

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter Of:

ELECTRONIC EXAMINATION OF THE)
APPLICATION OF THE FUEL ADJUSTMENT)
CLAUSE OF KENTUCKY POWER COMPANY) Case No. 2017-00001
FROM NOVEMBER 1, 2014 THROUGH)
OCTOBER 31, 2016)

DIRECT TESTIMONY OF
JOHN A ROGNESS
ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, John A Rogness III, being duly sworn, deposes and says he is the Director Regulatory Services for Kentucky Power Company 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



John A Rogness III

COMMONWEALTH OF KENTUCKY)
) Case No. 2017-00001
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by John A Rogness III, this the 20th day of February 2017.



Notary Public

My Commission Expires: January 23, 2021

**DIRECT TESTIMONY OF
JOHN A ROGNES, ON BEHALF OF
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BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

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**DIRECT TESTIMONY OF
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I. INTRODUCTION

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

2 A. My name is John A. Rogness. My position is Director, Regulatory Services for
3 Kentucky Power Company (Kentucky Power, KPCo or Company). My business
4 address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

II. BACKGROUND

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
6 **BUSINESS EXPERIENCE.**

7 A. I received a Bachelor of Science in Economics from the University of
8 Chattanooga in 1980, a Master of Science in Economics from Vanderbilt
9 University in 1984 and a Ph.D. in Economics from the University of Kentucky in
10 1991.

11 In January 1990, I began working in the Kentucky Office of Financial
12 Management and Economic Analysis. From July 1991 – September 1998, I
13 served as an Economist with the Kentucky Public Service Commission (KPSC).
14 From September 1998 – July 2010 I served as Manager of the Management Audit
15 Branch at the KPSC. From August 2010 – September 2012 I served as the
16 Director of the Financial Analysis Division at the KPSC. From October 2012 –
17 March 2014, I served as the Director, Energy Generation, Transmission and
18 Distribution at the Department for Energy Development and Independence in

1 Kentucky’s Energy and Environment Cabinet. On March 17, 2014, I began my
2 duties as Director of Regulatory Services for Kentucky Power Company.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR,**
4 **REGULATORY SERVICES?**

5 A. As Director of Kentucky Power’s Regulatory Services, I am responsible for the
6 rate and regulatory matters of Kentucky Power. This includes the preparation and
7 coordination of the Company’s testimony and exhibits in rate cases and any other
8 formal filings before this Commission. In addition, I am responsible for assuring
9 the proper application of the Company’s rates and tariffs.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

11 A. Yes. I filed testimony and testified in the Company’s last base rate case, Case
12 No. 2014-00396, and in the five most recent reviews of the operation of the
13 Company’s fuel adjustment clause (“FAC”), Case Nos. 2014-00225, 2014-00450,
14 2015-00232, 2016-00001, and 2016-00230. I also filed testimony in the
15 Economic Development Rider proceeding, Case No. 2014-00336; the Company’s
16 request for a deviation from certain transmission line inspection requirements,
17 Case No. 2014-00479; the Company’s refund deviation proceeding, Case No.
18 2015-00364; the Company’s Big Sandy Ash Pond closure proceeding, Case No.
19 2015-00152; and the Company’s last two demand-side-management proceedings,
20 Case Nos. 2015-00271, 2016-00281.

III. PURPOSE OF YOUR TESTIMONY

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. I am supporting the Company's decision to leave the base fuel rate unchanged.
3 Also, I will address changes in the wholesale electric power market during the
4 review period, or that are expected to occur in the coming two years, that
5 significantly affected or are expected to affect significantly Kentucky Power's
6 electric power procurement practices. The remaining subjects identified in the
7 Commission's February 6, 2017 order are addressed by Company Witnesses
8 Jeffries and West.

IV. BASE FUEL RATE

9
10 **Q. WHAT BASE FUEL AMOUNT IS BEING PROPOSED BY THE**
11 **COMPANY?**

12 A. As demonstrated in the Company's February 20, 2017 response to the
13 Commission's data request Item Nos. 1, 2, 3, and 4, the Company is proposing to
14 leave the base fuel amount of 2.725 cents per kWh unchanged.

15 **Q. WHEN DID THE COMPANY LAST MODIFY ITS BASE FUEL**
16 **AMOUNT?**

17 A. In the Company's previous two year review, Case No. 2014-00450, the Company
18 requested and supported the reduction of the base fuel rate from 2.84 cents per
19 kWh to the current 2.725 cents per kWh. In its Order dated August 11, 2015, the
20 Commission approved the Company's request. The new base fuel rate was placed
21 into effect with the first billing cycle October 2015.

