

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In The Matter Of:

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

CASE NO.
2012-00578

ORIGINAL

VOLUME I

Transcript of July 10, 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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23 *

24 *

25 *

1 (Hearing commenced at 10:05 a.m.)

2 CHAIRMAN ARMSTRONG: Good morning.

3 Today is Wednesday, July the 10th, 2013, and we are on
4 record in the case of 2012-00578 styled Application of
5 the Kentucky Power Company for a Certificate of Public
6 Convenience and Necessity Authorizing the Transfer to
7 the Company of an Undivided Fifty Percent Interest in
8 the Mitchell Generating Station and Associated Assets
9 and the Approval of the Assumption by the Kentucky
10 Power Company of Certain Liabilities in Connection
11 with the Transfer of the Mitchell Generating Station,
12 the Declaratory Rulings, and the Deferral of Costs
13 Incurred in Connection with the Company's Efforts to
14 Meet the Federal Clean Air Act and Related
15 Requirements, and Further, All Other Approvals and
16 Relief.

17 My name is David Armstrong. I am
18 Chairman of the Kentucky Public Service Commission.
19 And to my left is Jim Gardner, the Vice-Chair. To my
20 right, Commissioner Linda Breathitt.

21 This hearing is a continuation of a
22 hearing that was initially conducted, a hearing on May
23 the 29th, 2013. The hearing will consider the merits
24 of the Kentucky Power's application to -- among other
25 things, to acquire a 50 percent ownership interest in

1 the Mitchell Generating Station currently owned by the
2 Ohio Power Company and located in Moundsville, West
3 Virginia.

4 The hearing will also consider the
5 reasonableness of a nonunanimous stipulation and
6 settlement that has been entered between Kentucky
7 Power Company and the Kentucky Industrial Utility
8 Customers, Incorporated, and the Sierra Club. The
9 Attorney General was not a party to this settlement.

10 We will now take the appearances of
11 counsel who are here. Mr. Overstreet.

12 MR. OVERSTREET: Good morning,
13 Mr. Chairman. I'm Mark Overstreet with the law firm
14 of Stites & Harbison, 421 West Main Street, Frankfort,
15 Kentucky. I'm appearing here on behalf of Kentucky
16 Power Company. Also appearing for the Company are --
17 is Ken Gish of our Lexington office and Hector Garcia
18 of American Electric Power Service Corporation. The
19 Commission has allowed Mr. Garcia to appear pro hac
20 vice by an earlier order.

21 MR. CHILDERS: Good morning,
22 Mr. Chairman. I'm Joe Childers, Joe F. Childers &
23 Associates, 201 West Short Street, Suite 300,
24 Lexington, Kentucky. I'm appearing on behalf of
25 Sierra Club and the individual intervenors. With me

1 is Shannon Fisk from Earthjustice, who has been
2 permitted to appear pro hac vice by the Commission.

3 CHAIRMAN ARMSTRONG: General.

4 MR. HOWARD: Mr. Chairman, Dennis
5 Howard, II and Jennifer Black Hans with the Attorney
6 General's office on behalf of the ratepayers of
7 Kentucky Power.

8 MR. KURTZ: Mr. Chairman, good morning.
9 Mike Kurtz for KIUC, 1510 URS Center, Cincinnati,
10 Ohio.

11 CHAIRMAN ARMSTRONG: Thank you. Welcome
12 one and all.

13 MR. NGUYEN: Good morning, Mr. Chairman.
14 Quang Nguyen and Aaron Ann Cole as well as Richard
15 Raff for Commission Staff.

16 CHAIRMAN ARMSTRONG: Thank you very
17 much.

18 At this time we open the proceedings to
19 the public. I would first like to welcome and call
20 upon the Lawrence County Attorney, Michael Hogan.

21 Mr. Hogan.

22 MR. HOGAN: Good morning. I appreciate,
23 I guess, the reservation of time that was allowed to
24 me.

25 Let me first say that I was disappointed

1 in the Commission's ruling that Lawrence County would
2 not have a seat at the table. I'm not going to go
3 into the procedural issues there. I think that we got
4 late notice. Certainly no one from AEP ever put
5 Lawrence County specifically on notice of this.

6 Our county never even received knowledge
7 of the inner workings of the pleadings that were filed
8 in this case -- it was filed in December -- till late
9 March, early April, when the Commission announced its
10 public comments and announced the Hazard and Louisa
11 hearings. It's at that time that we became involved
12 in this matter.

13 I think there's procedurally notice that
14 was fatally flawed on AEP's part, and this may or may
15 not come up at a later date, depending upon the ruling
16 in this case.

17 I applaud the Attorney General in not
18 agreeing to this unanimous dissent -- consent decree
19 or agreed order that has been proffered and was, I
20 guess, offered the day before the last hearing in June
21 to the Commissioner.

22 Let me speak to the reasonableness of
23 that decree and -- or consent decree or agreed order,
24 however it's termed, and tell you the way I view it.

25 Of course the Sierra Club is going to

1 agree to anything that would shut down a coal-fired
2 power plant. It's their stated goal, and I don't have
3 any objection to someone furthering their agenda.
4 It's certainly not my agenda, never has been, but
5 there are certain people that we know that that's
6 their bailiwick, that's their call in life, and that
7 seems to be the Sierra Club's.

8 They obviously are going to consent to
9 anything that would close down a coal-fired plant.
10 That's their stated goal. I've even been told, and I
11 don't know, that there's a barometer on their website
12 that gauges how much they're able to reduce coal
13 emissions. So view that for what it is.

14 You also have the industrial customers
15 that are parties to this action that agreed to some
16 consent decree that were thrown a bone. They were
17 given reduced rates, incentives, to go along with it.

18 The provisions that were made for the
19 region of Lawrence County -- and I hope that someone
20 from AEP or anybody else that's a part of this action
21 wouldn't try to portray what they've offered as some
22 bounty that's adequate to protect the interest of that
23 community.

24 What they offered -- and I really hope
25 that I don't hear this, because I will be personally

1 offended, that if someone would stand up and say, "We
2 offer \$500,000 a year over a five-year period for
3 winterization projects on low-income families to the
4 region -- not even to Lawrence County, to the
5 region -- would somehow compensate a community for the
6 loss of over a hundred jobs and \$900,000 in tax
7 revenue a year.

8 Now, I understand that there are certain
9 elements at play that may be coming from Washington
10 and EPA, and I don't play at that level. I don't
11 understand the politics of it, don't want to get
12 involved in it.

13 But from a regional and a local aspect,
14 this application would be the worst thing that the
15 Commission could ever do to that community. I'm not
16 overstating the facts. I'm not exaggerating facts.
17 It's the truth.

18 I'm not going to continue to go into it.
19 Mr. Adkins has very artfully set forth the dire
20 economic consequences that would happen to Lawrence
21 County and Eastern Kentucky if this application is
22 granted. I have specifically stated my position in
23 regard to how it would directly affect Lawrence
24 County.

25 I'm not going to take any more of your

1 time in regard to that. Suffice it to say, it is
2 factually true that if this application is granted as
3 stated, Lawrence County as we know it will cease to
4 exist.

5 The community will suffer economically.
6 The school systems will suffer economically. Every
7 county government employee, every department within
8 every taxing district that enjoys the tax revenue from
9 that plant will suffer directly, in addition to the
10 substantial loss of income and jobs in that community.

11 Now, with that being said, I ask simply
12 that you look at the math in this case and make it
13 wrap around your head somehow how that one would come
14 in here and ask for an eight percent rate increase to
15 shut down generating capacity in Kentucky and to buy
16 an asset from a company that they already own in
17 another state.

18 That's not reasonable, that's not fair,
19 and I ask you to reject this and send AEP back to
20 reconsider their position in this matter. There's
21 time to do it. We can bring everybody back to the
22 negotiating table. But it certainly makes no sense
23 for the ratepayers in Kentucky to pay more money to
24 AEP for them to be able to shut down a plant in
25 Kentucky and buy power from themselves out of another

1 state.

2 Now, like I said, I don't play at that
3 level, and I really kind of feel a little bit out of
4 my bailiwick. I have probably as much or more trial
5 experience than any lawyer in this room. I feel
6 comfortable with making commonsense arguments in front
7 of reasonable people. I've been doing it for
8 18 years. Been very successful with selling cases to
9 juries based upon reasonableness.

10 And you can fudge the math and dodge the
11 numbers and put this here and put that there. I'm not
12 going to go into all the facts, but let me just --
13 does it make any sense that you would shut down the
14 generating capacity in Kentucky and allow them to buy
15 power from themselves that they're already generating
16 in another state, at the same time ask people to pay
17 more money to do it, and as a direct and proximate
18 consequence of that decision, shut down one whole
19 county and have dire economic consequences to a whole
20 region.

21 It doesn't make any sense to me. It
22 makes no sense to me.

23 Now, I'm down here fighting for what I
24 believe in, and I'm down here fighting for my
25 community. I've been tasked with this, and I have

1 voluntarily assumed this responsibility in an effort
2 to try to save the community that I was born and
3 raised in.

4 Let me tell you, folks, the decision
5 that you make today, or whenever you make it, will
6 have lasting consequences for the people of Lawrence
7 County. I really find it somewhat amazing that no
8 other thought was given by the players that were given
9 a seat at the table, that no other communication or
10 dialogue was had with the County in regard to this
11 decision.

12 I don't know what the agenda was, and
13 I'm not going to speculate on it, but it seems to me
14 that the goodwill that AEP has developed in Lawrence
15 County over the last 60 years, close to 60 years, has
16 just about been shot in the foot in the last six
17 months.

18 Had there been honest, open, frank
19 discussions and adequate protections and
20 reasonableness and fairness, the people of Lawrence
21 County might have understood, because we're reasonable
22 people, good, hardworking people.

23 But to come down here the day before the
24 hearing and find out that two of the three intervenors
25 have been given a little bit here and a little bit

1 here, "You sign this, we'll present it to the
2 Commission."

3 Thank God the Attorney General had the
4 sense to object, otherwise it looks like we'd have had
5 a consent decree that would have just been signed off
6 on.

7 You-all have the power to reject this.
8 You have the power to reject it in toto. You have the
9 power to look at the reasonableness of a nonunanimous
10 consent decree. Nonunanimous. Attorney General still
11 objecting, still not agreeing to what's going on here.

12 I appreciate the Commission's indulgence
13 with me. I appreciate the behavior of your staff, the
14 way that they have treated me and the way that they
15 have treated my staff.

16 I ask you and urge you to give serious
17 thought to this. This is not some simple decision
18 that you have laid upon your desk today.

19 I don't want to go any further. Like I
20 said, I wish I had had a chance to be up here, but I
21 wasn't granted that. Nevertheless, I think that my
22 point has been made. I'm not going to belabor the
23 point anymore. I know you have other matters to take
24 up, and I appreciate you-all having me here today.

25 Please, before you make your decision,

1 give serious thought to this, very serious thought to
2 this, and I appreciate you.

3 CHAIRMAN ARMSTRONG: Thank you,
4 Mr. Hogan. We appreciate your being here.

5 MR. HOGAN: Thank you.

6 CHAIRMAN ARMSTRONG: We are also pleased
7 to have with us today the Kentucky Majority Floor
8 Leader, the Honorable Rocky Adkins. Mr. Leader.

9 REP. ADKINS: Mr. Chairman and members
10 of the Commission, it's good to be back before you
11 again. I wish it was on a different subject matter
12 and a different occasion, but thank you for allowing
13 me to come before you now for the third time.

14 I've been before you on two different
15 occasions on this issue, and I feel like it's
16 important to come before you again to stress the
17 points that I made and the past comments that I've
18 made in the past hearings that I've made.

19 I have deep respect for this commission
20 and each member on this commission and the staff that
21 works at the Public Service Commission. I know who
22 you are, I know what you're made of. The staff I have
23 worked with on different subject matters, different
24 issues in my now 26th year in the Kentucky House.

25 I don't know that there's ever been a

1 more important matter that I have come before you on
2 than this issue, and it's emotional to me. It's an
3 emotional issue.

4 I want to back up the comments of what
5 my county attorney, Mike Hogan, had to say, the
6 seriousness of this issue, an enormous decision that
7 you have to make really on what you think is in the
8 best interest of the ratepayers, what is in the best
9 interest of our region, but I know you have to look at
10 really what's in the best interest of the ratepayers.

11 And I tried to lay out before you the
12 case that -- what I believe is in the best interest of
13 the ratepayers, and that is, of course, to scrub Unit
14 2 of the Big Sandy power plant, bring certainty and
15 stability to the people of our region with the rates
16 they're going to be paying 30 years from now instead
17 of relying on transferring power or wheeling power in
18 from another state, from another power plant, to the
19 people of our region to pay for the scrubbers that
20 have been put on a facility in another state instead
21 of paying for the scrubbers that should be put on in
22 our state, and should have been put on several years
23 ago, to be very honest with you.

24 I also have in the audience today -- I
25 don't, they came on their own -- is the county judge

1 of Lawrence County and his son. Judge John Osborne is
2 here today, and he wanted to be here to represent the
3 county of Lawrence County and the people of Lawrence
4 County and to help you understand really the concern
5 that the people of Lawrence County and the people of
6 Eastern Kentucky have with the filing that's been
7 placed before you, and that filing is to shut down
8 Unit 2 of the Big Sandy power plant and to transfer
9 the assets of the Mitchell plant to Kentucky Power.

10 Before I go into any further comments, I
11 want to thank the Commission and I want to thank the
12 Staff for the Staff data request that you put forth to
13 gather information on really what is the cheapest and
14 best path forward, the cheapest and best path forward
15 as far as transferring the assets versus putting on
16 scrubbers at the Mitchell plant -- or putting on
17 scrubbers at the Big Sandy plant. Excuse me.

18 And even under Kentucky Power AEP's
19 numbers, we see that the difference is getting much
20 closer. They still show it's more expensive to put
21 the scrubbers on, but the numbers are not what they
22 once were when we first started hearing about a 31
23 percent rate increase versus an eight percent rate
24 increase.

25 I think, as you will see, that that

1 number is even getting closer, and I think with
2 further analysis from the Staff and further questions,
3 maybe asking independent folks who specialize in this
4 industry out in the field, you'll probably even see
5 those numbers get much closer. So it's not any longer
6 eight percent versus 31 under this Staff data request.

7 And again, I want to thank the staff. I
8 want to thank you for the questions you asked. I want
9 to thank you for the information that has been
10 received from AEP Kentucky Power, because I think it's
11 starting to show exactly what we have been saying,
12 that it's cheaper to put the scrubbers on, it's in the
13 best interest of the ratepayers, it is in the best
14 interest of our economy, and it's in the best interest
15 of jobs.

16 Even under AEP's numbers, yes, they
17 still show it's more to put the scrubbers on than it
18 is to transfer the assets of A -- of the Mitchell
19 plant, but the numbers start doing this. They start
20 getting closer. And everybody's had a chance to
21 review that, and I think that's an important reason
22 that we need to explore further more information that
23 can be gotten from independent individuals and
24 organizations that can help pull together the
25 information before you make your decision, this very,

1 very important decision.

2 An enormous decision for the ratepayers
3 of our region, an enormous decision for the economy of
4 our region, an enormous decision for jobs in our
5 region. As most of you know, the coal economy is the
6 backbone of our economy in Eastern Kentucky and
7 throughout Kentucky. Over 90 percent of our
8 electricity is produced from coal in Kentucky, and it
9 has made us a very strong manufacturing,
10 industrialized state, producing good jobs. As a
11 matter of fact, producing the blue collar middle
12 class.

13 So we're not talking about a shell game
14 here, we're talking about a real deal. We're talking
15 about real people. We're talking about folks that get
16 up and get their feet muddy and their hands dirty
17 every day. We're talking about people that work hard
18 to put food on the table and a roof over their head
19 and send their kids to school to get a college
20 education to be able to live the American dream.

21 So this is not a game in here today.
22 This is not about moving a shell game from one spot to
23 another and complicating the numbers as we've seen
24 over the last several months of filings being made of
25 a 31 percent rate increase and then back to the

1 settlement agreement of an eight percent rate
2 increase. And I want to get to that just in a minute.

3 I want you to understand what I really
4 believe here. And this county attorney stated it very
5 well. We're talking about good people here that we're
6 getting ready to impact in one way or another, real
7 people just like you, folks in here this morning that
8 got up and put their suits and their ties on and their
9 nice clothes and they came in this room here this
10 morning. We're talking about real people in Eastern
11 Kentucky and in the district that I represent. We're
12 talking about their lives and their families. And I
13 hope we understand that.

14 And those of you that gathered in this
15 settlement agreement and agreed to it, I hope you
16 understand exactly what you've agreed to. If this
17 settlement agreement is approved, I'm going to tell
18 the Industrials that they're making a mistake because
19 you have done away with certainty. You've done away
20 with stability of energy costs that will be to those
21 large industrial customers there in my district and
22 throughout Eastern Kentucky.

23 The Sierra Club, yes, you can put it
24 down a notch that you've closed down another
25 coal-fired coal plant. You have an agenda, you

1 believe that, that's your business. I respect that.

2 To us who are in Eastern Kentucky and
3 who want to be -- who want to be able to make a decent
4 living, to be able to take care of our families, to be
5 able to put a roof over our head, I want to tell you
6 what's happening in the mountains and hills of Eastern
7 Kentucky. Over the last 20 months we've had our
8 brains beat out. Fifty-seven hundred coal miners have
9 lost their jobs in the last 20 months in Eastern
10 Kentucky. Fifty-seven hundred coal miners have lost
11 their jobs in Eastern Kentucky in the last 20 months.

12 And now to come along with another stake
13 and drive it in our heart and close down our
14 coal-fired power plant in Eastern Kentucky is a
15 travesty. It's a travesty and it's wrong.

16 This is a corporate decision. This is
17 not a decision that is best for the ratepayers, the
18 economy, and jobs in Eastern Kentucky.

19 AEP is a public corporation. You can
20 read it yourself. I have pulled it up. Financial
21 institutions in New York City have sent out press
22 release after press release saying this, that AEP Ohio
23 Power has too much deregulated power, an excess amount
24 of deregulated power, and either get rid of some of it
25 or you're in possibility of being downgraded in AEP

1 Ohio Power's network.

2 So what this is about is a corporate
3 decision, a corporate decision to help the bottom
4 line. Maybe that's okay on Wall Street, but let me
5 tell you what, that ain't okay on Main Street in
6 Louisa, Kentucky, or that ain't okay on Main Street in
7 Inez, Kentucky, nor is that okay on Main Street in
8 Pikeville, Kentucky, nor is that okay on Main Street
9 in Ashland, Kentucky, or Catlettsburg, Kentucky.

10 This is a corporate decision. This is
11 about transferring deregulated power into a regulated
12 market where there is a guaranteed rate of return, up
13 to ten and a half percent, on the investment.

14 Now, eight percent is one filing.
15 That's one filing. The next filing comes in late
16 fall-winter of 2014. So if this is approved, there's
17 an eight percent rate increase.

18 Late 2014, that's where the real rubber
19 meets the road. Late 2014 there will be another
20 rate-based filing that comes before this Commission,
21 and that will tell the real rates. That will tell the
22 real story. That is when they file the rate case that
23 refinances the debt of the Mitchell plant. It
24 refinances the debt of Big Sandy.

25 And, yes, in that will be the closing

1 down of Unit 2 as well. We get to pay for that as
2 well in this next rate filing that will come in late
3 2014, because this eight percent only lasts till the
4 end of May of 2015. So you have this rate case in
5 late 2014 'cause you gotta have that rate in place to
6 take the place of whatever it was that you've approved
7 in this rate filing for 2015 at the end of May.

8 So the real rubber meets the road when
9 we come back in late 2014 and file the real rate-based
10 case.

11 We got a little example of that real
12 rate-based -- the real example of that real rate-based
13 case just a week or week and a half ago. And I
14 understand there were some timelines that had to be
15 met, but there was another filing that was withdrawn
16 over here as soon as two of the three parties came
17 together on this settlement agreement.

18 Thirty-one percent. Thirty-one percent
19 was the rate case that was filed about a week or week
20 and a half ago, I think. That was withdrawn when the
21 Industrials and the Sierra Club came together and
22 said, "We agree with this settlement agreement."

23 The Attorney General is looking and
24 seeing the shell game that's being played with the
25 numbers. They understand it. They understand that

1 more information needs to come together for this
2 Commission to make the right decision and the best
3 decision for the ratepayers of Eastern Kentucky.

4 If we lose this asset, the Big Sandy
5 power plant in Louisa, Lawrence County, Kentucky, we
6 lose it forever. It's gone. It'll never come back.

7 And, oh, by the way, when they come back
8 with this rate filing, the one that's in now and the
9 one that comes in late 2014, there happens to be an
10 environmental surcharge on everybody's bill as well.
11 And guess what's in this filing before you, I think
12 now, is to go ahead and start passing the charge
13 through to our people in Eastern Kentucky to pay for
14 the scrubbers that's already been put on Mitchell.

15 Now, if you want to take alcohol and rub
16 it in somebody's eye, that's the way you take alcohol
17 and rub it in somebody's eye is you shut down their
18 coal-fired power plant, you transfer the assets of
19 Mitchell to Kentucky Power, and then you start
20 charging our people to pay for the scrubbers that's
21 already been put on the Mitchell plant through the
22 environmental surcharge. It's a travesty and it's
23 wrong.

24 I want to encourage this Commission to
25 gather the information you need. Take your time.

1 Take your time. Don't let anybody rush you and say,
2 "Oh, we gotta meet this date, we gotta meet that
3 date." This is an enormous decision for the people of
4 Lawrence County. This is an enormous decision for the
5 people that work at that facility who are throwing
6 their hands up. They don't know which way to turn.
7 They don't know what's going to happen.

8 Over a hundred and some jobs, over 900
9 and some thousand dollars of property taxes that are
10 paid to the local government and the school district.
11 A community, one of the few east of Lexington and
12 Winchester, that has shown growth in population.
13 We've prospered. We've done well.

14 And now to wave the white flag and shut
15 down a major industry that has provided not only for
16 Lawrence County but our entire region, through the
17 coal truck drivers and the coal miners, the vendors
18 that serve all of those related industries.

19 And let's just talk about the
20 \$940 million a minute. I represent one of the biggest
21 percentages -- one of the -- one of the biggest
22 districts -- or my district has a larger percentage of
23 building trades construction workers of anybody in the
24 state. You know where they're working now? Chicago,
25 New York, California. Traveling all over this country

1 to find a job.

2 I would say that most of us in this room
3 sleep in our own bedroom at night. Sleep in your own
4 bedroom with your family. My folks don't. They
5 travel. They're construction workers. They're pipe
6 fitters. They're boilermakers. They're ironworkers.
7 They're carpenters. They're laborers.

8 \$940 million. Guess what? They get to
9 stay home for three years. They get to put those
10 scrubbers on. Forty percent of that \$940 million goes
11 back in their pocket. Guess where they spend it?
12 Back in our communities. Back in our communities.

13 I will close with this: I didn't mean
14 to preach. I didn't mean to give a sermon. This is a
15 big deal. This is an enormous decision on the
16 direction of Lawrence County and our region for
17 generations to come.

18 All we ask you to do is gather the
19 information from this outstanding staff. Gather the
20 information that you need instead of the shell game
21 that you're being given.

22 I'm not an attorney. I'm an old country
23 boy from the left-hand fork of Middle Fork in Elliott
24 County. And when this guy right here, the county
25 attorney, said common sense, that's all we're looking

1 for. We're not looking for a game of numbers, we're
2 looking for common sense, a commonsense solution to
3 this issue to save the jobs of our people and save the
4 economy of our region. That's all we're asking for.

5 Don't drive the stake in our heart. Let
6 us have a chance. Let us have hope and opportunity.

7 You have never had a more important
8 decision before this Commission than this decision, in
9 my opinion.

10 I respect you, I appreciate you, and I
11 want to thank you for letting me be before you now for
12 the third time to speak on a subject matter that I
13 believe is of the utmost importance.

14 Let's put these scrubbers on. Let's
15 keep our economy alive. Let's make sure we provide
16 good jobs for our people.

17 Thank you all so much.

18 CHAIRMAN ARMSTRONG: Mr. Leader.

19 Other members of the public and
20 our legislature?

21 REP. HALL: Thank you, Commission. Good
22 to see you my good friend, Ms. Breathitt.

23 COMMISSIONER BREATHITT: Thank you.

24 REP. HALL: I'm Representative Keith
25 Hall. I chair Tourism, Development, and Energy in

1 Frankfort, Kentucky. I'm an old Pike County boy
2 representing 44,000 ratepayer people in East Kentucky
3 and Pike County that gets their power from Kentucky
4 Power.

5 Very difficult day when I have friends
6 on both sides of this aisle, great respect for the
7 conglomerate AEP and what they do, the jobs they
8 provide in the Pikeville community, and my friends on
9 both sides of the aisle.

10 As a fourth generation coal miner, I can
11 tell there's a lot of poor people in Pike County. My
12 mother and father and the Medicaid recipients and the
13 Social Security recipients that have fixed incomes
14 that cannot endure, much less an eight percent
15 increase, much less a 23 percent increase, and this
16 moving target that we've seen that's been all over the
17 board.

18 Woodrow Wilson would say a great
19 leader's ear is filled with the voice of his people.
20 I stand today to represent my people in Pike County
21 that's going to be paying those power bills.

22 As a person in business in the
23 electrical business, I understand the cost of power.
24 I understand the cost of generation. We build power
25 centers for the mining industry. We have been hit

1 very hard. We have appreciated in the past decades
2 the job that AEP has done burning East Kentucky coal
3 that we pay coal severance in, and we provide water
4 systems, sewer systems and great a things to our
5 people. Our friends in the gas industry pay the same
6 severance.

7 So I'm not here today to conquer and
8 divide gas versus coal. I'm here today to let you
9 know there's a lot of poor people that I don't think
10 can endure rate increases that's been talked about,
11 that I've seen published to me and given to me as
12 chairman, maybe 8, maybe 23, 14, 15, those moving
13 target numbers.

14 I would be remiss if I didn't say to you
15 that we had a bill this session, and my friends on the
16 Commission and my friends in the Governor's office
17 called me to their table and said, "This AT&T bill
18 would be a great thing for Kentucky. It would move
19 Kentucky forward. We would go IP and we would have
20 great service and we would put \$5 billion into this
21 economy."

22 And the more I looked at the details of
23 that bill, the more I realized that in the rural areas
24 of East Kentucky, where trees are tall and mountains
25 are taller, IP doesn't work so well in Pike County,

1 Kentucky. When I travel home 200 miles on the
2 Mountain Parkway to Phelps, Kentucky, I drop my call
3 six times.

4 I don't know how AT&T was going to fix
5 my problem overnight just by one swoop of one piece of
6 legislation, but as my Floor Leader Rocky Adkins said,
7 "We slowed that train down." We didn't rush to
8 judgment.

9 I have great respect, and I am humbly
10 before you today, the PSC Commission. Great is your
11 endeavor to evaluate this issue and make a decision,
12 not for tomorrow, but for generations and generations
13 to come, for my three children and my three
14 grandchildren who reside in East Kentucky and what
15 rates they'll pay for power and electricity.

16 I would humbly ask you, look hard, turn
17 every page, uncover every stone, be in no hurry to
18 make a decision, because the impact this will have on
19 the 175,000 East Kentuckians who are some of the
20 poorest of the poor, I don't think they can endure
21 that.

22 And so I'm asking you today to look for
23 every solution, every opportunity, every means that we
24 can put together a game plan, what is in the best
25 interest of the people of East Kentucky with the power

1 case we have before us.

2 I would be remiss if I didn't mention
3 that in Ohio and their deregulated power, and I think
4 some of the messes they've created there, we don't
5 have that problem in Kentucky, and God bless us that
6 we don't have that problem. Nor do I want Ohio's
7 baggage to come and flow across that river into
8 Kentucky either. We've tried to keep those problems
9 out of this state as legislators.

10 So I would ask the Commission today
11 humbly, as I stand as one person representing that
12 175,000 ratepayers of East Kentucky, that we look hard
13 at those details and we make a decision that is in the
14 best interest not of AEP, not of the ratepayers only,
15 but what's fair and what's balanced.

16 I refereed high school and college
17 basketball 20 years. I always had to see both sides
18 of the floor. I always had to hear the boos and the
19 yeas. But I always had to do what was best at the end
20 of the day for those kids I represented and who I
21 refereed and who I blew that whistle for.

22 Your task is humongous as you sit today
23 to evaluate and critique and go through this
24 information. All I can say is I pray you have
25 Solomon's wisdom. God bless you in your endeavor. I

1 like to think you're my friends. And I don't envy the
2 task in front of you, but I'm just saying to you, I
3 appreciate that I can come and be a voice of those
4 175,000. Many of those don't have a voice. I'm their
5 voice, and I'm telling you, the poor people of that --
6 of that area, who's already been hit by a 30 percent
7 reduction in coal sales, I don't think can endure a
8 rate increase of 8, 20, 30, and only God knows, as we
9 go forward into the future, how much more that power
10 bill will be.

11 Thank you all, and God bless you for
12 allowing me this opportunity. Thank you.

13 CHAIRMAN ARMSTRONG: Thank you,
14 Mr. Chairman.

15 Are there others? Members of the
16 public?

17 Yes, sir. Come forward.

18 MR. SALYER: Thank you Mr. Chairman,
19 Commissioners. I spoke before you about nine months
20 ago in Louisa, but I'm an energy manager. My name is
21 Terry Salyer, and I work with four school districts in
22 that region. I represent over \$70 million of
23 taxpayers' money. I represent almost 10,000 students
24 in that area.

25 And what we've done over the last three

1 years has been able to save almost 10 million kilowatt
2 hours and over a million dollars with energy teams
3 that we've put in schools to be able to do that, just
4 to offset the increases that we received back in 2009
5 and '10.

6 If this goes through at any price or
7 whatever, our funds every year are being cut in
8 education for our students and our schools. Every
9 year.

10 We saw -- we have seen seed money be cut
11 on every district that I have and that I represent.
12 If this increase goes into effect, in the next ten
13 years, I'm looking at \$6 million, probably, increase
14 for our utility bills in my schools. That's
15 approximately 60 jobs of teachers that I have out
16 there.

17 Our goal with what we do as energy
18 managers in our schools right now is to try to go out
19 and save those jobs for our teachers. The second
20 largest line item budget in the school district is
21 energy. So it's a very important thing to us, not
22 only for the fact because number two affects number
23 one big time, and that's our people.

24 Our students, at a lower level, knowing
25 what's going to happen in the future, are taking

1 action now.

2 What concerns me is this: I don't know
3 if it's in the application or whatever, but other
4 utility providers in our state, such as LG&E and KU
5 and things have gone out and done programs to work
6 with us as energy managers to try to lower consumption
7 and awareness in our schools. AEP has never done
8 that. They have recently gone in and had supplemental
9 programs that have been applied for before you-all and
10 approved to be able to have programs in effect that
11 will help those schools.

12 That's what I'm here today for is for
13 those 10,000 students. We need your help. We need
14 AEP to be able to look and say, "You know, we need to
15 be able to help compensate some of these programs."
16 Other utility providers in our state are doing that.
17 They have never done that in Eastern Kentucky. We
18 need their help to be able to try to continue the
19 progress that we have been able to make with our
20 students.

21 But more importantly, like these
22 gentlemen have said right here, today is a very
23 important decision, and there's a lot of people at the
24 table. I represent the good old common person, good
25 old country boy, with about 10,000 young kids that are

1 out there, that their awareness in saving energy and
2 conservation they have done. They're doing their
3 part.

4 And what we have to do as people in this
5 room is like Mr. Adkins said, that we have to come
6 together. There has to be a solution, not for just
7 right now, what's going to be a nice little temporary
8 fix or whatever, 'cause we know that the decisions
9 that we make today are going to be our future in
10 Eastern Kentucky. It's going to be the future of my
11 students, whether they stay in that region or whether
12 they have to go to Chicago and New York and all these
13 other places, where we see a lot of our students doing
14 that.

15 So my appeal to you today from the
16 educational standpoint is: We cannot handle it,
17 because it will cost us jobs in our education by the
18 shutting down of this plant. There's got to be some
19 other solution by bringing more people to the table
20 that have a common interest of what's going on.

