

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company For:)
(1) The Approval Of The Terms And Conditions)
Of The Sixth Amendment To The Renewable)
Energy Purchase Agreement For Biomass Energy)
Resources Between The Company And)
ecoPower Generation-Hazard, LLC;)
(2) Authorization To Enter Into The Sixth)
Amendment to The Agreement; (3) The Grant Of)
Certain Declaratory Relief; And (4) The Grant Of)
All Other Required Approvals And Relief)

Case No. 2015-00190

DIRECT TESTIMONY OF
RANIE K. WOHNHAS
ON BEHALF OF KENTUCKY POWER COMPANY

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

CASE NO. 2015-00190

TABLE OF CONTENTS

I.	Introduction	1
II.	Background	1
III.	Purpose of Testimony	3
IV.	History of Amendments to the ecoPower REPA.....	3
V.	The Need for the Sixth Amendment.....	8
VI.	Customer Impact of the Sixth Amendment	10

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

I. INTRODUCTION

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

A. My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory and Finance, Kentucky Power Company (“Kentucky Power” or “Company”). My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40601.

II. BACKGROUND

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Science degree with a major in accounting from Franklin University, Columbus, Ohio in December 1981. I began work with Columbus Southern Power in 1978 working in various customer services and accounting positions. In 1983, I transferred to Kentucky Power Company working in accounting, rates and customer services. I became the Billing and Collections Manager in 1995 overseeing all billing and collection activity for the Company. In 1998, I transferred to Appalachian Power Company working in rates. In 2001, I transferred to the AEP Service Corporation working as a Senior Rate Consultant. In July 2004, I assumed the position of Manager, Business Operations Support and was promoted to Director in April 2006. I was promoted to my current position as Managing Director, Regulatory and Finance effective September 1, 2010.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR, REGULATORY AND FINANCE?

A. I am primarily responsible for managing the regulatory and financial strategy for Kentucky Power. This includes planning and executing rate filings for both federal and state regulatory agencies and certificate of public convenience and necessity (“CPCN”) filings before this Commission. I am also responsible for managing the Company’s financial operating plans including various capital and O&M operational budgets that interface with all other AEP organizations affecting the Company’s performance. As part of the financial strategy, I work with various American Electric Power Service Corporation (“AEPSC”) departments to ensure that adequate resources such as debt, equity and cash are available to build, operate, and maintain Kentucky Power’s electric system assets providing service to our retail and wholesale customers. In my role as Managing Director, Regulatory and Finance, I report directly to Gregory G. Pauley, President and Chief Operating Officer of Kentucky Power.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I have testified before this Commission in numerous fuel review proceedings and filed testimony in the Company’s four most recent base rate case filings, Case No. 2005-00341, Case No. 2009-00459, Case No. 2013-00197, and Case No. 2014-00396. Other cases in which I have testified include an environmental compliance plan, Case No. 2011-00401; a real-time pricing proceeding, Case No. 2012-00226; the transfer of the Mitchell Generating Station to Kentucky Power, Case No. 2012-00578; the CPCN filing to convert Big Sandy Unit 1 to gas, Case No. 2013-00430; the current DSM application

before the Commission, Case No. 2014-00271; and the FAC review in Case No. 2014-00225. I also provided testimony in Case No. 2013-00144, the Company's application for approval of the original renewable energy purchase agreement between the Company and ecoPower Generation-Hazard, LLC (the "ecoPower REPA") and Tariff B.E.R.

III. PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is three-fold: First, I will describe the history of amendments to the ecoPower REPA. Second, I will explain the need for the Sixth Amendment to the REPA. Finally, I will clarify that the Sixth Amendment to the REPA will have no impact on the Company's customers.

