

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

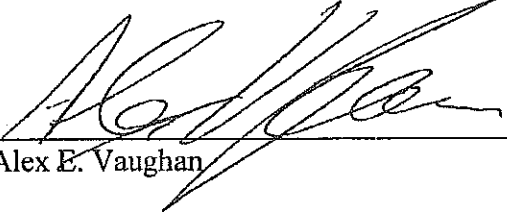
In the Matter of:

Application Of Kentucky Power Company For:)
(1) A General Adjustment Of Its Rates For Electric)
Service; (2) An Order Approving Its 2014)
Environmental Compliance Plan; (3) An Order) **Case No. 2014-00396**
Approving Its Tariffs And Riders; And (4) An)
Order Granting All Other Required Approvals)
And Relief)

REBUTTAL TESTIMONY OF
ALEX E. VAUGHAN
ON BEHALF OF KENTUCKY POWER COMPANY

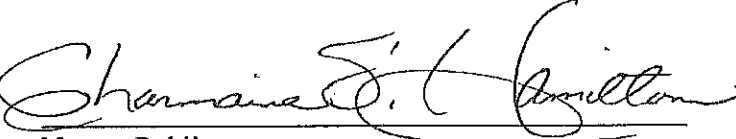
VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Manager, Regulatory Pricing and Analysis that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge and belief.

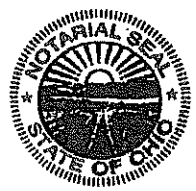

Alex E. Vaughan

STATE OF OHIO)
) Case No. 2014-00396
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Alex E. Vaughan, this the 28th day of April 2015.


Notary Public

My Commission Expires: _____



CHARMAINE S. HAMILTON
Notary Public, State of Ohio
My Commission Expires 05-14-2017

**REBUTTAL TESTIMONY OF
ALEX E. VAUGHAN, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2014-00396

TABLE OF CONTENTS

I.	Introduction	R1
II.	PJM Rider	R1
III.	OSS Base Credit	R5
IV.	BS1OR PJM Charges	R6
V.	CS IRP	R7
VI.	IGS	R7

**REBUTTAL TESTIMONY OF
ALEX E. VAUGHAN
FOR KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2014-00396**

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Alex E. Vaughan.

3 **Q. ARE YOU THE SAME ALEX E. VAUGHAN WHO OFFERED DIRECT**
4 **TESTIMONY IN THIS PROCEEDING?**

5 A. Yes.

6 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A. My rebuttal testimony responds to the direct testimonies of Attorney General Witness
8 Smith, Kentucky Industrial Utility Customers (“KIUC”) Witnesses Baron and Kollen,
9 and Walmart Witness Chriss.

II. PJM RIDER

10 **Q. PLEASE SUMMARIZE THE INTERVENORS’ ARGUMENTS AGAINST THE**
11 **COMPANY’S PROPOSED PJM RIDER.**

12 A. Both KIUC and the Attorney General have taken a position in opposition of the
13 Company’s proposed PJM Rider, while the other parties filing testimony were silent
14 regarding the proposal.

15 **Q. DO YOU AGREE WITH KIUC WITNESS BARON’S ARGUMENTS**
16 **REGARDING COMPANY’S PROPOSED PJM RIDER?**

1 A. No. Mr. Baron contends that the Company's PJM Rider proposal provides no benefits to
2 customers and removes the Commission's jurisdiction over the Company's Kentucky
3 jurisdictional transmission cost of service. He is incorrect on both accounts.

4 Through the Company's proposed PJM Rider, customers will receive a benefit by
5 only paying the actual amount of PJM charges and credits, not a dollar more or less. The
6 PJM charges and credits that will be trued up through the PJM tracker are volatile and are
7 largely outside of the Company's control. Currently, because the Company's PJM
8 charges and credits are recovered through base rates, customers can either "win" or
9 "lose" in a given year depending on how volatile the charges are during that year. The
10 Company merely wants to recover the actual level of expenses associated with its load
11 serving entity ("LSE") activities in PJM rather than exposing customers and itself to
12 market volatility and the possibility of either winning or losing on something that is
13 largely out of its control. The proposed PJM Rider accomplishes this goal.

14 Also, Mr. Baron is incorrect when he asserts that the proposed PJM rider will
15 remove Commission jurisdiction over Kentucky Power's jurisdictional transmission cost
16 of service. Almost all of the PJM LSE charges and credits intended to be tracked by the
17 rider have nothing to do with Kentucky Power's jurisdictional transmission plant. Many
18 of the PJM LSE charges and credits do not even pertain to OATT transmission service.
19 Instead, these PJM Charges relate to ancillary services, operating reserves, congestion
20 and PJM's administration of its markets, all of which are based on the native load and
21 generation resources of the Company. Additionally, the network integration transmission
22 service (NITS) charges referenced by Mr. Baron in his opposition to the PJM rider are
23 only partially based on the transmission investments and costs of Kentucky Power. The

1 PJM LSE NITS charges assigned to Kentucky Power are based on the Company's pro-
2 rata share of the overall cost of providing transmission service in the PJM AEP
3 transmission zone of which Kentucky Power represents roughly 6%. Recovery of
4 charges such as these via the PJM Rider does not strip the Commission of its jurisdiction
5 over the Company's jurisdictional transmission cost of service because the Commission
6 would still review and approve incremental PJM charges or credits to be passed through
7 the proposed PJM rider.