21 And I've been in business for a long
22 time, and I've worked with bureaucracies and I worked
23 with Fortune 100 companies, and I know the ability to
24 do that when you get those type of people together can
25 happen.

1 But the problem that I have is where I
2 have to read something on July 3rd saying there's
3 going to be a hearing on July 10th, to be able to talk
4 about this. That concerns me, because the people of
5 our region are not being informed enough by all the
6 parties that are involved to be able to have their say
7 at this table right here today.

8 I appreciate the opportunity for you to
9 allow me to speak, but I want you to know that we are
10 looking at our future in our region, and I know that
11 by touching students, not just in Lawrence County, but
12 Lawrence County is one of my districts, and Martin
13 County, Johnson County, Paintsville Independent
14 Schools, that's who I represent. So I represent all
15 the students in Eastern Kentucky today.

16 That awareness is important, but the
17 decision that you make on this application affects
18 their future.

19 Thank you very much.

20 CHAIRMAN ARMSTRONG: Thank you, sir.

21 Any other members of the public wanting
22 to be heard?

23 Mr. Nguyen, are there any motions?

24 MR. NGUYEN: I don't think there are any
25 outstanding motions other than, you know, just the

1 petitions for confidentiality and certain motions,
2 deviates, there are no other substantive motions that
3 are outstanding at this point in time, Your Honor.

4 MR. OVERSTREET: That's accurate to my
5 understanding too, Your Honor.

6 CHAIRMAN ARMSTRONG: Notice necessary?

7 MR. NGUYEN: Your Honor?

8 CHAIRMAN ARMSTRONG: Are there notice
9 necessary?

10 MR. NGUYEN: No, it was not necessary
11 for this particular case, Your Honor.

12 CHAIRMAN ARMSTRONG: Mr. Overstreet,
13 your witness.

14 MR. OVERSTREET: Thank you,
15 Mr. Chairman.

16 Kentucky Power's first witness is
17 Gregory G. Pauley. Mr. Pauley is the president and
18 chief operating officer of Kentucky Power Company.

19
20 * * *

1 GREGORY G. PAULEY, called by Kentucky
2 Power Company, having been first duly sworn, testified
3 as follows:
4

5 DIRECT EXAMINATION
6

7 By Mr. Overstreet:
8

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

11 THE WITNESS: Gregory G. Pauley.

12 CHAIRMAN ARMSTRONG: What do you do?

13 THE WITNESS: I'm president and COO of
14 Kentucky Power Company.

15 CHAIRMAN ARMSTRONG: Why are you here?

16 THE WITNESS: I'm here to testify with
17 regard to the case before the Commission regarding the
18 transfer of 50 percent of the assets of Mitchell plant
19 to Kentucky Power Company.

20 CHAIRMAN ARMSTRONG: Your witness.

21 MR. OVERSTREET: Thank you,
22 Mr. Chairman.

23 Q Mr. Pauley, have you caused to be filed
24 in this proceeding testimony, rebuttal testimony, and
25 answers to certain data requests?

1 A Yes, sir.

2 Q Do you have any corrections to those
3 filings?

4 A I do not. I do not.

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

7 A Yes, sir.

8 MR. OVERSTREET: Mr. Chairman, the
9 witness is available for cross-examination.

10 MR. HOWARD: Mr. Chairman, I believe
11 that the AG is up, if I may.

12 MR. NGUYEN: That's correct, Your Honor.

13

14 * * *

15

16 CROSS-EXAMINATION

17

18 By Mr. Howard:

19

20 Q Good morning, Mr. Pauley. How are you,
21 sir?

22 A Good morning. I'm doing well, thank
23 you.

24 Q Can you hear me well enough?

25 A Yes, sir.

1 Q In the -- in the event that you can't,
2 I'd please ask you to inform me and then I'll speak a
3 little louder.

4 A And likewise from here.

5 Q Can you give me an overview of your
6 responsibilities in your official capacity at Kentucky
7 Power?

8 A As president and COO, I am responsible
9 for the -- the running of the utility company here in
10 Kentucky, which includes a number of things with
11 regard to regulatory, with regards to environmental
12 compliance, with regards to marketing and customer
13 services, as well as distribution work and -- and
14 legislative public policy aspects of our operation
15 here in Kentucky.

16 Q When it comes to the ultimate
17 decision-maker, does the buck stop with you?

18 A The buck stops with me with regard to
19 Kentucky Power Company, understanding Kentucky Power
20 Company is a subsidiary of AEP, but I am held
21 accountable for Kentucky Power, but I work in
22 collaboration with a number of people with the parent
23 company, if you will, AEP.

24 Q In regards to this application, did you
25 make the decision to proceed with the application as

1 filed?

2 A Yes, I did, working collaboratively with
3 AEP with regard to what was happening to the
4 generation within the company.

5 Q Prior to this case -- and I just want to
6 keep things in context, if I may. Are you aware of
7 the history that led up to this filing?

8 A I believe so. If you want to be more
9 specific.

10 Q Sure. In regard -- you're familiar with
11 case 2011-401, correct?

12 A Yes. That's the scrubber case?

13 Q Correct.

14 A Yes.

15 Q And that case was primarily a request
16 for authorization to proceed under KRS 278.183, the
17 ECR statute?

18 A That is correct, yes, sir, my
19 understanding.

20 Q On a percentage basis, what did your
21 company project its increase for the residential class
22 would be for the retrofit of Big Sandy 2?

23 A Well, that was an environmental filing,
24 and the impact of that case would have been 31 percent
25 on our customers.

1 Q Was that residential only or was that
2 across the board?

3 A That's across the board. It's an
4 environmental, much different than a base rate case.

5 Q The impact on residential, though,
6 would be about --

7 A Would have been 31 percent.

8 Q Thirty-one percent?

9 A Yes.

10 Q So I'm a little confused here. When you
11 say 31 percent across the board, when I think of
12 across the board, I'm thinking, on average,
13 industrials, commercials, and residential.

14 A Well, my understanding of the
15 environmental surcharge or the environmental cost
16 recovery aspect would have been applied across the
17 board --

18 Q Okay.

19 A -- as opposed to a base rate case.

20 Q Fair enough.

21 A Thank you.

22 Q Thank you for the clarification. That
23 case was withdrawn, correct?

24 A That is correct.

25 Q And why was that case withdrawn?

1 A Well, what I observed from the time of
2 our filing going back to December 11th, which we felt
3 very comfortable that the scrubbing of that unit was
4 the least-cost option for our customers, you may
5 remember, because you were very active in opposition
6 of that case, with regard to the fact that the market
7 somewhat changed with regard to what was happening.

8 Gas prices bottomed out and other things
9 occurred in the energy industry that resulted in me
10 looking at the fact that there may be lesser-cost
11 alternatives to the impact of the -- of the customers
12 in Eastern Kentucky. And I felt, based upon those
13 alternatives that had become available to me, it just
14 seemed prudent, working with the Company, that we step
15 back and reevaluate those options to make sure we were
16 doing what was right for Eastern Kentucky customers.

17 Q Did you testify in that case?

18 A No, I believe I did not.

19 Q Did any corporate officers testify in
20 that case?

21 A Subject -- I don't -- I don't remember.
22 I think there were employees from Columbus who
23 testified in that case, yes.

24 Q I'm talking about Kentucky Power,
25 though, if I may.

1 A Yes. I think Mr. Wohnhas testified in
2 that case.

3 Q And he was at the time, if I recall, and
4 correct me if I'm wrong, but I don't know, but was he
5 an actual officer that could bind the Commission in
6 the event the Commission asked --

7 A He --

8 Q -- about a certain --

9 A He is not an officer of Kentucky Power
10 Company. I'm the -- I'm the officer of Kentucky Power
11 Company.

12 Q Okay. The 401 case was literally
13 withdrawn before the Commission issued an order,
14 correct?

15 A I'm sorry?

16 Q The Case Number 401 was literally
17 withdrawn just days before a Commission order was --
18 was expected?

19 A That is correct. I think we asked on
20 May 30th, and -- and it was granted on May 31st,
21 allowing us time to review alternatives that may be of
22 lesser cost.

23 Q So the case pending before us today in
24 effect serves -- I won't say it's the substitute, but
25 once the 401 case was withdrawn, this case now stands

1 in its stead, correct?

2 A Yes, I think that's a safe statement
3 from the standpoint we have found a lesser-cost option
4 that is available to our customers and it's the
5 direction we wish to go.

6 Q And I -- am I correct that the only
7 applicant in this proceeding is Kentucky Power?

8 A I'm sorry?

9 Q The only applicant in this case is
10 Kentucky Power?

11 A Yes, sir.

12 Q And just to make sure that I understand,
13 you are the person ultimately that made the decision
14 to proceed with this application?

15 A I'm -- I'm responsible from the Kentucky
16 Power perspective, but again, as I stated earlier, I
17 work collaboratively with -- with our generation group
18 in Columbus and others in Columbus to make sure that
19 we're -- we're doing what's best for Kentucky,
20 what's -- we're doing what's best for our customers,
21 and -- and the Company.

22 Q So you had to work collaboratively with
23 other AEP companies in order for Kentucky Power to
24 make this decision?

25 A Sure.

1 Q At least insofar as Kentucky Power in
2 this decision-making process, who participated in
3 that?

4 A In the collaboration for this effort?

5 Q Correct.

6 A And you're saying specifically to
7 Kentucky Power Company?

8 Q When -- let me restart.

9 A Okay.

10 Q In this decision-making process, and
11 you've indicated that it was a collaborative process,
12 who participated from Kentucky Power?

13 A That would have been me, and I would
14 have also utilized the services of Ranie Wohnhas, who
15 is our managing director of regulatory.

16 Q Okay. And then from -- and then who
17 were the other participants?

18 A Robert Powers, who is the COO of AEP,
19 along with Richard Munczinski, who is the -- I think
20 the senior vice president of regulatory. Philip
21 Nelson would have been engaged in those conversations,
22 as well as Mark McCullough, who is in charge of our
23 generation group, and I believe Charles Patton, who is
24 the president and COO of Appalachian Power Company.

25 Q Okay. So when the decision-making --

1 when the final decision was made to proceed with this
2 application, and unfortunately I didn't keep count of
3 the numbers, there were two people from Kentucky Power
4 that participated in this collaborative, and how many
5 were there from other AEP companies? Five, six,
6 seven, eight?

7 A Well, I would say from the standpoint of
8 the decision-making process, the people I listed to
9 you were there from the decision-making, but we
10 utilized the talents and expertise that we have
11 throughout the company, so there could have been a lot
12 of people, but the decision-making ended up in the
13 hands of those people there.

14 Q Okay. And, again, I just want to
15 understand the numbers.

16 A Yes.

17 Q Two people from Kentucky Power?

18 A Yes.

19 Q And six, seven, eight from AEP?

20 A Four or five.

21 Q Four or five?

22 A Yeah.

23 Q You've indicated also that this decision
24 in this case is a once-in-a-lifetime; am I correct?

25 A That is correct. I believe so. It's

1 not often you're looking for 800 megawatts of energy
2 or capacity.

3 Q What information did you use in your
4 analysis? I mean -- and actually, let me go ahead so
5 I can give you a reference here, if I may.

6 A Okay. All right. Thank you.

7 Q You claim that you did a detailed and
8 thorough analysis, including -- including work papers
9 and studies in this matter, and then you -- and you
10 said so when you said that "I did a rigorous analysis
11 supporting the application to demonstrate it was the
12 least-cost option," and that was at page 5 of your
13 rebuttal testimony. I can give you that reference. I
14 should have done that --

15 A Thank you.

16 Q -- earlier and I apologize.

17 A Page 5 of rebuttal?

18 Q That would be correct, sir. And if we
19 can look at lines 20 and 21.

20 A Okay.

21 Q And again, you state there that -- and
22 I'm quoting, if I may, that the rigorous analysis
23 according to this application demonstrated --
24 demonstrates it is the least-cost option, end quote.

25 Am I correct in that?

1 A That is correct.

2 Q The KIUC asked you for the information
3 regarding that rigorous analysis. And actually, what
4 I can do, sir, to assist you, if you'll look at KIUC
5 1-102.

6 A I'm not sure I have that in front of me.

7 Q I think that we have some copies that we
8 can present to the witness as well as the other
9 parties, if you'll bear with us for just a moment.

10 MR. HOWARD: Do you have that document
11 in front of you, Mr. Overstreet? Have you had the
12 opportunity to review that?

13 MR. OVERSTREET: I have, Mr. Howard.
14 Thank you.

15 Q Actually that question is referring to
16 page 4, but in that data request, the question -- and
17 I will read it into the record. "Please identify and
18 provide a copy of all documents reviewed, relied upon,
19 and/or prepared by Mr. Pauley to make the decision
20 and/or communicate the decision to acquire 50 percent
21 of the Mitchell units," period.

22 Is that a correct statement of the
23 question that is asked by KIUC, Mr. Pauley?

24 A Are you reading from the data request?

25 Q I -- I --

1 A I'm sorry.

2 Q Yes, I am, sir.

3 A All right. I accept that's accurate.

4 Q Okay. What were the documents that were
5 provided?

6 A I think we've attached the -- the letter
7 that Scott Weaver -- or the e-mail that Scott Weaver
8 provided us on June 14th of 2012 with regard to the --
9 if you will, the reanalysis, the straw man that --
10 from which we started from.

11 MR. HOWARD: And it's my understanding
12 that this information is not confidential, and it's my
13 goal throughout this process to try to keep everything
14 in the public domain, but, Mr. Overstreet, in the
15 event that I venture into a confidential area, please
16 caution me. I'll do the best I can to prevent that.

17 MR. OVERSTREET: Thank you. I will.

18 Q If I'm looking at this particular -- the
19 materials that you provided, Mr. Pauley, and you are
20 the sponsor of this witness, correct -- or of this
21 question?

22 A Yes, sir.

23 Q There's this e-mail, it's a one-page
24 e-mail, and then how many pages follow?

25 A I think there are three pages. Let me

1 confirm that. Four.

2 Q Four pages?

3 A Yes.

4 Q And that's entitled what, sir, the
5 document, that -- that four pages?

6 A The document attached to the e-mail?

7 Q That's correct.

8 A It's a Kentucky Power Company Capacity
9 Resource Need Reanalysis Resource Options.

10 Q So the question that was asked of you,
11 again, was to provide the materials that you relied
12 upon in making the decision, and you provided KIUC a
13 total of five pages?

14 A Well, I think this is -- in answer to
15 the data request, this is the information that we
16 supplied.

17 Q Well, I mean, when -- again, look back
18 at the data request, if you would. It states, "Please
19 identify and provide a copy of all documents reviewed,
20 relied upon, and/or prepared by Mr. Pauley to make the
21 decision and/or communicate the decision to acquire
22 50 percent of the Mitchell units," correct?

23 A Yes, and I think if -- if -- if I may,
24 the -- the purpose of this was the starting point for
25 our evaluation and working from there, and that

1 decision was -- was based upon this information and
2 the -- and the other -- other documents that are a
3 matter of record with regard to Scott Weaver's
4 testimony.

5 Q Was -- but, I mean, you only provided
6 five pages, and you --

7 A I provided the response to the data
8 request. Any other data that was pertinent to this
9 was -- was filed, I believe, with Scott C. Weaver's
10 testimony and data.

11 Q If you'll look at KIUC 2-51, please,
12 sir.

13 MR. HOWARD: We're going to hand that
14 out as well.

15 CHAIRMAN ARMSTRONG: Do you -- do you
16 want to --

17 MR. HOWARD: Yes.

18 CHAIRMAN ARMSTRONG: -- admit this?

19 MR. HOWARD: Mr. Chairman, I'm -- I'm
20 sorely remiss in doing that, so I'll try to do better.
21 I would like to go ahead and move for the introduction
22 of that document into the record.

23 CHAIRMAN ARMSTRONG: As what?

24 MR. HOWARD: AG Number 1.

25 CHAIRMAN ARMSTRONG: Without objection?

1 MR. OVERSTREET: No objection, Your
2 Honor.

3 CHAIRMAN ARMSTRONG: So ordered.
4 (AG Exhibit 1 admitted.)

5 Q I think in your elaboration a moment ago
6 you indicated that there were further studies or -- or
7 analyses ultimately in regard to your decision?

8 A There were a num -- from -- yes. Yes, I
9 indicated that to you.

10 Q Okay. If you'll look at KIUC's
11 Supplemental Data Request Number 51. Do you have that
12 in front of you, sir?

13 A Yes, I do.

14 Q And I shall quote from that, if I may.
15 "Refer to the Company's response to KIUC 1-102.
16 Please confirm that there were no other documents
17 relied on by Mr. Pauley to make the decision and/or
18 communicate the decision to acquire 50 percent of the
19 Mitchell units," period. "Please supplement this
20 response if there are additional documents, such as
21 e-mails or correspondence between Mr. Pauley and
22 Mr. Patton," period. "If none, then please so state,"
23 period.

24 Is that an accurate reading of that
25 question?

1 A Yes, I believe it is.

2 Q And what was your response?

3 A I believe my response to that was there
4 were no other documents.

5 Q Thank you.

6 A Recognizing the initial one that
7 Mr. Weaver had sent to us was the straw man.

8 Q You state in your testimony that the
9 Strategist and Aurora modeling were the expensive
10 tools serving as a foundation for making the
11 decisions; is that correct?

12 MR. OVERSTREET: Could you refer him to
13 a --

14 MR. HOWARD: I'll be glad to,
15 Mr. Overstreet, and I apologize for not having done
16 so.

17 Q Mr. Pauley, if you could look at your
18 rebuttal at page 8.

19 A Okay. Wait just a minute.

20 Q At page 8 I'll give you a further
21 reference. We're looking at lines 3 and 4.

22 Again I'll state the question. So you
23 state in your testimony that the Strategist and Aurora
24 modeling were the expensive tools serving as a
25 foundation for making the decisions; is that correct.

1 A Yes.

2 MR. HOWARD: Okay. Mr. Chairman, if I
3 may, too, if I can go back, we handed out AG
4 Exhibit --

5 MS. HANS: Two.

6 MR. HOWARD: -- 2 that we would like to
7 have marked, and that was the Company's response to
8 KIUC's Supplemental Item Number 51. I'd like to move
9 for its introduction, if I may.

10 MR. OVERSTREET: No objection, Your
11 Honor.

12 CHAIRMAN ARMSTRONG: Without objection?
13 So ordered.

14 (AG Exhibit 2 admitted.)

15 Q Now, also on that same page, do you
16 state that it is AEP -- again, it's AEP that has
17 access to the Strategist and Aurora modeling as well
18 as the necessary personnel to employ the models?

19 MR. OVERSTREET: You need to speak
20 audibly, Mr. Pauley.

21 A Oh. That is correct.

22 Q Did Kentucky Power -- I'm talking about
23 Kentucky Power -- independently run the Strategist and
24 Aurora modeling?

25 A Kentucky Power had the Aurora modeling

1 run. We utilized the expertise and the talents that's
2 available to us through the parent company, and -- in
3 order to do that. We do not have this specific to --
4 ownership for Kentucky Power specifically. It's quite
5 expensive, and I feel sure that the -- the expense
6 associated with this would be questioned, about adding
7 it to our rate base, because these decisions aren't
8 made, if you will, over a short period of time.

9 The utilization of this is utilized for
10 major decisions that we're making. I think you
11 referred to it earlier, once-in-a-lifetime decision,
12 through my testimony, so we have that tool and
13 modeling available to us through the parent company.

14 Q Let me rephrase. And I just want a yes
15 or no answer. Did Kentucky Power independently run
16 the Strategist and Aurora modeling?

17 A Kentucky Power in collaborative with
18 the -- with the parent company expertise that does
19 that ran that for us.

20 Q I'll try one more time. Did Kentucky
21 Power independently, outside of a collaborative
22 process with the rest of the AEP family, run the
23 Strategist and Aurora models?

24 A Answer you the best way I can from the
25 standpoint that we do not have the expertise to run

1 that. We utilize the expertise available to us
2 through the parent company to run that modeling.

3 Q And as to the application generally, did
4 Kentucky Power rely primarily on the Strategist
5 modeling for the decision-making for this application?

6 A We believe that modeling is -- is very
7 good with regard to such decisions being made. It's
8 accepted -- it's an industry-accepted modeling that's
9 been around for a long time.

10 Q Can an individual, whether the PSC or
11 any other party, re-create the results arrived at by
12 the Company without the Strategist model?

13 A Ask that again if you would, please.

14 Q Sure. And actually what I'll try to do
15 to assist --

16 A Okay.

17 MR. HOWARD: Ms. Hans, if we can --

18 MS. HANS: Uh-huh.

19 MR. HOWARD: Would you --

20 MS. HANS: Uh-huh.

21 MR. HOWARD: Thank you.

22 THE WITNESS: Thank you.

23 Q Okay. If you'll look at what is the
24 Attorney General's Initial Set of Data Requests, Item
25 Number 18.

1 A Yes.

2 Q Do you have that before you, sir?

3 A Yes, I do.

4 Q The question reads, (Reading) Can an
5 individual or the PSC independently re-create the
6 Strategist results arrived at by the com -- or arrived
7 at by the applicant, question mark.

8 Is that correct?

9 A That is correct.

10 Q And the re -- please read the response.

11 A The response was provided by Witness
12 Becker, and I think he's available to you. "The
13 results could be independently re-created by an
14 individual or the PSC if they have access to the
15 Strategist model, assuming they used the same input
16 assumptions used by the Company."

17 Q Even though that Becker is present,
18 would you believe that that answer is accurate?

19 A I absolutely do.

20 Q Thank you.

21 MR. HOWARD: Mr. Chairman, we move for
22 its introduction as AG Number 3, please.

23 MR. OVERSTREET: No objection.

24 Q Mr. Pauley, what is the purpose of
25 the -- of using the --

1 CHAIRMAN ARMSTRONG: Just a minute. Did
2 I hear an objection to this?

3 MR. OVERSTREET: No objection, Your
4 Honor.

5 CHAIRMAN ARMSTRONG: No objection.

6 MR. OVERSTREET: I'm sorry.

7 CHAIRMAN ARMSTRONG: Without objection,
8 then, so ordered.

9 (AG Exhibit 3 admitted.)

10 Q Mr. Pauley, I understand you've
11 indicated this was a collaborative process and you've
12 indicated there were various models that have been
13 used. I'm trying to use that information without
14 having to ask a lot of questions of a lot of other
15 witnesses. Obviously if you don't know, you can
16 defer.

17 A Thank you.

18 Q What is the purpose of using the Aurora
19 modeling?

20 A Well, Mr. Weaver, who is available to
21 you, is the -- is our expertise regarding this, but
22 the purpose of that modeling is to help us make sure
23 we make the right decisions with regard to the
24 comparison that we did on -- on the study. And that
25 study, when it was completed, clearly showed that the

1 Mitchell transfer was the least-cost option for our
2 customers in Eastern Kentucky.

3 MR. HOWARD: Okay. Mr. Chairman, we are
4 going to be handing out the Company's response to AG's
5 Initial Set Number 34.

6 MR. OVERSTREET: This is
7 Mr. Bletzacker's confidential testimony that I was
8 given.

9 MR. HOWARD: And, Ms. Hans, if you'll
10 hang on for just a moment. Let's make sure that we're
11 on the right page.

12 MR. OVERSTREET: You asked me to tell
13 you.

14 MR. HOWARD: I appreciate -- no, right
15 up front, you know the AG is extremely cautious about
16 confidential.

17 MS. HANS: I apologize.

18 MR. HOWARD: That's okay.

19 CHAIRMAN ARMSTRONG: It's marked
20 confidential.

21 MR. HOWARD: No, we're -- we're -- we'll
22 pull those back, Mr. Chairman.

23 MS. HANS: I apologize. My error.

24 MR. HOWARD: We got thing out of
25 sequence a bit, and we'll rectify that immediately.

1 Mr. Overstreet, thank you kindly.

2 Q Hopefully we now have the matter
3 rectified. What has been handed out to you hopefully
4 is the Company's response to the Attorney General's
5 Initial Set, Question Number 34. Do you have that in
6 front of you, sir?

7 A Yes, sir.

8 Q And if I may, I shall read the question
9 to you. "Can an individual or the PSC independently
10 re-create the Aurora results arrived at by the
11 applicant," question mark.

12 Is that an accurate reading of that
13 question?

14 A I believe it is.

15 Q And while the answer was sponsored by
16 Mr. Weaver, please read the response by the Company.

17 A "The results could be independently
18 re-created by an individual or the KPSC if they have
19 access to the Aurora model, assuming they used the
20 same input assumptions used by the Company."

21 I think that's an accurate reading.

22 Q Thank you, sir. I concur.

23 And then, based on my understanding, I
24 think you've asked -- or answered the question, but I
25 just want to confirm. Based on my understanding of

1 the Company's application, the decision to move
2 forward with the 50 percent purchase of the Mitchell
3 units is based on the results from the Strategist and
4 Aurora modeling, correct?

5 A Yes, the analysis using those clearly
6 showed -- clearly showed that the Mitchell transfer
7 was the least-cost option for our customers.

8 Q What is the Company's position on the
9 estimated increase to its customers if this
10 application is to be approved? And I'm talking about
11 the application.

12 A You're talking about the specific
13 application, or are you talking about the -- the --

14 Q I'm talking about the application.

15 A The application itself I think dealt
16 with an eight percent increase.

17 Q Does 7.98 percent sound accurate?

18 A I think that's pretty close, yes. I'll
19 say less than eight percent, then.

20 Q Fair enough.

21 A Okay.

22 CHAIRMAN ARMSTRONG: Do you wish this to
23 be admitted?

24 MR. HOWARD: Yes, Mr. Chairman. That
25 should be admitted, if I may, as AG Number 4.

1 CHAIRMAN ARMSTRONG: Without objection?

2 MR. OVERSTREET: No objection, Your

3 Honor.

4 CHAIRMAN ARMSTRONG: So ordered.

5 (AG Exhibit 4 admitted.)

6 MR. HOWARD: If I could ask the parties'
7 indulgence for just a moment so I can make sure I've
8 got my record keeping in order.

9 Commissioners and parties, in order to
10 prevent people from having to refer to all kinds of
11 volumes, we're trying to hand out as many of the
12 documents as possible. Hopefully we'll keep things
13 moving quickly.

14 Now, this consists of a series of pages,
15 the first of two, and again this is because of the
16 document replication process in our office, but the
17 first two pages are extraneous. What I would like the
18 witness to review, however, is the Company's response
19 to the AG's Supplemental Data Request at Item 12,
20 2-12.

21 Q So, Mr. Pauley, I think there are two
22 miscellaneous pages on top of what you've been handed
23 and then there is a response to AG 2-12. Is that, in
24 fact, in front of you?

25 A I'm showing Lane Kollen page 35 in the

1 upper right-hand corner.

2 Q There are two pages at the beginning of
3 the exhibit that are extraneous, and that's my error,
4 but if you could disregard those two pages --

5 A This one?

6 MS. ERNST: Yeah.

7 THE WITNESS: Thank you.

8 Q And then go to the next page, which
9 should say PS -- KPSC Case Number 2012-00578.

10 A Yes, sir.

11 Q Okay. And that is a response to the
12 Attorney General's Supplemental Set of Data Requests
13 dated March 8th, 2013, and that's Item Number 12,
14 correct?

15 A Yes.

16 Q And there are attachments to that,
17 correct?

18 A I think I'm with you.

19 Q Okay. And you see those attachments to
20 that?

21 A Yes.

22 Q And again, the sponsor of this
23 particular question or answer is Mr. Wohnhas, and
24 we're prepared to ask this of him, but in the event
25 that you know, I have a question for you. Did the

1 Company update the rate impli -- impli -- impli --
2 bear with me. Give me about five seconds.

3 Did the Company update the rate
4 implications based on the calendar year 2012 in
5 response to AG 2-12?

6 A I believe it did, yes.

7 Q And that update, if I can --

8 A Obviously Mr. Rainhaus would be able
9 to -- or Wohnhas would be able to provide greater
10 expertise on that, but --

11 Q Sure, and I understand and respect that,
12 but are you comfortable in looking at that document
13 and confirming to me that the Company's determination
14 was -- after updating the information, the rate
15 implication was 9.9 percent? And I'm looking at the
16 second spreadsheet following the question.

17 A I'm seeing what you're looking at,
18 Mr. Howard, and I believe that is correct, yes.

19 Q So you -- but are you comfortable with
20 that belief?

21 A I'm -- I'm comfortable with the belief,
22 but I think your more expertise on this is going to
23 come from Mr. Wohnhas. I don't know where you're
24 going with it, so --

25 Q I was just trying to find out whether

1 that information was updated to show what the current
2 increase would be, and you're saying you feel pretty
3 comfortably that that update is --

4 A Subject to check with Mr. Wohnhas, your
5 cross-examination of him, yes.

6 Q Okay. Thank you.

7 MR. HOWARD: We'd like to go ahead and
8 enter that in production.

9 MR. OVERSTREET: Your Honor, I don't
10 have an objection to the admission of the exhibit. I
11 would note on one of the pages there is some
12 handwritten notes that do not belong to the Company,
13 so to the extent it goes in like that, I would object,
14 but --

15 CHAIRMAN ARMSTRONG: Would you identify
16 what pages they're on?

17 MR. OVERSTREET: It is the -- it's this
18 page that's labeled Calendar 2012, and it's the arrows
19 drawn.

20 MR. HOWARD: And, Mr. Chairman, those
21 are, in fact, my notes.

22 Mr. Overstreet, I understand your
23 objection. We can find clean copies. We were just
24 trying to move this along.

25 MR. OVERSTREET: That's fine. I

1 appreciate that. I just -- just for the record.

2 MR. HOWARD: So, for the record, can we
3 still introduce this?

4 MR. OVERSTREET: Absolutely, with that
5 understanding that those arrows don't belong to the
6 Company.

7 MR. HOWARD: Right. Those are my
8 handwriting.

9 CHAIRMAN ARMSTRONG: And I can't read
10 his writing, so --

11 MS. HANS: Neither can I.

12 MR. OVERSTREET: I will say it's better
13 than mine.

14 CHAIRMAN ARMSTRONG: Without objection.

15 MR. HOWARD: And that's AG Number 5,
16 sir?

17 CHAIRMAN ARMSTRONG: It's 4, I believe.
18 Five, you're right.

19 MR. HOWARD: Thank you.

20 MS. HANS: Thank you. Okay.

21 CHAIRMAN ARMSTRONG: So admitted.

22 (AG Exhibit 5 admitted.)

23 Q Now, if we look at that same document --
24 and let's keep that in front of us for a moment, if I
25 may, Mr. Pauley. Are you aware of the fact that KIUC

1 maintained that the actual increase was not
2 9.9 percent in that case, but 19.1 percent?

3 MR. OVERSTREET: Can you direct him to
4 something in the exhibit?

5 MR. HOWARD: I'm looking at the same
6 document that I had inadvertently marked up,
7 Mr. Overstreet.

8 MR. OVERSTREET: But what part of that
9 document, please?

10 MR. HOWARD: I'm looking at column -- or
11 rather row 31.

12 Q Perhaps I'll lay a little foundation, if
13 that'll help. Are you aware of the fact that
14 Mr. Kollen testified?

15 I'll start again. I'll -- let me lay a
16 little foundation.

17 A Okay. I'm sorry. I thought you were
18 speaking to my counsel.

19 Q No, Mr. Pauley, I'll -- let me give
20 you --

21 A My apologies.

22 Q -- a few questions for foundation.

23 A Okay.

24 Q Are you aware of the fact that
25 Mr. Kollen testified?

1 A I'm aware that Mr. Kollen provided
2 testimony with regard to this issue, yes.

3 Q And -- and are you aware of the fact
4 that he took issue with the fact that he did not
5 believe that the Company would, in fact, give the
6 credit for the incremental impact to Big Sandy and
7 Mitchell at historic average generation of five?

