COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

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PUBLIC SERVICE COMMISSION

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	CASE NO. 2012-00578

ORIGINAL

VOLUME III

Transcript of July 12, 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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* * *

(Hearing commenced at 12:01 p.m.)

CHAIRMAN ARMSTRONG: Someone want to get the back door?

Mr. Overstreet, how are you?

MR. OVERSTREET: Good afternoon, Mr. Chairman.

CHAIRMAN ARMSTRONG: Thank you. We are on the record.

MR. OVERSTREET: Our first witness this afternoon, Mr. Chairman, is Joseph Karrasch, and Mr. Garcia will present him.

CHAIRMAN ARMSTRONG: Mr. Garcia.

MR. GARCIA: Thank you, Your Honor.

CHAIRMAN ARMSTRONG: Mr. Karrasch, good morning -- afternoon.

MR. KARRASCH: Good afternoon, sir.

* * *

JOSEPH KARRASCH, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

CHAIRMAN ARMSTRONG: Have a seat. Speak up loud -- loud and clear. Your name?

THE WITNESS: Joseph Karrasch.

CHAIRMAN ARMSTRONG: What do you do, Mr. Karrasch?

THE WITNESS: I'm manager of asset investments and renewables for American Electric Power Service Corporation.

CHAIRMAN ARMSTRONG: How long have you done that?

THE WITNESS: Five years, sir.

CHAIRMAN ARMSTRONG: And why are you here?

THE WITNESS: I'm here to testify on behalf of Kentucky Power regarding the 250-megawatt RFP for replacement of Big Sandy 1, talk about the conforming and nonconforming proposals and risks associated with going to the market for PPAs, TAs. I'm sorry.

CHAIRMAN ARMSTRONG: Very good. Your witness.

MR. GARCIA: Thank you, Your Honor.

And, Your Honor, there's a minor correction that I'm going to ask Mr. Karrasch on the record. Unfortunately, it is in the confidential portion of his testimony, and we can do that up front or we can do that when and if we go into confidential mode.

CHAIRMAN ARMSTRONG: Why don't we do it up front?

MR. GARCIA: Certainly. Thank you.

CHAIRMAN ARMSTRONG: Would you like to do that now?

MR. GARCIA: It's about the third question that I'm going to ask.

CHAIRMAN ARMSTRONG: Okay.

MR. GARCIA: Should I get started?

CHAIRMAN ARMSTRONG: Sure.

MR. GARCIA: Thank you.

MR. OVERSTREET: I think we're still public.

MS. HARWARD: We want to stay public

until he asks that question.

CHAIRMAN ARMSTRONG: Yeah.

MR. OVERSTREET: Okay.

MR. GARCIA: Yeah. Thank you, Your Honor. That's what I understood. Thank you.

Q Mr. Karrasch, did you submit supplemental testimony in this case consisting of ten pages of questions and answers and three exhibits?

A Yes, I did.

Q And for the public portions of your testimony, if I were to ask you the same questions today, would you provide substantially the same answers?

A Yes, sir.

Q And these were provided -- they were prepared by you under your supervision?

A Yes, sir.

MR. GARCIA: And, Your Honor, at this point I would ask the question.

CHAIRMAN ARMSTRONG: Okay, Mr. Garcia.

At this time we're going to be going into a confidential portion of this testimony, and those people who have not signed the confidential list, I'm going to have to ask you just to step out, it won't take long, and we'll call you right back in.

MR. GARCIA: Thank you, Your Honor.

CHAIRMAN ARMSTRONG: Okay.

MS. HARWARD: Will you turn off your light, please? Thank you.

CHAIRMAN ARMSTRONG: The simple things I have trouble with.

MR. GARCIA: Thank you, Your Honor.

(Confidential testimony of Joseph Karrasch heard from 12:05 p.m. through 12:43 p.m.)

* * *

FURTHER DIRECT EXAMINATION

By Mr. Garcia:

Q Mr. Karrasch, do you adopt your testimony, both confidential and nonconfidential, with the modifications that you described, as your evidence in this case?

A Yes, sir.

MR. GARCIA: The witness is ready for cross-examination on nonconfidential. Thank you, Your Honor.

CHAIRMAN ARMSTRONG: Mr. Nguyen.

MR. NGUYEN: Thank you, Your Honor.

* * *

CROSS-EXAMINATION

By Mr. Nguyen:

Q Can you expand on the need in the RFP that required any purchase power agreement or tolling agreement to be scheduled in the PJM in-schedule system with a sync at the Big Sandy Unit 1 mode?

A Yes, sir. The PJM in-schedule system is basically a day-after transformation financially to AEP. We don't get power delivered to our account on the day or the hour it's generated. The day after is when it gets electronically dumped to our in-schedule account. So it's a financial -- a financial transaction.

If we were to do a PPA or a TA, we would basically pay -- PPA, excuse me. If we to do a PPA, we pay for what we get or for what it produces.

So if there's, you know, 354 megawatt hours it produced on day one, day two that's transferred into our account electronically and would be settled accordingly with PJM.

Q Okay. And if the energy and/or capacity to be purchased is from outside of PJM, what would it take to get the power scheduled onto the PJM system?

A That's where it gets difficult, and that -- hence the reason for a PJM capacity resource requirement in the RFP. If there's something in MISO, especially for a long-term agreement, you need long-term firm transmission.

If there's an asset in MISO to get that to PJM interface and from the PJM interface to our load, you have to deal with two processes. The first process is in MISO. You have to go through the MISO process. Similar to what I discussed earlier regarding the PJM steps, you have to go through the MISO studies, then you're to the PJM interface. You also have to do the PJM studies as I described earlier. You can do them in parallel, but you're talking an 18- to 24-month period.

Then between the PJM, the MISO, there's -- you know, there's -- I don't know how to -- how to term it. There's static. There's -- there's issues, and I think -- issues that I can't speak of, maybe Mr. Munczinski can speak up much better than I as far as going from MISO to PJM.

Q Okay. And --

A I'm not a transmission expert, but I do understand to get from an asset in MISO to our load, it's quite complicated.

Q Okay.

A And the timing. There's two things there. One's the timing on how long it's going to take, and the other uncertainty, which is big, is: How much is it going to cost? Okay. It's not as simple as filling some forms out, you go through the process, you wait, you know, you get -- you get passage, there's potentials costs, and those can be significant, and when you're trying to evaluate options, the uncertainty and the timing, that's significant.

Q Okay. And if you can, can you elaborate a little bit more on the -- what's included in the studies that's needed to be conduct?

A I cannot. I can point you to JAK 3 that goes through the steps on the PJM side. I am not a transmission RTO --

Q Okay.

A -- expert. I can -- I'm sure we can come up with the MISO side somewhere, but I am not an expert.

Q And the basis for your estimate that it would take 18 to 24 months, what is that basis?

A That -- those come from our RTO transmission folks, engineering. However, but if you look at JAK 3 -- if you look at JAK 3, the initial study to be completed is steps two through four, you're about 105 days there.

Now, when you get down below to the system impact study, you're at a year. I mean, if you submit a -- if you submit a request as in line -- or in Q1 on October 31st, year one, you're not getting information back till the end of September the following year. That's a year. So there's 12 months there. And then if you go down to the facility study on line 9, that's typically done in 180 days.

So it's a process. Can it be done? Absolutely. It just takes time and the uncertainty and the costs. And this is just the studies and the costs for the studies. You know, depending on the upgrades of controls, physical upgrades to a substation or a new line, it gets -- it gets -- it hurts your head.

Q And who would bear those costs?

A I'm sorry?

Q Who would bear those costs? Who would

be responsible for the transmission upgrades --

A It --

Q -- the facilities upgrades?

A It would be dependent on how the contract is structured.

Q Okay. But typically would it be --

A Typically it's going to be the developer.

Q Okay.

A Because I want -- I want my power delivered to my point of delivery. You take care of all those costs, you manage it, you know, what are you gonna -- what are you gonna deliver me here.

Q Okay. From the perspective of AEP as a whole --

A Uh-huh.

Q -- are the RFPs that are issued for the -- for the AEP eastern companies, are those always restricted to have bidders within the PJM system?

A Yes. Absolutely. And it's no different than recent RFPs in Kentucky. With Duke Kentucky, if you look at their RFP this year, they wanted PJM. East Kentucky Energy Cooperative, last year, late last year, that RFP, they wanted it here.

And it's no different than Duke Indiana

that issued an RFP recently in Indiana, and they wanted it there, there being MISO.

So you want it ideally in your RTO to reduce costs, because to go outside your RTO, it's going to cost money.

Q Okay. And similarly, for those AEP western companies --

A Uh-huh.

Q -- are the RFPs restricted to perhaps a southwest power pool --

A Yes.

Q -- footprint?

A Yes.

Q For the same reason?

A Yes.

Q Okay. Has Kentucky Power or any AEP subsidiary ever purchased power from outside PJM in the past?

A I cannot answer that, sir.

Q Do you know who would?

A Somebody in our marketing group. I don't -- I don't think there's -- there's --

Q No one here, though?

A I don't think so.

Q Okay. With regard to the bids that were classified as nonconforming due to the fact that they were located out of PJM, was any consideration given to what the possible transmission upgrades might be?

A I'd like to answer that question, but I'd prefer to go into a confidential --

Q Yeah.

A -- mode.

Q That's fine. That's perfectly fine.

A Okay. That's fine.

Q Yeah.

MR. NGUYEN: Can we go into confidential session for this response, Your Honor?

CHAIRMAN ARMSTRONG: We can.

(Confidential testimony of Joseph Karrasch heard from 12:51 p.m. through 1:01 p.m.)

CHAIRMAN ARMSTRONG: Back on the record.

Vice-Chair, you have a question?

VICE-CHAIR GARDNER: Yes.

* * *

EXAMINATION

By Vice-Chair Gardner:

Q The -- do you have any outstanding RFPs in -- for other facilities at this point?

A We -- yes, we have an ongoing RFP in Oklahoma, Public Service Company of Oklahoma, for 200 megawatts of wind.

Q Okay.

A And we just finished up a 200 -- or are just finishing up a 200-megawatt RFP for Indiana. Indiana and Michigan.

Q Okay. Are those -- this one is specifically for -- to be -- you've got a deadline because of the MATS in --

A Yes, sir.

Q -- May, June two years from now. It seems as if because this RFP was let so close in time to that, that there would be -- that -- I'm going to say this generally, so I hope it's okay. That anyone who had transmission issues would not be able to comply with this.

A When anyone had transmission issues?

Q If a potential bidder --

A Yeah.

Q -- had transmission issues related to, you know, getting --

A That's correct. If somebody had an asset they're trying to develop and they can't hit our deadlines because of transmission or transmission queue, then that is correct, no different -- that is correct. I will not -- I don't need to get into the confidential information.

Q And you don't know why this RFP wasn't let, for example, one year ago or two years ago?

A No. No, sir; I do not know.

Q Okay.

VICE-CHAIR GARDNER: That's all. Thank you.

CHAIRMAN ARMSTRONG: Any further questions?

MS. HANS: No, sir.

CHAIRMAN ARMSTRONG: Mr. Garcia?

MR. GARCIA: If they are doing -- if there is further cross-examination, I can hold my redirect until we're through with that.

CHAIRMAN ARMSTRONG: No, I think you're ready now for it.

MR. GARCIA: Oh, okay. Thank you, Your Honor.

* * *

REDIRECT EXAMINATION

By Mr. Garcia:

Q Very briefly, Mr. Karrasch, and this is in nonconfidential mode. There were a couple of questions that I just wanted to clarify.

From Staff you got some questioning regarding how the transmission upgrade costs would typically be treated in PJM.

Is it your understanding from your experience in that situation that the developer would reflect those costs in the contract costs once the --

A Oh, oh, oh, absolutely, sir.

Q -- price became firm?

A Yes, sir.

Q And -- okay. Thank you. And the other thing that I wanted to confirm, sir, is the time frame for the RFP that was done for the 250 megawatts, is that atypical or is that a time frame that is consistent with other RFPs?

A I'd say somewhat consistent, yes.

VICE-CHAIR GARDNER: Could I ask a -- to make sure I understand that, were you talking about the length of time between letting the RFP and when bids are due, or were you talking about the length of time from the RFP until when you needed the project?

MR. GARCIA: I can clarify that question, sir.

Q And if you would answer that, please.

A Could you repeat the question, sir?

Q Yeah. I'm sorry. Yeah. When you made the reference to the reasonableness, the typical time frame of the RFP, were you referring to the time period between when the RFP is initiated and when the resources are needed?

A A typical time frame for an RFP -- I'm not sure I understand your question, but a time frame for an RFP just like this one here, this one may -- is likely to be much shorter than some potential other RFPs, and the reason is, we did not have to get into a due diligence phase of an asset. If we have to get into a due diligence phase of an asset, then there's -- there is a couple more months of due diligence.

Q And that would be for your description of the analysis of the RFP; is that correct?

A Well, it's two things. Some analysis, but also due diligence. As an example, if somebody submits a proposal for an asset purchase, we like the price, well, we don't just -- we don't -- we don't only do the financial analysis that Mr. Weaver does, we will -- we will do a due diligence on the asset where we take a multidisciplinary team to the facility, okay, and we will look at the equipment, we will look at records, we will look at historical budgets, we will look at future budgets, future planned projects. Our projects group will get involved to make sure that any major capital is, you know -- the costs are appropriate. So there -- there's a full due diligence study once you do get into an asset purchase.

