

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF KENTUCKY)	CASE NO.
POWER COMPANY ROCKPORT DEFERRAL)	2022-00283
MECHANISM)	

NOTICE OF FILING

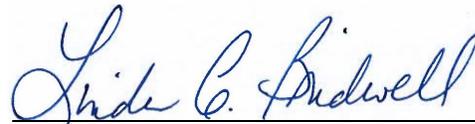
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on November 28, 2022 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on November 28, 2022 in this proceeding;
- A written log listing, inter alia, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on November 28, 2022.

A copy of this Notice, the certification of the digital video record, and hearing log have been served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at https://www.youtube.com/watch?v=K_sO1bnPY58.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 5th day of May 2023.



Linda C. Bridwell

Executive Director

Public Service Commission of Kentucky

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CERTIFICATION

I, Candace H. Sacre, hereby certify that:

1. The attached flash drive contains a digital recording of the Formal Hearing conducted in the above-styled proceeding on November 28, 2022. The Formal Hearing Log, Exhibits, and Exhibit List are included with the recording on November 28, 2022;
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the Formal Hearing of November 28, 2022; and
4. The Formal Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Formal Hearing of November 28, 2022, and the time at which each occurred.

Signed this 13th day of April, 2023.



Candace H. Sacre
Administrative Specialist III



Stephanie Schweighardt, Notary Public
Kentucky State at Large ID# KYNP 64180
Commission Expires: January 14, 2027



Date:	Type:	Location:	Department:
11/28/2022	Public Hearing\Public Comments	Hearing Room 1	Hearing Room 1 (HR 1)

Witness: Allyson M. Keaton; Lane Kollen; Tisha Sanderson; Brian K. West; Heather M. Whitney
 Judge: Kent Chandler; Mary Pat Regan
 Clerk: Candace Sacre

Event Time	Log Event	
9:04:54 AM	Session Started	
9:05:56 AM	Chairman Chandler Note: Sacre, Candace	Good morning. We are on the record in Case No. 2022-00283, electronic investigation of Kentucky Power Company Rockport deferral mechanism.
9:06:03 AM	Chairman Chandler Note: Sacre, Candace	My name is Kent Chandler. I am Chairman of the Kentucky Public Service Commission and will be presiding over the hearing today. Joining me today is Commissioner Mary Pat Regan.
9:06:12 AM	Chairman Chandler Note: Sacre, Candace	Hearing and videoconferencing recommendations. (Click on link for further comments.)
9:06:53 AM	Chairman Chandler Note: Sacre, Candace	The purpose of our hearing today is for taking evidence in this matter.
9:06:57 AM	Chairman Chandler Note: Sacre, Candace	Entry of appearance of counsel. (Click on link for further comments.)
9:07:13 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Katie Glass, on behalf of Kentucky Power, also appearing is Hector Garcia Santana and Christen Blend, also have with us Brian West and Heather Whitney, testifying remotely is Allyson Keaton.
9:07:45 AM	Chairman Chandler Note: Sacre, Candace	Sanderson, how does that work, one of your witnesses? (Click on link for further comments.)
9:08:04 AM	Chairman Chandler Note: Sacre, Candace	We have your motion to admit Tillotson, permit to participate in hearing today. (Click on link for further comments.)
9:08:31 AM	Chairman Chandler Note: Sacre, Candace	What other witnesses will you and Garcia be introducing? (Click on link for further comments.)
9:09:09 AM	Asst Atty General West Note: Sacre, Candace	Mike West, and have witness Lane Kollen.
9:09:18 AM	Atty Kurtz KIUC Note: Sacre, Candace	Mike Kurtz, think Cohn joining shortly.
9:09:28 AM	Staff Atty Temple PSC Note: Sacre, Candace	Heather Temple and Nancy Vinsel for Commission Staff.
9:09:34 AM	Chairman Chandler Note: Sacre, Candace	Public notice. (Click on link for further comments.)
9:10:00 AM	Chairman Chandler Note: Sacre, Candace	Outstanding motions. (Click on link for further comments.)

9:10:52 AM	Chairman Chandler Note: Sacre, Candace	Recess until fixed.
9:11:19 AM	Session Paused	
9:19:54 AM	Session Resumed	
9:20:14 AM	Chairman Chandler Note: Sacre, Candace	Public comments. (Click on link for further comments.)
9:26:55 AM	Chairman Chandler Note: Sacre, Candace	Presentation of evidence, Commission required Kentucky Power provide initial testimony, not have burden of proof other than new tariffs. (Click on link for further comments.)
9:29:06 AM	Chairman Chandler Note: Sacre, Candace	Call first witness.
9:29:10 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Brian West.
9:29:25 AM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
9:29:35 AM	Chairman Chandler - witness West Note: Sacre, Candace	Examination. Name and address?
9:29:53 AM	Atty Glass Kentucky Power - witness West Note: Sacre, Candace	Direct Examination. Employer and position?
9:30:05 AM	Atty Glass Kentucky Power - witness West Note: Sacre, Candace	Cause be filed direct testimony and responses and rebuttal?
9:30:15 AM	Atty Glass Kentucky Power - witness West Note: Sacre, Candace	Changes or updates?
9:30:21 AM	Atty Glass Kentucky Power - witness West Note: Sacre, Candace	Ask same questions today, answers be same?
9:30:29 AM	Chairman Chandler Note: Sacre, Candace	Questions?
9:30:34 AM	Asst Atty General West - witness West Note: Sacre, Candace	Cross Examination. Rockport fixed cost savings on money currently in base rates related to Kentucky Power participation in Rockport?
9:31:00 AM	Asst Atty General West - witness West Note: Sacre, Candace	Settlement agreement in 2017 and Order approving take costs out of base rates after Kentucky Power no longer participates in Rockport?
9:31:28 AM	Asst Atty General West - witness West Note: Sacre, Candace	Amount annual fixed cost savings related to Rockport?
9:31:48 AM	Asst Atty General West - witness West Note: Sacre, Candace	Case largely about what to do with \$40.8 million?
9:32:22 AM	Asst Atty General West - witness West Note: Sacre, Candace	Estimated Rockport offset, describe what is?
9:34:15 AM	Asst Atty General West - witness West Note: Sacre, Candace	For estimated Rockport offset, in testimony provided value, an estimate?
9:34:22 AM	Asst Atty General West - witness West Note: Sacre, Candace	What amount was that?
9:34:35 AM	Asst Atty General West - witness West Note: Sacre, Candace	Effect of designating that amount, estimated Rockport offset, is money flow back to Kentucky Power?
9:34:49 AM	Asst Atty General West - witness West Note: Sacre, Candace	If take \$22.8 from \$40.8 million, leaves about \$18 million?
9:35:03 AM	Asst Atty General West - witness West Note: Sacre, Candace	What will happen to \$18 million under proposal?

9:36:21 AM Asst Atty General West - witness West
Note: Sacre, Candace What think is likely result, where \$18 million end up going?

9:36:44 AM Asst Atty General West - witness West
Note: Sacre, Candace Possibility entire \$20.8 million retained by Kentucky Power?

9:37:03 AM Chairman Chandler - witness West
Note: Sacre, Candace Examination. Clear about 2023 ROE per books, referring to 2023 per books or clear 2023 authorized ROE?

9:37:39 AM Chairman Chandler - witness West
Note: Sacre, Candace What clear relates to there, ROE be earned or per books calculation to earn ROE?

9:37:54 AM Chairman Chandler - witness West
Note: Sacre, Candace So what ROE?

9:38:03 AM Chairman Chandler - witness West
Note: Sacre, Candace Think that's clear in 2017 documents?

9:38:16 AM Chairman Chandler - witness West
Note: Sacre, Candace Either clear or assumed, assuming something necessarily clear, only makes sense, you think clear most recently authorized or assume makes most sense, answer earlier clear refers to per books, fair?

9:39:06 AM Chairman Chandler - witness West
Note: Sacre, Candace Talk about ROE a second, actual said 93, what is basis for position that 93 appropriate ROE?

9:40:06 AM Chairman Chandler
Note: Sacre, Candace Questions?

9:40:11 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace Cross Examination. Total amount Rockport fixed cost savings \$50.8 million on annual basis?

9:40:27 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace So \$50.8 total?

9:40:32 AM Atty Kurtz KIUC - witness West

9:40:48 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace Of \$40.8 million, all go to ratepayers in Dec 2022?

9:41:17 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace When new rates set on 01/01/24, also ratepayers get 100 percent of \$40.8 million fixed cost savings currently in base rates, cost no longer incurred?

9:41:36 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace Liberty transaction scheduled to close in mid-January?

9:41:44 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace Between Jan 1 and closing, Jan 15 approximation, whatever Commission does in this case with respect to \$40.8 million, absorbed or retained by AEP prior to closing?

9:42:20 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace From Jan 15 through end of year, will be on Liberty shareholders whatever Commission does?

9:42:39 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace Independent 2017 settlement agreement, have opinion about what just and reasonable allocation shareholders AEP, Liberty, and ratepayers, what a just and reasonable allocation of \$40.8 million be?

9:43:43 AM Atty Kurtz KIUC - witness West
Note: Sacre, Candace Question was, disregarding 2017 agreement, have an opinion about what a just and reasonable allocation between ratepayers and shareholders would be of \$40.8 million?

9:44:09 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Deferral, over course of five years, \$50 million Rockport costs deferred by Kentucky Power, started out \$15 million per year and taper down to \$5 million?
9:44:36 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	With interest, balance stands at \$59 million?
9:44:47 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Proposal recover that over five years with return at company's weighted average cost of capital?
9:45:05 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Would be about thirteen-and-a-half-million-dollar repayment over five years of \$50 million deferral?
9:45:22 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	If receives WACC on deferred asset, Kentucky Power earnings unaffected?
9:45:50 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	On earnings basis, no effect on company earnings?
9:46:00 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Company made whole if get \$50 million back with interest at WACC?
9:46:49 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Customers got \$50 million reduction in rates but customers paying interest at full weighted cost of capital?
9:47:04 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	What is Tariff CC?
9:47:12 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Been in effect since 2004 when Rockport agreement extended?
9:47:23 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Current amount is \$6.2 million?
9:47:49 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Tariff CC is money that Kentucky Power earns below the line, not reflected in revenue requirements?
9:48:18 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Agree since 2004, customers paid \$105.7 million in Tariff CC?
9:48:45 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Know what ROE is built into Rockport UPA established by FERC?
9:48:58 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Does 12.18 percent sound familiar?
9:49:06 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Why Kentucky Power not sought to reduce ROE ever?
9:49:16 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	How long Kentucky Power on notice that Commission take look at allocation of Rockport fixed cost savings?
9:49:41 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	That would be Jan 13 2021?
9:49:58 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Would Liberty have been on notice about orders prior to closing on sale Oct 26 2021?
9:50:16 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Objection. (Click on link for further comments.)
9:50:18 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Was world on notice Oct 26 2021 that Commission earlier said take independent look at fixed cost savings issue?
9:50:47 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Fair to assume that fact factored into Liberty's agreement?

9:51:09 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Order opening case Sept 2 2022?
9:51:16 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	Put Kentucky Power on notice fixed cost savings reviewed independent of 2017 agreement?
9:51:33 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	On Sept 29 was first amendment to stock purchase agreement Liberty and AEP?
9:51:50 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	In amendment Sept 29 2022, sales price reduced by \$200 million?
9:52:04 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Standing objection about sale to Liberty, not relevant. (Click on link for further comments.)
9:52:55 AM	Chairman Chandler Note: Sacre, Candace	Overrule objection. (Click on link for further comments.)
9:53:17 AM	Atty Kurtz KIUC - witness West Note: Sacre, Candace	When original sales price entered into as well as amended sales price, Liberty knew this case be happening?
9:53:48 AM	Chairman Chandler Note: Sacre, Candace	Questions?
9:54:01 AM	Staff Atty Temple PSC - witness West Note: Sacre, Candace	Cross Examination. Rebuttal, page R-6, Table 1, explain whether net incomes shown include restoration expenses deferred in 2022-00293?
9:55:16 AM	Staff Atty Temple PSC - witness West Note: Sacre, Candace	Look at Third Request, Item 1, Attachment 1, explain net income shown in table include expenses removed for ratemaking in 2021-00074?
9:56:51 AM	Staff Atty Temple PSC - witness West Note: Sacre, Candace	Able make same adjustments for net incomes in Table 1?
9:57:43 AM	Staff Atty Temple PSC - witness West Note: Sacre, Candace	Request do math as post-hearing data request?
9:57:44 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	STAFF ATTY TEMPLE PSC - WITNESS WEST PROVIDE MATH FOR ADJUSTMENTS TO NET INCOME STAFF THIRD REQUEST, ITEM 1, ATTACHMENT 1
9:57:56 AM	Staff Atty Temple PSC - witness West Note: Sacre, Candace	If there was a cost been approved, turned out was not fair, just or reasonable, implying in testimony/rebuttal Commissioner could not alter than?
9:59:16 AM	Chairman Chandler Note: Sacre, Candace	Questions?
9:59:20 AM	Chairman Chandler - witness West Note: Sacre, Candace	Examination. How long in Kentucky?
9:59:32 AM	Chairman Chandler - witness West Note: Sacre, Candace	Confused between answer just provided Temple and rebuttal testimony, rebuttal testimony discusses adjustments be made after 2023 to take into account expenses incurred in 2023 otherwise should not be recovered from customers?
10:01:23 AM	Chairman Chandler - witness West Note: Sacre, Candace	Whether appropriate not company's prerogative, determination what costs included include in rates left to Commission?
10:01:53 AM	Chairman Chandler - witness West Note: Sacre, Candace	Temple question was about whether take perspective can or cannot be adjusted after year occurred, can be?

10:02:13 AM	Chairman Chandler - witness West Note: Sacre, Candace	Take position can be done in 2024?
10:02:40 AM	Chairman Chandler - witness West Note: Sacre, Candace	My understanding expectation year from now based on forecasted test period, here 2023 expenses?
10:02:59 AM	Chairman Chandler - witness West Note: Sacre, Candace	If based on forecasted test period, none of historical cost 2023 should be ruled upon in forecasted test period rate case beginning Jan 1 2024, agree?
10:03:25 AM	Chairman Chandler - witness West Note: Sacre, Candace	Aware of rules related to historical test period rate case?
10:03:37 AM	Chairman Chandler - witness West Note: Sacre, Candace	Exhibit KPSC 3-1, Attachment 1, Expenses Projected to be included in Kentucky Power 2023 Income, aware of spreadsheet?
10:04:00 AM	Chairman Chandler - witness West Note: Sacre, Candace	Has seven lines, not going through them, all adjustments made by Commission?
10:04:11 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not include expenses removed by Kentucky Power in application?
10:04:23 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not included here?
10:04:28 AM	Chairman Chandler - witness West Note: Sacre, Candace	Advertising expenses nonrecoverable?
10:04:44 AM	Chairman Chandler - witness West Note: Sacre, Candace	Business expenses?
10:04:46 AM	Chairman Chandler - witness West Note: Sacre, Candace	Charitable contributions?
10:04:54 AM	Chairman Chandler - witness West Note: Sacre, Candace	Position that those expenses used to calculate per books in 2023?
10:05:57 AM	Chairman Chandler - witness West Note: Sacre, Candace	Settlement speaks for itself, agree advertising expenses incurred calendar year 2023, all business expenses, all charitable contributions included in calculation of net income?
10:06:24 AM	Chairman Chandler - witness West Note: Sacre, Candace	Include departure of employee in 2022 and severance packaged provided, included in net income?
10:06:41 AM	Chairman Chandler - witness West Note: Sacre, Candace	Settlement in legal dispute reflected in net income?
10:06:50 AM	Chairman Chandler - witness West Note: Sacre, Candace	Whitney know?
10:07:19 AM	Chairman Chandler - witness West Note: Sacre, Candace	Talked about what 2023 looks like, no one knows on net income basis, agree company only entity can affect its fortune, discretion in certain expenses?
10:08:33 AM	Chairman Chandler - witness West Note: Sacre, Candace	Exactly what wanting to ask about, in 2022 expenses deemed appropriate for deferral accounting?
10:08:48 AM	Chairman Chandler - witness West Note: Sacre, Candace	Extraordinary and nonrecurring expenses?
10:08:58 AM	Chairman Chandler - witness West Note: Sacre, Candace	If not get deferral accounting for expenses, be used in net income under GAP?
10:09:11 AM	Chairman Chandler - witness West Note: Sacre, Candace	Had Commission denied deferral accounting, reduction in earnings, reduce company earnings?

10:09:23 AM	Chairman Chandler - witness West Note: Sacre, Candace	In 2023, extraordinary nonrecurring expense in 2022 might sought deferral accounting would reduce earning, impetus in 2023 seek deferral for same types expenses?
10:10:26 AM	Chairman Chandler - witness West Note: Sacre, Candace	Be recovered under proposal with fixed cost savings?
10:10:52 AM	Chairman Chandler - witness West Note: Sacre, Candace	Reason sought regulatory asset in 2022 because of extraordinary nonrecurring expense and hit to bottom line if had expense that year?
10:11:12 AM	Chairman Chandler - witness West Note: Sacre, Candace	Latter not at issue because offset by fixed cost savings?
10:11:34 AM	Chairman Chandler - witness West Note: Sacre, Candace	Your call on that, whether seek deferral accounting?
10:11:52 AM	Chairman Chandler - witness West Note: Sacre, Candace	Reg asset, starting Dec 9, no longer incurring expenses under Rockport UPA?
10:12:19 AM	Chairman Chandler - witness West Note: Sacre, Candace	About 22 or 23 days out of year, and Rockport savings on annual basis is \$40.8 million, amount in base rates?
10:12:38 AM	Chairman Chandler - witness West Note: Sacre, Candace	If annualize 22-23 days, close to two-and-a-half million dollars of \$40.8, understanding of amount pass through Tariff PPA reflect stub period for 2022 for savings from Rockport UPA?
10:13:06 AM	Chairman Chandler - witness West Note: Sacre, Candace	Be way to do it, days left in 2021 percentage of 365 multiply times \$40.8 to figure out savings occur from amount in base rates from stub period?
10:13:29 AM	Chairman Chandler - witness West Note: Sacre, Candace	Whether savings come about on daily basis, monthly basis, yearly basis, Tariff CC recover from customers on monthly basis or annual basis?
10:14:10 AM	Chairman Chandler - witness West Note: Sacre, Candace	\$40.8 amount in base rates, billed to Kentucky Power from I&M, paid for by company on monthly basis?
10:14:39 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not like end-of-year invoice, check for \$40.8 million?
10:14:50 AM	Chairman Chandler - witness West Note: Sacre, Candace	How amount between Dec 9 and Dec 31 get to customers?
10:15:11 AM	Chairman Chandler - witness West Note: Sacre, Candace	Mean \$2.5 spread out over 12 months 2023 Tariff PPA?
10:15:21 AM	Chairman Chandler - witness West Note: Sacre, Candace	\$40.8 spread out over 12 months in Tariff PPA as passback?
10:15:28 AM	Chairman Chandler - witness West Note: Sacre, Candace	Ten going through PPA just ceases to exist?
10:15:39 AM	Chairman Chandler - witness West Note: Sacre, Candace	Cease to exist?
10:15:46 AM	Chairman Chandler - witness West Note: Sacre, Candace	Savings to company reflected indirect pass-through, savings to customers?
10:15:55 AM	Chairman Chandler - witness West Note: Sacre, Candace	Tariff ES on lag, two-month lag, one-month lag?
10:16:11 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not show up until into 2023 to drop off?

10:16:20 AM	Chairman Chandler - witness West Note: Sacre, Candace	\$40.8 being passed back monthly through Tariff PPA, makes sense because how paid?
10:16:35 AM	Chairman Chandler - witness West Note: Sacre, Candace	\$2.57 passed back over monthly amount over year, \$10 million passed back monthly cease to exist monthly, new thing, \$22 million credit amount offset to Tariff PPA for what think shortfall going to be in 2023?
10:18:14 AM	Chairman Chandler - witness West Note: Sacre, Candace	\$22.8 is number, monthly charge through Tariff PPA is \$22.8 divided by 12, what proposed under proposal to be charged through Tariff PPA each month?
10:18:45 AM	Chairman Chandler - witness West Note: Sacre, Candace	What is basis for proposal?
10:19:01 AM	Chairman Chandler - witness West Note: Sacre, Candace	Saying 2017 proposal said be credit during 2023 reflecting estimated shortfall in 2023?
10:19:21 AM	Chairman Chandler - witness West Note: Sacre, Candace	Settlement discuss true up?
10:19:26 AM	Chairman Chandler - witness West Note: Sacre, Candace	Proposal do estimated credit at \$22.8 throughout 2023 whatever shortfall is up to \$40.8 included as true-up at some point in 2024?
10:20:21 AM	Chairman Chandler - witness West Note: Sacre, Candace	True-up in 2024, how recovered, over what time period is \$10 million recovered?
10:21:02 AM	Chairman Chandler - witness West Note: Sacre, Candace	Three months?
10:21:23 AM	Chairman Chandler - witness West Note: Sacre, Candace	Environmental surcharge disappears at some point next year?
10:21:37 AM	Chairman Chandler - witness West Note: Sacre, Candace	Under proposal, when does company start recognizing amortization expense?
10:22:11 AM	Chairman Chandler - witness West Note: Sacre, Candace	Requested amortization begin on that date?
10:22:20 AM	Chairman Chandler - witness West Note: Sacre, Candace	What is amortization expenses proposing?
10:22:30 AM	Chairman Chandler - witness West Note: Sacre, Candace	Dec 9 2022 to Dec 9 2027?
10:22:56 AM	Chairman Chandler - witness West Note: Sacre, Candace	Recover amortization expense through Tariff PPA?
10:23:15 AM	Chairman Chandler - witness West Note: Sacre, Candace	What about rates effective Jan 1 2024, expectation that amortization expense recovered through base rates?
10:24:24 AM	Chairman Chandler - witness West Note: Sacre, Candace	True up process, taken issue with Kollen testimony, Line 12, page 11, to Rebuttal, unreasonable argue throw out use of 2023 because of subsequent transaction, sale to Liberty, fair characterization?
10:25:36 AM	Chairman Chandler - witness West Note: Sacre, Candace	Line 12, you say, reading, (click on link for further comments), right?
10:25:57 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not necessarily objecting to subsequent adjustments in true-up to those expenses incurred in 2023, objection to include in calculation of estimate for credit to exists during 2023?

10:26:39 AM	Chairman Chandler - witness West Note: Sacre, Candace	Forget appropriateness, not position Commission hands tied from doing anything about transaction cost in 2024, saying appropriateness should wait until then?
10:28:33 AM	Chairman Chandler - witness West Note: Sacre, Candace	Kentucky Power FAC high as ever seen it, if have physical capacity, as long able dispatch and produce energy below marginal cost buy it, physical hedge on energy prices for customers?
10:29:23 AM	Chairman Chandler - witness West Note: Sacre, Candace	Seen rising stock prices, LMP reflects prevailing fuel prices?
10:29:44 AM	Chairman Chandler - witness West Note: Sacre, Candace	Having physical hedge better than not having any at all?
10:29:54 AM	Chairman Chandler - witness West Note: Sacre, Candace	Starting in week and half, for certain amount of MW, company not have physical hedge against energy prices?
10:30:29 AM	Chairman Chandler - witness West Note: Sacre, Candace	Have access to those megawatts for energy purposes at marginal cost?
10:30:53 AM	Chairman Chandler - witness West Note: Sacre, Candace	The FAC about energy?
10:30:58 AM	Chairman Chandler - witness West Note: Sacre, Candace	Going from paying a lot for capacity under unit purchase agreement, have energy from resources today?
10:31:30 AM	Chairman Chandler - witness West Note: Sacre, Candace	Less energy to sell, only buying for shortfall now have?
10:31:38 AM	Chairman Chandler - witness West Note: Sacre, Candace	Today, have enough capacity to create more energy than use?
10:31:58 AM	Chairman Chandler - witness West Note: Sacre, Candace	Purchasing less replacement capacity than currently have under UPA?
10:32:09 AM	Chairman Chandler - witness West Note: Sacre, Candace	Long until Dec 9?
10:32:13 AM	Chairman Chandler - witness West Note: Sacre, Candace	Dec 9 adequate for purposes of FRR requirements, purchasing what need to?
10:32:29 AM	Chairman Chandler - witness West Note: Sacre, Candace	For purposes of FRR plan?
10:32:34 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not get energy from facilities in FRR plan?
10:32:46 AM	Chairman Chandler - witness West Note: Sacre, Candace	Any given moment buying more power than can generate, buying more than able to sell?
10:33:06 AM	Chairman Chandler - witness West Note: Sacre, Candace	Generation resources right to get energy, less of those than what peak demand is?
10:33:28 AM	Chairman Chandler - witness West Note: Sacre, Candace	In event resources, most expensive becomes Mitchell, \$125 MWh, if price of LMP below \$125, buy cheaper than can produce?
10:34:08 AM	Chairman Chandler - witness West Note: Sacre, Candace	If prices \$500, produce exactly need, only paying \$125?
10:34:26 AM	Chairman Chandler - witness West Note: Sacre, Candace	Made \$375, should not ever pay more as long as cover own demand, even if power prices high?

10:35:15 AM	Chairman Chandler - witness West Note: Sacre, Candace	Concern ratemaking implications of issues, bridge agreement, have no right to energy produced by any assets?
10:35:43 AM	Chairman Chandler - witness West Note: Sacre, Candace	Know short, had to buy capacity bridge PCA?
10:35:58 AM	Chairman Chandler - witness West Note: Sacre, Candace	In event sustained high energy prices, even if generation produces power, customers subject to sustained to high energy prices in way not before?
10:36:22 AM	Chairman Chandler - witness West Note: Sacre, Candace	Does Kentucky Power have plan address issue?
10:36:46 AM	Chairman Chandler - witness West Note: Sacre, Candace	Should have been addressed in last IRP, IRP is a plan?
10:36:55 AM	Chairman Chandler - witness West Note: Sacre, Candace	Entire year 2023 expect to have more generation other than Mitchell and Big Sandy 1?
10:37:20 AM	Chairman Chandler - witness West Note: Sacre, Candace	Nothing in front of us for PPA?
10:37:30 AM	Chairman Chandler - witness West Note: Sacre, Candace	Captains of own ship?
10:37:34 AM	Chairman Chandler - witness West Note: Sacre, Candace	Reality is physical hedge today for all demand and for dozens of MW not be hedge post-Dec 9, seeing higher FAC rates to customers than seen in years?
10:38:12 AM	Chairman Chandler - witness West Note: Sacre, Candace	Have concern for what happens to FAC and customer bills already high with hedge what happens when hedge goes away?
10:39:08 AM	Chairman Chandler - witness West Note: Sacre, Candace	Shoulder months not seem exist any more, your experience?
10:39:49 AM	Chairman Chandler - witness West Note: Sacre, Candace	Budgeting and financing earlier, provided exhibit looks at what think net benefit in fixed cost savings through 2025, remember?
10:40:17 AM	Chairman Chandler - witness West Note: Sacre, Candace	BKW-R1, nominal savings on B-12 net impact fixed costs savings Jan 2023 through May 2025 \$180.8 million, see that?
10:40:55 AM	Chairman Chandler - witness West Note: Sacre, Candace	Fuel adjustment clause, line 19, says not reflect any changes any base case filing or proceeding after 2017-00179, see that?
10:41:12 AM	Chairman Chandler - witness West Note: Sacre, Candace	Supposed to be 2017-00179 or 2020-00174?
10:41:37 AM	Chairman Chandler - witness West Note: Sacre, Candace	True up reflective what costs be in 2023, looking at 2023 expenses, but ROE different than in 2017 rate case, include net income expected to be in test year of 2017 case?
10:42:30 AM	Chairman Chandler - witness West Note: Sacre, Candace	Has to be an estimate?
10:42:37 AM	Chairman Chandler - witness West Note: Sacre, Candace	Fuel adjustment clause line, reading (click on link for further comments)?
10:43:00 AM	Chairman Chandler - witness West Note: Sacre, Candace	Offer it economic, if dispatched it dispatches, otherwise just buy at LMP, acknowledgement expectation more costs for replacement energy as opposed to Rockport energy?

10:43:26 AM	Chairman Chandler - witness West Note: Sacre, Candace	Have idea of what costs be, have consensus idea what things going to be, why not try to take into account?
10:44:32 AM	Chairman Chandler - witness West Note: Sacre, Candace	That's for Commission to determine?
10:44:46 AM	Chairman Chandler - witness West Note: Sacre, Candace	Reason ask Commission Order in 2020 rate case, even on rehearing, spoke to interest around amortization period of regulatory asset, expend amortization period, replacement costs smaller shorter?
10:45:19 AM	Chairman Chandler - witness West Note: Sacre, Candace	Replacement capacity only one consideration replacement of generation?
10:45:31 AM	Chairman Chandler - witness West Note: Sacre, Candace	Estimates accounted for capacity side but not replacement area?
10:46:12 AM	Chairman Chandler - witness West Note: Sacre, Candace	Agree \$22.8 million shortfall period ending June 30 2022 not happen on equal monthly basis in order to equal annualized \$22.8 million?
10:46:51 AM	Chairman Chandler - witness West Note: Sacre, Candace	Each month's books end, shortfall not 1/12th \$22.8 each month, get bigger earning approved ROE, usually get bigger as year goes on?
10:47:29 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not a normalized amount each month, not be same?
10:47:43 AM	Chairman Chandler - witness West Note: Sacre, Candace	Have expectation that from June is \$22.8, October is \$36, expectation at end of 2023 in excess of \$40.8?
10:48:11 AM	Chairman Chandler - witness West Note: Sacre, Candace	Expect shortfall to earn ROE be in excess of entire \$40.8 credit amount?
10:49:04 AM	Chairman Chandler - witness West Note: Sacre, Candace	What expect?
10:49:09 AM	Chairman Chandler - witness West Note: Sacre, Candace	Know what capital additions be throughout 2023, know what going to go in service in 2023, and what plan to do in 2023, know depreciation expense assets in service going to be?
10:49:43 AM	Chairman Chandler - witness West Note: Sacre, Candace	Five-year capital plan?
10:49:51 AM	Chairman Chandler - witness West Note: Sacre, Candace	AEP has five-year capital plan?
10:49:59 AM	Chairman Chandler - witness West Note: Sacre, Candace	At Kentucky Power, have five-year capital plan?
10:50:35 AM	Chairman Chandler - witness West Note: Sacre, Candace	Why make sense for \$22.8 recovered from customers throughout year if seem shortfall gets bigger as year goes on, recovering from customers not necessarily have shortfall that month?
10:51:22 AM	Chairman Chandler - witness West Note: Sacre, Candace	Time value of money component to that, cash outlay?
10:51:38 AM	Chairman Chandler - witness West Note: Sacre, Candace	Not just finance costs but customers have time value of money component?
10:51:52 AM	Chairman Chandler - witness West Note: Sacre, Candace	Maybe internally people have different value prescribe, Commission sets what expects shareholders time value of money be on equity investment, proposing receive monthly basis cash of \$22.8 million divided by 12 months each and every month through tariff PPA

10:52:22 AM Chairman Chandler - witness West
Note: Sacre, Candace If \$10, proposal is pass back other \$12.8 over three months in 2024?

10:52:33 AM Chairman Chandler - witness West
Note: Sacre, Candace On nominal basis?

10:52:43 AM Chairman Chandler - witness West
Note: Sacre, Candace Same goes other way around, \$18 million, \$22.8, whatever, all on nominal basis?

10:53:10 AM Chairman Chandler
Note: Sacre, Candace Recess until 10 after.

10:53:26 AM Session Paused

11:10:37 AM Session Resumed

11:10:43 AM Chairman Chandler
Note: Sacre, Candace Back on the record in Case No. 2022-00283.

11:10:55 AM Chairman Chandler
Note: Sacre, Candace Questions?

11:11:05 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Redirect Examination. Kurtz cross, Chairman questions for you, support for statement ROE Rockport offset currently authorized ROE for 2023 where clear in 2017 documents, recall?

11:11:38 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Have 2017 settlement agreement?

11:12:00 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Turn to page 6, at bottom, read definition of estimated Rockport offset?

11:12:16 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Read first sentence of next paragraph?

11:12:42 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Company's currently authorized ROE was 9.3 percent?

11:13:01 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Later on, Chairman questioning, asking what incentive company have to seek deferral accounting in 2023 when Rockport offset available, recall?

11:13:22 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Testified company treat that same way would in 2022 when no Rockport offset?

11:13:31 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Agree not a bottomless well available to company for Rockport offset?

11:13:45 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Chairman questions about reporting amortization expense, recall?

11:13:54 AM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Whitney address Chairman's questions?

11:14:12 AM Chairman Chandler - witness West
Note: Sacre, Candace Examination. Still not understand what happens between Dec 9 this year and Dec 31, made tariff filing on Nov 15 related to Tariff PPA?

11:14:29 AM Chairman Chandler - witness West
Note: Sacre, Candace Calculation refers to \$40.8 million, annual amount Rockport fixed savings?

11:14:43 AM Chairman Chandler - witness West
Note: Sacre, Candace How is \$2-\$2.5 million savings from Dec 9 to Dec 31 get included as offset, how taken into account only annual amount included in Tariff PPA?

11:15:35 AM	Chairman Chandler Note: Sacre, Candace	Statement, amortization expense daily calculation, not understand how expenses and savings for stub period between Dec 9 and end of this year how taken into account in Tariff PPA, statement, take a look at tariff, recall West, not clear how taken into account.
11:16:49 AM	Chairman Chandler Note: Sacre, Candace	Anything on that? (Click on link for further comments.)
11:16:59 AM	Chairman Chandler Note: Sacre, Candace	Witness step down.
11:17:11 AM	Chairman Chandler Note: Sacre, Candace	Take Whitney next?
11:17:14 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Heather Whitney.
11:17:39 AM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
11:17:46 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Examination. Name and address?
11:17:56 AM	Atty Garcia Santana AEP - witness Whitney Note: Sacre, Candace	Direct Examination. Position?
11:18:11 AM	Atty Garcia Santana AEP - witness Whitney Note: Sacre, Candace	Provide answers to discovery requests, data requests?
11:18:23 AM	Atty Garcia Santana AEP - witness Whitney Note: Sacre, Candace	For responses, prepared by you or under supervision?
11:18:34 AM	Atty Garcia Santana AEP - witness Whitney Note: Sacre, Candace	Have any changes?
11:18:59 AM	Chairman Chandler Note: Sacre, Candace	Questions?
11:19:05 AM	Atty Kurtz KIUC - witness Whitney Note: Sacre, Candace	Cross Examination. Here for West testimony?
11:19:09 AM	Atty Kurtz KIUC - witness Whitney Note: Sacre, Candace	Deferred accounting questions to you?
11:19:14 AM	Atty Kurtz KIUC - witness Whitney Note: Sacre, Candace	2024 true up case, how much extra of \$40.8 million company entitled to?
11:19:46 AM	Atty Kurtz KIUC - witness Whitney Note: Sacre, Candace	How going to eliminate Liberty associated transition costs from 2023 actual earnings to develop shortfall but for Liberty acquisition?
11:20:31 AM	Atty Kurtz KIUC - witness Whitney Note: Sacre, Candace	Recall Chairman asking West about change 2023 actuals if need be, what need be done to change 2023 actual financials to get determination of ROE as if Liberty not occur?
11:22:08 AM	Atty Kurtz KIUC - witness Whitney Note: Sacre, Candace	In 2017, anybody envisioned AEP sell Kentucky Power and transaction close in 2023?
11:22:41 AM	Atty Kurtz KIUC - witness Whitney Note: Sacre, Candace	Think 2024 true-up to look at 2023 actuals and make adjustments, simple case or complicated?
11:23:17 AM	Staff Atty Temple PSC - witness Whitney Note: Sacre, Candace	Cross Examination. As post-hearing data request, make ratemaking adjustments to net income found in rebuttal testimony, Table 1?
11:23:18 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	STAFF ATTY TEMPLE PSC - WITNESS WHITNEY PROVIDE RATEMAKING ADJUSTMENTS TO NET INCOME FOUND IN REBUTTAL TESTIMONY TABLE 1

11:23:48 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Examination. Know if adjustments Commission made in Final Order or Commission made in Final Order and the company proposed in application?
11:24:03 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	All accounts company puts below line purposes of rate case would not end up in calculations?
11:24:15 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Like charitable, do accounting for entire AEP enterprise or just AEP East companies?
11:24:25 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Charitable organization costs recovered in any other jurisdictions?
11:24:44 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Even when file at FERC, costs presumed prudent unless deemed not prudent, accounts specifically excluded for rate recovery?
11:25:00 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	But show up in net income calculation?
11:25:15 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Amortization expense, reviewed Orders from 2017 rate case?
11:25:21 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Have you gotten statements/positions from auditors already have authority begin amortizing deferral regulatory asset?
11:26:09 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Agree matching, IRS says should match, do you have order in hand feel comfortable saying can begin amortizing regulatory assets?
11:26:28 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Have order show auditor?
11:26:41 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Fixed cost savings credit, annual credit, \$40.8 million, flow through Tariff PPA, \$10 million already in PPA related to Rockport out of calculations, starting date Commission says be amortized begin realizing amortization expense?
11:27:52 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Corresponding revenues required under accounting rules, has to be corresponding revenue for amortization expense, has to be offsetting revenue, something to offset regulatory asset?
11:28:58 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Goes back to accounting rule?
11:29:00 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	If amortization expense begins on Dec 9 and recovered through PPA, what is realized income that offsets amortization expense for deferral regulatory assets?
11:29:22 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Incurring amortization expense, also realize income to revenue, what is source of offsetting revenue?
11:30:01 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Fact being reflected in Tariff PPA rate approved by Commission as long as shows as rate be recovered complies with accounting rules?
11:30:22 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	If Tariff PPA net credit or net cost not matter as long as line item recover amortization expense?
11:30:52 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Aware tariff Kentucky Power filed to recover amortization expense, new Tariff PPA?

11:31:05 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Kentucky Power include amortization expense regulatory asset begin Dec 9?
11:31:57 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Amortization expense annual amount, Tariff PPA recover it over 387 days, or does it take 387 days amortization expense and recover over 387 days?
11:33:21 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	May be Sept 1?
11:33:34 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Recovery of costs over certain time periods, amortization expense that utility incurs Dec 9 to Dec 31, expense incur, realize noncash depreciation expense, if tariff set up recover six months and not stub period, know allowed/reasonable/proposed part of depreciation expense?
11:35:37 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Matter that unrecovered depreciation expense from previous calendar year?
11:36:40 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Decommissioning rider effectively regulatory asset, costs included other than Big Sandy retirement regulatory asset, other jurisdictions have pass-through tariff that pass through exclusively amortization expense?
11:37:35 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	\$40.8 million amount in base rates today, distinction including amortization in base rates verse amortization expense through rider?
11:38:48 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Different accounting codes, cost to settle lawsuits, answered with charitable contributions, if any entities involved in lawsuit show up in calculation of GAP net income or excluded for gap purposes?
11:39:48 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Kurtz questions, different expenses Kentucky Power incur as result of transactions, how long worked for AEP?
11:40:19 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Trucks, signs that say Kentucky Power - AEP company, in event in 2023 Kentucky Power incurs expenses regarding change in branding, no GAP accounting like one-time transaction expense exclude that, included calculation income?
11:41:10 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Clearly delineated, charitable organizations, FERC accounting, GAP accounting, recoverable-not recoverable, GAP distinction not exist?
11:41:39 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Reconcile GAP to FERC accounting?
11:42:05 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	Charitable contributions specific FERC account, numbers equal for GAP and FERC accounting, whether recoverable for cost of service?
11:42:59 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	How difficult or how easy do after-fact review of costs, here for that testimony?
11:43:21 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	How hard be identify on FERC account basis and clarify how relates on GAP basis?
11:44:30 AM	Chairman Chandler - witness Whitney Note: Sacre, Candace	List of 30-50 adjustments, charitable contributions, business expenses required removed under regulations, excludes recovered other provisions, FAC costs included?

11:45:20 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace All surcharges, all on list?

11:45:29 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace All tariffs have own rules, just expenses, revenues, net income?

11:45:52 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace If tariff runs from July 1 to June 30 and has true-up provision, Dec 31 running \$10 million behind, going to be used in calculation of GAP earnings in 2023?

11:47:18 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Have blanket approval for all formula tariffs create regulatory assets between tariff filings?

11:47:52 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Two-month lag, create regulatory asset for those?

11:49:05 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Tariff FAC says what is allowable to be recovered and what not be recovered, noneconomy energy purchases not recovered through FAC, in excess amount in base rates recovered under true up in 2023 subject to \$40.8 million cap, included in GAP income?

11:51:30 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Under proposal, on Dec 9, include in Tariff PPA amortization expense, include passback of \$40.8 million fixed cost savings?

11:51:58 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Matter in sense that amortization expense and fixed cost savings that flows through Tariff PPA calculated what ought to have been compared what actually recovered, any over/under tried up anyway?

11:53:35 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Exercise calculating over and under, look at it on cost-of-service basis, this is what Tariff PPA should have recovered, how much actually recovered, difference used going forward Tariff PPA rate?

11:54:39 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Want to know what do, runs July 1 through June 30, up until end this year's Tariff PPA, then stops, new calculation over and under, and then have a going-forward Tariff PPA, how it's done?

11:55:09 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Explain what happen when current Tariff PPA ends?

11:58:04 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace When apply deferred accounting to over/under recovery?

11:58:12 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace First month, create regulatory liability of ten dollars, second month reduce regulatory liability by five dollars?

11:58:20 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace At end, goes from liability to asset, reg asset on books at five dollars going to next year, and amortize asset over 12-month period as part of Tariff PPA?

11:58:30 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace Amortize regulatory asset as part of Tariff PPA?

11:59:22 AM Chairman Chandler - witness Whitney
Note: Sacre, Candace If year for proposed tariff effect Dec 9, if goes through June 30, set up to recover more half of \$20.4 million fixed cost savings, whatever savings accrue for last three weeks of Dec taken up in over and under determination and same for amortization expense?

12:00:22 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Think calculation includes amortization expense equal to six months and three weeks?

12:00:38 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Going to look at tariff and tell us how that was done?