8 MR. OVERSTREET: Can you direct the
9 witness to the portion of Mr. Kollen's testimony where
10 that's stated, please?

11 MR. HOWARD: Well, unfortunately I don't
12 have that in front of me. Okay. Yes. Okay. And
13 with the assistance of Ms. Hans, with those two
14 documents that were part of the -- of AG Number 5, the
15 two extraneous materials that I originally identified
16 as extraneous are not identified -- or are not
17 extraneous, that, in fact, if we look at page 36,
18 Mr. Kollen is testifying that the rate impact is
19 actually the 19.1 percent.

20 Q So if you still have AG Exhibit 5 and
21 you look at the first two pages of that, which is part
22 of Mr. Kollen's testimony, and look at page 36.

23 A Uh-huh.

24 Q Are -- do you see there --

25 A What line on page 36?

1 Q Four and 5.

2 A Okay.

3 Q Do you see that Mr. Kollen is actually
4 saying that the increase, instead of 19.1, is actually
5 20 percent?

6 MR. OVERSTREET: I object. It misstates
7 the testimony. It --

8 CHAIRMAN ARMSTRONG: How so?

9 MR. OVERSTREET: In two respects. First
10 of all, Your Honor, what the sentence says is, without
11 these normalization adjustments, the rate impact of
12 acquiring 50 percent of the Mitchell units will
13 increase -- will be an increase of nearly 20 percent.

14 So, first of all, he's not saying it's
15 20 percent. He's agreeing with the 19. And then what
16 he's further saying is that that is only the case
17 without those normalization adjustments.

18 MR. HOWARD: Well, I'll -- what I'm
19 trying to do is get Mr. Pauley to understand what
20 Mr. Kollen was stating in his -- in his testimony.
21 I'm not asking him to agree with it or disagree with
22 it, I just want to make sure that we have in the
23 record that Mr. Kollen, in fact, testified as to
24 certain numbers.

25 MR. OVERSTREET: Well, of course,

1 Mr. Kollen's testimony is already in the record, but
2 if you want to get him to agree or disagree or to
3 recognize, I guess I would ask that you -- that you
4 read him his testimony so that he has a fair
5 opportunity to understand what's been said and not
6 paraphrase it.

7 MR. HOWARD: Well, okay, then if we can
8 just ask him to read -- will it satisfy you if I ask
9 him simply to read the testimony?

10 MR. OVERSTREET: That's fine.

11 MR. HOWARD: Okay.

12 MR. OVERSTREET: That's fine.

13 MR. HOWARD: Okay.

14 Q Then, Mr. Pauley, if you could read --

15 MR. HOWARD: What are those pages again,
16 Ms. Hans?

17 MS. HANS: Page 36, lines 4 and 5.

18 Q Page 36, lines 4 and 5.

19 A Would you like for me to begin with the
20 beginning of the sentence that starts on line 3?

21 Q That's fine.

22 A Thank you. And stop at the period after
23 "revenues"?

24 Q That's correct. Please.

25 A "Without these 'normalization'

1 adjustments, the rate impact of acquiring 50 percent
2 of the Mitchell units would be an increase of nearly
3 20 percent on total revenues."

4 Q Thank you, Mr. Pauley.

5 A You're welcome.

6 Q Under the partial stipulation, what is
7 the increase? Under the partial stipulation that's
8 tendered in the record at this point in time, what is
9 the increase?

10 A When you say "partial," you're talking
11 about of the stipulation agreement that we have with
12 KIUC and the Sierra Club?

13 Q That's correct, Mr. Pauley.

14 A Okay. Well, I think the -- the impact
15 to the customers is basically driven to the -- the
16 response to the Commission. I think it's 5-10. And
17 that reflects, if you will, apples to apples with
18 regard to a comparison with the environmental filing
19 which I believe you numbered 401 and the -- the impact
20 of the stipulation agreement on our customers. And
21 Mr. Wohnhas can address that. He is our expert on the
22 stipulation agreement.

23 Q Okay. Now, if we're still looking at AG
24 Number 5, at the page on which I have made certain
25 markations, and again we discussed the fact that

1 that's when the Company updated its numbers to reflect
2 the increase, that increase went from 7.98 to
3 9.9 percent, correct?

4 A Yes. I think there's also an
5 explanation in there with regard to -- I think that's
6 a difference in test years of 2011 and 2012, and I
7 think we explained in our testimony it was a bit of an
8 anomaly with regard to how the units were operating.

9 Q Okay. Now, in the partial settlement
10 that has been tendered and in which the AG did not
11 agree, there is that 7.98 percent figure. Has that
12 been updated to reflect information that the Company
13 used to update our request?

14 A I think in the -- in the stipulation
15 agreement, it reflects -- it -- that decision with
16 regard to the rate impact is -- is reflected on the
17 Commission 5-10 --

18 Q Yes.

19 A -- that -- yes. That Mr. Wohnhas can
20 address with you.

21 Q Okay. The Company's filed a recent rate
22 case, has it not?

23 A That is correct.

24 Q How much is the Company requesting?

25 A I think the revenue requirement on

1 that's about 23.39 percent.

2 Q And in dollars?

3 A A hundred and -- I -- subject to check.
4 I don't have that in front of me right now.

5 Q You think 114, is that --

6 A I was thinking a hundred and teens. I
7 can't -- subject to check.

8 Q And I'll have to get that subject to
9 check to myself too, but let's just work with that
10 assumption.

11 A Let's agree with each other, then.

12 Q Very good.

13 A Okay.

14 Q If the partial settlement is approved,
15 that rate case goes away, does it not?

16 A That is correct.

17 Q And the partial settlement contains a
18 stay until 31 May 2015?

19 A Yes, we would file December '14 for a
20 base rate case to be effective June of '15, yes.

21 Q And when that period ends, will the
22 Company file a rate case no later than December 29th,
23 2014, to recover the Mitchell costs?

24 A It would recover the Mitchell costs that
25 are not recovered in the stipulation agreement.

1 Q What are the costs that are going to be
2 recovered of the Mitchell in the stipulation? Do you
3 have an idea as to that?

4 A Well, it's -- it's an agreement that was
5 all put together. We're looking at \$44 million. It's
6 an agreement that was all put together with regard to
7 the entire agreement, so I can't identify specifically
8 that associated with Mitchell.

9 Q But also in the rate case you're going
10 to be requesting the retirements of Big Sandy 1 and 2,
11 correct?

12 A Well, the stipulation agreement includes
13 a provision in there with regard to we would like to
14 convert Unit 1 to a gas, and -- and then we would
15 retire Unit 2.

16 Q But in re -- but -- and I stand
17 corrected that there is the conversion of Big Sandy 1,
18 but you will be asking for the retirement of Big Sandy
19 2, correct?

20 A That is correct.

21 Q Do you have any estimated amount that
22 the Company will seek when it does file that rate case
23 after the stay?

24 A Are you talking about total dollars?

25 Q Yes.

1 A I'm going to defer that to Mr. Wohnhas.
2 He's more integrated into that total amount. I think
3 the Commission -- I think it's 5-10, or something like
4 that, addresses what we anticipate that to be on a
5 percentage basis.

6 Q Thank you, Mr. Pauley. And we will get
7 to 5-10.

8 A Okay. It's a good deal.

9 Q In some people's eyes. Is this
10 application -- or in this application the Company
11 requests how much? We have given the 7.98 percent,
12 but how much in actual dollars is the Company
13 requesting?

14 MR. OVERSTREET: Mr. Howard, can you
15 help me out? We've talked about a couple of
16 applications. Are we talking about the rate case or
17 are we talking about --

18 MR. HOWARD: I'm looking at the
19 application before us today --

20 MR. OVERSTREET: This case.

21 MR. HOWARD: -- Mr. Overstreet.

22 MR. OVERSTREET: Okay. Thanks. Thank
23 you.

24 A I'm -- I'm sorry, Mr. Howard, I am not
25 recalling that total number. I think the transfer

1 amount with regard to the Mitchell assets is about 536
2 million.

3 Q That's the transfer of the Mitchell
4 units, but the -- and as far --

5 A If you're talking about the stipulation
6 agreement, it's 44 million. I'm not sure which one
7 you're asking.

8 Q Bear with me for just a moment and I'll
9 confirm, if you would. You're thinking it's 44
10 million. And again, we're trying to -- we've got the
11 percentage in the record for the current application
12 of 7.98 percent.

13 MR. KURTZ: Can I, Mr. Howard, make a --
14 just an objection or a statement? The seven point --
15 this certificate case that we're in front of right now
16 is requesting no rate increase.

17 MR. OVERSTREET: Exactly.

18 MR. KURTZ: The 7.9 percent, the right
19 below eight percent, was an estimate of the Company of
20 what it would be if there was a rate case, but there
21 is a rate case pending, and that's the 23 percent.

22 MR. HOWARD: Correct. And I'm trying to
23 understand -- and thank you for the clarification,
24 Mr. Kurtz.

25 Q But insofar as the certificate case,

1 what are the costs that would be associated with that,
2 you've indicated 7.98 percent, and I'm trying to
3 assign an actual dollar amount to that will ultimately
4 be sought to be recovered by the Company.

5 Will you accept, subject to check, that
6 it's approximately 45,127,000, based on RKW Exhibit 4,
7 page 1 of 1?

8 A Yes.

9 Q Okay. And again, in the next rate case,
10 you're not comfortable in anticipating how much the
11 Company will be requesting?

12 A From a dollar amount, no. I can -- I'm
13 comfortable with the data associated with the response
14 to the Commission Staff.

15 Q If we can look at your rebuttal,
16 Mr. Pauley. Do you have that in front of you, sir?

17 A Yes, sir.

18 Q If you can look at page 5 of your
19 rebuttal at line 3. Can you read that question into
20 the record, sir?

21 A This is page 5, line 3, the question
22 that exists on lines 3 through 7?

23 Q That's correct, sir.

24 A (Reading) Does the recent FERC order
25 approving the transfer of the Mitchell Generating

1 Station to Appalachian Power Company and the Company,
2 the Company being Kentucky Power Company, have any
3 bearings on KIUC's proposal to delay transfer of the
4 Mitchell Generating Station?

5 Q And -- and your answer is -- if you
6 could read your answer as well.

7 A (Reading) Yes. In its recent order
8 approving the transfer of the Mitchell units, FERC
9 included a requirement that the Company inform the
10 Commission within 30 days of any material change in
11 circumstances that departs from the facts the
12 Commission relied upon in granting the application.
13 KIUC's proposal to delay the transfer would be one
14 such change in the facts relied upon by FERC in light
15 of the fact that the Company's application stated that
16 immediately following the transfer of AP -- AEP
17 Generation Resources, a 50 percent undivided interest
18 in the units would be transferred to Kentucky Power.

19 Q Thank you, sir. If the transfer does
20 not occur on the date as requested in the application,
21 is AEP obligated to hold the possible acquisition
22 available to Kentucky Power in the future?

23 A If you're referring to Generation
24 Resources, they're not obligated at all.

25 Q So is Kentucky Power basically

1 presenting the application to the Commission as a
2 situation that if the Commission refuses to grant the
3 application, the deal is off?

4 A The deal is off?

5 Q Yeah. I mean, you -- there's no
6 commitment by the AEP company, and I forget which one
7 it is that's holding the assets, that the com -- that
8 Kentucky Power has asked for the transfer to take
9 place by a date certain, and you just stated that if
10 that doesn't happen, then there's no obligation on
11 behalf of this AEP company to hold those assets.

12 So the question I've got for you: If
13 the Commission does not approve your request for the
14 purchase of those units by that date certain, the deal
15 is off or the units are no longer available to
16 Kentucky Power, correct?

17 A Well, I think the Commission would --
18 would miss a great opportunity from the standpoint
19 of -- of ruling against this to -- to provide the
20 certainty that's -- that would be associated with this
21 transfer.

22 Generation Resources has no obligation
23 to hold those, and our -- our effort with regard to
24 this filing is the fact that we can get those at what
25 has proven to be a least-cost impact on our customers

1 in Eastern Kentucky that -- and that has been
2 mentioned here before, an economically distressed part
3 of the state, and it's a tremendous benefit.

4 If -- if we do not get that, then we
5 need to go back and look at other ways, and most of
6 those other ways, based on my understanding of
7 everything, is more expensive, so I would -- I would
8 hope that the Commission in their rulings would see
9 this as a way that capturing these now as opposed to
10 anticipating it later on would be detrimental to our
11 customers.

12 And I also think it's a -- it's a great
13 opportunity for us to -- to address the need now, get
14 it while it's available now, as opposed to putting our
15 customers at risk with regard to other options.

16 Q And thank you for your explanation, but
17 let me get back to the question. If the PSC doesn't
18 approve this as tendered by the Company, then is the
19 deal off or on?

20 A I think the deal with regard to the 536
21 million becomes into question, and we would have to --
22 we wouldn't know that those facilities would be
23 available to us --

24 Q So --

25 A -- we'd have to go back and look.

1 Q Excuse me for interrupting. Do you know
2 for certain?

3 A Do I know for certain what?

4 Q I mean, if the acqui -- you just said
5 that there might still be some room for negotiating,
6 or did I misunderstand?

7 A Well, there -- there probably -- there
8 probably would be, but the problem is, I don't know
9 what the cost of that unit's going to be, and we're
10 putting those customers at risk of a more expensive
11 opportunity, if you will.

12 I'll use the word "opportunity," but I
13 use it from the standpoint of waiting on this can only
14 cost our customers more money. There's no -- there's
15 no guarantee those facilities would be available,
16 because Generation Resources has the obligation to
17 maximize that asset.

18 Q Okay. So the bottom line is that
19 there's no guarantee that --

20 A There's no guarantee that they would be
21 available.

22 Q Very good. Thank you. Are you aware
23 that Ohio is deregulated?

24 A The Commission ruled, I think it was in
25 October, of the separation of assets, and -- and

1 those -- those generating units go to a deregulated
2 environment on January 1 of '14.

3 Q And you're aware that there's a
4 termination of the pool agreement?

5 A That is correct. That decision was made
6 by vote of the -- of the pool members, I think it's
7 December 17th, 2010. We gave a three-year notice to
8 each other.

9 Q Are you general -- are you generally
10 familiar with the testimony of Mr. Nelson?

11 A I may be in some aspects, maybe not in
12 others.

13 MR. HOWARD: Again, Mr. Overstreet,
14 we're trying to accomplish as much with one witness as
15 possible.

16 MR. OVERSTREET: And I appreciate that,
17 Mr. Howard. I, you know, would note that Mr. Pauley
18 is here to support his testimony and his responses to
19 data requests, so you're more than welcome to ask him
20 about Mr. Nelson, but we also have Mr. Nelson here,
21 and it may be more efficient to pose questions to
22 Mr. Nelson.

23 MR. HOWARD: And if that's the case,
24 then we'll move on.

25 CHAIRMAN ARMSTRONG: Mr. Howard.

1 MR. HOWARD: Yes, sir.

2 CHAIRMAN ARMSTRONG: I think we need to
3 give our court reporter a break for about five
4 minutes.

5 MR. HOWARD: Certainly.

6 (Recess from 11:49 a.m. to 11:56 a.m.)

7 CHAIRMAN ARMSTRONG: Back on the record.
8 Your witness.

9 MR. HOWARD: Mr. Chairman -- yes.
10 Mr. Chairman and the parties, we're now handing out AG
11 Number 6, which is the rebuttal testimony of Philip J.
12 Nelson. As I understand, it's a complete copy of
13 same.

14 MR. OVERSTREET: Mr. Howard, did you say
15 this is AG 6?

16 MR. HOWARD: Yes, that's correct. And,
17 Mr. Chairman, it was rather late in the day yesterday
18 when we were trying to get copies of the -- the
19 documents prepared, and at this point in time I'd
20 represent that what I've handed out is the complete
21 testimony of Mr. Nelson, but it appears as though
22 there are two extraneous documents at the end. I'll
23 confirm before I move for its introduction, though.

24 MR. OVERSTREET: Are you talking about
25 the two pages labeled PJN1-R?

1 MR. HOWARD: Yes.

2 MR. OVERSTREET: Those are exhibits to
3 his testimony.

4 MR. HOWARD: Okay. Thank you. Thank
5 you for the clarification.

6 CHAIRMAN ARMSTRONG: Without objection,
7 so ordered.

8 (AG Exhibit 6 admitted.)

9 Q Mr. Pauley, if you could look at pages 4
10 and 5 of that testimony, sir. And actually what we
11 can do is just look at page 5, if we may, at the very
12 top.

13 Now, before I ask you to answer any
14 questions, you've indicated that this was a
15 collaborative process in this decision-making,
16 correct?

17 A Yes.

18 Q And you stated that you are generally
19 familiar with the testimony that has been filed in
20 this application?

21 A Somewhat familiar with all of it.

22 Q Okay. Would that include that of
23 Mr. Nelson?

24 A To some extent I may be. It depends on
25 what your question is.

1 Q Okay. Then if we can look at lines 1
2 through 4, and I'll ask you to read those into the
3 record, if I may.

4 A Beginning with -- beginning with the
5 word "Also"?

6 Q Correct.

7 A We're -- we're on the same page? Okay.

8 (Reading) Also, and most important to
9 this Commission, the changes in Ohio were a
10 contributor to the termination of the current
11 interconnection agreement, and a parenthetical, pool
12 agreement, and are the reason that a 50 percent
13 interest in the Mitchell units is available to
14 transfer to Kentucky Power Company.

15 Q Do you have any reason to believe that
16 that statement is inaccurate?

17 A I guess, Mr. Howard, I would need a
18 moment to make sure I understand the context of it.
19 If you're asking the question from the standpoint of
20 why the interconnection agreement was being -- was
21 being terminated, obviously the Ohio aspect of
22 their -- their generation, going to deregulated would
23 have been a part of that.

24 There were other issues with regard to
25 why the interconnection agreement was being terminated

1 having to do with -- it was established back in 1951,
2 and it certainly has benefited our customers and
3 companies well, but with the many changes associated
4 with environmental, RTOs, transmission, and all of
5 that, these were all contributing factors to its
6 termination.

7 Q Thank you. My question, if I may, and
8 I'll try to phrase this correctly, does it not state
9 that the changes in Ohio were a contributor to the
10 termination of the current interconnection agreement,
11 pool agreement, and are the reason that a 50 percent
12 interest in the Mitchell units is available to
13 transfer to Kentucky Power?

14 A Based on what you read, I would, but
15 again, I'm -- I don't know the total context of it,
16 but I think Ohio Power's activity there was a
17 contributing factor, and I think I mentioned that.

18 Q Thank you. Does Kentucky Power
19 customarily use an RFP, a request for proposals, for
20 procurement purposes?

21 A Are we finished with this?

22 Q We are finished with that --

23 A Okay. Thank you.

24 Q -- Mr. Pauley. Thank you.

25 A You bet.

1 MR. HOWARD: And that was moved and
2 introduced as AG Number 6, correct, Mr. Chairman?

3 CHAIRMAN ARMSTRONG: It was so ordered.

4 MR. HOWARD: Thank you, sir.

5 Q So we're finished with that particular
6 document for now, Mr. Pauley.

7 Now I'll get back to my question. Does
8 Kentucky Power customarily use an RFP process for
9 procurement purposes?

10 A I can't say that Kentucky Power
11 customarily uses an RFP. This is the first major
12 change since I've been president that has occurred,
13 and we did not use an RFP on this particular issue.

14 Q Well, let me step back. Outside the
15 context of this Mitchell case, does Kentucky Power use
16 an RFP process when it's trying to procure
17 procurement -- or procure goods, services?

18 A You mean outside generation and all
19 that?

20 Q Let's say that you need line or
21 transformers --

22 A Oh.

23 Q -- or vehicles or --

24 A I can't speak to the specificity of it.
25 We as -- we have an organization in Columbus that --

1 that acquires that material for us. The process by
2 which it uses to acquire that, I'm not sure. We have
3 contracts with a number of vendors that we utilize
4 over a period of years, so whether or not that was a
5 result of an RFP, I do not know.

6 Q So Kentucky Power does not buy any goods
7 or services?

8 A We buy goods and services. We buy that
9 locally, and there's no RFP associated with that.

10 Q Do you not use an RFP when you're trying
11 to purchase vehicles or anything? Do you -- let me --
12 do you use an RFP for anything?

13 A I'm not aware that R -- if you're
14 talking fleet specifically, I'm not aware if there's
15 an RFP that goes out and does that. There may be a
16 bidding process from the standpoint of relationships
17 that we have, but if you need more specificity on
18 that, we'll have to get back to you on that, because I
19 do not know how that is handled.

20 Q Maybe I'm simply wording the question
21 wrong. I'm not trying to repeat the question.

22 When Kentucky Power is trying to obtain
23 goods or services in the normal course of business,
24 does it go through an RFP or some sort of a
25 publication where it asks for offers, where we need

1 certain equipment, certain services? Does it -- does
2 it publicize that and ask for bids?

3 A I'm not that familiar with that process
4 that takes place. If you're asking Kentucky Power
5 Company --

6 Q Yes.

7 A -- the most -- probably our
8 tree-trimming process, and we do -- we do work with
9 the different tree-trimming contractors to see what we
10 can do.

11 Q So when it comes to tree trimming or
12 otherwise, perhaps right-of-way, you're not aware that
13 Kentucky Power does any type of RFP process?

14 A Yeah, not major RFPs or anything like
15 that.

16 Q Well, how are the goods and services
17 obtained? I mean, do you --

18 A If you're talking Kentucky Power
19 specifically --

20 Q I am.

21 A -- then we probably have purchase
22 agreements with our vendors that we use throughout
23 Eastern Kentucky. If you're looking at larger things,
24 that's handled through Columbus, and I'd have to get
25 back to you with regard to the process that they use

1 to establish themselves with vendors.

2 MR. HOWARD: I'm trying to come up with
3 a question without testifying, Mr. Chairman.

4 Q I'm just trying to understand. You do
5 an RFP for tree trimming?

6 A I don't know if it's called an RFP.
7 It's probably a bidding process. I -- again, that --
8 the specificity of, I think, what you're asking for,
9 I'd be happy to get back to you on that, but I can't
10 give you a detailed explanation of that in terms of
11 the process.

12 Q Is there anybody at Kentucky Power that
13 would know?

14 A There's -- there's probably people who
15 are more closely associated with it than I am, so
16 probably.

17 Q Would you, by way of a post-hearing data
18 request, be able to provide that information?

19 A I think we can do that.

20 MR. OVERSTREET: And just -- and
21 that's fine, we're happy to do that, but I need -- I'm
22 a little confused about what the request is, so could
23 you --

24 MR. HOWARD: I'm trying to find out is
25 there a mechanism by which Kentucky Power solicits

1 bids for goods and/or services.

2 MR. OVERSTREET: Okay.

3 MR. HOWARD: I mean, Kentucky Power
4 obviously has --

5 MR. OVERSTREET: I agree.

6 MR. HOWARD: Okay. And again --

7 THE WITNESS: Yeah.

8 CHAIRMAN ARMSTRONG: Seems reasonable.

9 THE WITNESS: Yeah, I --

10 MR. OVERSTREET: Yeah, we'll -- we'll --

11 Q And if Kentucky Power does not use a
12 bidding process, you will so state in that
13 post-hearing data request?

14 A Sure. We'll give you a full answer.

15 Q And also in your answer you indicated
16 that you are aware that you currently use certain
17 vendors for services and the provision of goods,
18 correct?

19 A Sure. Yes.

20 Q How does that process work?

21 A We'll answer that in the data request.

22 Q Thank you. Kentucky has used an RFP for
23 Big Sandy 1, correct?

24 A That is correct. I think we issued that
25 in March of this year.

1 Q Again for foundation, Mr. Pauley, you've
2 indicated that you work closely with other AEP
3 companies --

4 A Yes, sir.

5 Q -- is that correct? Would you be
6 familiar with the particular consent decree that
7 happened in Ohio a number of years ago?

8 A Not probably to the expertise that
9 you're looking for.

10 Q Well, let's just find out --

11 A Okay.

12 Q -- what understanding you have.

13 A All right.

14 MR. HOWARD: Yes. Mr. Chairman,
15 Commissioners, and parties, we're going to be handing
16 out a consent decree. It's in the United States
17 District Court for the Southern District of Ohio,
18 Eastern Division, Consolidated Cases, Civil Action
19 Number C2-99-1182 and Civil Action C2-99-1250, and
20 then there are a number of other actions that are also
21 listed on the title page of that document.

22 Now, at this time I'm going to introduce
23 this, but I'm move for -- or I'm going to place it out
24 there as AG Number 7.

25 MR. OVERSTREET: Your Honor, I believe

1 this is the third modification to what's called the
2 consent decree, and it -- it is what it is, but with
3 that clarification, that's fine.

4 MR. HOWARD: Okay. Thanks.

5 CHAIRMAN ARMSTRONG: So ordered.

6 MR. HOWARD: Thank you. So we'll move
7 for the introduction and it's allowed.

8 (AG Exhibit 7 admitted.)

9 Q Are you familiar with this, Mr. Pauley?

10 A I have some familiarity with the actions
11 that took place. We do have others here who can --
12 who can provide more expertise than I, and Mr. McManus
13 being one of them.

14 Q Okay. And if you cannot answer the
15 question, then we'll move on to the other witnesses.

16 A Okay.

17 Q But I'd like the liberty to ask a few.
18 If you can look at page 7 of this particular document,
19 and in particular, paragraph 87.

20 A I beg you -- paragraph -- I'm still --
21 okay. Eighty-seven. Yes, I'm with you.

22 Q Yes.

23 A I'm sorry.

24 Q That's fine. You see that there's a
25 table there --

1 A Yes.

2 Q -- do you not?

3 A Yes.

4 Q And if you look at the first row --
5 actually the second row, the first row being the
6 subject matter, the second row being an entry for Big
7 Sandy Unit 2. Do you see that?

8 A Yes. Yes.

9 Q And does -- if we look at the third
10 column, it says -- states, "Retrofit, retire, repower,
11 or refuel."

12 A Yes.

13 Q And the date on that is December 31st,
14 2015, correct?

15 A Yes.

16 Q Has the Company issued an RFP for the
17 generation relating to the planned retrofit,
18 retirement, or repowering or refueling of Big Sandy
19 Unit 2?

20 A No, we have not.

21 Q Are you aware of the recent situation
22 with Big Rivers Electric Company and Century Aluminum?

23 A I'm -- I'm at -- at a very high level
24 I'm familiar with the issues out there, certainly not
25 an expert to testify regarding them.

1 Q With what little knowledge that you may
2 have, or as much as you may have, are you aware of the
3 fact that Big Rivers might have a significant amount
4 of capacity available?

5 A I know there are some issues with regard
6 to what's going to happen if Century leaves them, but
7 I have certainly not looked in terms of deciding what
8 generation they have available. It's still theirs. I
9 don't even know if it's available.

10 Q Is Kentucky Power publicly traded?

11 A Yes. We're part of the AEP system.

12 Q But it's not a stand-alone ticker on
13 the -- on the market, is it?

14 A No. No, we're -- we're part of AEP. I
15 don't know that we're --

16 Q So A -- and AEP's ROE reflects the
17 activities of all of its subsidiaries, that's whether
18 regulated or not, correct?

19 A I think that stock price -- if you're
20 talking about the stock price? Yes.

21 Q Correct.

22 A Yes.

23 Q Are you familiar with PPL's acquisition
24 of LG&E and KU?

25 A Just that they did it.

1 Q Are you aware of the fact -- and it was
2 in the public domain, and if you'll accept that to
3 check, that PPL stated that the purpose for its
4 acquisition of LG&E and KU was to purchase assets in a
5 regulated environment. Are you aware of that?

6 A I believe I've read that, yes. Yes.

7 MR. HOWARD: Mr. Chairman, I don't
8 believe we have any other questions for Mr. Pauley at
9 this time.

10 Mr. Pauley, thank you, sir.

11 THE WITNESS: Thank you both. You're
12 welcome.

13 MR. NGUYEN: Good morning, Mr. Chairman.
14 Just a couple questions.

15
16 * * *

17
18 CROSS-EXAMINATION

19
20 By Mr. Nguyen:

21
22 Q Good morning, Mr. Pauley.

23 A Good morning. Or good afternoon.

24 Q I guess it is afternoon. Good
25 afternoon.

1 Can you refer to page 3 of your rebuttal
2 testimony, lines 10 through 13?

3 MR. OVERSTREET: That's at page 3?

4 MR. NGUYEN: Yes. Page 3, lines 10
5 through 13.

6 A Ten through 13? Okay.

7 Q In here, you know, you discuss the
8 timing of the transfer, and it's based on multiple
9 events, it has to be coordinated, impacted by, you
10 know, the termination of the pool agreement, and you
11 also state, I quote, and the required transfer of
12 assets from Ohio Power -- from Ohio Power Company to
13 AEP Generation Resources, Inc.

14 Do you know who is requiring the
15 transfer of the assets from Ohio Power to AEP
16 Generation Resources?

17 A Well, the movement of those generation
18 resources over into the deregulated generation
19 resources is the result of a Public Utility Commission
20 of Ohio order.

21 Q It's as a result of that order, but was
22 it a -- did the Ohio Commission direct OPCo to
23 transfer assets from Ohio Power to AEP Generation
24 Resources?

25 A I think the separation with regard to

1 that is the understanding of that.

2 Q Okay. But was it explicitly stated by
3 the Ohio Commission?

4 A I guess I would ask you to hold that
5 question for Mr. Munczinski and those who are -- who
6 are more familiar with that Ohio issue. I'm not --

7 Q Okay. Okay. Sure. So you wouldn't
8 know whether or not the Ohio Commission required the
9 transfer of Ohio Power assets be at net book value?

10 A Required them to be at net book value?

11 Q Correct.

12 A I think Mr. Munczinski is --

13 Q Okay.

14 A -- is probably the appropriate one. The
15 offer to us from the standpoint of getting those
16 assets is at net book value.

17 Q Sure. Fair enough. Thank you.

18 Can you explain why Kentucky Power
19 agreed to purchase a 50 percent ownership interest of
20 the Mitchell Units 1 and 2 at net book value?

21 A It's a great deal for our customers, and
22 from the standpoint of our ability, looking at the
23 scrubber option going back -- and again I go back to
24 the Case 401, it was very difficult to defend that, it
25 was a 31 percent increase, it was vehemently opposed

1 by the Intervenors, including the Attorney General,
2 and all of that because of the rate impact.

3 We sat back and reevaluated what options
4 were available to us. The Mitchell units became
5 available to us, and at net book value and all the
6 analysis that we did, it was clearly the least-cost
7 option for us to do, and it's a great deal for our
8 customers.

9 Q Do you know what the fair market value
10 of the Mitchell generation assets were?

11 A It's -- based on our analysis and all of
12 that, the fair market value is greater than the 536
13 million.

14 Q Can you refer to anything specifically
15 in the case that demonstrates that the fair market
16 value of Mitchell is greater than or equal to the net
17 book value?

18 A I -- yes, and I guess I would refer to
19 the study that Strategist and Aurora did. We did
20 some -- we did some -- some studies on that, and
21 Mr. Weaver can provide you much more detail with
22 regard to that, but we certainly proxied in a market
23 analysis recognizing what we were looking for and all
24 of that, and the net book value clearly showed that --
25 the closest one to it I think was \$300 million, about

1 \$380 million above what the net book value was of
2 Mitchell.

3 Q Was based upon the -- I guess the market
4 representation --

5 A Yes.

6 Q -- analysis --

7 A Yes.

8 Q -- that was conducted?

9 A Yes.

10 Q And I guess, can we step back just for a
11 moment, and and if you're able to do so, I know that
12 Mr. Weaver will be the more appropriate witness to
13 describe it, but can you just generally describe the
14 type of analysis that was conducted by AEP services on
15 behalf of Kentucky Power in terms of the different
16 scenarios that were considered by Kentucky Power in
17 arriving at its decision to acquire the Mitchell
18 units?

19 A Well, you mean in terms of why we did
20 this and all of that? I guess I'm trying to --

21 Q Well, I guess --

22 A -- understand your question.

23 Q -- just paint -- just painting --
24 painting the general analysis that was -- that was
25 performed in terms of the different scenarios that

1 were considered. You know, you had the Mitchell
2 acquisition at 50 percent with the retirement of Big
3 Sandy Unit 2 by --

4 A Sure. Sure.

5 Q -- a date certain --

6 A All those just were --

7 Q -- versus the other scenarios that
8 were --

9 A Yeah.

10 Q -- laid out.

11 A Yeah. That -- my -- you really -- the
12 better expertise on that would come from Mr. Weaver.

13 Q Sure.

14 A The results of that. I mean, we tried
15 to do everything with regard to making sure we were
16 doing what's best for our customers, and we compared a
17 number of options there, and I think in his -- in his
18 response and in his testimony, it shows all the
19 different variations that were used.

