bit about coal accessibility with regard to the Mitchell units. Have you had cause to visit the Big Sandy Unit 2 plant here in --

A No, I have --

Q -- Kentucky?

A -- not.

Q Okay. Subject to te -- check, would you be willing to -- or -- well, subject to check -- or we -- let me rephrase the question.

1                   Would you be surprised to learn that at  
2 Big Sandy Unit 2, there's actually a rail, coal rail  
3 that brings coal directly to the plant on site?

4                   A       No, it would not surprise me.

5                   MS. HANS: Thank you. No further  
6 questions, Your Honor.

7                   MR. NGUYEN: Your Honor, just -- just a  
8 couple of short questions.

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12                                   REXCROSS-EXAMINATION

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14 By Mr. Nguyen:

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16                   Q       So, Dr. McDermott, let me get your  
17 testimony clear then. So is it your testimony that  
18 Mr. Weaver's market proxy methodology is a reasonable  
19 methodology as a substitute for an RFP?

20                   A       Yes, sir.

21                   Q       But it is not your testimony that -- as  
22 to the merits of Mr. Weaver's results based upon that  
23 methodology?

24                   A       That's correct. That's something that's  
25 tested in this forum.

1 MR. NGUYEN: Okay. Thank you.

2 VICE-CHAIR GARDNER: Ju -- just a couple  
3 more.

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REEXAMINATION

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9 By Vice-Chair Gardner:

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11 Q Did you -- one of the proxies was the  
12 PJM market. Did you review how Mr. Weaver determined  
13 the prices from the PJM market?

14 A Well, he was just taking the published  
15 prices that they had.

16 Q For how many years?

17 A I believe it was ten years.

18 Q Okay. And then projecting them out or  
19 because --

20 A Well, it's a -- it's a te -- it's a --  
21 it was a ten-year, I believe, forecast.

22 Q So -- okay. So the forecast was from  
23 PJM for ten years, not --

24 A Yeah.

25 Q -- beyond that?



1 A Right.

2 Q Okay. And what --

3 A If I recall -- you know, recall that  
4 there's combinations of -- of assets. Sometimes  
5 you're -- you're buying for a certain period of time,  
6 and then you're building a new unit to meet the  
7 demand. So the bundles that he was testing had a lot  
8 of different optionality in them.

9 Q Okay. Did you review those publications  
10 yourself?

11 A I did not verify or -- or review those.

12 Q Did -- do you know what assumptions were  
13 made on Mr. Weaver's second proxy, which was the  
14 construction -- AEP constructing an approximately  
15 800-megawatt gas plant?

16 A Those are -- are -- are taken from  
17 standard cost analysis that exist in the literature  
18 today.

19 Q Did you review those?

20 A I did not go through and test those.

21 Q Oh, I'm sorry. One other question. I'm  
22 sorry.

23 Earlier, were you in the room when Mr.  
24 Fransen was saying that the best value is the  
25 discounted -- or the best method is employing a

1 discounted cash flow method?

2 A Yes, sir.

3 Q Can you explain to me why, if we're  
4 employing a discounted cash flow method, that a  
5 regulated utility would be identical to doing a  
6 discounted cash flow on a merchant or utility that  
7 it -- well, that -- a utility that is a merchant  
8 utility?

9 A Well, what you're doing is just looking  
10 at the value that you can sell the output of the plant  
11 from, and -- and in that case, it's the same for  
12 merchants as it is for utilities selling into the  
13 market, and so you would use the same discounted cash  
14 flow approach to value both assets.

15 Q Okay. I'm sorry to be stupid. Let  
16 me -- okay. I understand discounted cash flow if  
17 you've got a bond or a stock and -- or an apartment  
18 building or a rental unit. You've got a stream of  
19 income, you figured it out, and you discount it to  
20 present value.

21 I don't understand how if you've got a  
22 merchant plant that is selling into the market, the  
23 analysis of looking at the -- the costs of the -- of  
24 what would be -- what the costs would be is -- would  
25 be the same for both merchant and a regulated utility,

1 and maybe I'm just missing --

2 A Well --

3 Q -- something?

4 A -- I think what -- maybe this is the  
5 disconnect that's occurring. If you're a regulated  
6 utility, your costs become your price.