12:01:17 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Amortization expense and fixed cost savings are separate, all need is amortization expense included in revenue?

12:02:20 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Insofar as match expenses and revenues related to amortization expense, just inclusion in Tariff PPA that are revenues?

12:02:52 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace FAC reg asset/reg liability each month exactly same for FAC as is for PJM?

12:03:00 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Same for formula rate provisions at monthly regulatory assets?

12:03:23 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Confused about, can set up regulatory asset for amortization expense even though noncash expense?

12:03:40 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Amortization expense like depreciation is a noncash expense?

12:03:50 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Regulatory assets intended to be used for cash expenses?

12:04:23 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Depreciation expense deferrable?

12:04:32 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Under ASC 980-25-1 or whatever it is?

12:04:44 PM Chairman Chandler
Note: Sacre, Candace Questions? (Click on link for further comments.)

12:05:47 PM Atty Garcia Santana AEP - witness Whitney
Note: Sacre, Candace Redirect Examination. Company authorized return on equity?

12:05:57 PM Atty Garcia Santana AEP - witness Whitney
Note: Sacre, Candace Authorized ROE in 2023 be whatever Commission approved?

12:06:16 PM Atty Garcia Santana AEP - witness Whitney
Note: Sacre, Candace How determined whether did earn authorized ROE in 2023

12:07:15 PM Atty Garcia Santana AEP - witness Whitney
Note: Sacre, Candace To do calculation, determination of what was actual per-books ROE in 2023 has nothing to do with ratemaking adjustments?

12:08:06 PM Atty Garcia Santana AEP - witness Whitney
Note: Sacre, Candace Answers just gave based on how accounting works and methodologies in 2017 but not anything how Liberty would do any type of accounting for things they are going to record?

12:09:30 PM Atty Garcia Santana AEP - witness Whitney
Note: Sacre, Candace Within context, answer gave before ratemaking adjustments nothing to do with per books earned of Kentucky Power in 2023 going to be?

12:10:06 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Examination. GAP generally accepted accounting principles?

12:10:29 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace A matter of addition and subtraction, response not expect there deviation for way you do things and way Liberty might, have an expectation GAP net income different way AEP calculate it verse Liberty calculate it?

12:12:14 PM Chairman Chandler - witness Whitney
Note: Sacre, Candace Regulatory accounting, business accounting tax accounting, have expectation difference in calculation GAP earnings in 2023 if AEP calculated it verse Liberty?

12:12:56 PM Chairman Chandler
Note: Sacre, Candace Questions?

12:13:16 PM	Chairman Chandler Note: Sacre, Candace	Lunch, full hour until 1:15.
12:13:38 PM	Session Paused	
1:19:30 PM	Session Resumed	
1:19:46 PM	Chairman Chandler Note: Sacre, Candace	Back on the record in Case No. 2022-00283.
1:19:51 PM	Chairman Chandler Note: Sacre, Candace	Anything before recall West?
1:20:14 PM	Chairman Chandler Note: Sacre, Candace	Would you mind to recall West?
1:20:17 PM	Atty Glass Kentucky Power Note: Sacre, Candace	Company recalls Brian West.
1:20:28 PM	Chairman Chandler Note: Sacre, Candace	Still under oath.
1:20:33 PM	Chairman Chandler Note: Sacre, Candace	Any questions? (Click on link for further comments.)
1:21:07 PM	Chairman Chandler - witness West Note: Sacre, Candace	Examination. Tell me how Rockport fixed savings for period Dec 9 through Dec 31 and going forward recovered through proposed Tariff PPA?
1:23:32 PM	Chairman Chandler - witness West Note: Sacre, Candace	That was basis for questions, reduction in costs of Rockport \$40.8, amount of savings Dec 9 to Dec 31 not go back to customers until Oct 2023?
1:24:27 PM	Chairman Chandler - witness West Note: Sacre, Candace	Get back cash savings starting Dec 9?
1:24:40 PM	Chairman Chandler - witness West Note: Sacre, Candace	Entitled to \$40.8 plus two-and-a-half million?
1:24:45 PM	Chairman Chandler - witness West Note: Sacre, Candace	Two-and-a-half-million savings, cost to base rates no longer incurred but recovered, not credited back to customers until Oct 2023 and effectively divided over 12 months?
1:25:26 PM	Chairman Chandler - witness West Note: Sacre, Candace	Savings for 22 days filing annual amount \$20.4 recovered Jan 1 to June 30?
1:26:13 PM	Chairman Chandler - witness West Note: Sacre, Candace	Have the PPA update, seen Excel spreadsheet entitled Kentucky Power Company PPA Nov 15 2022?
1:26:52 PM	Chairman Chandler - witness West Note: Sacre, Candace	Summary and Form 1, Form 2, Form 3, goes on?
1:27:00 PM	Chairman Chandler - witness West Note: Sacre, Candace	Aware of summary, seen before?
1:27:05 PM	Chairman Chandler - witness West Note: Sacre, Candace	Have available to you?
1:28:14 PM	Chairman Chandler - witness West Note: Sacre, Candace	Have Form 1 in front of you?
1:28:21 PM	Chairman Chandler - witness West Note: Sacre, Candace	Will be perfect for this, Form 1, have in front of you?
1:28:38 PM	Chairman Chandler - witness West Note: Sacre, Candace	Fourteen items on there?
1:28:46 PM	Chairman Chandler - witness West Note: Sacre, Candace	Actual nonRockport PPA costs 12 months ended June 30 2022 \$160.7 million?

1:29:01 PM	Chairman Chandler - witness West Note: Sacre, Candace	Annual amount?
1:29:10 PM	Chairman Chandler - witness West Note: Sacre, Candace	When goes into effect Dec 9, how much recovered? October recovered, November recovered?
1:29:38 PM	Chairman Chandler - witness West Note: Sacre, Candace	All that matters to you is final number, bottom number divided by 12?
1:29:52 PM	Chairman Chandler - witness West Note: Sacre, Candace	NonRockport amount on Form 5, amount in base rates?
1:30:07 PM	Chairman Chandler - witness West Note: Sacre, Candace	\$18,558,604, hundred percent incremental base amount recovered through Tariff PPA, first less second?
1:30:37 PM	Chairman Chandler - witness West Note: Sacre, Candace	Ninety-eight plus 18 approximately one-sixty?
1:30:43 PM	Chairman Chandler - witness West Note: Sacre, Candace	Increase in Rockport collections, reduction amount of Rockport rate-based referral, used to be \$10 million?
1:30:55 PM	Chairman Chandler - witness West Note: Sacre, Candace	Gone now, expires Dec 9?
1:31:03 PM	Chairman Chandler - witness West Note: Sacre, Candace	Rockport fixed cost savings, Dec 9 2022 plus, annual amount?
1:31:13 PM	Chairman Chandler - witness West Note: Sacre, Candace	Subtotal of all those, \$22.2 million?
1:31:33 PM	Chairman Chandler - witness West Note: Sacre, Candace	Grossed up by 60.006093?
1:31:43 PM	Chairman Chandler - witness West Note: Sacre, Candace	Rockport deferral amount recovered Dec 9 2022 through Dec 8 2027 just five-year annual amortization expense?
1:32:00 PM	Chairman Chandler - witness West Note: Sacre, Candace	Thirteen times five equals \$50+ million deferral and weighted average cost of capital applied to it?
1:32:12 PM	Chairman Chandler - witness West Note: Sacre, Candace	Until Dec 8 2027?
1:32:19 PM	Chairman Chandler - witness West Note: Sacre, Candace	Estimated Rockport offset amount proposing credit estimate under-earning amount in 2022?
1:32:47 PM	Chairman Chandler - witness West Note: Sacre, Candace	No true-up yet, happens in 2024?
1:33:00 PM	Chairman Chandler - witness West Note: Sacre, Candace	Positive \$13.916?
1:33:12 PM	Chairman Chandler - witness West Note: Sacre, Candace	Twenty-two-point-two-million-dollar credit, gross up of credit, less amortization expense, and current estimate of \$22.8 for shortfall ROE in 2023?
1:33:38 PM	Chairman Chandler - witness West Note: Sacre, Candace	Up until what date is \$20.956 a collection?
1:34:17 PM	Chairman Chandler - witness West Note: Sacre, Candace	When PPA finally got billed, Sept PPA revenues based off previously-in-effect Tariff PPA rate?
1:34:43 PM	Chairman Chandler - witness West Note: Sacre, Candace	\$20,956,127 collected during last 12 months compared to over/under what target revenue was of \$20,937,74?
1:35:25 PM	Chairman Chandler - witness West Note: Sacre, Candace	Company overcollected by \$19,000?

1:35:37 PM	Chairman Chandler - witness West Note: Sacre, Candace	Added to PPA revenue requirement before over/under accounting?
1:35:49 PM	Chairman Chandler - witness West Note: Sacre, Candace	\$13,897,858 apply to service rendered on or after Dec 9 2022 through June 30 2023, and billings be effective September?
1:36:30 PM	Chairman Chandler - witness West Note: Sacre, Candace	Dec 9 2022 through June 30 2023?
1:37:03 PM	Chairman Chandler - witness West Note: Sacre, Candace	Effective dates rates apply to ends June 30 2023?
1:37:38 PM	Chairman Chandler - witness West Note: Sacre, Candace	Thirteen-point-eight-nine-seven-eight-fifty-eight recovered Dec 9 and Sept 30 2023?
1:37:56 PM	Chairman Chandler - witness West Note: Sacre, Candace	Figure out monthly amount divide by monthly equivalent?
1:38:19 PM	Chairman Chandler - witness West Note: Sacre, Candace	When takes into account costs for Tariff PPA, start incurring replacement capacity cost?
1:38:40 PM	Chairman Chandler - witness West Note: Sacre, Candace	When start incurring replacement capacity cost?
1:38:57 PM	Chairman Chandler - witness West Note: Sacre, Candace	Increase to \$13,897,000 amount?
1:39:08 PM	Chairman Chandler - witness West Note: Sacre, Candace	Bottom of page says, reading (click on link for further comments)
1:39:19 PM	Chairman Chandler - witness West Note: Sacre, Candace	See calculation at bottom for demand and energy?
1:39:25 PM	Chairman Chandler - witness West Note: Sacre, Candace	End at line 14?
1:39:49 PM	Atty Glass Kentucky Power Note: Sacre, Candace	What West has copy of summary of changes to Form 1.0. (Click on link for further comments.)
1:40:01 PM	Chairman Chandler - witness West Note: Sacre, Candace	Have three columns of numbers or one?
1:40:18 PM	Chairman Chandler - witness West Note: Sacre, Candace	Assume second page of exhibit Form 1 double asterisks, forecasted replacement costs not included, how hope to recover, part of proposed tariff filing?
1:41:01 PM	Chairman Chandler - witness West Note: Sacre, Candace	Incur regulatory asset for those costs between now and next filing?
1:41:20 PM	Chairman Chandler - witness West Note: Sacre, Candace	Learned from Whitney expense not get tracked, what happens to those replacement costs?
1:43:07 PM	Chairman Chandler - witness West Note: Sacre, Candace	Who can tell me where replacement capacity costs reflected and amount?
1:44:20 PM	Chairman Chandler - witness West Note: Sacre, Candace	Tariff PPA is 35-1?
1:45:20 PM	Chairman Chandler Note: Sacre, Candace	Questions?
1:45:32 PM	Chairman Chandler Note: Sacre, Candace	Recess.
1:45:48 PM	Session Paused	
1:54:21 PM	Session Resumed	
1:54:22 PM	Chairman Chandler Note: Sacre, Candace	Redirect?

1:54:34 PM	Atty Glass Kentucky Power - witness West Note: Sacre, Candace	Redirect Examination. Chairman asking about Tariff PPA Form 1 and forecasted replacement capacity cost not included?
1:55:00 PM	Atty Glass Kentucky Power - witness West Note: Sacre, Candace	Give further information why not included in this form?
1:56:40 PM	Chairman Chandler Note: Sacre, Candace	Call next witness.
1:56:46 PM	Atty Blend AEP - witness Keaton Note: Sacre, Candace	Allyson Keaton.
1:56:53 PM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
1:57:03 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Examination. Name and address?
1:57:16 PM	Atty Blend AEP - witness Keaton Note: Sacre, Candace	Direct Examination. By whom employed and in what capacity?
1:57:28 PM	Atty Blend AEP - witness Keaton Note: Sacre, Candace	Cause response to data request be filed?
1:57:37 PM	Atty Blend AEP - witness Keaton Note: Sacre, Candace	Adopt response today?
1:57:40 PM	Chairman Chandler Note: Sacre, Candace	Questions?
1:58:31 PM	Chairman Chandler Note: Sacre, Candace	One more witness, Tillotson will be presenting.
1:59:01 PM	Atty Tillotson Liberty Utilities Note: Sacre, Candace	Offered her be here answer any questions Commission/Staff, parties might have. (Click on link for further comments.)
2:00:21 PM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
2:00:27 PM	Chairman Chandler - witness Sanderson Note: Sacre, Candace	Examination. Name and address?
2:00:40 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Direct Examination. State by whom employed?
2:00:48 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	And in what capacity?
2:00:56 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	In role with Liberty, have anticipated role with Kentucky Power following closing acquisition?
2:01:11 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	What will role be?
2:01:16 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	As part of this matter, contacted by Kentucky Power or AEP?
2:01:35 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	What asked to provide?
2:01:53 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Prepare affidavit?
2:01:59 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Attached to response to data request 3-2?
2:02:05 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Oversee preparation of Excel spreadsheet?
2:02:16 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Have personal knowledge of information contained in Excel document?

2:02:22 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Have personal knowledge of affidavit and information provided in affidavit provided West?
2:02:33 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Have any changes to be made to affidavit or Excel file?
2:02:45 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Asked to provide information regarding transition cost, purpose of providing?
2:03:11 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Provide information how will occur that costs not need be excluded from books?
2:03:44 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Cross Examination. You will become Chief Financial Officer upon closing?
2:03:59 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Transaction costs will be on books of Liberty do acquisition of Kentucky Power?
2:04:07 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	And one-time transition costs are things like integrating Kentucky Power from AEP to Liberty?
2:04:23 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Rebranding considered a one-time?
2:04:28 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Long-lived transition costs, capital investments will be on books of Kentucky Power?
2:04:37 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	What be some examples long-lived transition costs, capital costs that be on books?
2:04:54 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	What about new transition control center?
2:05:07 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Familiar with approval of acquisition of Kentucky Power by Liberty?
2:05:15 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Number of things Commission did, forty-three-million-dollar regulatory asset ordered off books of Kentucky Power?
2:05:32 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Establishment forty-million-dollar fuel fund?
2:05:36 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Commission ordered \$15 million a year in transmission subsidies be eliminated?
2:05:49 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Take forty-three-million-dollar regulatory liability, be cost incurred on 2023 per-books revenues and earnings of Kentucky Power, the write-off?
2:06:18 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Drive down 2023 per-books earnings, moving in direction of Kentucky Power taking entire \$40.8 million of Rockport fixed cost savings, more likely extra \$18 million leftover retained in 2024 true up?
2:06:55 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Will adjust that off of per-books?
2:07:00 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Isn't that modifying 2017 settlement agreement?
2:07:20 PM	Atty Kurtz KIUC - witness Sanderson Note: Sacre, Candace	Changing 2023 per-books earnings?

2:07:28 PM Atty Kurtz KIUC - witness Sanderson
Note: Sacre, Candace Said would adjust out of true-up mechanism, so have adjusted and changed 2023 per-books earnings?

2:07:42 PM Atty Kurtz KIUC - witness Sanderson
Note: Sacre, Candace So will make adjustment before transaction closes?

2:07:51 PM Atty Kurtz KIUC - witness Sanderson
Note: Sacre, Candace Closing be mid-Jan 2023?

2:07:56 PM Atty Kurtz KIUC - witness Sanderson
Note: Sacre, Candace Why not affect 2023 earnings?

2:08:07 PM Atty Kurtz KIUC - witness Sanderson
Note: Sacre, Candace Why need adjust books of Kentucky Power?

2:08:22 PM Atty Kurtz KIUC - witness Sanderson
Note: Sacre, Candace If Commission says we are going to adjust 2023 per-books earnings for ratemaking adjustments, changing the per-books earnings?

2:08:56 PM Atty Kurtz KIUC - witness Sanderson
Note: Sacre, Candace But 2017 settlement agreement says use per books no adjustments, if Commission says want to make adjustments, Commission be changing settlement?

2:09:25 PM Staff Atty Temple PSC - witness Sanderson
Note: Sacre, Candace Cross Examination. Spreadsheet discussing, any projects begin in 2023?

2:09:39 PM Staff Atty Temple PSC - witness Sanderson
Note: Sacre, Candace As post-hearing data request, provide estimate of expenses be reported Kentucky Power books 2023?

2:09:40 PM POST-HEARING DATA REQUEST
Note: Sacre, Candace STAFF ATTY TEMPLE PSC - WITNESS SANDERSON
Note: Sacre, Candace ESTIMATE OF EXPENSES TO BE REPORTED ON KENTUCKY POWER BOOKS IN 2023

2:10:01 PM Commissioner Regan - witness Sanderson
Note: Sacre, Candace Examination. Just to clarify, would take adjustment before start balance sheet?

2:10:17 PM Commissioner Regan - witness Sanderson
Note: Sacre, Candace That liability at Liberty?

2:10:33 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Examination. Not necessarily in answer to Commissioner, will it be on income statement or not be on income statement?

2:10:47 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace If utility write off regulatory asset, reduction in that income?

2:11:03 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Liberty giving Kentucky Power outset of opening books an amount equal to regulatory asset as regulatory liability, so net to zero at beginning Kentucky Power books post-transaction?

2:11:25 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace New expense on Liberty books but for same amount?

2:11:42 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace One-time transition expenses, not remember universe of transaction and one-time and ongoing transition expenses being defined in sale of Kentucky Power to Liberty from AEP, one-time transition costs, copy of affidavit in front of you?

2:12:23 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace At paragraph 6, state how Liberty defines transition costs?

2:12:34 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace What read here is Liberty defines transition costs as, reading, (click on link for further comments), is right?

2:13:19 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Earlier, said that branding was transition cost, believe branding to be a one-time transition cost or long-lived transition cost?

2:13:38 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace One-time transition costs per affidavit are cost of staff required to work on transitioning of business, IT support, and external services between agreement and closing, which of those three does rebranding/branding fall under?

2:13:58 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Surprise now indicated branding/rebranding is transition cost but not within definition Liberty has?

2:14:10 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace What else transition cost not defined in this affidavit?

2:14:19 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Marketing, if Kentucky Power has DSM advertisement low-income home weatherization and refers to Kentucky Power as AEP company, expectation Liberty continue running advertisement post-closing?

2:14:44 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Cost of new advertisement be transition cost?

2:14:49 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Be calculated in per-books determination if cost incurred in 2023?

2:14:55 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Cost otherwise would have been incurred but for transaction of sale of Kentucky Power from AEP to Liberty?

2:15:11 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Not have had to shoot new commercial, taking out Kentucky Power is AEP company?

2:15:19 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Not an argument, a question, but for transaction reshooting commercial not have to take place?

2:15:33 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace How long with Liberty?

2:15:36 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Ever heard Liberty advertisement?

2:15:41 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Expectation cost of Liberty shooting new advertisements be on Liberty books or expect that on Kentucky Power books?

2:16:16 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Aware of Liberty having paid for advertisements of operating company?

2:16:28 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Liberty runs other utilities in other states?

2:16:31 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Advertising costs other states, holding company or operating company?

2:16:37 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Out of the ordinary for Liberty to incur those marketing costs?

2:16:55 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Ever visit operating companies of Liberty?

2:17:00 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Wear specific operating company uniforms?

2:17:06 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Not have uniforms at all or not branded at all?

2:17:21 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace What is branding, what is uniform?

2:17:27 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace All folks at Kentucky Power post-closing need new uniforms have Liberty brand?

2:17:37 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Cost of uniforms borne by holding company or by operating company?

2:17:52 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Not talking about cost of service here?

2:17:57 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Talking about per books?

2:18:01 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace New uniforms is a transition cost?

2:18:21 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Zero cost incurred by Kentucky Power to get everybody new uniforms?

2:18:47 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Letterhead, new envelopes, all those things are one-time transition costs, how those not end up in per-books Kentucky Power and net income?

2:19:18 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace If Kentucky Power gets new envelopes send bills every month, Liberty buy first batch?

2:19:42 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Who incurs original expense? Liberty actually buys envelopes?

2:20:03 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Aware any mechanism whereby Liberty in incurring all these one-time transition costs reporting or indicating costs to Commission?

2:20:18 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Wondering where, keeping a list, something we could see you all trying to keep track of this is transition cost, this is not transition cost, this is transition cost but is long-lived transition cost, where keep master list if Commission ask for it?

2:20:56 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Disagree answer got earlier, severance packages be included in per books?

2:21:13 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Define those as transition costs/transaction costs?

2:21:19 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Even if exclusively related to transaction?

2:21:40 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace If have to bring in folks for transition, paid for by Liberty?

2:21:54 PM Chairman Chandler - witness Sanderson
Note: Sacre, Candace Not that paid back by Liberty, original expense incurred by Liberty?

2:22:19 PM Atty Tillotson Liberty Utilities - witness Sanderson
Note: Sacre, Candace Redirect Examination. Transition costs being discussed, are costs incurred to be prepared day one post-closing?

2:22:36 PM Atty Tillotson Liberty Utilities - witness Sanderson
Note: Sacre, Candace Some of those costs currently being incurred?

2:22:40 PM Atty Tillotson Liberty Utilities - witness Sanderson
Note: Sacre, Candace How are being accounted for?

2:22:51 PM Atty Tillotson Liberty Utilities - witness Sanderson
Note: Sacre, Candace At what company being paid by?

2:22:54 PM	Atty Tillotson Liberty Utilities - witness Sanderson Note: Sacre, Candace	Post-closing accounted for same way?
2:23:45 PM	Chairman Chandler Note: Sacre, Candace	Call your witness.
2:23:47 PM	Asst Atty General West Note: Sacre, Candace	Lane Collen.
2:24:11 PM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
2:24:19 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Examination. Name and address?
2:24:38 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Direct Examination. Have in front of you direct and exhibits?
2:24:48 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Prepared by you?
2:24:53 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Any changes like to make?
2:26:13 PM	Chairman Chandler Note: Sacre, Candace	Questions?
2:27:00 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Cross Examination. Agree beneficial company cooperated to provide rate relief to customers past five years?
2:27:32 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Recall Kentucky Power commended by Chairman of Commission in 2018 for working cooperatively with customers provide rate relief?
2:28:42 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Direct to page 2 of document, end of line 3, read that sentence?
2:29:12 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Does that refresh your recollection?
2:30:03 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Turn your attention, see if you agree, bottom of page 1, last sentence?
2:30:46 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Agree with that statement?
2:31:35 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Recommend to Commission that it disregard 2017 settlement as to using portions of avoided costs associated with termination of UPA to extent necessary Kentucky Power earn authorized rate of return?
2:33:43 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	In 2018, KIUC not know whether Kentucky Power earn authorized rate of return?
2:35:16 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Prior to 2018 Order in 2017 case, recall Kentucky Power earning rate of return?
2:35:31 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Between 2018 Order and 2017 case and 2020 rate case, Kentucky Power earned authorized rate of return consistently?
2:37:10 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Let me clarify, Kentucky Power when made agreement to create referral, provision said in 2023 able use difference in order to get closer to earning authorized rate of return, vital at time of settlement?
2:39:44 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Agree that Order issued in 2018 in 2017 rate case speaks for itself?
2:39:54 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Testified in support of settlement of 2017-00179 case?

2:40:13 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Testify live in Commission in support of settlement?
2:40:38 PM	Chairman Chandler Note: Sacre, Candace	Kentucky Power Hearing Exhibit 1, any objection?
2:40:46 PM	Chairman Chandler Note: Sacre, Candace	Objection?
2:40:47 PM	KENTUCKY POWER HEARING EXHIBIT 1 Note: Sacre, Candace	MARKED FOR IDENTIFICATION
2:40:56 PM	Atty Garcia Santana AEP Note: Sacre, Candace	Second document transcript in 2017-00179 case.
2:41:17 PM	Chairman Chandler Note: Sacre, Candace	Providing entirety of transcript or portion? (Click on link for further comments.)
2:41:54 PM	Chairman Chandler Note: Sacre, Candace	Mark that as Kentucky Power Hearing Exhibit 2.
2:41:55 PM	KENTUCKY POWER HEARING EXHIBIT 2 Note: Sacre, Candace	MARKED FOR IDENTIFICATION
2:42:02 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Cross Examination (cont'd). Have document in front of you?
2:42:06 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Have opportunity to refresh recollection?
2:42:22 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Page 567, Line 23, question, refresh recollection offered testimony in 2017-00179 in support of settlement?
2:43:42 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Question is whether testimony in support of settlement?
2:44:01 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Page 569, state on line 5 is tremendous result?
2:45:45 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Kentucky Power agreed defer costs carrying away average for cost of capital for cost of UPA at the time pursuant to federally approved contract?
2:47:29 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Mentioned in Order in 2022-00179 Commission made some modifications?
2:48:52 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Order speaks for itself?
2:49:01 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Recall settlement agreement in 2017 case when a party considered modification of approval by Commission could withdraw from settlement?
2:49:33 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	KIUC did not step away of agreement as result of modifications?
2:49:51 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Order speaks for itself?
2:50:15 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Customers receive benefit you called tremendous?
2:50:34 PM	Atty Garcia Santana AEP - witness Kollen Note: Sacre, Candace	Agree Commission could not have ordered Kentucky Power to defer costs if Kentucky Power had not participated in settlement?
2:52:15 PM	Chairman Chandler Note: Sacre, Candace	Questions?

2:52:23 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Redirect Examination. Mentioned termination AEP receivables agreement which is result of Liberty acquisition?
2:53:59 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	On annual basis, how much termination of receivables agreement increase Kentucky Power expenses?
2:54:15 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Makes it more likely in 2024 true-up Kentucky Power get remaining \$18 million?
2:54:42 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Also mentioned net operating loss expense result of Liberty transaction?
2:55:33 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	One-time write off or ongoing?
2:55:37 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Know how much?
2:55:45 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	In response to cross, discussing write-offs that would occur, news to me, what did you mean by that?
2:56:04 PM	Atty Garcia Santana AEP Note: Sacre, Candace	Gone outside of scope of cross examination. (Click on link for further comments.)
2:56:40 PM	Chairman Chandler Note: Sacre, Candace	Overrule objection. (Click on link for further comments.)
2:56:59 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Liberty acquisition number of conditions benefited ratepayers?
2:57:16 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Forty-million-dollar fuel adjustment benefit?
2:57:22 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Kentucky Power incur fuel costs and not get forty-million-dollars-worth of revenue associated with it?
2:57:30 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Will drag down earnings?
2:57:38 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Per books?
2:57:40 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	If not adjust per-books earnings, essentially/potentially taking away part of benefits Commission gave ratepayers in Liberty case?
2:59:37 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Examination. Why response earlier surprises you, responses Sanderson provided?
3:01:00 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Redirect Examination (cont'd). Your recommendation that Kentucky Power receive \$22.8 million of \$40.8 million Rockport fixed cost savings currently being recovered in base rates?
3:04:05 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Examination. In 2023?
3:04:12 PM	Commissioner Regan - witness Kollen Note: Sacre, Candace	Examination. Are you saying ever?
3:04:26 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Redirect Examination (cont'd). Your position is Kentucky Power should get \$22.8 million of \$40.8 million Rockport fixed cost savings, no true up, not attempt get any of \$18 million?
3:06:43 PM	Chairman Chandler Note: Sacre, Candace	Questions?

3:06:46 PM	Atty Garcia Santana AEP Note: Sacre, Candace	Move admission of Exhibits 1 and 2.
3:06:56 PM	Chairman Chandler Note: Sacre, Candace	So admitted. (Click on link for further comments.)
3:06:57 PM	KENTUCKY POWER HEARING EXHIBIT 1 Note: Sacre, Candace Note: Sacre, Candace	ATTY GARCIA SANTANA AEP - WITNESS KOLLEN THELIVISALAZER.COM - PERSPECTIVES OP-ED: THE PUBLIC SERVICE COMMISSION - DEDICATED TO FAIR ELECTRIC RATES MARCH 1, 2018
3:06:58 PM	KENTUCKY POWER HEARING EXHIBIT 2 Note: Sacre, Candace Note: Sacre, Candace	ATTY GARCIA SANTANA AEP - WITNESS KOLLEN CASE NO. 2017-00179 APPLICATION OF KENTUCKY POWER COMPANY VOLUME II TRANSCRIPT OF DECEMBER 7 2017
3:07:25 PM	Chairman Chandler Note: Sacre, Candace	Anything else?
3:07:31 PM	Chairman Chandler Note: Sacre, Candace	Post-hearing data requests. (Click on link for further comments.)
3:08:59 PM	Chairman Chandler Note: Sacre, Candace	Briefs. (Click on link for further comments.)
3:13:00 PM	Chairman Chandler Note: Sacre, Candace	Anything else? (Click on link for further comments.)
3:13:33 PM	Chairman Chandler Note: Sacre, Candace	Hearing adjourned.
3:13:44 PM	Session Ended	



Exhibit List Report

2022-00283 28Nov2022

**Kentucky Power Company
(Kentucky Power)**

Name:	Description:
KENTUCKY POWER HEARING EXHIBIT 1	CASE NO. 2017-00179 TRANSCRIPT OF KENTUCKY POWER DEC 7 2017 HEARING
KENTUCKY POWER HEARING EXHIBIT 2	CASE NO. 2022-00283 DIRECT TESTIMONY AND EXHIBITS OF LANE KOLLEN OCT 2022

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Written by Kentucky Press Association Co-op

March 1, 2018



Michael J. Schmitt, PSC Chairman

By Chairman Michael J. Schmitt

FRANKFORT, Ky.

OP-ED by Public Service Chairman Michael J. Schmitt

Many Kentuckians may be unaware of the role of the Public Service Commission (PSC) in their daily lives. Paraphrasing our mission statement, the PSC fosters the safe, reliable service of utilities to customers at a price that is both reasonable and also allows for the financial stability of the regulated utilities. This includes rates and service for a myriad of utilities, including electricity, natural gas, and water.

While the PSC wants utility customers to pay a fair and reasonable price, we must also consider the merits of rate increase requests. When a utility company requests a rate increase, the PSC is thoughtful and thorough in our pursuit of fairness to all parties, including both the consumer and the company. A strong Kentucky economy requires healthy, viable utility companies. Like any business, if utility companies are forced to provide their services at

a loss, the company cannot succeed and consumers will ultimately be harmed when those services are no longer available.

KENTUCKY POWER HEARING EXHIBIT 1

Our recent rate hearing with Kentucky Power (K.P.) is a good case in point. Kentucky Power negotiated with various customer groups, including the Kentucky League of Cities, Kentucky School Boards Association, Kentucky Industrial Utility Customers Inc. and Walmart to achieve a reasonable compromise. I want to compliment Kentucky Power for their willingness to negotiate and for working with their customers to help make rate relief possible. Kentucky Power initially sought to increase its annual revenue from base rates by \$60.4 million (about 11 percent). The utility later reached a proposed settlement agreement with most of the parties involved on a rate case of \$31.8 million. Ultimately, the PSC granted Kentucky Power a revenue increase of only \$12.35 million, which after other adjustments, resulted in a 4% decrease in the average utility bill for residential customers. The manner in which this was achieved speaks to the comprehensive analysis methods the PSC incorporates under the Bevin Administration.

One adjustment made in the Kentucky Power rate case was in the Demand Side Management Program (DSM). These programs were implemented nationwide a few years ago and sought to reduce electricity by implementing activities or programs that promote electricity efficiency or conservation. These programs may have provided consumer benefits when electricity demand and prices were high. However, the market has now changed and demand for electricity has decreased. In light of this reality, DSM programs provide little benefit to consumers. And it must be understood, that these programs are not free to customers. There is a line on every utility bill that shows the DSM charge per kilowatt hour. In the K.P. case, the PSC discontinued all of the company's DSM programs, except those designed to help low income rate payers, resulting in a savings for consumers.

The PSC also considered another important change in the K.P. case, the recent federal tax reform legislation signed into law in December by President Trump. The new law has allowed corporations like AEP, the parent company of K.P., to realize savings on their tax liability, which is one component of their rate calculation. The PSC was aware that Kentucky Power would now realize substantial tax savings and ruled that all of those savings should be passed on to customers.

Another area that the PSC evaluates in rate cases are the compensation packages of utility employees. As PSC Vice Chairman Robert Cicero recently commented at the Kentucky Chamber of Commerce Energy Conference, "Salary and compensation packages for utility employees should be market driven," The PSC carefully scrutinizes compensation packages to ensure that utility customers are not subsidizing packages that are significantly more lucrative than those available in the Kentucky job market.

These are only a few examples of the scrutiny the PSC incorporates to ensure fair rates for consumers and utilities. There should be no ambiguity as to who sets electric utility rates in Kentucky. As we move forward, the Public Service Commission will continue to diligently analyze rate increase requests to arrive at a fair resolution for all parties. Our goal has always been and will continue to be ensuring a fair and stable utility market for Kentuckians.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR (1) A GENERAL)	
ADJUSTMENT OF ITS RATES FOR)	
ELECTRIC SERVICE;)	
(2) AN ORDER APPROVING ITS 2017)	CASE NO.
ENVIRONMENTAL COMPLIANCE PLAN;)	2017-00179
(3) AN ORDER APPROVING ITS TARIFFS)	
AND RIDERS; (4) AN ORDER APPROVING)	
ACCOUNTING PRACTICES TO ESTABLISH)	
REGULATORY ASSETS AND LIABILITIES;)	
AND (5) AN ORDER GRANTING ALL OTHER)	
REQUIRED APPROVALS AND RELIEF)	

VOLUME II

* * *

Transcript of December 7, 2017, hearing before
Michael Schmitt, Chairman; Robert Cicero,
Vice-Chairman; and Talina R. Mathews, Commissioner,
at the Kentucky Public Service Commission, 211 Sower
Boulevard, Frankfort, Kentucky 40602-0615.

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*

*

1 (Hearing commenced at 9:01 a.m.)

2 CHAIRMAN SCHMITT: Okay. We are now back on on
3 the record. Mr. Satterwhite, as we left I guess last
4 evening, was still on the stand undergoing
5 cross-examination by Ms. Vinsel.

6 Ms. Vinsel, are you ready to proceed?

7 MS. VINSEL: Yes, I am. Thank you, Your Honor.

8 CROSS-EXAMINATION (Continuing)

9 By Ms. Vinsel:

10 Q. Good morning, Mr. Satterwhite.

11 A. Good morning.

12 Q. I'm going to start by clarifying something that
13 we talked about yesterday about the tariffs on CS
14 coal contracts. Staff went back and looked again
15 last night, and we did find all three contracts, so
16 that issue has been resolved.

17 A. Yeah, I think the confusion probably was one
18 happened after the report that we filed in July, so
19 the end of report will have that. That's probably
20 why there was a mixup. Perfectly explainable.

21 Q. Thank you very much. Now, when we left off
22 yesterday we were talking about the PJM OATT. I'm
23 going to switch topics just for a few minutes and get
24 back to that.

25 A. Okay.

1 Q. When we talked yesterday about the proposed
2 tariff about denial of service, I think that we
3 probably should go ahead and have some -- I have some
4 questions just in general for you.

5 A. Okay.

6 Q. If I can get my colleagues to help me. This
7 packet, I'm going to call it the cover sheet, but the
8 first page is the proposed tariff that's already in
9 the record. The other three documents are exhibits
10 that I will introduce.

11 Just to refresh our discussion from yesterday,
12 under number 18, the denial or discontinuance of
13 service, and we're really looking here at the denial
14 of service.

15 That first part of that sentence before the
16 semicolon, (Reading) The company reserves the right
17 to refuse service to any customer if the customer or
18 any member of the customer's household is indebted to
19 the company for any service theretofore rendered at
20 any location.

21 So can we unpack that together?

22 A. Sure.

23 Q. See if you agree with me. Just that part of
24 the new tariff seems to indicate four different
25 scenarios: two scenarios involving a customer in

1 whose name the account is held, and then two
2 scenarios involving a member of the household of that
3 customer.

4 The first is denial of service at the service
5 address where the debt was incurred by the customer.
6 The second is any location where that customer may
7 ask to receive service.

8 Similarly, for any member of the household it
9 seems to indicate denial of service at that address,
10 service address, where the other customer first
11 became indebtedness. I'm trying not to make this
12 sound like an algebra calculation.

13 A. Two trains.

14 Q. There you go. And then the fourth is if that
15 member of a household where the debt was incurred
16 applies for service at any location.

17 So I want to walk through those pieces and
18 Commission precedent in regard to them. Let's start
19 with the customer in whose name the account is held.

20 Let me have you turn to, it's tab number 2
21 because this is Exhibit Number 2. Yes, the Exhibit
22 Number 2 I'd like to introduce, and this is an order
23 dating back from 2001 in which the Commission
24 accepted a settlement agreement that provided for
25 denial of service only for a customer in whose name

1 the account was held and that's now could be at any
2 location.

3 Now, I will tell you I did not want to print
4 out all of the tariffs, but we're aware that there
5 are at least three other utilities that have similar
6 provisions where service can be denied to any
7 customer who is indebted, the customer in whose
8 account is held, and I know there wasn't a question
9 in there. I'm trying to do this as background.

10 (PSC Exhibit 2 marked for identification.)

11 A. I appreciate the background.

12 Q. So there is precedent for that particular
13 piece.

14 (PSC Exhibit 3 marked for identification.)

15 Can I have you turn to Exhibit Number 3, PSC
16 Exhibit Number 3. This is an administrative case,
17 again from the past, in 1984. Rather than asking you
18 to read this into the record, I'm just going to read
19 some significant parts and see if you concur that
20 this is what the order says.

21 On the first paragraph on the first page,
22 (Reading) On April 6, 1984, the Commission issued an
23 order inviting public comment on the recurring issue
24 of whether the husband and wife should share the
25 liability for payment of utility bill where the

1 contract for the utility service was made by only one
2 spouse.

3 Do you agree that's what is on this paper?

4 A. Yes.

5 Q. If you turn to page 2, paragraph 2, and it's
6 the fourth line down beginning -- again talking only
7 about, if you will, a member of the household that
8 did not sign the contract for the account.

9 (Reading) The factual situations that give rise
10 to payment liability problems among family members
11 are virtually infinite, and it is the Commission's
12 opinion that no specific regulation can possibly
13 address even the majority of these problems.

14 Instead, a flexible case-by-case approach in
15 resolving these complicated situations is often fair
16 to both the customer and the utility.

17 Would you concur that that is what is on this
18 page that I've given you?

19 A. Yes, from this order.

20 Q. From this order.

21 A. Right.

22 (PSC Exhibit 4 marked for identification.)

23 Q. And let me have you turn to PSC Exhibit 4.

24 It's the customer bill of rights. And that very

25 first bullet point. See if you would agree that what

1 it reads is, (Reading) The customer, you have the
2 right to service provided you or a member of your
3 household in whose debt -- excuse me, a member of
4 your household whose debt was accumulated at your
5 address are not indebted to the utility.

6 Correct?

7 A. That's what that says, yes.

8 Q. So just a little bit that we've read from the
9 order in the administrative case, the customer bill
10 of rights goes to three of those scenarios for the
11 customer, would you agree, and let me walk through
12 what those three are. The customer -- let's just say
13 the indebted customer.

14 A. Customer of record.

15 Q. The customer of record, much better. The
16 customer of record, so denial of service at the
17 service address or in any location.

18 A. Yes.

19 Q. And potentially denial of service for a member
20 of the household at that same service address.

21 A. Yes.

22 Q. So what is the basis for the broader version
23 for denial of service for a member of a household at
24 any address?

25 A. As I stated yesterday, I'm sure this changed.

1 I'm familiar with this overall theory across many
2 jurisdictions. This is a common question that comes
3 up. It's been developing over the years. I think
4 Mr. Sharp would know the exact circumstances that
5 probably led to us wanting to make a change from a
6 general higher policy overall position, not the
7 examples that probably Mr. Sharp would have for why
8 we're requesting the change.

9 There's something in many jurisdictions called
10 the benefit of service rule. What we find is that
11 customers have, you know, husband, spouse, and
12 grandparents in the house, and they sort of play a
13 game where they put service in one person's name,
14 don't pay their bill, and then put it immediately in
15 somebody else's that's an adult in the house, and
16 sort of play the game where they're not paying their
17 bill, so all the other customers are picking up that
18 charge, but they have received the benefit of service
19 because they've lived in that house.

20 So that's sort of the global approach of how
21 this is developed since the '80s when the original
22 order came out, and probably maybe even before that.
23 Customers can be very creative.

24 So an overall policy is that concept of people
25 trying to game the system, and the rest of the

1 customers then picking up the tab because we have,
2 you know, unpaid liabilities from customers sort of
3 staying one step ahead because the rules allow them
4 to.

5 Q. And acknowledging that, and again I did not
6 want to print out reams of cases, but we do have a
7 case -- we do have cases where the Commission has
8 addressed a member of a household who attempted to
9 get service at that same address where the customer
10 of record had incurred debt, and fact by fact,
11 case-by-case basis, there's Commission precedent for
12 that.

13 Are you aware of any Commission precedent for a
14 benefit of service argument for a member of --
15 denying service to a member of a household where the
16 customer of record incurred debt at any other service
17 location beyond the service location where the debt
18 was incurred?

19 A. Well, as I said, I'm not into the every day.
20 Steve Sharp might have better examples of that. I'm
21 more grabbing from in my former career I was the
22 legal director for the enforcement department for the
23 Public Utilities Commission of Ohio, oversaw the call
24 center, the complaints, the investigators.

25 This is a common issue that came up, and as the

1 Commission in Ohio, you know, you try to balance
2 protecting customers, but also making sure customers
3 aren't gaming the system, and so that's where I dealt
4 with a lot of these issues, so when I speak about it
5 I speak more globally from multiple jurisdictions.