20 We were very sensitive to the fact that
21 we knew that our customers in Eastern Kentucky -- we
22 wanted to do what was right, and that modeling proved
23 to us that the Mitchell transfer was the least-cost
24 option, and evaluating that and recognizing, based on
25 what we understood out there on the market with regard

1 to if any other facilities were available. There were
2 no other facilities available that we are aware of,
3 and we have testimony here from that from Mr. Fransen.

4 But the other thing is, we're a big
5 company, and there was no utility out there who knew
6 that the -- that the Mitchell plant -- or, excuse me,
7 that the Big Sandy plant was subject to being retired.
8 No one approached us and said, "Hey, we got a great
9 deal for you." And it just wasn't there. So we
10 relied heavily on that analysis.

11 Q Okay. And other than the market
12 analysis that was conducted and that you have
13 testified to in terms of comparison of what would be
14 the market value of Mitchell versus its net book
15 value, is there any other process by which Kentucky
16 Power relied upon to determine or define what market
17 value is as applied to the value of an existing coal
18 plant in today's market?

19 A I think the analysis reflected that.

20 Q Okay. So that was the only thing
21 that --

22 A Well, from a model --

23 Q -- the analysis was the only -- was the
24 only tool that was relied upon by Kentucky Power to --

25 A From a modeling perspective, it was the

1 tool that we relied upon, yes.

2 Q Okay. So out -- but outside of a
3 modeling perspective, did Kentucky Power do anything
4 else to determine what market value is?

5 A Well, sure. I mean, from the standpoint
6 of our -- of our expertise in Columbus, that's what I
7 was earlier referring to, we're -- we have our finger
8 on the pulse in terms of what's going on with regard
9 to generation, and there was simply nothing else out
10 there.

11 And as I indicated to you before,
12 recognizing an 800-megawatt unit and understanding
13 what was happening in the industry, no one -- we
14 didn't know of any and no utility approached us and
15 said, "Hey, I've got a great deal for you," from the
16 standpoint it was just not there, and it continued to
17 prove from all of that that -- that the direction we
18 were headed was in the best interest of our customers,
19 and it still proved to be the least cost.

20 Q If you can, can you provide a little bit
21 of a brief descrip -- a description of the AEP
22 internal resource that sort of combs the market for
23 various generation assets that are potentially -- that
24 could be acquired?

25 A I'm going to ask that to go to either

1 Mr. Weaver or Mr. Fransen from the standpoint of
2 they -- that's their game. I mean, that's -- that's
3 what they do, and they would better answer your
4 question.

5 Q Which one would be more appropriate,
6 Mr. Fransen or Mr. Weaver?

7 A Mr. Fransen.

8 Q Okay.

9 A Not that Mr. Weaver couldn't, but
10 Mr. Fransen is better.

11 Q And if you're aware, should Kentucky
12 Power ultimately need to add any sort of retrofits in
13 terms of a baghouse or other mercury-reduction
14 controls to the Mitchell units, would that impact the
15 potential capital costs associated with the
16 acquisition --

17 A The --

18 Q -- of Mitchell?

19 A If I'm understanding your question in
20 terms of are there any other additional environmental
21 applications that need to be made at the Mitchell
22 plant; is that --

23 Q Well, no, not not application, but just
24 the investment associated with --

25 A The --

1 Q -- Mitchell --

2 A -- Mitchell plants are --

3 Q -- above and beyond the \$536 million
4 net --

5 A Yeah.

6 Q -- book value.

7 A Not that I'm aware of. They are clean
8 and ready to go.

9 Q Okay.

10 A That's what made them so attractive.

11 Q Okay. So they are compliant currently
12 with any sort of particulate matter or mercury
13 emissions?

14 A It's my understanding that they are --
15 they are compliant and anticipate -- any anticipated
16 environmental, we think we're good to go with them as
17 well.

18 Q Okay. So what's the basis of your --
19 the basis for support of that particular statement
20 that they -- that Mitchell is currently in compliance
21 with any --

22 A Well, we know what the regulations are
23 that are established and we know that Mitchell is in
24 compliance with that. We also -- in terms of looking
25 forward and analyzing everything, we believe that they

1 will meet the test.

2 And Mr. Weaver can even provide more
3 information with regard -- we'd even factored in in
4 our modeling the carbon impact that could take place.
5 I don't know what's going to happen with carbon. I
6 don't know that anybody in this room knows what's
7 going to happen with carbon, but we have factored that
8 in, I think out to about the date of 2022, and we feel
9 comfortable with that factor as well.

10 Q The modeling of CO2 costs were included
11 in the Strategist runs?

12 A Yes, they were.

13 Q Did Kentucky Power or AEP Services Corp
14 conduct any modeling associated with additional
15 environmental costs that may be needed to comply
16 with -- understanding that -- your statement that the
17 Mitchell units are already currently in compliance
18 with any mercury or particulate matter emissions
19 regulations.

20 A Uh-huh.

21 Q But if there were the potential for
22 those additional costs related to become in compliance
23 with mercury and particulate matter --

24 A I --

25 Q -- were there any -- were there any

1 modeling that -- that was --

2 A Okay.

3 Q -- conducted with respect to those
4 additional -- potential additional costs?

5 A I feel very comfortable that we're
6 covered on that, but I would -- I would encourage you
7 to ask that of Mr. Weaver.

8 Q Okay. Sure. Fair enough. And if you
9 would know this or not, or maybe it would be
10 Mr. LaFleur or Mr. McManus, with respect to the
11 current mercury emissions rate at Mitchell 1 and 2, do
12 you know what that is?

13 A I would ask you to direct that to
14 Mr. McManus or Mr. LaFleur.

15 Q Okay. Okay. And you might have already
16 answered this already, but can you identify any
17 transactions of power plants that have been made in
18 the last two years that you would consider to be fair
19 market value?

20 A I would not be able to.

21 Q Okay. And is that based upon the
22 representation that -- from AEP internal marketing
23 that there -- that there haven't been any power plants
24 that have been --

25 A If you're talking about our power

1 plants, I don't -- I don't think so, but if you -- if
2 you step outside that realm, I think Mr. Fransen might
3 be able to answer that question --

4 Q Okay.

5 A -- for you.

6 Q And if you're able to, can you identify
7 any transfers between subsidiaries of major holding
8 companies in the last two years at book value?

9 A Are you talking about AEP or are you
10 talking about --

11 Q In general. In general.

12 A I don't have the answer to that.

13 Q Okay. Would Mr. Fransen know?

14 A He might. He might.

15 Q If there are any potential stranded
16 costs associated with the Mitchell plant -- now, I
17 understand that the modeling's conducted, you know --
18 was it 30 years out, to 2040 --

19 A I --

20 Q -- is that correct?

21 A I think it went out 27 years to get us
22 to 2040.

23 Q Okay. And is that based -- why was it
24 conducted for that time period for the Mitchell units?
25 Why was there an end date of 2027 or 2028? Is that --

1 is that reasonably when the -- those units would be --

2 A I --

3 Q -- be expected to --

4 A I think that's a reasonable assumption
5 with regard to the life of a unit, but Mr. Weaver can
6 give you more details about that.

7 Q Okay. Should there be any stranded
8 costs prior to the retirement of Mitchell, and if the
9 Commission approves Kentucky Power's 50 percent
10 acquisition of Mitchell's 1 and 2, who should be
11 responsible for any potential stranded costs?

12 A Are --

13 Q Would Kentucky Power's ratepayers, or
14 who do you think should be -- should assume
15 responsibility for any stranded costs associated with
16 an early retirement of Mitchell's 1 and 2?

17 A Okay.

18 Q If the Commission were --

19 A Let's do that question again, if you
20 would, please.

21 Q Sure. And this is premised upon if the
22 Commission were to approve Kentucky Power's request to
23 acquire the full 50 percent of Mitchell's Unit 1 and
24 2.

25 A Okay.

1 Q And if there were any catastrophic
2 failures associated with Mitchell's Unit 1 and 2 prior
3 to the expected retirement dates of those -- one or
4 both of those units, and there are stranded costs
5 associated with those unexpected retirement of that
6 asset.

7 A Okay.

8 Q Okay. Who should be responsible for the
9 payment of those potential stranded costs?

10 A If I'm understanding your question
11 correctly with regard to if -- if something happens to
12 Mitchell, they're on our books and all that --

13 Q Correct.

14 A -- who would be responsible? It would
15 flow to -- or the impact on that would flow through to
16 our customers the same as if something had happened to
17 Big Sandy plant.

18 Q Okay. So it would be Kentucky Power's
19 ratepayers?

20 A Yes.

21 Q Okay.

22 A They -- Kentucky Power would be the
23 owner of that facility, or that asset.

24 Q Okay. And you're comfortable with all
25 of the due diligence and the analysis that has been

1 made associated with Mitchell's Unit 1 and 2, that
2 those units would operate in a reliable and efficient,
3 economic manner towards the end of the economic
4 modeling period of 2027 or 2028?

5 A I am totally comfortable with them.
6 They -- the units have been with us for sometime,
7 we're familiar with them, we have a history with them.
8 Mr. LaFleur can probably elaborate more than I with
9 regard to their performance of -- of it. They have
10 been -- they have run well, they are environmentally
11 fit, and they are the least cost for our customers, so
12 I'm on board with them.

13 Q Okay.

14 MR. NGUYEN: Can you give me one
15 moment --

16 CHAIRMAN ARMSTRONG: Uh-huh.

17 MR. NGUYEN: -- Mr. Chairman?

18 Q Along the lines of what -- Mr. Howard's
19 question with respect to the issuance of an RFP and
20 the lack thereof in this case with respect to the
21 replacement for Big Sandy Unit 2 capacity and energy,
22 and there's been discussions and testimony with
23 respect to the time and expense that it would take for
24 Kentucky Power to conduct one.

25 Do you know how long it would take for

1 Kentucky Power to issue an RFP with respect to
2 replacing Big Sandy Unit 2's capacity and energy and
3 then to review the results and provide some feedback
4 to the Commission?

5 A The only answer I would have for you on
6 that, the only RFP that I am -- I am familiar with is
7 the one that we did with Big Sandy 1.

8 Q Uh-huh.

9 A And so in terms of what it would be for
10 Big Sandy 2, I would have no idea in terms of how long
11 it was. I'm -- I don't know that an RFP does us any
12 good, because our modeling, at least in our opinion,
13 more than covered everything that was out there. And,
14 again, nobody came to us, there's nothing out there
15 with regard to fitting our need for Big Sandy 2, and
16 that's why -- that's what the modeling showed, and
17 it just -- it's there. The information's there.

18 And I feel certain, given what's
19 happening in the market, if there was a unit out there
20 that somebody wanted to sell to us, they'd have been
21 knocking at our door.

22 Q And with respect to the Big Sandy Unit 1
23 RFP, was that a decision that was made by you and
24 Kentucky Power to conduct that RFP, or was that a
25 decision that was made at AEP corporate level?

1 A It would have been the same decision
2 process associated with the replacement of Unit 2.

3 Q Okay. So -- and I don't know if this
4 was asked or not. So why was the decision to conduct
5 an RFP for Big Sandy Unit 1 and not for Big Sandy Unit
6 2?

7 A Big Sandy Unit 1 is a 200 and -- well, I
8 guess our RFP was asking for 250 megawatts. We really
9 felt there was a better opportunity there to assess
10 the market with regard to what was available at 250
11 megawatts as opposed to an 800-megawatt unit.

12 And we also wanted to compare that with
13 our proposal to convert Unit 1 to gas, and we wanted
14 to make sure we were doing what was in the best
15 interest of our customers and to determine the least
16 cost.

17 Q And the process of developing the RFP
18 itself, was that something that was done at AEP
19 Service Corp?

20 A We utilized the expertise in Columbus
21 for that. And, in fact, we have someone here that can
22 testify for that, Mr. Karrasch.

23 Q Okay. There's an operating agreement
24 that's also associated with the transfer of Mitchell
25 to -- ultimately to Kentucky Power?

1 A In terms of who's going to operate?

2 Q Yes.

3 A Yes, that was part of the FERC filing.

4 Q Okay.

5 A Yes.

6 Q So Kentucky Power is going to -- under
7 this proposal, Kentucky Power is going to assume
8 50 percent ownership interest in Mitchell 1 and 2?

9 A That is correct.

10 Q The remaining 50 percent interest is
11 currently being proposed by Appalachian Power Company;
12 is that correct?

13 A That is correct.

14 Q Okay. And Appalachian Power Company has
15 a similar case that is currently pending in West
16 Virginia in front of the West Virginia Commission; is
17 that correct?

18 A Yes, sir.

19 Q Okay. And that case is currently
20 pending, there's not a final decision that has been
21 made on that case?

22 A That is my understanding. That --

23 Q Okay.

24 A -- has not been resolved.

25 Q Okay. Do you know when that will be?

1 A No, I do not.

2 Q Okay. Do you know when the hearing for
3 that is -- has there already been conducted or will it
4 be?

5 A I know the Virginia hearing. I'm not
6 sure.

7 Q Okay. But there is an operating
8 agreement associated with that, since you have
9 Kentucky Power owning 50 percent and also Appalachian
10 Power owning 50 percent?

11 A Yes. Yes.

12 Q And under that operating agreement, it's
13 Appalachian Power that's going to be operating the
14 Mitchell's 1 and 2?

15 A Yes.

16 Q Or the Mitchell station?

17 A Yes.

18 Q Okay. So my question is: If the
19 Commission, if this Commission were to approve
20 Kentucky Power's request for the full 50 percent
21 ownership of Mitchell's 1 and 2, and West Virginia
22 Commission, for any reason, determines that
23 Appalachian Power should only receive approval for
24 acquisition -- acquisition of something less than
25 50 percent interest of Mitchell 1 and 2, would it

1 still be appropriate for Appalachian Power to be the
2 operator of the Mitchell station, given that -- in the
3 event that they may receive authorization to purchase
4 less than a 50 percent interest in the Mitchell
5 station?

6 A Well, I think the plan would be for
7 that. I don't -- huh.

8 Q Let me ask you this: Is there anything
9 in the operating agreement that addresses that
10 contingency?

11 A I am not aware. I'd have to go back and
12 look at that. That's --

13 Q Okay. Okay. If it isn't addressed in
14 the operating agreement, would Kentucky Power and
15 Appalachian Company, along with AEP Services Corp, go
16 back to the drawing board in terms of redrafting that
17 particular agreement?

18 A If APCo would not get theirs and we get
19 ours --

20 Q If APCo --

21 A -- would --

22 Q -- gets anything less than 50 percent.

23 A Okay. Well, if they get anything less
24 than 50 percent, they'd still be there to operate it.
25 I'd have to go back and read that document. Maybe we

1 can get back with you on that.

2 I know the plan was for APCo to run the
3 plant. Those employees would move from Ohio Power
4 Company employees to APCo employees, the plant would
5 continue running, and the Commission here would have
6 the jurisdiction over the 50 percent that we would
7 have ownership of.

8 I'm not familiar with the contract well
9 enough, and I apologize for that, in the event that
10 APCo gets less than 50 percent, who would run it.

11 MR. NGUYEN: Can you provide that as a
12 post-hearing data request if --

13 THE WITNESS: Absolutely.

14 MR. NGUYEN: -- if there's any -- under
15 that set of scenarios, if the operating agreement
16 addresses the -- in the event that APCo obtains
17 anything less than a 50 percent interest in Mitchell
18 station, and if not, what would Kentucky Power do in
19 that event.

20 MR. OVERSTREET: Certainly, Mr. Nguyen.

21 Q Okay. Has Kentucky Power planned for in
22 the event that it would not obtain approval of the
23 Mitchell -- 50 percent of the Mitchell generating
24 station?

25 A We have no specific plans. We'd have to

1 go back to the drawing board and decide what we're
2 going to do to cover our employees' needs and
3 reliability over the next 27 years.

4 Q Okay. Do you have a general idea as to
5 what that would encompass?

6 A Well, I think you've heard a lot of
7 people talk about 31 percent for scrubbers is not a
8 good deal, and so we'd have to go back and look at
9 other alternatives to decide what's best.

10 We're concerned about the market. The
11 volatility associated with the market is just
12 incredible, and that's also -- with regard to the
13 Commission, if we go to the market, the Commission
14 loses some control over that, because the pass -- or
15 the costs are just pass-throughs. So we'd have to sit
16 back and reevaluate and determine what to do.

17 Q But in terms of retrofitting Big Sandy
18 Unit 2, would that not be -- that's not an option at
19 this point --

20 A Yeah, that could --

21 Q -- is what you're saying?

22 A I mean, it could be an option, but that
23 was tried back in December of '11 when we filed. The
24 impact on that was 31 percent, and that was opposed
25 tremendously with regard to that, and we found a

1 lesser-cost option.

2 So I don't know why we would want to
3 deny this, which is a lesser-cost option, in order to
4 make a greater-cost option on the customers in Eastern
5 Kentucky. That doesn't make sense to me.

6 MR. NGUYEN: Okay. Those are all the
7 questions I have. Thank you.

8 CHAIRMAN ARMSTRONG: Questions?

9 VICE-CHAIR GARDNER: Yes, sir.

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EXAMINATION

14

15 By Vice-Chair Gardner:

16

17 Q Good afternoon, Mr. Pauley.

18 A Yes, sir; Mr. Vice Chairman.

19 Q My very first question doesn't have
20 anything to do with this case, but while you're here I
21 want to take advantage of this opportunity, and it has
22 to do with storms and storm repairs.

23 A Yes.

24 Q As you know, last year you-all were in
25 for, I think, four cases wanting to get deferral --

1 A Yes, sir.

2 Q -- of storm costs.

3 A Yes, sir.

4 Q And it seems as if AE -- or Kentucky
5 Power has -- likely because of the territory, has more
6 regular storm damage than other folks, so --

7 A We seem to be blessed.

8 Q Yes, sir. So I want to ask you a
9 specific question. On December the 16th of 2012, in
10 the Wall Street Journal, Nick Akins, your CEO, was
11 commenting about repairs, and he was -- he said that
12 utilities need to get smarter about what they install.
13 It may not make sense to replace broken wooden poles
14 with more wooden poles.

15 So he's actually quoted as saying,
16 (Reading) We're putting up steel and concrete poles,
17 quote, Mr. Akins said of his company, adding that,
18 quote, storms provide an opportunity to make
19 improvements, quote, that shouldn't be forfeited.

20 Does Kentucky Power, in replacing poles
21 following storm damage, are they putting up nonwooden
22 poles?

23 A I don't think that we have made that
24 leap yet with regard to that, because historically,
25 the restoration of power under a major storm is to get

1 it done and get it done quickly.

2 And we are doing a number of storm
3 restoration assessments within Kentucky Power Company
4 to analyze what seems to be the best with regard to
5 reliability on certain circuits, tree trimming being
6 one of them, but also from the standpoint of cost.
7 You know, a steel pole is much more expensive than a
8 wooden pole, so you have to evaluate where those
9 applications would apply.

10 And I would also think it's probably --
11 we are blessed with some beautiful mountains in
12 Eastern Kentucky, and putting a steel pole up --
13 climbing up the side of a mountain with a steel pole
14 is going to be hard.

15 Q So at this point there's been no
16 directive to Kentucky Power from AEP to do this?

17 A No directive to do that. I think it's
18 all part of the analysis. We continue to evaluate our
19 storm restoration. It's a huge -- a huge issue with
20 us. Our concern is safety and the timing of the
21 restoration, and we have programs in place now, we
22 have studies in place now to evaluate all that.

23 I know it's part of the evaluation, but
24 no directive in terms of doing this. And there are
25 places where steel poles are better situated.

1 Q When you said "We are doing this" and
2 "We have studies," is that AEP or is that Kentucky
3 Power?

4 A AEP and Kentucky Power, yes.

5 Q Okay.

6 A Yes, sir.

7 Q And earlier -- let's shift just a bit.
8 Earlier in the case in your testimony, on several
9 occasions you said -- you referred to "the Company,"
10 and I know you -- immediately before coming here, you
11 actually worked for American Electric Power Service
12 Corporation.

13 When you used the phrase "the Company,"
14 were you referring to Kentucky Power or AEP?

15 A I guess I would have to go back and
16 identify where the phrase was used.

17 Q Okay.

18 A And I apologize for that apparently not
19 clarification.

20 VICE-CHAIR GARDNER: Let me ask you a
21 question, Mr. Overstreet.

22 MR. OVERSTREET: Yes, sir.

23 CHAIRMAN ARMSTRONG: Is this transcript
24 being prepared for you-all?

25 MR. OVERSTREET: Yes, Your Honor.

1 VICE-CHAIR GARDNER: Okay. I guess
2 early in his testimony, if you could review the early
3 part where he refers to "the Company" and let me know
4 if his reference is to Kentucky Power --

5 MR. OVERSTREET: Absolutely.

6 VICE-CHAIR GARDNER: -- or American
7 Electric.

8 MR. OVERSTREET: Be happy to do that.

9 VICE-CHAIR GARDNER: Okay. Thank you.

10 Q What, Mr. Pauley, in -- on -- in the
11 application on page -- the application for this case,
12 it -- on page 6 it talks about that a fif -- the net
13 book value as of December 31st, 2011, was 519 million,
14 and it's presently forecasted to be approximately 536
15 million at the time of closing.

16 Why would the net book value of Mitchell
17 go up during that two-year period by, say, five
18 percent?

19 A Specifically, I do not know. My
20 presumption there is the fact that there were still
21 modifications being made or work that was -- that was
22 finishing up that would have taken it up to that, but
23 I can get back to you with regard to a data request if
24 you would like.

25 Q Well, let me ask this: The 536 is still

1 not a firm number, is it?

2 A It's what we're seeking recovery of. We
3 think it is. Maybe --

4 Q I'm sorry. Let me -- I thought that it
5 was -- in the settlement agreement, it was propose --
6 it was currently estimated to be 500. I could be
7 wrong. Maybe I am wrong.

8 . Okay. It says, in paragraph 1 of the
9 agreement, and maybe I should ask Mr. Wohnhas this
10 question, in a manner consist -- the transfer will be
11 at actual net book value as of December 31st, 2013.
12 And in parentheses, the net book value is currently
13 estimated to be approximately 536 million.

14 So that number can still go up, can't
15 it, in the next eight months?

16 A I guess anything could happen, but I
17 think our -- we understand everything to be
18 \$536 million.

19 Q But that's not what the agreement says,
20 is it?

21 A Well, no, the net book value is
22 currently estimated at approximately 536 million.

23 Q Have you looked at the contract of the
24 purchase, the -- I mean, I think you were asked about
25 the con -- the actual contract to purchase the

1 Mitchell. Those num -- the actual contract has
2 blanks, doesn't it, where the value of the purchase
3 is?

4 A I do not recall that.

5 Q Okay.

6 MR. OVERSTREET: Mr. Chairman, would it
7 be appropriate for me to state something or --

8 VICE-CHAIR GARDNER: Sure.

9 MR. OVERSTREET: The Kentucky Power
10 actually will acquire the Mitchell assets through a
11 series of corporate transactions. The last corporate
12 transaction is a merger of Kentucky Power with another
13 corporation, which will only hold Mitchell for a
14 peek --

15 VICE-CHAIR GARDNER: Right.

16 MR. OVERSTREET: -- of a second.

17 VICE-CHAIR GARDNER: Right.

18 MR. OVERSTREET: So there's no really
19 contract to purchase it, and I didn't want to leave
20 the --

21 VICE-CHAIR GARDNER: Okay.

22 MR. OVERSTREET: -- the Commission
23 thinking that there was.

24 But the transaction is structured so
25 that whatever the net book value is on December 31 of

1 this year, that is -- that is the value that the
2 Mitchell unit will have.

3 Q Okay. What -- as president of Kentucky
4 Power, what sort of controls or reviews are you using
5 of the -- of what Mitchell costs are incurring now
6 that may end up being additional costs to the 536
7 million?

8 A I'm relying on the expertise, and you'll
9 have him up here after while, Jeff LaFleur, who's
10 responsible for that, and I'm relying on him to keep
11 me posted with regard to that.

12 Q Okay. And Mr. LaFleur works for whom?

13 A He works for Generation. I believe he
14 is responsible for the generation associated with APCo
15 and with Kentucky Power Company.

16 Q Okay. So do you see monthly reports as
17 to what this number is? You said he's keeping you
18 posted. Tell me how you're kept posted.

19 A It's not monthly reports. What I hear
20 is in terms of if anything is happening there, what's
21 happening, and with regard to that.

22 Q Is there --

23 A Nothing from the financial, in terms
24 of --

25 Q Nothing --

1 A -- monthly financial sheets.

2 Q Okay. Okay. Paragraph 38 on page 16 of
3 the application talks about the book value of the
4 assumed liabilities excluding debt as of
5 December 31st, 2011, was \$159 million.

6 Do we know what that debt is at -- or
7 excuse me. Do we know what the assumed liabilities
8 are now or what the value of that is now? Is there
9 somebody who would know that if you don't know?

10 A I do not have an update on that, but
11 we'll get that for you.

12 Q Okay.

13 A That's paragraph 38, right, sir?

14 Q Yes, sir.

15 A Okay.

16 Q And it also appears in paragraph 42 of
17 the application as well. Those are numbers as of
18 December 31st, 2011, and I'm just trying to see what
19 Kentucky consumers are going to be assuming at the
20 closing.

21 Have -- are you --

22 A I'm sorry, sir. Did you say paragraph
23 32?

24 Q No, 42.

25 A Forty-two. I'm sorry.

1 Q It's the same reference to the --

2 A Okay.

3 Q -- assumed liabilities excluding debt.

4 A All right.

5 MR. OVERSTREET: Mr. Vice-Chairman?

6 VICE-CHAIR GARDNER: Yes.

7 MR. OVERSTREET: You used the term
8 "now," and we'll try to get as close to now --

9 VICE-CHAIR GARDNER: Sure.

10 MR. OVERSTREET: -- but if it's a month
11 ending or a quarter ending, that would be --

12 VICE-CHAIR GARDNER: Right. That's --
13 yes. Absolutely.

14 MR. OVERSTREET: Okay. Thank you.

15 VICE-CHAIR GARDNER: As current as
16 you -- without actually doing computations.

17 Q The -- are you familiar with the -- in
18 general or did you look at the testimony of Sierra
19 Club Witness Tim Woolf? Are you familiar with that at
20 all?

21 A No.

22 Q Okay. Well, let me -- let me tell --
23 let me refer folks to questions that were asked in his
24 direct testimony on 37 -- page 37, 38, and 39 about
25 his testimony, and maybe this has been rebutted by

1 somebody else and you could refer me to that, but he
2 talks about the availability of -- I mean, we all know
3 that Mitchell is available because -- in West Virginia
4 because of the dereg in Ohio, right?

5 A Yes, sir.

6 Q Okay. He talks about two plants that
7 are owned by Ohio Power that are gas-fired. One of
8 them is the Waterford gas-fired plant located in
9 Waterford, Ohio, and it has -- he indicates that it's
10 ten years old, 922 megawatts, and then he also refers
11 to a Lawrenceburg plant, which is a nine-year-old
12 1,232-megawatt gas-fired plant in Lawrenceburg,
13 Indiana, which also are deregulated.

14 So my question is: Did you or anyone at
15 Kentucky Power know about that? Did you-all review
16 that as an option for Kentucky Power rather than
17 Mitchell, that these might be lower cost?

18 A Let me explain the process that we used,
19 if you will --

20 Q Sure.

21 A -- with regard to how we identified the
22 Mitchell plant.

23 Number one, we looked to see what plants
24 that were impacted by the Ohio deregulation that
25 already had a relationship with Kentucky Power

1 Company, and Mitchell plant was one of those, because
2 that -- those costs would flow through through the
3 environmental cost and all that.

4 We also looked to see what plants were
5 not going to be scheduled to be retired and --

6 Q When you said "we," who is "we"?

7 A We, the -- if you will, in terms of the
8 collaborative group and -- and --

9 Q That you mentioned earlier?

10 A Yes. Yes.

11 Q Okay.

12 A And we also looked to see which plants
13 were subject to being retired, and we also looked to
14 see which plants were not associated with a
15 third-party person and still were subject to the Ohio
16 Power deregulation. And lastly, it also showed that
17 the Mitchell plant was environmentally fit and ready
18 to go.

19 And that was the -- if you will, the
20 qualitative analysis that we used with regard to
21 choosing the plant that we -- that we looked -- or the
22 plants that we looked at to determine what was the
23 best -- in the best interest of Kentucky Power
24 Company.

25 Q Okay. In your analysis with your group,

1 did you -- was the Waterford plant or the Lawrenceburg
2 plant mentioned, if you can recall?

3 A They were not available.

4 Q Were they mentioned?

5 A Were they mentioned? I don't recall
6 talking about them.

7 Q Okay. So is that an assumption on your
8 part that they weren't available that was made by
9 other people as to why that didn't get included in
10 your discussion?

11 A I think that's a safe analysis regarding
12 that.

13 Q Okay. The -- do you know why the --
14 okay. You're familiar and you were asked questions
15 about in the 2011 401 case where you-all proposed
16 basically to retrofit Big Sandy 2, right?

17 A Yes, sir.

18 Q And you-all were proposing a dry FGD?

19 A Yes, sir.

20 Q And it included a pulse jet fabric
21 filter baghouse. Does that sound familiar?

22 A It may, but we have some expertise here
23 in Mr. Walton and Mr. McManus that could address the
24 level of specificity you're seeking.

25 Q Okay. My question is going to be why

1 that was proposed -- and I'll be glad to ask them
2 that, and I'll make a note to do that. Why that was
3 proposed for the Mitchell plant -- excuse me, for the
4 Big Sandy plant, but, in fact, Mitchell does not have
5 a baghouse.

6 So that's the question I'll be glad to
7 ask them. But you don't know the -- okay.

8 A No. But I feel comfortable that either
9 one of those gentleman could tell you that.

10 Q Okay. Is there -- are there any
11 transmission issues with respect to the Mitchell case?

12 A We do not believe that there are. We
13 have a very good interconnected system.

14 Q The -- you -- now, I'm not sure you were
15 asked this, but you report to -- your immediate
16 supervisor is Mr. Patton, who is president of
17 Appalachian Power; is that right?

18 A That is correct.

19 Q Okay. Now, I'm going to follow up on
20 Staff's question, Mr. Nguyen's question about the
21 50 -- the operating agreement between Kentucky Power
22 and Appalachian Power.

23 One of -- one of the matters that is in
24 the -- that is in the settlement agreement is that
25 there will be, quote, no bias against Kentucky coal.

1 Do you remember that?

2 A Yes, I do.

3 Q And does that -- what does that -- tell
4 me what that means, in your own words.

5 A Well, there was some concern with regard
6 to the fact that that plant being located in West
7 Virginia, there might be a bias against the purchase
8 of Kentucky coal. That plant is currently purchasing
9 Kentucky coal. In fact, year to date, I think, in
10 2013, about 38 percent of the coal that's been
11 purchased and used has come from Kentucky.

12 We wanted to make sure that it was
13 recognized with regard to when we seek bids with
14 regard to coal, and as the coal companies bid in,
15 there would certainly not be a bias against Kentucky
16 coal, because we currently use it and we're -- and
17 we're just, if you will, reinforcing the fact that
18 those same relationships exist with the Kentucky coal
19 producers that participate with us.

20 Q Did you have any -- did you negotiate
21 that there should be a specific percentage in the
22 contract that Kentucky coal must be purchased for the
23 Mitchell plant?

24 A No, we did not. I don't know how you --
25 how we could do that, because we have to answer to you

1 with regard to the cost.

2 Q Okay.

3 A And --

4 Q The -- do you foresee that there could
5 be -- ever be a conflict between West -- between APCo
6 and Kentucky Power with re -- well, let me ask this:
7 In the operating agreement, if the parties disagree on
8 an issue, who gets to make the final decision? Would
9 that be with APCo West Virginia because they're the
10 operator?