8 **Q. PLEASE COMMENT ON ATTORNEY GENERAL WITNESS SMITH'S**
9 **ARGUMENTS REGARDING THE COMPANY'S PROPOSAL TO TRACK PJM**
10 **LSE CHARGES AND CREDITS?**

11 A. Mr. Smith provides no basis for his argument that PJM LSE charges should not be
12 tracked by the proposed PJM rider. Instead, he simply states as a matter of unsupported
13 opinion on pages 67 and 72 of his direct testimony that the PJM LSE Charges should be
14 recovered in base rates. It should be noted that it is the Company's proposal to continue
15 recovering its test year level of PJM LSE charges and credits through base rates with the
16 PJM rider tracking only the portion of actual expenses above or below the amount
17 included in base rates. As discussed above, the Company's customers and the Company
18 benefit from the use of the PJM tracker through the recovery of the actual PJM LSE
19 charges and credits incurred, no more and no less.

20 **Q. IS IT COMMON PRACTICE TO TRACK PJM LSE CHARGES AND CREDITS?**

21 A. Yes, Kentucky Power's affiliates in Virginia, West Virginia, Ohio, Indiana, Michigan and
22 Tennessee all track the majority of their PJM LSE charges and credits through a rider or
23 multiple riders.

1 **Q. WHY IS IT APPROPRIATE TO TRACK THE COMPANY'S PJM LSE**
2 **CHARGES BY THE PROPOSED PJM RIDER?**

3 A. The PJM LSE charges and credits that will be tracked via the PJM Rider are the
4 definition of the type of charges and credits that should be tracked by a rider. These
5 charges are volatile and are dependent on a litany of factors affecting them in PJM
6 including:

- 7 • Commodity costs
- 8 • RTO transmission and generation outages and constraints
- 9 • Local, zonal and regional transmission congestion
- 10 • Fuel deliverability constraints experienced by other PJM generation providers
- 11 • Weather
- 12 • Ancillary service markets
- 13 • PJM administrative costs
- 14 • Investments in backbone transmission reliability projects by *other utilities* in
15 other states
- 16 • PJM market settlement changes

17 Many of these cost drivers are outside of Kentucky Power's control. PJM will assign
18 and allocate to Kentucky Power its actual PJM LSE charges and credits regardless of
19 whether or not the Commission adopts the Company's proposed PJM rider. These PJM
20 LSE charges could have a material effect on the Company's opportunity to earn its
21 authorized return on equity. Tracking and recovery by the Company of its actual PJM
22 LSE charges and credits in the proposed PJM rider could also reduce the frequency of
23 costly base rate case filings. As I stated earlier, the PJM rider will ensure that customers

1 only pay for the actual level of PJM LSE charges and credits incurred by the Company
2 when providing service to its Kentucky retail customers, no more and no less. For all of
3 these reasons, the Commission should approve the Company's proposed PJM rider.

III. OSS BASE CREDIT

4 **Q. PLEASE EXPLAIN KIUC WITNESS KOLLEN'S ARGUMENT REGARDING**
5 **THE WEATHER ADJUSTMENT TO THE LEVEL OF OFF-SYSTEM SALES**
6 **MARGINS INCLUDED AS A CREDIT TO THE COMPANY'S BASE RATE**
7 **REQUIREMENT.**

8 A. Mr. Kollen agrees with the Company on page 39 of his testimony that an adjustment
9 should be made to normalize the Polar Vortex pricing from 2014, however he disagrees
10 with the Company's method of using a six year average for normalizing the locational
11 marginal prices ("LMPs") used to compute the OSS base credit.

12 **Q. DO THE JANUARY AND FEBRUARY 2015 ACTUAL LMP RESULTS**
13 **SUPPORT THE COMPANY'S USE OF A SIX YEAR AVERAGE?**

14 A. Yes. The actual LMPs experienced during the winter of 2015 support the Company's
15 normalization adjustment based on prices seen between 2008 and 2013. The simple
16 average energy LMP for January and February of 2015 was \$53.85, which is very
17 comparable to the \$50 average used by the Company for the months of January and
18 February 2014 in its proposed OSS base credit calculation. The extreme cold
19 experienced during the winter of 2015 did not have the same effect on LMPs as did the
20 2014 polar vortex weather event for which the Company adjusted off-system sales
21 margins. The PJM pricing seen in 2015 was more in line with the pricing seen during the
22 2008-2013 period used for the Company's adjustment. Additionally, Mr. Kollen includes

1 the abnormal polar vortex pricing of 2014 in his proposed OSS normalization adjustment.
2 Fundamentally it makes little sense to include the abnormal data, or the outlier in the
3 calculation of something you are trying to calculate a normal level for. For these reasons
4 the Commission should reject KIUC witness Kollen's proposed \$836,000 increase to the
5 Company's OSS base credit.