6 The exact Kentucky precedent, I'd have to defer to my
7 people that have more expertise in dealing with this.

8 Q. Okay. I'll ask Mr. Sharp about those
9 questions.

10 A. Okay.

11 Q. Because it would be helpful to know. Also some
12 indication as to, for example, how you indicate that
13 someone actually was a member of a household when
14 service is denied at an address other than where the
15 debt was incurred.

16 There are cases on record where the Commission
17 has made it clear that there was no evidence to
18 support that type of conclusion. I'll just put that
19 out for you right now.

20 A. Okay.

21 Q. And I will follow up with Mr. Sharp.

22 A. And I'm familiar there's been some discussion.
23 I've heard about that. I try to work with our
24 customer service reps a lot because that is my
25 history, that there has to be some amount of proof.

1 Can't just be by fiat we just declare it, so how that
2 works Mr. Sharp would know better.

3 Q. Okay. Thank you.

4 VICE-CHAIRMAN CICERO: May I ask a question and
5 interrupt here for a second?

6 MS. VINSEL: Yes.

7 EXAMINATION

8 By Vice-Chairman Cicero:

9 Q. So if I understood the language, does the
10 tariff state that say there's a person in the
11 household, he's a minor, he ends up graduating, goes
12 off to find his own place of abode and tries to set
13 up service for himself. He was a member of a
14 household that was delinquent.

15 Does this tariff say that he can't establish
16 service because of a delinquency in the prior
17 residence? It says any location, any member of the
18 household.

19 A. Typically when I've dealt with this in the
20 past, and again deferring to Mr. Sharp, it's been
21 people 18 and over that it's applied to. There's
22 probably examples that led right to this, and there
23 was a reason why we put it in there, so short answer
24 is I don't know. That's what that says. In the past
25 it's been people, non-minors.

1 Q. Well, you can have somebody that turns out to
2 be a non-minor that moves out of the household at a
3 different location and be denied service --

4 A. I imagine --

5 Q. -- based on that tariff, if I hear it
6 correctly.

7 A. Correct. Correct. And maybe, you know, there
8 needs to be clarification to make that clear. Again,
9 Mr. Sharp would know better. The concept I'm
10 familiar with for the benefit of service is it's
11 people that are not minors receiving the benefit of
12 service as a general statement.

13 Q. I think their only object is to make sure that
14 for legal purposes that the utility doesn't overstep
15 its bounds and try to become all encompassing, and
16 sometimes the goal is to protect the utility, and
17 attorneys get carried away, and they put this big
18 bubble over it, and they're protected from
19 everything, so --

20 A. Yeah, correct, and I think the root of it is
21 not protecting the utility. It's protecting
22 customers because these costs are out of control.

23 Q. I understand. They shoulder the bill.

24 A. Yeah, but clarification is always good, so I
25 appreciate the conversation.

1 VICE-CHAIRMAN CICERO: Thanks.

2 RE-CROSS-EXAMINATION

3 By Ms. Vinsel:

4 Q. And my follow-up question, I think would be,
5 would Kentucky Power consider revising the proposed
6 language in the tariff to address these issues?

7 A. I want to talk to Mr. Sharp to see why, but if
8 there's holes like this that we need to clarify,
9 absolutely.

10 Q. Thank you.

11 I would like to talk about the HEAP surcharge,
12 the heating assistance program, and this is more
13 logistical how the program works. We know that it's
14 been in operation for quite a number of years, but it
15 would help to refresh all of our understanding of how
16 this operates.

17 A. Okay.

18 Q. So the surcharge is collected by Kentucky
19 Power, and this goes to provide monies to customers
20 who meet, I presume, certain criteria to receive
21 financial assistance with their energy bill, with
22 their -- particularly their electric bills.

23 A. Correct, and it goes to -- sorry, I'll follow
24 you. Yes.

25 Q. No. Let's take this step by step. Kentucky

1 Power collects the money. Is it community --
2 primarily community action agencies in the Kentucky
3 Power service territory that administrate these
4 funds?

5 A. That's my understanding. Again, Mr. Sharp
6 deals with this on a regular basis. He's even met
7 with them to talk about improvements, but yes, that's
8 my understanding.

9 Q. And again, understanding that this may be more
10 of -- your understanding is more global. Does the
11 money remain at Kentucky Power, or is the money
12 actually forwarded to community action agencies?

13 A. I'm not aware what account it sits in, like the
14 electronic transfer, how long it sits in one place.
15 I don't have those facts.

16 Q. And this is for year-round assistance; is that
17 correct?

18 A. I believe so. Typically there's the winter
19 heating season. I know from reading and talking with
20 agencies, you know, by February they say typically
21 they're even out of funds.

22 I know typically they have federal funds as
23 well. They try to use those first because they could
24 lose those, but they know our funds are going to be
25 there, so we tend to get used on the second half of

1 the heating season, so I think it's pretty much the
2 heating season.

3 Q. And when you talk about the federal funds, are
4 you talking about the LIHEAP program?

5 A. Yes, yes.

6 Q. So even though they share -- these two programs
7 share similar names, they are, in fact, different
8 programs?

9 A. Where the funding sources come from.

10 Q. Okay.

11 A. We're trying to provide a benefit to help the
12 local agencies help the customers. They might get
13 funds from other places as well, so it's a funding
14 source to try to do that public good.

15 Q. Do you know if there's an administrative fee
16 included in the HEAP funds?

17 A. That I'm not sure of.

18 Q. Okay. I'll follow up with Mr. Sharp on those.

19 A. Thank you.

20 Q. And last I'd like to get back to the PJM OATT.

21 Is it correct that if the Commission were to deny
22 that recovery, that Kentucky Power would have to come
23 in for another rate case?

24 A. Most likely, yes.

25 Q. So is this a binary decision? The Commission

1 authorizes -- or authorizes recovery in this case or
2 Kentucky Power comes in for another rate case?

3 A. Yeah, have to obviously look at what the
4 overall decision is of the Commission. Hopefully it
5 respects the balance of what we have in the
6 settlement agreement, but I know there's something
7 that's going to immediately impact my ability to earn
8 the authorized return that the Commission says I'm
9 authorized to return.

10 It's a large amount, and I have to make sure
11 I'm managing the company properly and taking care of
12 that, so my testimony has really been we know it's
13 out there, we can protect against if the number
14 fluctuates up and down, we expect it to by, you know,
15 waiting until October to see what the number is and
16 then applying it on a going forward basis by tracking
17 it, but I'm going to have to deal with it right away.
18 It's such a huge financial, volatile number it's
19 something I have to deal with.

20 Q. Why is it such a huge number and a volatile
21 number?

22 A. The way the regulatory compact works, as you
23 know, a test year, historic test year is a snapshot
24 in time. So as I said yesterday, I might spend a
25 thousand dollars on pencils in that test year. It

1 doesn't mean in the future I'm going to spend a
2 thousand dollars on pencils. It just means that's a
3 representative amount of money that I need to manage
4 the company properly and still sort of walk within
5 those parameters and manage the company.

6 When you introduce something that is 14, 17,
7 who knows how many million more, that's not something
8 I can adjust what I do day to day to work within that
9 snapshot. It's completely volatile and outside that
10 paradigm of that historic test year view, so that
11 volatility forces me to deal with that.

12 That's why we defer to the tracking mechanisms.
13 The customers pay no more, no less. The settlement
14 agreement has us still not recovering 20 percent of
15 that. That's a big deal. That's a lot of money, but
16 with the overall balance and everything else that's
17 in the agreement, we think we can move forward with
18 that and avoid having to file another case right
19 away, and as you see in the settlement, there's the
20 three year stay-out as well tied to that, but it's
21 volatile because it's completely outside the
22 construct of that snapshot in time. It's such a
23 volatile number.

24 Q. I have two follow-up questions to that.

25 A. Okay.

1 Q. Which I'm sure you expect. Why didn't Kentucky
2 Power file a forecasted test year instead of choosing
3 to do -- to file under an historical test year,
4 knowing that this money was out there and that it's
5 huge and it's volatile?

6 A. That was one of my decisions. It was certainly
7 on the table of how to decide what to file in this
8 case. As you heard from other witnesses, I sort of
9 sat everyone down and said let's relook at
10 everything. What can we do to decrease the immediate
11 impact on customers.

12 Mr. Phillips yesterday talked about how he
13 wanted to finish phase one of the tree trimming to
14 give money back to customers as soon as possible.

15 Knowing that I have this vision and this plan
16 of working on the denominator affecting the economic
17 development over time, you know, I'm sort of betting
18 on ourselves and betting on the region that we're
19 going to do better, and the future test year, which
20 is part of this as well, I really tried to skinny
21 down this case and take out things that the credit
22 card, the amount I talked about yesterday and other
23 things, to really just put in front of the Commission
24 a very basic case.

25 You know, there's not really a lot in here.

1 It's our expenses, which all of our witnesses that
2 are here can talk about every single expense that's
3 in the case and justify those, and it's the basics of
4 the regulatory compact.

5 There's no, you know, interesting pilots that
6 are going to do strange things. And a future test
7 year was part of that. If we filed a future test
8 year, you know, that's something different for our
9 company. We've always done historic test years.

10 It's something different for the Commission, I
11 think, although others have done it. It is different
12 than the historic model, and I really wanted to come
13 in and say, "Here's the basics, here's what we need.
14 Bet on us. We're going to bring industry here," and
15 not try to put a bunch of extra facts into the case,
16 so that was part of my decision to keep it very
17 focused.

18 And that's why the tracking of the OATT costs,
19 it's not saying we're going to put this in base, and
20 we're going to get this no matter what. It's saying
21 whatever the costs are, that will be what's flowed
22 through to the customers. Could be a credit, you
23 never know, probably won't be, but the tracking
24 allows customers to pay no more, no less, and it
25 treats it like -- it gives the Commission the surety

1 to know that it's going to be just those costs and
2 nothing else.

3 If I do a future test year I'm saying it's
4 going to be this, and if it changes that's what's in
5 base rates, so if we assume \$17 million and it comes
6 in at \$14 million, our base rates have \$17 million of
7 collection. The tracker makes sure that this huge
8 volatile cost is tracked, and so the Commission is
9 assured the customers just pay that amount.

10 Q. Let's talk about the volatility. AEP has had
11 news releases indicating that they are investing in
12 significant transmission projects. Can you tell us
13 what that amount is across the AEP footprint?

14 A. Yeah, I didn't look for that last night. I
15 know we talked about that yesterday. I think that's
16 a post-hearing data request. Or maybe it was
17 Mr. Vaughn is going to talk about later. That's not
18 one of the things I looked up last night, but yes,
19 there is an intention to do significant investment in
20 the transmission system, and as I testified to
21 yesterday, I'm trying to get as much of that in the
22 state of Kentucky.

23 (PSC Exhibit 5 marked for identification.)

24 Q. I have PSC Exhibit Number 5 to help indicate
25 what those amounts are. What we're handing out is

1 PSC Exhibit Number 5. It's a printout from AEP's
2 website, one of the news releases.

3 Would you agree that the headline of this reads
4 "AEP to fuel growth with increased investment in
5 regulated operations and renewables"?

6 A. That's what that says, yes.

7 Q. If I could have you turn to, at the top it's
8 listed as page 2 of 4, and in the third paragraph
9 where it says, "Is it correct," it says, (Reading)
10 AEP plans to invest approximately \$9 billion in its
11 transmission business over the next three years.

12 A. You mind if I take a second to read this?

13 Q. Please do.

14 A. Thank you. I assume I don't need to read the
15 renewable part. We'll just talk about the
16 transmission part.

17 Q. No, no, that's true.

18 A. Okay. Then I'm ready.

19 Q. And again, on the first page this indicates
20 this press release was issued November 1, 2016.

21 A. Correct, and if it helps, this looks consistent
22 with my understanding of AEP, I can validate this.

23 Q. That's what I was going to ask, is that
24 consistent, the \$9 billion investment?

25 A. Absolutely.

1 Q. So of this projected volatility and cost, how
2 much of that comes from this AEP's system-wide
3 investment in transmission?

4 A. You're saying how does this fit into the
5 equation of the volatility?

6 Q. Yes.

7 A. I know -- I'm not sure how many of these
8 projects. The overall transmission spend for AEP
9 could be out of the AEP zone as well, so I'm not sure
10 how much is in. I imagine a lot of it is in the AEP
11 zone.

12 I know the flip side of transmission investment
13 is reliability for customers, so the network,
14 transmission network needs help or needs to be
15 rejuvenated everywhere, so I know when I look at a
16 transmission project for Kentucky I'm really looking
17 at how I can alleviate our SAIDI metrics to make sure
18 I'm improving service for customers and looking where
19 there is congestion. So I imagine a lot of this is
20 within the AEP overall zone, but the exact number I
21 don't know.

22 Q. And I like the term you used earlier about two
23 trains.

24 A. Uh-oh.

25 Q. In this case with transmission investment there

1 are two trains, are there not, in that you've got
2 reliability on one side, and then you've got earnings
3 for the company on the other side. And it's not to
4 say that one or the other is wrong.

5 A. Right.

6 Q. But can we acknowledge that there are two
7 trains?

8 A. I think there's probably 12 trains. Those are
9 the two maybe some of the major buckets. I know
10 right now there's the fact that FERC is really
11 incenting and saying please, please invest in the
12 transmission system, and through their actions cyber
13 security probably goes along with reliability as well
14 in the other areas, so there's probably multiple
15 chains, but absolutely those are two of the trains
16 involved on the system.

17 Q. Thank you. And not to beat a dead horse, I
18 want to be clear about that, but going back to the
19 historical year versus forecasted test year. What
20 would have been the consequences had Kentucky Power
21 not included the tracker -- or the request in this
22 case, but waited until however, one year out,
23 whatever, to see what the costs were and then come
24 back to the Commission? Explain to me what impact
25 that would have had.

1 A. It probably would have been a continuation in
2 the company not earning a fair rate of return. I
3 think this year we're earning, to date we're
4 scheduled to earn about 4.8 percent for a year.
5 That's well below. During the test year I think it
6 was 5.8.

7 If it were 14 or \$17 million, just off the top
8 of my head I think it was like 150 basis points or
9 something off of whatever, whatever else it turned
10 out to be the return that we would receive, and, you
11 know, even if the Commission approves a 9.75 that's
12 provided by the balance of the settlement agreement,
13 the nature of a test year is there's still lag.

14 It would almost be impossible to get to a 9.75,
15 so we're already behind that, and then this would
16 further take it down, and then you'd have the expense
17 again for the customers of another rate case, trying
18 to put that in just to deal with that issue we know
19 about.

20 Q. So what benefits -- what benefits does Kentucky
21 Power gain from being a member of PJM?

22 A. That's probably a three-day question and
23 answer.

24 Q. Oh, God, we don't want to do that. Let me --
25 let me ask this a different way. The benefits that

1 Kentucky Power gains from being a PJM member, how do
2 they counteract the OATT costs that will be passed on
3 to customers?

4 A. You have the generation, and you have the
5 transmission side, so there's multiple facets to PJM.
6 Just speaking on the transmission side, the whole
7 network across the country is changing with
8 retirements.

9 Really what I look for, and all utilities look
10 for, is stability and certainty for customers. Safe,
11 reliable service. Part of that reliability is making
12 sure we have the system that can deliver the power.

13 We think we have the capacity now to handle for
14 our customers. We hope to change that and make that
15 a problem with economic development, but you could
16 have another polar vortex, and you need to make sure
17 the system is up to date and you have access to all
18 types of generation and you can move that.

19 So a robust and vital transmission grid is
20 really vital to every citizen in the United States,
21 and the PJM is a large one that allows us to
22 capitalize on the diversity of generation all across
23 the system, that there won't be congestion, and we
24 can get power to our customers.

25 The things that happen, you know, in back rooms

1 for cyber security that they're constantly trying to
2 stay one step ahead at PJM to make sure the grid is
3 reliable. It's beyond now just a tree branch falling
4 in Akron and putting New York City out. The things
5 that they're doing are pretty amazing to make sure
6 that we have a secure grid for the country, so being
7 part of PJM overall provides us that security. I
8 guess I'll stop there.

9 Q. In terms of financial benefits, and recognizing
10 you were here when the Commission approved a case
11 approving Kentucky Power becoming a PJM member. One
12 of the guiding principles of the decision was that
13 the potential to save money to customers.

14 So how does this, these OATT costs, how does
15 that implicate the issue of saving money for Kentucky
16 Power's customers?

17 A. It's that stability and certainty to make sure
18 that customers, when they flip the switch at their
19 house they're going to have power because the overall
20 transmission system that we're a member of is
21 securing that. It's the backup to make sure if
22 something happens with our internal operations that
23 something is always going to be there.

24 I used to represent Indiana Michigan Power.
25 They have the Cook Nuclear Plant, gives all kinds of

1 capacity and all kinds of energy. One thing happens
2 and a turbine goes down, they're out for like 18
3 months. When you have a system there to back you up
4 to make sure that customers aren't beholden to
5 market.

6 Sometimes when you really need it the most,
7 it's when you have a polar vortex and prices go
8 through the roof, and when you're part of a system
9 like that you have the backup in place to make sure
10 you have the chance to keep costs down for customers.

11 Q. And building on what you said about keeping
12 costs down for customers, how does the PJM OATT help
13 to keep costs down for customers, other than
14 stability in the general sense?

15 A. It's making sure the grid works. It's paying
16 our part, and, you know, our share for most of the
17 costs is 6 percent of what goes into the zone, which
18 another benefit, I guess, for Kentucky customers is
19 when I am successful in getting transmission built
20 here and providing local jobs, someone outside of
21 Kentucky is paying for 94 percent of what we put here
22 in Kentucky.

23 So there's balance overall because there's a
24 recognition that the entire zone is important to make
25 sure -- the entire region is important to make sure

1 there's a transmission system, or one state far away
2 can affect another state, so the overall benefit is
3 if we're successful in investing here others are
4 paying for that investment, but we also have a duty
5 to pay our share of the rest of the grid to make sure
6 it works properly.

7 Q. When you -- the 6 percent, that is Kentucky
8 Power's part of the AEP zone, correct?

9 A. Correct.

10 Q. Is there any relation between the customer
11 size, customer base at Kentucky Power that goes into
12 that 6 percent? How is that determined?

13 A. I believe so. Witness Vaughn is more into
14 exactly what's in the PJM bill. He might be a better
15 person to ask. And then beyond the AEP zone that's
16 lower, it's like a 5 percent and maybe even 4
17 something percent for the total PJM footprint, but
18 he'd know more about that.

19 Q. Thank you. Switching -- switching topics. If
20 the Commission were to lower the revenue requirement
21 from that contained in the proposed nonunanimous
22 settlement, does Kentucky Power have any suggestions
23 how the lower revenue requirement should be allocated
24 between the classes, or among the classes?

25 A. Before I give an idea, let me just say I don't

1 think you should, but like I said before, the balance
2 in the agreement, it was tough to get to the
3 agreement that we have. Giving up 20 percent of
4 these OATT costs, it's a big deal. It's a big
5 impact. So I would hope the Commission wouldn't
6 disturb that and respect the balance we have in the
7 settlement.

8 How the Commission would apply it, as I said
9 before, I would hope they would then say if we want
10 to change that we'll look at something else in the
11 settlement to make sure the balance is still
12 protected and lower the ROE, but change something
13 else, but at the end of the day, you know, it's up to
14 the Commission. I think applying that to the
15 residential class to further decrease that is a fine
16 idea.

17 A lot of the things we did in this case, like I
18 talked about before, the tree trimming, that doesn't
19 hit all customer classes, and a past large rate
20 increase from a rate case it was putting \$27 million,
21 and that mainly hit the residential customers
22 largely, and that's why I asked Mr. Phillips and Greg
23 Bell and the good people that work for me, "I know
24 the Commission is giving you permission to implement
25 the program this way, and you're allowed to spend

1 \$27 million a year, but do you have to?"

2 So there were some long days, a lot of
3 spreadsheets, but we looked at that, and that's where
4 it came at in this case, that we could end phase one
5 early and save money for customers, so I think it's
6 perfectly reasonable to apply that to the residential
7 class to further lower that. They were at about 15
8 percent with our case filed.

9 One of the benefits of the settlement agreement
10 is the overall bill impact, even beyond the case,
11 where everything that it touches takes that down to
12 about 9 percent. Further decreasing that, I think,
13 is a good application.

14 MS. VINSEL: We have no further questions at
15 this time, and Commission Staff would like to move
16 that PSC Exhibits 1 through 5 be entered into the
17 record.

18 CHAIRMAN SCHMITT: Any objection?

19 MR. OVERSTREET: No objection.

20 CHAIRMAN SCHMITT: Let the Exhibits 1 through 5
21 be entered into the record.

22 (PSC Exhibits 1 - 5 were admitted.)

23 CHAIRMAN SCHMITT: Mr. Cicero, questions?

24 * * *

25

REEXAMINATION

1
2 By Vice-Chairman Cicero:

3 Q. I want to follow up a little bit on the last
4 portion of her conversation. You continue to talk
5 about the 6 percent versus 94 percent, and I'm
6 curious, you talk about zones and the spending in
7 zones and that's how it's determined what portion of
8 the Kentucky Power's 6 percent versus the 94 percent.

9 What is the transmission capital spending on
10 average per year in the zone that Kentucky Power is
11 in?

12 A. For the entire AEP zone or the entire PJM
13 footprint?

14 Q. If Kentucky Power is contributing 6 percent to,
15 what is that capital?

16 A. I believe that's in the record, but I don't
17 know that off the top of my head. Witness Vaughn
18 would probably have that. That's what leads into the
19 projection for the \$14 million.

20 Q. How much is the spending that Kentucky Power
21 has managed to obtain for capital projects?

22 A. Going -- when I came in it was about, I believe
23 the estimate was to be about \$20 million, and I think
24 we've raised that to \$80 million, and then next year
25 I believe it's close to that as well, for Kentucky

1 Power to make that investment in the Commonwealth.

2 Q. So just for a point of looking at numbers,
3 6 percent of a billion in spending is \$60 million, so
4 when we talk about 6 percent versus 94 percent, it's
5 really Kentucky Power -- Kentucky rate payers are not
6 enjoying some huge benefit from this 6 percent versus
7 94 percent split. That's my only point. I was just
8 pointing that out.

9 A. Yeah. I agree with that, and the more I can
10 get spent in the zone in Kentucky, the more we get
11 both benefits. We get the benefit of the overall
12 benefit of the system, we get the local investment in
13 Kentucky, and it kind of shifts the payment a little
14 bit.

15 Q. Okay. So now I'm going to kind of start fresh
16 here. I want to go back to yesterday's
17 conversations. You made the comment to the Attorney
18 General that as all Kentucky Power employees and
19 yourself, your stewardship is to control all costs
20 and make sure that nothing is being spent that
21 shouldn't be spent. Is that a pretty accurate
22 statement?

23 A. We have to manage the company and make sure all
24 costs are reasonable, absolutely.

25 Q. Okay. Kentucky Power has a defined benefit

1 pension program?

2 A. That's my understanding, yes.

3 Q. Is it still active, has it been grandfathered,
4 has it been locked and frozen, or what is its status?

5 A. The detail of the pension is probably better
6 left to Mr. Carlin. He knows better the details and
7 the nuances if something is changed or grandfathered,
8 what that is.

9 Q. Are there participants being admitted into the
10 program now, or have you transitioned into a 401(k)?

11 A. Again, the nuances of that I would defer to
12 Mr. Carlin.

13 Q. That's a pretty straightforward question for
14 the president of the company. That's a pension --
15 are the employees currently being engaged into a
16 defined dollar benefit plan, or do you have a 401(k)
17 plan, or do you have both?

18 A. I believe there's both, but Mr. Carlin would
19 know for sure. Honestly, you know, I've spent this
20 past year being the new president. I rely on
21 Mr. Carlin, I talk to him a lot. We have an overall
22 benefit of having part of the AEP system of really
23 having a benefit plan that I know is very vigorous
24 and focused on.

25 I know the company is constantly looking at how

1 to update that and change that. We've really
2 controlled costs. Costs have not gone up overall the
3 past few years, I know that, so I really rely on the
4 service corps at this point.

5 Certainly there's many things I'm going to get
6 deeper into as we move forward. I've spent a lot of
7 this year focused on economic development, at this
8 point trusting what Mr. Carlin and the AEP company
9 has set up for our benefits because I think that's
10 not the area I started in of turning over stones, but
11 it's absolutely something I plan to get into.

12 Q. Let me ask it from a different approach. Are
13 you a member of the defined dollar benefit pension
14 plan?

15 A. I'm not sure what I'm in.

16 Q. I don't know what to say to that. Are you a
17 member of the 401(k) plan?

18 A. I believe -- yes, I have a 401(k).

19 Q. I was going to say, because usually you have to
20 direct your investments, so if you're not
21 participating -- if you are participating in that and
22 you haven't directed your investments, then you're --

23 A. I've elected for the moderate risk, so there's
24 different levels you can elect to be in, if you want
25 to be aggressive, moderate, or very low risk, so I

1 know I've elected for the moderate risk for someone
2 to help make those decisions.

3 Q. So I'm fairly certain that there's a defined
4 dollar benefit plan, at least I'm told that by staff.
5 You're serving one of the poorest economic areas in
6 the country, not just in Kentucky, but in the
7 country. Do you think that you're being a good
8 steward of spending if your employees are enjoying
9 two pension plan benefits when a defined dollar
10 benefit plan by itself is something that's gone the
11 way of the dinosaurs? There's about ten percent of
12 corporations in America today that actually have a
13 defined dollar benefit plan. Most utilities have it.
14 I found that out.

15 It's the double dipping and allowing employees
16 to both have a 401(k) matching and a defined dollar
17 benefit plan that the Commission has been looking at
18 and saying wait a minute, your rate payers probably
19 don't even have a pension plan, let alone have two
20 pension plans. What is your comment to that?

21 A. I think part of your question answers part --
22 is part of the answer, what most utilities have. I
23 know Mr. Carlin -- I know he's done multiple studies
24 he's provided to the Commission.

25 I know ours is based on really what the

1 national average is. I don't think you can compare
2 working at the utility with comparing any other
3 business in our territory. It's sort of a national
4 competition level, and you want that because I want
5 safe workers working for me.

6 If I just say I'm going to do something
7 completely different than the norm in the utility
8 industry, then I might train people for a year, and
9 they all leave for Ohio or California or Florida, and
10 then I'm constantly just the double A team for every
11 other utility, and I don't have safe, reliable
12 service for my customers.

13 So Mr. Carlin can talk more about why we
14 believe that's appropriate based on the studies that
15 we have, but I know from a management point of view I
16 need to be competitive so I don't keep losing people
17 or in the future lose people to other utilities.

18 Q. Well, first of all, I would say that your
19 greatest potential for losing employees is in the
20 administrative side because they're more transient
21 and they're willing to work across lines because it's
22 more common to be an accountant or even an engineer,
23 but when it comes to local people that utilities keep
24 referring to on the safety aspect of it, you're
25 referring to your linemen and electricians and those

1 people that are a craft that are supposedly unique to
2 the utility industry.

3 I would challenge if there's those types of
4 hazardous occupations that occur all across the
5 country. Railroads is not the safest occupation to
6 be in. You could go through a whole litany. Working
7 in a chemical factory. There's all kinds of jobs
8 that are hazardous just by their nature, and those
9 companies can make the same argument, but the benefit
10 that utilities have, especially in a regulated
11 industry, is the fact that you can charge rate payers
12 for it, and I think that's where utilities get off
13 track here.

14 It's okay to have a good pension plan. I don't
15 think anybody would argue against that. It's where
16 utilities believe that there is this extra bonus that
17 they have to pay to their workers because they work
18 in some special environment that's different or
19 unique than other hazardous occupations, and I think
20 that's where utilities have to start looking at these
21 double dipping.

22 401(k) matching and a defined dollar benefit
23 plan are a little bit of a stretch for the Commission
24 to look at, and I would challenge Kentucky Power to
25 start looking at those kind of costs to be more

1 competitive and more conscious of the people you
2 serve because many do not have a pension plan.

3 A. I appreciate that, and that's absolutely
4 something I'll look into. I know from talking to
5 Mr. Carlin, and you can talk to him more, he tells me
6 that utilities in California are advertising extra
7 premiums, even above what is the norm in the
8 industry, to try to get skilled workers out there,
9 and my operation in Kentucky Power, I mostly field
10 field guys, climbing poles.

11 We've tried to really skinny down the
12 administrative side and rely on the service corps
13 because you don't want me with a company of 168,000
14 customers and accounts having my own staff that's
15 going to be trading off system sales, my own staff
16 doing all the HR work.

17 It's better for me to kind of take and pay just
18 a pro rata share of that with the AEP system. So
19 most of what I employ are my customer service folks
20 and linemen in the field. It's vital. I've got very
21 good people that work safely.

22 Safety is the number one concern across all the
23 AEP. We've expanded that recently. I have a lot of
24 contractors, we want to look at contractor safety.
25 This Commission recently had a case where there was a

1 fatality with a contractor, so it's not in this case
2 we've gone above and beyond.

3 We're actually -- I'm going to be employing
4 another inspector for safety that's not included in
5 the rates of this case, but I've got to make sure
6 that the contractors, if they're under my flag, are
7 safe, so I can't speak to the other industries, the
8 chemicals and everything else.

9 I know that someone dealing with a wire and
10 electrons, it's very unsafe, and we're also seeing a
11 rise in the public going into poles and having deaths
12 there as well, so what I'm concerned about is making
13 sure what we do is very safe, and if I'm the one that
14 first starts and says, okay, we're going to end it
15 here in Kentucky, and we're not going to -- we're
16 going to be below the national average, I can look at
17 that.

18 I can look at that as what employee pool I'm
19 going to have and what that does to safety and what
20 it does for customers. So I appreciate the comment,
21 but that's what I have to weigh as I look at all of
22 this.

23 Q. So if you walked into AK Steel, what would they
24 tell you the first priority is for AK Steel?

25 A. There would probably be something on the wall

1 that says how many days safe they're working.

2 Q. Exactly. The same thing that you're arguing.
3 They're competing against that same worker pool. The
4 problem is you can't just define it as a pool in the
5 universe of utilities because that's not the case.

6 A. I appreciate that, but, you know, it takes five
7 years for someone to come from the first lineman up
8 to actually get to journeyman to be trusted to be
9 fully on their own doing things. I know from dealing
10 with the Braidy Industries and the aluminum plant
11 they're going to have, safety is going to be their
12 number one concern. There's a two-year program at
13 ACTC to be certified to work on any piece of
14 equipment there.

15 So I'm glad everyone is committed to safety.
16 It's just in an area where I am working, it's an
17 economically depressed area, and so I need to be able
18 to attract the top talent to make sure I, the safety
19 I'm responsible for, is at the forefront.

20 And so I think if you talk to Mr. Carlin he'll
21 tell you this is what I need to do to make sure I can
22 attract that talent. But I understand what you're
23 saying, it's truly a balance, and it's something I
24 need to look at.

25 Q. One last comment, and then I'll leave that one

1 go, but you're serving an economically depressed area
2 with a higher unemployment rate, which should make it
3 easier for you to obtain, especially coming out of
4 the coal industry, electricians and those type of
5 crafts to be able to fill your workforce, and you're
6 not competing in the state of California.

7 And that's a benefit to you, so going overboard
8 on the benefits and the healthcare and whatever else
9 that seems to be prevalent in the utility industry,
10 there has to be a balance in that, I agree, but there
11 doesn't have to be a double down on insurance.

12 You know, everybody assesses a risk, there's a
13 certain level, and we don't have to be a hundred
14 percent on everything because if we did everybody
15 would be overinsured.

16 A. I appreciate that. I just look at retention as
17 well. All that factors in there as well.

18 Q. So now I want to talk about AR, and I know that
19 you yesterday indicated to Ms. Vinsel that it would
20 be more appropriate to ask Mr. Vaughn, or I'm not
21 sure who. Maybe it was Mr. Hill, I'm not really
22 sure.

23 A. With what subject, I'm sorry?

24 Q. Accounts receivable, sale of accounts
25 receivable.

1 A. Yeah, Mr. Ross I think is who.

2 Q. But I'm going to approach you because we're
3 talking about a policy that's being implemented at
4 either the tariff level or at the executive level of
5 Kentucky Power, so it's more appropriately addressed
6 to you.

7 A. Okay.

8 Q. You're selling receivables to the parent
9 company credit corporation. Normally when factoring
10 of accounts receivable is done you transfer the bad
11 debt along with it. You don't retain the bad debt at
12 the organization selling that receivable. That's
13 part of the transfer, which is how you can justify a
14 higher interest rate than what you could attain if
15 you went ahead and just borrowed short-term rate
16 because right now you're paying a premium on it, so
17 I'm trying to understand why Kentucky Power is
18 selling their receivables at a premium and not
19 transferring the bad debt portion with it, or why
20 they're not just utilizing the short-term debt, which
21 is lower.

22 A. Again, I apologize, I don't have the answers to
23 that. Mr. Ross would have a better response.

24 Q. So that portion of the interest that they're
25 making off Kentucky Power at the AEP level by

1 purchasing the receivables and charging Kentucky
2 Power for it, I presume that benefit is going to
3 shareholders and not being reallocated back down to
4 the local level as part of an offset to any other
5 costs that are incurred.

6 A. I don't know that it is or is not. I'd be
7 guessing if I did. Part of the relationship, I
8 think, that might be factored into what the purchase
9 rate is of the receivable that's set along, but I
10 don't know the answer to that.

11 Q. I just know that I have a table here that talks
12 about a pool that's set up for funds borrowed, funds
13 loaned, and the average interest rate for funds
14 borrowed from the utility money pool is .48 percent,
15 that Kentucky Power is paying 1.94 percent or
16 somewhere thereabouts on the sale of their
17 receivables to sell it to AEP, so I'm not quite sure
18 why there would be this activity going on, especially
19 when Kentucky Power on the sale of receivable to AEP
20 were 528 million, 604 million, and 522 million for
21 the years '15, '14 and '13. That's -- there's a
22 premium that's being paid on a significant amount of
23 money that I would like to have an answer to.

24 A. Absolutely.

25 Q. Lastly is on allocations, and I know yesterday

1 Ms. Vinsel asked that there be calculations provided
2 to us with specifics that show the portion at AEP
3 that's being allocated in total and how the
4 calculation is being performed.

5 I understand there's a FERC methodology, and
6 that AEP and Kentucky Power have a very good policy
7 in terms of explaining how it should be allocated
8 based on what, but I would like to see what those
9 allocations are, and I know it's probably not going
10 to be an easy thing to provide, but I'm interested
11 in, since there's a stewardship that's occurring at
12 Kentucky Power, how much control do you have over
13 what's allocated down to you?

14 Do you discuss it between AEP and Kentucky
15 Power, or do they just dictate to you the amount
16 that's been incurred at the corporate level or the
17 parent level that Kentucky Power is going to take?

18 A. It's an active conversation. There's a formula
19 that determines what our pro rata share is based on
20 all the companies, and I don't know if that's based
21 on a customer count or revenues that we produce, but
22 I know it's a conversation.

23 I meet with all the other presidents from all
24 the other operating companies, and we're constantly
25 talking about how we can -- you know, we manage our

1 costs, we manage our O&M, and then we talk to the
2 service corps about how they're managing their O&M.

3 There's been a change recently in AEP overall
4 of how the assets that we've had, we've sold off some
5 assets in some other areas, and we have some
6 generation personnel. We've looked very closely, as
7 all the presidents, how are they using those
8 employees, are they providing value for the
9 operations of the service corps overall now, so we
10 ask those questions all the time.

11 So we're managing beyond our own companies,
12 we're managing what we see as a third-party vendor
13 providing a service to us as well. It's a question
14 we're constantly looking at to make sure that the
15 costs are reasonable that they're passing down to us.

16 So we look at how they're spending, we ask
17 questions, we're actually involved in all that, and
18 then the formula that comes out of how that's
19 allocated to us. Mr. Ross might be able to tell you
20 exactly how that works, but I believe that's just
21 based on the representative of what each company as a
22 subsidiary provides to the company, the share of the
23 usage.

24 Q. So I'm happy to hear that there's feedback that
25 goes up rather than just down because if it just

1 flows from the parent to the subsidiary, then the
2 cost incurrence is just a matter of being dictated
3 and allocated.

4 A. Yeah.

5 Q. There's no input in terms of how to control
6 that cost.

7 A. I am constantly questioning that.

8 Q. So I'm just going to pick one, because it's a
9 favorite one, the aviation and the planes and the
10 crews. Is that a discussion that occurs, to say
11 here's the cost to fly commercial, here's the cost to
12 fly on corporate jets, and I'm sure the argument is
13 time is valuable, we can fly people from Columbus to
14 wherever it is and get them there and save time and
15 bring them back.

16 Is there any type of input that flows back from
17 Kentucky Power up through the corporate office that
18 says we don't think our share is fair, we don't
19 really utilize corporate jets? What kind of
20 discussion occurs?

21 A. Yeah. Personally I think that allocation is
22 fair. I think there's great value in the aviation
23 costs. We only get five percent of those costs, but
24 I think that one really starts at a board level.

25 We have executives that are in charge of 16,

1 17,000 people. There's a safety aspect as well to
2 make sure, even if they're flying the same, you know,
3 to make sure they're safely getting where they need
4 to get with the pilots that we have.

5 One follow-up from yesterday, I did find out
6 it's three planes, and we lease those three planes,
7 just something to correct from yesterday.

8 But the overall benefit for Kentucky Power, I
9 mean, I have 168,000 customers. Earlier this year,
10 it's not in the test year, but this is a good
11 example, Nick Akens flew to Washington, D.C., for the
12 EEI conference, which is the meeting of all the
13 executives.

14 He's also President Trump's head of the energy
15 infrastructure business roundtable where President
16 Trump wants to spend a trillion dollars in the
17 country, and our CEO of AEP is one of the chairs of
18 that committee, so he had to make sure he was in the
19 right place at the right time. With the safety and
20 security he used the corporate jet to go there.

21 I actually drove up from Ashland, Kentucky, to
22 make sure I could fly out with the executives to that
23 rather than fly commercial myself when the plane was
24 already going. We received a five percent share of
25 that trip, but more importantly while we were there

1 Mr. Akens took me to the White House, to the
2 executive offices, and for half an hour I talked with
3 the executives on President Trump's staff about the
4 workforce in Eastern Kentucky and the possibility for
5 economic development in Eastern Kentucky.

6 I don't know any other company with 168,000
7 customers that can get a half an hour in the White
8 House talking about why jobs and manufacturing and
9 infrastructure needs to come to Eastern Kentucky.

10 So it's examples like that, using the aviation
11 gets the executives, important executives, in the
12 right place, and we benefit from that, and that
13 wasn't charged to Kentucky Power as a Kentucky Power
14 trip. That was what everyone else paid for so that I
15 could go and advocate for Eastern Kentucky.

16 Q. That almost sounded like a commercial.

17 A. It's -- that's the benefit. That's the real
18 benefit of what we're getting here and, you know, you
19 say what have I been working on? That's what I've
20 been working on because that rises everything, and
21 it's that important, and I'm screaming and yelling
22 and kicking my way every -- kicking down every door I
23 can get into, including the White House.

24 Q. I don't think anybody is questioning Kentucky
25 Power's intent to increase its customer base and try

1 to improve the economy in Eastern Kentucky. You have
2 definitely gotten your message out over time.

3 A. Thank you.

4 Q. What we're trying to do is to make sure in
5 getting your message out we can also understand the
6 basis for the rate increase.

7 A. Absolutely.

8 Q. So those are the reasons for the questions.

9 A. Absolutely fair. I guess I will say, you know,
10 we were supposed to -- we have a leadership
11 conference where the executives try to tell everyone
12 that manages someone in the company, and they try to
13 locate and move that around.

14 This past year, you know, weather, it's been a
15 different year for utilities, I guess I'll put it
16 that way. Really challenging. The weather has been
17 very moderate, and that's really hurt utility
18 companies because people aren't -- they can open the
19 windows. It's been nice days.

20 An example, one of the presidents from one of
21 the companies was supposed to host the leadership
22 conference. Everyone was supposed to go to, I think,
23 Roanoke, Virginia. The entire leadership, they would
24 have taken planes there, and the president of APCO
25 said, "Is this really appropriate? I know it's

1 important to get out, get into our communities. We
2 like Nick Akens to come here as well, but is this the
3 best use of our money right now?"

4 And what we ended up doing was canceling the
5 trip to Roanoke, doing that from 1 Riverside Plaza in
6 Columbus, and just putting that out on video so
7 everyone could see it live, but that's an example of
8 feedback from an operating company president saying
9 maybe we don't need to have this expense right now.
10 There's value to it, but let's pull back a little bit
11 right now. So definitely goes both ways.

12 Q. Those are decisions that have to be made, and
13 those are made in good conscience because utilities,
14 especially in regulated states like Kentucky, enjoy a
15 position that's enviable by a lot of companies, and
16 that is the opportunity to earn a guaranteed rate of
17 return. The opportunity. I didn't say earn a
18 guaranteed rate of return, but the opportunity to.

19 But you have the opportunity also to pass costs
20 on to your rate payers, something that if you look at
21 a lot of other businesses, don't have the opportunity
22 to say, oh, I incurred additional costs, so I'm just
23 going to pass them to the rate payers.

24 You enjoy a benefit, and therefore that is why
25 you have to come before the Public Service Commission

1 to justify those costs, and that's why I'm sure this
2 is going to be a three-day affair because there's
3 lots of questions.

4 A. Absolutely, and there's lots of evidence in the
5 record. You know, the Attorney General asked me a
6 lot of questions about studies and what evidence do
7 we have. The companies provided a lot of
8 information. We're providing a lot of witnesses.
9 That's the evidence. That's what the regulatory
10 system has.

11 And the other side of the other businesses you
12 talked about, what also comes with that, with that
13 opportunity, is a responsibility to serve every
14 single customer. We can't say, "You don't look like
15 you can't pay overall, so we're not even going to
16 talk to you and try to provide you a product." We
17 have a responsibility to serve everyone.

18 As I said, Mr. Vaughn's testimony shows you on
19 page 18, 17 customers per mile, where Duke and LG&E,
20 41 and 43. It's tough to serve. It's a hard
21 business. It's riskier in Eastern Kentucky. I think
22 we all know that, but we take it seriously. We serve
23 every corner.