11 A I guess -- do you have an example what
12 the conflict might be?

13 Q Well --

14 A I mean, I'm not --

15 Q Here's the -- here's the issue. What
16 if, because the facility is in West Virginia and
17 there's jobs in West Virginia and there's tax revenue
18 in West Virginia, that the -- that that -- and say
19 there are additional environmental costs that need to
20 be done. Say that because the plant is located in
21 West Virginia, APCo -- and I don't know if they have
22 this, but say APCo determines that they want to keep
23 it, notwithstanding those additional costs that will
24 go to direct -- to the ratepayer for those
25 environmental retrofits, and Kentucky disagrees, that

1 Kentucky would say that their costs are less than --
2 that there's -- that's not least cost anymore for
3 Kentucky ratepayers.

4 Do you -- do you think that that could
5 ever arise, or do you think that there can never be a
6 conflict between West Virginia's interests and
7 Kentucky's interests?

8 A I don't think, Mr. Chairman, that I
9 can -- I can -- I can say that something like that
10 would never arise. It certainly would do neither
11 company any good to have those things not resolved
12 among themselves, but in the end, this Commission
13 would be the one to decide what impact any of that
14 would have on the Kentucky ratepayer, because we would
15 have the 50 percent co-ownership, and anything that
16 happens there from our perspective would be vetted
17 through you.

18 Q Is it -- is it your opinion, then, that
19 what the Commission might do would overrule the
20 operating agreement giving Appalachian Company the
21 ability to make final decisions?

22 A You're referring to this Commission or
23 the --

24 Q Yes, sir.

25 A -- or the West --

1 Q This Commission. I mean, your answer
2 implied that you can't do anything unless we approve
3 it, so is my concern about who breaks a tie -- I mean,
4 usually you have two parties, if they have a
5 50 percent interest --

6 A That's --

7 Q -- that's -- that's likely to lead to
8 problems with management issues. And so my question
9 is just: Is there a mechanism to break a tie? And
10 basically you said -- I think I heard you say that --
11 and that's why I asked about the Commission was you
12 can't do anything that the Commission doesn't approve,
13 and so that's my question.

14 A Mr. Chairman, I guess --

15 Q Vice-Chairman.

16 A -- I guess the only answer I --

17 Q Vice-Chairman.

18 A Vice Chairman. And I'm sorry. That was
19 no disrespect to --

20 Q I'm sure you were looking at him and --

21 A Well, he was looking at me -- he was
22 looking at me, and he'll get me back, I'm sure.

23 But the relationship that we have, I
24 don't know of any mechanism in terms of you asking how
25 to break ties. We are in this together and we want

1 what's best for all of our customers, and that's the
2 best answer I can give you for that.

3 Q Okay. That's fair enough.

4 Now, by 2040 Mitchell will be an old
5 plant. It will be 60 something years old; is that
6 right?

7 A Yes. Maybe -- yes.

8 Q Okay. Do you know, are there any AEP
9 coal plants on the system now that are older than
10 60 years?

11 A That's the perfect question for
12 Mr. LaFleur.

13 Q Okay.

14 A He has great knowledge of our generation
15 fleet.

16 Q Okay. And when -- did you -- in making
17 your decision to go with Mitchell, was the -- was the
18 prior level of maintenance or the condition of Big
19 Sandy compared with Mitchell at all? Did you -- did
20 you make that comparison?

21 A I think that -- that was part of the
22 factoring in from the standpoint of what was in the
23 best interest of the -- of our customers, but with
24 regard to the significant impact of retrofitting Big
25 Sandy and the impact that would have on our customers,

1 the Mitchell proved to be the least-cost option, and
2 so we -- it is our intent and -- to keep that plant
3 running up until June of '15.

4 Q Was -- I didn't quite hear. So there
5 was or was not a direct analysis of -- and I'm not
6 talking about environmental, I'm just talking about --

7 A You're just talking about the efficiency
8 of the plant?

9 Q Yeah. I mean, was there -- yes, sir.
10 Was there, you know, a comparison, like Big Sandy
11 is -- you know, it's in great shape or it's not in
12 great shape or was -- Mitchell is in better shape
13 reliability-wise? Was there that kind of -- I mean --
14 I mean, because you own one and you're getting ready
15 to buy another asset.

16 A Sure.

17 Q And I'm wanting to know basically, on
18 the reliability piece of it, what -- because the --
19 those will be -- there will be costs --

20 A I'm with you.

21 Q -- that'll be different --

22 A Yes, sir.

23 Q -- between Big Sandy and Mitchell going
24 forward.

25 So I guess this all boils down to: What

1 due diligence was done of the Mitchell plant so
2 that -- so that the Kentucky ratepayers are not going
3 to get harmed by a plant that might need additional
4 maintenance? What due diligence did you do? What did
5 you review --

6 A Okay.

7 Q -- in your capacity as president of
8 Kentucky Power?

9 A I'm with you now. Thank you for the
10 clarification on that.

11 Mr. LaFleur, who is, again, over that
12 generation, was able to provide me from the standpoint
13 of level of confidence with regard to the fact of the
14 efficiency of that Mitchell plant, with everything
15 that's happened to it, is in -- is in great shape and
16 is ready to move forward, and he can testify to that
17 when he gets up with regard to comparison between the
18 two.

19 So I feel very comfortable that that
20 would have been part of the -- of the selection
21 process in terms of that plant is a good plant.

22 Q So I could ask him the comparison
23 question?

24 A Uh-huh.

25 Q And so you ended up relying on him for

1 that.

2 A His expertise on that, absolutely.

3 Q Okay. And you indicated with respect to
4 environ -- what is needed environmentally, you relied
5 on Mr. McManus?

6 A From the standpoint of that plant,
7 yes --

8 Q The Mitchell plant.

9 A -- Mr. -- yes. Yes, Mr. McManus can
10 address that.

11 Q Now, does it have on it a continuous
12 emission monitor at this point to let us know -- let
13 folks know if the -- if the retrofits that are there
14 for particulate matter will work?

15 A Mr. McManus can address that question.

16 Q Okay. So you don't know that?

17 A No.

18 Q Okay.

19 A Not that level of specificity.

20 Q Okay. Now, let me ask you a
21 hypothetical that will make most people in this room
22 squirm, and that is: What is the cost to Kentucky
23 Power of doing nothing? In other words, say you don't
24 do Mitchell and you don't retrofit Big Sandy. What is
25 the financial impact to Kentucky Power for not doing

1 that?

2 In other words, violating the consent
3 decree that you-all entered into in 2007 and then
4 violating, if you will, the MATS rule? So in other
5 words, you-all don't do anything, what's the impact to
6 Kentucky Power financially?

7 A I don't -- I don't have a figure for
8 that, but let me -- let me expound on that just for a
9 moment, since it's a hypothetical question. I think
10 the severity of that decision is more severe on the
11 customers of Kentucky Power Company.

12 Q Okay.

13 A Because us not doing anything creates
14 uncertainty, requate -- creates an unstable,
15 unreliable source of electricity to them. If we have
16 to go to market and all of that, I think it just
17 creates a cloud, if you will, with regard to our
18 ability to keep our customers in Eastern Kentucky with
19 safe, reliable, and effective electricity.

20 That, I think, is the more expensive
21 issue that needs to be considered here, but I do not
22 have a figure for you in terms of the financial
23 consequences associated with that.

24 Q Would Mr. McManus know what the level of
25 fines or penalties would be?

1 A He may know, but to be honest with you,
2 sir, I've never seen those, so maybe he would.

3 Q Okay. What is the net book value now of
4 Big Sandy 2?

5 A Mr. Wohnhas can answer that question for
6 you.

7 Q When does -- what is the termination
8 date of the pool agreement?

9 A The termination date is effective
10 1-1-14.

11 Q Okay. And you indicated earlier that
12 the members voted for the termination of the pool
13 agreement. Did Kentucky Power vote in favor of the
14 termination?

15 A Yes, we did.

16 Q And --

17 A Yes, I did.

18 Q Okay. And was a financial analysis done
19 to determine what the financial impact would be of the
20 termination?

21 A Decision regarding the termination of
22 that pool was -- regarded the fact that as the pool
23 was established back in 1951, it no longer reflected
24 what was happening in 2013 or 2012 or 2011, and as a
25 result of all of those, with regard to the

1 transmission issues, RTOs, portfolios and all of that,
2 the structure of that agreement no longer was
3 applicable to the association among the eastern --
4 eastern footprint of AEP and the fact that Ohio, which
5 was typically a surplus company, was moving its assets
6 into a deregulated, so we had to sit back and come up
7 with another -- another way of handling that.

8 Q Kentucky Power also was -- I mean, you
9 used the word "surplus." Kentucky Power also had --
10 has surplus capacity in energy?

11 A No, we are deficit.

12 Q You're deficit?

13 A We are deficit.

14 Q Okay. And then one follow-up question
15 to the Attorney General. Were you even aware or made
16 aware before today that there are certain plants that
17 Big Rivers is trying to sell?

18 A I was aware that there were issues with
19 regard to the Big Rivers G&T and their situation. I
20 have not been approached by anyone with regard to Big
21 Rivers wanting to sell generation assets.

22 Q So no one contacted them? Were you-all
23 contacted by them about --

24 A No, sir. No, sir.

25 MR. KURTZ: Mr. Vice-Chairman, can I

1 just make a statement along those? That is in the RFP
2 information that was done for Big Sandy 1, in the
3 confidential portion of Karrasch.

4 MR. OVERSTREET: I think we may be
5 getting into confidential information.

6 MR. KURTZ: The -- well, that type of
7 information is contained.

8 VICE-CHAIR GARDNER: I'm not -- I didn't
9 know that was there. I'm not trying to go
10 confidential.

11 MR. OVERSTREET: Oh, I know. I was more
12 concerned about my friend Mr. Kurtz.

13 Q Okay. So you weren't aware, in other
14 words, of that?

15 A Of their having assets available for
16 sale?

17 (Vice-Chair Gardner nodded.)

18 A No, sir.

19 Q Okay.

20 VICE-CHAIR GARDNER: That's all I have.
21 Thank you. Thank you, Mr. Pauley.

22 THE WITNESS: And I apologize for the
23 "Chairman" reference. I'll correct myself in the
24 future.

25 VICE-CHAIR GARDNER: I don't want that

1 responsibility.

2 CHAIRMAN ARMSTRONG: You're in real
3 trouble now.

4 THE WITNESS: I apologize to you, too,
5 sir.

6 CHAIRMAN ARMSTRONG: Questions?

7 COMMISSIONER BREATHITT: Yes, I just
8 have a few that haven't already been asked and
9 answered.

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EXAMINATION

14

15 By Commissioner Breathitt:

16

17 Q How old is Mitchell right now?

18 A I think those plants were constructed in
19 the early '70s, so about 40 years old, I think.

20 Q And so they're 40 years old now, and if
21 the retirement date or the modeling goes out to 2040,
22 Mitchell will be 70 years old?

23 A It'll be between 60 and 70, yes.

24 Q How would it be -- how would it be
25 60 years old? If it's 40 years old now and it goes

1 out --

2 A Well, let me do some math. Let's see.
3 If it goes out that long, yeah, it could be -- it
4 could be anywhere from 60 to 70 years old.

5 Q What was Mitchell's retirement age when
6 it was under the Ohio Power portfolio?

7 A I do not know that. In terms of --

8 Q For depreciation purposes.

9 A Yes. I do not know that.

10 Q Could you provide that answer?

11 A Yes, we could. Yes, we could.

12 Q On the -- on your settlement agreement
13 on page 5, in paragraph 1 the Company proposes a
14 depreciation rate that reflects a 2040 retirement date
15 for Mitchell, so I was interested to know if -- what
16 the date currently is under the Ohio Power.

17 A Okay. Mr. Wohnhas can answer that
18 question for you.

19 Q Okay. Can you generally describe the
20 \$44 million asset transfer rider that's described in
21 the settlement agreement?

22 A I can -- I can give you --

23 Q Paragraph 4.

24 A I can give you a very high level of it.

25 Mr. Wohn --

1 Q That'd be fine.

2 A Mr. Wohnhas has identified the specifics
3 of it, so --

4 Q Okay. Just the high level --

5 A Okay.

6 Q -- description.

7 A The stipulation agreement is -- first of
8 all, understanding it all fits together with regard to
9 what's happened with the agreement between the Company
10 and the Sierra Club and our large industrial customers
11 represented by KIUC. In fact, they played -- they
12 played a role in this process. They were involved in
13 that process as well.

14 The initial is actually the transfer of
15 the -- of the Mitchell assets at net book value to
16 Kentucky Power Company, and recognizing that the --
17 such transfer would be deemed a prudent component of
18 rate base moving forward.

19 We would, in -- in order to capture the
20 \$44 million that's associated initially -- well,
21 the -- let's go back. I turned the page too soon.

22 We're recognizing the fact that the
23 customers will benefit from the standpoint of the
24 Mitchell fuel cost in terms of those are lesser, and
25 so I guess I'm not sure what level you want on this,

1 because --

2 Q Well --

3 MR. OVERSTREET: I think the question
4 was asking only about the ATR.

5 A Oh, the ATR?

6 Q Yes, the asset transfer rider.

7 A I'm sorry. I did -- I apologize for
8 that.

9 Q Generally how the --

10 A Okay.

11 Q -- the asset transfer rider -- if you
12 could describe it and how it works and what the
13 purpose is and et cetera --

14 A Okay.

15 Q -- at a high level.

16 A I apologize.

17 Q And we --

18 A I did not hear ATR, so my brain went a
19 different direction, so my apologies.

20 We would capture the \$44 million using
21 an asset transfer rider, and that would be -- the base
22 rates would be frozen during the 17-month period, and
23 this \$44 million would be recovered through the asset
24 transfer rider.

25 Q On which customer classes?

1 A It would be on all customer classes.
2 And then in December of '14, we would file a base rate
3 case that would -- that would reflect -- effective
4 with the retirement of Big Sandy 2, that would reflect
5 the additional costs moving forward associated with
6 that and any other aspects of a base rate case that we
7 need to move forward.

8 And then there would be an additional
9 asset transfer rider. For matters of interpretation
10 we'll call that asset transfer rider two. That 44
11 million that we had collected would go away, and then
12 the retirement costs associated with Big Sandy 2 and
13 whatever happens with regard to the facilities at Big
14 Sandy 1. Hopefully we get to convert that. There
15 will be coal-related issues with Big Sandy 1 that we
16 need to retire. That would become in the asset
17 transfer rider two.

18 Q What types of expenses are made up for
19 the 44 million? Can you describe some of the expenses
20 that -- the \$44 million -- of the 44 million?

21 A It's a very comprehensive agreement that
22 involves some concessions on both parties with regard
23 to that, and I really think, for sake of clarity and
24 all that, let Mr. Wohnhas --

25 Q Okay.

1 A -- address that, because there are
2 issues there that -- that need to reflect concessions
3 on both sides.

4 Q Okay. That's fair.

5 A Okay.

6 Q Mr. Pauley, when -- during the staff
7 cross-examination with respect to the RFPs, you said,
8 I think, quote, there's nothing out there fitting our
9 needs. And I want to understand a little bit more
10 about that. Does that mean an RFP for 800 megawatts
11 of power, there's nothing out there fitting our needs?

12 A Let me -- let me further explain from
13 the standpoint of that, and Mr. Fransen is going to be
14 able to provide you some stuff. We have our finger on
15 the pulse with regard with what's there. We watch
16 that. That's part of our business.

17 Q Right. I heard you say that.

18 A And there was nothing out there that
19 reflected that.

20 Let me also explain another problem that
21 we would have had with an RFP and why we think the
22 modeling is so great. We had exposed the cost of the
23 Mitchell plant to this Commission, I think back in
24 2011 when we talked about the transfer of 20 percent
25 of that with regard to Big Sandy 1 if we were able to

1 scrub Big Sandy 2. That figure was already out there.
2 So the people who might have responded to an RFP would
3 have known what they were responding to. It was
4 almost like we had exposed ourself to that. And,
5 again, from their perspective, in terms of watching
6 what was happening in the PJM and all of that, there
7 was nothing there.

8 Q Is that what "nothing there" means,
9 there's not that much power out there to be had?

10 A We saw nothing that was available with
11 regard to -- that even compared to what the Mitchell
12 asset transfer would be for our customers.

13 Q There could have been power out there,
14 but not, as you just said, that compared --

15 A That's right.

16 Q -- is that correct?

17 A I don't know what was out there, but we
18 didn't see anything out there, because we watch what's
19 happening all over.

20 Q And when you watch what's hap -- what's
21 happening, could that also mean in chunks of
22 250 megawatts or 400 megawatts or one 800-megawatt
23 purchase? Would that -- could that be chunked down?

24 A It -- it --

25 Q When you're watching out there?

1 A Uh-huh. I think in terms of what we
2 were looking for and in terms of what was -- what was
3 there -- there are a lot of things happening on the
4 market --

5 Q Right.

6 A -- but not all of them were clean units.
7 They were units that were going to be shut down
8 anyway, and all of that, and so it was a matter of we
9 can -- we can do the market proxy and all of that that
10 Mr. Weaver can explain to you --

11 Q Okay.

12 A -- that basically reflects what's out
13 there on the market. And as Mr. Fransen told us,
14 there was nobody there knocking on our door. He saw
15 nothing from their perspective. And the modeling
16 totally convinced me and others that Mitchell was
17 best, even from comparison of Big Sandy retrofit.

18 COMMISSIONER BREATHITT: That's all I
19 have with re -- except for the data request.

20 THE WITNESS: Yes, ma'am.

21 CHAIRMAN ARMSTRONG: Mr. Overstreet, any
22 redirect?

23 MR. OVERSTREET: I do, Your Honor.
24 Would you prefer that I go now? Mr. Pauley has been
25 on the stand a long time. I'm happy to proceed now.

1 It's whatever the Commission's preference is.

2 MR. KURTZ: Mr. Chairman, if you're
3 asking for input, I think it would be appropriate to
4 take, I think, a lunch break before Mr. Overstreet
5 does the redirect. Obviously we're not going to get
6 done in one day, I don't -- I don't think.

7 CHAIRMAN ARMSTRONG: I dream. Okay.
8 Let's take a break for lunch and come back at 2:30.

9 MR. OVERSTREET: Yes, sir.

10 (Recess from 1:24 p.m. to 2:34 p.m.)

11 CHAIRMAN ARMSTRONG: We're back on the
12 record.

13 MR. OVERSTREET: Thank you, Mr.
14 Chairman.

15 CHAIRMAN ARMSTRONG: Your witness.

16 MR. OVERSTREET: Thank you.

17

18

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19

20 REDIRECT EXAMINATION

21

22 By Mr. Overstreet:

23

24 Q Mr. Pauley, did you get a chance to
25 catch your breath and have something to eat?

1 A Yes, sir.

2 Q Okay. Great. The vice chairman was
3 asking you about comparisons between the efficiencies
4 of the -- the Big Sandy Unit 2 and the -- the two
5 Mitchell units, and I've -- I've got a series of
6 questions I'd like to ask you about that, please.

7 A All right.

8 Q Can you describe for the Commission any
9 similarities between the two units?

10 A All three of these units, Mitchell 1, 2,
11 and Big Sandy 2, are very -- they're sister units,
12 from the standpoint of our knowledge of those units
13 and their working capabilities and all of that.

14 So from the relationship of their age
15 and all that, although Mitchell's probably a couple
16 years younger, the -- the -- the functioning and the
17 operation of them are -- are very consistent with each
18 other.

19 Q And, in fact, that -- that they're --
20 they're basically the same unit --

21 A Yes.

22 Q -- is that true? And do you have any --
23 any knowledge of -- of any -- any problems with the --
24 the Mitchell units' efficiency?

25 A Not aware of any problems whatsoever

1 with regard to efficiency. Feel very comfortable
2 their ability to perform moving forward is -- is -- is
3 solid.

4 Q And -- and would it be -- based on that
5 knowledge, is it -- is it your understanding that
6 the -- that the Mitchell unit -- the -- the efficiency
7 of the two Mitchell units is -- is no less than the
8 efficiency of -- of a scrub Big Sandy Unit 2?

9 A That's correct.

10 Q Okay. Now, are there other savings that
11 would come from you -- from using Mitchell instead of
12 Big Sandy to provide generation?

13 A Absolutely. The big one, which is in
14 the stipulation agreement, I think, has to do with
15 fuel cost, and that -- that savings runs about -- I
16 think it's about 16.7 million a year with regard to
17 that fuel savings.

18 Q Okay. And I think Mr. Nguyen was asking
19 you some questions about the -- the possibility of
20 certain additional environmental requirements with
21 respect to the Mitchell units. Is -- is there a
22 witness that -- that could -- could address that?

23 A Yes. Mr. McManus can address that.

24 Q And then to the extent that Mr. Nguyen
25 asked you questions about the level of environment --

1 future environmental spend in the modeling of the --
2 the -- the Company's Strategist modeling, is there a
3 witness that could answer those questions?

4 A Yes. Mr. Weaver can address that
5 question.

6 Q And I believe Vice Chairman Gardner
7 asked you about the -- a question about the increase
8 from the 2011 net book value of, I think, \$519 million
9 to an estimated net book value on the transfer date of
10 \$536 million. Have you had a chance to -- to look at
11 that issue over the break?

12 A Yes, and -- and that basically -- the
13 increase there just basically reflects the continued
14 capital investment in all of that in that facility
15 until the end -- or approximate end -- end of '12,
16 '13.

17 Q And if -- if -- if the Company intended
18 to continue to operate Big Sandy, would the similar
19 sorts of expenditures be made?

20 A Yes.

21 Q Okay. Mr. Howard asked you some
22 questions about two KIUC data requests, and they dealt
23 with documentation with respect to the -- the
24 decision-making process. Was the only information you
25 received in connection with your decision making in --

1 in either e-mail form or paper documents?

2 A Ask that again, if you would, please.

3 Q I apologize.

4 A You lost me.

5 Q Mr. Howard asked you a couple of
6 questions about --

7 A Okay.

8 Q -- two KI -- the Company's response to
9 KIUC, I think it was -- well, it was -- it was two
10 KIUC data requests.

11 A Yes. Yes.

12 Q And there was a certain amount of
13 documentation appended to that response.

14 A Yes.

15 Q Was that the doc -- was that
16 documentation the only information that you considered
17 in deciding that Mitchell was the solution to the
18 Company's problems?

19 A No. There were numerous telephone calls
20 and conference calls regarding -- and -- and -- and
21 meetings, face-to-face meetings in Columbus that
22 addressed this issue.

23 Q Okay. And Vice Chairman Gardner asked
24 you a question, I think it was about the Waterford and
25 the Lawrenceburg units.

1 A Yes.

2 Q Is -- is there a company witness who
3 will testify in the course of these proceedings who --
4 who could address why a gas-fired unit may not be a
5 good fit for a winter-peaking utility?

6 A Yes. Mr. Bletzacker would address that.

7 MR. OVERSTREET: Okay. Your Honor,
8 that -- I have some -- a few further redirect
9 questions. For better or worse, they would require
10 the disclosure of confidential information, and so I
11 would inquire how the Commission would like to handle
12 that.

13 Would -- would you want to take it up
14 now or would you want to take it up when we go into
15 confidential session about something else?

16 CHAIRMAN ARMSTRONG: I think -- has
17 everyone had a chance to sign the forms?

18 MR. OVERSTREET: I think Mr. Childers is
19 the only person who didn't sign the form.

20 MR. CHILDERS: I'd be glad to do that
21 now.

22 MR. OVERSTREET: And mist -- and he's
23 indicated he would do it, so --

24 MS. HANS: And our intern, I was just --
25 he's not had an opportunity on this case. He can step

1 out. But these --

2 CHAIRMAN ARMSTRONG: We can take a
3 moment to let them sign the forms.

4 MR. OVERSTREET: I don't have the form,
5 but he -- he indicated he would sign it, and I would
6 be fine with him signing it -- signing it later.

7 COMMISSIONER BREATHITT: There are
8 members of the public in the back who haven't signed
9 it.

10 CHAIRMAN ARMSTRONG: And who is the
11 public have not signed as well?

12 MR. OVERSTREET: None -- none of the
13 members of the public would have signed it.

14 CHAIRMAN ARMSTRONG: I think we should
15 do it now.

16 MR. OVERSTREET: Okay. Great.

17 CHAIRMAN ARMSTRONG: To the members of
18 the public, counsel has some confidentiality issues
19 that he'd like to bring up at this point, and,
20 therefore, I'm going to have to ask you to step out
21 until we resolve those, and then we will ask you to
22 come back in. You probably won't miss much, if
23 anything, but we're going to do that right now.
24 So sorry to inconvenience you.

25 MR. OVERSTREET: I'll be short.

1 MR. HOWARD: Sir, before I step out, I
2 may not be able to stay. If you'll remember when I
3 were here -- when I was here last, there was a
4 petition. I have extra signatures. I want --

5 CHAIRMAN ARMSTRONG: Yes.

6 MR. HOWARD: -- to present that. I may
7 have to go back to Louisa's. Thank you.

8 CHAIRMAN ARMSTRONG: Give that to the
9 clerk, if you would.

10 MS. ERNST: Thank you.

11 MR. GISH: You're welcome.

12 CHAIRMAN ARMSTRONG: Thank you, Mr.
13 Howard.

14 MR. OVERSTREET: Okay. Off -- off
15 broadcasting?

16 CHAIRMAN ARMSTRONG: We'll go off.

17 MS. ERNST: All right.

18 CHAIRMAN ARMSTRONG: All clear now?

19 MS. ERNST: You just need to take it --
20 there you go. Thank you.

21 CHAIRMAN ARMSTRONG: We're in
22 confidential.

23 (Confidential testimony of Gregory G.
24 Pauley heard from 2:42 p.m. through 2:50 p.m.)

25 CHAIRMAN ARMSTRONG: Stephanie, is

1 anyone else out there?

2 UNIDENTIFIED SPEAKER: No. They're all
3 in.

4 CHAIRMAN ARMSTRONG: Okay.

5 MR. HOWARD: May I proceed, Mr.
6 Chairman?

7 CHAIRMAN ARMSTRONG: Proceed.

8 MR. HOWARD: Thank you, sir.

9

10 * * *

11

12 RECROSS-EXAMINATION

13

14 By Mr. Howard:

15

16 Q Mr. Pauley, if I heard correctly before
17 we went into confidential session, Mr. Overstreet
18 asked you if you relied on additional information than
19 was otherwise included in AG's exhibits pertaining to
20 the materials that you had reviewed. Do you recall
21 that question?

22 A Believe so. Yes.

23 Q And you had previously testified that
24 this is a once-in-a-lifetime decision for the Company
25 to make, right?

1 A Sure. Yes.

2 Q And, now, might I assume that this was
3 something that was studied and studied over and over
4 and over again?

5 A A lot of conversation about it.

6 Q And the only materials that you have,
7 the written form consists of five pages. One of which
8 is an e-mail, and then four pages are of an
9 attachment, correct?

10 A That is correct.

11 MR. HOWARD: No further questions, Mr.
12 Chairman.

13 CHAIRMAN ARMSTRONG: Any other
14 questions?

15 MR. OVERSTREET: Mr. Pauley is going to
16 be here for the duration of the hearing, but may he
17 leave the stand?

18 CHAIRMAN ARMSTRONG: He may. Thank you,
19 Mr. Pauley.

20 MR. PAULEY: Thank you, Mr. Chairman.

21 CHAIRMAN ARMSTRONG: Your next witness.

22 MR. OVERSTREET: I think Mr. Fisk wants
23 to --

24 MR. FISK: Yeah.

25 MR. OVERSTREET: -- address the

1 Commission.

2 MR. FISK: We discussed with the other
3 parties, but if it would possibly be possible to take
4 our one witness, Mr. Woolf, out of order. We're just
5 hoping to get him on a flight later today, and I think
6 all the other parties were amenable to that.

7 MR. OVERSTREET: I have no objection
8 whatsoever, but it's -- it's entirely up to the
9 Commission and Staff.

10 MR. NGUYEN: Staff has no objections to
11 taking the Intervenors' witnesses out of turn, Your
12 Honor.

13 MR. KURTZ: Thank you, Mr. Nguyen. We
14 -- we would just ask for -- if -- if it -- if the
15 commission please, that the KIUC witnesses go after
16 the Sierra Club so they can get home as well.

17 CHAIRMAN ARMSTRONG: Sure.

18 MR. FISK: Thank you, Your Honor.

19 CHAIRMAN ARMSTRONG: Call your witness.

20 MR. FISK: Mr. Woolf.

21 CHAIRMAN ARMSTRONG: Good afternoon, Mr.
22 Woolf.

23 MR. WOOLF: Good afternoon.

24

25

* * *

1 TIM WOOLF, called by the Sierra Club,
2 having been first duly sworn, testified as follows:

3
4 DIRECT EXAMINATION

5
6 By Mr. Fisk:

7
8 CHAIRMAN ARMSTRONG: Have a seat. Speak
9 loud and clear. Your name?

10 THE WITNESS: My name is Tim Woolf.

11 CHAIRMAN ARMSTRONG: And what do you do?

12 THE WITNESS: I am a vice president at
13 Synapse Energy Economics, a consulting firm in
14 Cambridge, Massachusetts.

15 CHAIRMAN ARMSTRONG: And why are you
16 here?

17 THE WITNESS: I'm here on behalf of the
18 Sierra Club as an expert witness in this docket.

19 CHAIRMAN ARMSTRONG: Welcome. Your
20 witness.

21 MR. FISK: Thank you, Your Honor.

22 Q Good afternoon, Mr. Woolf.

23 A Good afternoon.

24 Q Do you have your testimony in front of
25 you?

1 A I do now. Yes.

2 Q Okay. Great. And are you the same Mr.
3 Woolf who had testimony filed in this proceeding?

4 A Yes, I am.

5 Q Okay. And did you also provide
6 responses to data requests in this proceeding?

7 A Yes, I did.

8 Q Okay. And do you have any corrections
9 to your testimony?

10 A No.

11 Q Okay. And do you have any corrections
12 to any of your data requests?

13 A No.

14 Q Okay. And if I were to ask you the same
15 questions in your testimony today, would your answers
16 be the same?

17 A Yes, they would.

18 MR. FISK: Okay. Mr. Woolf is available
19 for cross-examination.

20 MS. HANS: No cross, Your Honor, at this
21 time.

22 CHAIRMAN ARMSTRONG: Mr. Nguyen?

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

25 * * *

CROSS-EXAMINATION

1
2
3 By Mr. Nguyen:
4

5 Q Good afternoon, Mr. Woolf.

6 A Good afternoon.

7 Q Do you recall what -- the issues that
8 you raised in your testimony with respect to Kentucky
9 Power's filing?

10 A Sure. I covered several issues. Many
11 of them focused on the planning, the resource planning
12 analysis conducted by the Company to support the
13 economics of -- of Mitchell.

14 On that, I focused on energy efficiency
15 opportunities, renewable resource opportunities,
16 natural gas, and -- and the whole integrated resource
17 planning process in general.

18 And then I also focused on several
19 issues related to the -- the value of Mitchell
20 transfer, including the use of the book value for the
21 plant as opposed to the market value for the purchase,
22 and also the potential for using an RFP to investigate
23 other opportunities beyond what the Company
24 investigated.

25 Q And what was your recommendation to the

1 commission with respect to Kentucky Power's request?

2 A My recommendation was to reject the
3 application.

4 Q In light of the agreement that the
5 Sierra Club has signed, the nonunanimous stipulation
6 settlement, do you still stand by the testimony that
7 you filed in this case?

8 A I still stand by the findings and the
9 conclusions in my testimony, yes. I will add that, as
10 most of you know, in a settlement process, there are
11 decisions to be made around what kind of outcome might
12 be achieved through a settlement versus through
13 litigation, and that my client, the Sierra Club, was
14 in -- involved in those discussions.

15 I was partially involved on the side. I
16 was given some of the proposed language, but the
17 Sierra Club took the -- to the primary role in
18 negotiating what they thought would be the best
19 outcome for them in this docket, and that's what you
20 see in the settlement there.