And in the case of this RFP, we did not have to get into that, but there's a lot involved with that.

Q Understood. And if you were to take into consideration the time frame between the RFP date and the date when the resources that are being elicited from the RFP --

A Uh-huh.

Q -- would be needed --

A Uh-huh.

Q -- which, for example, in this case would be the retirement of Big Sandy 1 as a coal-fired unit --

A Uh-huh.

Q -- would this RFP would be typical in that regard?

A Yes.

Q Thank you.

MR. GARCIA: I think that that was the question, Your Honor?

VICE-CHAIR GARDNER: Yeah. Yeah. And let me -- let me ask you again.

* * *

REEXAMINATION

By Vice-Chair Gardner:

Q So it's typical that an RFP like this would have only a -- would have less than a two-year window between when the --

A The --

Q -- the date of the RFP and when the resource is needed?

A I wouldn't say "typical." I mean, this is a unique -- every RFP has uniqueness to it, okay, whether you're trying to comply with a renewable portfolio standard or you're up against the clock on an asset retiring, there -- there's different characteristics to each RFP that plays into those dates.

Q But if you've got an 18- to 24-month window for a unit that's in existence now, perhaps, and already in PJM, I mean, that's pretty limiting on the type of projects that could bid for this RFP, isn't it?

A Well, no. I mean, if there's an asset in PJM that already has, you know, a interconnection that's up and running, then it's ready to bid and roll.

Q Right. I understand that. So -- but one that isn't, this is --

A One -- if a project is under development, okay, you know, you're under development, you got your site secured, you just filed your interconnection studies, the progression of your development, I mean, if -- it may be up against the clock if an earlier request date in an RFP is established versus when your projected COD date is.

MR. GARCIA: That will complete the redirect, Your Honor.

CHAIRMAN ARMSTRONG: Any more redirect?

MR. GARCIA: No, no, no. That would complete the redirect if --

CHAIRMAN ARMSTRONG: Thank you.

Thank you, Mr. Karrasch.

THE WITNESS: Thank you, sir.

MR. OVERSTREET: May he be excused?

CHAIRMAN ARMSTRONG: He may be excused.

MR. OVERSTREET: Your Honor, our next witness is Scott Weaver, and Mr. Weaver actually filed three pieces of testimony, it was very lengthy, had a lot of exhibits, so for everyone's ease of reference, we are -- Mr. Gish is going to pass out some pages from that that we suspect people will want to --

CHAIRMAN ARMSTRONG: Are they --

MR. OVERSTREET: -- refer to as opposed to flipping through it all.

CHAIRMAN ARMSTRONG: Are they alphabetized?

MR. OVERSTREET: There's only four pages.

CHAIRMAN ARMSTRONG: Thank you.

MS. HARWARD: It's not an exhibit, right?

*   *   *

SCOTT C. WEAVER, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Overstreet:

CHAIRMAN ARMSTRONG: Have a seat. Speak up loud and clear. Your name?

THE WITNESS: Scott C. Weaver.

CHAIRMAN ARMSTRONG: And what do you do, Mr. Weaver?

THE WITNESS: I am managing director of resource planning and operational analysis for the American Electric Power Service Corporation.

CHAIRMAN ARMSTRONG: And how long have you been in that spot?

THE WITNESS: That spot? Nearly ten years, sir.

CHAIRMAN ARMSTRONG: And what brings you here?

THE WITNESS: I'm testifying to the relative economics of the Mitchell asset transfer proposal before this Commission.

CHAIRMAN ARMSTRONG: Very well. Welcome.

THE WITNESS: Thank you.

CHAIRMAN ARMSTRONG: Your witness.

MR. OVERSTREET: Thank you, Your Honor.

Q Mr. Weaver, did you cause to be filed in this proceeding direct testimony, rebuttal testimony, and supplemental testimony?

A I did.

Q And do you have any corrections to those?

A Just a few. Relatively minor corrections, but for the purpose of the record, I'd like to introduce them, please.

In my direct testimony, on page 40 to 57, line 20, the letter in line 20, NBV should be NPV as in Paul, NPV. And in line 21, where it says $16 million should have been six.

Flipping to the next page, the same change on line 10, changing NBV to NPV.

Also in direct testimony, on -- excuse me. I think what I just referenced was from rebuttal testimony, and I apologize.

VICE-CHAIR GARDNER: Could you state that again?

THE WITNESS: I sure will.

VICE-CHAIR GARDNER: Page 40; is that right?

THE WITNESS: Yes, sir. From my rebuttal testimony. I misspoke. Line 20, page 40, NBV should be NPV, as in Paul, again. Line 21, the 16 should be six. And line -- page 42 of my rebuttal, again, line 10 of page 42, NBV should be NPV.

A Looking back to my direct. Sorry. On page 6 of my direct, line 2, change the last word on that line from April to June.

And then finally, on Exhibit SCW-1, page 4 of 15. There's no line numbers, unfortunately. If you go about the first line of the last paragraph on line -- page 4 of 15 of the SCW-1, 2010/11 should be 2007/8.

That's it.

Q And with those corrections, if you were asked the same questions today, would your answers be the same?

A They would.

Q And did you also cause to be filed in this proceeding certain answers to data requests?

A I did.

Q And if you were asked those questions

here again today, would your answers be the same?

A They would.

MR. OVERSTREET: The witness is available, Your Honor.

MR. HOWARD: Mr. Chairman, I do have --

CHAIRMAN ARMSTRONG: Sir?

MR. HOWARD: -- one or two cross, if I may.

* * *

CROSS-EXAMINATION

By Mr. Howard:

Q Good afternoon, sir. How are you?

A I'm doing very well, thank you.

Q A few questions. If you cannot hear or understand them, please so inform me and I'll try to make sure that you do.

When you did your various studies, analyses, and modeling in regard to this case, did you do so on behalf of Kentucky Power?

A Yes.

Q And in that particular approach and

within the scope of your engagement, your analyses and conclusions drawn were to provide to Kentucky Power advice, consultation or whatnot in regard to the replacement or substitute for power for Big Sandy 2, correct?

A I would characterize it as a Big Sandy disposition study in which there were several options, including, including, the possibility of retrofitting Big Sandy 2 with a -- with a scrubber, with a DFGD.

Q Correct. But again, I -- just to make sure that that -- your focus was on addressing the problems that the -- that Kentucky Power was having with Big Sandy 2 and its ultimate retirement, retrofit, or whatnot?

A Yes, sir. That's what I meant by unit disposition analysis.

Q Yeah. It was limited to Big Sandy 2?

A Big Sandy plant total. Big Sandy 1 and Big Sandy 2. They're both facing some of the same environmental restrictions. It's not just limited to Big Sandy 2.

Q Okay. Are you familiar, though, with the application that was filed in this case?

A I certainly read it.

Q Okay. And are you familiar or -- enough to understand that the application does deal with Big Sandy 2?

A I'll take that subject to check, yes.

Q Okay. And your analyses may have explored Big Sandy 1, but you were focusing on Big Sandy 2?

A I think it's important to realize that I'm looking at a total set of resources for Kentucky Power Company, and from a planning perspective, it's very difficult, and nigh impossible, to just focus on a single asset when you're looking at a company from a holistic standpoint. You have to look at all resources and the implications of those resources going forward over a long-term study horizon.

Q Okay.

MR. HOWARD: None at this time. we're finished, Mr. Chairman, at this time.

CHAIRMAN ARMSTRONG: Mr. Nguyen.

MR. NGUYEN: Yes. Thank you, Your Honor.

* * *

CROSS-EXAMINATION

By Mr. Nguyen:

Q Good afternoon, Mr. Weaver.
A Good afternoon.
Q Were you here yesterday during those line of questions with various witnesses discussing the fair market value of the Mitchell units?
A Yes.
Q Do you recall those? Okay.
A Yes.
Q Would you agree with the other Company witnesses that the fair market value for the 50 percent share of Mitchell 1 and 2 is the net book value of $536 million?
A The fair market value is equal to the net book value? Is that your question?
Q Yes.
A No, I disagree with that.
Q Okay. And why do you disagree with that?
A I think we've got significant study information that would suggest that, in fact, the market value is -- for Mitchell station is well above

the net book value.

Q Okay. Okay. And the $536 million is an input parameter into your Strategist model; is that correct?

A That's one of many; yes, sir.

Q Okay.

A For -- excuse me. For that particular option, obviously.

Q Sure. Sure. And it uses that value to determine the revenue requirements for the 50 percent share of the Mitchell station?

A That amongst a whole host of other fixed and variable cost parameters that the model would seek to establish value for.

Q Okay. What would the impact on your model results if the net book value was 450 million?

A If the net book value was lower?

Q Yes, and everything else is --

A That would --

Q -- all else constant.

A I'm sorry. That would certainly suggest that the fixed costs, any carrying charges to Kentucky Power would be reduced as a result of that. So the -- basically the significant gap that already exists in terms of relative benefits of Mitchell would only be enhanced.

Q Okay. And -- okay. So the net present value revenue requirement for the base option, Option 6, would still be the least-cost option, but by a more significant margin; is that correct?

A Well, if we're talking about specific options here, I think we've demonstrated that Option 5A would be the least-cost option. So if you're talking about relative merit versus the least cost, Option 5A.

The difference between Option 5A and Option 6 -- both of them have the 50 percent Mitchell transfer. Option 5A also marries in with that the conversion of Big Sandy 1 to natural gas steam. And Option 6 basically says we're going to go to market and retire Big Sandy 1.

Q Okay. The impact of having a hypothetical net book value of $450 million would just increase that margin?

A All else being the same, if that was the only variable changing, then certainly it would.

Q Okay. And could one then conclude, as your -- the other Company witnesses said, the fair market value would then be $450 million?

A No, I don't -- I don't understand that at all. Basically, I just indicated that fair market value was significantly above net book value, so it's not an indicator that the fair market value has somehow shifted.

It would suggest to me that perhaps the level of the fair market value being above whatever the figure you gave me, it may itself be reduced somewhat, but -- and from -- for the most part, it's still significantly above.

Q Okay. Okay.

A You're just changing the underpinning of the price. What you have to consider, obviously, is -- are the value attributions associated with this unit, and that's what we've sought to do in these analysis is to uniquely identify that.

Q Okay. And can you refer to page 5 of your supplemental testimony at lines 6 through 11?

A Yes. Go ahead. Sorry.

Q You had indicated that you had a short time period to clarify any issues with the bids and the bidders; is that correct?

A Yeah. I identified it was -- I mean, it was adequate to get the information that we needed.

Q Okay. Did you say that -- could you repeat that one more time? What --

A I'm sorry?

Q Could you repeat what you just said?

A I think the time frame identified here for this RFI process that Mr. Karrasch discussed, we were able to get the information that was required.

Q Okay. So there were no other outstanding issues or information that you would need beyond the time frame that was set in the RFP --

A Well --

Q -- process?

A -- certainly, as Mr. Karrasch has described, there were open issues that were not satisfied or cured as a result of that discussion, so I don't know that I can answer your question without getting any more specificity.

Q Okay. Okay. And can you turn to page 9 of your supplemental testimony? Line 1 through 8. Could you please read those lines into the record?

A Lines 1 through 8?

Q Yes, sir.

A Page 9. (Reading) Yes. Factors such as Company ownership and asset control, paren, versus potential performance risks associated with the receiving power and energy via purchase power arrangement, the continuity of jobs and other socioeconomic benefits associated with the continued presence of an operating generating unit in the Lawrence County area, as well as a leveraging -- there's a missing word there, of the Company's Big Sandy plant employees' skills and knowledge at that particular facility all represent relative qualitative benefits that were not considered in this comparative RFP economic evaluation but would further validate that the Big Sandy 1 -- Big Sandy Unit 1 conversion is the best alternative.

Q Okay. And you mentioned that they were not considered in your analysis. Were they given any consideration by the Company itself?

A I think in general, and, again, I'm not going to speak for Kentucky Power management, but as my position as a resource planning professional, I think, again, objectively, they were -- they were looked at and perhaps in some instances subjectively.

And what I mean by that, when I talk about leveraging skills of Big Sandy employees, I'm assuming that whether that unit is a coal unit or whether it's a gas-fired steam unit, there's expertise there in that local facility that will be able to ensure that that unit performs well on behalf of Kentucky Power Company, as an example.

Q Okay. If you'll refer now to your rebuttal testimony, on pages -- it's Table 1R beginning on page -- it's on page 6.

A I'm there.

Q Okay. And this table reflects comparison of the error that was discovered by KIUC Witness Phil Hayet regarding capacity values, and you mentioned that it was relatively minor in its significance --

A Yes, sir.

Q -- is that correct? There was a $34 million difference in the capacity value; is that correct?

A That's correct.

Q Okay. And was that difference associated with the first 17 months of ownership of Kentucky Power?

A That's exactly correct.

Q Okay. So is it correct, then, that that amount would be discounted the least, and which has the least uncertainty as to accuracy, because it was in such the early stages of the economic forecasted period?

A I guess I'm struggling with least uncertainty with regard to accuracy. What do you mean?

Q Well, I guess --

A I consider this --

Q It --

A -- overall analysis accurate, as accurate as it can be.

Q Okay.

A It's a forecast, obviously.

Q Sure. But it's less -- I guess if you go further out into the forecast, then there is more uncertainty associated with that. Would that be fair to say?