24 Q. I'm going to save the rest of my questions for
25 the rest of your staff.

1 A. Thank you.

2 CHAIRMAN SCHMITT: Commissioner Mathews,
3 questions?

4 COMMISSIONER MATHEWS: I have a couple.

5 EXAMINATION

6 By Commissioner Mathews:

7 Q. Back to the OATT, and I --

8 COMMISSIONER MATHEWS: Thank you, Ms. Vinsel,
9 for reminding me that one of the criteria for
10 transmission investment in PJM is to facilitate
11 renewable generation across the footprint, and that
12 also is, I think, quoted as being part of the thought
13 process behind AEP's corporate transmission
14 build-out.

15 Q. Does Kentucky have an RPS, renewable portfolio
16 standard?

17 A. No, it does not.

18 Q. Does Ohio?

19 A. They did, and then they didn't. I'm not sure
20 where the legislation --

21 Q. Okay. I don't know any more than that.

22 A. Ohio's kind of been all over the place.

23 Q. They did, they didn't, they did, they didn't.
24 West Virginia has a target -- I forget what it's
25 called.

1 A. Yeah, some states have suggestive --

2 Q. Suggested target, and Glencoe counts toward
3 that renewable, I think theirs there is an
4 alternative portfolio standard. And Virginia?

5 A. I want to say I think Virginia does, but I'm
6 not positive.

7 Q. Just, you know, and that brings me to how
8 projects are chosen within PJM. I believe it's a
9 stakeholder process?

10 A. Yes.

11 Q. A very lengthy stakeholder process?

12 A. Yes.

13 Q. Are the projects that AEP is building in its
14 footprint, in the zone, I'm not so concerned about
15 the projects outside the zone, are they in the
16 regional transmission expansion plan or are they
17 nominated projects by AEP on an economic basis?

18 A. This is where we got to yesterday of what the
19 exact names are, I'm not positive. I know there's
20 multiple buckets. There's the PJM sort of mandated
21 projects, and then there's in the zones can be
22 recommended projects that move forward.

23 I think a lot of what is in the AEP zone are
24 the -- like I would come to the Commission and say I
25 think there's a need to get a certificate to do

1 something to show the benefit.

2 Q. Are there any projects in the zone that would
3 fit that facilitate renewable generation development?

4 A. I haven't reviewed the projects right now. I
5 imagine there are. Mr. Vaughn might be able to give
6 a better answer to that, but definitely I know
7 there's been a big movement to renewables and other
8 areas of the zone, partially to support economic
9 development, so I would imagine there would be.

10 Q. Okay. Is anyone from Kentucky Power
11 participating in the PJM stakeholder process on what
12 projects get built or how costs are allocated?

13 A. Absolutely.

14 Q. Okay. And who is that?

15 A. Dan Snider and Dana Horton really head up our
16 PJM operations. I'm sure there's a bunch of
17 people --

18 Q. And that is Kentucky Power or that is AEP?

19 A. That is the service corps. With 168,000
20 customers we don't have someone dedicated to that.
21 We really focus on them, and yesterday there was some
22 discussion about what we get involved in, and we're
23 involved every day. We make comments on anything PJM
24 does. We have the benefit of all the operating
25 companies working through the service corps to make

1 sure our voice gets heard.

2 Q. And how important is cost containment on those
3 PJM projects? That's one of the concerns that I
4 believe some state commissions have had, is that
5 perhaps there's -- on time may mean more than on
6 budget?

7 A. I can speak to working with our transmission
8 group, and I know they're very cost conscious in
9 making sure that we're doing stuff as economically as
10 possible.

11 My understanding as to the PJM stakeholder
12 process, anyone can raise those issues, and I know we
13 always look at that, and to the allocation side I
14 know Mr. Vaughn mentioned something in his testimony
15 about a proceeding where America Electric Power is
16 involved, talking about the allocation, to try to
17 lower the allocation for -- across the system.

18 Q. And you've said that maybe without the tracker
19 there wouldn't be as much development -- you wouldn't
20 be as successful in getting transmission development
21 in Kentucky? I think maybe -- maybe paraphrasing
22 what you said yesterday?

23 A. I think the tracker is more a focus of the
24 financial liability of the company moving forward.
25 Overall I'm trying to be a transmission owner as

1 well. I'm not trying to attract the capital that AEP
2 might spend anywhere in the zone. I'm trying to get
3 that to be attracted -- or spent right here.

4 Certainly having the track will allow me to
5 make the arguments when I go forth for capital and
6 competing against all the other operating companies,
7 give me a better chance to attract it here.

8 Q. That brings me to the criteria for transmission
9 expansions or transmission builds in the Kentucky
10 Power footprint. Are there market or reliability
11 concerns that we need to have made in Kentucky?

12 A. I'm not sure I understand your question.

13 Q. I guess drawing transmission capital to
14 Kentucky, is that to solve a market problem or a
15 reliability problem or a resilience problem within
16 the Kentucky Power footprint?

17 A. I would say all of the above. It's something
18 we look at to, one, to the age of our assets that we
19 have. Two, it's to make sure, you know, I look at it
20 as when I came down I asked all of our engineers what
21 have we done to impact reliability, what plans do we
22 have on the shelf that we can provide better service
23 for our customers. That's sort of the criteria I
24 start with for my transmission investment.

25 It's improving reliability, and are there

1 places for economic development. We need to make
2 sure the system is robust, that we can deliver the
3 megawatts that hopefully large IGS customers will
4 need.

5 Q. Okay. So maybe there are projects that you
6 would like to have that aren't being funded now that
7 you would like to go lobby for in Columbus. I mean,
8 that's again paraphrasing.

9 A. Yeah, where I can get capital. The AEP system
10 allows me to get capital and, one, keep it from being
11 spent somewhere else in the zone and have it spent
12 here, but it's all focused for me on economic
13 development and reliability. Then we file
14 certificates here at the Commission before we build
15 those, for permission.

16 Q. And back to that and have it spent in Kentucky
17 rather than someone else -- rather than somewhere
18 else, how are the projects chosen to be built? I
19 mean, are there -- I mean, if I think AEP
20 transmission, I look at a great map that has a 765
21 line going across Northern Kentucky, that's, I think,
22 one of the more 765 extra-high-voltage transmission
23 lines than all other U.S. transmissions combined, I
24 think is what your advertisement at the bottom of the
25 article is.

1 A. Uh-huh.

2 Q. So I'm -- I guess I'm wondering in Kentucky
3 where are those -- I mean, where are those
4 transmission problems that --

5 A. Certainly. The system in Eastern Kentucky
6 is -- obviously covers a broad area, and it's very
7 old, so I know that I'm not familiar with the exact
8 aspect of what's in the Hazard-Wooton that's before
9 the Commission right now, but I know there's
10 something that talks about the need for that, and
11 really for me overall it's because we're so
12 mountainous and so populated with trees, our SAIDI,
13 our metric for measuring reliability is higher than
14 it might be here in the middle of the state.

15 There's transmission fixes for that to improve
16 the quality and reliability for customers, and that's
17 something, if I can get the funds allocated to have
18 that done here, and the Commission approves those
19 with certificates, we would build those.

20 Q. How are the transmission revenues that flow
21 back to Kentucky Power computed?

22 A. From a transmission --

23 Q. Is that also in the 6 percent?

24 A. From a transmission owner?

25 Q. As a transmission owner.

1 A. So as a transmission owner, if I am able to
2 invest as Kentucky Power, that goes to -- and I make
3 revenue from that, that goes to offset my overall
4 return that I'm getting, so when I come here for a
5 rate case that's all factored into customer rates,
6 and if I get revenues from that, that's for the
7 benefit of all the customers. They receive that
8 benefit. That's all calculated in the overall rate
9 base.

10 Q. How are the administrative costs of PJM
11 allocated across? Is that the 6 percent?

12 A. The administrative costs are part of, I
13 believe, that LSE OATT, it's all figured in there as
14 well, so it goes into sort of that -- I say bucket
15 because it's not a individual line item, it's
16 multiple line items.

17 Mr. Vaughn can talk to you more about the PJM
18 bill and everything that's on there, but I consider
19 it a bucket of costs that go together.

20 Q. And I have one more question that's not OATT
21 related, and I'm certain I've seen it somewhere, but
22 the K through 12 subsidy, the \$500,000, where is that
23 being allocated now?

24 A. I think we're continuing exactly where it is
25 right now, to the LGS customer. My understanding,

1 it's a continuation of what we're doing.

2 COMMISSIONER MATHEWS: Okay. Thank you.

3 That's all I have.

4 CHAIRMAN SCHMITT: No questions. Any
5 follow-up?

6 REDIRECT EXAMINATION

7 By Mr. Overstreet:

8 MR. OVERSTREET: Thank you, Mr. Chairman.

9 Q. Mr. Satterwhite, Ms. Vinsel toward the end of
10 last night's session, I think it was Staff Exhibit 1,
11 showed you an article from, I think it was Sunday's
12 Herald-Leader, and it had a map on that.

13 A. Yeah.

14 Q. And she asked you some questions. Have you had
15 a chance to study that map better?

16 A. Yes, I have.

17 Q. And do you have anything you'd like to further
18 address?

19 A. Yeah, I think yesterday when I was asked, in
20 the article underneath it mentions the five highest
21 poverty counties, and I was asked to confirm -- or
22 multiple counties, I was asked to confirm that there
23 were five in my service territory.

24 I looked down, and I saw these counties that I
25 operate in and do things in, but there's actually

1 only three of these, not five, that are actually in
2 my service territory. That would be Clay County,
3 where I have 17 customers; Martin County, where I
4 have 4,831 customers; and Knott County, where I have
5 7,906 customers.

6 I'm in the other counties because my economic
7 development efforts. I can't look at my territory
8 alone. I go beyond the territory because anything
9 for the region is good, is how I look at it, so I
10 thought there were more counties in, but those are
11 the three counties I was able to confirm definitely
12 were involved.

13 And then I believe there was a question
14 about -- the map is kind of hard to read about the
15 pink, and can't see the clear lines of where the
16 counties are, and I thought the question yesterday
17 about being in pink dealt with the counties, the five
18 counties that we had talked about in the article.

19 I would just point out, to make sure it's
20 perfectly clear in case I was mishearing the
21 question, if you look to the top of the map you see
22 Greenup and Boyd County, I believe, that are in blue,
23 so it's not every county in our jurisdiction that are
24 in those pink categories, and my hope is through the
25 economic development that we get more of these in the

1 blue. Some excited announcements I think are coming
2 soon.

3 Q. Okay. Thank you. And with regard to Staff
4 Exhibit 5 and the \$9 billion, AEP's plans to invest
5 approximately \$9 billion in its transmission business
6 over the next three years, does AEP have transmission
7 operations outside of PJM?

8 A. Yes.

9 Q. And would -- and where are those located?

10 A. I believe, you know, all over the country. The
11 transmission, we have a PJM group that works in our
12 own operating companies, operating territories, but I
13 believe we're the largest transmission owner in the
14 country as far as line miles, and we can operate
15 anywhere, so we could be building transmission across
16 the United States.

17 Q. Okay. And would you be building transmission
18 in the AEP West companies?

19 A. Yes.

20 Q. And are they in the PJM footprint?

21 A. No, they are not.

22 Q. And to the extent that you build transmission,
23 invest some of that \$9 billion in those AEP West
24 companies or otherwise outside the PJM footprint,
25 would those investment costs flow back to Kentucky

1 Power?

2 A. No, they would not. In fact, there's a very
3 large project, I don't know if the Commission is
4 familiar with it, called the Wind Catcher Project
5 that's in Oklahoma, Texas, and Louisiana, and the
6 numbers are so large it's kind of astounding, but
7 they're taking advantage of the tax credit, and I
8 think it's, you know, \$4 billion to build, but it's
9 only going to cost half that actually to customers
10 because of all the benefits and efficiencies it
11 builds for moving renewable across that territory, so
12 that's a big investment that the AEP corporation is
13 making that doesn't fit this zone and would never
14 impact Kentucky Power.

15 Q. And yesterday, Mr. Satterwhite, Mr. Gardner was
16 asking you about Exhibit 1 to the settlement
17 agreement and then the combined large general
18 service, slash, public school line. Do you have that
19 in front of you?

20 A. One second. Yes.

21 Q. And what does that settlement exhibit show as
22 the base case settlement increase for the combined
23 LGS/PS classes?

24 A. I'm looking at everything impacted, so I'm in
25 the middle column, and that would be 5.4 percent.

1 Q. And still looking in that middle column, what
2 does it show is the average base rate settlement
3 increase for all classes?

4 A. 6.16 percent.

5 Q. So that's -- that is greater than the combined
6 LGS/PS; is that correct?

7 A. Yes, correct.

8 Q. Okay. After Mr. Gardner asked you these
9 questions, did you have an opportunity to ask
10 somebody to pull apart the percentage increases for
11 that combined LGS/PS class?

12 A. Yes.

13 Q. And what is the -- when you pull it apart and
14 the PS class stands on its own, what is the increase
15 that the PS class will receive through the
16 settlement?

17 A. Yeah, so the 5.4 is sort of combining all those
18 together, so I don't remember the exact number, but
19 the PS class was above 6 percent, above the
20 6.16 percent average overall, and the LGS was around
21 a little over 5 percent, somewhere between 5, but
22 definitely lower than what the public service --
23 public school increase is going to be, and definitely
24 lower than the average.

25 Q. Okay. Thank you. Yesterday I think it was

1 staff asked you some questions about Kentucky Power
2 and your involvement in deciding whether Kentucky
3 Power will be an RPM or FRR entity in the PJM. And
4 you were a little foggy on that. Have you had a
5 chance to update your understanding?

6 A. Yes. In fact, I knew that in the spring we
7 talked about what I mentioned, should Kentucky Power
8 go alone or go in the group, and I didn't know if
9 that was -- I couldn't remember if that was what I
10 was thinking about, FRR or RPM, or if that was
11 something different.

12 I went back and looked through what I had in
13 that time period. This was also during the major
14 storm we had during that time period, so there were a
15 lot of things happening, and I was actually able to
16 find the documentation of what we look at. And we do
17 tend to look in the spring. This one was a little
18 bit later. This was in March.

19 Typically we try to look a little earlier to
20 level set this as whether we should stay at FRR or
21 become RPM as we look out into the future, so I was
22 able to get that documentation of the recommendation
23 made by our experts at the service corps of how we
24 should look forward that we used to have the
25 conversation about what we should decide to do.

1 Q. And based on that documentation, what was
2 Kentucky -- what was your decision?

3 A. We decided to stay an FRR again.

4 Q. And was there another aspect of that analysis
5 that you undertook?

6 A. Yeah, I asked a lot of questions because we are
7 long in capacity, whether it makes more sense for me
8 to sort of leave the other AEP companies behind and
9 go alone, for lack of a better term, or stick with
10 the other AEP companies as sort of a group.

11 So that was part of the discussion I raised to
12 talk about, challenged our people to prove to me why.
13 You know, is there a reason I should stay or should I
14 go alone.

15 Recently PJM has put in the penalties that if
16 you commit to something and don't meet that, there
17 are high penalties for what you put into the capacity
18 forward, so for this year I decided to stay with the
19 group to manage that risk and give us some certainty,
20 but that's something I made sure our group know I'm
21 going to look at every year to see if it makes more
22 sense to go alone with the length that we have.

23 Again, like I said, I hope to eat into that
24 length with economic development, but there's an
25 opportunity there to potentially go alone without the

1 others.

2 There's more risk involved for me if I do that,
3 but it's a matter of like everything else we do,
4 managing that risk and deciding if it makes sense to
5 do that, but for this year we decided to stick in the
6 group and to be decided next year if we're going to
7 go alone or not.

8 Q. If Kentucky Power were not a member of PJM,
9 would it incur OATT-like costs for transmission
10 services outside of Kentucky Power's footprints?

11 A. My understanding is, and again, Mr. Vaughn is
12 the expert on PJM, no matter -- you can't just
13 operate and be insulated from costs from a
14 transmission system, so whenever you want to access
15 or access power that comes through the system,
16 there's definitely cost.

17 If we were to leave PJM there's extreme costs
18 of even leaving that as well, so that's part of the
19 calculus too, to see if you're going to stay on the
20 system or not.

21 Q. Okay. And yesterday there was some discussion
22 about the Rockport Unit Power Agreement and the 12.16
23 ROE that's provided for by that agreement. Do you
24 remember that discussion?

25 A. Yes.

1 Q. And did you remember me asking Mr. Smith if he
2 had examined the Rockport Unit Power Agreement bills
3 that were provided in response to KIUC 1-43 to
4 determine whether, in fact, Kentucky Power paid an
5 ROE component of 12.16 percent?

6 A. Yes.

7 Q. And as I understood his answer, it was yes, and
8 in fact he had appended those bills as RCS-15. Do
9 you remember that?

10 A. Yes.

11 Q. Did Kentucky Power, in fact, pay during the
12 test year, as part of its Rockport Unit Power
13 Agreement, an ROE component of 12.16 percent?

14 A. No.

15 Q. And what did it pay?

16 A. By my calculation it's about an 8.18 percent is
17 what was actually charged to Kentucky Power.

18 Q. So if the agreement provides for a 12.16
19 percent ROE, why did it pay this approximately
20 one-third less amount?

21 A. The 12.16 is what's embedded in the Unit Power
22 Agreement as sort of the starting point. There's
23 something called an operating ratio in there which
24 can lower that, what's actually charged and what
25 comes through on the bill to Kentucky Power.

1 The operating ratio represents this other
2 construction going on at the time that lowers that
3 12.16 percent, and so in this case I believe part of
4 the, what -- I believe it's what's in this case the
5 Rockport scrubber was being built, that lowered the
6 operating ratio for the units overall, and so by
7 month if you look, add those up from once you apply
8 that formula to the 12.16 starting spot, that's where
9 you get the 8.18 percent.

10 So that's what's in the test year, so if we --
11 if the Commission were to approve the settlement
12 agreement and the balance in there, that means for
13 the next three years it wouldn't be 12.16, it would
14 lock in that 8.18 percent because we're making as a
15 base rate item, so we're taking the test year amount
16 of the Rockport bill that has that 8.18 and making
17 that the cost over the next three years. That's
18 reflected in rates.

19 Q. And did you have an exhibit prepared showing
20 that calculation?

21 A. Yeah, I asked someone because I thought there
22 was confusion, so I asked someone to prepare for me
23 what the 12.16 percent would reflect in the bill and
24 also take the actuals, and they prepared that, and it
25 shows that it's actually \$1.8 million less than the

1 12.16 assumption if you take what actually is
2 reflected on the bills.

3 MR. OVERSTREET: I'm going ask Mr. Gish to pass
4 this out. Can I have this marked as -- I believe
5 it's -- well --

6 CHAIRMAN SCHMITT: Yes.

7 MR. OVERSTREET: It would be --

8 CHAIRMAN SCHMITT: 8.

9 MR. OVERSTREET: 8, thank you.

10 (KPC Exhibit 8 marked for identification.)

11 Q. And do you have that in front of you,
12 Mr. Satterwhite?

13 A. Better take your copy to make sure.

14 CHAIRMAN SCHMITT: I hate to butt in again, but
15 let me ask Mr. Cook and Mr. Chandler, are you still
16 okay on time?

17 MR. CHANDLER: I think it would all depend on
18 Mr. Overstreet at this point, if he would be going
19 much longer. I just don't know.

20 MR. OVERSTREET: No, and that's a very fair
21 question, and the answer is no, I don't intend to go
22 much longer.

23 Q. Mr. Satterwhite, do you have that in front of
24 you?

25 A. Yes, I do.

1 Q. And in the interest of conserving time, can we
2 go down to the bottom line that is grayed? It's
3 called estimated monthly ROE?

4 A. Yeah.

5 Q. Do you see that?

6 A. Yes.

7 Q. And could you scan across there quickly and
8 tell me what month had the highest ROE and what that
9 was?

10 A. Sure. I believe that was March of '16, and
11 that's a 9.12 ROE.

12 Q. Okay, and then what month had the lowest ROE?

13 A. That appears to be 764, and that's December of
14 '16.

15 Q. And if you went two months --

16 A. 759, I'm sorry.

17 Q. Yeah.

18 A. Most recent, the last month of the test year
19 759, February '17.

20 Q. And then how did you arrive at your
21 8.18 percent?

22 A. I added up these numbers and divided by 12.

23 Q. Okay. Thank you.

24 MR. OVERSTREET: That's all I have, Your Honor.

25 CHAIRMAN SCHMITT: Mr. Kurtz?

1 MR. KURTZ: No questions, Your Honor.

2 CHAIRMAN SCHMITT: Any other -- any counsel
3 from any of the other intervenors, any friendly
4 cross-examination?

5 MR. GARDNER: Yes, sir. This is a brief
6 question.

7 CHAIRMAN SCHMITT: You're not friendly, but you
8 can go ahead.

9 MR. GARDNER: I'm sorry.

10 MR. OVERSTREET: Mr. Gardner is always
11 friendly.

12 CHAIRMAN SCHMITT: You're hostile.

13 MR. GARDNER: I'm not usually described that
14 way, but I'll take it.

15 RE-CROSS-EXAMINATION

16 By Mr. Gardner:

17 Q. Just a couple of sort of brief questions,
18 Mr. Satterwhite. When you were referring to a
19 question by Mr. Overstreet about KCUC Exhibit 4, you
20 said you talked to someone who gave you some
21 information about different percentages if LGS and PS
22 were separated. Who was that person you talked to?

23 A. Yeah, Mr. Vaughn is really the person that can
24 walk through all of these and give more details, so I
25 reached out to him to see what the difference would

1 be if you separated those.

2 Q. Okay. And is Mr. Vaughn the same -- so he's
3 the person who could say why in this exhibit LGS and
4 PS are lumped together. He's the one I can talk to
5 about that?

6 A. Correct.

7 Q. Okay. And one more similar question. In the
8 settlement agreement itself, item 14, I believe.
9 Item -- excuse me. Item 13 --

10 A. Before you get there, can I make sure my last
11 answer was clear? They're grouped together as a
12 result of the settlement agreement and the balance of
13 all the parties. Mr. Vaughn can talk about what that
14 means and how the allocations are in there, but
15 overall that's a result of the settlement.

16 Q. Okay. Sure.

17 A. Just wanted to be clear.

18 Q. No, that's fine. That makes sense because you
19 all didn't propose them as one class, did you?

20 A. Correct.

21 Q. Okay. I'm asking you about this one line at
22 the end of 13 and 14, which I read to you before.

23 (Reading) Tariff K-12 schools shall reflect rates for
24 customers taking service under the tariff designed to
25 produce annually in the aggregate 500,00 less, and

1 then it goes on, so that also is --

2 A. I'm sorry, where are you again? I was thinking
3 about my last answer. Tell me where to go.

4 Q. Bottom of page 13 of the settlement agreement
5 and the top of page 14 where it's basically talking
6 about the 500,000 number?

7 A. Yes.

8 Q. That's also Mr. Vaughn?

9 A. Well, that -- what that is, it's a continuation
10 of -- the reason why, I guess, is a continuation of
11 the past and the settlement agreement. Mr. Vaughn
12 can apply that and say how that's reflected in the
13 numbers.

14 Q. Okay.

15 A. I believe in the initial presentation of the
16 case we didn't pull out the schools separately, and
17 that came out through the settlement discussion of
18 continuing what we do right now.

19 Q. So again, the person to ask those questions in
20 detail would be Mr. Vaughn?

21 A. If you want an understanding of unbundling the
22 numbers and doing a lot of math and focusing on that
23 and how it works, Mr. Vaughn is the one to talk to,
24 yes.

25 Q. But you obviously thought it was important

1 enough to make that distinction from the stand just a
2 few minutes go, what differences were, right?

3 A. Absolutely, I think it's -- yeah. I think
4 that's important to show. There's been some concern
5 about, from yourself, about the commercial customers,
6 and I thought it was important to show that the
7 schools are actually -- how that relates to what the
8 LGS if you were to separate them.

9 Q. And had that, that number or approximate
10 numbers that you gave in response, was that -- had
11 that been previously filed in this case in some form
12 or fashion, whether direct testimony or data
13 responses, that you're aware of?

14 A. I believe you can get there by doing math on
15 what Mr. Vaughn's provided. I think he has Exhibit 3
16 to his testimony. It just wasn't, you know, down to
17 the total column, so I asked him to look through what
18 he's provided and provide that to me.

19 Q. Okay. Thank you.

20 MR. GARDNER: That's all.

21 CHAIRMAN SCHMITT: Mr. Chandler?

22 RE-CROSS-EXAMINATION

23 By Mr. Chandler:

24 Q. Who determines -- under whose jurisdiction are
25 the amounts that Kentucky Power pays for

1 transmission?

2 A. I'm not sure I understand your question.

3 Q. If Kentucky pays transmission costs under an
4 open access transmission tariff, do individual state
5 commissions determine those amounts or does FERC?

6 A. That's a FERC jurisdiction.

7 Q. So the amounts that the company estimate in
8 2018 of \$14 million, those are amounts that are FERC
9 jurisdictional; is that fair?

10 A. The oversight of those costs are FERC
11 jurisdictional, correct.

12 Q. And those costs would be approved by FERC.

13 A. Yes.

14 Q. Through the tariffs.

15 A. That's who has jurisdiction for those, yes.

16 Q. And so the proposal by Kentucky Power, and in
17 the stipulation, would be to pass along 80 percent of
18 those costs one for one through tariff PPA; is that
19 correct?

20 A. It's delayed a little bit. The way we have it
21 we don't reset that until later in the year, but it's
22 to track those, and we don't recover 20 percent of
23 those costs, but 80 percent, yes, would come in
24 through the tariff PPA.

25 Q. And so when you file that with the Commission,

1 you just tell them how much those costs were, here's
2 an 80 percent number, these are the rates we're
3 putting into effect with tariff PPA, and you update
4 your tariffs with the Commission?

5 A. Essentially it's a little deeper than that. I
6 mean, there's these costs in this rate case right now
7 that's provided as part of this. It's in the record.
8 That can be looked at to make sure that those are
9 allocated properly, that those really are the
10 transmission costs, that something else isn't in
11 there, so there's some review by the Commission, but
12 someone can challenge those costs, other than costs
13 that aren't supposed to be in there, that would
14 happen at FERC.

15 Q. So the Commission would just look at them and
16 say these are OATT charges, they're in the PPA.
17 That's essentially what your understanding would be.

18 A. And are these the costs that are eligible to
19 fit in here? That's what's part of this case right
20 now. Are these the appropriate costs to fit in here,
21 yes.

22 Q. Are these the OATT charges. Thank you.

23 You mentioned earlier that the -- I think your
24 quote was that the nature of a test year is lag, that
25 that's the nature of a test year, is lag?

1 A. The point I was trying to make is when we're
2 talking about earning an ROE, when you have a
3 historic test year, naturally fit in is some lag to
4 that because expenses can go up in that year, unless
5 you have that's known, fixed, and measurable, or you
6 don't have a tracker, you don't tend to update those
7 unless you do a future test year, so my point is as a
8 base standard typically there's some lag involved in
9 what you're not recovering.

10 Q. That's what I wanted to clarify. I think you
11 had just mentioned test year. You hadn't
12 distinguished between historical and fully forecasted
13 or a forecasted test year, so if you had requested --
14 in determining what the best way for Kentucky Power
15 to go about recovering these, and I'm talking about
16 the 2018, the \$14 million amount of OATT charges you
17 were referring to, you could have filed a fully
18 forecasted test year and included them into the
19 amount and determined what rates were, or you could
20 have filed a historical test year and then asked for
21 this tracker to pass through those costs, and you
22 chose the latter, correct?

23 A. Correct. And as we've seen from the updates
24 we've had so far --

25 Q. So --

1 A. -- it was assumed at a higher level, and now we
2 know it's going to be a lower level, so I think it's
3 beared out the tracking was the appropriate way.

4 Q. You mentioned that it's hard to compare the
5 folks that work at a utility with other, maybe with
6 other industries in the region because it's more of a
7 national -- everybody -- everybody in the United
8 States is served by electricity, I guess, basically.
9 It's a national thing. You have 300 something
10 million people, and 300 something million people have
11 electricity. Right? Is that kind of your --

12 A. Yeah, I think the skills translate anywhere in
13 the country, and so when we look at benefits and pay,
14 well, we think more of a national standard.

15 Q. Do you have KCUC's Exhibit 3 available?

16 A. Yes.

17 Q. And do you mind to turn to the page, and I
18 believe it's unnumbered, 1, 2, 3, 4, page 8?

19 A. What I have is Appalachian Sky on top? The
20 picture.

21 Q. Yeah, let's go back one, yes.

22 A. Okay, the one with the picture on it, yes, of
23 the coal miner.

24 Q. So I'm going to ask you about some of these,
25 and I just want to confirm that what I say, that

1 these are, I guess, attributes of the workforce in
2 Eastern Kentucky that you market for potential
3 employers, correct?

4 A. Correct, and this was focused on the defense
5 and aerospace industry.

6 Q. Right. So you mentioned an average desired
7 hourly wage of \$17, correct?

8 A. Yeah, we did a workforce study. That's where
9 all this stuff comes from.

10 Q. Okay.

11 A. And this was a study that was produced that
12 gave us these documents.

13 Q. Okay. And you noted that at the bottom two
14 they have skills in manufacturing, correct?

15 A. Yes.

16 Q. And the bottom three, again, wood product
17 manufacturing, three in manufacturing. Over to the
18 right you have one that states that they're highly
19 skilled in multiple trades?

20 A. Yes.

21 Q. And they're mechanically inclined, but they're
22 at the top.

23 A. Yes.

24 Q. Okay. Does Kentucky Power have the opportunity
25 to file taxes on a stand-alone basis or in the

1 aggregate with AEP?

2 A. I'll again defer you to our Mark Pyle, our tax
3 expert, to talk more about what we did.

4 Q. That was only going to be my question. Do
5 you-all have the option to either file on a
6 stand-alone basis or file a joint return with AEP?

7 A. I'm not sure.

8 Q. You mentioned earlier, and you went back to the
9 questions I had asked regarding studies, and you
10 noted that the company had provided a lot of
11 information. Not maybe specifically studies, and I
12 think that's a distinction that you've made before,
13 correct?

14 A. Correct. It's what you consider study is what
15 I consider study. I just wanted to make sure we were
16 talking the same language.

17 Q. And so you had mentioned that you believe that
18 you've provided a lot of information, but not
19 necessarily maybe studies per my definition.

20 A. Not knowing what your definition is, I wanted
21 to make sure I was just being clear. I know
22 Mr. Carlin has a number of studies that he relies on
23 for the competitiveness of our wages and our
24 pensions, and I was pointing out, as you had said,
25 there's lots of documents and lots of numbers in this

1 case, and you had asked what the evidence is to
2 support those, and I was pointing out all those
3 documents and the fleet of witnesses that we provided
4 here to explain what those are.

5 So I didn't know if you would consider those
6 studies, but I was just saying there's lots of
7 evidence in the record to support all that
8 information, which really are, as you were saying, we
9 have to look at expenses. Those expenses are
10 supported by a number of witnesses.

11 Q. And yesterday I asked if you had conducted a
12 study specifically about whether customers could
13 afford a rate increase, either in the stipulated
14 amount or the application amount, correct?

15 A. Correct.

16 Q. And you had -- and your answer was not a study,
17 specifically a study to that effect.

18 A. Right. That was my answer when I talked about,
19 and what I was trying to make sure wasn't confusing,
20 we deal with customers all the time. It's certainly
21 something we're sensitive to, but there wasn't a
22 formal study how you were asking that's been done.

23 Q. So where in the application did you provide
24 information that shows that customers could afford
25 the increase?

1 A. Again, I don't think we did a study that said
2 that. I think what we talked about is the testimony
3 of myself and other witnesses that talked about how,
4 you know, there's a regulatory compact, and utility
5 has to operate, and what we've done to sort of lower
6 that amount so that we can continue to operate and
7 have an opportunity to get our return without having
8 the price tag be higher.

9 Examples I used were I called everybody in,
10 tried to skinny the case down more. Mr. Phillips, I
11 brought him in and said, again, you're allowed to
12 spend \$27 million. Do you have to spend \$27 million?

13 I think the settlement and the stipulation, as
14 your own witness Mr. Smith testified to, was very
15 creative to look in the short term for customer
16 affordability and defer things down the road.

17 We're not crazy about deferrals, we try to
18 minimize the level of that deferral, but we realize,
19 just like the customers in Hazard that spoke at the
20 public hearing said, is there something you can do
21 just to push this off a little bit. We're focused on
22 that to try to minimize the impact right away as we
23 all work together to change the denominator that we
24 talked about.

25 So that's an example of some of the evidence of

1 what we tried to do to address the affordability. We
2 have to have utility service. The question is what
3 do we do to minimize and make that affordable, and
4 the only thing I'd add on to that is what we're doing
5 in economic development is our other effort to make
6 it more affordable. The more jobs we bring, the more
7 industry we bring to the territory help that as well.

8 Q. Right, but that entire answer was about what
9 you did to determine what the amount the company
10 needed was, what the level of expenses or return
11 would be. I'm asking, and just to clarify, did you
12 provide any information about whatever level was
13 determined, whether customers would actually be able
14 to pay that amount?

15 A. We didn't do the study that you're asking for.
16 The answer I gave was --

17 Q. I'm asking for information, just to be clear.

18 A. I guess I'm not sure what you're asking for.

19 Q. Well, yesterday I asked for studies, and you
20 told me you provided information. Now I'm asking for
21 information, and you're saying that you didn't do
22 studies. So I just want to clarify, if you did
23 provide information, where can I find it in the
24 application?

25 A. Yeah, I think we're kind of stuck in a circle

1 on studies. I mean, I guess I testified to the
2 information we did look at. There wasn't a witness
3 that testified exactly to the point that you're
4 talking about, but I think if you take everything
5 that we've done overall with our application, which
6 is supposed to just support the expenses that we
7 have, and then the other testimony we have, how that
8 impacts the region, it will show you that we're a
9 leader in the region focused on affordability for
10 customers.

11 Q. You mentioned that you have 168,000 customers,
12 correct?

13 A. Correct. That's the customer account.

14 Q. Not trying to catch you up, but roughly 168,000
15 accounts?

16 A. Correct.

17 Q. But you mentioned that Kentucky Power itself
18 doesn't have someone at PJM to focus on PJM, that
19 it's somebody at AEP.

20 A. We have the benefit of having experts at AEP
21 that we can share the costs with all the other
22 operating companies, but they're available to me at
23 any moment.

24 You know, just last night I had a question. I
25 asked somebody. They're out in Oklahoma

1 participating in another proceeding, and they got
2 back to me at 2:00 in the morning with information,
3 so it's a real advantage we have.

4 Q. Can you remind me how many employees Kentucky
5 Power has?

6 A. We have about, I believe it's 500 -- around 550
7 direct employees, and we have a little over 570
8 contractors, I believe.

9 Q. And when you mentioned that you said you had a
10 team, or you asked people to look into going --
11 basically going it alone if you were to go or
12 transition, Kentucky Power was transition from FRR to
13 RPM, you had someone look at that on a stand-alone
14 basis rather than as the AEP zone, correct?

15 A. Those are the questions I asked. That's what I
16 thought was proper to ask as we looked whether we're
17 going to be FRR or RPM, and it's a deeper question of
18 whether we want to go alone with what we put into the
19 capacity market.

20 Q. And who did you ask that of?

21 A. The experts at the AEP Service Corps to run
22 that information for me.

23 Q. Okay. You mentioned the Hazard-Wooton line.
24 Do you know if that's a baseline or a supplemental
25 project for Kentucky Power?

1 A. No. Sorry.

2 Q. Do you know who I can ask for that?

3 A. Probably Mr. Wohnhas in charge of my regulatory
4 group. Mr. Vaughn might know too.

5 Q. And you were able to look at some things last
6 night, it seems like. Were you able to determine
7 whether -- what the amounts on the annual reports
8 that I provided, what those represented?

9 A. I didn't look any deeper into that exhibit.

10 Q. Okay.

11 A. I left this book here.

12 Q. Okay. So you got answers -- okay.

13 MR. CHANDLER: That's all the questions we
14 have.

15 CHAIRMAN SCHMITT: Thank you.

16 Ms. Vinsel?

17 MS. VINSEL: Yes. Staff has a few questions.

18 RECROSS-EXAMINATION

19 By Ms. Vinsel:

20 MS. VINSEL: First, because you did provide
21 that answer that I had asked for a written data
22 request, we withdraw that particular data request.

23 MR. OVERSTREET: Ms. Vinsel, I'm sorry, which
24 one?

25 MS. VINSEL: Oh, I'm sorry, yes. Mentally

1 thinking of something else. The data request in
2 regard to when a decision was last made.

3 MR. OVERSTREET: Oh, okay, thank you.

4 MS. VINSEL: When it was last adopted regarding
5 staying at PJM as FRR or RPM.

6 MR. OVERSTREET: Sure.

7 Q. And when you mentioned this took place in the
8 spring, are there any written reports or PowerPoint
9 presentations or memorandum addressing Kentucky
10 Power's continued participation in PJM as FRR versus
11 RPM?

12 A. Yeah, when I referred or when I asked for the
13 document I had it with me. It's the report that came
14 out making the recommendation about what we should
15 do. That sort of keyed up the conversation that I
16 have, so I have that report.

17 Q. And would you be willing to provide that to us
18 as a post-hearing data request?

19 A. Absolutely.

20 MR. OVERSTREET: No. I can do that right now.

21 MS. VINSEL: Okay. Even better.

22 A. Just to be clear, it's marked confidential
23 because as we talk about it it's considered
24 confidential, but I think we -- now that the decision
25 has been made it's okay to share that analysis, but

1 it does have a confidential marking.

2 Q. So it doesn't need to be filed as confidential?

3 MR. OVERSTREET: It is not confidential.

4 A. Anymore.

5 MR. OVERSTREET: Anymore.

6 Q. Anymore, okay.

7 A. But each year as we go through the process it's
8 confidential until the decision is made.

9 MR. OVERSTREET: That would be number 9?

10 CHAIRMAN SCHMITT: Number 9.

11 (KPCO Exhibit 9 marked for identification.)

12 Q. While the remainder of these are being passed
13 out I'll ask my next question.

14 A. Okay.

15 Q. You mentioned part of that discussion was
16 whether or not Kentucky Power would go it alone, in
17 your own words. When you say "go it alone," did you
18 mean that Kentucky Power would leave PJM, or was a
19 consideration whether Kentucky Power would leave the
20 Power Coordination Agreement with other AEP entities?

21 A. Good clarification, thank you. It's the Power
22 Coordination Agreement. It's looking at the assets
23 that I have as Kentucky Power and deciding whether in
24 the forward market it's better to offer the capacity
25 solely by myself or stay under the protection of the

1 coordination agreement that would cover me in case
2 there's penalties, in case we should fall short.

3 Q. Thank you. And following up on one of
4 Commissioner Mathews's questions regarding PJM, does
5 PJM determine the amount of revenue transmissions
6 received by Kentucky Power, or does PJM only
7 determine the amount of transmission revenues for the
8 AEP zone, and then AEP allocates the amount to its
9 affiliates?

10 A. Not sure I understand the question. Let me
11 answer it this way and see if that -- if we're
12 talking past each other or not.

13 PJM is the jurisdictional entity that oversees
14 what's done. They don't pick where -- other than the
15 mandated projects, they don't say we've decided that
16 Kentucky is going to do this much or Ohio or
17 Pennsylvania is going to make this much investment.
18 That's just the clearinghouse for the stakeholder
19 process for reviewing that, but they don't dictate
20 where that's going to be for a number of the
21 projects, other than the mandated ones. Does that
22 help?

23 Q. Perhaps not quite.

24 A. Okay.

25 Q. Transmission revenues get allocated throughout

1 the PJM footprint. Would that be correct?

2 A. From the transmission owner point? There's
3 costs that come from, like, the LSE.

4 Q. Yes.

5 A. That as a transmission owner, as I make an
6 investment there's a revenue that comes along with
7 the decision to make that investment. There's a
8 return on that, so that comes from the nature of
9 making the investment.

10 Q. So I think we may be lining up here. So any
11 transmission revenues are tied only to those
12 investments. There's no particular larger
13 allocation? Is that what you're saying?

14 A. I believe so. If I'm getting over my skis a
15 little bit Mr. Vaughn can clarify, but yeah, the
16 revenues that come from are from the investments made
17 in the transmission system.

18 Q. I will follow up with Mr. Vaughn on this
19 question.

20 A. Thank you.

21 MS. VINSEL: And with that, Commission has no
22 further questions.

23 CHAIRMAN SCHMITT: Commissioner Cicero?

24 VICE-CHAIRMAN CICERO: No further questions.

25 CHAIRMAN SCHMITT: Commissioner Mathews?

1 COMMISSIONER MATHEWS: No.

2 CHAIRMAN SCHMITT: I just have a couple of -- I
3 don't know if they're questions or statements.

4 EXAMINATION

5 By Chairman Schmitt:

6 Q. Mr. Satterwhite, in your testimony I guess on
7 redirect or re-redirect by Mr. Overstreet, you talked
8 about the, I guess, poverty levels in your service
9 area, and you seem to indicate that really you had
10 two counties at least you referred to, Boyd County
11 and Greenup County, which were not as, I guess,
12 economically depressed as the rest of the area, but
13 only three of the 30 counties, poorest counties in
14 the United States, were in your service area, and of
15 those you indicated Clay County, you only had 13
16 customers, seven customers or something?

17 A. Seventeen.

18 Q. In any event, I would like to point out to you
19 or ask you if you've seen the testimony of Roger
20 McCann, the executive director of Community Action
21 Kentucky, at page 7, and I'll just read part of it
22 and ask your thoughts on it.

23 At page 7, quote, (Reading) Many of these
24 counties -- and it lists every county and the poverty
25 rate, and they go from a low of 19.7 percent in

1 Carter County to a high of 42.4 percent in Owsley
2 County, and most of the counties are like Knott 33.8,
3 Leslie 33.7 percent, Fletcher 33.2, Clay 46.8, Floyd
4 County 29.5 percent.