21 Q Okay. So the terms of the agreed-to
22 stipulation settlements was beneficial from the Sierra
23 Club's perspective which sort of outweighed any sort
24 of potential litigation risks in the outcome of -- of
25 a full litigation, and that's why the Sierra Club

1 entered into the stipulation settlement; is that
2 correct?

3 A Yes, and that's my understanding of how
4 settlements typically work.

5 Q To the extent that you still have
6 reservations, concerns with respect to Kentucky
7 Power's request and proposal, do you still stand by
8 that?

9 A Yes. I still stand by the findings and
10 conclusions in my testimony.

11 MR. NGUYEN: Okay. Can you give me one
12 second, Your Honor?

13 CHAIRMAN ARMSTRONG: Uh-huh.

14 Q And based upon your -- your -- your
15 general subject matter knowledge of your review of the
16 Mitchell stations, did you provide any testimonies
17 with respect to the expected life of those two units?

18 A I looked at the Company's information
19 regarding that, but it was not a subject of my -- that
20 informed my findings or my recommendations.

21 MR. NGUYEN: Okay. Okay. Those are all
22 the questions I have. Thank you so much.

23 CHAIRMAN ARMSTRONG: Other questions?

24 VICE-CHAIR GARDNER: One question.

25 CHAIRMAN ARMSTRONG: Vice-Chair.

EXAMINATION

1
2
3 By Vice-Chair Gardner:
4

5 Q Mr. Woolf, one of the areas of your
6 testimony had to do with DSM programs for industry,
7 and you expressed, I guess, concerns, and these are my
8 words, not yours, that the Company was taking a
9 limited view of -- of -- of their responsibilities or
10 possibilities of offering DSM programs for industrial
11 customers.

12 Could you tell just a second about that,
13 and -- and do you still agree with that?

14 A Yes, I do. This is the first state that
15 I've worked in where a company doesn't offer
16 industrial energy efficiency programs. I've worked in
17 many states with -- where utilities do as a matter of
18 routine, and I was surprised to find that there wasn't
19 any here.

20 And I don't see any reason, and I still,
21 even despite the evidence presented by the Company,
22 why they shouldn't have industrial energy efficiency
23 programs.

24 They've given some reason. Some of it
25 includes the fact that the industrial makeup is a

1 little different here than other states, with mining
2 operations and petrochemical operations. Again,
3 that's not compelling to me. I think there's lots of
4 states that offer efficiency programs to those very
5 types of customers.

6 The other point the Company made was
7 that they have a -- I'm not sure of the right term. I
8 think it was set up in -- in legislation where they
9 have an opt-out provision for industrial customers.

10 Now, the way I typically see that
11 working is that utilities offer an efficiency program
12 to those customers, and if they decide that they can
13 do better with their own efficiency investments and
14 not having to pay for the system-wide benefits, then
15 they would do it on their own.

16 And in that case, they have to document
17 that they would, in fact, do more than they would if
18 they were to participate with the utility.

19 The -- the utility has, for some reason,
20 turned that around and said that because there's an
21 opt out, and -- that no customers need to be served at
22 all, and I think that's actually -- again, it's turned
23 on its head. It should be the other way around.

24 VICE-CHAIR GARDNER: Okay. Thank you.

25 * * *

EXAMINATION

1
2
3 By Commissioner Breathitt:
4

5 Q I have one question, and it -- it's
6 related to the question that Mr. Nguyen asked you on
7 market value. It's on page 45 of your direct
8 testimony.

9 A Yes.

10 Q Could you read question number 24 and
11 the first line of your response on pa -- that goes to
12 page 28?

13 A Yes. The question that begins on line
14 24, the question is: Do you expect the market value
15 of the Mitchell purchase to be less than the book
16 value?

17 The answer is: Yes. Several recent
18 power plant sales indicate that the current market
19 value of coal plants is well below the
20 \$687-per-kilowatt price that the Company is proposing
21 to purchase Mitchell for.

22 I have not conducted an assessment of
23 the details of those recent power plant sales, but
24 even a cursory review of information provided in the
25 recent trade press indicates that the price of

1 Mitchell -- of Mitchell purchase is likely to be well
2 above its market value.

3 Q And then on the next page, page 46,
4 could you start at line 10 and read the -- through
5 line 15?

6 A (Reading) As another example, Dominion
7 recently announced the sale of its Kincaid, Brayton
8 Point, and Elwood plants to Energy Capital Partners.
9 This price of this sale was estimated to be roughly
10 \$158 per kilowatt, and I cite the press release where
11 that comes from.

12 Q Yes.

13 A Most of these plants have already
14 installed scrubbers, and, again, these coal plants
15 were sold for roughly 23 percent of the price that the
16 Company is paying for the Mitchell purchase.

17 Q But you believe that the benefits that
18 Sierra has gained in the settlement outweigh -- again,
19 following up on what staff counsel asked you, outweigh
20 the disadvantages of -- that led you to say that you
21 would recommend not accepting the proposal?

22 A So, again, I affirm my findings here,
23 and I -- and I do -- I reiterate that I think that the
24 Mitchell purchase is not the least-cost option,
25 necessarily.

1 I do -- I will reiterate that I defer to
2 my client for what they think they could achieve as --
3 as a result of this docket and what package of
4 outcomes they could achieve to get sort of the best
5 outcome for their constituents and -- and for the
6 ratepayers as well. And this was, in their view, the
7 best deal that they could agree to.

8 Q What did you think the least-cost option
9 was?

10 A As I say in my testimony, and I still
11 believe, I think a lower cost option would include a
12 mixture of several resources. Some of which could be
13 done right away.

14 Some of which would take several years,
15 and that would include a mixture of enhanced energy
16 efficiency, renewable resources, both of which are
17 included in the -- in the settlement. Purchases of
18 natural gas as warranted through an RFP process to see
19 what the market value really is. Purchases of the
20 spot market in -- in new -- PJM as warranted as well.

21 And another option, which I didn't
22 mention in my testimony, but I'll include here, is as
23 a combination of all those or a part of that whole
24 combination, maybe a 20-percent purchase.

25 If, you know, for some reason the

1 Company felt and the Commission felt that all of those
2 actions weren't enough to meet the reliability
3 requirement in 2015, maybe a smaller piece would just
4 help achieve the right balance.

5 Q And in your experience, is there -- I
6 noticed that there was a renewable piece in the
7 settlement agreement.

8 A Yes.

9 Q I think it was 100 megawatts of wind?

10 A An RFP to purchase 100 megawatts --

11 Q An --

12 A -- of -- yes.

13 Q -- RFP to -- is there, from your
14 experience at your consulting firm in Cambridge,
15 enough wind resources?

16 A Oh, yes. I would -- I have no doubt
17 that they could get 100 megawatts wind. The price I
18 can't predict, but in this region, I have no doubts
19 they could get bids for that.

20 COMMISSIONER BREATHITT: Thank you. I
21 have nothing further.

22 CHAIRMAN ARMSTRONG: Mr. Fisk?

23 MR. FISK: Sure.

24 MS. HANS: I have one follow-up just
25 to --

1 MR. FISK: Oh.

2 MS. HANS: -- Commissioner Breathitt's,
3 if that's okay.

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CROSS-EXAMINATION

8

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By Ms. Hans:

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11

Q And Mr. Woolf?

12

A Yes.

13

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16

17

Q Good afternoon, sir. And I'm -- I'm
going to ask you a few questions, and if -- if you
don't know the answer, feel free to just let me know,
and we can move on. You work for Synapse; is that
correct?

18

A Yes.

19

20

21

22

Q And are you aware of a pending matter
before the Virginia State Corporation Commission
regarding a similar transaction that's occurring there
with regard to the Mitchell transfer?

23

A In West Virginia. Yes.

24

25

Q In Virg -- I'm talking about with --
pending before the Virginia State Corporation

1 Commission, not the West Virginia commission.

2 A No. I'm familiar with a purchase of
3 Mitchell in West Virginia, unless --

4 Q Okay.

5 A -- I'm getting my states mixed up, but

6 --

7 Q Okay.

8 A -- that's my --

9 Q But not --

10 A -- recollection.

11 Q -- Virginia?

12 A Not Virginia.

13 Q Okay.

14 A Not Virginia.

15 MS. HANS: No further questions then.

16 Thank you, Your Honor.

17 MR. FISK: Yeah. Okay.

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REDIRECT EXAMINATION

22

23 By Mr. Fisk:

24

25

Q Good afternoon, Mr. Woolf, again. You

1 mentioned in -- in response to questions from the
2 Staff and -- and to Commissioner Breathitt the -- the
3 stipulation, which I believe you've -- you've, at
4 least, reviewed, since it's been entered.

5 I was wondering if you could talk
6 briefly about some of the other benefits of it that
7 you were mentioning, you know, kind of weigh into --
8 weigh into it here?

9 A I'm happy to. Yeah. So the one that
10 was most relevant to my testimony is the component of
11 the settlement on energy efficiency where the Company
12 was committed to roughly doubling its energy
13 efficiency budgets as a minimum and continuing that
14 level of energy efficiency investments for several
15 years out.

16 There is the -- the RFP for wind, which
17 I think would be a positive contribution to -- to the
18 resource mix of the Company.

19 There's also a requirement to offer
20 funding for efficiency in schools in the regions. All
21 of which I find to be, you know, to ratepayers'
22 benefit and the public interest.

23 Q And do you know, is there a provision to
24 dealing with potential carbon risks in the future?

25 A Yes. So there is -- that's one of

1 the -- the risks that, you know, give me pause about
2 the whole purchase and -- and the fact that the
3 Company's, you know, sort of continuing to use coal as
4 a part of its resource mix is the risk associated with
5 compliance with future environmental regulations.

6 And, as -- as we all know, that very
7 risk was highlighted recently with President Obama's
8 announcement about where he's going to proceed with
9 that.

10 And so their settlement, I think,
11 appropriately reflect -- reflects a good way to deal
12 with that, which is, in -- in -- in sum, is the
13 Company will be required to periodically review the
14 economics of continued operation of the plant, either
15 at the request of the Commission or -- or the
16 Intervenors, and if there's a finding that the plant
17 is no longer economic because of new developments in
18 environmental compliance costs, it will shut down the
19 plant, and there is a proposal for how those costs
20 would be treated in rates, and I think that makes a
21 lot of sense in this context.

22 MR. FISK: I have nothing further.

23 MS. HANS: With regard to that last
24 statement, if I may.

25 CHAIRMAN ARMSTRONG: Uh-huh.

1 MS. HANS: I just have one question.

2
3 * * *

4
5 RECROSS-EXAMINATION

6
7 By Ms. Hans:

8
9 Q Where in the settlement agreement, when
10 you're referencing that, if you recall, does that --
11 yeah. Does -- does --

12 A Sure.

13 Q -- that language -- and just in
14 response. I just -- I'm looking for just a reference.

15 A If I recall, it's towards the end.

16 Q Yeah. The la -- the last comments about
17 the benefits, if further issues with regarding to the
18 president's campaign comes. Is that -- just -- just
19 for the record, is that paragraph 21?

20 A Well, it starts at -- at 6 -- or no.
21 No, it doesn't. Let's see here. Yes. 21.

22 Q Okay.

23 A That's what I'm referring to.

24 MS. HANS: And give me just one moment.
25 That's all. I just wanted to get a reference for the

1 record. Thank you, sir.

2 MR. FISK: I have nothing further.

3 CHAIRMAN ARMSTRONG: You're excused.

4 Thank you very much.

5 THE WITNESS: Thank you.

6 MR. HOWARD: Yeah.

7 MS. HANS: Okay.

8 CHAIRMAN ARMSTRONG: Mr. Fisk, any other
9 further --

10 MR. FISK: I have nothing further.

11 MR. HOWARD: Your Honor, if we're going
12 to take the KIUC witnesses, we would --

13 CHAIRMAN ARMSTRONG: Yes.

14 MR. KURTZ: Thank you. We'll -- Mr.
15 Hayet.

16 CHAIRMAN ARMSTRONG: Afternoon.

17 MR. HAYET: Good afternoon.

18 CHAIRMAN ARMSTRONG: Be sworn.

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1 PHILIP HAYET, called by KIUC, having
2 been first duly sworn, testified as follows:

3
4 DIRECT EXAMINATION

5
6 By Mr. Kurtz:

7
8 CHAIRMAN ARMSTRONG: Have a seat. Speak
9 loud and clear. Your name?

10 THE WITNESS: My name is Philip Hayet.

11 CHAIRMAN ARMSTRONG: Where are you from?

12 THE WITNESS: Atlanta, Georgia.

13 CHAIRMAN ARMSTRONG: And why are you
14 here?

15 THE WITNESS: I'm testifying on behalf
16 of KIUC in this proceeding.

17 MR. KURTZ: Thank you, Mr. Chairman.

18 CHAIRMAN ARMSTRONG: Your witness.

19 Q Mr. Hayet, do you have in front of you a
20 document entitled Direct Testimony and Exhibits of
21 Phil -- Phil Hayet Amended?

22 A I actually have it in my briefcase. I
23 should have grabbed that one, and I could. It would
24 take me one second. I have the unamended testimony.

25 Q Well, that should be fine. Were

1 these -- was this testimony prepared by you or under
2 your direct supervision?

3 A Yes, it was.

4 Q Do you have any corrections or additions
5 you'd like to make?

6 A Actually, I would like to grab that. I
7 picked up the wrong one. I'm sorry. I have it.

8 Q Okay. Now, do you have any corrections
9 or additions to make to this testimony?

10 A I have one correction to make on page
11 20, and that would be on line number 7. I indicated
12 January 2015 on that line. That should have been
13 January 2014.

14 Q Okay. With that change, if I were to
15 ask you the same questions as those contained herein,
16 would your answers be the same?

17 A They would.

18 MR. KURTZ: Mr. Chairman, the witness is
19 available for cross.

20 MR. GISH: Kentucky Power has no cross.

21 MR. HOWARD: No questions at this time,
22 Mr. Chairman.

23 MR. NGUYEN: Just a couple, Chairman.

24 Thank you.

25 CHAIRMAN ARMSTRONG: Proceed.

CROSS-EXAMINATION

1
2
3 By Mr. Nguyen:
4

5 Q Good afternoon, Mr. Hayet.

6 A Good afternoon.

7 Q You filed testimony in this case, right?

8 A Yes, I did.

9 Q Okay. And can you just provide just a
10 brief synopsis of issues that you identified with
11 respect to Kentucky Power's request?

12 A Yes. On behalf of KIUC, I analyzed the
13 Company's economic evaluation. I evaluated data
14 assumptions, I evaluated their output results, and I
15 proposed an alternative expansion plan, if you will,
16 to the case that the Company provided, and I provided
17 my analysis associated with that case as well as some
18 sensitivity analysis.

19 Q And your evaluation and analysis that
20 you just mentioned was conducting a -- sort of a rerun
21 of the Strategist's modeling that was conducted by the
22 Company based upon their own set of assumptions and --
23 and inputs?

24 A Yes. I did use the Company's model, and
25 I used the Company's database, and I made some

1 modifications to the database to develop my own case.

2 Q Okay. And what were the modifications
3 that you made to the Company's database?

4 A The modifications had to do with the
5 fuel price forecasts that the Company had used. I
6 made modifications to natural gas prices, to coal
7 prices. I changed market price -- the market price
8 forecast, and I made changes to the capacity costs
9 that the Company used for the ICAP capacity cost
10 pricing.

11 Q Okay. And why did you make those
12 changes?

13 A It was my opinion that the Company's
14 costs were -- fuel costs were out of date. They had
15 used 2011 forecast, basically, and in a con -- in an
16 analysis I conducted of their fuel cost to other
17 sources of fuel costs that are more current, I
18 determined that I felt as if their forecasts were too
19 high, and I lowered their natural gas forecast and
20 other forecasts.

21 Q And your recommendation was what?

22 A In terms of the overall recommendation
23 --

24 Q In terms of --

25 A -- or --

1 Q -- the overall recommendation.

2 A -- as it relates to the fuel cost?

3 Q No. In terms of the overall
4 recommendation. Your -- your -- your final conclusion
5 with respect to what your analysis reached.

6 A The final conclusion that I had reached
7 was that there was an alternative expansion plan that
8 could -- to the acquisition of 50 percent of Mitchell
9 that may have been more economic than -- than the
10 alternative the Company proposed.

11 Q And in terms of the retirement of the
12 Big Sandy 2, was there a proposal or a recommendation
13 on your part with respect to when Big Sandy 2
14 should -- should be retired?

15 A Well, the -- the -- essentially, we
16 accepted the Company's decision to retire Big Sandy 2
17 June 2015.

18 Q And in light of the agreement entered
19 into by KIUC, with respect to the nonpartial
20 stipulation and settlement, in light of that, do you
21 still stand by your testimony that you filed and the
22 findings and the conclusions represented therein?

23 A I still agree with my findings at this
24 point. I believe that the settlement represents a
25 fair resolution of those taking into consideration

1 all -- all outcomes, and the settlement itself has
2 features that -- that I think are reasonable.

3 MR. NGUYEN: And I may reserve this,
4 Your Honor, perhaps to go into a confidential session,
5 but let me just ask one foundation question to see if
6 we need to do that.

7 Q Are you aware of the filing that was
8 made by the Company on June 28th with respect to their
9 analysis of the RFP that was issued for Big Sandy Unit
10 1?

11 A Yes.

12 Q Okay. Did you conduct any -- did -- did
13 you conduct any -- did you review and conduct any
14 formal analysis with respect to their filing?

15 A I have reviewed the analysis but have
16 not connected -- conducted any formal, given the
17 timing that -- of this proceeding.

18 Q So have you made any -- have you drawn
19 any determinations or conclusions with respect to the
20 analysis that was conducted by Kentucky Power?

21 A I suppose I've drawn some, but I would
22 hesitate to say that the -- that any of my
23 conclusions, at this point, would be we -- would be
24 complete. I think that easily there could be other --
25 other findings that I could make, but I've drawn some

1 conclusions.

2 MR. NGUYEN: Can you give me one second?
3 Those are all the questions I have, Your Honor. Thank
4 you.

5 VICE-CHAIR GARDNER: I have a few
6 questions.

7 CHAIRMAN ARMSTRONG: Vice-Chair.

8

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EXAMINATION

12

13 By Vice-Chair Gardner:

14

15 Q And you're Mr. Hayet?

16 A It's Hayet, actually.

17 Q Hayet. Excuse me. I was out of the
18 room retrieving your testimony, because it was taken
19 out of order, so I apologize for --

20 A No -- no apology necessary. I think I
21 probably get called that every day.

22 Q One of the things in your testimony you
23 talk about is you ba -- basically looked at the
24 impairment analysis that the Company performed for a
25 different purpose --

1 A Yes.

2 Q -- and you pointed out inconsistencies
3 between the impairment analysis and what was presented
4 in the application. And then you also -- as I
5 understand it, you got -- or your clients paid for you
6 to have access to the Strategist model; is that -- is
7 that correct?

8 A That's correct.

9 Q Okay. And so this is an -- a really
10 gross overstatement, but of those two general concerns
11 that you raised, one was the impairment analysis, and
12 the other was your own modeling using different
13 assumptions in Strategist. Which of those two did you
14 find more compelling in your own mind?

15 A Well, they both involve Strategist
16 modeling. They both --

17 Q Okay.

18 A -- involve u -- the use of different
19 assumptions. The -- the first set of analyses that I
20 performed, my results, if I could talk about -- in
21 answering your question, if I could talk about the way
22 I conducted my results and presented them.

23 I essentially provided three tables
24 in -- in my testimony, and the results in the first
25 table looked at a comparison of the Company's cases to

1 our perf -- preference for a 20-percent -- to acquire
2 20 percent of Mitchell instead of 50 percent and to
3 convert Big Sandy 1 to natural gas.

4 In addition to that, we had data
5 assumpt -- or I had data assumption changes that
6 included changes to natural gas and then changes to
7 the capacity cost assumption that the Company had
8 made.

9 And, essentially, the -- the -- the --
10 well, what I should say now is -- is the second case
11 that I did then added, essentially, coal price
12 changes, because we felt -- or I felt that the coal
13 prices that were modeled also may have not properly
14 captured an accurate forecast, so I adjusted that.

15 By doing that, what I found is it was
16 even more compelling to -- to do the 20-percent Mi --
17 Mitchell acquisition at that point.

18 Finally, the third analysis, which is my
19 table three, it -- it presented lower benefits
20 compared to the last one that I just talked about, but
21 I did not change coal prices, so I may have had
22 greater benefits to the acquisition of 20 percent of
23 Mitchell. But the third one was the impairment
24 analysis.

25 I'm not quite sure I can answer your

1 question which one did I find the most compelling.
2 They had their -- their different functions. I think
3 taken together, it -- it added to the conviction of
4 the 20 percent being better than 50. And that was at
5 that stage prior to any consideration of the
6 settlement.

7 Q Tell me how the -- I'm a little confused
8 about the linkage between Big Sandy 1 and Big Sandy 2.
9 How did that come about in your -- in your study
10 that -- that what you did with Big Sandy 2 inform --
11 excuse me. Big Sandy 1, whatever that was, informed
12 the decision with --

13 A Right.

14 Q -- respect to Big Sandy 2.

15 A Well, for one thing, we -- there is
16 probably ano -- number of reasons that -- that we
17 considered the Big Sandy 1 gas. We were -- that is
18 the -- you know, the people that I work with, Mr.
19 Kollen and so forth.

20 The Big Sandy 1 gas to us presented an
21 opportunity to continue to have a generating unit at
22 Big -- at the Big Sandy plant continue to operate
23 instead of being shut down.

24 It diversified the resources by allowing
25 a conversion to gas instead of coal, so that that

1 change from essentially 100-percent mix of coal to
2 something less than 100 percent and the utilization of
3 natural gas. So it was our interest then in pursuing
4 a resource plan that had -- that -- that contained Big
5 Sandy 1.

6 Furthermore, through analysis of the
7 Aurora modeling, I could see that there appeared to
8 be -- when you considered more of a risk-base
9 analysis, where you looked at a wider range of changes
10 to your input assumptions, in the approach that Aurora
11 takes, and -- and we didn't acquire that model, but I
12 can see through that analysis, it seemed that Big
13 Sandy 1, in a risk-based analysis, wound up in the
14 optimal plan from that analysis.

15 So that was another clue that -- that an
16 expansion plan that contained Big Sandy 1 might become
17 more of an optimal resource plan.

18 VICE-CHAIR GARDNER: Okay. That's all.
19 Thank you, sir.

20 THE WITNESS: Thank you.

21 MR. KURTZ: Your -- Your Honor, I do
22 have some redirect.

23 CHAIRMAN ARMSTRONG: Yes.

24

25

* * *

REDIRECT EXAMINATION

1
2
3 By Mr. Kurtz:

4
5 Q Mr. Hayet, just let's summarize. The --
6 your -- KIUC proposal, litigation position was to
7 convert Big Sandy Unit Number 1 to natural gas,
8 correct?

9 A Yes.

10 Q And to buy 20 percent of Mitchell
11 effective June of 2015?

12 A Correct.

13 Q And to then fill the -- the -- any
14 needed energy or capacity with market purchases until
15 a longer-term resource was -- was developed?

16 A That's correct.

17 Q Okay. Now, the -- the stip -- the
18 partial stipulation has Big Sandy 1 natural gas
19 conversion, correct?

20 A That's correct.

21 Q Okay. So about \$60 million, you get 268
22 megawatts of gas-fired capacity?

23 A Yes. Yes.

24 Q How'd that -- what is that per kW or per
25 megawatt day? Can you do a quick -- is that a pretty

1 good deal?

2 A No. I may actually have that to just
3 tell you what that is. If you give me one second,
4 I'll tell you that that would be -- that's
5 approximately \$190 a kW.

6 Q Okay. Go ahead. What's the cost of a
7 new combustion turbine, for example?

8 A A new combustion turbine on a
9 dollar-per-kW basis might be \$700 a kW.

10 Q Now, the other part -- next part was 20
11 percent of Mitchell June 1, and that was your
12 testimony, but the settlement is 50 percent of
13 Mitchell --

14 A Yes.

15 Q -- correct?

16 A That's --

17 Q Now --

18 A -- correct.

19 Q -- one of the detriments of owning
20 Mitchell early is you've got to pay for it early,
21 right?

22 A That's correct.

23 Q Now, are you aware of the settlement
24 pro -- provision that has a \$44-million-per-year cost
25 of owning that asset?

1 A Yes, I am.

2 Q Were you here earlier when the Attorney
3 General introduced AG number 5, which was the
4 calculation of the fixed cost of Mitchell Unit Number
5 2 in -- in response to a data request?

6 A I was here. I'm not sure I've reviewed
7 that --

8 Q Now --

9 A -- to -- to be able to --

10 Q -- assume that this sub -- line 21 on
11 page --

12 A I don't have that in front of me.

13 MR. KURTZ: Could I approach the
14 witness?

15 MR. OVERSTREET: I've got one, Mike.

16 MR. KURTZ: Okay.

17 Q I know -- I know you're not the revenue
18 requirements man, that's Mr. Kollen, but --

19 A That's right.

20 Q -- if you turn to the place where
21 there's some handwritten -- handwritten notes, and
22 there's highlighted in yellow.

23 A Yes. I see that.

24 Q See line 21?

25 A Yes.

1 Q You understand to be the -- the -- the
2 nonfuel fixed cost of owning Mitchell of
3 137,841,000 -- 137 million?

4 A Yes.

5 Q Okay. So 44 million per year is pretty
6 good compared to 137 -- 137 million per year --

7 A That's -- that's a decrease. A pretty
8 substantial --

9 Q Is that --

10 A -- decrease. It's about 90 -- 90 -- 97
11 million.

12 Q Does that take some of the sting off of
13 owning it early?

14 A I think so. Yes.

15 Q Okay. The -- one -- now, your study and
16 the Company's study assumed the same thing about the
17 Rockport units, did it not?

18 A That's correct.

19 Q What -- what was that assumption?

20 A That there would -- that at the time
21 that the leases on the Rockport resources are up, and
22 that'd be six to ten years from now, that those would
23 be extended under similar terms and conditions.

24 Q Now, is Kentuck -- is the Commission
25 obligated to approve an extension of those leases?

1 A No, they're -- they're not. In fact, if
2 it turned out that there were environmental matters
3 that were of concern, CO2 issues, then the Rockport
4 units could -- the Commission could and the Company
5 could decide not to renew those leases at that time.

6 Q Okay. And just to be clear. The -- the
7 two -- Rockport Unit 1 is 1,300 megawatts. Rockport
8 Unit 2, 1,300 megawatts?

9 A Yes.

10 Q Kentucky Power has a lease for 15
11 percent of each?

12 A Right. I think --

13 Q Hundred ninety-five megawatts per unit?

14 A That's correct.

15 Q Okay. So if it -- if it turned out
16 that -- six to ten years from now that the Rockport
17 units were no longer least cost, the Commission
18 could or -- or Kentucky Power could elect not to
19 extend, and -- and that -- and, at that point,
20 diversify the -- the generation mix even further?

21 A That's correct.

22 Q Okay. 'Cause Rockport's coal?

23 A That -- that's additional coal for the
24 association.

25 Q What is your general belief about the --

1 the cost and the quality of the -- of the Mitchell
2 units?

3 A That Mitchell -- well, first of all, we
4 know about Mitchell that it's been an upgraded
5 facility in terms of all the environmental
6 requirements.

7 So a lot of the utilities in the country
8 are struggling with their coal capacity to try to meet
9 environmental requirements that we know about today.
10 The MATS rule, for example. And those are requiring
11 scrubbers and baghouses and SCRs and that sort of
12 thing.

13 So what we know about Mitchell, at
14 least, is that it has all of those things already
15 done, or -- or -- or mostly all done.

16 And then the second thing we know is
17 that it's an efficient unit, relatively efficient coal
18 unit. So that provides a benefit in terms of a
19 comparison of one coal unit to the next. So I think
20 those are the things that we know about the Mitchell
21 unit.

22 Q As with all coal units --

23 MR. HOWARD: Mr. Chairman, at this
24 point, we'll -- we'll object. I mean, this is, you
25 know, going beyond the -- the -- the realm. I mean,

1 this is his witness.

2 MR. KURTZ: I'm redirecting my witness
3 based upon --

4 MR. HOWARD: You're --

5 MR. KURTZ: -- the cross --

6 MR. HOWARD: You're --

7 MR. KURTZ: -- examination of the --

8 MR. HOWARD: Cross --

9 MR. KURTZ: -- Staff.

10 MR. HOWARD: -- examination of Staff,
11 but I think you're going far outside the parameters
12 that the Staff pursued.

13 MR. KURTZ: Well, this is directly
14 relevant to the Staff questions. Actually, the
15 Vice-Chairman's questions as well.

16 MR. HOWARD: I've noted my objection. I
17 think that he's exceeding the cross --

18 CHAIRMAN ARMSTRONG: Go ahead and finish
19 up your --

20 MR. KURTZ: Thank you.

21 Q Would you consider the greenhouse gas or
22 CO2 to be one of the biggest risks associated with
23 coal generation?

24 A Very much so. Especially now after the
25 recent news from President Obama coming out, as far as

1 the -- the statement that he is going to try to use
2 his power through the EPA to impose CO2 regulations.

3 Q The Company claims that was not a big
4 surprise to it. Was -- was that announcement a big
5 surprise to you?

6 A No. I think that most people are
7 study -- conducting studies assuming CO2 costs. The
8 question is -- the -- the only question really is when
9 might CO2 costs be -- be imposed.

10 Q How much CO2 costs and when was included
11 in -- in the economic studies that you've done?

12 A It would be 2022, and I guess it's
13 not -- not a confidential number, but I'll get exact.
14 Let me -- I have that right here. It's -- yeah. It
15 was \$15 a ton.

16 Q So \$15 a megawatt hour, essentially,
17 for --

18 A On that order. It's approximately that.

19 Q Okay. Now, you're familiar with
20 paragraph 21 of the partial settlement?

21 A Yes, I am.

22 Q Okay. Now, under paragraph 21, is it
23 your understanding if this commission ever determines
24 that Mitchell is no longer least cost because of CO2,
25 it can retire the unit on a regulatory basis?

1 A Yes. That's correct.

2 Q Okay. This was regardless of what West
3 Virginia may say or what FERC --

4 A Right.

5 Q -- may say or what PJM may say? This
6 commission has a total authority is your
7 understanding?

8 A That -- that is my understanding. It
9 has -- has the authority to cause the retirement of
10 the unit, and, therefore, at that point, that amount
11 of co -- it would not be subjected to any further
12 co -- environmental costs that -- that would be
13 incurred such as the CO2 costs.

14 Q And -- and, at that point, the Company
15 would get a return of their investment at Mitchell but
16 at a debt-only return, correct?

17 A Correct.

18 Q And that would be over a period of time
19 let -- that the Commission thought was reasonable?

20 A That the Commission determines.

21 Q Okay. Now -- so, essentially, is it
22 your understanding that the Commission could -- if
23 Mitchell was no longer least cost, essentially give it
24 back and just give the Company back their asset at a
25 debt -- and they just get a debt return on the

1 investment?

2 A Right. They'd still have to pay the
3 debt return, but then -- but they could give it back,
4 and, like I said, they wouldn't have to incur any
5 further cost.

6 Q Okay. You were asked questions about
7 the RFP results and your general familiarity with
8 those?

9 A Yes.

10 MR. KURTZ: I know -- I know it's an
11 inconvenience, but I would like to ask this witness
12 about the -- there's a summary of the RFP results that
13 is confidential. It's a summary page to one of the
14 AEP witness' testimony. So I would ask to go into the
15 confidential portion of the record.

16 MR. OVERSTREET: We have no objection,
17 Your Honor.

18 CHAIRMAN ARMSTRONG: Okay. Ready to go
19 into confidential testimony, so thank you for leaving.

20 Q Mr. Hayet, if -- if you -- do you have
21 a -- this is attachment to the --

22 MR. OVERSTREET: Excuse me, Mr. Kurtz.

23 MR. KURTZ: Okay.

24 MR. OVERSTREET: I don't think we're off
25 the air yet. There we go. Thank you.

1 (Confidential testimony of Philip Hayet
2 heard from 3:34 p.m. to 3:37 p.m.)