A Just from the time value of money --

Q Correct.

A -- if that's what you're getting at.

Q Okay.

A The discount factor certainly would be -- would be less impactive if it were to occur in the latter part of the study horizon, indeed.

Q So based upon that sort of characterization as to the -- it being least uncertainty or more of a -- less discounted during the near-term horizon as opposed to the far-term horizon.

A I agree that it would be less discounted inasmuch it's in the near-term horizon.

Q Okay. So in effect would Kentucky Power customers pay an extra $34 million of up-front costs on top of the agreed-to purchase price?

A No, not at all. This is just base -- the purchase price is the purchase price. That's just one input element of the process.

As I just mentioned briefly, the study involves performing a wide band of value attribution as it relates to this option as well as the other ten options we looked at, and as part of that attribution, you're looking at how the unit would dispatch, how the units across the various options would dispatch within PJM, their energy value. Obviously there are variable costs, there are fixed costs, how they interact with markets, and how much capacity value would be able to offer in -- be offered in to PJM assuming Kentucky Power were a stand-alone entity.

So it's just one of many, many value -- attribution is the word I have been using here, that would to have be looked at in the modeling.

Q Okay. So the impact of that $34 million, then, is what in your estimation?

A It was -- I'm sorry. It was recognized as part of the over -- it slightly modified the overall fairly significant deltas between the cumulative present worth of costs that were -- that I had set forth in my -- specifically Exhibit 1R, which is the first page of this handout.

It caused these minor changes to occur from Exhibit -- I believe it was 5 in my original testimony, in column A, to this modified view that you see here.

It's just basically setting the record as accurate as we could for the study period cumulative present worth.

Q Okay. Okay. And on page 9 through 11 of your rebuttal, without going into any detail regarding the discussion of excess capacity discussed in those pages, would you agree that the reserve margin Kentucky Power would have some months during the period -- during that 17-month period where both Mitchell and Big Sandy Unit 2 is in operation, that there would be some excess reserve that is above and beyond what is required under PJM?

A But that was the express purpose of the adjustment, recognizing that with Mitchell you've got an asset that already has been committed as part of the FRR planning process that the Company had gone through for the 2014-15 planning year, and, let's see, the 2000 -- yeah, the 2014-15 planning year.

It was already committed as part of the four-company FRR, and as a result we couldn't subscribe value to Kentucky Power since it's already been committed. That was the purpose of the reduction.

In terms of the other attributes associated with having Mitchell, I think I've also demonstrated in the next table in my rebuttal testimony that without Mitchell, Kentucky Power is exposed in a -- from an energy standpoint, inasmuch as, based on our modeling, the energy output from its existing resources, excluding Mitchell, would not be able to meet its native load requirement for energy, and that's a significant exposure.

So that's the other value attribution that I mentioned before that also I want to make sure is clear.

Q Okay. And when you talk about the significant exposure for -- did you mention capacity and energy or was it just energy?

A It's particularly the energy for this 17-month period that you're referring to.

Q Okay. Would you agree that any energy deficiency could be purchased today at known prices on the market or through bilateral agreements?

A The market is always an option. I think that the point I'm referencing is the fact that come January 1 of 2014, it's a different world for Kentucky Power Company, if, in fact, the existing -- preexisting pool agreement goes away.

There's going to be significant -- potential for significant exposure, because what Kentucky Power was enjoying as part of the pool was the average costs of longer energy companies that were in -- were within the pool. They were able to rely upon long AEP East Companies, such as in I&M, a company that has nuclear assets.

Nuclear units have typically a very -- relatively low variable cost. So Kentucky Power was able to enjoy a lot of relatively cheap energy.

So come 1-1-14, that backup goes away, and now they're going to be exposed to the vagaries of an energy marketplace.

So absolutely they could acquire energy, but that's one of the reasons why we're suggesting that migrating from this period effective 1-1-14 with this map -- with this Mitchell 50 percent transfer, it eliminates some of that energy exposure. Eliminates all of it, quite frankly.

MR. NGUYEN: Can you give me one second,

Your Honor?

Q Can you turn to page 39 of your rebuttal testimony?

A Certainly.

Q And Table 5R.

A Yes, sir.

Q Okay. This table provides the results of a supplemental Strategist model analysis that incorporated the projections identified as 2013 EIA, and in parentheses, CO period modified; is that correct?

A Yes.

Q And can you flip back to page 36 of your rebuttal, at lines 12 through 15?

MR. HOWARD: I'm sorry, Mr. Nguyen. Thirty-six? Page 36, you said?

MR. NGUYEN: Yes.

MR. HOWARD: Thank you.

Q Lines 12 through 15, where you address KIUC Witness Hayet for attempting to, quote, reup any of the Company's Strategist portfolio analysis with an isolated a la carte revised modeling parameter assumptions; is that correct?

A Yes.

Q Okay. Can you explain what you mean by that testimony?

A I think I took the illustration there, a la carte, from Company Witness Bletzacker, and I think as he described yesterday, when looking at the EIA forecasts, those forecasts of long-term commodity prices are predicated upon known environmental standards, regulations.

And one of the major -- obviously the major omissions from our perspective from that -- from that standing or that basis is the fact, for instance, that a CO2 implication is not being reflected.

So the notion is you can't just basically assume that, if CO2 should be reflected, that that's not going to have a reciprocal impact on other elements of long-term commodity pricing.

I think Mr. Bletzacker talked about the notion that logically if there is a -- some type of a carbon tax, carbon regulation of whatever it might be, and the timing, again, is also a question, there would logically be an impact, an upward impact in terms of natural gas demand.

With the impact on natural gas demand, given the elasticities he discussed, that will have an impact on natural gas pricing, which would also have an impact on energy, depending upon how much of the time natural gas resources are on the margin within PJM.

So that's what I meant. You can't just change a single element without seeing it through and letting it impact all the elements of, in this case, a long-term commodity pricing forecast.

Q Okay. And were you present -- well, I guess, based upon what you just stated, you were here during the explanation that Mr. Bletzacker had made in terms of the updated or the usage of the EIA Energy Outlook 2013 prices for fuel, for natural gas, but not for coal prices. Do you -- do you recall that?

A I do.

Q Okay. And when you reran your models using, you know, those data, those updated EIA Outlook 2103 data, did it raise any concerns in your mind that the natural gas and power prices were updated but the coal price projections were not?

A It did not.

Q Okay. And why not?

A First of all, it came from a subject matter expert and who knows probably more than I'll ever know regarding long-term commodity prices.

And you have to realize, when you're -- when you're putting this type of analysis together, it's like -- I like to use the hub-and-spoke analogy.

I'm sitting here at the hub receiving information from subject matter experts all over American Electric Power Service Corporation, you know, outside sources, Kentucky Power Company, and I have to rely upon his judgment.

And I also can say, in specific response to that comment, Mr. Bletzacker also was instrumental in helping put together some of the input parameters for our risk modeling that I'd like to be able to talk about at some point in time that was performed in the Aurora tool, the same tool he uses to establish long-term commodity prices.

And as part of that risk analysis process, without getting into too much of deal -- the detail right now, we have to deal with correlations of various key risk drivers. And, of course, power, natural gas, coal are -- and load are key risk drivers in terms of what commodity prices will look like.

And it's my recollection, and I think we provided this to a Sierra Club data response, that the correlations between natural gas and coal were relatively low, meaning -- I can't remember the exact amount, but it was a relatively low positive correlation.

A strong correlation is 1.0. That means for every movement of one commodity, the other commodity will move the same way. If it's negative correlation, you may move up a certain level for one commodity, and the other commodity may move the other direction.

But for natural gas and coal, it's my recollection that that correlation was relatively low, which would suggest that it -- there may not be any specific change at all between those two particular commodities.

With that all said, I still would absolutely rely upon the expert judgment of Mr. Bletzacker to provide that input to our process.

Q Okay. You sort of criticized the KIUC witnesses, or KIUC Witness Hayet for sort of picking and choosing in an a la carte manner which input parameters to change and which to not change, but yet you're doing the same or relying upon the same type of isolated changes to the various inputs here in running your supplemental analysis.

A Again, I repeat, I'm relying upon the expert judgment from Mr. Bletzacker to provide those -- to provide those data points for purposes of this sensitivity.

Q So can you explain why Mr. Hayet was incorrect to rerun the model with his revised modeling parameter assumptions?

A Again, for the reasons I stated. You can't just pick and choose what variables you want to consider for modification. And also, I think Mr. Bletzacker pointed out there were relatively -- there were some issues associated with elasticity within the EIA forecast that would then not fairly be represented if one did make a modification to any of those parameters.

So, again, at the end of the day, I'm relying upon judgment from Witness Bletzacker in terms of setting forth those input parameters for the sensitivity analysis.

Q Okay. So there's no concern on your -- from your perspective that your analysis may be skewed as a consequence of updating some of the inputs but not all of the --

A No.

Q -- inputs.

A Not at all.

Q Okay. Were there any analyses conducted related to the possible impact of having to construct a baghouse in order to comply with MATS regulation?

A There were.

Q Okay. And what were the results of that particular modeling?

A In fact, we received a data request from staff, second set, number 17, which asked the Company to perform a sensitivity analysis that would examine the impact on these relative cumulative present worth of costs amongst the various options, if, in fact, the Mitchell station were at some point in time, arguably -- I cannot recall the in-service year, but would be required to place a baghouse at Mitchell, Mitchell 1 and 2, and to represent those costs in a rerun of the analysis, and we did that.

Despite kind of the preamble to the response, that -- and based on discussions I have also had with Witness McManus, who was here yesterday, that that baghouse would not be required on this unit based on the limited information we have right now regarding any prospective ambient air quality standards for PM2.5 or SO2, his belief is that the current retrofit status, the current capability of Mitchell would be adequate and additional resources would not be required, particularly into -- in terms of a potentially expensive baghouse.

But nonetheless, to be transparent and

open in this process, we executed the model and we provided those responses to 2-17.

Q Okay.

A And I should say, it's important to point out the implications. The relative implications for even assuming a baghouse would be required caused the Mitchell 50 percent options, which are, when you -- when you look at the first page of this handout, Option 5A and Option 6. The costs would increase over the study period, the CPW cost, by $105 million.

So the point is, if you're comparing any of these options you see here, those relative benefits -- these happen to be figures comparing versus Option 6. Those benefits would be reduced by $105 million.

With that said, qualitatively, our expert witness believes that it will not be required, but we did it, again, just to basically validate that even if that requirement were to come down, this would still represent a significantly lower cost option.

MR. NGUYEN: Your Honor, if I can, can we go -- I'm sorry. I've just got a short line of questions that needs to go into confidential session, so I don't know if we want to do it now or wait till the end. It's very short, probably, you know, less than five minutes.

CHAIRMAN ARMSTRONG: Let's do it now.

(Confidential testimony of Scott C. Weaver heard from 1:46 p.m. through 2:52 p.m.)

MR. HOWARD: Mr. Chairman, are we back on the public record?

CHAIRMAN ARMSTRONG: Yes.

MR. HOWARD: May I ask a question or two before I have to depart?

CHAIRMAN ARMSTRONG: I think the Vice-Chair is ahead of you, then we come back to you.

MR. NGUYEN: Well, typically they go right after I --

CHAIRMAN ARMSTRONG: I understand.

MR. HOWARD: May I have that liberty, sir?

* * *

RECROSS-EXAMINATION

By Mr. Howard:

Q Sir, I'm just trying to follow -- follow the various modeling and whatnot that has taken place and was filed in the original application. Did -- if I'm looking at what Mr. Overstreet was kind enough to hand out, which consists of four pages or so, and which we've been given reference over the past several minutes, if I look at SCW-1R -- and again I'm simply seeking clarity for the record. Which option did the Company ultimately choose on a going-forward basis to resolve -- why -- what was the basis for its decision? What -- which choice of the options did the Company choose, based on SCW-1R?

A Based on the the economics that are presented, the optimum solution would be Option 5A.

Q And then Option 5A, if you go to the next page, which is Weaver 22 --

A Yes, sir.

Q -- that option is listed on this page, is it not?

A Yes, sir.

Q Okay. And where would that be?

A When you go down to -- you can see it heading in line 27.

Q Yes.

A And Options 5 and 6, in fact, both include the 50 percent Mitchell asset transfer.

Q Okay. So it was a trans -- a transfer of 50 percent of Mitchell, and that was what was ultimately filed in the application, correct?

A That's correct. It's my understanding.

MR. HOWARD: Thank you.

THE WITNESS: You're welcome.

MR. HOWARD: That's all the questions I have, and thank you, Mr. Vice-Chairman, for letting me go out of order.

CHAIRMAN ARMSTRONG: Do you have questions?

MR. NGUYEN: No questions.

CHAIRMAN ARMSTRONG: Vice-Chairman.

VICE-CHAIR GARDNER: Thank you.

* * *

EXAMINATION

By Vice-Chair Gardner:

Q Mr. Weaver, let me start with what I hope are some narrower questions first, to just make sure that -- what happened here, that -- what was included and what wasn't.

First, with respect to -- and maybe this is why Mr. Overstreet handed us some of the particular documents that he did, but -- so in the modeling you included the cost -- I'm talking environmental --

A Yes, sir.

Q -- retrofits. You included clean water -- 316(b) costs for Mitchell was included in that; is that correct?

A That's correct, sir.

Q And show me, if we have that in front of us, what -- what those costs were that were included on Mitchell.