5 But it says, (Reading) Many of these counties
6 report some of the highest poverty rates in Kentucky.
7 18 counties served by Kentucky Power Company report
8 poverty rates above 20 percent, a rate that the
9 census bureau defines as extremely high. 19 of the
10 20 counties have reported poverty rates higher than
11 Kentucky's poverty rate of 18.3 percent. Every
12 county in Kentucky Power's territory is in the
13 highest 50 percent of poverty rate for Kentucky. Not
14 only are these some of the poorest counties in
15 Kentucky, but they are also ranked as the poorest
16 nationwide in a state that is 47th in the highest
17 poverty rates. Every county in Kentucky Power
18 Company's service territory surpasses the 2015
19 national poverty rate of 14.7 percent. These
20 counties are in the top 50 percent of highest poverty
21 rates of the 3,142 counties nationwide included in
22 the site data.

23 Do you have any reason to believe that those
24 figures aren't correct?

25 A. I haven't checked the sources. I'm not going

1 to say that there's not an economic situation and
2 poverty in my territory. Absolutely is. I know
3 Greenup County and Boyd County, I don't know if that
4 was considered in those numbers or if the old data.

5 Q. Well, that was considered in those numbers, and
6 they also have poverty rates that are higher than the
7 national average.

8 A. Right. What I was going to say is there's been
9 some development there in the recent past since 2015.
10 I'm not sure when the dates were, but I don't want to
11 argue that, you know, to make it seem like there's
12 not poverty issues in Eastern Kentucky because there
13 absolutely are.

14 I think my job is to make sure I'm running a
15 utility so we don't further exacerbate the problem by
16 not having power to these people. We want to make
17 sure we have safe, reliable service, and my job is to
18 sort of do what I've done in this case, to sort of
19 skinny it down to make sure I can provide that.

20 And then beyond that, you know, I can't solve
21 every social issue by being the electric company, but
22 I have a duty to make sure I'm responsible in doing
23 something, and we're doing that with our economic
24 development efforts to make sure we can really help
25 change all of this.

1 And we've done that recently. There's been
2 success in the past. You'll hear about success in
3 the future. So I'm focused on changing that. It's a
4 reality, and we're very sensitive to it, and I
5 realize any increase in any costs for my customers is
6 difficult, and so I take that personally, and when we
7 make decisions we want to make sure we're making the
8 best decisions, but at the end of the day under the
9 regulatory compact I have to provide safe, reliable
10 service, and I think that's what we provided to the
11 Commission to make sure we can take care of this
12 community.

13 Q. I know in your -- in your testimony relative to
14 the, I guess, the Kentucky Economic Development
15 Surcharge you made a statement that, and I know that
16 basically it's changed a little, but you made the
17 statement that the -- to the effect that the charge
18 on customers' meters gave the rate payer, the
19 residential rate payer, the opportunity to
20 participate or partner along with Kentucky Power in
21 economic development in the area, but I would suggest
22 to you that some of these rate payers are old,
23 disabled people on fixed incomes and Social Security,
24 perhaps shouldn't feel like or don't feel like they
25 ought to bear the burden of participating in

1 economic -- in economic development, and I know it's
2 only that you have the 10 cent per meter charge, but
3 I noticed I think in the HEAP program the per meter
4 charge maybe has been 15 cents, and according to
5 Mr. McCann in his testimony, that hasn't been raised
6 since 2006, in 11 years.

7 And the proposal was in your proposal, or in
8 your application, to raise that meter charge to
9 20-cents per meter. Is that still -- it wasn't
10 addressed in the settlement, but is that -- what is
11 your position now?

12 A. Let me check because I believe it was 5 cents
13 before, and it's being raised to 10.

14 Q. I was thinking it was maybe 15, but whatever it
15 was, let me ask you this: What would Kentucky
16 Power's position be if the Commission determined to
17 eliminate the 10 cent per meter charge for the
18 economic development surcharge and add that on to
19 HEAP? Would Kentucky Power be willing to match that
20 additional HEAP surcharge? It wouldn't cost it any
21 more money one way or the other.

22 A. Interesting. Would the shareholder match
23 switch as well?

24 Q. Shareholder match. Shareholder match. It just
25 takes it from economic development for residential

1 customers only and puts it on to the HEAP program to
2 provide additional funds for individuals who have
3 trouble paying their bills, poverty level and below.

4 A. Yeah, if the Commission wanted to make
5 hopefully the only change to the balance of the
6 settlement agreement that we have, but switch
7 something from an economic development over to the
8 HEAP, I think as long as, you know, the shareholder
9 matching moved as well with the same and didn't still
10 exist in the economic development side, I think
11 that's something that I could be comfortable with as
12 the president to provide more benefit.

13 That would have lower dollars for the economic
14 development efforts that we're trying to do that have
15 an impact on that, but I think that's something that
16 if the Commission wanted to make that change it
17 wouldn't disturb the overall balance, I think, that
18 the parties have put into the settlement agreement.

19 Q. Well, the reason too, and I don't know if
20 you've seen these statistics because they're in the
21 evidence in the case, that Kentucky Power has
22 approximately 136,344 residential customers.
23 26.22 percent of those are at or below the poverty
24 level. That's 35,756 customers of Kentucky Power.
25 35,756 out of 136 are at or below the poverty level,

1 and during the year 2016 Kentucky Power disconnected
2 11,438 customers because of their inability to pay
3 their bills, and all I'm suggesting is maybe there's
4 some help somewhere for some of these people who
5 actually during the winter months have a life or
6 death decision on whether they can make their power
7 bill payment or not.

8 A. Yeah, I understand what you're saying, and to
9 the senior citizens, that's something that came up in
10 our community advisory panels as we talked about
11 rates overall and the impact on senior citizens.

12 What I would add is that I talk to a lot of
13 grandparents who talk about help rebuild the economy
14 here so my grandkids come home, you know, there's
15 more work around here, so I think it impacts
16 everyone.

17 The uniqueness of the position we have with the
18 economic development rider and the HEAP rider is it's
19 a guaranteed spend. A lot of utilities can do a lot
20 of things in their test year, and then they don't do
21 it in future years.

22 Because it's earmarked and approved by this
23 Commission, whether it's HEAP or economic
24 development, it's guaranteeing that I can't move that
25 money somewhere else because I have a need somewhere

1 else. It's locking that in, so I think the path
2 you're going down is locking more in.

3 Might be interested to talk to Steve Sharp.
4 We've talked to the agencies in the past, as I
5 mentioned before, about trying to find those
6 customers that might need a month or two versus I
7 don't know if they're handcuffed when someone comes
8 to them, and they have to pay the entire bill for
9 someone that they know might be a serial person that
10 doesn't pay their bill, so there might be some room
11 in there, but I think we can continue to work with
12 the agencies if there's more funds available maybe to
13 make sure we're helping those that need help for a
14 month or two versus those that maybe are just
15 unwilling to pay their bill.

16 CHAIRMAN SCHMITT: Thank you. I have no
17 further questions.

18 Commissioner Mathews?

19 COMMISSIONER MATHEWS: Sorry.

20 REEXAMINATION

21 By Commissioner Mathews:

22 Q. The FRR versus RPM, the information made me
23 have more questions. I apologize. I know we would
24 like a break, and I know the Attorney General's folks
25 wanted to get their witness on the stand, but my

1 question is: Was this decision made with all four
2 companies as a whole, or did you -- because it
3 doesn't seem that it was evaluated as Kentucky Power
4 separated out from the other four because the
5 language talks to it's recommended that all four
6 elect FRR, if any or all were to -- the PJM rules
7 would require they have to stay for five planning
8 years. You said yesterday that once you made the
9 decision you didn't go back.

10 A. Correct.

11 Q. But it just seems like forever.

12 A. Yes.

13 Q. And it keeps saying by combining them into a
14 plan, the company's capacity position can be managed
15 collectively. My question is, and you are welcome to
16 put this in a post-hearing data request, what are the
17 reserve margins of the other three companies, and are
18 they winter or summer peaking, and how would that
19 change a decision about Kentucky Power versus the
20 other three?

21 A. Yeah. I'll give the exact information in a
22 post-hearing data request for you. I believe APCO is
23 winter peak as well. I think they might be because
24 they're a lot like us, so we'll get the other
25 information in that post-hearing data request, but

1 this is what -- the operating committee, which has
2 the presidents of every one of those companies. I
3 asked a lot of questions before this to kind of
4 analyze what my position overall was to see how that
5 related.

6 Q. Just I would ask that.

7 A. No problem.

8 CHAIRMAN SCHMITT: Mr. Overstreet?

9 MR. OVERSTREET: No, no further.

10 CHAIRMAN SCHMITT: Anyone else any questions?

11 If not, let's take a ten minute break until 11:15,
12 and then Mr. Chandler and Mr. Cook can call their
13 witnesses.

14 MR. OVERSTREET: I think we indicated
15 Dr. Woolridge would be the next witness.

16 (Recess from 11:02 a.m. to 11:17 a.m.)

17 CHAIRMAN SCHMITT: We are now back on the
18 record.

19 Mr. Chandler, as I understand it, we're taking
20 one of your witnesses out of order; is that correct?

21 MR. CHANDLER: That's right, Chairman.

22 CHAIRMAN SCHMITT: Do you have anything else to
23 bring before the Commission?

24 MR. CHANDLER: I do. I'd like to move to
25 introduce AG Exhibit 1 through 5.

1 CHAIRMAN SCHMITT: Any objection?

2 MR. OVERSTREET: I would have an objection to
3 number 4, which was the -- I think it's number 4. It
4 was the document that Mr. Satterwhite was unsure of,
5 and so could we just hold up on its admission until
6 Mr. Wohnhas has a chance to testify about it?

7 CHAIRMAN SCHMITT: Do you have any objection to
8 that?

9 MR. CHANDLER: I don't have any objection. I
10 just note that I asked about it yesterday before
11 lunch, and he obviously was able to check on quite a
12 few things, and was unable to look into this specific
13 one, but I have no problem asking Mr. -- I think
14 Mr. Cook will ask questions of it and ask to be
15 introduced at a later time. That's fine.

16 CHAIRMAN SCHMITT: Okay. And let's just --
17 let's not forget and leave it unaddressed if we
18 otherwise forget it, so but we'll rule on it. I'll
19 let 1 through 5 in, with the exception of 4, and
20 we'll address 4 at a later date.

21 Do you also have something?

22 (AG Exhibits 1, 2, 3, and 5 admitted.)

23 MR. OVERSTREET: Yes, I move the admission of
24 Exhibits 8 and 9.

25 CHAIRMAN SCHMITT: Any objection, AG?

1 MR. COOK: No.

2 CHAIRMAN SCHMITT: So I'll let those be
3 admitted into evidence.

4 (KPCO Exhibits 8 and 9 admitted.)

5 CHAIRMAN SCHMITT: Okay. Sir, will you please
6 stand and raise your right hand?

7 J. RANDALL WOOLRIDGE, PH.D., called by the
8 Kentucky Attorney General, having been first duly
9 sworn, testified as follows:

10 DIRECT EXAMINATION

11 By Mr. Chandler:

12 CHAIRMAN SCHMITT: Please be seated.

13 Mr. Cook, Mr. Chandler, whoever is asking
14 questions, you may proceed.

15 MR. CHANDLER: Thank you, Chairman.

16 Q. Dr. Woolridge, can you please state your name
17 for the record?

18 A. My name is the initial J. Randall Woolridge,
19 and that's spelled W-O-O-L-R-I-D-G-E.

20 Q. And with whom are you employed, and what is
21 your position there?

22 A. I'm a professor of finance at the Pennsylvania
23 State University.

24 Q. And are you the same Dr. J. Randall Woolridge
25 who caused to be filed prefiled direct testimony and

1 certain data requests in this case?

2 A. I am.

3 Q. Do you have any additions or corrections to
4 your testimony?

5 A. No.

6 Q. And if we were to ask you today the same
7 questions, would your responses be the same?

8 A. Yes.

9 MR. CHANDLER: The witness is tendered, Mr.
10 Chairman.

11 CHAIRMAN SCHMITT: Thank you.

12 Cross-examination?

13 MR. OVERSTREET: Mr. Garcia will do so, Your
14 Honor.

15 MR. GARCIA: Thank you, Your Honor.

16 CROSS-EXAMINATION

17 By Mr. Garcia:

18 Q. Good morning, Dr. Woolridge. How are you?

19 A. Good morning. Good to see you again.

20 Q. Likewise. I would like to start with some
21 basic building blocks. Would you agree that a
22 riskier investment requires a higher ROE than one
23 that is comparably lower risk investment?

24 A. As a general concept, yes.

25 Q. And other things being equal, a company with a

1 capital structure with more equity and less debt
2 capital is comparably less risky, correct?

3 A. Yes, everything else equal.

4 Q. Right. And correspondingly, one that has a
5 capital structure with less equity and more debt is
6 comparably more risky, correct?

7 A. Yes.

8 Q. Okay. Can you turn to credit ratings -- are
9 you familiar with Moody's long-term credit rating
10 such as A3, Baa2, and so forth?

11 A. Yes, I am.

12 MR. GARCIA: And, Your Honor, before we went on
13 the record I tendered to Dr. Woolridge two documents
14 that I would like to circulate and mark as exhibits,
15 please.

16 CHAIRMAN SCHMITT: Yes. Would these be
17 sequentially 10 and 11?

18 MR. OVERSTREET: Yes, Your Honor.

19 MR. GARCIA: Thank you, Your Honor.

20 (KPC Exhibits 10 and 11 marked for
21 identification.)

22 Q. And, Dr. Woolridge, if I may --

23 CHAIRMAN SCHMITT: Let's make sure Kentucky
24 Utilities would be 10 and Louisville Gas & Electric
25 11?

1 MR. GARCIA: Thank you, Your Honor. That's
2 correct.

3 Q. Dr. Woolridge, if I can ask you, would you
4 agree that if you were going to compare the credit
5 ratings in the Moody scale from, say, A3, if you were
6 to compare that with Baa2, that A3 represents a
7 credit rating that is stronger and therefore implies
8 less risk, less --

9 A. Yes, it would be -- according to Moody's it
10 would be two notches. In other words, you go from A3
11 to Baa1 in Moody's and then Baa2, yes.

12 Q. And the less risky investment of the two would
13 be the A3 --

14 A. Yes.

15 Q. -- investment, and the riskier investment would
16 be Moody's Baa2?

17 A. Yes.

18 Q. Thank you. Dr. Woolridge, are you familiar
19 with the documents that have been marked as Kentucky
20 Power Exhibits 10 and 11?

21 A. No.

22 Q. Those are the credit opinions from Moody's
23 Investor Service --

24 A. Oh, okay.

25 Q. -- for Kentucky Utilities is number 10, and for

1 Louisville Gas & Electric it's number 11?

2 A. Sorry, yes. I'm sorry, yes, I am.

3 Q. Okay. And would you agree that these documents
4 indicate that both for Kentucky Utilities and for
5 Louisville Gas & Electric, the Moody's long-term
6 credit rating is A3?

7 A. Yes.

8 Q. Okay. Were you a witness in the most recent
9 case, base case that Kentucky Utilities and
10 Louisville Gas & Electric had here in Kentucky?

11 A. I was. I was.

12 Q. Do you recall whether the capital structure for
13 these entities was more heavily equity or more
14 heavily debt?

15 A. As I remember, as the companies proposed they
16 had a higher common equity ratio than in this case.

17 Q. Okay. And if -- just to clarify, that would
18 imply that they are a less risky investment than a
19 company that has a capital structure more heavily
20 debt, correct?

21 A. Yeah. Again, assuming all else equal.

22 Q. That's correct.

23 A. Yes.

24 Q. Is there a benefit for customers from a cost
25 point of view for a company to have less equity and

1 more debt capital than if it was otherwise, from the
2 point of view of the impact of, say, every basis
3 point in the ROE?

4 A. I mean, there's a tradeoff. If there's more
5 debt, then your overall cost of capital can be lower,
6 but it may mean that because you have less equity and
7 more debt that you have a lower credit rating, and as
8 a result, you know, there's a tradeoff in terms of
9 the cost of capital versus your cost of, say, debt
10 and equity, and it's just, you know, it's kind of a
11 normal tradeoff when you're talking about how you
12 capitalize a business.

13 MR. GARCIA: Thank you, Your Honor. That's the
14 cross-examination that I have at this point, and I
15 would move for the admission of exhibits -- Kentucky
16 Power Exhibits 10 and 11.

17 CHAIRMAN SCHMITT: Any objections?

18 Let them be admitted as Kentucky Power Exhibits
19 10 and 11.

20 (KPCO Exhibits 10 and 11 admitted.)

21 CHAIRMAN SCHMITT: Any cross-examination from
22 staff?

23 MR. NGUYEN: Staff does, Your Honor, yes. Just
24 a few.

25 CHAIRMAN SCHMITT: Any other -- any other party

1 have any cross-examination of this witness?

2 You may proceed.

3 MR. NGUYEN: Thank you, Your Honor.

4 CROSS-EXAMINATION

5 By Mr. Nguyen:

6 Q. Good morning, Dr. Woolridge.

7 A. Good morning.

8 Q. I take it that you've read Dr. McKenzie's
9 rebuttal testimony; is that correct?

10 A. Excuse me?

11 Q. I take it that you've read Dr. McKenzie's
12 rebuttal testimony?

13 A. I have.

14 Q. Okay. And do you recall that on his rebuttal
15 testimony that he suggested that the ROE that you had
16 recommended would be the lowest in recent history.
17 Do you recall that statement?

18 A. I don't recall exactly that statement. I would
19 say, given yesterday, there was an order in Illinois
20 for Ameren Illinois, and they came in at 8.4 percent
21 ROE, so at least, I mean, as of yesterday it wasn't
22 the lowest ROE.

23 I said in my testimony, my -- my ROE,
24 recommended ROE is low, and it's low relative to --
25 you know, because interest rates have been falling,

1 capital costs have been low. Despite forecasts for
2 years that interest rates were going up, interest
3 rates have stayed low.

4 I think that's why you see authorized returns
5 have been about 9.6 percent for the last three years
6 for electric utilities, as it turns out, but I think
7 people believe all these forecasted interest rates
8 are going up, and as I always say, if you can
9 forecast interest rates you run a hedge fund and you
10 live on a yacht, you know. No one can forecast
11 interest rates.

12 So anyhow, I think that's why, but it is low,
13 and I just believe, you know, authorized returns have
14 been stuck because of the belief that interest rates
15 are always going up, and but after yesterday, no,
16 there's one lower than me.

17 Q. Do you know what case number for that Illinois
18 proceeding is?

19 A. I do not know. It was yesterday. The Illinois
20 Commerce Commission came out with a 8.4 percent ROE.

21 Q. Okay. As a post-hearing data request could I
22 request that you obtain and provide that case number?

23 A. Okay.

24 Q. That docket number or the ICC?

25 A. Okay.

1 Q. Are you familiar with that proceeding at all?

2 A. Just what I've read about it.

3 Q. Okay. Are you aware if Illinois has a formula
4 rate process?

5 A. They do. They do.

6 Q. And outside of the interest rates, is it your
7 belief that the risks associated with Kentucky Power
8 and investors' expectations supports an ROE of
9 8.6 percent?

10 A. In my testimony I look at the credit ratings of
11 Kentucky Power relative to the proxy groups.
12 Kentucky Power is -- in terms of they have an A minus
13 S&P rating and Baa2. Moody's, I look at the average
14 of the proxy groups is BBB plus for S&P, Baa1 for
15 Moody's, so their S&P rating is one notch above it,
16 their Moody's rating is one notch below it, so I say
17 they're kind of similar. So I assume that credit
18 ratings reflect risk.

19 I mean, there's different risk measures. The
20 trouble is a lot of them you can't attribute to
21 Kentucky Power because they're all based on stock
22 market measures, so credit ratings are the one risk
23 measure you can use you can compare with other
24 companies.

25 Q. So what would the impact on investors'

1 expectations if the Commission were to accept the
2 recommendation of an 8.6 percent for Kentucky Power?

3 A. Well, I mean, there is a couple things. I
4 mentioned in my testimony when I summarized my
5 results, the whole thing, does it meet Hope and
6 Bluefield standards. Okay? I point out, look,
7 electric utilities in recent years have been earning
8 about a 9 percent ROE, okay.

9 Now, with a 9 percent ROE, if you look at the
10 graph I show their credit ratings have gone up. The
11 percent of upgrades in the last three years have been
12 like 70 percent upgrades, so their credit ratings are
13 going up with a 9 percent ROE.

14 I said, number two, they're raising \$50 billion
15 a year in capital with about a 9 percent ROE, and
16 number three, you look at their stock prices, I mean,
17 they're not bitcoins, but they're doing awfully well.
18 They're hanging with the S&P 500. So a return of
19 about, you know, 9 percent is close to where it
20 should be.

21 I mean, you know, Mr. Baudino, the industrials,
22 he was 8.85. He's a little higher than me, but
23 still, I mean, that's -- you know, there's a lot of
24 market indicators suggest that capital costs are low,
25 whether it's interest rates, whether the performance

1 of utility stocks earning a 9 percent ROE, there's a
2 lot of indicators that suggest that, you know, about
3 9 percent is about what it should be.

4 Q. So basically you're saying that it would not
5 have a detrimental impact for Kentucky Power at 8.6
6 percent.

7 A. Well, no, I mean, yesterday Ameren Illinois got
8 8.4 percent. They have credit ratings which are
9 about in line, maybe a little above Kentucky Power,
10 so, I mean, 8.4 percent, I mean, and last year they
11 were at 8.6 percent or something like that. I
12 forget.

13 I mean, they kind of redo these yearly, but,
14 you know, they have good investment grade credit
15 ratings which are in line with other electric
16 utilities. Like I say, electric utilities on average
17 BBB plus from S&P, Baal from Moody's.

18 Q. So in Illinois, you're saying in Illinois they
19 would recalculate the ROE on an annual basis?

20 A. They have annual cases where they go through
21 and redo the ROE.

22 Q. Okay. And for Ameren last year was 8 point --

23 A. I forget.

24 Q. -- six percent, you said?

25 A. It was slightly higher. I forget exactly what

1 it was. 30-year treasuries, it's tied in weight to
2 30-year treasuries, and they were a little higher
3 last year.

4 Q. Okay. So do you support an ROE of 8.6 percent
5 given recent indications by the Federal Reserve of a
6 December interest rate increase, which could in turn
7 imply higher long-term capital costs?

8 A. I explained my testimony. The difference
9 between short-term interest rates, which the Fed
10 runs, and long-term interest rates. Short-term
11 interest rates can be influenced by the Fed. The Fed
12 has increased the discount rate. I explained my
13 testimony four times in the last year.

14 What has happened to long-term interest rates?
15 They've fallen. Beginning of the year they were
16 about 3 percent or so, 3.2 percent. Today they
17 trade -- 30-year treasuries are trading at
18 2.7 percent, so that's about a 50 basis points
19 decline in long-term interest rates.

20 We're interested in long-term capital costs.
21 The Fed can increase short-term rates, and they're
22 going to impact short-term rates, but long-term rates
23 are driven by two factors: Economic growth,
24 projected economic growth, and expected inflation,
25 and especially inflation remains low. Economic

1 growth has picked up the last two quarters or two, so
2 but still, long-term investors see muted economic
3 growth.

4 As a result, you know, that's why long-term
5 rates have declined 50 base points despite the Fed
6 increasing short-term rates.

7 Q. Okay. So given that, you don't see any impact
8 with respect to a potential increase in -- by the
9 Federal Reserve in its interest rate on your
10 recommended 8.6 ROE.

11 A. The Federal Reserve is increasing short-term
12 rates. Investors know that the same time they're
13 starting to reduce the size of their balance sheet,
14 and long-term treasuries are still 2.7 percent.

15 Q. Okay. So --

16 A. I mean, if investors -- as you know, there's an
17 inverse relationship between interest rates and bond
18 prices. If interest rates go up bond prices go down,
19 okay. So what would happen?

20 If investors expected long-term interest rates
21 to go from 2.7 to 4 percent, the price of those bonds
22 has to go down, so as an investor I wouldn't buy a
23 30-year treasury at 2.7 percent today if I thought
24 interest rates were going to 3 and a half to
25 4 percent because the price of my bond would decline

1 20 to 30 percent. Investors don't invest with the
2 expectation of having a negative return.

3 So in the end the market says this is what we
4 think long-term rates should be based on inflation
5 and expected growth. The Fed is going to increase
6 the short-term rates, we know that, but so far in the
7 last year they've increased it a full percent, and
8 long-term rates have come down.

9 Q. If I can refer you to Dr. McKenzie's rebuttal
10 testimony. Do you have that, by chance?

11 A. I do not have that.

12 MR. NGUYEN: Do you have --

13 MR. CHANDLER: We don't have a copy.

14 Q. Let me provide you with it. Well, let me try
15 to walk you through it without having to refer to
16 specifically, to his rebuttal.

17 Do you recall his testimony with respect to how
18 ROEs are implied by the expected earnings approach
19 with respect to the utility proxy group? Do you
20 recall that?

21 A. Yes, yes.

22 Q. Okay. And --

23 MR. CHANDLER: Chairman, may I?

24 CHAIRMAN SCHMITT: Yes, you may.

25 Q. This may be a little bit easier if you can

1 refer to the rebuttal testimony. On page 12, lines
2 14 through 18.

3 A. Okay. Yes.

4 Q. Okay. Did you have a chance to read that?

5 A. Yes.

6 Q. Okay. So what is your opinion on
7 Dr. McKenzie's analysis based on the expected
8 earnings approach?

9 A. The expected earnings approach, I mean, I
10 haven't seen a utility commission -- that's how --
11 this was something that was used decades ago. It's
12 not a market-based approach, and I think that's why
13 it hasn't been used.

14 It's basically saying, you know, what are the
15 expected ROEs from these different utilities. Now,
16 you know, there's several issues with that. One,
17 it's not market based. You don't know if that's
18 what's required by investors, okay. That's why we
19 use things like stock prices and that sort of to see,
20 see what investors actually require.

21 Also, these business -- these utilities have
22 unregulated businesses. A number of them have like
23 generation riders or incentives, that sort of thing,
24 and as a result you see ROEs for some of these
25 utilities of up to 17 or 18 percent, and that's

1 because of these -- it's not their regulated part of
2 their businesses, and that's what we're looking at.
3 It's the unregulated or the special, you know, some
4 of the transmission with special riders from FERC and
5 that sort of thing, so these ROEs are above what
6 investors require, certainly above what the regulated
7 part of the business would generate.

8 Q. Okay.

9 A. And I explain that in my testimony and my
10 rebuttal. I say there's another reason why that
11 marking the books of electric utilities are 2.25.
12 It's because these expected ROEs that you get from
13 the entire business are higher than the returns that
14 investors require. That's why we use market-based
15 models, and you really don't see this approach being
16 used anymore.

17 Q. So you're saying that's not an apples to apples
18 comparison because there's a premium built into the
19 expects earnings approach?

20 A. Yeah, there's a premium built into the earnings
21 that utilities are generating the returns that
22 investors require, and that's why they're marking the
23 books that are over 2.

24 Q. And you had testified that one of the criteria
25 that should be included in the proxy group is

1 50 percent of the revenue must be from regulated
2 activities; is that correct?

3 A. Regulated electric operations.

4 Q. Okay. So specifically regulated electric
5 operations?

6 A. Yes.

7 Q. And Dr. McKenzie sort of questions that. Can
8 you explain to the Commission why you believe this
9 should be a criteria for inclusion in the analysis of
10 the utility proxy group?

11 A. Well, two things. One thing, I think these
12 should be primary electric utilities, and that's why
13 I say 50 percent of revenues, so they're primary
14 electric.

15 Number two is, I mean, I use Mr. McKenzie's
16 proxy group, so I don't know why the proxy group is a
17 real issue, and on JRW-4 I provide the operating
18 statistics on percent of regulated gas, electric,
19 that sort of thing, so I don't think the proxy group,
20 especially because I use his, is a real big issue.

21 Q. But I guess my question is, is why the
22 limitation or the factor to consider 50 percent of
23 the electric operations group from a regulated
24 operation?

25 A. Because there are a lot of utilities that have

1 merchant generation, which is unregulated, and as
2 we've seen in the last couple years, it's much
3 riskier than the regulated side of the business.

4 These are holding companies. We have to use
5 the holding companies because they're the ones that
6 have stock outstanding, so these are all holding
7 companies. They have more than just regulated
8 electric utilities.

9 So I'm trying to just, and again, I'm using a
10 large sample. You use a large sample because, you
11 know, you're going to have -- I believe you get a
12 better measure of the cost of equity because
13 individual company variations will average out when
14 you use a larger sample, and again, I used
15 Mr. McKenzie's proxy group too, so I don't think the
16 proxy group is a real issue.

17 Q. And the 50 percent is -- how did you arrive at
18 that 50 percent?

19 A. You comb through the 10Ks, and they --

20 Q. I mean why the basis for 50 percent?

21 A. I just -- that they're primarily a regulated
22 electric utility. They're not primarily a merchant
23 generator, so you don't have those in there, not
24 primarily a gas distribution company. You do have
25 combination electric and gas, and I provide those

1 stats in JRW-4.

2 Q. Okay. Thank you.

3 MR. NGUYEN: Those are all the questions I
4 have.

5 CHAIRMAN SCHMITT: Mr. Cicero, questions?

6 EXAMINATION

7 By Vice-Chairman Cicero:

8 Q. I think you made a statement, correct me if I'm
9 wrong, that investors' expectations for long-term
10 rates are impacted by their expectation on inflation;
11 is that correct?

12 A. It's two factors: expected GDP growth and
13 expected inflation.

14 Q. So would you agree that short-term rate
15 increases typically impact inflation?

16 A. No. I mean, the only thing they could
17 potentially do would probably mute inflation. I
18 mean, as you probably followed, the Feds prefer
19 inflation measure is just called -- they call PCE,
20 personal consumption expenditures, and it's been
21 below 2 percent for some time. Last I saw it was
22 still 1.8 percent, and they've been trying -- they
23 were hoping to go up. It hasn't gone up, and but
24 that's a short-term measure.

25 But you look at measures of long-term

1 inflation, for example, you look at the tip spread,
2 it's the relationship between the actual 10-year
3 treasury yield and the treasury -- the inflation
4 protected securities, it's still below 2 percent, so,
5 I mean, obviously we're talking about GDP and
6 inflation, I mean, those are the factors going to
7 drive interest rates.

8 The reason long-term interest rates are still
9 at 2.7 percent is there's muted expectations about
10 expected economic growth the next five to ten years
11 and expected inflation.

12 Q. So from a historical perspective would you say
13 it's typical?

14 A. It's, you know, obviously inflation is lower
15 than it was 5, 10, 15, 20 years ago. And but we know
16 when we can see what the market's expectations are
17 from the market, with like the tip spread and that
18 sort of thing, what investors expect inflation to be,
19 and it's still below 2 percent, even over the next
20 ten years.

21 Q. We've enjoyed a period here of no rate
22 increases on a short-term basis, and we've just
23 started to see them implemented, and there's been
24 announcements that this coming year there will be
25 more short-term rate increases.

1 Is there any indication that this will catch up
2 and sooner or later long-term rates will be impacted
3 because of the inflation on the Fed increasing
4 short-term rates?

5 A. Well, I mean, like I say, the Fed's reacting to
6 primarily better economic conditions, and you read
7 the Fed Minutes it's not because of inflation because
8 they don't see the inflation yet. Their measures
9 aren't picking up inflation.

10 I mean, obviously what you're having is a
11 flattening of the yield curve. Short-term rates are
12 going up, long-term rates are going down. You've
13 seen a lot on -- a lot of commentary about the risk
14 of a negative yield curve. Why? Because typically
15 negative yield curves you see before a recession.

16 So, I mean, the data are what they are, and we
17 can see, you know, that that's why -- you know, like
18 I say, people wouldn't be buying long-term treasuries
19 at 2.7 percent if they thought interest rates were
20 shooting to 4 percent because they would get a
21 30 percent capital loss, and they would feel like
22 they got fooled by a bitcoin, right?

23 Q. You would also agree that any investment
24 opportunity is always subject to winners and losers.

25 A. Yeah. Well, the stock market is basically all

1 been winners.

2 Q. Absolutely. So far.

3 A. Yes.

4 Q. But we've also had downturns and several cases
5 that have experienced 20 percent or greater, and in
6 those cases the stock market seems to bounce back,
7 but it does have its dips, and there are losers
8 during that period.

9 A. It's like one economist has said, is famous for
10 saying, the stock market is like a gambling casino
11 with the odds in your favor.

12 VICE-CHAIRMAN CICERO: I don't have anything
13 else. Thank you.

14 CHAIRMAN SCHMITT: Commissioner Mathews?

15 COMMISSIONER MATHEWS: I don't have anything.

16 CHAIRMAN SCHMITT: I have no questions.

17 Mr. Chandler?

18 MR. CHANDLER: Some redirect.

19 REDIRECT EXAMINATION

20 By Mr. Chandler:

21 Q. You mentioned a case with Ameren Illinois; is
22 that correct?

23 A. Yes.

24 Q. And are you aware of what Ameren's Moody's
25 rating is?

1 A. Ameren's Moody's rating is A3, I believe.

2 Q. And do you still have Kentucky Power's Exhibits
3 10 and 11?

4 A. Yes.

5 Q. Do you mind to tell me on Exhibit 10 what
6 Kentucky Utilities's long-term Moody's rating was?

7 A. It is A3.

8 Q. It is A3?

9 A. Yes. And Kentucky Utilities, their S&P rating
10 is A minus, which is the same as Kentucky Power
11 Company, so Kentucky Power Company has a slightly
12 lower -- no. Let me double-check that. I might have
13 misspoke. Yeah, Kentucky Power Company's S&P rating
14 is A minus, and their Moody's rating is Baa2.

15 Q. You mentioned about stock prices generally
16 rising, and I think you kind of said that utilities
17 kind of were joining the party.

18 Is there any way to tell if the stock prices of
19 Mr. McKenzie's and yours proxy group has increased
20 since you provided testimony, or that Mr. McKenzie
21 provided testimony, is there any metric that could
22 show that?

23 A. Well, probably the one that shows up most in
24 our testimonies are the dividend yields, the annual
25 dividend divided by the stock price, and so

1 generally -- usually when stock prices are going up
2 the dividend yield goes down because utilities will
3 only increase their dividend once a year, but, I
4 mean, obviously in the last six months interest -- I
5 mean utility stock prices are near an all-time high.

6 The Dow Jones Utility Index is about 750 or so,
7 so you see dividend yields for electric utilities,
8 which were maybe 3.5 or 3.6 six months ago, are like
9 3.2 percent. It's generally because the prices have
10 gone up and the dividends haven't been increased yet.

11 MR. CHANDLER: Pass the witness.

12 CHAIRMAN SCHMITT: Mr. Garcia, questions?

13 MR. GARCIA: Yes, a few more, Your Honor.

14 Thank you.

15 RE-CROSS-EXAMINATION

16 By Mr. Garcia:

17 Q. Dr. Woolridge, you were asked about the
18 Standard & Poors credit rating, and you made some
19 statement about Kentucky Power's credit rating from
20 Standard & Poors. Those are done at the corporate,
21 ultimate corporate parent level and not at the
22 specific company level; isn't that true?

23 A. What's that?

24 Q. The Standard & Poors credit rating that you
25 were talking a second ago about Kentucky Power, those

1 are done at the parent level, correct?

2 A. It's an integrated model, but if you go to
3 standard&poors.com and you type in "Kentucky Power"
4 it will come up A minus, and so it's an AEP/Kentucky
5 Power Company S&P rating.

6 Q. But S&P gives the same rating to all the
7 entities under that AEP umbrella, correct?

8 A. Generally they do, correct.

9 Q. Okay. The Moody's rating, it's company
10 specific, correct?

11 A. It's probably more company specific, but
12 obviously, you know, there's two -- you know, S&P is
13 probably better known. I think last I saw two-thirds
14 of the -- two-thirds of ratings are controlled by
15 S&P, so I think S&P is probably the bigger brand
16 name, so if you have an S&P rating.

17 Moody's is a little more company specific, and
18 so that's why I kind of -- I think most people
19 average them when they're trying to compare
20 riskiness.

21 You go to FERC, they average S&P and Moody's
22 ratings just because Moody's are a little more
23 company specific, but S&P also will give individual
24 company comments within the overall rating.

25 Q. Dr. Woolridge, if an investor wanted to get

1 information that was specific about the credit rating
2 of Kentucky Power and not of any of its sister
3 entities, they would go to the Moody's credit
4 opinions that address them individually, correct?

5 A. Well, S&P does the same thing.

6 Q. The credit metrics that are represented in the
7 Moody's credit analysis are specific to the operating
8 company that they relate to, correct?

9 A. They're specific, and if you read them they
10 also have -- I mean, but S&P has the same thing, and
11 they mention, you know, we look at it as an
12 integrated network, and they look at integrated
13 network because obviously AEP controls everything
14 Kentucky Power does, so they can make a decision
15 about how they want to capitalize it, how they want
16 to -- you know, so -- you know, the common equity
17 ratio for Kentucky Power is not set by the
18 marketplace, it's set by AEP.

19 So the reason you use an integrated approach is
20 because the parent makes all the calls about the
21 capitalization of financial risk of the subsidiary.

22 Q. Are you aware that in 2014 Moody's did a
23 general upgrade of several electric utilities all at
24 the same time as a result of a perception that the
25 industry was essentially requiring a credit rating

1 upgrade of one notch?

2 A. Yes. Actually if you look at my testimony at
3 page 61, I have the credit utility upgrades and
4 downgrades from EEI, the Electric Institute -- Edison
5 Electric Institute, and you can see in recent years
6 the upgrades have been about 70 percent, but in 2014
7 it was like 97 percent because Moody's viewed --
8 views the industry as less risky mainly because of a
9 lot of riders and that sort of thing, so the
10 overall -- I mean, as I show, the overall health of
11 the electric utility industry as measured by credit
12 ratings has clearly gone up in recent years.

13 Q. Kentucky Power was one of the utilities that
14 was left behind from that upgrade and that kept their
15 credit rating from Moody's the same when everybody
16 else's was upgraded; isn't that true?

17 A. I believe so. I don't remember.

18 Q. Can I turn your attention again to Exhibit 10
19 and 11 from Kentucky Power that I asked a few
20 questions about before?

21 And if you go to the next to last page of each
22 one of those exhibits, do you see a table there that
23 includes the ultimate parent Moody's rating?

24 A. Yes.

25 Q. What's the ultimate parent of both Kentucky

1 Utilities and Louisville Gas & Electric? The
2 ultimate parent is PPL Corporation, correct, and
3 their Moody's rating is Baa2?

4 A. No, I'm sorry, I'm missing your point. What am
5 I supposed to look at?

6 Q. The ultimate parent of both Kentucky Utilities
7 and Louisville Gas & Electric, which is PPL?

8 A. Yes.

9 Q. Moody's gives them a rating as well, and that
10 rating is reflected in this document, correct?

11 A. They do. And there's a reason for that.

12 Q. Okay. Actually --

13 A. And they do, and I'll tell you why. If you
14 look at PPL, their common equity ratio is 34 percent.
15 That means they finance a lot by debt, very heavy by
16 debt, and as a result they have a lower overall
17 rating because they -- again, they've made some
18 acquisitions obviously, and they do that with debt,
19 and so a lot of their rating issues are tied to the
20 amount of debt they use.

21 Q. Okay. And that rating for the parent of both
22 Kentucky Utilities and Louisville Gas & Electric is
23 less strong. It's riskier than the ones that Moody's
24 have assigned to the operating companies, Kentucky
25 Utilities and Louisville Gas & Electric.

1 A. Yes.

2 MR. GARCIA: Okay. No further questions.

3 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

4 Anyone else? Any intervenor questions?

5 MR. NGUYEN: No further questions.

6 CHAIRMAN SCHMITT: Commissioner Cicero,

7 Commissioner Mathews?

8 I have nothing. If nothing further, may this

9 witness be excused?

10 MR. CHANDLER: Thank you.

11 MR. OVERSTREET: Certainly.

12 CHAIRMAN SCHMITT: You may stand down, and

13 you're excused.

14 MR. GARCIA: Thank you, Your Honor.

15 CHAIRMAN SCHMITT: Do you have another witness

16 at this time, Mr. Chandler, or is someone else

17 scheduled to testify?

18 MR. CHANDLER: Do you mind if we take a two

19 minute -- would it be okay if we took a two minute

20 recess?

21 CHAIRMAN SCHMITT: Yes, let's do that. We'll

22 take five. We'll be in recess for five minutes.

23 (Recess from 11:56 a.m. to 12:02 p.m.)

24 CHAIRMAN SCHMITT: We're now back on the

25 record.

1 A. Yes.

2 Q. And do you have any -- did you at any time have
3 any changes to your testimony or responses?

4 A. I did have some editorial revisions, I think,
5 that were provided to counsel yesterday or so, and a
6 revised change on an exhibit that changed some
7 markings on it.

8 Q. And other than those, do you have any other
9 changes to your testimony?

10 A. No, sir, I do not.

11 MR. COOK: The witness is available for cross.

12 CHAIRMAN SCHMITT: Cross-examination?

13 MR. GISH: Thank you, Mr. Chairman.

14 CROSS-EXAMINATION

15 By Mr. Gish:

16 Q. Good morning. No, sorry, good afternoon,
17 Dr. Dismukes.

18 A. Afternoon.

19 Q. I believe from looking at your resume that this
20 is the first time you've testified in front of the
21 Kentucky Public Service Commission; is that correct?

22 A. Yes, sir.

23 Q. Is this your first time in Kentucky?

24 A. No, not the first time in Kentucky.

25 Q. Are you familiar with the Kentucky Power

1 service territory?

2 A. Yes, sir.

3 Q. And what is the largest city served by Kentucky
4 Power?

5 A. I don't know.

6 Q. Would you believe, subject to check, that it's
7 Ashland, Kentucky, is the largest service territory?

8 A. Yes, I agree with that.

9 Q. And do you happen to know the population of
10 Ashland, Kentucky?

11 A. No, sir, I don't.

12 Q. Would you believe, subject to check, that it's
13 21,000 people?

14 A. Sure.

15 Q. Do you know what the second largest city in the
16 Kentucky Power service territory is?

17 A. No, sir, I do not.

18 Q. Would you believe, subject to check, that it's
19 Pikeville, Kentucky, with a population of
20 approximately 7,000?