3 MR. HOWARD: Mr. Chairman, I do have one
4 question. I'm sorry. We're back on the public
5 record.

6 CHAIRMAN ARMSTRONG: Back on record.

7 MR. HOWARD: We're on the record. If
8 anybody invited --

9 CHAIRMAN ARMSTRONG: Yes. Many have
10 left the building.

11
12 * * *

13
14 CROSS-EXAMINATION

15
16 By Mr. Howard:

17
18 Q Mr. Hayet, do I understand correctly
19 when asked a few moments ago, and I don't recall
20 whether it was by Staff or by one of the
21 commissioners, that you have not drawn any significant
22 or conclusionary decisions or analyses regarding the
23 information pertaining to the RFP for Big Sandy 1?

24 A No. That's not what I said.

25 Q Okay. Please correct me. You -- you

1 said that you had reviewed the information?

2 A Yes, I did. I said I had reviewed the
3 information. I said I had not done a complete --
4 and -- and, for example, I haven't gone through the
5 Big Rivers second option, for example, the -- the one
6 that -- that has the information --

7 MR. GISH: Mr. Chairman --

8 MS. HANS: We're back on the public.

9 MR. GISH: We're back on the public, and
10 the -- the nature of the bids and the bidders into
11 the -- into this process are -- are confidential.

12 MR. HOWARD: I thought that that was in
13 the public domain.

14 MR. OVERSTREET: No.

15 MR. GISH: No. We -- we have sought
16 confidential treatment for the -- the -- all the
17 information regarding to the proposals submitted in
18 response to the RFP, including the -- the pro -- the
19 bidders.

20 MR. HOWARD: Okay. So, I mean, I wasn't
21 trying to -- I mean, so he's giving information that's
22 confidential. I mean, I was just wanting to make sure
23 that -- my question was simply that he had not -- it
24 was based on what -- what I thought was in the public
25 domain.

1 That it was my understanding that the
2 witness had responded that -- in an answer that was in
3 the public domain that he had not reached a final
4 conclusion as to the information that was contained in
5 the materials submitted pertaining to the RFP.

6 MR. GISH: Okay. And I understand that,
7 but to the -- to the extent you start asking questions
8 about specific bids in response to that --

9 MR. HOWARD: I have no intention of
10 doing that. I'm just wanting to know, it was my
11 understanding a few moments ago that he said that he
12 had not drawn a complete conclusion. I don't know if
13 that was to Commissioner Breathitt or --

14 MR. NGUYEN: Mr. Howard, that was to my
15 question, but he -- he didn't mention the name of the
16 bidder. So to the extent there were any, you know,
17 statement as to who the bidder was, that's -- that
18 actually should have been in confidential.

19 MR. HOWARD: Okay. And -- and I'm not
20 asking for -- for bidder information. It was my
21 understanding he had not drawn a complete conclusion.
22 That's -- that's what I meant to ask.

23 A Okay. Well, the -- the question I asked
24 is have I reviewed this, and the answer was yes. The
25 question was asked have I done any formal analysis of

1 this, and I said no, I had not, but I have reviewed
2 it, and there -- there are probably other conclusions
3 that I would reach, and -- and I have a perfect
4 example I could give, but it would be a confidential
5 answer.

6 Q Again, you're -- you're saying that you
7 do not have a complete review, right?

8 A I did not conduct any formal analysis,
9 and I did not go through everything, so that is true.
10 Yeah.

11 MR. HOWARD: Okay. That's -- that's the
12 only -- that's -- thank you.

13 MR. NGUYEN: Your Honor, just --

14 CHAIRMAN ARMSTRONG: Yes.

15 MR. NGUYEN: -- a few questions for
16 point of clarification.

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RE-CROSS-EXAMINATION

21

22 By Mr. Nguyen:

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24

25

Q I believe your testimony in response to
Mr. Kurtz's question with respect to the -- the

1 Mitchell units, and that -- their efficiency and with
2 respect to their air quality control systems, you had
3 mentioned you grouped in a number of -- of -- of items
4 there, and you mentioned a baghouse fabric filter, and
5 that they were -- all -- had all been included in it,
6 but then you backed off that statement that -- to say
7 mostly.

8 So I just want to clarify for the record
9 that the Mitchell units do not have, currently,
10 baghouse fabric filters --

11 A I do think it -- as I recall back to the
12 answer I gave that I did say mostly or some hedging
13 that way, because you're right. There's -- there is a
14 possibility of a bag -- the need for the baghouse,
15 though there is no conclusion on that, but there is --
16 there is a question on that.

17 MR. NGUYEN: Okay. Thank you. That's
18 all the questions.

19 CHAIRMAN ARMSTRONG: Yes. Vice-Chair.

20
21 * * *

FURTHER EXAMINATION

1
2
3 By Vice-Chair Gardner:
4

5 Q Okay. Just following up on a couple
6 things. So the -- your qualifier mostly was referring
7 to the baghouse issue?

8 A Well --

9 Q Or was there anything else?

10 A The table, if -- if I could point you
11 to, there's a table three in Mr. Weaver's testimony,
12 and there are additional -- which were captured in the
13 analysis, but there are additional nonrecurring
14 Mitchell environmental costs that are going to be --
15 that are going to have to be done, and that's outside
16 of the \$536 million cost associated with it, but
17 that -- but like I said, that -- that was known, that
18 was captured in the analysis.

19 The one question that was not, I think,
20 that Staff just mentioned was the question about
21 baghouses, and that's -- that was one cost that was
22 not necessarily captured in the analysis, though I
23 captured it in my testimony, and I did analyze that.

24 Q Okay. Tell -- tell me, what does --
25 what is not included -- what costs are not included

1 with a debt-only carrying cost? In other words,
2 what -- what concession has been made in the event
3 that this commission determines that it's no longer
4 least cost --

5 A Yeah.

6 Q -- and therefore -- this is paragraph 21
7 of the settlement --

8 A Twenty-one.

9 Q -- and therefore --

10 A Correct. Yeah.

11 Q -- the concession is they only get a
12 debt -- they get only a -- you know, debt-only
13 carrying cost, and I want to know what costs are
14 not -- will they not be recovering.

15 A Well, the -- oh. What -- besides the
16 debt that --

17 Q 'Cause the debt, they're going to get.

18 A They wouldn't get an equity-related
19 component. They would get a debt-related.

20 Q Okay. So what other co -- and tell me
21 what other costs there are.

22 A Well, the co -- from the perspective of
23 the cost, if the Commission were to decide that, for
24 example, the CO2 costs were too high, and, for
25 example, an evaluation was done as part of an IRP at

1 that point, looking at projections, and a
2 determination was made that the added co -- for
3 example, CO2 costs are -- are too high, then the
4 commission, at that point, would be able to say,
5 "Look, retire it."

6 At that moment, any additional fixed
7 costs that would be spent on an ongoing basis would --
8 would be avoided, and certainly, since it's no longer
9 operating, fuel costs and O&M costs and CO2 costs
10 would be avoided at that -- from that point on.

11 The only thing that would have -- happen
12 at that point is that the investment that -- that --
13 that's been made, the capital investment to that point
14 that has been recovered from the ratepayers on an
15 ongoing basis would still have to be -- continue, but
16 it would be done such that the only recovery would be
17 made would be based on a debt-only component. There
18 would not be an equity-related component.

19 Q Okay. Thank you. And then I had one
20 final question, and this was trying to follow your
21 response to Mr. Kurtz's question on AG Number 5,
22 the -- the -- the table. If you could walk me through
23 what -- what you -- I mean, I know you said -- I know
24 --

25 A Yeah.

1 Q -- this is not yours. This is Mr.
2 Kollen's.

3 A Right. Right.

4 Q But -- but his -- what was his -- his
5 question to you about comparing the Mitchell -- the --
6 the difference in those costs and where those appear?

7 A Well --

8 Q First of all, what page?

9 A I don't see a page number.

10 Q But -- but is this the -- or are you on
11 the page with the lines drawn on it? Okay. Thank
12 you. Okay. So we're on that page?

13 A Yes.

14 Q So if you could walk me through that
15 again, please. I didn't catch that.

16 A If you would look at line number 21 that
17 reads, (Reading) Subtotal Mitchell revenue
18 requirements, the number that you see all the way to
19 the right under esti -- under the third dollar column,
20 estimated change, indicates that there is a revenue
21 requirement increase of \$138 million that would have
22 to be recovered effectively. And the --

23 Q Is this in the next 17 months -- or in
24 the 17 months from January 1st or is --

25 A I think that's a 12-month period, but

1 I'm not completely sure. I think that's the sort of
2 thing that Mr. Kollen --

3 Q Okay.

4 A -- could --

5 Q If you --

6 A -- answer better.

7 Q -- prefer, I could just ask him that,
8 these questions.

9 A I think Mr. Kollen is better to -- to
10 ask about these --

11 Q Maybe Mr. Kurtz can ask Mr. Kollens to
12 walk through that a little clearer for me.

13 MR. KURTZ: I will do it.

14 VICE-CHAIR GARDNER: Great. Thank you.
15 Thank you.

16 CHAIRMAN ARMSTRONG: Anything further?
17 Thank you.

18 THE WITNESS: Thank you.

19 MR. KURTZ: Your Honor, we call Mr.
20 Kollen.

21 CHAIRMAN ARMSTRONG: What time's their
22 plane leaving?

23 MR. FISK: Mike.

24 CHAIRMAN ARMSTRONG: Mr. Kurtz?

25 MR. KURTZ: Oh, I'm sorry.

1 CHAIRMAN ARMSTRONG: Are they trying to
2 catch a plane, did you --

3 MR. KURTZ: Yes.

4 CHAIRMAN ARMSTRONG: -- say? What time
5 is it?

6 MR. KURTZ: Well, they're here --
7 they're heel -- here until the end of the day, and
8 then we'll get them home, but they're -- thank you for
9 taking them out of order.

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LANE KOLLEN, called by KIUC, having been
first duly sworn, testified as follows:

15

16

DIRECT EXAMINATION

17

18

By Mr. Kurtz:

19

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21

CHAIRMAN ARMSTRONG: Have a seat. Your
name?

22

THE WITNESS: My name is Lane Kollen.

23

CHAIRMAN ARMSTRONG: And what do you do?

24

25

THE WITNESS: I'm an economic consultant
with the firm of J. Kennedy & Associates,

1 Incorporated, and I'm here today on behalf of KIUC.

2 CHAIRMAN ARMSTRONG: Where are you
3 located?

4 THE WITNESS: Located in Roswell,
5 Georgia.

6 CHAIRMAN ARMSTRONG: And why are you
7 here?

8 THE WITNESS: I'm here to address a
9 number of issues with respect to the Company's
10 requests, including some policy issues, the principles
11 and policies that we think the Commission should
12 consider, the timing of the acquisition of the
13 Mitchell units.

14 Also to summarize KIUC's position, and
15 to address the Company's request for deferral of costs
16 related to study of the -- the wet scrubber and the
17 dry scrubbers.

18 MR. KURTZ: Thank you --

19 CHAIRMAN ARMSTRONG: Your witness.

20 MR. KURTZ: -- Mr. Chairman.

21 Q Mr. Kollen, do you have in front of you
22 the direct testimony and exhibits of Lane Kollen?

23 A I do.

24 Q Do you have any corrections or additions
25 you'd like to make to that?

1 A No.

2 Q If I were to ask you the same questions
3 as those contained herein, would your answers be the
4 same?

5 A Yes.

6 MR. KURTZ: Your Honor, the witness is
7 ready for cro -- cross.

8 MR. HOWARD: Mr. Chairman, what I'll do
9 is I'll try to pick up with where Mr. Gardner wanted
10 Mr. Kurtz to go, and I'm sure Mr. Kurtz will explore
11 it further.

12

13 * * *

14

15 CROSS-EXAMINATION

16

17 By Mr. Howard:

18

19 Q If I understood correctly, when Mr.
20 Kurtz was referring to Exhibit 5, which is line 21.
21 Do you see that amount of 138 -- approximately a
22 million dollars?

23 A I do.

24 Q And he was talking about in a
25 stipulation, that the parties had agreed to that

1 stipulation to only agree to revenue of \$44 million?

2 A Yes, through the tracker.

3 Q Right.

4 A Or the tracker.

5 Q So and that \$44 --

6 A Yes.

7 Q -- million would go into effect when?

8 A Would go into effect January 1, 2014.

9 Q Okay. Once -- and -- and -- and the
10 Company has indicated in the stipulation, and the
11 parties have agreed to the stipulation, that at some
12 point in December of 2014, the Company will come in
13 and -- and seek a rate case to recover its costs for
14 the Mitchell case, correct?

15 A Yes. That's correct.

16 Q And also for the retirement of Big Sandy
17 2, correct?

18 A No, not specifically, because the Big
19 Sandy 2 costs presently are end base rates, and that
20 includes all of the operating expenses, nonfuel, of
21 course, as well as the investment cost, the
22 depreciation of the return on.

23 But what the settlement agreement
24 provides for is that all of those costs come out of
25 base rates at that time, and the only remaining costs,

1 which are the remaining investment and the return,
2 would then be recovered through the -- the -- the
3 tracking surcharge.

4 Q So while the -- currently, there would
5 be -- instead of \$138 million charge, assuming that
6 the application were to be approved as filed, it would
7 be 44 in the stipulation, correct?

8 A Yes. That's correct.

9 Q But when the Company comes in and seeks
10 its recovery for the Mitchell costs, it's going to
11 recapture those costs that it hasn't otherwise
12 recaptured already, right?

13 A Well -- well, that's true, but remember
14 too that the Big Sandy 2 costs will go down
15 significantly. You won't have any operation of
16 maintenance expense any -- any longer in base rate, so
17 that would be an offset. It would significantly
18 reduce the \$137 million.

19 You wouldn't have any O&M expense. You
20 wouldn't have any property tax expense. You wouldn't
21 have any insurance expense. All of these expenses
22 fall out. And, in fact, even the depreciation and the
23 return on the Big Sandy 2 investment comes out of base
24 rates and then, in turn, is recovered through the
25 tracker on a levelized basis.

1 So normally in rate making, as the asset
2 depreciates, the road to requirement declines over
3 time, and what the settlement does is it -- it -- it
4 reduces that higher level cost in the first years once
5 Big Sandy is removed from base rates, and it levelizes
6 it, and so there's a benefit to ratepayers right up
7 front.

8 And so you get -- you get taken out of
9 base rates at the peak level of Big Sandy 2 for the
10 depreciation and the return on, and what instead you
11 get replaced through the tracker is a much lower
12 amount, because the recovery will take place on a
13 levelized basis. So that's a significant ratepayer
14 benefit.

15 Q Now, percentagewise, can you explain to
16 me what that would be on a going-forward basis?

17 A You know what? I don't know what it
18 would be. This -- this schedule here does not show
19 what the Big Sandy 2 reduction is, and I don't have --
20 I don't have the reduction from what is presently in
21 base rates --

22 Q But we do --

23 A -- but it would substantially reduce
24 this increase.

25 Q But we do know that the amount that the

1 Company is not able to -- to capture in this 17 to
2 18-month lag period, which is \$44 million per annum,
3 that the Company's going to come in and request that
4 in its next rate case?

5 A Well, not -- not quite in the manner
6 that you suggest. In other words, there's not a
7 deferral of the difference. This is something that
8 the Company has agreed to bear for the 17-month
9 period.

10 So instead of recovering \$137 million
11 for that 17-month period, and -- and this is stated on
12 an annual basis, not on a 17-month-period basis. So
13 it's \$137 million per year. They're only going to
14 collect 44 million.

15 So, in other words, the -- the haircut,
16 if you will, to use a slang term, is almost \$100
17 million per year.

18 Q Until --

19 A So it's --

20 Q -- they file a rate case?

21 A Until they file the rate case, and those
22 rates go into effect on June 1 of 2015.

23 MR. HOWARD: Thank you. No further
24 questions, Mr. Chairman.

25 MR. NGUYEN: Just a couple, Your Honor.

CROSS-EXAMINATION

1
2
3 By Mr. Nguyen:
4

5 Q Good afternoon, Mr. Kollen.

6 A Good afternoon.

7 Q Did you file testimony in this case?

8 A I did.

9 Q Okay. And what were the general
10 provisions that you took with respect to the Company's
11 application?

12 A Well, first of all, I summarized the
13 KIUC position, and, essentially, the elements are as
14 Mr. Hayet identified. Twenty-percent acquisition of
15 each of the Mitchell units. Conversion of Big Sandy 1
16 to natural gas as a boiler fuel, and then backfilling
17 the remaining load requirements with market purchases
18 in the near term. That that was the first
19 recommendation or conclusions that I addressed.

20 And then I also addressed the Company's
21 failure to conduct an RFP or to determine that market
22 value was greater than net book value, or at least
23 no -- not more than net book value, and also that the
24 Company's proposal did not promote fuel diversity.

25 It increased the environmental risk

1 exposure. It increased the merchant generator risk
2 exposure. I addressed some of the assumptions in
3 Strategist, the fixed O&M expense. I addressed the
4 O&M -- I'm sorry. The off-system sales margins and
5 the sharing of those margins.

6 I said that if customers were obligated
7 to pay for 100 percent of the cost of the Mitchell
8 units, then customers also should get 100 percent of
9 the off-system sales margins during that 17-month
10 period.

11 And then I also addressed the rate
12 impacts of the pool termination and the acquisition of
13 the Mitchell units. And then finally, I addressed
14 the -- the study costs associated with the Company's
15 analysis of the wet scrubbers and the dry scrubbers
16 during the two time periods.

17 Q Oh. And with respect to your testimony
18 on the lack of an RFP that was conducted by -- by the
19 Company to determine whether or not the net present --
20 the -- the net book value of the Mitchell acquisition
21 was lower than the market value. Do you recall that?

22 A Yes. That was --

23 Q Okay.

24 A -- one of the issues that I addressed.

25 Q And did you provide certain examples of

1 sales that had been -- or transactions related to
2 coal-fired facilities that had been -- that had
3 occurred within the recent past?

4 A I did. I addressed two sales, one by
5 Dominion Resources and one by Ameren, that were
6 discussed in a journal, a Wall Street Journal article,
7 and I also provided an exhibit that had a list of
8 units that AEP had assembled, a schedule of units that
9 had sold at various market prices, and that that was
10 confidential, but there was a list of several dozen,
11 if I recall correctly, and the prices that were paid
12 by the purchasers.

13 Q Okay. And in light of the nonunanimous
14 stipulation settlement agreement that has been entered
15 into by KIUC, do you still stand by your testimonies,
16 findings, and conclusions as provided in your
17 testimony?

18 A Yes, I do. You know, I recognize that
19 the settlement represents a compromise by KIUC, you
20 know, given the litigation risk in that, but I stand
21 by all of the conclusions and recommendations in my
22 testimony.

23 MR. NGUYEN: Okay. If I could just have
24 one second, Your Honor.

25 CHAIRMAN ARMSTRONG: Uh-huh.

1 Q Mr. Kollen, if you're aware, and you may
2 not be, there was disclosure from First Energy
3 regarding a closure of one of their supercritical
4 plants in Pennsylvania. Are you aware of that --

5 A No.

6 Q -- that retirement?

7 MR. NGUYEN: Okay. That's all the
8 questions I have, Your Honor. Thank you.

9 MR. KURTZ: Questions from the bench?

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EXAMINATION

14

15 By Vice-Chair Gardner:

16

17 Q Mr. Kollen, following up on that. Did
18 you participate at all in the AEP proposal for
19 their -- for their -- basically their spinning off of
20 their generation in Ohio?

21 A Yes, I did. I was a witness for the
22 Ohio Energy Group.

23 Q Okay. Who's -- who's in the Ohio Energy
24 Group? Who are some of the people in that group?
25 What is it?

1 A It's an industrial group similar to
2 KIUC --

3 Q Okay.

4 A -- but it's -- it's large industrials in
5 the different service territories in the state of
6 Ohio, and Mr. Kurtz is counsel for that group as well.

7 Q Okay. Did you support the agreement
8 that -- or did you support -- let me ask you this:
9 What was -- was the result a Commission-Ordered plan
10 or was there an agreement coming out of that?

11 A With respect to the corporate
12 separation --

13 Q Yes.

14 A -- and the -- the transfer of the assets
15 to AEP Generation Resources, that was a situation
16 where separation is mandated under Ohio law, and AEP
17 Ohio Power came in with a proposal, and the commission
18 in Ohio essentially adopted that proposal.

19 Q And was -- in -- in the -- in adopting
20 that proposal, was there a dollar amount for the --
21 the cost of the facilities that were going to AEP
22 Generation?

23 A The corporate separation was approved in
24 conjunction with the development of a capacity charge,
25 and that was in the so-called capacity charges case,

1 and -- I'm sorry. There -- there were two parallel
2 cases that went on in Ohio. One was a capacity
3 charges case, and then the other one was called an ESP
4 or an Electric Security Plan case.

5 And the corporate separation, if I
6 recall correctly, was approved in the ESP case, and
7 that the Company agreed that it would separate all of
8 its assets by a date certain.

9 And in those two cases, the capacity
10 charges case and the ESP case, the Ohio commission set
11 a capacity rate that was based upon the embedded cost
12 of the so-called legacy generation, including the
13 Mitchell units.

14 Q Was it -- coming out of the Ohio
15 commission, was there -- is -- is there any -- was
16 there any dollar value assigned to what the value of
17 the units were at the time of the separation?

18 A There was a valuation in the capacity
19 charges case with respect to the embedded cost, and
20 that -- in other words, the net book value of the
21 assets that were going to move from Ohio Power to AEP
22 Generation Resources, and there was no assessment of
23 fair market value at that time.

24 Q So the Commission didn't do that at
25 that --

1 A That's correct.

2 Q Was -- was it done later?

3 A It was done in February 2013 by the
4 Company in what we refer to as the impairment
5 analysis, and at that time, the Company -- because of
6 a number of triggering events, including this
7 corporate separation, the Company then assessed what
8 the -- the fair value of these assets was and compared
9 that to the net book value.

10 MR. GISH: Mr. Vice-Chairman, the -- the
11 impairment analysis named the details of it. We
12 haven't gotten there yet, but just to caution
13 everyone, the -- the -- the details of the impairment
14 analysis are confidential.

15 VICE-CHAIR GARDNER: Fair enough.

16 MR. GISH: Thank you.

17 VICE-CHAIR GARDNER: Okay. Thank you.

18 MR. GISH: Sorry. I didn't want --

19 VICE-CHAIR GARDNER: But I do want to
20 then go into -- I want to ask that, but I don't want
21 to do it in open session. I have a couple more
22 questions in open session. Thank you.

23 Q Let -- let me ask be -- before that
24 question on -- on this. Is there any legal impediment
25 -- I know you're not a lawyer. The -- is there any

1 legal impediment coming out of Ohio that the Company
2 is bound to use for valuation the net book value?

3 A Well, I guess it would depend on for
4 what purpose. It -- it has to maintain the net book
5 value for generally accepted accounting principles
6 on -- on the books, on the Ohio Power Company's books
7 or subsequently on AEP Generation Resources'
8 account -- accounting books, unless there's an
9 impairment allow -- writedown or writeoff.

10 Q Okay. Well, I'll get into that, then,
11 in the confidential session, or when we go
12 confidential.

13 So back on the -- this exhibit that
14 we've asked questions about, the -- the 130 -- \$138
15 million figure for the Mitchell revenue requirement.
16 I'm -- I'm trying to make sure I understand. Is that
17 true -- so that's 50 percent of Mitchell 1 and 2?

18 A That's correct.

19 Q Okay.

20 A Yes.

21 Q So this truly is an apples to apples
22 comparison. That if -- that Kentucky Power customers,
23 if, in fact, they owned it on January 1st, 2014, then
24 this is what the -- the revenue requirement would be
25 for that roughly \$138 million; is that correct?

1 A Right. And -- and, of course, there
2 would be other dollar effects through different
3 rate-making clauses such as --

4 Q Sure.

5 A -- the environmental --

6 Q Sure.

7 A -- surcharge --

8 Q Fuel adjustment.

9 A -- and fuel adjustment clause and --

10 Q Okay. I just --

11 A But this would be the ra -- base rate
12 effect, all else being equal.

13 Q Okay. That's helpful. Next. Is
14 there -- when the Commission -- this is memory and not
15 having read the order recently. When -- when we
16 continued this hearing from whenever it was before.
17 When was it?

18 COMMISSIONER BREATHITT: May.

19 VICE-CHAIR GARDNER: May?

20 MR. OVERSTREET: 28th, Your Honor.

21 VICE-CHAIR GARDNER: Of May? 28th of
22 May?

23 Q When we continued it about six weeks
24 ago, the order wanted us to -- one of the things that
25 we -- we liked about the con -- the delay, in addition

1 to the possibility seeing what kind of settlement
2 would result, was the results from the RFP would be
3 known.

4 My question to you is: Was that a valid
5 assumption on our part that something about the market
6 can be gleaned from an RFP for 250 megawatts that
7 could be expanded to whatever it is, 800 and
8 something -- or 790 something megawatts? Is -- is
9 that -- was that a valid assumption or do you believe
10 that that's not -- we can't sort of make that
11 assumption?

12 A I would say that it's not directly
13 translatable, if you -- if you will, but I do think it
14 is indicative. In other words, that there is capacity
15 out there, and, generally, you can get a sense for
16 what is available and -- and the pricing of it. So I
17 think from that perspective, but it is not a direct
18 analog of, you know --

19 Q Okay.

20 A -- 250 for 800. It's --

21 Q Sure.

22 A It's just not the same.

23 Q Okay.

24 A But it -- but it's a very good
25 indicative, I think, for pricing purposes and

1 availability.

2 Q Okay. And one final question. You were
3 here this morn -- one final question in open session.
4 You were here this morning, right?

5 A Yes.

6 Q Did you hear Mr. Pauley say that
7 Kentucky Power was -- was a deficit -- had deficit for
8 both energy and capacity?

9 A I did not hear him say that. I thought
10 I heard him say deficit capacity. I didn't hear him
11 address the energy, but if he did say that Kentucky
12 Power was deficit on energy, that would not have been
13 correct.

14 Q Okay.

15 A Kentucky Power is long on energy.

16 Q And which is why we have the off-system
17 sales --

18 A That's --

19 Q -- built in, because --

20 A Yes, that's correct. Yes.

21 Q Okay. And bec -- because -- well, let
22 me ask this: Will -- will Kentucky Power customers,
23 for the next 15 months, receive -- in the one
24 paragraph in the settlement that -- that deals with
25 off-system sales and recognizes the 15 million that's

1 built into base rates and then says that Kentucky
2 Power customers are not going to be harmed nor do they
3 benefit by cha -- you know, they're just sat at that
4 15 million. In effect, they get that credit built
5 into -- as revenue?

6 A Yes, that's absolutely correct, and
7 presently, the Company or customers are actually --
8 through the system sales clause, actually paying a
9 little bit more, because the Company hasn't been
10 achieving the \$15 million of revenue, so that's the
11 way the system sales clause --

12 Q Right.

13 A -- works. If --

14 Q Right.

15 A -- they sell more, if they have
16 off-system sales margins, the customers benefit. If
17 they have less, the customers lose, and there's a
18 sharing of that. Under the settlement agreement, the
19 15 million is essentially guaranteed to the customers.
20 That's fixed, as it is presently, but then anything
21 above that would go -- or -- or below, for that
22 matter, would go 100 percent to Kentucky Power.

23 Q Okay. My question is: In trying to
24 understand the -- the settlement and what that clause
25 means, do -- will -- will the total off-system sales

1 include Big Sandy 2 -- will -- well, will it -- what
2 will they include? Will they include Mitchell as well
3 as --

4 A Yes. It will include all of the
5 Company's generation. So all of the off-system sales
6 margins will be reflected, and there will be a credit
7 for the \$15 million, and the residual will go solely
8 to Kentucky Power Company.

9 Q So isn't it likely, over the next 15
10 months, since there's additional generation, that
11 there will be off-system sales revenue above that 15
12 million annual basis?

13 A Yes. There's no question about that.
14 Depending upon which of the companies' analyses, I
15 don't believe this is confidential, but it could be
16 anywhere from -- I think the Company had that
17 quantified as 15 to \$35 million.

18 Q Above the 15?

19 A Yes.

20 Q Okay. For that 15-month period?

21 A No.

22 Q Or 17-month --

23 A On an annual basis.

24 Q Okay. So --

25 A So you'd have to prorate it for the

1 17-month period.

2 VICE-CHAIR GARDNER: Okay. And if we
3 can go -- I'm sorry.

4 COMMISSIONER BREATHITT: Well, would it
5 be -- I just have a question or two --

6 VICE-CHAIR GARDNER: Go ahead.

7 COMMISSIONER BREATHITT: -- and then we
8 could go into closed.

9

10 * * *

11

12 EXAMINATION

13

14 By Commissioner Breathitt:

15

16 Q Mr. Kollen, how are you this afternoon?

17 A Good afternoon.

18 Q I think I just saw you last week.

19 A That's true.

20 Q On page 9 of your direct, there is a --
21 on line 6. I guess it's part B. You stated -- or
22 the -- your testimony states that the Company failed
23 to demonstrate the net book value of the Mitchell
24 plants is less than or equal to the market value.

25 And how -- my question is how

1 detrimental to the case -- presettlement,
2 prestipulation, just with the application as it was,
3 wearing that hat, how detrimental to the case of the
4 applicant is it that -- that they fail to
5 demonstrate --

6 A That's a --

7 Q -- in that statement?

8 A Yeah. That's a difficult question,
9 because it's a matter of judgment whether it's a --

10 Q But your -- I'm asking --

11 A Yes.

12 Q -- your judgment be -- based on your
13 many, many years of experience.

14 A Well, we thought it was a significant
15 issue, because we thought that there were -- there was
16 evidence of other sales in the market where
17 transactions were being conducted, where sales were
18 being made at something less than book value.

19 We're also aware of transactions where
20 holding companies are attempting to transfer assets
21 at -- at more than net book value. For example, in
22 Virginia and West Virginia. But we thought it was a
23 significant issue and a significant deficiency in the
24 Company's filing.

25 COMMISSIONER BREATHITT: That's all I

1 have. Thank you.

2 CHAIRMAN ARMSTRONG: Mr. Kurtz?

3 MR. KURTZ: I do have some redirect.

4 CHAIRMAN ARMSTRONG: Yes.

5 MR. KURTZ: Okay. Thank you, Your
6 Honor.

7

8 * * *

9

10 REDIRECT EXAMINATION

11

12 By Mr. Kurtz:

13

14 Q Mr. Kollen, let's sort of go in reverse
15 order. The -- Commissioner Breathitt's question about
16 the fair market value.

17 A Yes.

18 Q Okay. The Company put on evidence why
19 they thought it was Mitchell was -- the net book was
20 below the market value. In other words, they put on
21 evidence where they said the unit's really worth more,
22 but we'll sell it for you -- to you at net book.

23 A Yes. Their evidence was based upon a
24 new build combined cycle unit, and they didn't
25 actually test it against the market, but they took

1 their assumptions and planning assumptions, and they
2 said this would be the cost if we built a combined
3 cycle unit, and that's more than what we're offering
4 to sell these assets to -- to you for.

5 Q So when you filed your testimony, it was
6 your belief that, on an evidentiary basis, they had
7 not carried the burden of proof, but -- but, of
8 course, that's a matter for the Commission to decide
9 which evidence they would accept?

10 A That's correct. Yes.

11 Q Off-system sales, Vice-Chairman Gardner
12 was asking you about the -- the Company keeps 100
13 percent of the off-system sales profit for the
14 17-month period?

15 A Yes, that's correct. Above the base --

16 Q Above the --

17 A -- amount.

18 Q -- base?

19 A Yes.

20 Q And if they're taking \$100 million
21 haircut on the fixed costs, that them keeping the
22 extra profits from off-system sales would just go to
23 offset that \$100 million haircut?

24 A Yes. That's correct.

25 Q Is that how it works?

1 A And -- and it not only is an offset, but
2 the risk, then, is entirely on the Company as to what
3 that dollar amount is.

4 Q Corporate separation in Ohio. You
5 testified that that was a statutory mandate that Ohio
6 put into effect, what, 1999, I guess?