A Certainly. It's the third page in this four-page --

Q Is that SCW-4?

A Yes, sir.

Q Okay. That's great. So what was the -- okay. Go ahead.

A Sure. That's --

Q So that's where the 316 came from?

A Yes, sir; for both Mitchell Unit 1 and Mitchell Unit 2. Unfortunately this doesn't have line numbering on it, but --

Q Okay. Let me ask this real quickly: Did -- when you-all presented -- when you-all presented to us in 2011-401, did you-all model everything that -- Big Sandy 1 and Big Sandy 2 as you're doing here?

A Yes, sir.

Q You did. Okay. All right. So down there -- okay. We've got 5, 5A. So that's where you're including the 316(b); is that -- it doesn't have a line, but does that look like -- is that where ML U2 316(b) is?

A Yes, sir. That's Unit 2; yes, sir.

Q Okay. Because Unit 1 doesn't need that?

A No. It's up about five lines.

Q Thank you. I see that. Okay. So that's that question.

Next, I see that you -- you're also including electro -- electrostatic precipitator update, basically?

A Yes, sir.

Q Okay. So your modeling of -- does this indicate that you're modeling, for the 50 percent interest, these environmental costs totaling, for those years, a hundred and fift -- roughly $150 million?

A Well, the purpose of the shaded area is to represent the fact that, again, as we had some discussion yesterday, the transfer value of $536 million is an estimated value as of the end of 2013, and to the best of my knowledge, when that estimate was established, it incorporated these grayed-out estimates in 2012 and 2013. So that was part of the 536.

Q Because those are projects that are ongoing right now?

A Yes, sir.

Q Okay. Okay.

A So what we incrementally picked up was the 91,632,000 figure.

Q Okay.

A Strategist model.

Q That makes sense. So you included -- now -- so you -- so obviously 316(b) effluent -- do I see effluent limitation guidelines modeled in here?

A Yes, sir. You see the -- the acronym ELG for Unit 1 --

Q Got it.

A And --

Q Got it.

A -- Unit 2?

Q Got it. Thank you. And -- okay. The -- you heard Mr. LaFleur talk about a couple hundred million dollars for the -- complying with the coal combustion residuals, ash pond, all those things. So those are -- those costs are included or have already been incurred by --

A That --

Q -- by -- no, that's all right.

A That is correct.

Q Okay. At the Mitchell plants. Okay. Mitchell units.

A That's correct. They're either going to be in the 536 --

Q Okay.

A -- or they're going to be in the modeling that we performed.

Q Okay. But no additional modeling was done for MATS, correct?

A For -- no.

Q For --

A Under the --

Q Baghouse.

A We did, in response to a Staff Data Request --

Q That's right.

A -- 2-17 that I talked about earlier.

Q Okay. And the carbon was included, and this was the discussion about the $15 issue?

A Yes. And again, I think I mentioned that it had about a 10 to 12 percent reductive impact on Mitchell's output in that 2022 time frame.

Q Okay.

A So it's a real impact. And not to expand upon it, I think that was -- Witness Bletzacker talked about it to some extent, but I think it's important just to realize that -- and as well as Witness McManus.

But I think that's a -- that's a pretty significant impact inasmuch as if you're talking 12 percent of a unit that already has an excellent heat rate of about 9,600, the equivalent heat rate would make it about 86, 8,700. So if the agency is going to be true to the President's request that any performance-based reduction would be fair from the standpoint that it's achievable, then I think we were very, very adequate in terms of the proxying of a $15 per ton carbon tax.

Q Okay. So, again, with the information that -- the information that we were con -- that we looked at in 401 included modeling for Big Sandy Unit 1?

A Yes, sir. Certainly, yes.

Q Okay. So if we turn to page 5 of your direct testimony, there's these different charts as to options. Those kind of options about Unit 1 -- regarding Unit 1 were also included in the modeling that we looked at in 401?

A Yes, sir. And, in fact, if I could, my Exhibit SCW-2 of this direct testimony --

Q Yes, sir.

A -- it kind of lays out the options, those same 11 options.

Q Okay.

A And you'll see the notation in red at the top which options were all -- and again, also reflected within Docket 2011-00401, and then the -- the additional options that were not considered in that filing obviously are rated -- related to this Mitchell transfer.

Q Okay. Now, were you involved in the decision -- was -- well, let me ask this: In the last case -- well, Mitchell wasn't run, was it?

A No, it was not.

Q Okay. Were you involved in the decision to increase the time period from 2031 to 2040? Because it was 2031 on the depreciation useful life and the depreciation as it was owned by Ohio Power.

A The determination for modeling purposes that we would use a -- effectively a -- I think it was a 68-, 69-year service life, 2040, came upon -- came to me based on the recommendation of Witness LaFleur.

Q Okay. Okay. Let --

A I think that was identified in his direct testimony. I'm sorry.

Q No.

VICE-CHAIR GARDNER: So none of what -- none of what this was handed out to us is confidential?

MR. OVERSTREET: That's correct.

Q Okay. What I'd like to do is just, and I'd like to make sure, going through the different options beginning on page 5 to make sure I understand this.

Well, before we do that -- I'm sorry. You indicated that you modeled the system as a whole for planning purposes. One doesn't do individual unit by individual unit; is that correct?

A Yes. I think it's a more appropriate approach to look at it from a portfolio perspective indeed.

Q Tell me -- and maybe I haven't looked at it enough detail to see. Do any of these options include changes related to Rockport?

A No. As I indicated on my -- we assumed a going-in assumption regarding Rockport.

Q And what was that assumption?

A At the point in time we did this analysis, we assumed one of the Rockport units would be scrubbed in -- I believe it was 2015, and the other unit would receive FGD controls in that -- roughly that same time frame, and then SCRs would also go on the first unit that was scrubbed in that 2015 time frame, and SCRs would be required on the second unit in 2019.

Q And --

A I think there's -- there's a page in my testimony that describes the assumptions for Rockport. But I also indicate that no matter what we assume -- and, in fact, there's a different application now before the Indiana Utility Regulatory Commission regarding an environmental plan for Rockport.

The point is, though, whatever you assume for Rockport, we would assume it would be exactly the same in all the options.

Q For each of the options?

A Yes.

Q Okay. Okay. Okay. So Option Number 1

is retrofit Big Sandy 2 with dry flue gas desulfurization by June 2017. So this is essentially what was presented to us in 2011-401?

A Yes, sir; other than the timing. The technology was the same, the timing and the cost parameters were updated.

Q Okay. And so -- and 1B is exactly the same except for we've got some purchase power price for ten years, then assume a new build. And is this you-all doing the build of the combined cycle?

A Yes. Just so maybe I can add a little clarity too, that the suboptions A and B are really focused on the smaller tranche applicable to Big Sandy Unit 1.

Q Okay.

A Okay. So the major option is Big Sandy 2, and the suboptions really deal with Unit 1, but for Option 4, which I could explain.

But indeed, to answer your question, yeah, it basically says that for that Unit 1 we would effectively rely upon a -- being a price-taker within PJM to acquire capacity and energy, and then, at the end of a ten-year time frame, we would allow the model to choose. And ostensibly -- typically it would want to choose -- particularly if it's energy short, it typically wants to choose combined cycles.

Q Do I understand, then, looking at SCR -- SCW-1R, that the Option 1 is less expensive than Option 2? Excuse me. Option 1A is less expensive than Option 1B?

A That is correct.

Q By looking at --

A Again, these -- yes, these are relative costs --

Q Okay.

A -- versus Option 6.

Q To the -- compared to the base?

A The base for purposes of just presenting this information --

Q Right.

A -- that's exactly correct.

Q Now, why was five -- ten years selected rather than five years? Because it seem -- I mean, it wouldn't take five years to -- it wouldn't take ten years to build a combined cycle, so --

A I think -- I'm sorry. I think what we're trying to do between 1A and 1B, we're recognizing in 1A we would have a metal-in-the-ground solution for that smaller tranche in the form of a 20 percent take out of Mitchell.

So I think we want to kind of contrast that to say what would a market option look like for that smaller tranche. And just through talking with management, we felt that for that particular modeling effort, for 1B, we would assume ten years and then replace -- or then put metal in the ground, effectively.

Q Do you know what the -- is there a pretty big increase in the PJM market price years six through ten? I mean, is that a -- or were they more straight line, or do you know?

A Well, I've got an exhibit in my direct testimony that sets forth all the forecasted fundamental pricing for on-peak/off-peak energy, natural gas that were assumed in modeling. I just don't have recall right now as to what they are without flipping through it. I'd be happy to do that.

Q Well, either that or with a post-hearing data request, to just --

MR. OVERSTREET: Okay.

Q -- kind of what those -- what the -- what PJM price was used --

A It was -- it was --

Q -- for those ten years, that ten-year period.

MR. KURTZ: If I may --

A It's Exhibit 3.

MR. KURTZ: -- this is what counsel for Staff handed out yesterday.

A It's my Exhibit SCW-3.

MR. KURTZ: And it's updated.

MR. NGUYEN: It's updated. It was an exhibit -- the exhibit that was circulated yesterday was an updated exhibit based upon Mr. Bletzacker's data.

VICE-CHAIR GARDNER: And where is -- summary of long-term commodity price forecast scenarios; is that the --

MR. NGUYEN: Yes.

VICE-CHAIR GARDNER: Okay.

MR. OVERSTREET: Just to be clear, that did not go into 1R. That's -- that was just Mr. Bletzacker's modeling in response to testimony that it -- that had been filed by the Intervenors. What went into 1R is in Mr. Weaver's testimony, and we'll provide that as a supplement --

VICE-CHAIR GARDNER: Okay.

MR. OVERSTREET: -- as a post-hearing data request.

VICE-CHAIR GARDNER: Okay.

MR. OVERSTREET: Just so you have it there.

Q Okay. So, moving on to Option 2, and why don't you -- rather than me reading it, why don't you tell me, just like you did, kind of narratively what you were trying to accomplish with this particular Option 2A and 2B just like you did in 1 and 1A?

A In both Options 2 and 3 we're effectively trying to establish a scenario whereby we can look at kind of a new entrant, from a new entrant market perspective. I think I stated in -- in direct testimony that when you're looking at capacity needs of this magnitude, 1,100 megawatts, it's reasonable to assume that a combined cycle would be filling that need.

So what you're dealing with with 2A is cost and performance estimates associated with building a CC at the Big Sandy site. This is a brownfield unit. There's space to do it. You go either across Route 23 or next to the plant and build a CC at that site.

2B -- and with that, you're also, as part of the Option 2A -- that just takes care of -- that 800-megawatt CC just takes care of Big Sandy 1.

For Big Sandy 2 -- or, excuse me, Big Sandy 2.

For Big Sandy 1, we're talking about a 20 percent take out of Mitchell. The same -- the same -- basically, 1A, 1B, 2A, and 2B are consistent in terms of how they are handling the smaller tranche, what those options are.

Moving on to Option 3, we looked at yet another --

Q Just a second. So it looks as if, just comparing Option 1 -- back on your SCW-1R, if you're just comparing those options, Option -- the two -- the Options 2 are more cost-effective than the Options 1?

A Yes.

Q Okay.

A But obviously when you're comparing to Opt -- to -- particularly to case -- or Option 5A, it would be much more --

Q We'll get there.

A Yes, sir. Yes, sir. You're -- you're --

Q Okay. So now Option 3. Go ahead.

A Option 3 would be you're also replacing effectively Big Sandy Unit 2. What you're doing here, you're actually taking Big -- the smaller Big Sandy 1 and turning it into a combined cycle facility. You're preserving the steam turbine and piping and effectively putting two gas turbines, Mitsubishi gas turbines and two HRSGs, or heat recovery steam generators, at that site and making it an 800-plus-megawatt CC. So it's just different alternatives.

And again, just as an FYI, the underlying cost and performance parameters we got from an A&E firm, Sargent Lundy, with assistance from a construction engineering firm called Kiewit, along with our AEP engineers, to establish cost and performance parameters regarding both the brownfield installation of a CC as well as the conversion of Big Sandy 1.

This is the -- we've heard the term "repowering." This is what I would define as a repowering of the unit, as opposed to a refueling of the unit, when you're just changing the fuel source.

So that's Options 2 and 3.

Q Okay. Well, let me ask that while we're on that. So -- and I'm looking at the -- what is the difference, if you could state again, and I'm referring to the terms in the consent decree, retrofit, repower? I guess retrofit is just scrubbing or FG -- SCR or something like that?

A Yes. Yes, sir.

Q Okay. What's the difference, again, between repower and refuel?

A Repower is what we're talking about here with Unit 3. You're basically not just changing the fuel source, you're changing the overall design of the unit. You're converting it from effectively a coal unit to a natural gas combined cycle facility. That's repower.

And refuel is what we're talking about doing with Big Sandy Unit 1. You're just basically changing burner tips and doing some relatively minor construction engineering, and that's -- that kind of shows up when you look at the relative cost in an option.

Q And ultimately that is -- the refueling is ultimately what you're going to be presenting to us in another case with respect to Unit 1?

A That's my understanding.

Q Okay.

MR. OVERSTREET: That's accurate.

VICE-CHAIR GARDNER: Okay.

Q Okay. So the --

A So --

Q Go ahead.

A Okay. I'm sorry. So those are the two

CC options.

And, again, the notion, obviously, is, you know, what can we do to leverage what we've got now that's good. You know, a brownfield site, or an existing steam turbine for a repowered option, because you're preserving the steam turbine.