7 Q Right.

8 A And so you're discounting back that --

9 Q Right.

10 A -- that cash flow.

11 Q And you get that --

12 A And the merchant is selling power into  
13 the future, so it's like your apartment analogy. We  
14 would look at the rents out for 20 years and discount  
15 those back, and you'd make the same kind of  
16 comparisons that he did.

17 If you did that kind of analysis for  
18 your apartment, you -- and you were making the  
19 decision, say, to buy an apartment or not, you would  
20 look at the discounted cash flow, and, perhaps, you  
21 see that that says the -- the -- the apartment can be  
22 built -- or -- or has a value of a million dollars,  
23 but you could actually build it for 900,000, which  
24 would be the cost of new entry.

25 In that case, you would choose to do a

1 cost in hopes of making a little bit of rent on -- you  
2 know, additional rents on -- on -- on the sale, then,  
3 of the apartments.

4 Q Okay. Let me -- let me see if the -- if  
5 this is correct, then. The discounting piece of a  
6 cash flow analysis is the same, but the methodology is  
7 different for a regulated utility and a merchant.

8 Because with merchant, as I understand  
9 what you were saying is you're projecting their  
10 revenues in the market while -- and then discounting  
11 that back, and then with the -- the regulated utility,  
12 you're looking at their costs so that then that  
13 determines what the revenue would be?

14 A That's the basic analysis.

15 VICE-CHAIR GARDNER: Okay.

16 MR. GARCIA: Your Honor, actually, I  
17 need to do a little bit of -- of cleanup. Just --  
18 just a few questions --

19 CHAIRMAN ARMSTRONG: Go right ahead.

20 MR. GARCIA: -- if I may.

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## REDIRECT EXAMINATION

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3 By Mr. Garcia:  
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5 Q Dr. McDermott, you were asked about the  
6 type of review that you performed with the analysis of  
7 Mr. Weaver, and I just wanted to clarify two things.

8 You mentioned that your understanding  
9 was that some of the sources of information for values  
10 of Mr. Weaver came from PJM.

11 Would it be -- would it make a  
12 difference for your analysis if whether the  
13 methodologies are appropriate, in order to make a  
14 determination, where Mr. Weaver obtained his numbers?

15 A No. No, it doesn't really, as long as  
16 they are accurate numbers for the marketplace.

17 Q Right. And if he were, for example, to  
18 have obtained his -- and probably we can ask him, but  
19 his numbers from fundamentals analysis from some other  
20 source --

21 A Oh, yeah. Well, I know he, you know,  
22 also used the fundamentals of the Company, that  
23 they -- they've applied, so he had access to a number  
24 of different sources.

25 Q Thank you. And let me ask you something

1 else. Commissioner Gardner was just asking you  
2 questions about the -- the difference between how  
3 regulated and unregulated entities would treat, I  
4 think, cash flow.

5           Would it make a difference what the  
6 discount rate would be from one or the other?

7           A       That -- yes, it would. Because in most  
8 cases, the utility industry has a lower discount rate  
9 than the competitive market would, so that would  
10 change the valuations of those cash flows.

11           Q       And other -- other than that, would  
12 there be other differences?

13           A       There could be. Yes.

14           MR. GARCIA: Okay. Thank you, Your  
15 Honor. Is that -- oh, I'm sorry.

16           CHAIRMAN ARMSTRONG: You're excused --

17           THE WITNESS: Oh.

18           CHAIRMAN ARMSTRONG: -- Doctor. Thank  
19 you very much for your testimony and your patience.  
20 We can take a five-minute break.

21           MR. GARCIA: Thank you, Your Honor.

22           CHAIRMAN ARMSTRONG: And --

23           MR. OVERSTREET: Your Honor, our next  
24 witness is going to be Mr. Karrasch, and a substantial  
25 portion of his testimony as filed is confidential. I

1 don't know -- maybe counsel, we can get together and  
2 figure out the most expeditious way to get him on.

3 MR. HOWARD: Mr. Chairman, at this  
4 point, I don't know that we have any questions for  
5 him, depending on what Staff or the Commissioners has.  
6 We have none at this point, depending on what the  
7 Staff or Commissioners asks.