IV. HISTORY OF AMENDMENTS TO THE ECOPOWER REPA

Q. PLEASE IDENTIFY HOW MANY AMENDMENTS TO THE ORIGINAL ECOPOWER REPA EXIST.

A. There have been seven amendments to the ecoPower REPA.

Q. CAN YOU EXPLAIN THE CIRCUMSTANCES SURROUNDING THE AMENDMENTS TO THE ECOPOWER REPA?

A. The Company and ecoPower entered into the ecoPower REPA on March 15, 2013. Among the conditions precedent in the ecoPower REPA is that the Company obtain a Commission Approval Order prior to a date certain. The term Commission Approval Order is defined in the ecoPower REPA to mean:

a final, non-appealable order from the Commission, among other things, (i) approving the terms and conditions of this REPA as amended, without modification, (ii) declaring that concurrent recovery of costs associated with this REPA through Kentucky retail rates via a monthly rider or monthly surcharge to Purchasers base rates is appropriate, (iii) approving and authorizing Purchaser to

enter into this REPA, and (iv) granting without modification or condition all approvals required to accomplish the Mitchell Transaction, which order is satisfactory to Purchaser in all respects in its sole discretion.

The First Amendment to the REPA, which was approved by the Commission's October 10, 2013 Order in Case No. 2013-00144 ("REPA Approval Order"), established November 15, 2013 as the deadline date for a Commission Approval Order.

Q. IF THE COMMISSION ISSUED THE REPA APPROVAL ORDER BEFORE THE DEADLINE IN THE FIRST AMENDMENT, WHY WERE THE SUBSEQUENT AMENDMENTS NECESSARY?

A. The conditions precedent to the REPA were not satisfied by November 15, 2013 as required by the First Amended REPA.

Q. WHICH OF THE CONDITIONS PRECEDENT WERE NOT MET?

While the Commission issued the REPA Approval Order before the deadline set forth in the ecoPower REPA, there were several factors that resulted in it not being a "Commission Approval Order" as defined in the agreement. First, the REPA Approval Order was appealed to the Franklin Circuit Court by Kentucky Industrial Utility Customers, Inc. ("KIUC"). The Franklin Circuit Court subsequently upheld the Commission's REPA Approval Order; however, KIUC has filed notice of appeal of the Court's decision to the Kentucky Court of Appeals. That appeal remains outstanding. As a result, the REPA Approval Order is not a final, non-appealable order as required by the definition of Commission Approval Order in the ecoPower REPA.

In addition, the Commission's October 7, 2013 Order in Case No. 2012-00578 approving the transfer to Kentucky Power of an undivided 50% interest in the Mitchell generating station ("Mitchell Transfer Order") was appealed to the Franklin Circuit Court

by the Attorney General. As with the REPA Approval Order, the Franklin Circuit Court upheld the Mitchell Transfer Order. The Attorney General has filed a notice of appeal of the Court's decision to uphold the Mitchell Transfer Order with the Kentucky Court of Appeals, and that appeal remains outstanding. The lack of a final and non-appealable order upholding the Mitchell Transfer also means that there is no Commission Approval Order as required by the ecoPower REPA.

Finally, the REPA Approval Order included conditions that, absent the provisions included in the Sixth Amendment that is the subject of this case, had the effect of shifting risk to Kentucky Power and thus would have violated the conditions precedent to the REPA. Specifically, Ordering Paragraph 7 of the REPA Approval Order required that “[i]n the event Kentucky Power’s credit rating is negatively impacted by the REPA, causing Kentucky Power to increase its common equity position, Kentucky Power shall hold its ratepayers harmless should such an event occur.”

Q. WHY IS ORDERING PARAGRAPH 7 UNACCEPTABLE TO KENTUCKY POWER?

A. The Company will not earn a return on the ecoPower REPA. Accordingly, from the beginning of negotiations with ecoPower, and as discussed during the hearing in Case No. 2013-00144, Kentucky Power made clear that it was unwilling to assume any financial risk arising from the agreement and instead that risk should be borne by ecoPower and its project investors. The obligation to hold the Company’s customers harmless established in Ordering Paragraph 7 created financial risk for Kentucky Power. The financial risk created by Ordering Paragraph 7 made the REPA Approval Order

unacceptable to Kentucky Power. Without addressing this risk to the satisfaction of the Company, the condition precedent of receiving a Commission Approval Order could not be met.

Q. PLEASE DESCRIBE THE SECOND THROUGH FIFTH AMENDMENTS TO THE ECOPOWER REPA.

A. Each of the Second through Fifth Amendments to the REPA provided the Company and ecoPower additional time to continue negotiations over a potential contractual resolution to address the Company's concerns with the effect of the REPA Approval Order placing risk on the Company and its customers. The amendments extended the key milestone dates in the REPA relating to the ability of Kentucky Power to terminate the agreement without financial penalty. The Company filed for informational purposes each of these amendments with the Commission in the post-case referenced correspondence file for Case No. 2013-00144.