And then in Option 4, these are basically options where I'm saying I'm going to be a price-taker. I'm going to be a price-taker for some period of time within PJM and then let the model decide after -- in Option 4A in five years, in Option 4B in ten years, whether to build CT, CCs. We let the model optimize around what technology it would want to pick.

But the point is, we're saying we're going to be a price-taker within PJM and deal with the vagaries of that marketplace.

Q Okay.

A And then finally, Option 5 is the option associated with converting Big Sandy 1 to gas. So now the issues are --

Q So that's the refueling?

A Yes, sir. Converting it to -- yes, sir; refueling.

And then for Options 5A and 5B, it's

saying, "Okay. Now what do I do with the 800-megawatt block?" The former Big Sandy 2. So it's either replacing with 50 percent portion of Mitchell, comparable size, or I would buy capacity from the market for a five-year period and then let the model select whether it wants CC, CTs, or some combination.

And then finally, Option 6, which is what all these are being compared to, is our --

Q Can we just --

A Sure.

Q Back on Option 6 -- excuse me. Option 5A and B, which -- do I understand that that is actually lower than the base?

A Yes, sir.

Q Okay. So let -- can we talk about this for a second to make sure I understand 5A? So 5A is you're retiring Big Sandy 2, replacing it with capacity and energy from Mitchell, and -- because that's actually what you're -- in fact, to make sure I understand, Option 5A is not the base, but it's the option that you ended up selecting?

A Yes, sir.

Q Okay. And go ahead and tell me what the base is.

A The base was, in fact, 50 percent take out of Mitchell, 780 megawatts, and then as it relates to Option -- or to -- the Big Sandy 1 tranche is relying upon march -- market purchases for ten years.

So effectively what we did -- now, this says ten years. We said, "We want to go to the market for that." We issued a competitive solicitation. It's -- you know, I discussed this in my direct testimony. And even though Option 5A indicated it was less expensive, we wanted the process to work, so we wanted to go through the process, examine the results before we made a final recommendation.

And based on the results of that solicitation, effectively that green -- that Option 5A, that green shaded area, would be our path forward.

Q Okay. And -- and that's because of -- so hold one second. Okay.

A So just for -- just a quick -- obviously, then, if you're trying to determine the relative difference in cost versus 5A, you would have to add, in that top line, $156 million to each of these deltas that are represented.

Q The --

COMMISSIONER BREATHITT: May I ask a clarifying question?

VICE-CHAIR GARDNER: If you could just

hold on for just a second, if you don't mind.

COMMISSIONER BREATHITT: 'Cause his train of thought is going.

VICE-CHAIR GARDNER: Huh?

COMMISSIONER BREATHITT: 'Cause your train of thought's going.

VICE-CHAIR GARDNER: Yeah, yeah, yeah. I'm sorry. I just --

COMMISSIONER BREATHITT: I understand.

Q So you didn't -- so in these options, there was no option where -- okay. Let's look at Option 3 for just a second.

A I'm sorry, sir. Option?

Q Turn -- three.

A Three. Yes, sir.

Q So if we look at Option 3, we retire Big Sandy Unit 2 by January 2016 and replace it with the repowering of Big Sand -- as a nominally rate -- rated combined cycle unit by 2017 with additional capacity and energy. Okay.

Is -- did you-all model retire Big Sandy Unit 2, replace it with a -- try to get right word. A re -- I guess repowering, repowering of Unit 2, and then, rather than replacing capacity and energy from the 20 percent ownership interest of Mitchell 1 or 2, from PJM, did you model that?

A No, but I think there's some impracticalities associated with repowering Big Sandy 2.

Q Okay. Well, let's make sure so -- so I get the -- what does "repower" mean?

A That's the -- that's the option of converting an existing coal unit, preserving the steam turbine and then adding gas turbines and heat recovery steam generators to create a combined cycle facility.

Q And tell me what the problems with that are.

A I'm not a thermal engineer, but it's my understanding that you have to have -- in order to get maximum efficiency out of your steam turbine, you have to have a sufficient amount of waste heat going into that steam turbine.

In order to get an optimal level of waste heat from the gas turbines, you have to size the gas turbines such that you're dealing with probably about 120, 130 percent the size of the steam turbine.

So, as it relates to Big Sandy 2, it's got an 800-megawatt steam turbine. That would suggest to optimize the heat rate out of that steam turbine, you would have to probably have an order of magnitude of 1,200 megawatts' worth of gas turbines to get enough waste heat to maximize the output.

So what you're left with -- and I'm not sure one exists -- is about a 2,000-megawatt facility.

Q Okay. But that same problem doesn't exist when one's trying to do that with a 250-megawatt?

A That's exactly correct. With --

Q Okay. Well, let me ask this: What about building a -- did you-all model retiring Big Sandy 2 and replace it with a combined cycle?

A Retiring Big Sandy 2? That effectively is Option 2.

Q But -- oh, I'm sorry. Let me look at that, then. I'm sorry.

A We're just building on the same site.

Q Okay.

A Might be across the highway, but -- you've got transmission interconnection, potable water.

Q Right. Okay. So you're retiring Big Sandy Units 2 and Unit 1 by January 2016 respectively, replace 2 capacity and energy, nominal rate of new build. Okay. By June.

Well, did you model that -- I'm not sure

I'm seeing that. Did you model -- you're doing the build. While you're doing -- you're retiring it. While you're doing the building you're buying from PJM, and then -- and then you're -- with respect to Unit -- Mitchell Unit 1, you're doing as -- as the -- the repowering of it, did you-all model that?

A I'm sorry. Repowering of the Unit -- Mitchell 1?

Q Well, look at -- look at your Option 2A.

A Okay. Yes.

Q Option 2A is we're retiring both of them and we're -- we're doing a new build, right, for Unit 2?

A For Unit 2, you're retiring the unit; yes, sir.

Q Right. So let's hold that.

A Okay.

Q And then for some period for Unit 2, because you're retiring Unit 1, you're going to -- you're going to need, until you can get it built, some market --

A Yes, sir.

Q -- PJM, and then Unit -- Unit 2, you're going -- excuse me. Unit 1, you do what you-all had wanted to do, which is, you know, the combined cycle.

Did you-all model that?

A No.

Q Because this is pretty close. This is the closest of these options, and I'm wondering what --

A The -- what you just described, I believe, is that you would build roughly, for the sake of discussion, an 800-megawatt combined cycle unit to replace Big Sandy 2.

What you get when you convert Big Sandy 1 to a combined cycle unit is another 800-megawatt unit. You're taking the 278-megawatt steam turbine, adding about 400 megawatts' worth of gas turbines, and creating an 800-megawatt unit.

So basically -- and it's kind of identified on page 6 of my testimony. What, basically, you're doing, you're making a larger facility out of Unit 1, comparably sized, so --

Q So -- and that's what you-all recommend? I mean, that's what we're going to be seeing with respect to Unit 1?

A No. Unit 1, all we're doing is we're converting the --

Q That's what -- that's what I'm asking.

A -- unit to gas -- I'm sorry. I

apologize.

Q Yeah. So for Unit 1 --

A You said "repowering," and I'm --

Q I'm sorry. I'm -- I can't keep those terms in my head right.

So I want -- Unit 1, I want you-all to do what you are going to be presenting to us, the 50 plus 60 million that you-all are going to, you know, come to us with. Rather than purchasing Mitchell or a part of Mitchell, I'd like to know about retiring Big Sandy Unit 2, doing the new build, you know, 762-megawatt natural gas combined cycle, and then if you need -- if it can't be built before it has to be retired, then you make market purchases from PJM in the near run -- near term, where we think the market price is going to be lower. Did you-all run that?

First of all, do you -- am I making -- I'm sorry. Am I making myself clear at this point?

A I think so. What you're wanting to see is building a new CC to replace Unit 2.

Q Yes.

A Okay. And then preserving Big Sandy 1 as a gas steam unit.

Q Yes, sir. Did you run that as a model?

A We did not.

Q Okay. And why not? Was that a decision that you made or --

A I did not make. Again, this was a collaborative process with a whole lot of folks within the Kentucky Power senior management and as well as American Electric Power Service Corporation deciding upon these options.

Q Okay. And tell me the difficulty of running that particular model that I just described.

A Well, I don't know how difficult it will be. I could get with my colleagues and we could -- we could try to examine that, certainly.

Just as kind of -- looking at it objectively, I'm not really sure that it's going to change the overall results, that the 50 percent take out of Mitchell is still going to be fairly significantly beneficial.

When you look at the relative impacts of case 5A versus 6, it's $156 million. Okay? In other words, case 5A says I'm going to do Mitchell -- take Mitchell and convert it to gas, and that option is $156 million less expensive than an option that would also convert -- or take Mitchell and go to market.

So basically what you could do is, you would effectively be dealing with the same number you're dealing here with Option 6, to a certain extent.

In other words, what we're saying is, for Option 2A, comparing it to case 5A, the number should be about $681 million. It's 526 plus 156, if I compare to Option 5A.

Q Aren't you comparing 2B to 5A?

A Two -- 2B to 5A; that's correct. All I'm doing is taking the absolute of 156 and adding it to the 526. That's kind of the market position.

Q Well, that's -- I mean, the market there is for ten years, and it's 800 -- yeah, it's for ten years, and, you know, you wouldn't need it for ten years, would you?

A Need the market, you're saying?

Q Yeah. I mean, wouldn't you have a -- how long -- what is your estimate for -- in this modeling, how long it would take to build a combined cycle natural gas facility?

A I would have to rely upon others who are involved with projects. I think I heard Mr. Karrasch talk about a 48- to 52-month time frame.

Q And is that the time -- and that time frame is longer than it would be to convert Unit 1 to gas?

A Yes.

Q Okay. Tell me -- I'm still holding that -- that thought for a while, but one question I have is: What is the stacking analysis? Let me -- let me just the context in which it -- this was what Mr. Wohnhas --

MR. OVERSTREET: Excuse me. Mr. Vice Chairman, that -- I think the concept of an analysis is not confidential, but certainly the details would be.

VICE-CHAIR GARDNER: Okay.

MR. OVERSTREET: Because it dealt with the RFP results.

Q Well, tell me what a stacking analysis is. What does "stacking" mean?

A Well, as the name implies, what you're trying to do is, if you're trying to meet a larger resource need and you have available to you options that are -- that are smaller than that need, but in some grouping they may achieve that, then you're creating a stack, effectively, of resources that would be somewhere equivalent to the higher resource need.

Q And that is something different from what the -- the modeling that you-all -- the modeling of these different options that we just talked about?

A Yes. And, of course -- if I could perhaps elaborate a little bit, that the risk you run when you're dealing with a multitude of resources that are trying to fill a gap, fill a need, is, obviously, what is the nature of those resources? You know, how many different resources, if they're facilities or what have you, are we dealing with? You know, are they owned? Are there -- are they purchased? And just keeping any type of uniformity.

The duty cycle of the resources. Are they base load? And that's another important point here is we're basically retiring two base load units, come 2015, that provide a lot of energy, and if the replacement stack is constituted with duty cycles other than base load, if it's got a lot of peaking, for instance, then that's going to potentially jeopardize Kentucky Power Company from the standpoint of not meeting its native requirements.

You may have, through that stacking, sufficient capacity resources, but you may be exposed to market vagaries, because you're going to have to go to the PJM market, potentially, if you're -- if you're building a lot of peaking or purchasing a lot of peaking capacity.

Q Okay. So -- and I -- in follow --

trying to walk gingerly in response to Mr. Overstreet's admonition and caution, so the -- you did a stacking analysis?

VICE-CHAIR GARDNER: Am I even allowed to ask if that was done in the RFP?

MR. OVERSTREET: Oh, absolutely.

VICE-CHAIR GARDNER: Okay.

MR. OVERSTREET: And I would never admonish the Commission.

Q The -- did -- was a stacking analysis done in the RFP?

A Yes. In response to this Commission's order from May 28th, the Commission asked for information that would be informative to the assessment of the asset transfer option.

Q Okay. And you didn't do a stacking analysis with respect to the prior modeling?

A No, and for the reasons I described, I just -- I don't think that makes a lot of sense. I think you're -- you're basically replacing large resources, and there obviously is -- are economies of scale associated with these large resources from a -- from a planning standpoint, from an operational standpoint, from a costing standpoint, that you lose if you start dealing with smaller tranches of resources.

VICE-CHAIR GARDNER: I guess at some point I'm going to want to know what the stacking analysis --

MR. OVERSTREET: Absolutely.

VICE-CHAIR GARDNER: -- out of the RFP, how it informed -- how it answered the Commission's request in the May order.

MR. OVERSTREET: That's in Mr. Weaver's confidential testimony, and if you want to go into confidential session, we can do it.

VICE-CHAIR GARDNER: Okay. So I'm going to stop for now. And I can hold that so we're -- try not to go back and forth.

MR. OVERSTREET: Sure. Whatever the Commission wants.

COMMISSIONER BREATHITT: I have a few.

* * *

EXAMINATION

By Commissioner Breathitt:

Q Following up on some of the Vice-

Chairman's questions, why did -- why was ten years selected for the base case, which is Option 6? We're calling that the base case.

A Ten years for -- again, just so we're clear here --

Q For market -- for market purchases.

A For the smaller tranche associated with -- it's just --

Q For Number 6.