21 A. I can agree, subject to check.

22 Q. Can you -- I have provided a copy for reference
23 only. These are all documents that are already in
24 the record, and I'll refer to them by their location
25 in the record as well.

1 Can you refer to page 22 of your testimony,
2 which is not in the packet, I apologize. I presume
3 you have the testimony with you.

4 A. Yes. Okay, I'm there.

5 Q. This is in the section of your testimony
6 regarding the company's proposed residential customer
7 charge; is that correct?

8 A. Yes, sir.

9 Q. Okay. Can you look at page -- I'm sorry, line
10 19 of page 22?

11 A. Yes, sir.

12 Q. There's a sentence there that reads (Reading)
13 The true driving factors of utility distribution
14 system costs are much more complicated and depend on
15 a host of other factors such as the size of a service
16 territory and the population density within.
17 Incremental costs of constructing an appropriate
18 distribution system to serve an additional customer
19 within an urban area with existing nearby
20 infrastructure is substantially less than the cost to
21 extend an existing utility system by potentially
22 miles to serve an additional customer located in a
23 rural area.

24 Then you go on to say that this fact was
25 ignored by the company; is that correct? Did I read

1 that correctly?

2 A. Yes.

3 Q. Can you turn to what is the Attorney General's
4 response to Kentucky Power's data request number 15,
5 which is the first page of the demonstrative or
6 referencing document I've provided?

7 A. Yes, sir.

8 Q. Okay. This question asked to identify the
9 bases for selecting the peer utility group used in
10 Exhibits DED-4 and DED-6; is that correct?

11 A. Yes, sir.

12 Q. And then the response talks about Dr. Dismukes
13 developed his peer group for Exhibits DED-4 and DED-6
14 on mainly a geographic basis. Is that correct?

15 A. Yes, sir.

16 Q. And then it says, (Reading) Specifically the
17 peer group chosen represents investor-owned utilities
18 operating in the Appalachian region with a prior
19 focus on neighboring states in the South Atlantic and
20 East South Central regions.

21 Can you explain what you mean by "prior focus"?

22 A. That probably should be particular focus.

23 Q. Particular focus.

24 A. Not prior.

25 Q. And then the company requested whether or

1 not -- or requested the number of customers per
2 distribution line mile and the nature of terrain for
3 each of the utilities identified as peer utilities in
4 your testimony; is that correct?

5 A. Yes, sir.

6 Q. And you had not done that analysis.

7 A. No, sir.

8 Q. Okay. Turn to the next page within this packet
9 I've provided, which is Exhibit DED-6; is that
10 correct?

11 A. Yes, sir.

12 Q. Okay. So Exhibit DED-6 identifies the
13 utilities that are part of your peer group, correct?

14 A. Yes, sir.

15 Q. Okay. And you have identified, just looking at
16 it, probably about 15 different utilities; is that
17 correct?

18 A. Yeah, I think it was 13 or 14.

19 Q. 13 or 14?

20 A. Uh-huh.

21 Q. Okay. And so we discussed earlier that the
22 largest city within the Kentucky Power service
23 territory is Ashland, Kentucky, at 21,000. You have
24 identified Alabama Power Company as a peer utility.
25 Does Alabama Power Company serve Birmingham?

1 A. It does.

2 Q. And you identified Ameren Missouri as a peer
3 utility. Does Ameren Missouri serve St. Louis?

4 A. Yes, it does.

5 Q. You identified Appalachian Power Company of
6 Virginia, and that serves Roanoke; is that correct?

7 A. That's correct.

8 Q. And Appalachian Power Company West Virginia
9 serves both Charleston and Huntington; is that
10 correct?

11 A. I don't know for a fact, but I can agree
12 subject to check.

13 Q. Duke Energy Carolinas, LLC, serves Charlotte,
14 North Carolina; is that correct?

15 A. Yes, sir.

16 Q. And Duke Energy Carolinas, LLC, also serves
17 Greenville, South Carolina?

18 A. Yes, sir.

19 Q. Duke Energy Kentucky serves the Covington and
20 Northern Kentucky suburbs.

21 A. Okay.

22 Q. Correct?

23 A. Yes, sir.

24 Q. I don't know how familiar you are with those.
25 The vice-chairman is familiar with this. Lots of

1 cities up there, but together they're a fairly dense
2 urban area.

3 Duke Energy Progress serves the Raleigh area;
4 is that correct?

5 A. Yes.

6 Q. Duke Energy Progress also serves Florence,
7 South Carolina; is that correct?

8 A. I believe so.

9 Q. Entergy Arkansas serves Little Rock; is that
10 correct?

11 A. Yes.

12 Q. Entergy Mississippi serves Jackson?

13 A. Yes.

14 Q. Kentucky Utilities Company serves Lexington.

15 A. Yes.

16 Q. Louisville Gas & Electric serves Louisville; is
17 that correct?

18 A. Correct.

19 Q. South Carolina Electric & Gas Company serves
20 Columbia, Charleston, South Carolina?

21 A. Yes, that's correct.

22 Q. The Virginia Electric Power Company serves the
23 D.C. suburbs and also Norfolk, is that correct,
24 Alexandria and the Norfolk area?

25 A. Yes.

1 Q. So Dr. Bonbright, who is the seminal work on
2 public utility rates, identified the need to look at
3 population density as one of the things in
4 determining utility distribution costs, correct?

5 A. When you're -- yes, I think that was one of the
6 things that he raised in terms of the shortcomings in
7 minimum distribution studies, which is a methodology
8 that was -- methodology that was comparable in what
9 the company had used in calculating their customers'
10 share off their primary and secondary voltage cost.

11 Q. But your peer group includes utilities that
12 have much larger urban areas than Kentucky Power
13 does, right?

14 A. They do, but I think something to keep in mind,
15 though, is I think there's a little bit of mixing
16 apples and oranges here. I mean, there's one
17 discussion that we're talking about with regards to
18 the distribution and the appropriate methodology for
19 doing a minimum distribution study, and then there's
20 this comparison that was made on customer charges,
21 which was presented more from a perspective of
22 affordability and relative ranking of customer
23 charges to other types of utilities that operate in
24 this region.

25 So one is really discussing methodological

1 issues on demand and customer-related costs with
2 primary and secondary voltage, and others just making
3 essentially an affordability and rate comparison, and
4 I don't know that there's -- it's not that there's a
5 disconnect between the two because rates often
6 measure those costs, but they're not as closely
7 aligned as I think is suggested between kind of this
8 discussion here.

9 Q. Right, but in fact there are in these
10 utilities, I mean the difference between Eastern
11 Kentucky and the Washington D.C. suburbs is pretty
12 significant, yes?

13 A. They are, but I think you need to keep in mind
14 when customer charges are set, and it's been my
15 experience in working in several hundred rate cases
16 and regulatory proceedings throughout the country, is
17 customer charges are often, if not most of the time,
18 set with regards to public policy issues as opposed
19 to cost-related items strictly.

20 So this is usually the case in my experience
21 that not only are demand-related costs not included
22 in a customer charge, but it's often the case that
23 the full range of customer-related costs that I
24 outlined in my testimony aren't usually included in
25 there either.

1 It's very uncommon to see a utility that gets
2 customer costs related -- customer charge-related
3 revenues that are in excess of say 75, 76 percent of
4 their customer-related costs, so that's where you get
5 that disconnect between the costs that you're trying
6 to get at here with the geographic differences and
7 the customer penetration versus, you know, kind of
8 the public policy of setting customer charges for
9 residential customers.

10 Q. Can you turn to the third page that's in that
11 document there in the package, the demonstrative?

12 A. Yes.

13 Q. This is an exhibit to the rebuttal testimony of
14 company witness Vaughn, which compares the Kentucky
15 Power current and proposed and residential basic
16 service charges to those with the cooperatives and
17 utility providers that are, in fact, immediately
18 adjacent within the state of Kentucky to the company.

19 Are you familiar with what the residential --
20 proposed residential basic service charge is within
21 the settlement agreement?

22 A. It's \$14.

23 Q. \$14. And the average of Kentucky Utilities
24 here is \$15.51; is that correct?

25 A. That's correct.

1 Q. So it's below average; is that right?

2 A. It's below this average that's been presented
3 here, yes.

4 MR. COOK: Just want to enter an objection for
5 the record as to this being an accurate reflection of
6 customer charges of Kentucky Utilities. It's just
7 for the record, not as to the admissibility.

8 CHAIRMAN SCHMITT: You may proceed.

9 MR. GISH: I would -- I would note that
10 Mr. Vaughn will be available for cross-examination,
11 but we can proceed as well.

12 Q. Okay. Can you please turn to page 30 of your
13 testimony?

14 A. Okay.

15 Q. And there's a question that begins on line 3.

16 A. Yes, sir.

17 Q. And are you familiar with the HEAP program?

18 A. Yes.

19 Q. And that is the program through which customers
20 are able to receive assistance on their electric
21 bills?

22 A. Correct.

23 Q. And it's a -- would you assume -- or you would
24 agree that it's a reasonable proxy for low income
25 customers?

1 A. No.

2 Q. And why not?

3 A. Well, I mean, there's a participation
4 requirement associated with the programs that are
5 tied to low income households, but again, I think
6 this gets to the questions that the Chairman had
7 earlier. Those programs and the subscriptions to
8 those programs don't match one for one to the poverty
9 levels that you would see in a particular area.

10 So if you look at the participation rates of
11 the HEAP program for the company, I think they have
12 somewhere around 7 to 9,000 participants in there.
13 That's probably about 5 percent of all customers,
14 give or take.

15 As the Chairman pointed out, most of the
16 counties in Eastern Kentucky have poverty rates that
17 in excess of 20 percent, so you can't say that the
18 HEAP program is a good reflection of overall low
19 income population when it's at 7 percent and the
20 census data is at 20 percent.

21 Q. But the people who participate within the HEAP
22 program are low income customers.

23 A. That's true, but I think your question was does
24 it reflect low income in that service territory, and
25 I can't agree with that.

1 Q. Fair enough. On page 30, line 3, you were
2 asked, (Reading) Have you conducted any analysis
3 examining the relationship of electricity usage and
4 income.

5 Is that correct?

6 A. Yes.

7 MR. COOK: Is this of his testimony?

8 MR. GISH: His testimony, I'm sorry.

9 MR. COOK: Thank you.

10 Q. Can you read the first sentence, or I guess the
11 first two sentences, if "yes" is a sentence, of your
12 testimony beginning on line 5 with "Yes"?

13 A. You want me to read it out loud?

14 Q. Please.

15 A. (Reading) Yes. Page one of schedule DED-7
16 provides the results of an analysis I performed using
17 data from the 2009 -- should say 2005 and 2009
18 residential electricity consumption survey, or RECS,
19 produced by the United States Energy Information
20 Administration and household data from the census
21 division in which Kentucky is located.

22 Q. And this census division includes Alabama,
23 Kentucky, Mississippi, and Tennessee; is that
24 correct?

25 A. Yes, sir.

1 Q. Okay. And that is what's shown in Exhibits
2 DED-7 and DED-8, correct?

3 A. Yes, sir.

4 Q. Okay. So is it your testimony that the
5 Commission should rely on data from a 12 and
6 8-year-old general survey of household data regarding
7 the relationship between low income customers and
8 electricity use over the actual data within the
9 company's system?

10 A. Yes.

11 MR. GISH: I have no further questions.

12 CHAIRMAN SCHMITT: Questions?

13 MR. KURTZ: No questions.

14 CHAIRMAN SCHMITT: Anyone else? Any
15 intervenors? Staff?

16 MR. NGUYEN: Yes, Your Honor.

17 CROSS-EXAMINATION

18 By Mr. Nguyen:

19 Q. Good afternoon, Dr. Dismukes.

20 A. Good afternoon.

21 Q. You recommended in your testimony to reject any
22 increase to the economic surcharge and the
23 elimination of the total charge and said that the
24 program shifts performance risks onto the rate payer;
25 is that correct?

1 A. Yes, sir.

2 Q. Have you had a chance to read any of the
3 provisions of the nonpartial settlement agreement?

4 A. I have.

5 Q. Okay. And are you aware that the settlement
6 agreement includes provision to decrease the economic
7 surcharge to residential customers to 10 percent per
8 meter per month?

9 A. Yes, sir, that's my understanding.

10 Q. Okay. And it also provides for an increase in
11 a per meter charge for any nonresidential customers
12 to a dollar per month; is that correct?

13 A. Yes, sir.

14 Q. Okay. So do you still believe this proposed
15 allocation shifts the performance risk onto the rate
16 payer, basically onto the residential class?

17 A. Yes. I mean, the performance has nothing to do
18 with the fee itself. The fee could be 10 cents,
19 could be 80 cents. It's the nature of what those
20 dollars are being used for that addresses the
21 performance risk issue, and that is if these funds
22 don't yield the returns that they are anticipated,
23 there's no accountability for going back and clawing
24 those dollars back. Rate payers had to pay for it,
25 and there's no accountability for that. So that's

1 the performance risk in all this.

2 It's not tied to the rate itself or who is
3 paying the relative share of the rate. It's the fact
4 that there's no way of going in and essentially
5 figuring out whether or not these costs were
6 prudently incurred because the company is taking
7 those dollars, they're essentially taxing rate payers
8 for them, and they're turning around and using and
9 essentially filling in as a legislative function of
10 allocating those dollars to various different
11 categories of institutions in their region for
12 economic development purposes.

13 Q. Do you have any recommendations for sort of
14 mitigating against those performance risks?

15 A. Well, I don't because I don't think the nature
16 of a plan like that probably lends itself very well
17 to that kind of performance metric.

18 That's why those kinds of programs need to be
19 left at the legislature and not with utilities. It's
20 not that the utilities don't have a role to play in
21 promoting economic development, but a lot of times
22 these kinds of expenses, much like they are for
23 private industries, just like Exxon Mobile or Dow
24 Chemical or PPG or others who help promote economic
25 development in their regions, they do those below the

1 line. If they want to make those grants or those
2 kinds of contributions to their area.

3 So there is a role for the company. They have
4 an economic development rider. There are performance
5 guidelines that are included in that that require
6 increasing load, that require increasing employees
7 for the supplemental discount. It's a relatively
8 generous program.

9 I mean, those are the kinds of things that you
10 typically tend to see in economic development
11 programs for utilities, at least that are regulated
12 for surcharge or for rate-making purposes around the
13 country.

14 Q. So there are no metrics that can be measured
15 against for a private entity, corporation to measure
16 to see whether the performance is producing some sort
17 of return.

18 A. I don't because I think even as the company has
19 testified, the purpose of these programs wasn't
20 directly to create jobs, but to facilitate, for lack
21 of a better word, the economic development
22 infrastructure in those areas.

23 And again, it's well-intentioned, but for
24 rate-making purposes I don't see how you can assure
25 that rates are fair, just, and reasonable when you

1 don't know how those dollars are being spent.

2 MR. NGUYEN: Yeah, those are all the questions
3 that I have, by the way.

4 EXAMINATION

5 By Vice-Chairman Cicero:

6 Q. So given the fact that the settlement agreement
7 talks about 10 cents and a dollar for the economic
8 development where the residential is 10 cents, and
9 the Chairman asked Mr. Satterwhite if he would be
10 willing to move that 10 cents over into the HEAP
11 program, which basically leaves it at zero at
12 residential and a dollar on the other participants in
13 the settlement who have agreed to that dollar per
14 meter charge, do you still believe that it's an
15 unfair rate-making decision based on the fact that
16 the participants in the settlement agreed to that
17 dollar, and you're moving the other 10 cents off?

18 A. I don't know if I understand your question.
19 Try one more time. Are you saying does the
20 Chairman's proposal to move it to low income support
21 make it any better or different?

22 Q. Yes, that's my question.

23 A. I would say that that's a little different
24 proposal because if those dollars were shifted into a
25 social support program such as the Home Energy

1 Assistance Program, that has broader benefits for the
2 broader class of rate payers.

3 It winds of helping rate payers generally, it
4 could potentially help in reducing uncollectibles and
5 disconnects. It could wind up keeping sales on the
6 system in maybe by a very small amount, but at least
7 some amount, reducing this attrition problem that the
8 company has with its sales, so there are some
9 external benefits that could be tied to that from a
10 public policy perspective that I would argue are a
11 little more strained, a little more tenuous relative
12 to how those dollars are being used for economic
13 development right now.

14 Q. Yeah, but the dollar remaining is being shared
15 by those in the settlement agreement that believe
16 that their classes can absorb that dollar per meter
17 charge, and they don't believe that it's
18 unreasonable, so the rate payers that are going to
19 pay that fee are okay with that. So do you still
20 believe that that's --

21 A. Yeah, subject to check, I don't think that's
22 true with all the -- well, for the people who --
23 there's another class of customers, I think
24 commercial customers that would be subject to that
25 dollar increase and would --

1 Q. And I'll agree with you on that part, that
2 there may be a participant that hasn't settled, that
3 doesn't agree with the settlement that could be
4 impacted by it, but looking at just the dollar for
5 those that are in the settlement piece, you would
6 agree that those rate payers have agreed that that is
7 acceptable.

8 A. I don't think that's relevant, though, to my
9 position in this, and that is it's your, the
10 Commissioners', responsibility to determine what's
11 fair, just, and reasonable in terms of setting rates
12 and having the accountability for that.

13 The rate-making process isn't kind of up for
14 vote. They may have agreed to that, but it's up to
15 you to be able to account for those dollars,
16 regardless of where they're spent.

17 Q. I think the question --

18 A. And it may be that some of those customers are
19 benefited by that, but other customers are having to
20 pay for it, and they have no way of going out to see
21 what that benefit is that they're paying for.

22 Q. I think the question that was asked by staff,
23 though, was did you agree as far as economic
24 development if it was, based on the split, it was
25 okay, and your answer was you didn't believe that --

1 you believed it was a legislative process. It was
2 not left to private companies to make those
3 determinations because there was no measurement of
4 how those dollars were being spent or if they were
5 actually beneficial, and so my comment is if you have
6 a settlement agreement where the rate payers are
7 actually paying the fee, believe it's beneficial
8 enough to include it in the settlement, do you not
9 believe that the rate payers believe that there's
10 some benefit to that?

11 A. No, I don't. I mean, I don't know that those
12 customers represent the entire class, customer class.
13 They represent their intervenor group and the
14 customers that are part of that, for one.

15 Secondly, residential customers are still
16 making a payment in that and were not part of that
17 settlement process.

18 Q. And I qualified mine by saying if you took the
19 10 cents and put it in HEAP, and took that off of
20 there, I'm not quite understanding how you're
21 defending your position.

22 A. Well, because if they think -- it doesn't
23 matter if those customers think it's a good
24 expenditure of money. What matters is do you think
25 it is and can you justify the fact that those dollars

1 are used and useful.

2 Q. And I agree it is the Commission's decision to
3 make that determination.

4 A. And one other thing, if I could just interject.
5 I mean, once you start going down this slippery slope
6 as a policy perspective of delegating that authority
7 and saying, well, customers agree with it, you start
8 today with economic development, then tomorrow you
9 add on renewables, the next day you start up with
10 social programs, and before you know it you've got a
11 host of a precedent that you've set up, and you're
12 using essentially the regulated rate base for funding
13 social programs that go well beyond the provision of
14 providing electricity service.

15 Q. I can see you're obviously not familiar with
16 this Commission because this Commission hasn't
17 delegated anything to anybody. It has taken probably
18 more than what people would like it to take.

19 I would say at this point we are trying to take
20 testimony and make a decision based on all the
21 parties participating and trying to work, at least
22 reviewing the settlement and seeing if it has any
23 valuable points to it, looking at the past rate,
24 looking at the future rate, and trying to determine
25 what our position should be on it, and that's why I'm

1 not that was an attempt to shift more fixed costs
2 into the service charge?

3 A. It was both. I mean, the company has attempted
4 to take not only its customer-related costs, those
5 costs such as metering the service drop, customer
6 service expense, et cetera, and recover those through
7 the customer charge, but they're also trying to
8 recover a portion of their distribution-related
9 investment costs and putting that into the fixed
10 customer charge.

11 So the combination of what I would say is a
12 methodologically inappropriate allocation of those
13 costs into the charge is one issue, and the second
14 issue is in addition to that and as a result of that
15 it creates an affordability issue in terms of where
16 that customer charge is going to be relative to other
17 regional investor-owned utilities.

18 Q. And the \$14 that was agreed to in the
19 settlement, is that higher than the fixed costs
20 associated with serving those customers?

21 A. That would -- I have not run the exact numbers,
22 but it would likely be -- well, yeah, it was still
23 less than that amount because I believe that the
24 company actually reduced that amount from what was a
25 full estimated cost of somewhere around \$30 a

1 customer.

2 So they had already reduced it for gradual
3 adjustment already, so the full cost was estimated I
4 think \$30.57 a customer or something like that. They
5 reduced it down to a proposal of I think around 17,
6 and now the settlement is down at 14.

7 So 17 would have been a 59 percent increase in
8 the customer charge. You're still looking at an
9 increase that is 27 percent, which is still well over
10 two times the system average request that is in the
11 settlement, and it's still relatively large, and the
12 company is already recovering 100 percent of their
13 customer-related costs anyways through those charges,
14 so I would argue they don't need to be increased.

15 COMMISSIONER MATHEWS: Okay. Thank you.

16 THE WITNESS: Yes, ma'am.

17 CHAIRMAN SCHMITT: Mr. Cook? Mr. Chandler?

18 Anyone?

19 REDIRECT EXAMINATION

20 By Mr. Chandler:

21 MR. CHANDLER: Thank you.

22 Q. Can we go back to page 22 of your testimony,
23 Dr. Dismukes? And I believe you read into the record
24 a sentence or two that runs from 22 to 23; is that
25 correct?

1 A. Yes, sir.

2 Q. And can I ask do you know how Kentucky Power
3 determined their customer charge?

4 A. Yes, sir.

5 Q. And what -- what did they use to determine the
6 proposed customer charge?

7 A. They took their customer-related costs and a
8 share of their essentially primary and secondary
9 distribution costs and put them in the customer
10 charge.

11 Q. And so did they take into account specifically
12 density?

13 A. No.

14 Q. Okay. Can you also refer to, I believe it's
15 your DED-6. It's the second page of what I assume is
16 going to be an exhibit from the company, but I didn't
17 write it down if they had announced it. Your DED-6.

18 Is it your understanding, I believe your
19 testimony speaks to this, but is it your
20 understanding that all of the companies listed on
21 this are investor-owned utilities?

22 A. Yes.

23 Q. And is it your understanding that Kentucky
24 Power is an investor-owned utility?

25 A. Yes.

1 Q. Can you turn the page to what I believe is
2 Mr. Vaughn's Rebuttal 2, R2 exhibit?

3 A. Okay.

4 Q. And do you mind to -- let's run through this
5 list, if you don't mind. Subject to check, would you
6 agree that Grayson RECC is a rural electric
7 cooperative?

8 A. Yes.

9 Q. And that the RECC part kind of stands for rural
10 electric cooperative? So can we mark off Grayson and
11 Meade, Licking Valley, Big Sandy, Farmers, Nolin,
12 South Kentucky, Taylor, Pennyrile, Warren, West
13 Kentucky, all those are RECCs by name?

14 A. Correct.

15 Q. And that Jackson Energy, Shelby, Owen are all,
16 by name, cooperatives? Would you agree that none of
17 these seem to be investor-owned utilities?

18 A. They don't appear that way to me, except for
19 Kentucky Power.

20 Q. So it appears that in looking at this chart,
21 none of the -- at a glance none of these appear to be
22 investor-owned utilities.

23 A. That's correct.

24 MR. CHANDLER: May I?

25 CHAIRMAN SCHMITT: Yes, you may.

1 Q. Would you mind to turn to page 13 in this
2 order, please?

3 A. Okay.

4 Q. This is a recent Commission order in 2016-365,
5 Application of Farmers Rural Electric Cooperative
6 Corporation for an increase in retail rates. Do you
7 mind to look on that list for a second in AEVR-2 and
8 see if Farmers is on there? I believe it may be
9 three notches above Kentucky Power?

10 A. Yes, it is.

11 Q. Okay. Do you mind to take a second and read
12 under Section Rate Design the first full sentence in
13 the second paragraph on page 13?

14 A. You want me to read it out loud?

15 Q. Yes, sir.

16 A. (Reading) The Commission concludes that for an
17 electric cooperative that is strictly a distribution
18 utility, there is merit to the argument that there is
19 a need for a means to guard against the revenue
20 erosion that often occurs due to the decrease in
21 sales volumes that accompanies poor regional
22 economics, changes in weather patterns, and the
23 implementation of demand-side management and energy
24 efficiency programs.

25 Q. Is it your understanding that Kentucky Power

1 has a demand-side management surcharge that it
2 recovers?

3 A. Yes, that's my understanding.

4 Q. And is it your understanding that Kentucky
5 Power is a vertically integrated utility as opposed
6 to a distribution only utility?

7 A. Yes.

8 MR. CHANDLER: That's all we have, Chairman.

9 CHAIRMAN SCHMITT: Is there any
10 cross-examination, Mr. Gish?

11 MR. GISH: No, Mr. Chairman.

12 CHAIRMAN SCHMITT: Anyone else have any further
13 questions of this witness?

14 MR. NGUYEN: No, Your Honor.

15 CHAIRMAN SCHMITT: Commissioner Cicero?
16 Mathews?

17 COMMISSIONER MATHEWS: Mr. Gardner does.

18 CHAIRMAN SCHMITT: Mr. Gardner? Mr. Gardner, I
19 guess at the last break Mr. Rhodes, who operates our
20 system, asked that you speak louder so that the
21 equipment could pick you up on the video.

22 MR. GARDNER: Thank you, Your Honor. If I
23 could approach the witness, please.

24 CHAIRMAN SCHMITT: Yes, you may.

25 COMMISSIONER MATHEWS: And raise that mike

1 because it's not working.

2 MR. CHANDLER: While we're waiting for Mr.
3 Gardner, do you mind, if I can number this Exhibit
4 Number 6.

5 CHAIRMAN SCHMITT: Yes.

6 MR. CHANDLER: Thank you.

7 CHAIRMAN SCHMITT: Would you like -- are you
8 going to offer this into evidence or just have it
9 marked?

10 MR. CHANDLER: I'm happy to move it into the
11 record.

12 CHAIRMAN SCHMITT: Is there any objection?

13 MR. GISH: There's no objection.

14 CHAIRMAN SCHMITT: Then let it be marked as AG
15 Exhibit 6 and filed into evidence.

16 (AG 6 admitted.)

17 CHAIRMAN SCHMITT: Mr. Gish, the handout that
18 you had is not to be introduced; is that correct?

19 MR. GISH: That's correct, Mr. Chairman. Those
20 are all documents that are in the record. I hope I
21 referenced them by their proper location.

22 CHAIRMAN SCHMITT: Okay, Mr. Gardner, you may
23 proceed.

24 MR. GARDNER: Thank you, Your Honor.

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CROSS-EXAMINATION

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By Mr. Gardner:

Q. Dr. Dismukes, I've handed you what has been marked and introduced KCUC Exhibit 4. Do you have that in front of you?

A. I do.

Q. And this is in response to Commissioner Cicero asking you a question about the KEDS, the economic development 10 cent and dollar. In looking at that chart, does it appear that GS category and LGS/PS category have by far the greatest percentage of the total dollars of 326,687 that appear to be going into these programs?

A. They're large, yes, relative to the other customer classes.

Q. Okay. And, in fact, is it your understanding that the customer, the commercial customers have not consented to the settlement?

A. Yes, sir, that's my understanding.

MR. GARDNER: That's all I have. Thank you.

CHAIRMAN SCHMITT: Any questions from anyone else?

MR. GISH: Still no.

CHAIRMAN SCHMITT: Anyone?

MR. NGUYEN: No, Your Honor.

1 CHAIRMAN SCHMITT: May this witness stand down
2 and be permanently excused?

3 MR. OVERSTREET: Yes, Your Honor.

4 CHAIRMAN SCHMITT: Thank you. You may stand
5 down.

6 We still have a few minutes. Maybe we ought to
7 call another witness and get started if we can.

8 MR. OVERSTREET: I think that would work well.
9 I think we're going to do Mr. Higgins next. Wasn't
10 that the deal?

11 MR. OSTERLOH: That's correct. The parties
12 have agreed that Kevin Higgins will be called on
13 behalf of the commercial utility customers.

14 MR. CHANDLER: At this time can I move for
15 Exhibit, AG's Exhibit 6 to be introduced?

16 CHAIRMAN SCHMITT: I think we just did that.

17 MR. CHANDLER: We did that?

18 CHAIRMAN SCHMITT: Attorney General Exhibit 6
19 will be filed into evidence.

20 MR. CHANDLER: I completely forgot about that.
21 Thank you. It's been a long two days.

22 CHAIRMAN SCHMITT: Thank you. Mr. Higgins,
23 will you please stand and raise your right hand?

24 KEVIN C. HIGGINS, called by the Kentucky
25 Commercial Utility Customers, having been first duly

1 sworn, testified as follows:

2 DIRECT EXAMINATION

3 By Mr. Osterloh:

4 CHAIRMAN SCHMITT: Please be seated.

5 Mr. Osterloh, you may interrogate or ask of your
6 witness.

7 MR. OSTERLOH: Thank you, Mr. Chairman.

8 Q. Mr. Higgins, can you please state your name for
9 the record?

10 A. My name is Kevin C. Higgins.

11 Q. And your business address?

12 A. My business address is 215 South State Street,
13 Suite 200, Salt Lake City, Utah, 84111.

14 Q. Did you cause to be filed in this case direct
15 testimony dated August the 3rd, 2017, and settlement
16 direct testimony dated December the 4th, 2017?

17 A. Yes, I did.

18 Q. If the same questions in those documents were
19 asked today, considering them collectively would your
20 answers be the same?

21 A. Yes.

22 Q. Thank you, Mr. Higgins.

23 MR. OSTERLOH: Mr. Chairman, this witness is
24 available for cross-examination.

25 CHAIRMAN SCHMITT: Mr. Overstreet? Oh,

1 Mr. Gish.

2 CROSS-EXAMINATION

3 By Mr. Gish:

4 MR. GISH: Yes, Mr. Chairman, I have a few
5 questions.

6 Q. Can you turn to page 15 of your testimony?

7 A. Of my direct testimony?

8 Q. Direct testimony, yes.

9 A. Yes.

10 Q. Can you read the question -- the question on
11 line 11 says, (Reading) Do you recommend any changes
12 to Kentucky Power's proposed revenue allocation?

13 And your response begins, (Reading) Yes, I
14 recommend that the current residential subsidy
15 according to the Company's total cost-of-service
16 study be reduced by 50 percent in this case.

17 Is that correct?

18 A. That is correct.

19 Q. Is that still your recommendation?

20 A. No. That is -- while I believe that that is a
21 reasonable premise for rate making, my current
22 testimony responds to the settlement agreement, and
23 with respect to the settlement agreement, which is a
24 compromise among other parties to this case, KCUC is
25 also adopting a position of compromise, and, for

1 purposes of response to the settlement agreement, no
2 longer challenges the revenue allocation to the
3 residential class, but rather focuses in on a
4 specific element of the settlement agreement that we
5 believe is unreasonable.

6 Q. And in your settlement testimony you suggest
7 that if the Commission were to change the revenue
8 allocation by reducing the return on equity, that
9 that revenue allocation should first go to -- the
10 first \$500,000 of that should go to the LGS
11 customers; is that correct?

12 A. That's correct, but if you don't mind I would
13 like to clarify a little bit of what you said. If
14 the Commission changes the revenue requirement below
15 or what the stipulating parties agree to, then as
16 part of the revenue allocation my recommendation is
17 that the first \$500,000 of any reduction in overall
18 revenue requirement should go to reduce the rates for
19 the LGS class.

20 Q. But you have not in this case provided any
21 testimony regarding the revenue requirement itself,
22 correct?

23 A. That is correct.

24 Q. And do you have any -- well, never mind. And
25 do you have any testimony regarding the revenue

1 allocation that's agreed to by the parties in the
2 settlement agreement?

3 A. Is your question whether or not there are
4 aspects of the settlement agreement that are
5 consistent with my recommended testimony?

6 Q. I'm asking if you have provided testimony in
7 this case regarding any potential change to the
8 revenue allocation, the revenue requirement that was
9 agreed to by the parties in the settlement agreement?

10 A. Oh. To the extent that the revenue requirement
11 does not change as a result of the Commission's
12 decision in this case, then my recommendation would
13 not change the revenue allocation that's been
14 stipulated.

15 Q. But you have not prepared or proposed any
16 testimony on what changes should be made to the
17 revenue allocation in the settlement testimony; is
18 that correct? I'm sorry, not allocation, that was my
19 mistake. The revenue requirement that was agreed to
20 by the parties in the settlement agreement, correct?

21 A. Correct.

22 MR. GISH: I have no further questions.

23 MR. COOK: The AG has no questions.

24 CHAIRMAN SCHMITT: Mr. Kurtz?

25 MR. KURTZ: I do, thank you. Just a few.

CROSS-EXAMINATION

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By Mr. Kurtz:

Q. Good afternoon, Mr. Higgins.

A. Good afternoon, Mr. Kurtz.

Q. For full disclosure we've known each other quite a while?

A. That is quite a disclosure.

Q. We worked probably on cases in six, seven, eight states over the last 15 years?

A. Yes, we have.

Q. Okay. You did two additional cost of service studies in your initial testimony, the winter-summer peak as well as the 3 winter peak studies?

A. Yes.

Q. Is that correct? Okay. And those studies showed that the residential customers were even being more subsidized than the 12CP which the company relied on, correct?

A. Correct.

Q. Will you turn to page 16 of your original testimony?

A. Yes.

Q. Okay. I'm just going to ask you to read a little bit. On line 3 the sentence beginning "although." Can you read to the end of the

1 paragraph, please?

2 A. Sure. (Reading) Although the Winter 3CP and
3 Summer/Winter CP methods indicate that a rate
4 decrease for the IGS class would be warranted, I
5 conservatively recommend that the IGS class revenue
6 be set at full cost of service under the 12CP method.
7 At Kentucky Power Company's proposed revenue
8 requirement this will result in an increase of
9 4.38 percent for the IGS class as compared to the
10 Kentucky Power Company's proposed 8.54 percent
11 increase.

12 Q. Would it be fair to say what that means is
13 instead of the 5 percent subsidy reduction for IGS,
14 the Industrial General Service that the company
15 recommends, you recommended a 100 percent subsidy
16 reduction, correct?

17 A. Yes.

18 Q. Okay. And that was the same recommendation
19 that KIUC witness Mr. Baron made, correct?

20 A. Correct.

21 Q. And your recommendation and Mr. Baron's
22 recommendation found their way into the settlement
23 agreement, correct?

24 A. Correct, with respect to the IGS class, yes.

25 Q. And you support that still?

1 A. Yes.

2 Q. Okay.

3 MR. KURTZ: Thank you. No more questions.

4 CHAIRMAN SCHMITT: Counsel for any intervenors?

5 Mr. Malone?

6 MR. MALONE: I've just got a couple.

7 CROSS-EXAMINATION

8 By Mr. Malone:

9 Q. Mr. Higgins, my name is Matt Malone. I
10 represent the school boards.

11 A. Good afternoon.

12 COMMISSIONER MATHEWS: Let's see if that mike
13 works now.

14 MR. MALONE: Hello? No?

15 MR. OVERSTREET: Let me stand up and he can sit
16 here.

17 CHAIRMAN SCHMITT: Yeah, if someone would give
18 up a seat. Mr. Overstreet, thank you.

19 MR. OVERSTREET: I've been glued there for two
20 days.

21 Q. Sir, I've just got a few questions for you. I
22 just was going through your -- I guess we call it the
23 direct settlement testimony, the most recent
24 testimony that you filed?

25 A. Yes.

1 Q. I wanted to ask you, as I understand it, KCUC
2 represents a sawmill that's in rate LGS. Is that
3 your understanding?

4 A. They are included in the membership, yes.

5 Q. And as I understand it, you've suggested that
6 other benefits should be found to support a
7 approximate \$500,000 benefit to LGS; is that
8 accurate?

9 A. I'm not sure what you mean by "other benefits
10 should be found."

11 Q. Cutting expenses or some other way to support
12 the 500,000. How are you suggesting that the
13 Commission would come up with this additional
14 500,000?

15 A. My -- what my testimony says is that to the
16 extent that the Commission changes the revenue
17 requirement below the stipulated level, because
18 revenue requirement is still an issue that's being
19 contested in this case, and to my understanding the
20 Commission also reviews the revenue requirements and
21 stipulations and has on occasion reduced those
22 revenue requirements.

23 To the extent that the revenue requirement is
24 changed by the Commission, my recommendation is the
25 first \$500,000 of any reduction should go to correct

1 what I believe is an inequity in the revenue
2 allocation of the stipulation and should go to reduce
3 the rates for the LGS class.

4 Q. Given that KCUC represents the sawmill, have
5 you calculated basically what that benefit would mean
6 for the sawmill?

7 A. Not specifically for the sawmill. It's
8 approximately about a 1 percent reduction in the
9 rates for the LGS class.

10 Q. Okay. Taking that logic, giving you a
11 hypothetical question. Imagine that the reduction
12 that the Commission -- let's say the Commission went
13 along with that logic and suggested rather than a
14 \$500,000 benefit they did a \$100,000 benefit, for
15 easy math.

16 A. Okay.

17 Q. And let's imagine that the sawmill pays
18 \$100,000 in expenses, in electric costs per year.
19 What does that mean to their bottom line?

20 A. Well, your hypothetical is you're assuming what
21 the sawmill's usage is.

22 Q. Correct.

23 A. And I believe that would be quite a bit lower
24 than what it actually is, but for \$100,000 a year
25 customer, if the Commission reduced the revenue

1 requirement by \$100,000 and that went to the LGS
2 class, that would be a reduction of about two-tenths
3 of one percent for the LGS class and two-tenths of
4 one percent reduction on a customer that had a
5 hundred thousand dollar bill.

6 Q. Okay. Going to the schools, do you know
7 anything about the load profile of the schools versus
8 the commercial class?

9 A. Well, I know something generally about the load
10 profile of schools.

11 Q. Okay. Would you agree that the load profile of
12 the schools is fairly homogeneous? In other words,
13 most schools track similar load profiles?

14 A. That wouldn't surprise me.

15 Q. Okay. Turning to the commercial class, would
16 you agree that there's much more level of difference
17 between them compared to the schools?

18 A. They're more heterogeneous, which actually from
19 a cost allocation standpoint is favorable because
20 when you've got diversity in your load profile that
21 actually brings down the unit cost of serving -- of
22 spreading the fixed costs of a utility.

23 Q. But in determining rate design of a certain
24 tariff, wouldn't you agree that a homogeneous class
25 provides some benefit to the company in determining

1 how to design the rate?

2 A. It would -- I don't know that it provides
3 benefit to the company. It would provide information
4 to the company, but it doesn't necessarily, for
5 example, by itself mean that that class should get a
6 discount off of the rate that would otherwise apply,
7 but the fact that its load profile looks a certain
8 way may give the utility some information that it
9 could use to design rates.

10 Q. In your testimony you pointed out some, and I'm
11 speaking of your most recent testimony, you spoke of
12 public policy benefits for economic development and
13 whatnot with respect to the commercial class.

14 A. Yes.

15 Q. Would you not also agree that there are some
16 significant, if not more significant, public policy
17 concerns supporting schools here?

18 A. Well, certainly education is an important
19 component of public policy, and I want to clarify
20 that my recommendation does not object to the
21 discount --

22 Q. Okay.

23 A. -- that schools receive as part of the
24 settlement agreement. My recommendation points to
25 the fact that it was only one group of customers, the

1 LGS customers, who pick up the tab for the discount.

2 So if it's a matter of broad public policy,
3 then the right thing to do, in my opinion, is that
4 you spread that discount cost across the system, or
5 if the utility believes that that's an important
6 matter of public policy, the utility absorbs the cost
7 rather than a single class of customers.

8 So I just want to be clear. The KCUC position
9 is not to object to the school discount. It's how
10 it's funded, that is where the objection lies, and,
11 you know, as evidence of the fact that we wish to be
12 reasonable, we're not even asking the Commission to
13 undo that discount as part of the stipulated revenue
14 allocation. Simply to address the issue going
15 forward to the extent the Commission has a -- reduces
16 the revenue requirement.

17 Q. Understand. Okay.

18 MR. MALONE: No further questions. Thank you.

19 CHAIRMAN SCHMITT: Staff? Questions?

20 MS. SANDERS: Thank you, Your Honor.

21 CROSS-EXAMINATION

22 By Ms. Sanders:

23 Q. Mr. Higgins, so just to clarify one more time,
24 you're no longer recommending that the residential
25 subsidy be reduced by 50 percent, correct?

1 A. That is correct, not in the context of the
2 settlement agreement that has been presented.

3 Q. All right. Which -- KCUC is representing two
4 clients in this action; is that right?

5 A. My understanding is that it's an association,
6 but there are two customers that I'm aware of that
7 are served in Kentucky Power service territory.

8 Q. Okay. And which rates are each of those
9 clients on?

10 A. The hospital -- hospital group is served under
11 the industrial rate and the LGS rate, and BPM Lumber
12 is served under the LGS rate primarily.

13 Q. Okay. So BPM Lumber is only under the LGS
14 rate?

15 A. They have some load that is on medium and small
16 as well, but the largest amount of their load is on
17 LGS.

18 Q. For each one of those two entities, what
19 percent of their power bill is a result of each one
20 of those rate classes?

21 A. For the hospital, the split between their bill
22 on LGS and the industrial rate is about 50/50. And
23 for sawmill it is almost 100 percent LGS.

24 MS. SANDERS: No other questions.

25 CHAIRMAN SCHMITT: Commissioner Cicero,

1 questions?

2 VICE-CHAIRMAN CICERO: No questions.

3 CHAIRMAN SCHMITT: Commissioner Mathews?

4 COMMISSIONER MATHEWS: No.

5 CHAIRMAN SCHMITT: I have no questions. Anyone
6 else?

7 MR. OSTERLOH: If I can just clarify two
8 points.

9 REDIRECT EXAMINATION

10 By Mr. Osterloh:

11 Q. Mr. Higgins, you testified earlier to
12 Mr. Malone's questions that if the Commission were to
13 accept your recommendation of a \$500,000 reduction in
14 the LGS class, that you thought that would be
15 approximately a 1 percent reduction; is that correct?