7 A Yes, that's correct.

8 Q And -- and AEP had been operating under
9 a corporate separation plan without actually doing
10 corporate separation?

11 A Yes. That's correct. I guess I would
12 characterize it as a functional separation, and now
13 they're actually going to do the legal separation.

14 Q The Ohio commission said, "AEP Ohio,
15 you're going to be a wires only company. We don't
16 want you to own any -- any power plants, and you need
17 to transfer those power plants out of your utility at
18 net book cost"?

19 A Yes. That's correct.

20 Q Was AEP happy about that?

21 A I don't believe that they were, and it
22 was a requirement that the Commission established.

23 Q Now, there's no requirement that AEP
24 sell to Kentucky Power Mitchell at net book?

25 A That's true.

1 Q But if they sell at net -- they transfer
2 at net book, and if they sell to Kentucky Power at net
3 book, there's no tax implications? There's no gain or
4 loss?

5 A That's correct, if it's structured as a
6 tax-free sale --

7 Q If it's --

8 A -- and -- and that's how the Company
9 proposes to address this.

10 Q If they sold for less than net book,
11 there would be a loss to Ohio Power, tax loss?

12 A Well, I believe it would be to AEP
13 Generation Resources.

14 Q And if they sold it above book, there'd
15 be a gain?

16 A That's correct. Yes.

17 Q Okay. Just real quick about the moving
18 parts of -- of the -- the partial stipulation and
19 the -- and the rate application in terms of rates.
20 \$44 million per year rate increase under the
21 stipulation beginning January 1, 2014?

22 A Yes, through the tracker.

23 Q Through the asset transfer rider?

24 A That's correct. Yes.

25 Q Okay. And then there would be also a

1 \$16 and a half million fuel savings estimated?

2 A Yes, and that would go through
3 automatically through the fuel adjustment clause, so
4 that would be a reduction against that \$44 million
5 amount recovered through the and -- asset transfer
6 rider.

7 Q Okay. So that's a \$27.5 million net
8 increase in customer rates?

9 A Yes.

10 Q Okay. And the reason there's a fuel
11 savings is customers get access to the least-cost
12 generation that AE -- that -- that Kentucky Power owns
13 under the stipulation?

14 A Yes, and Mitchell is a lower cost --
15 lower running cost, and so consequently, that
16 lower-cost generation first goes to serve the -- the
17 native load of Kentucky Power, and then it's the
18 residual generation that serves the off-system sales
19 market.

20 Q And Mitchell is a cheaper unit fuel cost
21 wise, because it's already scrubbed and can use
22 lower-quality coal as well as heat rate issues?

23 A Yes. That's correct.

24 Q Now, so that's what happens in the 17
25 months. Now, once -- under the partial stipulation,

1 now we're into June 1, 2015. There's going to be a
2 rate case where, as you testified, Big Sandy Unit 1
3 and 2 costs get pulled out of rate base?

4 A The coal-related costs of Big Sandy 1,
5 that -- the costs that could be reused under the gas
6 conversion stay in base rates, but yes.

7 Q All the Big Sandy 2 costs come out of
8 rates, and --

9 A Yes.

10 Q -- part of the Big Sandy 1 costs come
11 out of rates?

12 A Yeah. And it's -- it's not only the
13 investment, but it's the O&M expense, it's the
14 property taxes, it's the insurance. It's everything
15 comes out.

16 Q Start -- stop right there. There's a
17 rate reduction?

18 A Yes.

19 Q Okay. Now --

20 A Significant rate reduction.

21 Q Okay. But we -- but we know it doesn't
22 stop there.

23 A It doesn't stop there.

24 Q Okay. Then there'll be -- the -- the
25 Mitchell costs will go in the rates. The 137 or 138

1 million.

2 A Yes. That's correct.

3 Q Okay. The \$44 million asset transfer
4 rider gets elim -- gets set to zero? Gets --

5 A Right.

6 Q -- eliminated --

7 A Right.

8 Q -- right?

9 A Right. So even though the 137 million
10 goes into base rates at that time, then there's
11 effectively a \$44 million reduction, because the asset
12 ri -- transfer rider goes to zero for that purpose.

13 Q Okay. And last thing that happens is
14 the retirement costs of Big Sandy 1 and 2 go into the
15 asset transfer rider?

16 A Yes. That's correct.

17 Q And that's the 20 -- over 25 years?

18 A Yes.

19 Q At -- at a levelized rate-making
20 methodology?

21 A Yes. And, again, the value of that is
22 that normally, the cost structure is that if you have
23 an asset such as the Big Sandy 2 retirement costs,
24 that's the remaining net -- net book value.

25 Over time, as that investment

1 depreciates or it's recovered from customers, then you
2 would need to capture that reduction through a series
3 of base rate increases over, let's say, 20 or 25
4 years.

5 Well, the value of this asset transfer
6 rider is that we capture in real time the decline,
7 and, in essence, through the fact that it's a
8 levelized rider, a levelized recovery.

9 And so that's something that normally we
10 couldn't hope to capture in a base rate case. You
11 would normally catch it at some point on the higher
12 level of the cost slope, and then you would just pay
13 at that higher level even though the costs continue to
14 decline until base rates next to reset. So we view
15 this as a really significant ratepayer benefit of the
16 partial stipulation.

17 Q You've pushed levelized recovery lots of
18 places, probably even here. Has the Commission ever
19 ordered that?

20 A I've pushed it many times, and I think
21 that's the right way to recover a cost such as this
22 for the reasons that I just described, but in a
23 litigated setting, I've never had it adopted.

24 Q Okay. Real quick just on the difference
25 between a debt return and the weighted average or

1 the -- or debt return versus equity. Assume that --
2 assume the equity return is ten and a half percent.
3 That's after tax, right?

4 A Yes, it is. And in the rate-making
5 process, then you have to add income taxes to it. So
6 ten and a half percent really becomes a 15-percent
7 rate of return, all else being equal, and --

8 Q Okay.

9 A -- when you compare that to a debt-only
10 rate of return, perhaps, of six percent, that's a very
11 significant differential.

12 Q Well, and six percent sounds high for
13 debt these days. That's certainly not new debt.
14 Maybe --

15 A That's right. If -- if the -- for
16 example, if the debt -- the Company's debt return
17 at -- at the -- the point where these costs are being
18 recovered, starting in, you know, 2015 or --

19 Q No. I'm talk -- I'm talking about
20 paragraph 21 now.

21 A Right.

22 Q Let's --

23 A Okay.

24 Q -- just assume that the co -- this
25 commission determined that -- that Mitchell should be

1 retired for rate-making purposes even though West
2 Virginia wants to keep going.

3 A Sure.

4 Q The -- the -- the -- the benefit of
5 having a debt-only return, over a period of time that
6 the Commission determines is reasonable, is
7 significant versus the overall costs of capital?

8 A It's very significant. Let's say, for
9 example, that there's \$200 million worth of costs
10 here, and let's say that the grossed-up rate of return
11 is 12 percent. That would be \$24 million, 12 percent
12 times \$200 million, and a debt-only cost, let's say at
13 four percent, would be \$8 million. There's a \$16
14 million savings just by virtue of using a debt-only
15 rate of return on the same investment.

16 Q So having this safety valve in paragraph
17 21 is valuable, and having it at a debt-only return is
18 very valuable?

19 A It's extremely valuable to customers.

20 MR. KURTZ: No more questions, Mr.
21 Chairman.

22 MR. HOWARD: One, Mr. Chairman, if I
23 may.

24 CHAIRMAN ARMSTRONG: You may.

25 * * *

REXCROSS-EXAMINATION

1
2
3 By Mr. Howard:

4
5 Q Mr. Kollen, are you familiar with the
6 stipulation in paragraph 14?

7 A Let me take a look at it a minute. I'm
8 sure that I am. I just want to make sure I'm in the
9 right paragraph. Okay.

10 Q Have you quantified all the costs
11 associated therein?

12 A Have I? No.

13 Q Yes.

14 A I have not.

15 MR. HOWARD: No questions, Mr. Chairman.

16 CHAIRMAN ARMSTRONG: Any further
17 questions?

18 VICE-CHAIR GARDNER: Sorry.

19 CHAIRMAN ARMSTRONG: Vice-Chair.

20
21 *

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1 REEXAMINATION

2
3 By Vice-Chair Gardner:
4

5 Q So following up on what Mr. Howard's
6 question was. On paragraph 14, the -- what -- what he
7 asked was you haven't quantified what those retirement
8 costs might be?

9 A That -- that's correct. I'm not sure
10 that the Company has quantified it either. It would
11 be relatively easier to quantify the net book value of
12 Big Sandy 2 or estimate it as of June 1, 2015, and I
13 don't know what that is, but it'd be a little bit more
14 difficult to quantify the coal-related costs
15 associated with Big Sandy 1, because somebody's going
16 to have to actually do a study of that. And, in other
17 words, what costs are not reused under the gas
18 conversion.

19 And then there's also the issue of how
20 much of the materials and supplies can be used by
21 other power plants within the AEP system? How -- you
22 know, presumably the fuel can be used elsewhere, those
23 types of things, but it's -- it's an indeterminate
24 amount at this point, because it requires some study
25 and -- and ultimately will depend on the Company's

1 actual experience.

2 Q The -- did -- have you pre -- have you
3 prepared a back-of-the-envelope net book value for Big
4 Sandy 2?

5 A I haven't.

6 Q Where would -- if one wants to know what
7 net book value is, I guess we could ask the Company
8 that?

9 A I think that would be the best. It's
10 not available directly out of the Form 1 or any public
11 source of which I'm aware, so the best -- I think the
12 best source would be the Company. And, of course,
13 from now until June 1 of 2015, there still would be
14 additional expenditures. There will be additional
15 depreciation.

16 So I'm sure the Company could give you
17 the net book value as of a certain date, and you may
18 want to ask them for the estimated book value as of
19 June 1, 2015.

20 Q Okay. And the question somebody asked
21 about -- the -- these are my words, not yours, but if
22 the Company did a combined cycle, basically, as a
23 proxy for the market for Big Sandy 2.

24 A Yes. That's correct.

25 Q And --

1 A That was in Mr. Weaver's testimony.

2 Q Okay. That was my question.

3 A Yes.

4 Q Was it in his direct, as far as you
5 know?

6 A It is. Yes.

7 VICE-CHAIR GARDNER: Okay. That's all
8 the -- my open-session questions.

9 CHAIRMAN ARMSTRONG: Okay. Any further?

10 MR. OVERSTREET: We have nothing, Your
11 Honor.

12 VICE-CHAIR GARDNER: Closed-session
13 question of Mr. Kollen.

14 CHAIRMAN ARMSTRONG: Go ahead.

15 VICE-CHAIR GARDNER: I do.

16 CHAIRMAN ARMSTRONG: Oh, yeah.

17 VICE-CHAIR GARDNER: Yes, sir.

18 CHAIRMAN ARMSTRONG: Go right ahead.

19 VICE-CHAIR GARDNER: Closed session.

20 CHAIRMAN ARMSTRONG: I believe we are
21 closed. Confidential.

22 VICE-CHAIR GARDNER: Thank you.

23 (Confidential testimony of Lane Kollen
24 from 4:25 p.m. to 4:31 p.m.)

25 CHAIRMAN ARMSTRONG: We're back on.

1 We're back on. Any further witnesses? Let me ask you
2 something. How many more witnesses do we have to go?

3 MR. OVERSTREET: We have done one of the
4 Company's eleven witnesses, Your Honor.

5 CHAIRMAN ARMSTRONG: I'm sorry?

6 MR. OVERSTREET: One of the Company's
7 eleven witnesses, so that would suggest ten. But I
8 struggle with math.

9 CHAIRMAN ARMSTRONG: Are we finished
10 with Mr. Kollen?

11 MR. OVERSTREET: I'm finished, Your
12 Honor.

13 MR. KURTZ: Yes, Your Honor.

14 CHAIRMAN ARMSTRONG: Thank you, Mr.
15 Kollen. You're excused.

16 THE WITNESS: Thank you.

17 CHAIRMAN ARMSTRONG: Do you have other
18 witnesses today?

19 MR. KURTZ: No. We are done. Thank
20 you.

21 CHAIRMAN ARMSTRONG: So you can catch
22 your plane.

23 MR. KURTZ: Yeah. Thanks.

24 CHAIRMAN ARMSTRONG: Do you have a short
25 witness?

1 MR. OVERSTREET: We -- we have multiple
2 short witnesses. I mean, as far as we're concerned.
3 I don't know what Staff and AG has.

4 MR. HOWARD: I know that just based --
5 obviously, at this point, we're willing to consider
6 the schedule that you had circulated before with
7 the -- the --

8 MR. OVERSTREET: That was my suggestion.
9 Yes.

10 MS. HANS: Uh-huh.

11 MR. HOWARD: We were -- I assumed that
12 we were going to go by that, but in the event that you
13 want to deviate from that, we -- we have no problem
14 with that. I'm sorry?

15 MS. HANS: Staff did not.

16 MR. HOWARD: Right. I mean, there were
17 three which we waived cross. The Staff had not, so --

18 MR. OVERSTREET: If --

19 MR. NGUYEN: We only have -- in terms of
20 the next witness, Staff only has very few questions
21 for Mr. Wohnhas.

22 MR. OVERSTREET: How about you, Mr.
23 Howard? Do you have any?

24 MR. HOWARD: Thirty to forty-five
25 minutes for Mr. Wohnhas. I would like to have a

1 five-minute recess --

2 MR. OVERSTREET: Or I've got what I
3 would assume would be shorter witnesses, if -- if
4 that's of any help.

5 MR. HOWARD: Our next longest witness,
6 if it informs some --

7 MS. ERNST: Whatever you want to do.
8 I'm okay.

9 MR. HOWARD: It's of any -- if it's of
10 any help to the bench, as far as the AG's
11 cross-examination goes, it would appear at this point
12 that we would have approximately 30 minutes or so,
13 maybe 45 for Mr. Wohnhas, and then 10 or 15 minutes
14 for, I think, three other witnesses. Depending on
15 what we'll address.

16 MS. HANS: Your Honor, if I may.

17 CHAIRMAN ARMSTRONG: Uh-huh.

18 MS. HANS: Very briefly. Mr. Howard
19 is -- is -- is taking the lead on cross, and we're
20 going to try to analyze his questions as much as
21 possible, but we do have several members of the public
22 who came. I don't know if a lot of them are still
23 here. But we're prepared, just on the Attorney
24 General's, we've made arrangements, we're prepared to
25 stay late if Commission wants to and if the Staff

1 wants to. It's up -- but it's up to you-all.

2 CHAIRMAN ARMSTRONG: I can stay late
3 tomorrow.

4 MS. HANS: Okay.

5 CHAIRMAN ARMSTRONG: Today I have a
6 conflict in Louisville. Have to be there by thir --
7 5:30, but --

8 MR. OVERSTREET: Oh, at 5:30?

9 CHAIRMAN ARMSTRONG: Yes.

10 MR. HOWARD: Unless they're driving.

11 MR. OVERSTREET: I think the state
12 police are not going to let you do much more than
13 that.

14 MR. FISK: We can start at 9:00
15 tomorrow.

16 CHAIRMAN ARMSTRONG: I'm willing to
17 start earlier if you'd like.

18 MR. OVERSTREET: That's -- that's --
19 we're -- we're -- we're here at the Commission's
20 convenience.

21 MS. HANS: 9:30, if -- if -- if that
22 wouldn't be a problem.

23 MR. HOWARD: We -- we agreed last week,
24 Mr. Chairman, to 9:00, but we had -- we've got a few
25 things on the -- on the deck right now that we're

1 trying to get out the door at the same time, and we're
2 barely meeting some of our deadlines.

3 CHAIRMAN ARMSTRONG: Could you go 9:30?

4 MS. HANS: Yes, we could.

5 MR. HOWARD: Yes, Mr. Chairman.

6 CHAIRMAN ARMSTRONG: Why don't we do
7 that?

8 MS. HANS: Very good, sir.

9 CHAIRMAN ARMSTRONG: And if you have a
10 brief witness, we can take them now.

11 MR. OVERSTREET: Mark Becker.

12

13

* * *

14

15 MARK BECKER, called by Kentucky Power
16 Company, having been first duly sworn, testified as
17 follows:

18

19

DIRECT EXAMINATION

20

21 By Mr. Gish:

22

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

25

THE WITNESS: Mark Becker.

1 CHAIRMAN ARMSTRONG: What do you do,
2 Mark?

3 THE WITNESS: I am a manager of resource
4 planning for American Electric Power Service
5 Corporation.

6 CHAIRMAN ARMSTRONG: Where are you
7 located?

8 THE WITNESS: Tulsa, Oklahoma.

9 CHAIRMAN ARMSTRONG: And why are you
10 here?

11 THE WITNESS: I'm here to provide
12 testimony on the Strategist model and its uses in
13 evaluating the alternatives around Big Sandy.

14 CHAIRMAN ARMSTRONG: Are you sure about
15 this?

16 MR. OVERSTREET: Mr. --

17 MR. NGUYEN: We have no -- Staff has no
18 cross.

19 MS. HANS: Attorney general has no
20 questions for this witness, Your Honor.

21 MR. OVERSTREET: Okay.

22 CHAIRMAN ARMSTRONG: Proceed.

23 MR. OVERSTREET: Mr. Gish will take this
24 witness, Your Honor.

25 Q Mr. Becker, did you cause to have direct

1 testimony filed in this case?

2 A Yes, I did.

3 Q And do you have any corrections to that
4 testimony?

5 A No, I do not.

6 Q And if I were to ask you the same
7 questions that are in your prefiled written testimony
8 today, would you give the same answers?

9 A Yes, I would.

10 MR. GISH: Mr. Chairman, I turn Mr.
11 Becker over for cross-examination.

12 MR. HOWARD: None from the AG.

13 MR. KURTZ: No questions.

14 MR. NGUYEN: No cross, Your Honor.

15 VICE-CHAIR GARDNER: Thank you.

16 CHAIRMAN ARMSTRONG: Vice-Chair.

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18 * * *

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20 EXAMINATION

21

22 By Vice-Chair Gardner:

23

24 Q Mr. Becker, do you know what the useful
25 life of a wet FGD is?

1 A No, I do not.

2 Q Is that -- do you -- does one need to
3 know that as one does modeling or does -- is that
4 input included in the modeling that's done?

5 A Not explicitly, no. We -- we tend to
6 model the useful life of the asset in -- in its total.

7 Q Okay. And so I assume your answer would
8 be the same for, then, an SCR that -- that that useful
9 life of what -- that pollution control equipment is
10 not included directly in your modeling?

11 A That's correct.

12 Q Okay. How is it included -- is it
13 included at all? Do you take into account whether
14 you've got that on a unit? Whether you've got some --
15 I guess my question is: Is it somehow considered at
16 all if you've got a -- one of those environmental
17 controls on a unit as you're modeling the useful life
18 of the unit?

19 A As we're modeling the useful life of the
20 unit? As I said, not directly, but it is taken into
21 account in any type of, you know, performance changes
22 that it may cause in the unit, any capacity changes
23 that it may cause in the unit. So it is taken to
24 an -- into account, yes.

25 Q Okay. But -- but it wouldn't matter for

1 purposes of what you do if one of those was put on
2 last week or whether it was put on 15 years ago?

3 A Well, I think if those -- if those
4 emission controls are maintained and maintained
5 properly, and sufficient funds are spent on those
6 controls to -- to continue the maintenance of them,
7 then their -- their lives are -- are, you know, fairly
8 long, and they're operated properly.

9 Q Do you -- do you think that my questions
10 would be -- along this line would be better asked of
11 somebody else?

12 A Perhaps Mr. McManus. Yes.

13 Q Is the -- is one of the outputs to
14 actually determine what the useful life of a unit is
15 or not? No.

16 A I'm sorry. I didn't --

17 Q Is --

18 A -- understand your question.

19 Q Is one of the outputs of what you did to
20 determine what the useful life of a generating unit
21 is?

22 A No, it's not.

23 Q Okay. Do you need to know that as an
24 input?

25 A Yes, we do.

1 Q Okay. Did you look at -- were you asked
2 to do -- what -- which were you asked to do, which
3 units? Mitchell or Big Sandy?

4 A Well, we evaluated 11 different options,
5 looking at the Big Sandy Unit disposition. All the
6 way from retrofitting the units to the various
7 transfers of the Mitchell asset and Brownfield
8 combined cycle at the Big Sandy site, as well as
9 repowering Big Sandy 1, and -- and those options
10 are -- are fairly well defined in Mr. Weaver's
11 testimony.

12 Q Okay. And what -- what was the -- the
13 useful life that was used for Big Sandy 2?

14 A We assumed that through our analysis
15 through 2040 that Big Sandy 2 would operate, if it was
16 controlled, through that point in time.

17 Q And likewise for the Mitchell units?

18 A That's correct.

19 Q Okay. And -- so the study period was
20 through 2040?

21 A That's correct.

22 Q Okay. How was the 2040 period selected?

23 A The 2040 period is simply the end date
24 that we can model data explicitly in the model. It
25 has a 30-year database life.

1 Q Okay. Is that because you did the
2 modeling in 2011?

3 A That -- that's correct.

4 Q Okay. And so no additional models have
5 been run since 2011?

6 A Well, we haven't run the model beyond
7 2040, based on moving the -- the start year out in
8 time, out in the future.

9 Q Okay. Now, it's my understanding
10 that -- that -- that one of the -- that the ways that
11 one takes into account a new versus an old unit in
12 looking at useful life is that one increases the O&M
13 costs as -- as the age of a unit increases over time.

14 So, for example, the amount of O&M -- M
15 costs that would be modeled for a new unit or, say, a
16 unit that's ten years old, and you're going to model
17 it to 2040, the O&M costs, everything else being
18 equal, would increase over time in order to maintain
19 that unit.

20 And -- and that a unit of the vintage of
21 units of Mitchell or Big Sandy, one would -- because
22 they're already over 40 years old, would -- would
23 you -- one would increase the -- the O&M costs.

24 Is that accurate? Is that a way to
25 reflect the -- the -- the relative age of the units,

1 and if so, did you do that with what you did here?

2 A Well, it -- it's my understanding that
3 most O&M costs, fixed O&M costs, are driven mainly
4 by -- by salaries of the personnel. It's not
5 necessarily an -- an age factor. That the majority of
6 O&M costs are -- are labor at the facility.

7 So it's hard to say. If you had a
8 brand-new facility -- a lot of it would depend on the
9 size of the facility, what type it was, the number of
10 employees at the facility. So I don't know that you
11 can necessarily make, with O&M, a direct comparison
12 of, you know, one cost being higher than the other
13 just because of age.

14 For instance, a gas turbine that's 10
15 years old, 20 years old only has, you know, maybe a
16 couple of, three people working at it. A coal unit
17 that's the same age would have, you know, 100, 150
18 people working at it depending on the size, as far as
19 looking at the fixed O&M cost.

20 Q Okay. So that -- that doesn't comport
21 with what I would intuitively think. Last week we had
22 people talking about an automobile, and it seems to me
23 that the costs of repair for my automobile increase
24 with time. Are you saying that I can't make that same
25 analogy to a coal unit?

1 A Well, the -- the analogy is is that --
2 that costs will increase through time for both a coal
3 unit and, say, a gas unit.

4 You know, ongoing capital costs may
5 increase through time for a coal unit as you have to
6 put more capital into the unit to repair it as you --
7 as you go on through time, but the O&M piece of that
8 would be just for the -- for the labor and -- and
9 maybe possibly some parts for the facility.

10 Q Okay. And that -- that makes sense, and
11 that's helpful to me. So maybe I should ask. Did you
12 model for increased capital costs that -- does that
13 get increased over time as a unit gets older?

14 A It -- it pro -- it probably does to some
15 degree, depending on the age of the unit and what has
16 to be maintained and replaced.

17 And in our modeling of -- of the Big
18 Sandy options, we took into account fixed O&M and
19 ongoing capital for all of those options that we --
20 the 11 different options that we looked at, both at,
21 you know, Big Sandy retrofit as well as the Mitchell
22 asset transfer.

23 Q So would you have -- if there were --
24 and I know Big Sandy and the Mitchell -- Big Sandy 2
25 and the Mitchell units are virtually the same age. So

1 are you -- are you saying, then, that if you were to
2 do that modeling, if you will, on a coal plant that
3 was ten years old, that there would be less -- there
4 would be less of those kind of costs that you just
5 described included in your model than there would be
6 for Big Sandy 2 or the Mitchell units?

7 A Possibly, if the units were comparably
8 sized. It just depends on how that unit has been
9 maintained over the -- the ten years that it has been
10 run.

11 Q The -- and so were -- who -- who gave
12 you information about the -- the maintenance history
13 of these units?

14 A We got our -- our generation, fixed O&M
15 costs, ongoing capital costs from our generation
16 group.

17 Q Okay. And who -- who -- is there
18 someone from the generation group who's here today?

19 MR. OVERSTREET: Mr. --

20 A Mr. LaFleur could probably help you out
21 with that.

22 Q Okay. So I gather that, from what you
23 said, if they're properly maintained, then your
24 modeling basically takes the position that these units
25 could last forever?

1 A That -- well, at least through 2040 in
2 our modeling anyway.

3 Q Why wouldn't it be able to go beyond
4 that?

5 A It --

6 Q If properly --

7 A It could --

8 Q -- maintained?

9 A -- perhaps, if -- if they were properly
10 maintained.

11 Q Are you -- are you aware of -- what's
12 the oldest unit that you are aware of in the AEP
13 system?

14 A Oh, it's -- it exceeds 60 years.

15 Q A coal facility?

16 A Yes, sir.

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

19 COMMISSIONER BREATHITT: I've got --
20 I'll be very brief.

21

22 * * *

23

24

25

EXAMINATION

1
2
3 By Commissioner Breathitt:
4

5 Q Mr. Becker, how long does it take to
6 do -- how long did it take to do a modeling run on
7 Mitchell for this case?

8 A A single modeling run?

9 Q Well, I know you did multiple. You did
10 11?

11 A We did -- we did -- we had 11 different
12 options, and then we took those 11 -- 11 different
13 options and ran those 11 different options under five
14 different commodity pricing forecasts.

15 For a single run, only a matter of a few
16 minutes. For the 55 runs, it took a considerable
17 amount of time.

18 Q So there were 55 runs for this case?

19 A That's correct.

20 Q Roughly, how long would that take?

21 A Oh. Easily a month. By the time we
22 make the runs and look at the output data and decide
23 --

24 Q Make sure it was correct?

25 A Correct.

1 Q And is it all done in- house?

2 A Yes, ma'am.

3 Q And I read in your testimony that you're
4 the manager of resource planning.

5 A That's correct.

6 Q I thought I saw in the stipulation and
7 settlement agreement a reference to an IRP. I thought
8 I did, but --

9 A You may have, yes, and I believe the
10 infamous number 21.

11 Q Well, when that IRP is filed, will it
12 use this same software?

13 A Yes, it will.

14 Q And has the Company been using this
15 software, I think you said 30 years?

16 A Well, I've -- I have --

17 Q You have.

18 A -- been using it for --

19 Q Okay.

20 A -- 30 years. The Company has been using
21 it probably quite extensively for 15 years.

22 Q Okay.

23 A And the -- the software that we would
24 use for the IRP, it could be the Strategist model or
25 it could be a model that's similar to it that would

1 allow us to look at different options and come up with
2 the optimal resource plan for Kentucky Power.

3 Q How long out into the future will the
4 IRP go for Kentucky Power --

5 A I'm not --

6 Q -- when -- the next one that's filed?

7 A I'm not sure what the -- what the rules
8 are, but we have the ability to run the model out for
9 roughly 30 years.

10 COMMISSIONER BREATHITT: Okay. That's
11 all.

12 CHAIRMAN ARMSTRONG: Thank you.

13 MR. GISH: I have just a very short
14 redirect.

15 CHAIRMAN ARMSTRONG: Yes.

16
17 * * *

18
19 REDIRECT EXAMINATION

20
21 By Mr. Gish:

22
23 Q Mr. Becker, you -- and I just want to
24 clarify something for the record. You mentioned that
25 the end date was 2040 due to the analysis that was run

1 in 2011?

2 A Uh-huh.

3 Q The analysis for this case was conducted
4 in 2012; is that correct?

5 A Correct.

6 Q And are you comfortable with the capital
7 inputs that were provided to you for use in the
8 modeling? The cap -- the -- the capital -- the
9 ongoing capital investment inputs that were used in
10 this modeling?

11 A Yes.

12 MR. GISH: No further questions.

13 MR. HOWARD: Your Honor, I have a
14 question --

15 CHAIRMAN ARMSTRONG: Yes.

16 MR. HOWARD: -- if I may.

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CROSS-EXAMINATION

21

22 By Mr. Howard:

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25

Q When you say you're comfortable, did you
verify the accuracy of that data?

1 A Well, I reviewed the data, and they
2 seemed re -- reasonable for the -- the period that I
3 was given. They weren't too low. They weren't too
4 high. They were comparable to what we've seen in the
5 past for -- for various units.

6 Q So you -- they weren't too high or too
7 low, but did you verify the absolute accuracy of that
8 data?

9 A I would say yes.

10 MR. HOWARD: Okay.

11 CHAIRMAN ARMSTRONG: Mr. Nguyen?

12 MR. NGUYEN: No questions, Your Honor.

13 CHAIRMAN ARMSTRONG: Okay. Thank you,
14 Mr. Becker.

15 THE WITNESS: Thank you.

16 CHAIRMAN ARMSTRONG: Appreciate it.
17 Tomorrow's agenda will be 9:00 a -- 9:30 a.m., and
18 we'll try to run through the -- all of your witnesses.

19 MR. OVERSTREET: Yes, Your Honor. And
20 -- and our witnesses are the only witnesses left.

21 CHAIRMAN ARMSTRONG: I know.

22 MR. OVERSTREET: Intervening witnesses
23 have been taken.

24 CHAIRMAN ARMSTRONG: I want to thank all
25 of the witnesses who testified today, and --

1 MR. OVERSTREET: Mr. Chairman, I just
2 want to -- may Mr. Becker be excused?

3 CHAIRMAN ARMSTRONG: He may.

4 MR. OVERSTREET: Thank you.

5 CHAIRMAN ARMSTRONG: Last week we took
6 all day on one witness, and we'll get an ending on
7 that directive, so I'm going to thank everyone for
8 your candor and promptly see you, and so we'll see you
9 at 9:30 tomorrow morning.

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

12 (Hearing recessed at 4:54 p.m.)

13

14 * * *

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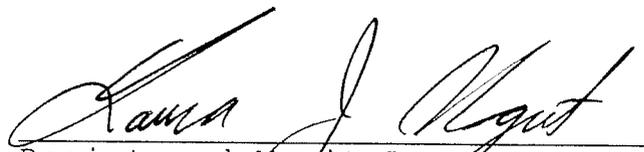
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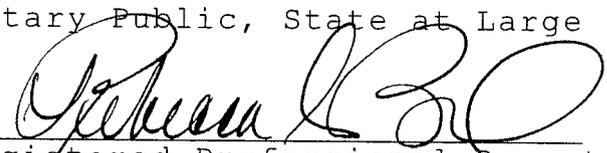
25

1 STATE OF KENTUCKY)
 2)) SS.
 3))
 4 COUNTY OF JEFFERSON)

4 We, Laura J. Kogut and Rebecca S. Boyd,
 5 Notaries Public within and for the State at Large,
 6 commissions as such expiring 25 July 2015 and 5
 7 September 2014 respectively, do hereby certify that
 8 the foregoing hearing was taken at the time and place
 9 stated and for the purpose in the caption stated; that
 10 witnesses were first duly sworn to tell the truth, the
 11 whole truth, and nothing but the truth; that the
 12 hearing was reduced to shorthand writing in the
 13 presence of the witnesses; that the foregoing is a
 14 full, true, and correct transcript of the hearing to
 15 the best of our ability; that the appearances were as
 16 stated in the caption.

17 WITNESS my hand this 18th day of
 18 July 2013.

19
 20 
 21 Registered Merit Reporter
 22 Certified Realtime Reporter
 23 KY CCR 20042BF060
 24 Notary Public, State at Large

23
 24 
 25 Registered Professional Reporter
 Certified Realtime Reporter
 Notary Public, State at Large