A Yes. Yes, ma'am.

Q Is that -- is that -- could that be considered the base case?

A Again, just so I'm -- we're clear, what Option 6 entails -- again, we're dealing with two resources, Big Sandy Unit 1 and Big Sandy -- the larger Big Sandy Unit 2. What we're effectively doing with the Big Sandy 2 is replacing it in kind, almost megawatt for megawatt, with the Mitchell transfer.

So what the option -- the Big Sandy 1 replacement would be -- would be would be a ten-year play within the market. In other words, we're going to be price-takers for that smaller tranche within the market for ten years and then let the model --

Q Okay.

A -- optimize and build a CC or a CT,

whatever it would select.

Q But the reason it -- it's just laid out differently on this. It's laid out --

A 'Cause that was the base that all of these options are being compared to. That's what all --

Q Okay. That's -- that's what I was --

A Yeah.

Q Now, on the Option 5, 5A, 156 million, as compared to --

A Option --

Q -- I think you said that earlier, but tell me again.

A It's compared to Option 6. So effectively what it says is, is that --

Q Where on Option 6?

A Well, it --

Q All of the numbers?

A Every -- you see where it says "all versus"?

Q Yes.

A So all these options were being compared to Option 6. So over the study period, the cumulative present worth of cost would be $156 million savings of Option 5A versus Option 6. So what that's suggesting is that --

Q So you compare Option -- you compare the 156 to all of the numbers going across?

A No. These are all being compared to Option 6.

Q Okay.

A If I wanted to compare to Option 5A, then what I would need to do is take each individual number and add --

Q Add --

A -- 156 to it.

Q -- to that. Yeah. Okay. And earlier -- and this may be a question for Mr. Munczinski, but earlier you had described the $536 million cost for Mitchell, 50 percent of Mitchell, as an estimate.

A It's an estimated value as of the end of this year, 12-31-13.

Q So -- and I know a lot of witnesses have gone, and -- but how much -- what's your comfort level in that 536 million, remaining close to that number for the next ten years?

A I mean, I'm -- you know, I -- it's difficult for me to respond, because I don't know what capacity additions or what -- excuse me, what additions to gross plant in service are being made. The depreciation should be easy enough that also affects that number, but it -- it's an estimated value. I think I heard in hearings that the value, actual value at the end of 2011 was, I believe, 517 million?

Q Yes. I heard that too.

A So it's very plausible that there could be some estimate of cost increase, capital cost increase that would be slightly higher than the amount you're depreciating during that same two-year interval.

As to -- so the depreciation amount is -- you're pretty solid on that. It's the -- the estimates going forward, I kind of believe that our ability to estimate in the nearby, the near term, is pretty daggone good, because we -- as a corporation, we keep tight controls in terms of our capital spend, and I don't -- I don't really envision that's going to get out of control.

Q Was there something in the record, in the testimonies and -- that carried that number out for the next ten years?

MR. OVERSTREET: Of course, the 536 is the transfer price. That's --

COMMISSIONER BREATHITT: Yes.

MR. OVERSTREET: That's the price that the --

COMMISSIONER BREATHITT: For the estimate -- the estimated --

MR. OVERSTREET: That's the estimated transfer price. And so are you asking what the net book value of Mitchell will be each year for the next ten years? I'd have to --

A You know, again, that's obviously a function of what our -- the capital spends that are anticipated for the Mitchell units, the 50 percent share of the Mitchell units vis-à-vis whatever is being depreciated. I don't have -- I don't have the information available.

COMMISSIONER BREATHITT: Okay.

CHAIRMAN ARMSTRONG: Further questions?

COMMISSIONER BREATHITT: I think that's all I had.

CHAIRMAN ARMSTRONG: Thank you.

VICE-CHAIR GARDNER: I've got -- I want to ask what -- let me ask Mr. Overstreet this question, if I could, Mr. Chairman, and then we're going to have to go into closed session, and then I'm going to want a quick break to confer with Staff, but --

MR. OVERSTREET: Surely.

VICE-CHAIR GARDNER: -- but my question is: If you recall, in my question to Mr. Wohnhas about affiliate transaction, and Mr. Wohnhas indicated -- he went through and talked about, you know, where's the support for the market.

MR. OVERSTREET: I remember that.

VICE-CHAIR GARDNER: And we talked to Mr. McDermott, and we cross-examined him, asked him questions, we -- and he mentioned Mr. Fransen, about specific transactions, we asked -- talked -- asked about that, and then he mentioned two things with respect to Mr. Weaver. One was -- was the combined cycle build, and we're kind of going through that now, and then they have -- asked a model -- another model to be run, and then the stacking analysis RFP, which I don't understand at this point, which is why we're going to go into closed session.

MR. OVERSTREET: Sure.

VICE-CHAIR GARDNER: How can that be -- how can that be used as part of our decision if it's confidential?

MR. OVERSTREET: Well, I wouldn't presume to tell the Commission how to make its decision, but I would -- I would think that both nonconfidential and confidential information, that's all part of the record, and the Commission needs to base its decision -- whether it's confidential or not is, you know, a function of the information, but certainly the Commission could write its order to provide the information without revealing the confidential -- the specifics of the confidential, but that -- I wouldn't presume --

VICE-CHAIR GARDNER: Okay.

MR. OVERSTREET: -- to tell you how to do that.

VICE-CHAIR GARDNER: Yeah, and that's -- I -- as I was asking the question, I realized I was basically asking the wrong person. I should have been asking counsel over here.

MR. OVERSTREET: Okay.

VICE-CHAIR GARDNER: But -- okay. So I'm -- so I'm ready to -- I don't have any more questions of Mr. Weaver, and I don't know if anybody -- you --

MR. OVERSTREET: I have -- I have nonconfidential redirect. It might -- it might be better -- I'm sorry.

CHAIRMAN ARMSTRONG: Jennifer, do you a

question?

MS. HANS: No, not at this time, Your Honor.

MR. OVERSTREET: But it may be better to save all of that until we're finished, but I would like to follow up with your -- with one point through Mr. Weaver about your request, perhaps, for another model to be run.

* * *

REDIRECT EXAMINATION

By Mr. Overstreet:

Q Okay. Mr. Weaver, could you take a look at this SCW-1R?

A Yes, sir.

Q And take a look at Option 5B, please.

A Yes.

Q And is Option 5B pretty close to what the Vice-Chairman was asking you to -- was contemplating asking you to do?

A I thought he was working off of the nearer term construction of a CC.

Q And under --

A -- as opposed to --

Q -- Option 5B it would be five years, right?

A Five years.

Q Right.

A And the --

Q And that's why I said pretty close.

A This five-year period really starts in 2015 through 2020, whereas the CC in Option 2 would be in 2017, so it's a difference of three -- of three years --

Q And, again --

A -- in time.

Q -- pretty close?

A Yes. Yes.

MR. OVERSTREET: Okay.

MR. KURTZ: Mark, you said 5B.

MR. OVERSTREET: I'm sorry? 5B, as in boy.

CHAIRMAN ARMSTRONG: Option 5B.

MR. OVERSTREET: That was -- that's what I said.

CHAIRMAN ARMSTRONG: Then we're -- excuse me.

A So, I mean, the difference, obviously, you're talking about three years, in terms of the construction. If that -- if that final construction commercialization of a CC is in a 2020 time frame, then this would be the delta you're looking at.

Q Right. And that's $223 million, on a CPW basis, more expensive --

A Right.

Q -- than just the Mitchell transfer, and looks like it's about 370 million, almost $380 million more expensive than the Mitchell transfer plus the refueling --

A Big Sandy 1 gas conversion.

Q -- Big Sandy.

MR. KURTZ: I'm sorry.

MR. OVERSTREET: That was it. I mean, I will have more nonconfidential, but I'll proceed at your-all's direction.

CHAIRMAN ARMSTRONG: I think all of the questions have been asked. And you wanted to break at this time?

VICE-CHAIR GARDNER: Well, I've got -- I've got a confidential question, one question, which I know --

CHAIRMAN ARMSTRONG: We can go there

now.

MR. OVERSTREET: Sure.

VICE-CHAIR GARDNER: Okay.

CHAIRMAN ARMSTRONG: We'll go into confidential. Are we there?

MS. HARWARD: Yep.

CHAIRMAN ARMSTRONG: Okay.

(Confidential testimony of Scott C. Weaver heard from 3:45 p.m. to 4:26 p.m.)

* * *

RECROSS-EXAMINATION

By Mr. Nguyen:

Q Mr. Weaver, can I refer you to page 39 of your rebuttal testimony?

A Yes, I'm there.

Q Okay. This page -- the testimony that you provided on this page dealt with the -- sort of the restated EIA 20 -- EIA -- EIA 2013 Outlook that Mr. Bletzacker performed; is that correct?

A Yes.

Q There were restated price forecasts for natural gas; is that correct?

A That's my understanding; that's correct.

Q Okay. And can you explain what the restated values based upon the EIA Outlook 2013 is? What is that? What does "restated" mean?

A Witness Bletzacker would be far better than I to explain. Again, I'm --

Q Sure.

A -- the hub, and I'm getting from the conduit in the form of the subject matter expert.

Q To the best of your knowledge.

A To the best of my knowledge, it was a restatement based on what his perception was in terms of the assumptions that were incorporated by EIA in their 2013 profile.

Q Okay. Were there -- and we discussed the CO2 prices stayed constant. Those were not changed, correct, under this restated -- under the -- the restated assumptions that were conducted by -- by Mr. Bletzacker based upon the EIA 2013 Outlook?

A Is your question whether he maintained the projections of carbon prices that he had forecast?

Q Correct. Those stayed constant?

A I believe they stayed constant.

Q Okay.

A That's my understanding.

Q Okay. And the price of coal stayed constant as well; is that your -- to your knowledge?

A I believe, subject to check and validation.

Q Okay. Were there any other pricing forecasts that were changed, other than the price of natural gas?

A I don't know for certainty, but I'm assuming that Mr. Bletzacker would have also modified natural gas -- or, excuse me, power pricing inasmuch as, obviously, natural gas would be, you know, on the margin during the forecast period.

Q Okay. And based upon those restated values, did you run additional Strategist modeling to identify the economic results as based upon those restated numbers?

A Yes.

Q Okay.

MR. NGUYEN: Can you give me one second?

Q Do you still have this exhibit?

MR. OVERSTREET: I'm sorry. Whose exhibits?

MR. NGUYEN: This is Attachment Number 1 to Commission Staff's fourth data request, item number two.

MS. COLE: Your Honor, may I approach?

MR. OVERSTREET: Is that an AG exhibit?

MR. NGUYEN: No, it was not.

MR. OVERSTREET: Is that what you handed out yesterday?

MR. NGUYEN: Yes.

MR. OVERSTREET: Okay.

Q So my question to you is: Did you utilize the EIA Outlook 2013 numbers or the restated values that were conducted by Mr. Bletzacker based upon the EIA Outlook 2013 numbers when you ran your modeling associated with that exhibit?

A It's my understanding that the figures identified in red with -- that are identified as 2013, 2013 EIA Company modified results utilize the data points that are identified on this exhibit for EIA 2013 AEP FA modified.

Q Okay. So those weren't the actual EIA Outlook 2013 numbers that were used, but the modified numbers based upon the Company's or Mr. Bletzacker's restated values to those numbers?

A That's correct. This was rebuttal testimony to numbers that were originally incorporated by Mr. Hayet.

MR. NGUYEN: I apologize, Your Honor, I'm going to have to go back into confidential session for this question.

(Confidential testimony of Scott C. Weaver heard from 4:33 p.m. through 4:42 p.m.)

MR. OVERSTREET: Mr. Chairman, the Company's next and final witness is Richard Munczinski, and I will present him.

* * *

RICHARD E. MUNCZINSKI, called by Kentucky Power Company, testified as follows:

DIRECT EXAMINATION

By Mr. Overstreet:

CHAIRMAN ARMSTRONG: Have a seat. Speak up loud and clear. Your name?

THE WITNESS: Richard E. Munczinski.

CHAIRMAN ARMSTRONG: And where are you from?

THE WITNESS: Columbus, Ohio.

CHAIRMAN ARMSTRONG: And what do you do?

THE WITNESS: I'm the senior vice president of regulatory services for American Electric Power Service Corporation.

CHAIRMAN ARMSTRONG: How long have you done that kind of work?

THE WITNESS: In that position, I've been there for three and a half years.

CHAIRMAN ARMSTRONG: How long with the company at large?

THE WITNESS: Thirty-five years, sir.

CHAIRMAN ARMSTRONG: Welcome.

THE WITNESS: Thank you.

CHAIRMAN ARMSTRONG: Your witness.

Q Mr. Munczinski, did you cause to be filed in this testimony supplemental testi -- in this proceeding supplemental testimony?

A I did.

Q Do you have any corrections or modifications to that?

A I do not.

Q And if you were asked the same questions, would your answers be the same?

A Yes, they would.

Q And can you just briefly state why you're here?

A I'm here to support the Company's request to transfer 50 percent of the Mitchell units as the least-cost alternative and to explain the Company's desire to retain a regulatory model. I'm also here to show all the parties that a 60-year-old AEP asset can still work.

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

THE WITNESS: They didn't get it. You two.

MS. HANS: Your Honor, the Attorney General has no questions of this witness at this time. Thank you.

MR. NGUYEN: Just a couple of questions, Your Honor.