Q. PLEASE SUMMARIZE THE SIXTH AMENDMENT TO THE ECOPOWER REPA.

A. The January 21, 2015 Sixth Amendment to the ecoPower REPA includes changes to the agreement to address Ordering Paragraph 7 of the REPA Approval Order. A copy of the Sixth Amendment to the REPA is included as **EXHIBIT RKW-1**. As discussed in more detail in the testimony of Company Witness Godfrey, in addition to further extending key milestone dates, the Sixth Amendment to the ecoPower REPA includes new language expanding the purpose of the Security Fund, posted by ecoPower to the Company, to allow the Company to draw on it to mitigate any financial impact in the event Kentucky

Power's credit rating is adversely affected by the ecoPower REPA. If, after a draw, ecoPower does not replenish the Security Fund to its contractually required level within ten business days, the REPA will terminate without financial penalty to Kentucky Power.

Q. WHY DID THE PARTIES ENTER INTO A SEVENTH AMENDMENT TO THE ECOPOWER REPA?

A. Under the Sixth Amendment the Company was obligated to file this application for approval of the Sixth Amendment (defined in the Sixth Amendment as the "Second Commission Approval Order") no later than ninety days from the date of the Franklin Circuit Court's ruling in the KIUC appeal of the REPA Approval Order, if the Court upheld the REPA Approval Order without modification. The Franklin Circuit Court entered an order upholding the REPA Approval Order without modification on February 18, 2015. The Company and ecoPower entered into the Seventh Amendment to the ecoPower REPA to extend the deadline to file Second Commission Approval Order (along with a corresponding extension to the deadline for the Company to terminate the REPA without financial penalty for a lack of Second Commission Approval Order) to prevent an overlap with the Company's general rate case, Case No. 2014-00396. There were no substantive changes to the REPA in the Seventh Amendment. A copy of the Seventh Amendment to the REPA is included as **EXHIBIT RKW-2**.

V. THE NEED FOR THE SIXTH AMENDMENT

Q. WHY IS THE SIXTH AMENDMENT TO THE ECOPOWER REPA NECESSARY?

A. The Sixth Amendment addresses the risk placed on Kentucky Power as a result of Ordering Paragraph 7. It does so by shifting that risk to ecoPower and its investors.

Q. IS KENTUCKY POWER CHALLENGING ORDERING PARAGRAPH 7?

A. No. The Commission acted within its authority in including Ordering Paragraph 7 in the REPA Approval Order. However, Ordering Paragraph 7 placed a financial risk on the Company in connection with the REPA which is unacceptable to Kentucky Power. The Sixth Amendment addresses that risk by properly shifting it to ecoPower.

Q. DIDN'T THE ECOPOWER REPA MITIGATE THE RISK OF A CREDIT RATING DOWNGRADE?

A. The ecoPower REPA mitigated the risk of a credit rating downgrade, but did not eliminate it. Credit rating agencies, such as Standard and Poor's, may treat a long-term purchase power agreement ("PPA") like the ecoPower REPA as fixed, debt-like, financial obligations that serve as substitutes for capital investments by the utility. The credit rating agencies may impute a portion of the net present value of the capacity payments due under the PPA as a debt obligation in their evaluation of a utility's credit metrics. The amount of debt imputed from a PPA is a function of strength of the cost recovery mechanism available to the utility to recover its costs under the agreement. The stronger the cost recovery mechanism is, the lower the amount of imputed debt.

The Company believes that based on the current manner in which credit rating agencies evaluate long-term purchase power agreements the risk of negative credit impact is low. This belief is based on two facts. First, the ecoPower REPA provided the Company with the ability to terminate the agreement without financial penalty in the event that it is unable to fully and contemporaneously recover its costs. Second, the Commission's approval under KRS 278.271 of Tariff B.E.R. to recover costs associated with the ecoPower REPA is valid for the entire term of the agreement. These two factors increase the strength of the Company's recovery mechanism under the ecoPower REPA, mitigating the potential for a negative credit rating effect associated with the REPA.