IV. BS1OR PJM CHARGES AND CREDITS

6 **Q. DO YOU AGREE WITH MR. SMITH'S PROPOSAL TO REMOVE THE PJM**
7 **CHARGES FROM THE COMPANY'S PROPOSED BS1OR SURCHARGE?**

8 A. No. PJM charges resulting from operating Big Sandy Unit 1 as a coal plant are properly
9 considered "coal related operating expenses" as contemplated by Paragraph 3 of the
10 Commission-approved Stipulation and Settlement Agreement in Case No. 2012-00578.
11 These charges relate to the Company's operation of Big Sandy Unit 1 because they are
12 incurred directly as a result of the MWh of generation produced by Big Sandy Unit 1.
13 Because of this, the PJM charges and credits directly related to Big Sandy Unit 1 should
14 be recovered through the proposed BS1OR.

15 Furthermore, Mr. Smith alleges at page 67 of his testimony that the PJM bills are
16 confusing and difficult to audit and might lead to "abuse" by the Company. The
17 Company rejects Mr. Smith's unsupported contention that the Company would abuse the
18 BS1OR with respect to the PJM bills. Moreover, his concern, even if accurate, that the
19 bills might be difficult to audit is easily addressed. To the extent there is any concern
20 about the ability of the Commission to "audit" the Big Sandy Unit 1 PJM bills; the
21 Company could move Big Sandy Unit 1 into its own PJM subaccount. That would result
22 in the Company receiving a monthly PJM bill for only the activity associated with the

1 Big Sandy Unit 1 operations and thus provide a clear audit trail for the purposes of the
 2 proposed BS1OR.

V. CS IRP

3 **Q. DO YOU AGREE WITH MR. BARON’S COMMENTS REGARDING TARIFF**
 4 **C.S.-I.R.P ON PAGE [X] OF HIS DIRECT TESTIMONY?**

5 A. Yes. The Company agrees that should PJM revise its criteria governing what
 6 interruptible load qualifies as capacity for the purpose of the Company’s FRR obligation,
 7 the Company will amend Tariff C.S.-I.R.P., if necessary, to be consistent with the revised
 8 PJM criteria.

VI. Proposed Tariff IGS

9 **Q. DO YOU AGREE WITH MR. CHRISS THAT QP AND CIP TOD CUSTOMERS**
 10 **ARE NOT SIMILARLY SITUATED?**

11 A. No. All current QP and CIP TOD customers are large commercial or industrial
 12 customers with at least one MW of demand or more and are taking service on tariffs that
 13 are virtually identical except for the maximum demand limitations which currently is
 14 7,500 kW of demand for Tariff QP. Current tariff CIP TOD does not have a maximum
 15 demand limitation.

16 **Q. ON PAGE 14 OF HIS DIRECT TESTIMONY, MR. CHRISS STATES THAT THE**
 17 **COMPANY PROVIDES NO COST OF SERVICE RELATED JUSTIFICATIONS**
 18 **FOR THE COMBINATION OF TARIFFS QP AND CIP TOD INTO THE NEW**
 19 **IGS TARIFF. WHAT ARE THE COST OF SERVICE JUSTIFICATIONS?**

20 A. The proposed combination of Tariffs QP and CIP TOD into the new IGS Tariff will
 21 provide all large commercial and industrial customers with demands of one MW or more

1 with the same rates. The only difference among the customers' rates will be the voltage
2 level at which they take service. Providing similarly-situated customers, such as the
3 current QP and CIP TOD customers, with similar rates is firmly rooted in, and consistent
4 with, cost-causation and rate design principles. Furthermore, the proposed IGS tariff rate
5 design is virtually identical to that of the current QP and CIP TOD tariffs in that they all
6 utilize full cost demand and energy charges. These facts provide reasonable cost-
7 causation and rate design bases for approval of the proposed I.G.S. tariff.

8 **Q. IS THE SIZE OF A CUSTOMER ALONE JUSTIFICATION TO HAVE**
9 **SEPARATE LARGE COMMERCIAL AND INDUSTRIAL TARIFFS?**

10 A. No. More relevant factors to cost causation are load factor, coincidence factor and the
11 voltage level at which a customer takes service. As such, a single tariff for all large
12 commercial and industrial customers makes sense.

13 **Q. IS IT COMMON PRACTICE TO INCLUDE ALL LARGE COMMERCIAL AND**
14 **INDUSTRIAL CUSTOMERS IN THE SAME TARIFF CLASS?**

15 A. Yes. The Company's affiliates in Indiana, Michigan and Virginia include all large
16 commercial and industrial customers in the same tariff class. Additionally, it is my
17 understanding that Louisville Gas and Electric and Kentucky Utilities have proposed
18 combining in a single tariff similar large commercial and industrial tariffs that differ by
19 voltage level of service in their current base rate case.

20 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 A. Yes.