* * *

CROSS-EXAMINATION

By Mr. Nguyen:

Q Good afternoon, Mr. Munczinski.

A Good afternoon.

Q Your name is almost as difficult as --

to pronounce as mine is, so -- you testified, or you provided testimony with respect to the potential risks of relying on market power and potential price volatility; is that correct?

A Yes, sir.

Q Do you have any concerns with any risk associated with Kentucky Power acquiring the Mitchell units?

A Not at all.

Q And can you state why or why not?

A Well, I mean, there are a number of reasons. One, you know, AEP engineering built those units, and if you look back at my testimony, you'll see that that was one of my first positions was an engineer in generation.

So I am, like all the other experts that you've seen over the last couple of days, very comfortable with the construction of those units. We have held them, as we have talked about, for a number of years. They run well. They're well controlled. We know -- we have known them since they were born. And I think given all of that, the risk is low for Kentucky Power to transfer those power -- those units to Kentucky Power and to have them run for a long, long time.

Q And were you here for the discussions the last couple of days regarding the President's Climate Action Plan?

A Yes.

Q Okay. Your testimony indicated that the plan that the President had laid out sort of coincided with the 2022 assumption date that was assumed under the economic modeling that was ran for the Mitchell units; is that correct?

A That's correct.

Q Okay. Did you have any concerns with respect to the pricing or the cost of any potential carbon legislation or carbon regulation?

A No, not as it pertains to the Mitchell transfer.

Q Okay. So you're comfortable with the 15 to $70 assumption that was made with respect to the inputs that were ran for the economic modeling?

A I actually have to tell you, not only did I work in generation, but I hired Mr. Weaver, Mr. Bletzacker, I -- Bletzacker. I used to run that whole function, so I'm very familiar with the economics.

And, in fact, my master's in management science is a -- I have a degree in engineering economics, and engineering economics is basically the study of large capital projects for utility companies.

So I'm very familiar with how Mr. Weaver -- I don't pretend anymore to have the detail that Mr. Weaver and Karl and others have, but I understand the concepts that they go through, I understand how they arrived at their conclusions, and I've looked at their curves in the past, and, as I said, I ran that department, so I'm very comfortable with the solution.

And I think that, you know, there's been so much, you know, discussion about why the Company is doing this. And, you know, I can go through the history of how -- you know, my part of this, but, you know, really, we're going to be here for a long time. We're been here for a hundred years. We're not selling you a used car that's not going to work. We're selling you, as Mr. LaFleur said, the crown jewel of the AEP system.

And if you look, what's left in Ohio Power is a lot of subcritical units that are being retired, a lot of units that are jointly owned with Duke in Dayton. And I would never do that to Kentucky Power, as -- because the experience we've had with those companies isn't the best, quite frankly. And, you know, you're really getting -- APCo and Kentucky Power are really getting the best two units that are -- that are available.

Q And you also -- excuse me. You also oversee all of the regulatory functions, state and federal, of the AEP company?

A I oversee all 11 state regulatory functions, the FERC. I oversee all of the RTO functions. We're in three RTOs, and we monitor the MISO RTO; I'm the chief NERC CIP compliance officer; and I'm well versed with the -- with Wall Street, because I bring in -- my group brings in the revenues, and Wall Street is very interested in the revenues and how we are using those revenues and how we are doing all of this, so I speak frequently with analysts and AEP investors.

Q Okay. So you're aware of the Ohio Industrials having filed for rehearing at FERC challenging FERC's approval of the Mitchell transfer at book value and arguing that market -- I'm sorry. Arguing that market is higher than book; is that correct?

A I am -- yes, I am very aware of that, but I'm also aware that when we tried to move these assets in the first instance from the Ohio Commission, the Ohio Commission overturned our stipulation and was very concerned that we were moving these valuable assets to other states.

Now, we have since then convinced them that we're not going to affect the markets and they're -- they'll be fine.

But not only are they -- the stakeholders questioning inside the FERC and the Industrials and the Office of Consumer Counsel has taken this case to the Supreme Court of Ohio, arguing that these assets are more valuable as a market asset than as a book -- net book value, and they want the dividend. They want the difference, dividend back to the customers.

Now, we don't think they're going to win at that. The practice in Ohio has been to move assets at net book value. FirstEnergy did it. AE -- they wanted AEP to do it, and they have ordered Duke to do it.

Q So you also touched upon the Ohio case as well, where the Ohio Industrials also challenged the Public Utility Commission of Ohio's ruling based upon --

A Yes.

Q -- net book? Okay. If Ohio decides the transfer should have been at market rather than at book value and Ohio determines that market is above book and AEP Genco has to pay more, will that difference be passed on to Kentucky Power Company?

A No. I don't believe so. I mean, I'm not an attorney, but the way I would see it is that the FERC has already approved the transfer of all the generation to the AEP Generation -- excuse me -- Resources Company. They have approved the transfer of Mitchell and Amos to Kentucky Power or into Appalachian Power Company.

If the Supreme Court were to rule for some reason that they erred and remanded that case back to the Commission, I would say that was going to be a liability of the EDU.

Q Okay.

A The wires company that's left.

Q So if FERC --

A Again, I'm not an attorney.

Q I understand.

A So that's kind of free advice.

Q I appreciate that. If FERC determines that market is below book value and requires AEP Genco to transfer Mitchell to Kentucky Power at a lower price, will that difference flow through to Kentucky ratepayers?

A Well, first of all, the FERC has already approved the transfer at net book value.

Q I understand that, but the Ohio Industrials have challenged that.

A Okay.

Q Haven't they?

A But that one you got me on. I can't answer that question.

Q Okay. You can't answer it because you don't know at this time or you can't answer it because you can't?

A I can't answer it because I think I'd seek legal advice in the first instance.

MR. NGUYEN: Those are all the questions that I have. Thank you.

VICE-CHAIR GARDNER: Thank you.

* * *

EXAMINATION

By Vice-Chair Gardner:

Q Mr. Munczinski, I'm trying to -- you're the third person I've asked questions about with respect to the Waterford and Lawrenceburg combined cycle plants that were raised in the testimony of Mr. Timothy Woolf, and so my question, first of all, are you familiar with those assets?

A Somewhat; yes, I am.

Q Will you -- why weren't those assets, which are already combined cycle gas plants owned by Ohio Power, made available to Kentucky Power?

A Well, I think there's a number of reasons. One, as Mr. Weaver was, I think, just saying, that if you put all that 800 megawatts of gas into Kentucky Power, you'd be 70 percent plus gas, 30 percent coal.

And if you look on page 6 and 7 of my testimony, I lay out how the capacity rates, on page -- I'm sorry. Yeah. Yeah. Six. Actually there's two numbers, Munczinski 6 and page 16, so that's probably an error. Munczinski 6. And then page 7 you'll see the energy price.

So 6 is the capacity and 7 is the energy. If you'll look at the energy, that's the daily market for PJM energy. And we all know that gas is on the margin. So these are the type of gas prices you're going to see, our customers are going to see.

And we've had this experience. Public Service of Oklahoma, one of our subsidiaries, is mainly gas. And when gas prices are very low, people are very, very happy, and when gas prices are very -- are higher, people are very unhappy.

And my whole testimony is about the regulatory model versus the market model. And AEP is pro regulatory model for a number of reasons. One, it brings stability to our company and to our earnings. It also brings stability to our customers' rates.

And, you know, we've been having these issues in Ohio. I talk a little bit about the problems in Ohio. One of the problems is that our economic development people are telling us that when an industrial comes to Ohio, the first question they ask is, "What are your electric prices?" And nobody knows. Because if you look at that curve, it could be anywhere between $30 and $70. And I can't tell you what next week's, next year's, two years, three years from now is going to be.

So what they'll do is they'll say, "Well, I'll go to Indiana, I'll go to Kentucky," because we know the coal-based states -- you can see the red line there. That's the Mitchell cost. The coal base states aren't going to see that kind of volatility and the regulatory states aren't going to see that kind of volatility.

So, you know, we're disadvantaged in a number of ways by having gas and to be that dependent on gas.

And if you look, what we tried to do -- my whole part -- what was my whole part about this? Well, first of all, I was the chairman of the pool committee. And so the pool had to be changed, had to be eliminated, and we did that, we terminated it.

Now, along came Ohio and deregulation, and so we -- what we tried to do is look at across the whole system, E system, and say, "Well, look, we want to put the good assets into Appalachian and Kentucky, because they're going to remain regulated states, and we're going to be challenged all the time that we put it -- we did the best -- we were most prudent. We did the best -- made the best decisions, gave them the best assets."

We picked those assets because, as Mr. Weaver will tell you, you were energy short, you needed the capacity. And I won't even get into some of the PJM issues. The Waterford, the Darby, they were -- and you were paying for those plants in the pool. Waterford and Darby were owned by Columbus and

Southern. They weren't -- they were deficit companies, so you weren't paying for them in the pool. Lawrenceburg is owned by AEG Generating Company and it's tied to the fuel clause in Ohio.

One of the things you have to realize is that Ohio still has the obligation to serve the nonshopping customers until the middle of '15.

So you take all of these complications, and, you know, what is the best, you know, answer for Kentucky? It looked like those coal-based, energy-based plants would be the best. We knew Kentucky was a coal state. West Virginia is a coal state. Asked Mr. Weaver to run the numbers, and the numbers came out that that would -- they were the best answer, versus the market, versus gas, you know, so -- and if you look, APCo, Kentucky, and AEP Generation Resources will basically pretty much have the same blend of coal and gas.

So it's not only a matter of equity, it's what's best for each of the companies, and how are we going to live together for the next hundred years. I won't be here, but others will.

Q Okay. Were you here when I asked Mr. Weaver about a hybrid option that wasn't run that I said -- that I asked him questions about, which was basically construct a new combined -- well, it's actually what we just asked Mr. Overstreet to run the numbers on, which is -- which is build a new combined cycle at the Big Sandy facility with -- to replace Big Sandy 2.

Given your-all's estimates, it would be, you know, at least four years or so, so you'd be on the market for that four years or so, four or five years, and then do as you-all had planned with respect to Big Sandy 1, or what you're propose -- going to be proposing to us, which is to do the -- let's try refuel.

A Right.

Q Refueling it to gas. So tell me -- and he was -- I wasn't able to observe his -- or I wasn't able to understand his detailed comparison, which was why I was asking Mr. Overstreet to run that model again, but my question for you is: Tell me why that scenario -- from your perspective, why you believe that would not be in Kentucky Power's best interest.

A Well, if I understand the scenario, I mean, the first thing we know is that Big Sandy 2 is cheaper than a combined cycle. I'm sorry, Mitchell 1 and 2 are cheaper than a combined cycle. To expose our customers to, I guess what you're saying is four or five years of market, is going to be very difficult, and you're going to get -- you're going to get these type of swings.

And your Industrials -- I mean, one of the reasons why, I believe, the Industrials have signed on to this proposal, because it does bring them stability and predictability.

And I think it's okay to tell people this, but when we were negotiating the stipulation, we actually talked to some of the industrial customers, the energy managers. Is that okay? The energy managers. And it was really nice, because we very infrequently can pierce the veil of our intervenors, but this time we did. We got right to four or five of the inner -- the energy managers of those companies, and we got to explain what -- how the -- how we operate.

We don't understand how they operate, at least I don't, from my position, and they didn't understand how we operate. One of the benefits here is you're going -- you're buying capacity, but you're getting either market energy or Mitchell-Big Sandy 2 energy, and you're getting the cheapest energy.

You get a free option here on energy. Energy is going to be -- whatever it is out there, it's the cheapest. So when you say go to market, we're going to be at market, because we're going to buy that energy.

So how does the system work? We have these two plants, Big Sandy 2 for a while and then Mitchell for a long time. And I think we described it. We dispatch the cheapest units. We just -- basically what we do is we sell it into the PJM market and we buy it back. Fine.

Every hour, though, a computer redispatches that generation. The customer gets the cheapest generation. The rest of it goes to the off-system sales market.

If PJM energy is cheaper than Mitchell or Big Sandy or Big Sandy 1, Big Sandy 2, we buy it, and the retail customer gets that energy.

So we're there. That's why this scenario isn't going to be cheaper than moving the Mitchell in. Really what you're buying is the capacity.

VICE-CHAIR GARDNER: Thank you.

COMMISSIONER BREATHITT: I do have a question.

CHAIRMAN ARMSTRONG: Yes.

COMMISSIONER BREATHITT: But I lost it

temporarily. Wait a minute. Let me think.

* * *

EXAMINATION

By Commissioner Breathitt:

Q Oh, Big Sandy 1 and Big Sandy 2 and Mitchell, and what's the relationship with Amos?
A Well --
Q To the -- to the West Virginia or Kentucky.
A Well, there's no relationship to Kentucky. What we're doing is we're moving -- Amos 3 is a 1,300-megawatt unit.
Q And it's where?
A It's in -- it's in West Virginia. And one-third of it is already owned by Appalachian Power, as well as Amos 1 and 2, which are sister companies to Mitchell, they are 800 -- sister plants. They are 800-megawatt plants.
So obviously, what would we do? Ohio is owning two-thirds of that plant, it fits very well, move the two-thirds over. Appalachian Power Company

will own the entire Amos facility now. And there's been very little quarrel among the stakeholders about that issue.

Q Mr. Munczinski, yesterday I asked Mr. LaFleur a question, and I thought he did a very good job explaining, helping me understand. If -- the fact that Mitchell and Big Sandy are sister power plants.