Q. IF THE COMPANY BELIEVES THE RISK OF A CREDIT DOWNGRADE HAS BEEN MITIGATED, WHY IS THE SIXTH AMENDMENT NECESSARY?

A. While the Company believes it has mitigated the risk of the ecoPower REPA resulting in a credit downgrade requiring a change in the Company's common equity position, it has not eliminated it. Accordingly, the additional protections included in the Sixth Amendment are necessary to ensure that ecoPower and not the Company bear the risks associated with Ordering Paragraph 7. Without the additional protections included in the Sixth Amendment, the Company cannot deem the REPA Approval Order acceptable and a "Commission Approval Order" as defined in the REPA.

VI. CUSTOMER IMPACT OF THE SIXTH AMENDMENT

Q. WILL THE SIXTH AMENDMENT TO THE ECOPOWER REPA HAVE ANY IMPACT ON THE RATES TO BE RECOVERED THROUGH TARIFF B.E.R.?

A. No. The Sixth Amendment only addresses the commercial terms between ecoPower and the Company relating to the nature and use of the Security Fund. The rates charged by ecoPower under the REPA and subsequently passed through to its customers through Tariff B.E.R. are not changed under the Sixth Amendment.

Q. DID THE COMPANY PROPOSE A CHANGE TO TARIFF B.E.R. AS PART OF ITS RECENT RATE CASE?

A. Yes. As part of the Settlement Agreement in Case No. 2014-00396 between the Company, KIUC and the Kentucky School Boards Association, the Company is proposing to modify the method by which costs associated with the ecoPower REPA are recovered through Tariff B.E.R. The Commission has not yet ruled on the Settlement Agreement in Case No. 2014-00396 and the proposed revisions to Tariff B.E.R. As stated above, there is no change to the rates charged by ecoPower under the REPA's Sixth Amendment but only a change in the recovery allocation of those charges. A copy of the proposed revised Tariff B.E.R. is included as **EXHIBIT RKW-3**.

Q. PLEASE DESCRIBE GENERALLY THE PROPOSED CHANGES TO TARIFF B.E.R.

A. Currently, charges under Tariff B.E.R. are based solely on the energy sales. The proposed revisions to Tariff B.E.R create both an energy and a demand charge. The total energy charge will be based on the annual average PJM AEP Zone Locational Marginal Price, and the total demand charge will be the difference between total charges (based on the contract price) and the total energy charge. The proposed revised tariff will continue

to ensure that Kentucky Power is able to recover all costs as provided for by KRS 278.271.

Q. HOW DOES THE PROPOSED REVISED TARIFF B.E.R. AFFECT RESIDENTIAL CUSTOMERS?

A. Under the proposed revised Tariff B.E.R., residential customers are “held harmless,” and will pay the same charges as under the existing Tariff B.E.R.

Q. WHAT IS THE IMPACT OF THE PROPOSED REVISED TARIFF B.E.R. ON NON-RESIDENTIAL CUSTOMERS?

A. For non-residential customers, the Tariff B.E.R. demand charge will be calculated by subtracting the residential demand charge from the total demand charge. The non-residential demand charge will be allocated among non-residential customers based on a percentage of non-fuel revenues. The non-residential energy charge will be based on allocating the residual energy charge (total energy charge less residential energy charge) among the non-residential customers based on non-residential energy use. The methodology for allocating costs among non-residential customers in the revised Tariff B.E.R. is similar to the methodology currently used to calculate the environmental surcharge.

Q. DID THE PROPOSED REVISION TO TARIFF B.E.R. INCLUDED AS PART OF THE SETTLEMENT AGREEMENT IN CASE NO. 2014-00396 AFFECT THE COMMISSION’S REPA APPROVAL ORDER?

A. No. The Settlement Agreement expressly provides that nothing in the agreement or the proposed revision to Tariff B.E.R. affects the validity of the Commission’s October 10,

2013 Order in Case No. 2013-00144 or the Company's right under KRS 278.271 to full cost recovery with respect to the ecoPower REPA. Similarly, nothing in the rate case Settlement Agreement affects the current appeal by KIUC of the Commission's October 10, 2013 Order.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.