1 **Q. PLEASE DESCRIBE THE PROCESS THE COMPANY USED IN**
2 **REACHING ITS RECOMMENDATION NOT TO MODIFY ITS**
3 **CURRENT BASE FUEL RATE OF 2.725 CENTS PER KWH?**

4 A. The Company examined both historic and projected fuel costs. Because of the
5 fundamental transformation of the generation resources available to Kentucky
6 Power with (a) the retirement of Big Sandy Unit 2 in May 2015; (b) the
7 modification approved by the Commission in its June 22, 2015 order in Case No.
8 2014-00396 in the manner in which no load fuel costs are allocated; and (c) the
9 conversion of the 278 MW Big Sandy Unit 1 to a 268 MW natural gas fired unit
10 in June 2016, Kentucky Power focused its review on its historical fuel costs for
11 the final five months of the review period, which reflects each of the intervening
12 developments, and the Company's forecasted cost of fuel for calendar years 2017
13 and 2018.

14 **Q. WHAT WERE THE COMPANY'S FUEL COSTS DURING THE TWO-**
15 **YEAR REVIEW PERIOD?**

16 A. Table 1 below provides the Company's fuel costs and compares to the costs to the
17 base fuel rate in effect during the subject month.

Month & Year	Final Cost \$	Total Sales kWh	Monthly Fuel Rate in Cents per kWh (C2) / (C3)	Base Fuel Rate Cents per kWh	Cents per kWh (Below or Above Base Fuel Rate (C4) - (C5)
1	2	3	4	5	6
November 2014	16,103,620	576,463,000	2.794	2.84	(0.046)
December 2014	20,206,049	608,186,000	3.322	2.84	0.482
January 2015	21,709,730	687,614,000	3.157	2.84	0.317
February 2015	22,941,494	697,771,000	3.288	2.84	0.448
March 2015	17,154,693	565,812,000	3.032	2.84	0.192
April 2015	11,487,515	459,973,000	2.497	2.84	(0.343)
May 2015	13,345,061	492,392,000	2.710	2.84	(0.130)
June 2015	16,569,934	511,016,000	3.243	2.84	0.403
July 2015	15,296,700	530,449,000	2.884	2.84	0.044
August 2015	14,145,115	520,354,000	2.718	2.84	(0.122)
September 2015	11,067,593	484,558,000	2.284	2.84	(0.556)
October 2015	11,801,182	457,062,000	2.582	2.725	(0.143)
November 2015	11,974,986	481,798,000	2.485	2.725	(0.240)
December 2015	12,467,647	511,879,000	2.436	2.725	(0.289)
January 2016	17,329,894	665,788,000	2.603	2.725	(0.122)
February 2016	13,987,991	564,781,000	2.477	2.725	(0.248)
March 2016	11,957,011	483,533,000	2.473	2.725	(0.252)
April 2016	11,857,323	438,583,000	2.704	2.725	(0.021)
May 2016	11,033,388	441,473,000	2.499	2.725	(0.226)
June 2016	13,999,422	473,438,000	2.957	2.725	0.232
July 2016	15,189,775	508,874,000	2.985	2.725	0.260
August 2016	15,930,794	540,609,000	2.947	2.725	0.222
September 2016	14,088,018	456,943,000	3.083	2.725	0.358
October 2016	12,517,815	415,353,000	3.014	2.725	0.289
Two Year Average			2.799		

- 1 The average fuel rate for the two-year review period was 2.799 cents per kWh or
2 0.074 cents greater than the current base fuel rate. During the two-year review
3 period, the cost of fuel fluctuated between a high of 3.322 cents per kWh

1 (December 2014) to a low of 2.436 (December 2015). Since the current base fuel
 2 rate of 2.725 cents per kWh was established beginning with the October 2015
 3 expense month, the average monthly difference between the Company’s actual
 4 fuel cost and the current base fuel rate was 0.014 cents per kWh.

5 For the five months of the review period beginning with the return of Big
 6 Sandy Unit 1 to service as a natural gas-fired unit June 2016, the average cost of
 7 fuel was 2.997 cents per kWh. During that five month period, the monthly cost of
 8 fuel varied by 4.6% (over the low) from a low of 2.947 cents per kWh to a high of
 9 3.083 cents per kWh. The average monthly difference between the monthly cost
 10 of fuel and the current base fuel rate of 2.725 cents per kWh during the final five
 11 months of the review period was 0.272 cents per kWh.

12 **Q. WHAT ARE THE COMPANY’S PROJECTED 2017 AND 2018**
 13 **PROJECTED FUEL COSTS?**

14 A. The Company’s projected fuel costs for the calendar years 2017 and 2018 are
 15 2.496 cents per kWh and 2.525 cents per kWh, respectively. As shown in Table 2
 16 below, both 2017 and 2018 fuel cost projections are approximately 7.5% to 8.5%
 17 less than the current base fuel rate of 2.725 cents per kWh.