A Uh-huh.

Q Mitchell is considered this crown jewel because it's gotten investment over time --

A Correct.

Q -- and it's in compliance.

A Correct.

Q Big Sandy's not in compliance. If investments had been made along the way with Big Sandy as they had with Mitchell, would we be looking at a different scenario now?

And part two of that question is: Why did Mitchell get the investments and Big Sandy not?

A Okay. So I think Mr. McManus explained that we did things on a system basis because of the environmental requirements at that time. It was cheaper to do Mitchell 1 and 2, and Big Sandy 2 is in a tight area, in a tight facility, it was going to be more expensive.

But I would ask you to look at it this way: The scrubber costs $900 million. Mitchell 1 and 2 cost $500 million. So did we save the customer of Kentucky a 500 million -- a return on $500 million for one, two, three, four, as many years as you think we should have went back and did that? I would say we did.

Q But what cost 900 million?
A The scrubber.
Q For?
A Big Sandy 2.
Q Versus?
A Versus $500 million for moving Mitchell -- 50 percent of Mitchell --
Q Oh, okay.
A -- 1 and 2 --
Q Okay.
A -- into Kentucky's rate base.

So if you see the Ohio Commissioners, you may want to thank them, and I say that with -- in all honesty.

Now, you know, we're not happy about what happened in Ohio. We didn't ask for that. It was forced upon us. But I think what we're doing here is giving you the benefit of what happened to us in Ohio.

And I think in general, and I think the parties that have agreed to the stipulation, including the Company, think this is a win/win situation.

So, you know, to your -- to your concern, Mr. Chairman, you know, there's -- there was three or four influences going on here. There was what was happening in Ohio, what was happening with the EPA, and then what was happening with Kentucky without Ohio being considered.

And we went through two years of going through a situation where, in Ohio, we wanted to be a hundred percent regulated, and SB 221 allows for that. Their law allows for more of a regulated model. And a new governor came in, the Commission in, prices collapsed. They pushed us to a competitive model. We didn't want to go there. So as these -- as this process unfolded, more and more generation got into -- you know, basically into a position where we could move them.

And we always wanted to do the right thing, so as we got there, we said, "Okay. What does Kentucky want? What does Appalachian Power want?" They should want base load coal plants. They're coal states. And as we found out, Mitchell burns 38 percent of Kentucky coal.

So, you know, it was a good story, and it's an honest story, and we're going to be here for a long time, so if we made a mistake, you'll be here to tell us that.

* * *

EXAMINATION

By Chairman Armstrong:

Q Well, let me ask you to clear something up. I came in in 2008, and I was unaware of the EPA mandate that you were to meet in '15, I believe.

A Right.

Q And I didn't hear from any of you or your people at all with regard to that, and then eventually, in 2011, you showed up.

Now, are you going to be that kind of a customer when you are using the Mitchell Plant?

A No, sir. And, again, I'm sorry that the -- that the situation unfolded --

Q You -- the reason I -- you know, the

Governor said when he swore me in, "You gotta help the consumer and you gotta help the company as well." So we're balancing balls in the air.

A Uh-huh.

Q But you never gave us a chance to help you in those years. Your citation came down in '06. In '08, when I was here, I never saw you. Didn't see you in '09. Didn't see you in '0 -- 2010, and didn't see you in 2011 until we had this case.

Now, explain to me the culture of a company who would do that to a regulator, what's going to happen when you go to Ohio and come here once a year?

A Well, I mean, one of the things, you know, I can commit to you, I came into this position in 2010. Before that I was in shared services, which was IT, HR, and supply chain, and I know Mr. Pauley came in right around that year, because actually Mr. Pauley worked for me for a little while and then we moved him down here.

So I can -- what I can do is I can commit to you that that's not going to happen again.

Q Because when we help you, we help the customer, don't we?

A And when -- and when --

Q This said to me volumes about this company. You're the only company that has treated their customers the way you have, by ignoring the obvious. Now you're asking for some kind of relief to improve your bottom line.

A Well, truth be known, the stipulation will not do much for the bottom line of Kentucky. It is a concession on our part, and I think it's a recognition that there is an overlap.

Q Does this take you off the hook with the EPA?

A Does this take us off the hook? Well, I think -- I think --

Q Who's going to pay the fine?

A For?

Q The mandate that you're not going to meet, are you?

A No, we'll meet all the mandates. I mean, we'll be fine with -- Mitchell is fully compliant, Big Sandy 2 will retire when it's mandated to retire in June of 2015, and because we'll have Mitchell and because we'll have Big Sandy 2 and Rockport, we'll have the ability to refuel Big Sandy 1, which is the plan and the least-cost plan, so there wouldn't -- there won't be a fine.

Q What's the customer going to get?

A The customer is going to get a five percent overall increase for the 17-month period, but it does get the assurance that coal-based, predictable energy will be there, because one of our concerns is that Big Sandy 2 won't make it through the period, and we would be foolish, I think, and you would agree, that if we were to throw a turbine, have a -- have a disastrous turbine accident, that we shouldn't fix it, because it could cost, tens, 50, $60 million.

So we have this little overlap period, there's no doubt about it, which is why the Company agreed to the concession of only a five percent increase, and then after that, there'll be another eight percent increase, but that'll also encompass putting in -- or paying for the retirements of Big Sandy 2 and the coal-based assets of Big Sandy 1.

Q I haven't heard anyone here at this hearing talk about adding additional money to LIHEAP going forward after this. I haven't heard of any program that's going to benefit the consumer.

A Well, we do believe that the five percent is a bigger con -- bigger -- is a benefit for the customer versus the 31 percent scrubber. And we really would like to -- honestly, we've always wanted to refuel Big Sandy 1. We want to keep a presence in that county. We want to peak -- keep employees at our plants. The rest of the employees, I'm told, will be absorbed by the other plants that AEP owns. So the plant employees will be protected.

Now, as far as LIHEAP, you really -- you got me. I know what it is, but I don't know the details in Kentucky.

MR. OVERSTREET: May I ask a question?

CHAIRMAN ARMSTRONG: Sure.

* * *

REDIRECT EXAMINATION

By Mr. Overstreet:

Q Mr. Munczinski, can you -- can you turn to paragraph 11 of the stipulation and settlement agreement?

A Sure. I was going to go there.

Q This may --

A Oh, okay. So is this the --

Q That's -- that's LIHEAP.

A So apparent -- my understanding is that we've agreed -- we have agreed to increase our contribution to the Home Energy Assistance Program to 15 cents. I believe it's 12 cents now.

Q Twelve and a half.

A Twelve and a half cents. So we have -- we have increased that assistance program, as well as the $500,000 that we're giving to Lawrence County and the contiguous counties that is coming out of shareholder money.

Mr. Chairman --

* * *

FURTHER EXAMINATION

By Chairman Armstrong:

Q Let me finish --

A Go ahead.

Q -- then I'll let you talk all you want. I have been to three public hearings in East Kentucky, and you see the people turn out in droves. They really care about this company, and I scratch my head and wonder why.

You know, this is one of the poorest

areas in America, but they stay there because it's either their home or they have nowhere else to go or they have a lot of pride in where they live and what they're doing, and I think that's why the floor leader rep here came over here and made a passionate address about how important this is to Kentucky. Not just their county, but Kentucky. And that's the way I feel. And I want to hear what you want to do for not only this company and this area but Kentucky as well.

A Well, I mean, what we want to do is be committed to Kentucky, and the way to be committed is through a regulatory model so that we all work together and we all try to solve some of these problems.

If we go to market, if we go to an RFP, if we buy a plant in Pennsylvania or in Illinois that we don't even understand, that's not helping our customers.

We found the cheapest solution, we've -- I think we're very -- Kentucky is very fortunate that Ohio basically got rid of those units. So I think we have a win/win situation. We're certainly willing to help the customers. We're willing to work with the industrials. We're willing to do demand side management. We're willing to do, you know, economic development.

I think Greg Pauley talked about hiring an economic development person. We've got economic development people in Columbus now. We've reinstituted that value -- that value system. We're looking for sites. We're looking for industrials. We're trying to attract them. You're not going to attract them by buying gas. You're going to attract them by having stability and predictable coal plants. And this is one of the best units, and this is the way to do it.

And the other thing that we're committed to do is continue to work with our -- even industrials, commercials, help them through this situation.

You know, I agree. I heard that there is a -- 300 million people in this country, and 100 million people are on food assistance. I don't know what to do about that, but it bothers me. It bothers the company.

We're not -- we're not the kind of company that wants to make, you know, $5, $10, $20 by going to the market. We're certainly willing to take our $3 a share that we make and grow it a little bit at a time. And I'll tell you, the Street likes that better, likes the stability, likes the predictability, and that's what -- that's really what our company is about.

And we're a large company, and sometimes we forget about people. I'll agree with that. Sometimes we forget that Greg is down here, but we put good people in our companies like Greg, good people like Charles Patton in Appalachian Power Company. We have some of the best people. You've heard them. They are all experts in what they do. I mean, I was impressed by these people. And they're here to serve you, and if they don't, if you need something, call Greg or call Ranie. I mean, we have to serve you.

Q We may just do like we have done other utility companies like PPL and Duke, we have their CEO show up once a year.

A That's fine.

Q Will you come?

A I'll come.

Q Will you get Mr. Pauley to come?

A I'll get Mr. Pauley to come, I'll get Mr. Adkins to come.

Q That would be good. His son lives in Louisville.

A I'm sorry?

Q His son lives in Louisville, I understand.

A He does? Does he live there?

MR. PAULEY: Yes. Yes.

Q I have misgivings about this because of the way this company has treated this Commission. And it ought to start today if it's going to change, but that's -- you know, we can -- we can look at all the exotic ways that we can meet the -- what's coming down from Washington, but day in and day out, for me, it's how a utility relates to the Commission and wants to help them.

A I agree. I agree.

CHAIRMAN ARMSTRONG: Anybody else?

MR. OVERSTREET: Just one question.

* * *

REDIRECT EXAMINATION

By Mr. Overstreet:

Q The Chairman said that the way this Company relates to the Commission needs to change today. Can you commit to the Chair that that will happen?

A Absolutely. Absolutely. I mean, and -- and Greg and I are good friends and we work closely together. I work with all the operating companies. We have 11 of them. But, you know, I certainly agree that the relationship with the Commission is the most important thing for a regulated company, and that's the model we like.

CHAIRMAN ARMSTRONG: Well, that's what we're going to expect.

THE WITNESS: Yes, sir.

CHAIRMAN ARMSTRONG: Any --

MS. HANS: No.

CHAIRMAN ARMSTRONG: You're going to make my wife awful happy.

THE WITNESS: Great, now I'm in trouble with your wife.

CHAIRMAN ARMSTRONG: We're going to dinner tonight, but she leaves early in the morning for Florida for two weeks, so that's why I said it's more than just a casual dinner.

COMMISSIONER BREATHITT: Mr. Chairman, I have a clarification for Mr. Overstreet. May I ask?

CHAIRMAN ARMSTRONG: Sure.

COMMISSIONER BREATHITT: You and

Vice-Chairman Gardner talked about the modeling run.

MR. OVERSTREET: The one that he talked about with Mr. Weaver?

COMMISSIONER BREATHITT: Yes.

MR. OVERSTREET: Yes, ma'am.

COMMISSIONER BREATHITT: Yes. And I just wanted to make sure it was going to have the most current gas prices.

MR. OVERSTREET: I'm -- I'll have to look to Mr. Weaver, but --

COMMISSIONER BREATHITT: We would want that, wouldn't we, Counsel?

VICE-CHAIR GARDNER: Yeah, he said that -- he said it would be the most recent one they have, so it'll be a 2013 of some kind?

MR. OVERSTREET: Well, I mean, I -- it'll be the most recent one we have, I think -- yes.

COMMISSIONER BREATHITT: Okay.

MR. OVERSTREET: And I just have two housekeeping matters that sort of happen at the end of each hearing, which is: When do you want the data request responses and when do you want the briefs? And I can work with Mr. Nguyen and we can --

CHAIRMAN ARMSTRONG: Can you decide something?

MR. NGUYEN: That would be up to you, Mark, I mean --

MR. OVERSTREET: Well, I mean, I'm willing to commit to the Chair that we'll reach an agreement and that meets your-all's schedule and everybody -- you three can leave and the attorneys can work it out.

CHAIRMAN ARMSTRONG: Thank you all.

MS. HANS: Thank you.

MR. KURTZ: Thank you, Your Honor.

THE WITNESS: Thank you.

MS. HARWARD: Mr. Chairman, would you mind turning that off?

Thank you.

(Hearing adjourned at 5:19 p.m.)

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STATE OF KENTUCKY)
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) SS.
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COUNTY OF JEFFERSON)

I, Laura J. Kogut Notary Public within and for the State at Large, commissions as such expiring 25 July 2015, do hereby certify that the foregoing hearing was taken at the time and place stated and for the purpose in the caption stated; that witnesses were first duly sworn to tell the truth, the whole truth, and nothing but the truth; that the hearing was reduced to shorthand writing in the presence of the witnesses; that the foregoing is a full, true, and correct transcript of the hearing to the best of my ability; that the appearances were as stated in the caption.

WITNESS my hand this 18th day of July 2013.

Laura J. Kogut

Registered Merit Reporter
Certified Realtime Reporter
KY CCR 20042BF060
Notary Public, State at Large