8 CHAIRMAN ARMSTRONG: We'll adjourn for a  
9 moment and --

10 MS. HANS: Thank you.

11 MR. HOWARD: Five minutes? Ten minutes?

12 VICE-CHAIR GARDNER: Five. Two.

13 (Recess from 7:29 p.m. to 7:34 p.m.)

14 CHAIRMAN ARMSTRONG: You have a pending  
15 request right now?

16 MR. GARCIA: Yes, Your Honor. The --  
17 before we -- maybe this can be done after the -- the  
18 -- the swearing of the witness, but a lot of  
19 information in Mr. Karrasch's testimony is  
20 confidential, and in order to best protect the  
21 confidentiality, I just wanted to figure out if there  
22 was a preferred methodology of -- of how to do that.

23 Like, for example --

24 CHAIRMAN ARMSTRONG: Well --

25 MR. GARCIA: -- at the very front, there

1 are going to be a couple of corrections that would  
2 actually be confidential, and those can be addressed  
3 at the preference of the Commission.

4 CHAIRMAN ARMSTRONG: Yes. I think Mr.  
5 Nguyen can help you with that. The Commission is  
6 going to adjourn until tomorrow.

7 MR. OVERSTREET: Oh, okay.

8 MR. GARCIA: Certainly.

9 CHAIRMAN ARMSTRONG: We want to be fresh  
10 and perky. Our ears attuned to these last three  
11 important witnesses. So if there's nothing else to  
12 take, we will adjourn until -- we have this -- it's  
13 going to have to be in the afternoon. So do it at  
14 noon? Can you do at noon?

15 MR. KURTZ: Yes.

16 CHAIRMAN ARMSTRONG: They have another  
17 -- I see.

18 MR. OVERSTREET: I understand. Thank  
19 you.

20 CHAIRMAN ARMSTRONG: And I appreciate  
21 your indulgence.

22 MR. OVERSTREET: No indulgence.

23 CHAIRMAN ARMSTRONG: So at noon we'll  
24 start here and complete tomorrow the hearing.

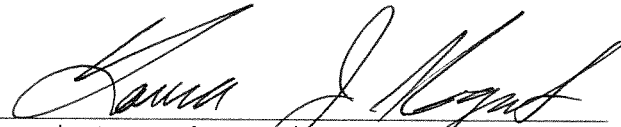
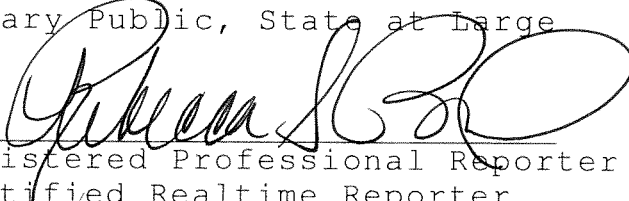
25 (Adjourned 7:36 p.m.)



1 STATE OF KENTUCKY )  
 2 ) ) SS.  
 3 ) )  
 3 COUNTY OF JEFFERSON )

4 We, Laura J. Kogut and Rebecca S. Boyd,  
 5 Notaries Public within and for the State at Large,  
 6 commissions as such expiring 25 July 2015 and 5  
 7 September 2014 respectively, do hereby certify that  
 8 the foregoing hearing was taken at the time and place  
 9 stated and for the purpose in the caption stated; that  
 10 witnesses were first duly sworn to tell the truth, the  
 11 whole truth, and nothing but the truth; that the  
 12 hearing was reduced to shorthand writing in the  
 13 presence of the witnesses; that the foregoing is a  
 14 full, true, and correct transcript of the hearing to  
 15 the best of our ability; that the appearances were as  
 16 stated in the caption.

17 WITNESS my hand this 18th day of  
 18 July 2013.

19  
 20   
 21 Registered Merit Reporter  
 22 Certified Realtime Reporter  
 23 KY CCR 20042BF060  
 24 Notary Public, State at Large  
 25   
 Registered Professional Reporter  
 Certified Realtime Reporter  
 Notary Public, State at Large