Year of Projection	Projected Fuel Cost	Projected kWh Sales	Projected Fuel Cost in cents/kWh	Fuel Cost in Current Base Rates in cents/kWh	Difference in Fuel Cost in cents/kWh
2017	\$154,697,399	6,198,510,000	2.496	2.725	(0.229)
2018	\$155,285,088	6,148,835,000	2.525	2.725	(0.200)
Average			2.511	2.725	(0.214)

1 The fuel projections reflect the incorporation of natural gas into the Company
2 fossil fuel supply as a result of the completion of the Big Sandy Unit 1 conversion
3 to natural gas in 2016.

4 **Q. HOW DO THESE PROJECTED COSTS COMPARE WITH THE**
5 **COMPANY'S HISTORICAL FUEL COSTS DURING THE TWO-YEAR**
6 **REVIEW PERIOD?**

7 **A.** The Company's average forecasted fuel cost for 2017 and 2018 is 0.214 cents per
8 kWh (7.6%) less than the 2.799 cent per kWh average fuel cost during the review
9 period. The average forecasted fuel cost for 2017 and 2018 is 0.4862 cents per
10 kWh (19%) less than the Company's historical average fuel cost beginning June
11 2016.

12 **Q. CAN YOU EXPLAIN WHY THE PROJECTED FUEL RATES ARE**
13 **LOWER THAN THOSE RECENTLY EXPERIENCED BY KENTUCKY**
14 **POWER?**

15 **A.** Yes. Short term forecasts, such as the Company's forecasts for 2017 and 2018,
16 are heavily influenced by weather. The Company's projections for 2017 and
17 2018 fuel rates, which were forecast in December 2016, reflect warmer than
18 typical weather which depressed the demand for power and lowered power prices.
19 These in turn lowered the forecast prices for delivered coal, natural gas, and
20 purchased power that comprise the 2017 and 2018 fuel projections.

21 **Q. IS IT REASONABLE TO LEAVE THE CURRENT BASE FUEL RATE OF**
22 **2.725 CENTS PER KWH UNCHANGED IN LIGHT OF THE COMPANY'S**
23 **FUEL COSTS DURING THE REVIEW PERIOD?**

1 A. Yes. The current base fuel rate is 0.225 cents per kWh (-8.1%) less than the
2 average fuel cost during the final five months of the review period following the
3 return of Big Sandy Unit 1 to service. Conversely, it is 0.214 cents per kWh
4 (7.9%) greater than the forecasted 2017-2018 average cost of fuel. As such, it lies
5 at the midpoint between the average cost fuel during the final five months of the
6 review period and the projected average 2017-2018 cost of fuel. Maintaining the
7 current base fuel rate of 2.725 cents per kWh will minimize the magnitude of the
8 difference between the base fuel rate and the cost of fuel as fuel costs decline as
9 projected. Lowering the base fuel rate to reflect the average 2017-2018
10 forecasted rate will lead to larger fuel adjustment clause charges than otherwise
11 would be the case during the first part of the period fuel costs move toward the
12 forecasted average cost.

13 **V. WHOLESALE ELECTRIC POWER MARKET**

14 **Q. WERE THERE ANY CHANGES IN THE WHOLESALE POWER MARKET**
15 **DURING THE REVIEW PERIOD THAT SIGNIFICANTLY AFFECTED**
16 **KENTUCKY POWER'S ELECTRIC POWER PROCUREMENT**
17 **PRACTICES?**

18 A. There were no changes over the review period that the Company identified that
19 significantly impacted its power procurement practices.

20 **Q. WERE THERE ANY CHANGES TO THE COMPANY'S GENERATION**
21 **FLEET DURING THE REVIEW PERIOD THAT AFFECTED THE**
22 **COMPANY'S POWER PROCUREMENT PRACTICES?**

1 A. Big Sandy Unit 1 was withdrawn from commercial service in November 2015 to
2 permit its conversion to natural gas. The unit returned to commercial service June
3 2016. Kentucky Power purchased more energy from the PJM market as needed to
4 service its load as a result of the temporary shutdown of Big Sandy Unit 1 for its
5 conversion to a natural gas unit. The return of Big Sandy Unit 1 to commercial
6 service reduced the need for power purchases.

7 **Q. ARE THERE ANY CHANGES IN THE WHOLESALE POWER MARKETS**
8 **THAT YOU EXPECT IN THE NEXT TWO YEARS THAT MAY**
9 **SIGNIFICANTLY AFFECT KENTUCKY POWER’S ELECTRIC POWER**
10 **PROCUREMENT PRACTICES?**

11 A. Yes. In an Order in Docket No. ER16-372-002, issued February 3, 2017, FERC
12 approved PJM’s flexible hourly offer proposal. PJM’s proposal allows market
13 participants to submit resource offers that vary by hour in the day-ahead market and
14 to update their offers in the real-time market. These changes are expected to be
15 implemented during November of 2017. It is anticipated that these changes will
16 enhance Kentucky Power’s ability to respond more quickly to changing market
17 conditions and better bid its generating units.

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

19 A. Yes.