16 A. Yes.

17 Q. And just to clarify that, is that a 1 percent
18 reduction to current rates or is that 1 percent less
19 than what the proposed settlement proposes for the
20 LGS class?

21 A. It's a 1 percent reduction to current rates.

22 Q. And then with respect to BPM Lumber, it was a
23 suggestion that it may have been a sawmill. Do you
24 know how many -- or whether BPM Lumber only operates
25 one sawmill in Kentucky Power's testimony --

1 territory?

2 A. Let me just clarify the question, my answer to
3 your question before. When I said 1 percent
4 reduction, it's 1 percent of current rates. So it's
5 not reducing current rates by 1 percent, so \$500,000
6 is approximately 1 percent of the LGS current revenue
7 requirement. Slightly more than 1 percent, but it's
8 in that ballpark.

9 Q. In other words, your proposal would not result
10 in a reduction of rates to the LGS class.

11 A. No, no. They would still get a rate increase.
12 It would just be 1 percent less as a proportion of
13 their total bill than as provided in the settlement
14 agreement.

15 Q. Thanks for that clarification. And then do you
16 know if BPM Lumber operates one or more sawmills in
17 Kentucky Power's territory?

18 A. My understanding, they've got more than one
19 operation.

20 MR. OSTERLOH: Thank you. That's all the
21 questions I have.

22 CHAIRMAN SCHMITT: Mr. Malone, questions?

23 MR. MALONE: Nothing further, Your Honor.

24 CHAIRMAN SCHMITT: Anyone else? Is there any
25 reason why this witness cannot be permanently

1 excused?

2 Okay. You may step down, and you're excused.

3 THE WITNESS: Thank you.

4 It's five till 1:00. Why don't we take a lunch
5 break until 2:00 o'clock, and we'll come back and see
6 how far we can get. Thank you.

7 (Recess from 12:55 p.m. to 2:00 p.m.).

8 CHAIRMAN SCHMITT: We're now back on the
9 record. Mr. Chandler, Mr. Cook, as I understand it
10 you've completed all your testimony; is that correct?

11 MR. CHANDLER: That's correct, Chairman.

12 CHAIRMAN SCHMITT: And that at this time then
13 the parties have agreed that Kentucky Industrial
14 Utility Customers will present its evidence. Is that
15 right, Mr. Kurtz?

16 MR. KURTZ: Yes, sir.

17 CHAIRMAN SCHMITT: Did you have a witness to
18 call at this time?

19 MR. KURTZ: He's up there, yes, sir.

20 Mr. Kollen.

21 CHAIRMAN SCHMITT: Okay, Mr. Kollen.

22 * * *

23 LANE KOLLEN, called by the Kentucky Industrial
24 Utility Customers, having been first duly sworn,
25 testified as follows:

DIRECT EXAMINATION

1
2 By Mr. Kurtz:

3 CHAIRMAN SCHMITT: Please be seated.

4 Mr. Kurtz, you may ask.

5 Q. Thank you. Mr. Kollen, will you state your
6 name and business address for the record, please?

7 A. My name is Lane Kollen. My business address is
8 J. Kennedy & Associates, Incorporated, 305 Colonial
9 Parkway, Suite 570, Roswell, Georgia, 30075.

10 Q. Do you have in front of you a document marked
11 "Direct Testimony and Exhibits of Lane Kollen"?

12 A. Yes.

13 Q. Was this prepared by you or under your direct
14 supervision?

15 A. Yes.

16 Q. If I were to ask you the same questions as
17 though contained therein, would your answers be the
18 same?

19 A. Yes.

20 Q. Any corrections or additions?

21 A. No.

22 MR. KURTZ: Your Honor, I tender the witness
23 for cross.

24 CHAIRMAN SCHMITT: Well, I guess we'll go with
25 those of like mind. Mr. Overstreet?

1 MR. OVERSTREET: No questions, Your Honor, at
2 this time.

3 CHAIRMAN SCHMITT: Any intervenors who
4 participated in the proposed settlement have any
5 questions?

6 If not, Mr. Chandler and Mr. Cook, do you have
7 cross?

8 MR. CHANDLER: The Attorney General does not
9 have any cross for Mr. Kollen.

10 CHAIRMAN SCHMITT: Okay. Mr. Gardner?

11 MR. GARDNER: No, Your Honor.

12 CHAIRMAN SCHMITT: No? Staff?

13 MR. NGUYEN: We do, Your Honor, just very
14 brief.

15 CROSS-EXAMINATION

16 By Mr. Nguyen:

17 Q. Do you have KIUC's responses to Commission
18 staff's data request, by chance?

19 A. I don't.

20 MR. NGUYEN: May I approach, Your Honor?

21 CHAIRMAN SCHMITT: Yes, you may.

22 Q. This is --

23 MR. NGUYEN: I'm not going to introduce it into
24 evidence, so.

25 Q. This is KIUC's response to Commission Staff's

1 data request, item one; is that correct?

2 A. Yes, it is.

3 Q. And you are the witness that responded to these
4 or this question and the subparts; is that correct?

5 A. Yes.

6 Q. Okay. 1A asks you to confirm that the revenue
7 requirement for deferral of the expenses related to
8 the Rockport Unit 2 Unit Power Agreement would be
9 reduced by 20.307 million per year through 2021 and
10 341/365th of that amount in 2022 based upon your
11 recommendation in your prefiled testimony; is that
12 correct?

13 A. Yes, that's correct, and that's because the
14 recommendation in my direct testimony was focused on
15 the Rockport 2 unit only. That unit is under lease,
16 and our proposal was for \$20 million of that lease
17 expense to be deferred through December 8 of 2022,
18 and that's where the 341 divided by 365 comes into
19 play, and that also is consistent with the
20 termination date of the Unit Power Agreement, which
21 covers both Unit 1 and Unit 2.

22 Q. Okay. So and when asked in part B, (Reading)
23 Explain why the carrying charge should not be based
24 on Kentucky Power's cost of debt, your response is
25 that under KIUC's proposal Kentucky Power would be

1 required to finance nearly a hundred million dollars
2 over the approximately five-year period until the
3 lease is terminated in 2022, and that the company is
4 unlikely to finance a deferral of this magnitude
5 solely through debt given its present capital
6 structure.

7 Is that correct?

8 A. Yes.

9 Q. Okay. But then it says, (Reading) However, it
10 could be appropriate to assume that the deferral is
11 financed through debt if such deferrals are
12 significantly less than under the KIUC proposal.

13 Was that your response?

14 A. Yes.

15 Q. Okay. So with respect to the settlement, the
16 nonunanimous settlement agreement that includes
17 provision of the Rockport Unit Power Agreement
18 deferral of those costs, is that for both Units 1 and
19 2?

20 A. It is not unit specific, so it's just a
21 generalized deferral of the UPA expenses.

22 Q. Okay. And so those expenses associated with
23 that provision to defer the cost associated with the
24 Rockport UPA, would that be significantly less than
25 the hundred million dollars over the five-year period

1 as you had recommended in your testimony?

2 A. Well, it would be about half because we had
3 recommended a \$20 million deferral, and over five
4 years that would be 100 million, and under the
5 settlement it's 15, 15, 10, 10 and 5.

6 Q. Right.

7 A. And so that adds up to 50 million.

8 Q. Okay. So given your, I guess your
9 qualification in responding to staff's question 1B
10 with respect to Kentucky Power's ability to finance
11 the carrying charge to be based upon cost of debt,
12 would that reduction in the amount of expenses be
13 considered a significant reduction such that Kentucky
14 Power would be able to finance it based upon its cost
15 of debt given its capital structure?

16 A. Well, I think it is a significant reduction in
17 the deferral. That's no question about that. It's
18 half of what my proposal was initially, but then the
19 question is what is -- the next question is what is
20 the likelihood of the company financing it with debt,
21 and I think that right now if you look at their
22 capital structure, and it's roughly 43 percent common
23 equity, if they financed that additional \$50 million
24 with debt only, that would end up leveraging them
25 more, and it could result in a down rating of their

1 debt.

2 For example, now I didn't really investigate
3 this. It wasn't our proposal. Our proposal was for
4 a full rate of return, but in certain circumstances
5 it could make sense to do it on a debt only. I don't
6 think that it is appropriate to do that in this case.

7 Q. Okay. Even based upon the amount of the
8 expenses associated with the settlement agreement?

9 A. Yes. I think it's unlikely that the company
10 would finance this exclusively with debt.

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

13 CHAIRMAN SCHMITT: Commissioner Cicero,
14 questions?

15 VICE-CHAIRMAN CICERO: No questions.

16 CHAIRMAN SCHMITT: Commissioner Mathews?

17 I have none.

18 MR. KURTZ: I do have one redirect a little
19 bit.

20 REDIRECT EXAMINATION

21 By Mr. Kurtz:

22 Q. I know you're not a lawyer, but I do want to
23 ask you this. In order --

24 A. Praise God. No, I'm just kidding.

25 Q. I'm sorry, what?

1 CHAIRMAN SCHMITT: He said thanks a lot.

2 Q. Okay. I don't want a legal --

3 A. I have a lot to be grateful for, yes.

4 Q. The Rockport Unit Power Agreement is a FERC
5 approved rate?

6 A. It is.

7 Q. And under federal law, federal preemption, the
8 Commission must give effect or allow the utility to
9 recover the FERC approved rate, correct?

10 A. That's my understanding. The retail recovery
11 can vary, but over time it has to provide recovery
12 unless there's by determination of imprudence by the
13 retail regulator, but that's not the case here for
14 sure.

15 Q. Yeah, and that's not even really true. This is
16 the Nantahala decision and Mississippi Power & Light,
17 U.S. Supreme Court, correct?

18 A. Yes, that's correct.

19 Q. And full recovery would be the weighted average
20 cost of capital pursuant to your recommendation and
21 pursuant to what's in the stipulation.

22 A. I would agree with that, yes.

23 Q. And, in fact, if it was a debt only return, one
24 might argue that the Commission is trapping costs and
25 not giving full recovery and stepping into this

1 federal preemption minefield.

2 A. One might argue that.

3 Q. Okay. Thank you.

4 A. This is fair. It's equitable to provide an
5 overall rate of return.

6 Q. And just for the record, it's a \$9 million
7 carrying charge on the 50 million over five years?

8 A. That's correct. And in conjunction with that,
9 the company has agreed to amortize it on an
10 annuitized basis over five years, so what that means
11 is that rather than starting high and then amortizing
12 a certain dollar amount each year, what you're doing
13 is you're getting the same dollar amount of recovery
14 from customers, just like paying off a home mortgage,
15 and so that's extremely beneficial to customers, and
16 it minimizes the effect on customers.

17 So essentially what we're doing now is we're
18 cutting the peak of the rate increase, and then there
19 would be a rate reduction in December of 2022 when
20 the UPA is either -- Unit 2 portion of it is not
21 renewed or maybe the entirety of it is not renewed.

22 There would otherwise have been a very
23 significant rate increase. All this does is mitigate
24 the amount of the rate -- I'm sorry, a rate decrease.
25 All this does is mitigate the decrease to some

1 extent, so what you've done is you've cut off the
2 peak of the revenue requirement for the next five
3 years, and you've raised slightly the revenue
4 requirement over the five years starting in
5 December 2022. It's really a tremendous result.

6 MR. KURTZ: No further questions.

7 CHAIRMAN SCHMITT: Any cross-examination?

8 MR. OVERSTREET: None, Your Honor.

9 MR. CHANDLER: Just two questions.

10 CROSS-EXAMINATION

11 By Mr. Chandler:

12 Q. In your testimony when you discussed this, your
13 deferral position, did you consider or include
14 anything in testimony that looked like or was similar
15 to the credit offset that's provided for in the
16 stipulation, where following the five year -- the
17 expiration of the UPA in five years, that the company
18 will be allowed to essentially earn its ROE,
19 guaranteed earn on its ROE?

20 A. I did not address that.

21 Q. You did not address that?

22 A. I did not.

23 Q. So that wasn't your proposal in your testimony?

24 A. That was not included in my direct testimony,
25 that's correct.

1 Q. And generally the discussion has been about the
2 weighted average cost of capital, and the weighted
3 average cost of capital, there are generally two
4 components, debt and equity, correct?

5 A. Yes.

6 Q. And does the debt portion contain a time value
7 of money component?

8 A. Well, by definition it is a time value of money
9 because you provide a rate of return on the
10 investment cost for whatever period of time it's
11 providing service to customers.

12 MR. CHANDLER: No more questions.

13 CHAIRMAN SCHMITT: Any other questions? Cross?

14 MR. NGUYEN: Just one additional, Your Honor.

15 RECROSS-EXAMINATION

16 By Mr. Nguyen:

17 Q. So in your follow-up to Mr. Kurtz's question
18 with respect to the FERC preemption and, excuse me,
19 the full recovery, Kentucky Power's full recovery of
20 that cost under the EPA, in your response to
21 Commission staff's 1B, even though you qualified it
22 as it could be appropriate to assume that the
23 deferral is financed through debt, if such deferrals
24 are significantly less than the KIUC proposal there
25 was no limitation with respect to FERC jurisdictional

1 grounds on the ability of Kentucky Power to recover
2 fully those costs under the EPA.

3 A. In the response of the discovery, that's
4 correct.

5 Q. So were you not aware of that limitation when
6 you provided this response?

7 A. I was aware of that limitation. The only point
8 here was that there might be certain circumstances
9 where it could be appropriate. I didn't say it would
10 be. I said perhaps it could be appropriate if there
11 was a much smaller dollar amount.

12 And I can think of one instance. For example,
13 if the deferral were a few million dollars, and it
14 was for six months, you know, then you probably would
15 assume that it was financed with short-term debt, but
16 the longer the period of deferral and the greater the
17 magnitude, the more necessary in effect it is that it
18 would be the full weighted cost of capital unless
19 there's an exclusive or dedicated type of financing
20 associated with that deferral.

21 And just to add on to that a little bit, in
22 some of the states that have gone to open access or
23 deregulation, a portion of the costs have been
24 considered stranded, and rather than allowing those
25 utilities a full rate of return on the stranded

1 costs, under state law or through some other
2 mechanism the utilities have securitized those costs
3 through lost cost forms of debt, and so there are
4 certain circumstances where it makes sense to do a
5 debt only financing.

6 In this one I don't think it is, given the
7 magnitude still of the 50 million. The five-year
8 time frame for the deferral and then another five
9 years until the company fully recovers. So you're
10 looking at a span of a ten year period. It's really
11 kind of unlikely that it's going to be financed with
12 either short-term debt or exclusively with long-term
13 debt.

14 MR. NGUYEN: Those are all the questions.
15 Thank you.

16 CHAIRMAN SCHMITT: Commissioner Cicero?
17 Commissioner Mathews?

18 Anything further?

19 MR. KURTZ: No, sir.

20 CHAIRMAN SCHMITT: If there's no other
21 cross-examination of this witness, may he be finally
22 excused?

23 MR. OVERSTREET: Yes, he may.

24 CHAIRMAN SCHMITT: Thank you. Mr. Kollen, you
25 may be excused.

1 THE WITNESS: Thank you.

2 CHAIRMAN SCHMITT: Call your next witness.

3 MR. KURTZ: We call Mr. Baron.

4 STEPHEN J. BARON, called by the Kentucky
5 Industrial Utility Customers, having been first duly
6 sworn, testified as follows:

7 DIRECT EXAMINATION

8 By Mr. Kurtz:

9 CHAIRMAN SCHMITT: Please be seated.

10 Counsel, you may ask.

11 MR. KURTZ: Thank you, Your Honor.

12 Q. Will you state your name and business address
13 for the record?

14 A. Yes. Stephen J. Baron. My business address is
15 J. Kennedy & Associates, Inc., 570 Colonial Park
16 Drive, Suite 305, Roswell, Georgia, 30076.

17 Q. Do you have in front of you a document marked
18 "The Direct Testimony and Exhibits of Stephen J.
19 Baron"?

20 A. Yes.

21 Q. Was this prepared by you or under your direct
22 supervision?

23 A. Yes.

24 Q. If I were to ask you the same questions as
25 those contained herein, would your answers be the

1 same?

2 A. Yes.

3 Q. Any corrections or additions?

4 A. Not that I'm aware of.

5 MR. KURTZ: Your Honor, I tender the witness.

6 CHAIRMAN SCHMITT: Mr. Overstreet?

7 MR. OVERSTREET: No questions, Your Honor.

8 CHAIRMAN SCHMITT: Any counsel for any of the
9 settling intervenors have any cross-examination of
10 this witness?

11 If not, Mr. Cook, Mr. Chandler?

12 MR. CHANDLER: The Attorney General has no
13 questions for Mr. Baron.

14 CHAIRMAN SCHMITT: Mr. Gardner, Osterloh?

15 MR. GARDNER: No questions.

16 CHAIRMAN SCHMITT: Staff?

17 MR. NGUYEN: No questions, Your Honor.

18 CHAIRMAN SCHMITT: Commissioner Cicero,
19 Commissioner Mathews?

20 COMMISSIONER MATHEWS: None.

21 CHAIRMAN SCHMITT: I have none. In that case,
22 may this witness be finally excused?

23 MR. OVERSTREET: Yes, he may, Your Honor.

24 CHAIRMAN SCHMITT: Thank you. You may stand
25 down. You're our favorite witness.

1 THE WITNESS: This was one of my toughest
2 appearances.

3 MR. OVERSTREET: In that regard, does that mean
4 Mr. Satterwhite was your least favorite since he was
5 on the longest?

6 CHAIRMAN SCHMITT: No comment.

7 THE WITNESS: I'm going to have to give
8 Mr. Kurtz a discount.

9 MR. KURTZ: Yeah, we have a rate of return
10 witness, Mr. Baudino.

11 CHAIRMAN SCHMITT: Please raise your right
12 hand.

13 DIRECT EXAMINATION

14 By Mr. Kurtz:

15 CHAIRMAN SCHMITT: Please be seated.
16 Counsel, you may ask.

17 MR. KURTZ: Thank you, Your Honor.

18 Q. Will you state your name and business address
19 for the record?

20 A. Yes, Richard Baudino. My business address is
21 570 Colonial Park Drive, Suite 305, Roswell, Georgia,
22 30075.

23 Q. Do you have in front of you a document marked
24 "The Direct Testimony and Exhibits of Richard A.
25 Baudino"?

1 A. Yes.

2 Q. Was this prepared by you or under your direct
3 supervision?

4 A. Yes, it was prepared by me.

5 Q. If I were to ask you the same questions as
6 those contained herein, would your answers be the
7 same?

8 A. They would.

9 Q. Any corrections or additions?

10 A. No.

11 MR. KURTZ: Your Honor, I tender the witness
12 for cross.

13 CHAIRMAN SCHMITT: Mr. Overstreet?

14 MR. OVERSTREET: No questions, Your Honor.

15 CHAIRMAN SCHMITT: Counsel for any of the
16 settling intervenors have any questions of this
17 witness? If not, Mr. Chandler, Mr. Cook?

18 MR. CHANDLER: We do have questions, Your
19 Honor. May I approach and --

20 CHAIRMAN SCHMITT: Yes, you may.

21 CROSS-EXAMINATION

22 By Mr. Chandler:

23 Q. Good morning -- good afternoon, Mr. Baudino.

24 A. Good afternoon.

25 Q. It's a long day yet. So first I would like to

1 just confirm, you did provide testimony in this case,
2 correct?

3 A. I did, yes.

4 Q. And your testimony was on the reasonable return
5 on equity for Kentucky Power Company, correct?

6 A. Right.

7 Q. And what was the recommendation that you
8 provided for return on equity?

9 A. 8.85 percent.

10 Q. Now, if you don't mind, can you please turn to
11 tab B in the binder that I provided you?

12 A. Okay. I have that.

13 Q. Tab B, can you confirm that this is page 29 --
14 or subject to check it's page 29 of your testimony in
15 this case?

16 A. Yes, this is page 29 of my testimony.

17 Q. So this table on page 29 notes the outcomes of
18 your DCF results, the outcome of your DCF methodology
19 and the CAPM, correct?

20 A. Right.

21 Q. And the CAPM stands for the capital asset
22 pricing model, correct?

23 A. That's right.

24 Q. DCF stands for?

25 A. Discounted cash flow.

1 Q. Discounted cash flow. Now, can you look
2 towards your CAPM results there, and can you provide
3 what the CAPM results were based on the 5 and 20 year
4 treasury bonds?

5 A. Sure. Those results ranged from 6.9 percent to
6 7.15 percent.

7 Q. And using historical returns, what was the
8 range that you had there?

9 A. 5.99 to 7.32 percent.

10 Q. Now looking at those numbers, did you give any
11 weight to those amounts when you recommended your
12 8.85 recommendation?

13 A. No.

14 Q. Do you ever give weight to CAPM results?

15 A. I haven't in my memory. I have not -- I just
16 use it for additional information for the Commission
17 since often CAPM and risk premium models are
18 presented for the Commission's information and as
19 also to form the basis for certain witness's
20 recommendations. For me I primarily rely on the DCF.

21 Q. So other witnesses, though, do use the CAPM or
22 variations of it like the empirical CAPM, correct?

23 A. Certain witnesses do use a variety of methods,
24 yes.

25 Q. And with CAPM being one of them?

1 A. Yes.

2 Q. Now, if you had given weight to your CAPM, all
3 things equal, would your 8.85 recommendation, would
4 it have been higher or lower?

5 A. Well, if I had incorporated these results it
6 would have been lower. I didn't really incorporate
7 it. I'm sort of speculating in a way because, you
8 know, I think 8.85 is reasonable, but obviously if
9 you chose to give some weight to those lower results
10 the number would have been below 8.85.

11 Q. All things equal, of course, the caveat.

12 A. Yes.

13 Q. Thank you. Now, on page 29 you asked yourself
14 the question, or you asked -- you're asked the
15 question in testimony. Mr. -- on line 9, (Reading)
16 Mr. Baudino, are you concerned that your recommended
17 cost of equity is too low?

18 How do you answer that question?

19 A. I can read, would you like me to read?

20 Q. Yeah, just the result of the answer.

21 A. Okay. No, I said I'm not concerned about it at
22 all being too low. In fact I think it's very
23 reasonable for a Baa A-rated utility like Kentucky
24 Power in this current interest rate environment, as I
25 said.

1 Q. And you stated that -- you stated that one of
2 the basis for that is the low interest rate
3 environment, correct?

4 A. Right.

5 Q. Do -- looking back to table 3 on page 29, do
6 any of the amounts you have presented there support a
7 9.75 ROE?

8 A. No. In fact, the -- really the high end is
9 9.55 percent in the median growth rate method.

10 Q. If we turn one page in tab B to page 30?

11 A. Okay.

12 Q. Would you agree that on line 4 through 7 you
13 address the inclusion of short-term debt in the
14 Kentucky Power capital structure?

15 A. Yes.

16 Q. Was that incorporated in the settlement?

17 A. I believe it was. I believe the cost agreed to
18 was 1.25 percent, I believe. I could double-check
19 that, but I believe that's right.

20 Q. Okay. Now, I've provided you a copy on tab C
21 of your testimony in this case. For everybody else
22 it's just telling them that's what I did since it's
23 already of record in this case, but in case you need
24 to refresh your memory, but I'm just going to ask you
25 a couple of questions about your direct testimony, if

1 that's okay.

2 A. Sure.

3 Q. So you discuss Mr. McKenzie's testimony in your
4 direct testimony; is that correct?

5 A. Yes.

6 Q. So do you agree with Mr. McKenzie on the
7 outlook for capital costs or using, incorporating an
8 outlook for capital costs in your --

9 A. No, I did not. Definitely not.

10 Q. You agree with the forecasted interest rates of
11 4.2 percent that he used in his CAPM and URP studies?

12 A. Well, I mean, I agree that those are what the
13 consensus interest rate forecasts are right now.
14 However, I do not agree that they should be used in a
15 risk premium or a capital asset pricing model
16 analysis. They should use current -- current
17 interest rates should be used for those analysis.

18 Q. Do you agree with Mr. McKenzie on admitting low
19 end DCF results in his DCF study?

20 A. No, I think that was -- I criticized that on
21 being sort of an asymmetric analysis, and I had -- if
22 you can just hold on.

23 Q. I believe you discuss that on page 36.

24 A. Okay. Thank you. I'm just going to go to
25 that. Right, in fact I presented an analysis on

1 table 6, page 38, where I incorporated all of the
2 numbers and presented an average and median set of
3 results from that.

4 Q. Using his proxy group; is that correct?

5 A. Yes.

6 Q. Did you agree with Mr. McKenzie's -- excuse me.
7 Do you agree with the expect --

8 A. Well, actually, I'm sorry. Let me just -- yes,
9 that's right. It was from his proxy group, yeah.

10 Q. Do you agree with the expected market return
11 component of Mr. McKenzie's CAPM or empirical CAPM
12 analysis?

13 A. No.

14 Q. Do you agree with Mr. McKenzie's application of
15 the utility risk premium?

16 A. No.

17 Q. Why don't you agree with Mr. McKenzie's
18 application of utility risk premium?

19 A. Now that -- I believe this was -- when you talk
20 about utility risk premium, I just want to make sure
21 we're talking about the same thing.

22 Q. I believe you discuss it on page 41.

23 A. All right, 41, yes. Okay. This was an
24 historical analysis using Commission-allowed returns
25 from '74 through 2016, and what I said on page 41 was

1 generally the bond deal plus risk premium approach is
2 imprecise and can only provide very general guidance
3 on current authorized ROEs -- current authorized ROEs
4 for regulated electric utility, and I say risk
5 premiums can change over time, and they're sort of a
6 blunt instrument.

7 Q. How can they change over time?

8 A. Investor perceptions of risk. Changes in
9 interest rates. Those sort of general things.

10 Q. The idea being that maybe not relative, but
11 individually the risk of a single utility changes
12 between 1974 -- or let's just say the utility sector,
13 the risk of utility sector may change between 1974
14 and 2016.

15 A. Well, it could. The other thing I think that,
16 if I can, I'll give you my interpretation of what
17 Mr. McKenzie did, was we know that interest rates
18 change, required risk premiums change, so other
19 things being equal, when interest rates rise the
20 required risk premium in terms of the required return
21 on equity tends to get smaller, and likewise as
22 interest rates fall the required risk premium tends
23 to get bigger, and I think that's what Mr. McKenzie
24 was trying to measure with that.

25 Q. And in that risk premium he used forecasted

1 bond rates, correct?

2 A. He did.

3 Q. Okay. And those are forward looking for four
4 years; is that correct?

5 A. I need to go back and see.

6 Q. That's okay. I'll withdraw the question.

7 A. Oh, okay.

8 Q. Do you agree with Mr. McKenzie's application of
9 the expected earnings approach?

10 A. No.

11 Q. Why don't you agree with Mr. McKenzie's
12 application of the expected earnings approach?

13 A. Well, now expected earnings, he used expected
14 earnings, just to make sure we're talking about the
15 same thing.

16 Q. The next page, I believe.

17 A. Yeah, on page 42. These were Value Line
18 forecasted returns for the 2020 to 2022 period. I
19 said the Commission should not rely on those for the
20 same reason you shouldn't rely on forecasted interest
21 rates, and instead really should be looking at
22 current required returns from investors as measured
23 by current stock prices through the DCF model.

24 Q. And is there any way to know whether, are there
25 any metrics available to determine whether or not the

1 current market book -- the current value of stocks
2 exceed investors' expectations such as possibly the
3 use of -- of the relationship between book value and
4 market value?

5 A. You can infer that -- you can infer some of it,
6 but right now it's kind of a guess because one theory
7 is if a utility company is expected to earn more than
8 its required return, the market to book ratio would
9 be greater than 1.

10 So in other words, since utilities earn on
11 their rate base or earn on their capitalization, if
12 the investor required return is set by the Commission
13 according to their investor required -- what it
14 really is in the marketplace, the market to book
15 ratio should be about 1.

16 Now, for some time now, for some number of
17 years, utility market to book ratios have been
18 significantly above 1, and they certainly have been
19 above 1 in this low interest rate environment, and I
20 think a lot of that is due to investors reaching for
21 yield, you know. Reaching for yield and safety in
22 the current market environment.

23 Obviously you have very low, you know, treasury
24 yields are quite low right now, and investors are
25 looking for higher yield with some growth, which

1 utilities offer, and safety. So some of that and, in
2 fact, I would say is a good deal of that greater than
3 market to book ratio of 1 now is being driven by the
4 current low interest rate environment.

5 Q. Do you agree with Mr. McKenzie's -- I'll go
6 ahead. Please refer to your page 43. Do you agree
7 with Mr. McKenzie's application of the nonutility
8 benchmark approach? I believe it's page 43.

9 A. Okay. No, I do not.

10 Q. And why don't you agree with the nonutility
11 benchmark approach?

12 A. Because the nonutility companies he used are
13 from unregulated companies, and I describe here
14 beginning on line 18 utilities have protected
15 markets, service territories, and may increase prices
16 they charge in the face of falling demand or loss of
17 customers, and unregulated companies cannot do that.

18 So and investors know that, and so other things
19 being equal, you would expect unregulated companies
20 to -- well, for investors in unregulated companies to
21 expect and require returns on equity that are greater
22 than regulated utility companies.

23 Q. Due to that additional risk, correct?

24 A. Yes. Yes.

25 MR. CHANDLER: That's all the cross I have of

1 Mr. Baudino.

2 CHAIRMAN SCHMITT: Mr. Osterloh? Staff, cross?

3 MR. NGUYEN: Yes, Your Honor.

4 CROSS-EXAMINATION

5 By Mr. Nguyen:

6 Q. Good afternoon, Mr. Baudino.

7 A. Good afternoon.

8 Q. I take it that you've read Dr. McKenzie's
9 rebuttal testimony with respect to your
10 recommendations in your testimony?

11 A. I've reviewed it.

12 Q. Okay. Do you recall his review of your
13 dividend data use in the growth rate portion of the
14 DCF analysis? Do you recall that?

15 A. What are you referring to? I don't have his
16 testimony in front of me.

17 Q. You do not have his testimony?

18 A. I have it on computer. I have it on my
19 computer.

20 Q. If you can bring that up. Can you bring that
21 up really quick?

22 A. Sure.

23 Q. It's on page beginning 63 of Dr. McKenzie's
24 rebuttal.

25 A. Okay. Which page did you say that was?

1 Q. 63, at the bottom of 63 and beginning top of
2 64.

3 A. Okay.

4 Q. It's the question and answer to number 88.

5 A. 63 and 64?

6 Q. Yes, sir.

7 A. Okay. I just need a few moments to review
8 this.

9 Q. Sure. Go right ahead.

10 A. Okay. I've read that. What's your question?

11 Q. Okay. So Dr. McKenzie states that the growth
12 rates in dividends per share are not likely to
13 provide meaningful guide to investors' current growth
14 expectations; is that correct?

15 A. That's what he said.

16 Q. Okay. But that professional analysts rely on
17 growth rates provided by the earnings per share
18 approach; is that correct?

19 A. That is what he said.

20 Q. Okay. Can you provide the Commission with your
21 view of why also looking at dividends per share is
22 appropriate in a discounted cash flow analysis?

23 A. Sure. It's because dividends represent the
24 cash flows that are actually received by investors,
25 not earnings. The DCF model assumes that dividends

1 and earnings and book value grow at the same rate, so
2 investors obviously would take into account
3 forecasted growth and dividends if they had that kind
4 of forecast available.

5 Now, there is evidence in the literature that
6 suggests that it's -- that earnings are important and
7 perhaps the more important forecast that investors
8 would look at, and I would agree with that, but I
9 think it would not be a good idea to exclude or
10 ignore dividend growth forecasts that are available
11 to investors through the Value Line Investment
12 Survey, so I have included that.

13 And really in my weighting I use four sources.
14 Three sources are earnings growth forecast, one
15 source is dividend growth, so dividend growth should
16 be weighted. It's weighted 25 percent. The earnings
17 growth forecasts are weighted 75 percent, so I do
18 give greater weight to earnings forecasts, but I
19 think you should have dividend growth in there.

20 Q. Okay. Are you saying that you should also --
21 one should also factor in the earnings approach as
22 well?

23 A. Oh, absolutely. And I do that too. In fact,
24 that's the bulk of the weight given to my growth
25 forecast, is earnings growth forecast.

1 MR. NGUYEN: Okay. Those are all the
2 questions. Thank you.

3 CHAIRMAN SCHMITT: Commissioner Cicero?

4 VICE-CHAIRMAN CICERO: No questions.

5 CHAIRMAN SCHMITT: Commissioner Mathews?

6 I have none. Is there any other questions to
7 be asked of this witness?

8 MR. KURTZ: Well, I would do a very quick
9 redirect.

10 REDIRECT EXAMINATION

11 By Mr. Kurtz:

12 Q. How many rate cases have you testified are
13 return equity, about?

14 A. I was afraid somebody was going to ask me that
15 one day. I haven't actually counted, but quite a few
16 since I've been doing this work since 1982.

17 Q. Is it typical in your experience that the
18 utility will bring in an expert that comes in high,
19 the consumer advocates or rate payer interests will
20 come in with an expert that comes in low, and the
21 Commission typically ends up somewhere in between?

22 A. I'd answer that this way. I mean, that's sort
23 of been like the end result, but I will say that, you
24 know, Mr. McKenzie and I and Dr. Woolridge all really
25 believe in what we're testifying to, and, you know,

1 typically the utility is higher, consumer advocates
2 and staff may be lower, and often I've seen
3 Commission come in between those numbers, and
4 sometimes they go for one of the witness's numbers.

5 Q. In the context of the settlement that's
6 presented to the Commission here, in your opinion is
7 9.75 percent reasonable?

8 A. I think within the context of the global
9 settlement like the parties have -- even though it's
10 nonunanimous, that the parties have agreed to is
11 certainly within the range of recommendations to this
12 Commission.

13 MR. KURTZ: Thank you. No more questions.

14 CHAIRMAN SCHMITT: Any further
15 cross-examination?

16 MR. CHANDLER: I don't believe so, Chairman.
17 Thank you.

18 CHAIRMAN SCHMITT: Anyone else care to further
19 question this witness?

20 MR. OVERSTREET: No, Your Honor.

21 CHAIRMAN SCHMITT: If not, may Mr. Baudino be
22 excused?

23 MR. OVERSTREET: Yes, Your Honor.

24 CHAIRMAN SCHMITT: Thank you. You may stand
25 down.

1 THE WITNESS: Thank you.

2 CHAIRMAN SCHMITT: Mr. Kurtz, do you have any
3 other witness, or does this conclude your proof?

4 MR. KURTZ: This concludes. We had two other
5 witnesses, but they were not called by the
6 Commission. We had Mr. Kornstein, who is an economic
7 development kind of expert, as well as the plant
8 manager at Marathon Petroleum, Brad Levi, who
9 testified, but staff did not request them, nor did
10 any of the parties, so their testimony, I guess, is
11 in the record.

12 MR. OVERSTREET: Our next witness, Your Honor,
13 is Mr. McKenzie.

14 CHAIRMAN SCHMITT: Mr. McKenzie, please raise
15 your right hand.

16 ADRIEN M. MCKENZIE, called by the Kentucky
17 Power Company, having been first duly sworn,
18 testified as follows:

19 DIRECT EXAMINATION

20 By Mr. Garcia:

21 CHAIRMAN SCHMITT: Thank you. Please be
22 seated.

23 Mr. Overstreet, you may ask.

24 MR. OVERSTREET: Mr. Garcia.

25 CHAIRMAN SCHMITT: Mr. Garcia, you may ask.

1 MR. GARCIA: Thank you, Your Honor.

2 Q. Good afternoon.

3 A. Good afternoon.

4 Q. Would you please state your name and business
5 address for the record?

6 A. My name is Adrien McKenzie, and my business
7 address is 3907 Red River Street, and that's in
8 Austin, Texas, and the zip code is 78751.

9 Q. And, Mr. McKenzie, did you submit in this case
10 direct testimony consisting of 78 pages of questions
11 and answers and 11 exhibits?

12 A. Yes, I did.

13 Q. Okay. And were these prepared by you or under
14 your supervision?

15 A. They were.

16 Q. If I were to ask you the same questions today,
17 would you provide substantially the same answers?

18 A. I would provide exactly the same answers.

19 Q. Do you have any corrections or changes to your
20 testimony?

21 A. I have one small correction. This was actually
22 addressed in a data request, but I'd like to go ahead
23 and correct it formally here. On page 24 of my
24 direct testimony, on line 13 the sentence reads,
25 (Reading) A Value Line safety rank of 1 or 1.

1 That second 1 should be a 2.

2 Q. And does that change -- change in any way your
3 analysis?

4 A. No, it does not. It was just a typographical
5 error.

6 Q. Thank you. And did you also cause to submit
7 rebuttal testimony consisting of 77 pages of
8 questions and answers and appendix containing three
9 exhibits?

10 A. Yes.

11 Q. And those exhibits were numbered 12, 13, and 14
12 to reflect that the last exhibit of your testimony
13 had been 11 in your direct?

14 A. That's correct.

15 Q. And do you have any changes to that testimony
16 or exhibits?

17 A. I do not.

18 Q. If I were to ask you the same questions today,
19 will you provide substantially the same answers?

20 A. Yes, I would.

21 Q. And did you also cause responses to discovery
22 answers to be submitted in this case?

23 A. I did.

24 Q. Do you adopt your direct testimony, rebuttal
25 testimony, exhibits, and the discovery answers that

1 you provided as your evidence in this case?

2 A. Yes, sir, I do.

3 MR. GARCIA: Your Honor, the witness is
4 tendered for cross.

5 CHAIRMAN SCHMITT: Okay. Mr. Kurtz, do you
6 have any questions for this witness?

7 MR. KURTZ: No, I do not.

8 CHAIRMAN SCHMITT: Do counsel for any of the
9 settling intervenors have questions for Mr. McKenzie?
10 If not, Mr. Cook, Mr. Chandler, any
11 cross-examination?

12 MR. CHANDLER: Yes, sir, and may I approach?

13 CHAIRMAN SCHMITT: Yes, you may.

14 CROSS-EXAMINATION

15 By Mr. Chandler:

16 Q. Good afternoon, Mr. McKenzie.

17 A. Good afternoon.

18 Q. You provided direct testimony in this case,
19 correct?

20 A. Yes, I did.

21 Q. And your testimony was on your recommended
22 return on equity for Kentucky Power Company, correct?

23 A. That's correct.

24 Q. And can you remind the Commission what that
25 number was?

1 A. Well, the bottom line number was 10.31. It was
2 based on a range of 9.71 to 10.91.

3 Q. 9.71 was the lower end of that range?

4 A. That's correct.

5 Q. In the company's last rate case, the case, to
6 best of my memory 2014-396, you provided testimony
7 for Kentucky Power along with Dr. Avera; is that
8 correct?

9 A. Yes, it is.

10 Q. And in that case do you remember what your
11 recommended ROE was?

12 A. I do not.

13 Q. Do you mind to turn to tab A in the binder I
14 provided you?

15 A. Certainly.

16 Q. Subject to check, and you may check on your own
17 at tab B that I provided you, has your entire direct
18 testimony from that case, but subject to check would
19 you believe that this is -- would you agree that this
20 is page 4 of your testimony from that case?

21 A. Yes, I would.

22 Q. And do you mind to reacquaint yourself with the
23 recommended ROE in that matter?

24 A. Yes, it's 10.62 percent.

25 Q. Based on your recommendations in the last two

1 cases, would you agree that the equity cost rates for
2 the company have decreased?

3 A. Yes.

4 Q. If you would please turn to tab C. And tab C,
5 and this is subject to your own check, but this is
6 page 16 through, I believe, 23 of your testimony.

7 Does that look right?

8 A. In the prior Kentucky Power case?

9 Q. In this case, excuse me, I'm sorry. I believe
10 that anything in the prior case notes Avera/McKenzie
11 in the top right-hand corner.

12 A. I understand. Okay.

13 Q. I've confused myself in the last week between
14 them. Does this, subject to check, look like page 16
15 through 23 of your testimony?

16 A. Yes, it does.

17 Q. Now, on these pages, and it's starting with
18 between line 17 and 18 on page 16, you discuss your
19 opinion on the outlook for capital costs, correct?

20 A. Well, I clarify that somewhat. I don't regard
21 it to be my opinion. I regard it to be my
22 presentation of really what I see in the market. I'm
23 not making a personal prediction.

24 Q. Okay. On page 21 that's there. I guess this
25 will be five or six back, you cite to Blue Chip

1 Financial Forecasts, correct, which I guess you short
2 reference there as Blue Chip.

3 A. That's correct.

4 Q. And you cite to Blue Chip as your reference to
5 what you believe -- well, excuse me. Let me try to
6 ask this question in light of your recent
7 clarification.

8 You provide these figures as what Blue Chip
9 expects interest rates to be between now and 2022,
10 correct?

11 A. Well, Blue Chip is one of the sources that I
12 rely on, and that's one of the forecasts that is
13 considered in developing this graph, so I would agree
14 with that, subject to the proviso that there are
15 others included in there.

16 Q. And if you'll turn to page 22, I believe it's
17 the -- no, excuse me, 23. Do you mind to read into
18 the record the paragraph starting on line 12 through
19 line 17?

20 A. Certainly. (Reading) Given investors'
21 expectations for rising interest rates and capital
22 costs, the Commission should consider near-term
23 forecasts for higher public utility bond yields in
24 assessing the reasonableness of individual cost of
25 equity estimates and in evaluating the ROE for

1 Kentucky Power. The use of these near-term forecasts
2 for public utility bond yields is supported below by
3 economic studies that show that equity risk premiums
4 are higher when interest rates are at very low
5 levels.

6 Q. Now, do you mind to turn to tab D, please. And
7 subject to check, would you agree that this is your
8 Exhibit AMM-7 in this matter?

9 A. Yes.

10 Q. And in AMM-7, page 2, what is the risk-free
11 rate that you use in your analysis there?

12 A. Okay. Well, first just to clarify, page 1 of
13 this exhibit presents the capital asset pricing model
14 using the current risk-free rate, so I do consider
15 current rates.

16 Page 2 presents the CAPM using a forecasted
17 rate of 4.2 percent, which is roughly comparable to
18 the 4 percent that Dr. Woolridge used in his CAPM.

19 Q. So thank you for clarifying that. I wasn't --
20 I will follow up. On page 1 then, what's the
21 risk-free rate you used for current?

22 A. 3 percent, and as I indicated in the footnote,
23 that was based on the average yield for the six
24 months ending May 2017 when I prepared my testimony.

25 Q. And are you aware of what the 30 -- and that's

1 based on the 30-year treasury bill, correct?

2 A. 30-year treasury bond, yes.

3 Q. Treasury bond, sorry.

4 A. Yes, sir.

5 Q. Do you know what the current 30-year Treasury
6 bond is today?

7 A. I don't know today's yield, no.

8 Q. How about do you mind to turn to tab E? What
9 it was as of the 4th of December per the U.S.
10 Department of Treasury?

11 A. The 4th of December, just a one-day spot yield
12 was 2.77 percent, by the look of it.

13 Q. And would you be surprised to find out if
14 yesterday the one-day spot yield was 2.71 percent?

15 A. That wouldn't surprise me. It wouldn't be my
16 recommendation to use a spot yield in this analysis.
17 I used six-month averages.

18 Q. Six-month historical averages, right?

19 A. Correct, as one basis.

20 Q. So what did you use, going back to tab D, what
21 did you use as the current rate?

22 A. 3 percent.

23 Q. 3 percent. And on page 2, what was the
24 forecasted amount you used as the risk free rate?

25 A. 4.2 percent.

1 Q. 4.2 percent, and that was based on a 2007 to
2 2022 time frame that we looked at previously, right?

3 A. I think you said 2007. 2017.

4 Q. 2017, excuse me. I'm sorry.

5 A. Correct.

6 Q. 2017 to 2022.

7 A. Yes.

8 Q. And so when you incorporate the forward looking
9 forecasted risk-free rate, the expectation is that in
10 the next four years -- excuse me.

11 When using that risk free rate, the calculation
12 anticipates an increase from the current interest
13 rate to the risk free rate you use in the
14 calculation, correct?

15 A. Right. In other words, just as Dr. Woolridge
16 did not use the current 30-year treasury bond yield
17 in his CAPM, I used a higher rate in this example.
18 My rate in the previous page is actually lower than
19 the rate that Dr. Woolridge used, the idea being that
20 the Commission is trying to establish a cost of
21 equity that's going to present a meaningful estimate
22 of investors' required return over the time when
23 rates are set. So this is one gauge that I offer the
24 Commission in making that determination.

25 Q. And so if we just assume that -- and I agree

1 the one-day snapshot, we'll throw out the one-day
2 snapshot, that over the last few weeks, we'll say,
3 the Treasury rate has been at roughly 2.8 percent; is
4 that correct?

5 A. Yes.

6 Q. So the forecast on page 2 here anticipates 140
7 basis point increase over that time frame that you've
8 applied.

9 A. Over the five years, yes.

10 Q. Over the five years. Do you mind to also turn
11 to tab F, and on page 2 of that -- well, to be fair,
12 we'll go to page 1. For your applied cost of equity,
13 under implied cost of equity, under B, is that the --
14 is that -- what percentage does that represent? What
15 number does that represent?

16 A. That's the six-month average yield on Baa
17 utility bonds as reported by Moody's for the month
18 end of May --

19 Q. So looking at corporate utility bonds, that
20 rate is sort of comparable to the 3 percent we were
21 discussing in the last --

22 A. That's correct.

23 Q. It's a six-month historic.

24 A. Yes, sir.

25 Q. And on the next page you use the same

1 calculation. I believe the only difference between
2 the two calculations is the -- is a different utility
3 bond yield and the different adjusted equity risk of
4 premium, correct?

5 A. Yes, because the equity risk premium moves
6 inversely to the bond yield, so by substituting a new
7 bond yield we need to calculate that.

8 Q. Yeah, you can't use the current interest rate
9 and a future risk premium, and vice versa, right?

10 A. Right.

11 Q. Okay. So what does the 6.28 percent represent?

12 A. The 6.28 percent is a forecast of Baa utility
13 bond yields for 2018, 2022. It's actually based on
14 forecasts for AA utility bond yields. Those are the
15 only forecast rates that are available, and then onto
16 that I add an average spread, the difference between
17 a AA and a Baa bond yield.

18 Q. Which -- would you agree that those -- is it
19 your opinion that those -- that the difference
20 between those two are very similar over time, the
21 spread between the two?

22 A. They can fluctuate, depending on risk
23 perceptions in the market.

24 Q. Do you feel the adjustment you made was
25 reasonable?

1 A. Yes, I do.

2 Q. Now, if you'll turn to tab G.

3 MR. CHANDLER: And I apologize to additional
4 counsel. We ran out of Gs, so for some of you it may
5 be tab T.

6 Q. If you'll turn to tab G, and this is the
7 Mergent -- a copy of the Mergent Bond Record. Are
8 you familiar with this publication?

9 A. Yes, I am.

10 Q. And you -- this is a trustworthy publication
11 for -- to determine what the bond yield has been?

12 A. Yes.

13 Q. Okay. On page 2 of that will you please note
14 what the -- and this is the most recent version that
15 we could come about, what the September 2017 Baa
16 public utility bond yield was?

17 A. This reports it as 4.24 percent.

18 Q. And do you have any reason to believe that this
19 is incorrect?

20 A. No.

21 Q. And so between the September rate, which a
22 caveat is a snapshot in time, to the rate you use on
23 AMM-9, page 2, would you agree that that's about a
24 200 basis point different -- difference?

25 A. Can you tell me which tab you are on?

1 Q. Yeah, I apologize. It's tab F, page 2 of tab
2 F. I'm more than happy to give you time if you'd
3 like to put it into the three-ring binder if it would
4 make it easier.

5 A. No, that's correct.

6 Q. So 200 basis points?

7 A. Approximately.

8 Q. Approximately 200 basis points, and again with
9 the caveat that the Mergent September is a snapshot
10 in time. It's not an average of the past six months,
11 it's just a snapshot of the day.

12 A. Correct.

13 Q. And so in this case you've given consideration
14 and incorporated an outlook for higher capital costs
15 in your ROE determination; is that correct?

16 A. Yes, that's one aspect of my recommendations.

17 Q. Now, do you mind to turn to tab H, which we had
18 plenty of, so -- and I believe you have a copy of
19 yours and Dr. Avera's testimony if you would like to
20 check, but subject to check, from the 2014 rate case
21 would you agree that this is page 19 of that
22 testimony?

23 A. Subject to check. I don't have any reason -- I
24 don't have any ability to confirm or deny, but I'm
25 sure --

1 Q. I do believe -- you do have a copy of the full
2 version up there, if you would like. I believe it's
3 tab --

4 A. I'm going to trust you on this one.

5 Q. Okay. All right. I appreciate it. Do you
6 mind to read into the record line 12 through 18?

7 A. Certainly. (Reading) Given investors'
8 expectations for rising interest rates and capital
9 costs, the KPSC should consider near-term forecasts
10 for public utility bond yields in assessing the
11 reasonableness of individual cost of equity estimates
12 and in evaluating a fair ROE for Kentucky Power from
13 within the range of reasonableness. The use of these
14 near-term forecasts for public utility bond yields is
15 supported below by economic studies that show that
16 equity risk premiums are higher when interest rates
17 are at very low levels.

18 Q. So would it surprise you to know that this is
19 the -- nearly the exact same paragraph that you
20 provided on page 23 of this current rate case?

21 A. No, not at all. In fact, the expectations for
22 bond yields and what investors are looking for in the
23 capital markets haven't changed substantially based
24 on the projections that I've looked at.

25 Q. And it would be fair to say that you've been

1 consistent on this point since the last rate case.

2 A. Yes.

3 Q. So if you'll turn to tab I?

4 A. I'm there.

5 Q. This is Exhibit WEAAMM-8 from the last rate
6 case. I believe this is your CAPM, your empirical
7 CAPM work sheet from the last rate case. Subject to
8 check, would you agree?

9 A. Yes.

10 Q. And can you provide the Commission with the
11 number that you used in the current risk-free rate?

12 A. It was 3.3 percent at that time.

13 Q. And would you agree that we discussed earlier
14 that at least recently in the last few weeks the
15 30-year treasury bond has been roughly 2.8 percent?

16 A. Yes, that's correct.

17 Q. And will you turn to the second page of that
18 exhibit or that, yeah, your exhibit, and tell the
19 Commission what the risk-free rate you used in the
20 forward looking determination was?

21 A. It was 4.7 percent at that time.

22 Q. 4.7 percent at that time.

23 A. Correct.

24 Q. So the current risk-free rate is roughly
25 2.8 percent. Excuse me. The risk-free rate you use

1 is a 30-year treasury, correct?

2 A. Yes, sir.

3 Q. And we discussed that that is roughly right now
4 at 2.8 percent?

5 A. Yes.

6 Q. And your forecast from the last rate case
7 forecasted it, not your forecast, excuse me, the
8 forecast you used that was provided pursuant to
9 the -- I think one of the things you included was the
10 Blue Chip Financial Forecast, correct?

11 A. Yeah, I've used those sources consistently.
12 I'd have to look back to see if that source was
13 applied then, but I expect it could have been.

14 Q. I think in footnote C there you note that it
15 included Blue Chip Forecast Volume 33.

16 A. Thank you. Yes, sir.

17 Q. Okay. So your forecasted interest rate from
18 the case 2014-396 in which you filed testimony in,
19 the forecasted interest rate for the time period 2005
20 to 2019 was 4.7 percent, and the current risk-free
21 rate of a 30-year treasury bond is 2.8 percent.

22 A. Right, that's correct.

23 Q. Thank you.

24 A. We don't have any dispute about the fact that
25 the forecasts don't necessarily turn out to happen in

1 real time. Dr. Woolridge makes a big point about
2 this in his testimony, and my point is it's
3 expectations that matter, not the comparison of what
4 people thought, and did it actually happen.

5 Q. Would you agree that the Commission used your
6 ROE recommendation in the last rate case to determine
7 whether the rates were fair, just, and reasonable?

8 A. I don't know that the Commission used our ROE
9 determination in the last case solely. I'm sure they
10 considered the evidentiary support in the record and
11 made their own determination.

12 Q. Would it surprise you to know that the only ROE
13 that came out of the last rate case was a stipulated
14 10.25 that applied to a single tracker?

15 A. No.

16 Q. And would it surprise -- and do you mind to
17 reconfirm with the Commission what your ROE
18 recommendation was in the last case? Subject to
19 check, 10.62 percent sound okay?

20 A. Yes.

21 Q. And do you mind to turn to tab J. This is
22 Exhibit WEAAMM-9 from the previous rate case.

23 A. I'm there.

24 Q. Go to page 2 and allow the -- tell the
25 Commission what the BBB utility bond yield 2015 to

1 2019 that was used in the applied cost of equity in
2 this, what percentage it was?

3 A. At that time it was 6.77 percent.

4 Q. And so according to Mergent, in September, a
5 snapshot in time, it was 4.24 percent in September.

6 A. That's correct.

7 Q. And so it's 2000 -- it's 25 days away from
8 2018. Essentially three years through the time
9 period in which Blue Chip forecasted interest rates;
10 is that correct?

11 A. Yes. Well, it's not just -- again, it's not
12 just Blue Chip. It's also Global Insight and the
13 Energy Information Administration of the U.S.
14 Government.

15 Q. Okay, the U.S. Government, thank you. And it
16 looks like the -- okay. So we're three quarters of
17 the way through the time period they estimated and
18 forecasted through, and the current bond yield for
19 a -- a comparable bond yield is 4 -- for comparable
20 risk, excuse me, is 4.24 percent, and you
21 incorporated -- as one of the items you incorporated
22 to come to your 10.62 in the last rate case was a
23 forecasted 6.77 percent, correct?

24 A. That's correct. We don't have any dispute
25 about the fact that the forecast did not materialize.

1 The question is sitting here today what's the basis
2 of an investor's expectations, and I'm telling you
3 again that I believe it to be forecasts, not backward
4 looking information.

5 Q. But you recommended the same thing in the last
6 case, correct, using the same sort of forecasts, the
7 same data?

8 A. My approach in this case is consistent with the
9 last proceeding, yes, sir.

10 Q. Do you mind to turn to tab, hope I'm right
11 here, tab F, please, and page 3 of that.

12 A. Okay. I am there.

13 Q. As a general proposition, has the investment
14 risk of electric utilities gone up or down over the
15 last 40 years?

16 A. It's gone up.

17 Q. You think it's gone up. And what studies do
18 you have that --

19 A. Well, I've looked at bond ratings for the
20 electric utility industry over time, and back in the
21 '70s and early '80s probably the industry average was
22 a AA. There's certainly, there was an A average, and
23 much more companies -- much fewer companies in the
24 BBB category.

25 Over time they've migrated, and today I would

1 say there's the majority of firms in the electric
2 utility industry are rated Baa, and fewer are rated
3 single A or above. In fact there's really only one
4 company I'm aware of that's rated AA, Madison Gas &
5 Electric Company.

6 Q. Okay. Would you agree -- excuse me. Excuse
7 me. What risk measures do you use for Kentucky
8 Power?

9 A. Are you referring to the establishment of the
10 proxy group?

11 Q. No, excuse me. I'm not trying to trip you up.
12 Trying to ask it in -- what do you believe the most
13 appropriate measurement of risk is to compare two
14 different utilities to each other?

15 A. Well, that depends on what you're trying to
16 compare. If you're trying to compare the risk of a
17 utility bond, for example, the easy and most
18 objective benchmark would be a bond rating.

19 On the other hand, two publicly-traded utility
20 companies, you would presumably look to other risk
21 measures such as financial strength ratings and other
22 ratings that are published in the investment
23 industry, which Beta is another example of a risk
24 indicator that's related to the risk of common stock.

25 Q. Would you please turn to tab M, please? That's

1 a lot of pleases. Would you please turn to tab M,
2 and this is an exhibit that's located in
3 Dr. Woolridge's, along with Dr. Woolridge's
4 testimony, and as industry average Beta, according to
5 Value Line Investment Survey February 2017, do you
6 have any reason to believe that the information on
7 this is incorrect?

8 A. I don't have any reason to believe it's
9 incorrect, but I haven't verified any of it.

10 Q. Would you please look at the bottom right-hand
11 corner of it?

12 A. Yes.

13 Q. And would you agree that Natural Gas, Water
14 Utilities, Electric Utilities (Central), Electric
15 Utility (West), and Electric Utility (East) have the
16 five lowest Betas on this?

17 A. Yes, they do have the five lowest Betas on
18 this.

19 Q. And as a general proposition, would you agree
20 that in recent years that of the ratings changes, the
21 credit changes -- excuse me. That the majority of
22 credit rating changes in recent years have been
23 upgrades to electric utility stocks? To electric
24 utilities, excuse me.

25 A. I think you'd have to be more specific. I mean

1 certainly, you know, there's a graph in Dr.
2 Woolridge's testimony that shows over some period of
3 time a general strengthening in credit ratings for
4 utilities.

5 We spoke this morning about a Moody's article
6 that actually involved a pretty much an industry-wide
7 upgrade based on perceptions of support from
8 regulatory mechanisms, although Kentucky Power was
9 not upgraded at that time.

10 Q. And perceptions of -- why make the qualifier
11 "perceptions"?

12 A. Well, it's the perceptions of the credit rating
13 agencies in terms of their view of how those
14 mechanisms impact the solvency and default risk
15 associated with the bonds that they're rating.

16 Q. And do you believe that those rating agencies
17 are a valid -- are a valid measure of actual risk?

18 A. Absolutely, yes, sir, and I rely on those in my
19 testimony.

20 Q. And so if you'll turn to tab L in your
21 testimony. I believe this is the page with
22 Dr. Woolridge's testimony that you were just
23 referring to. You note, and I believe Dr. Woolridge
24 admitted this earlier, that in response to Kentucky
25 Power counsel, that the single year upgrade that you

1 were just referring to was in 2014, correct?

2 A. Yes.

3 Q. And that was where 97.2 percent of utilities
4 were upgraded?

5 A. Right.

6 Q. And since that in 2015, according to EEI, do
7 you know if Kentucky Power belongs to EEI?

8 A. Kentucky Power? No. I imagine that American
9 Electric Power Company does, but I don't know.

10 Q. Okay. So according to data from EEI, is it
11 true that 70 percent of utility credit rating changes
12 have been upgrades?

13 A. I haven't reviewed that report. I don't know
14 that to be the case.

15 Q. Subject to check, does this chart depict that?

16 A. Yes. What time period were you referring to?

17 Q. The year 2015.

18 A. Yes, that's correct. According to this chart,
19 that's what it says.

20 Q. Do you mind to turn back to tab F? Okay?

21 A. I'm there.

22 Q. And column A, allowed ROE?

23 A. Oh, excuse me, I must have the wrong tab.

24 Q. That's okay.

25 A. Column F?

1 Q. Column A.

2 A. Which page?

3 Q. It's tab F, page 3.

4 A. Page 3.

5 Q. ROE A. It's your authorized returns in the
6 electric utility risk premium.

7 A. Yes, sir.

8 Q. Would you agree that you -- that the
9 percentages in column A were taken from major rate
10 case decisions regulatory focused from RRA?

11 A. Yes.

12 Q. And the 9.7 percent that you use there, is that
13 the overall average for 2016?

14 A. Yes, I just used the overall averages in every
15 year for this study.

16 Q. And in 2016, RRA reports authorized ROEs for
17 individual cases; is that right?

18 A. Yes.

19 Q. But you did not use the individual cases. You
20 just took the overall average.

21 A. I took the reported average in each year.

22 Q. Does RRA provide more than one average every
23 year, one that incorporates Virginia surcharge --
24 Virginia cases that provide additional bumps to ROEs
25 and one that does not?

1 A. They do now, although that's a recent feature
2 of their reporting, so going back there would be no
3 way for me to develop a comparable measure. For
4 instance, they also report ROEs that include
5 penalties like the Indianapolis Power Case last year
6 where the company was penalized, so I just use the
7 average.

8 Q. So this does incorporate cases from Virginia,
9 for instance, where they add additional basis points
10 to the ROE?

11 A. That's correct, it does.

12 Q. And do you know what the 2016 average ROE was
13 without those Virginia cases?

14 A. I may be able to tell you that. 2016, I
15 believe it was 9.6 percent.

16 MR. CHANDLER: That is all the questions the
17 Attorney General has.

18 CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh,
19 any questions? Staff, question?

20 MS. VINSEL: Yes. I have a few questions.

21 CROSS-EXAMINATION

22 By Ms. Vinsel:

23 Q. I'm going to pass out a packet. Mr. McKenzie,
24 this is not all geared to you. This contains
25 information that's in the case record for several of

1 the witnesses that will come up.

2 A. Now that I see the size of the stack, I
3 appreciate the preamble.

4 Q. Mr. McKenzie, can I have you turn to tab number
5 14, and the very last page there. We'll discuss that
6 in a minute, but I thought we might as well go ahead
7 and do this.

8 As you know, in the nonunanimous -- the
9 proposed nonunanimous settlement, it recommends a
10 9.75 return on equity, and your recommendation was
11 10.31, correct?

12 A. That's correct.

13 Q. Could you provide us with a general analysis of
14 the 9.75 return as compared to your recommended
15 10.31?

16 A. Well, clearly I would view the 9.75 as a
17 conservative return, given my recommendations and
18 given the methodologies that I apply in my testimony.
19 However, it is within the range that I identify in my
20 testimony, albeit right at the bottom end of the
21 range or close to it.

22 My view is that it's a very positive,
23 reasonable settlement, although it's I think a
24 conservative ROE for the company, both based on the
25 evidence that's presented in my testimony and my

1 analyses, as well as comparisons to other recent
2 decisions of the Commission, in particular the
3 9.7 percent ROE that was approved for Kentucky
4 Utilities in June this year, and as was discussed
5 earlier in the cross of Dr. Woolridge.

6 Kentucky Utilities is a less risky utility than
7 Kentucky Power, so that argues for a higher ROE, and
8 I think five basis points is really not enough to
9 compensate for that risk difference.

10 Q. To follow up on what you've just said, is it
11 your opinion that the 9.75 ROE reflects the risk and
12 return requirements of investors?

13 A. Again, I think all things considered, which I
14 think is the proper way to consider the ROE in this
15 case, given that we have a settlement agreement, I
16 think the settlement agreement inherently involves
17 tradeoffs between all the parties to reach a
18 comprehensive positive solution that the parties can
19 agree to, so I would view this ROE as being somewhat
20 on the low side, considering my recommendation.

21 I think it's, again, a little bit lower than it
22 should be, given the differential and the risk
23 between Kentucky Power and Kentucky Utilities, but I
24 think if it's examined within the scope of all the
25 evidence, that it would be reasonable.

1 I don't think it's the type of recommendation,
2 the type of finding that would cause concern among
3 the investment community, unlike an ROE of 8.6 or
4 8.82, which is essentially off the charts in terms of
5 ROEs.

6 Q. Do you believe that the 9.75 ROE aligns with
7 the current economic conditions, but also with the
8 indications that the Federal Reserve will raise
9 interest rates in December?

10 A. Again, I think it generally aligns with the
11 present conditions given recent authorized returns in
12 the utility space. I think my concern with it in
13 light of widespread expectations for interest rates
14 to rise, we have a very stimulative tax reform act
15 that may come to pass, we have the Federal Reserve,
16 which is winding down its balance sheet investments
17 and raising short-term rates. All of those, in my
18 view, are confirming the forecasts, the independent
19 forecasts that are in my testimony which suggests
20 investors expect interest rates to go up, and I think
21 that's consistent with Dr. Woolridge's own analysis
22 which uses a higher treasury bond yield for his CAPM.

23 What that suggests to me, given that there's a
24 stay-out provision in the settlement, the investors
25 are locked in at the ROE now and facing the prospects

1 that capital market conditions could change and could
2 ramp up, so I think in light of that it's a
3 conservative value.

4 Q. Turning to the tab 14, and this is -- this is
5 from your supplemental testimony, Exhibit Number 14.
6 This is a chart with the expected earnings approach
7 for this utility group.

8 A. Yes.

9 Q. Could you first explain for the Commission what
10 the expected earnings approach measures?

11 A. Well, the expected earnings approach goes back
12 to the comparable earnings standards that underlie
13 the Supreme Court's Hope and Bluefield decisions,
14 which basically say that the allowed return should be
15 one that allows the utility to earn a return on its
16 investment that's equal to other enterprises of
17 comparable risk, and how the Supreme Court initially
18 implemented that was actually looking at book
19 returns, so the fundamental premise is that rates are
20 established based on the book equity investment in
21 the utility, and so if the allowed ROE is set less
22 than what investors expect other utilities to earn on
23 their book value, the company will be disadvantaged
24 in the capital markets.

25 Dr. Woolridge pointed out that it's not a

1 capital market-based method, and he's right on that.
2 It's not. It's based on the regulatory standards
3 that underlie the determination of a fair ROE.

4 He also -- on the other hand, he said that
5 nobody uses the expected earnings approach, and I
6 don't agree on that point. The Federal Energy
7 Regulatory Commission has recognized the approach
8 that's applied to my testimony in its evaluation.

9 The Virginia Commission is mandated to consider
10 earning returns on book value for companies in the
11 region, in an immediate geographical region, when
12 they establish an allowed ROE.

13 Q. And according to your chart, you've got the
14 average ROE under this approach as 11.8 percent.

15 A. That's correct.

16 Q. So can you again just discuss how that
17 11.8 percent compares to the ROE, proposed ROE of
18 9.75 percent?

19 A. Clearly it's much higher. As I talk about in
20 my testimony, there's no single way to precisely
21 estimate the cost of equity. It's an unobservable
22 quantity, and so we have to use various quantitative
23 methods to try to get a handle on what the investors'
24 cost of equity is.

25 We've talked about earlier today the DCF

1 approach. I was walked through some of my capital
2 asset pricing model and risk premium approaches.
3 This is another independent approach to try to get a
4 handle on where the range is for investors' rate of
5 return, so I'm not suggesting, obviously I wasn't
6 recommending 11.8 percent return for Kentucky Power
7 in this case, but it's another benchmark that I think
8 is useful in trying to frame a zone of reasonableness
9 from which we draw what we consider to be the best
10 estimate.

11 Q. And this is a little bit different than what
12 I've already asked you, but in your testimony you
13 discuss investor risk, particularly that a utility
14 needs to offer a return similar to returns available
15 from other opportunities of comparable risk.

16 So in your opinion, does the proposed
17 settlement ROE of 9.75 allow for sufficient
18 investment and offer a return similar to returns
19 available from investments with comparable risks?

20 A. In my opinion, it does. Again, given my
21 analyses I believe it falls at the low end of a
22 reasonable range. I know the Commission in the past
23 has referenced RRA reports and recent allowed ROEs as
24 a basis to at least benchmark a company's ROE.

25 The most recent publication from RRA, the range

1 of returns is 9.2 to 10.25. The midpoint of that is
2 9.73. As I point out in my testimony, there's issues
3 with using RRA for those purposes because as I point
4 out, the 9.2 percent at the low end has some features
5 that don't apply in this case, so again, it's a rough
6 approximation, but what it tells me is that the 9.75
7 is certainly within a reasonable range, and I think
8 conservative given its relative risk, Kentucky
9 Power's risk vis-a-vis the KU.

10 Q. Thank you.

11 MS. VINSEL: That's all the questions we have.

12 CHAIRMAN SCHMITT: Commissioner Cicero,
13 questions?

14 VICE-CHAIRMAN CICERO: Just two quick comments.

15 EXAMINATION

16 By Vice-Chairman Cicero:

17 Q. Did you say the Virginia Commission mandates
18 geographical proximity assessment for ROEs within the
19 area that they're contiguous to or somewhere
20 thereabouts?

21 A. Yes. What they do is there is a geographical
22 boundary. They look at publicly-traded utilities
23 operating within that boundary, and they look at
24 their average earned returns over the last three
25 years, and then they develop a matrix, and they

1 have -- they are required by statute to consider the
2 majority of those values.

3 Now they obviously have a great deal of
4 flexibility in terms of what the majority is.
5 There's usually seven to eight companies, so the
6 Commission has the flexibility to move that up or
7 down as they see fit, but those -- those earned
8 returns provide a basis upon which to set a floor and
9 a ceiling for the actual allowed return, so there's
10 some premium on top of those earned returns that's
11 used to put a ceiling on it.

12 Q. So given the comments this morning about
13 Illinois having a return of 8.4 and 8.6, should we be
14 considering those returns, given the proximity of
15 Illinois?

16 A. No. I don't believe you should. There's --
17 and this again is a good example of why I think you
18 need to be very circumspect when you look at RRA data
19 as a basis to establish the ROE.

20 This particular case, first off, involves a
21 distribution only utility, so they have no
22 generation. It's a different risk class from the
23 company here. It's a different operating
24 circumstance. There's structural differences.

25 Second, it operates under a formula rate plan

1 with an annual true-up, so to the extent the company
2 over earns or under earns, it's trued up every year.
3 I think most importantly, the ROE established for
4 Ameren Illinois and other -- there's other Illinois
5 utilities that are under the same scheme, is
6 determined based on a formula approach, and it's
7 basically a fixed risk premium which is added to a
8 30-year bond yield. That risk premium doesn't
9 change. If the 30-year bond yield changes the annual
10 ROE changes.

11 Ameren's allowed ROE has been consistently the
12 lowest in the industry. I think it was 8.64 percent
13 last year as a result of this formula, and I don't
14 believe that that's a very sound basis upon which to
15 estimate investors' cost of money for a utility
16 because it doesn't vary necessarily with treasury
17 bond yields.

18 I mean, we can see a situation in the market
19 where you have a flight to quality. There's some
20 event that triggers fear in the markets. That
21 generally drives treasury bond yields down, but on
22 the other hand, the risks for common stocks would go
23 up, so in this case we'd have exactly the opposite
24 behavior in this allowed ROE based on this fixed
25 formula.

1 Q. I just find it's interesting that the Illinois
2 ROE is 135 basis points below the settlement and 190
3 basis points below your 10.31. That's a significant
4 difference.

5 A. But I would proposition that it's really
6 exception that proves the rule. I don't believe it's
7 a sound basis. I can give you another example on the
8 other side in the gas utility industry. I mean,
9 basically if we look at the RRA data for the most
10 recent -- the most recent quarter, you'll see that
11 the allowed return for gas utilities averages 10.14.
12 Well, on its face that seems a little high, but if we
13 don't look behind it we're not going to get the whole
14 story.

15 In fact, based in there is an 11.88 percent
16 return for Enstar Natural Gas up in Alaska. Now,
17 this is -- obviously we're not talking about a
18 utility in Alaska today here, but what I'm suggesting
19 is --

20 Q. Or in proximity to Kentucky.

21 A. Or in proximity to Kentucky, but there's a lot
22 of differences between the individual cases that I
23 think make setting an ROE based solely on RRA data
24 tricky, and I think the example that Dr. Woolridge
25 pulled out this morning is not indicative of

1 investors' expectations for the industry as a whole.

2 VICE-CHAIRMAN CICERO: I don't have any other
3 questions.

4 CHAIRMAN SCHMITT: Commissioner Mathews?

5 COMMISSIONER MATHEWS: I have none.

6 CHAIRMAN SCHMITT: I have no questions.

7 Mr. Garcia, redirect?

8 MR. GARCIA: Just a few, Your Honor. Thank
9 you.

10 REDIRECT EXAMINATION

11 By Mr. Garcia:

12 Q. Mr. McKenzie, in your discussion with
13 Commissioner Cicero about the Ameren case in
14 Illinois, you described that that ROE was determined
15 through a formula. Does that ROE in that case for
16 Ameren Illinois take into consideration any of the
17 type of analysis like DCF that you and the other
18 witnesses in this case have provided?

19 A. No, it does not. It's just basically take a
20 number, add it to the bond yield. There's been other
21 instances in the past where, for example, FERC tried
22 to develop a generic type of ROE approach to minimize
23 controversy.

24 In every case my experience is those break down
25 because the relationships don't hold over time. Risk

1 premiums aren't constant. Treasury bond yields
2 behave in ways that don't necessarily match the cost
3 of equity for a utility.

4 Q. You were asked during your examination by the
5 attorney for the Attorney General, and one of the
6 things that you were asked about was the ROE of 10.25
7 that was approved for certain tracker in the last
8 base case of Kentucky Power. Do you recall that
9 discussion?

10 A. Yes, I do.

11 Q. Are you aware of whether that last rate case
12 was resolved through a settlement?

13 A. I believe it was resolved through a settlement,
14 yes.

15 Q. Okay. And if you know, do you know whether the
16 settlement provided for either a range or for an
17 indication of what the ROE was for the company
18 generally?

19 A. It did provide a range, yes.

20 Q. If I told you that the average --

21 A. I can't recall it.

22 Q. -- of that range was something approximately
23 around 9.8 percent, would that be consistent with
24 your recollection?

25 A. Yes.

1 Q. You were also asked about the comparison of
2 different utilities, asked to -- the investment risk,
3 and just to -- to clarify a basic building point,
4 that's one of the requirements of the Bluefield and
5 Hope decisions, correct?

6 A. Correct, yes, that the return reflect a risk --
7 or reflect the requirements for comparable risk
8 investments.

9 Q. Now, when you said comparable risk investments,
10 would you consider Baa2 Moody's credit rating to be a
11 comparable risk investment in that sense as
12 investment into a company that has a Moody's credit
13 rating of A3, so just as Kentucky Utilities?

14 A. Well, as Dr. Woolridge discussed a little bit,
15 there's gradations within the investment grade
16 ratings scale, so there's two notches difference
17 between a Kentucky Utilities bond rating, which is
18 less risky, and Kentucky Power's bond rating. Now
19 clearly that indicates higher risk for Kentucky
20 Power, at least based on that indicator.

21 Bond yield spreads between Baa and A rated
22 bonds are about 40 basis points. That entire span
23 would be about three notches. We're talking about
24 two here. So it would be something less than 40
25 basis points, but clearly there would be a

1 difference.

2 Q. And the 9.75 percent ROE that's provided for in
3 the settlement in this case is just five basis points
4 above that which was authorized for the settlement of
5 the KU and Louisville Gas & Electric case, correct?

6 A. That's correct. And I think it's also
7 important for me to point out that the 40 basis point
8 bond yield spread is based on the risks of bonds, and
9 when we move to the higher risks of common stock we
10 would expect spreads to be higher.

11 Q. You were also asked about one-day spot yields,
12 and I think that in your answer you started
13 indicating that that was not something that could be
14 used, and acknowledging that counsel indicated that
15 those were out of the window.

16 If you could illustrate for the record a little
17 bit why can those not be used as a reliable measure
18 in order to determine the long-term return on equity
19 for the company?

20 A. Well, just like we do with stock prices, when
21 we apply the DCF model we typically use an average
22 over some period like 30 days, 180 days. Analysts do
23 it different ways.

24 The point is that in any given day yields and
25 stock prices can fluctuate, so it doesn't necessarily

1 provide a very accurate picture of investors'
2 expectations that are consistent with current capital
3 market conditions.

4 Now, that's why I use a six-month average bond
5 yield. Some people could use shorter time periods,
6 but I think a day would be a poor basis upon which to
7 make those decisions.

8 Q. You were also asked about the table that has
9 the average ROE, allowed ROEs that are published by
10 the Regulatory Research Associates, or RRA?

11 A. Yes.

12 Q. Do you recall that?

13 A. Yes, I do.

14 Q. And there was some indication during the
15 questions that for some period of time those averages
16 would include Virginia authorized ROEs that may or
17 may not include basis point increases based on
18 Virginia law. Do you recall that?

19 A. Yes, that's correct. And actually in my
20 rebuttal testimony, in Exhibit 12 to my rebuttal
21 testimony I show the effect of that for the most
22 recent two-year period, so if the Commission was
23 interested in looking at RRA data for the last two
24 years, the most recent -- and excluding the impact of
25 those Virginia riders, they could look there, and as

1 I present there the range was 9.2 to 10.55 with a
2 midpoint of 9.88 and an average of 9.73.

3 Q. Mr. McKenzie, do the ROEs that are included in
4 that average calculation include ROEs for utilities
5 that, for example, would be distribution only, or is
6 that only for integrated ones?

7 A. The numbers I just discussed are integrated
8 only, so they're comparable to Kentucky Power. The
9 ROEs in the schedule that the AG was having me review
10 earlier would contain ROEs for distribution only
11 companies.

12 Q. Now, a distribution only company, all other
13 things being equal, would be less risky investment
14 than an integrated one?

15 A. That's generally the perception. Obviously you
16 could have perhaps specific, company specific
17 differences. Again, that's why I think it's
18 important to look at the RRA data carefully, but in
19 general, yes. The risks of distribution-only
20 utilities are perceived to be lower than those of
21 integrated companies.

22 Q. Okay. You were also asked about corporate bond
23 yield averages for the year 2017 that were related, I
24 think it was either tab T or tab G of that --

25 A. G, yes.

1 Q. When you analyzed that data, Mr. McKenzie, do
2 you take into consideration the actual numbers from a
3 historical point of view, or is this information more
4 relevant to your analysis as it would be perceived
5 prospectively by investors?

6 A. Well, again, I do rely on information very much
7 comparable to what's included in this tab. And I
8 would normally rely on a six-month average bond yield
9 as the basis upon which to apply, for example the
10 risk premium method in my testimony and as a
11 benchmark in evaluating DCF methods.

12 My testimony also is that, however, given the
13 current state of economic situation, the Federal
14 Reserve policies, and expectations in the independent
15 forecasts that are presented in my testimony, that
16 the Commission should give some weight to the idea
17 that interest rates will increase, and I think the
18 Commission cited that fact in its recent decision in
19 the Kentucky Utilities case.

20 Q. And if you were to go to the next tab that has
21 an excerpt from your testimony and Dr. Avera's
22 testimony. If I can draw your attention to something
23 that is mentioned there on line 3, where it's talking
24 about historically anomalous capital market
25 conditions.

1 Would you mind elaborating a little bit on what
2 those anomalous capital market conditions were at the
3 time that this testimony was written and how they may
4 affect the perception of investors as we sit here
5 today in looking at the 9.75 percent ROE that is
6 proposed in the settlement?

7 A. Well, the quotation in the testimony that
8 you're referencing is actually a quotation from a
9 FERC order, and there the FERC determined that
10 because of the Federal Reserve's policies, in
11 particular its actions to suppress interest rates,
12 both short-term and long-term, Dr. Woolridge said
13 that the Fed doesn't impact long-term rates. He's
14 partly right. Their short-term monetary policies do
15 not.

16 However, the QE measures that they undertook
17 and the \$4.2 trillion worth of long-term debt that
18 they have on the balance sheet was specifically
19 purchased in order to impact short-term rates and to
20 suppress them.

21 FERC determined basically that these types of
22 conditions and the disconnect between the low rates
23 we have now and expectations of higher rates, were
24 having some type of an impact on stock prices, and
25 the resulting -- excuse me, on the resulting DCF

1 results, and in fact that they were leading to
2 downward biased DCF numbers.

3 Mr. Baudino spoke about the idea that chasing
4 yield perhaps has led to higher stock prices, but we
5 don't know what growth expectations are behind those.
6 We don't know what those individual investors are
7 expecting, and it's hard within all of the
8 assumptions of the DCF model to know that we're
9 accurately capturing those, so I think within this
10 context, and given the stay-out provision of the
11 settlement, to me the 9.75 is pretty much -- is a
12 very conservative spot for the ROE for Kentucky
13 Power, both given its risk relative to other
14 utilities in the states, given the expectations for
15 higher capital costs, which investors are assuming
16 the risks of those currently under the stay-out
17 provisions.

18 Q. Thank you, Mr. McKenzie.

19 MR. GARCIA: Your Honor, for the last question
20 that I was going to ask Mr. McKenzie we have a
21 demonstrative exhibit that may help follow what he's
22 going to say. Can we take care of that?

23 CHAIRMAN SCHMITT: Yes.

24 MR. GARCIA: Thank you, Your Honor.

25 MS. GLASS: May I approach?

1 CHAIRMAN SCHMITT: Yes, you may.

2 MR. GARCIA: Well, this will relate to the
3 settlement. May I approach?

4 CHAIRMAN SCHMITT: This will be marked as
5 Kentucky Power what, 10, 11?

6 MR. GARCIA: I believe it is Exhibit 12, Your
7 Honor.

8 CHAIRMAN SCHMITT: 12, yeah.

9 (KPCO Exhibit 12 marked for identification.)

10 Q. Mr. McKenzie, what has been marked as Kentucky
11 Power's Exhibit 12, this is a document that was
12 prepared by you?

13 A. Yes.

14 Q. And if you would describe what it represents,
15 please.

16 A. This is analogous to figure 2 in my direct
17 testimony which discusses this issue. Basically what
18 this presents is the weighted cost of equity both
19 for -- implied by the Kentucky Power settlement,
20 4.06, Kentucky Power's equity ratio is 41.68 percent.

21 The Kentucky Utilities case earlier this year
22 where the ROE -- where the ROE was 9.7 and the
23 company's equity ratio was approximately 53 percent,
24 and I've compared those two with the resulting
25 weighted ROEs for all companies in 2015 covered by

1 RRA where an ROE and a equity ratio was reported.

2 The reason I think this is important, again
3 getting back to this risk concept, a lower equity
4 ratio means greater risk. Kentucky Power's equity
5 ratio is well below industry average. It's certainly
6 well below Kentucky Utilities'.

7 And also as far as the rate payer impacts, the
8 fact that Kentucky Power is using a much lower equity
9 ratio basically dilutes down the impact of the ROE on
10 customers, both through the tax impact, as well as
11 just the fact that the cost of debt is lower than the
12 cost of equity, so I think this graph helps to
13 illustrate that the settlement, considering capital
14 structure as well as ROE, provides a very
15 conservative outcome, given other recent regulatory
16 decisions.

17 Q. Thank you, Mr. McKenzie. So if I can ask you a
18 few questions then about Exhibit 12. On the right
19 side where it says the Kentucky Power settlement,
20 that 4.06 percent, how does that relate to
21 9.75 percent ROE that it's --

22 A. That's the product of the 9.75 ROE and the
23 company's capital structure equity ratio of 4.186, I
24 believe.

25 Q. Okay. And asking you the same question about

1 how the 5.22 percent on the right of the chart is
2 established for Kentucky Utilities. If you can
3 explain, how is that number calculated?

4 A. That is the product of the 9.7 percent ROE
5 approved by the Commission multiplied by the
6 company's equity ratio 53.85 percent.

7 Q. Now, since Kentucky Utilities has a capital
8 structure that is more heavily weighted towards
9 equity, does that mean that every basis point in ROE
10 has potentially a revenue impact for customers, that
11 it's greater than if its capital structure, for
12 example, was flipped and it had more debt than
13 equity?

14 A. Right. Certainly there's a lot of factors that
15 go into capital structure decisions, so there's
16 company specific reasons why capital structure would
17 be right for one company and not for another, but all
18 that equal, a higher equity ratio will result in
19 higher costs just because of course the equity return
20 is higher than the debt return, and there's the tax
21 impact associated with it.

22 Q. And I'm not going to ask you about rates, but
23 from a customer point of view, what you just said,
24 does that mean that a 9.75 percent ROE as proposed in
25 the -- as stipulated in the settlement for Kentucky

1 Power, because of Kentucky Power's capital structure
2 will have a lesser impact on a basis point for basis
3 point basis than the Kentucky Utilities 9.7
4 authorized ROE?

5 A. That's correct, and I think this chart
6 illustrates that.

7 Q. Okay.

8 MR. GARCIA: No further questions, Your Honor.
9 I would move for the admission of the Company Exhibit
10 12 as a demonstrative.

11 CHAIRMAN SCHMITT: Any objections? None? Then
12 let the exhibit be introduced, filed into evidence as
13 Kentucky Power Exhibit 12.

14 (KPCO Exhibit 12 admitted.)

15 Mr. Kurtz, questions?

16 MR. KURTZ: Can I ask a few questions?

17 CHAIRMAN SCHMITT: You sure can.

18 CROSS-EXAMINATION

19 By Mr. Kurtz:

20 Q. I'm curious about this Illinois 8.4 percent.

21 You said it's trued up with the over-earned or
22 under-earned. Is it trued up to the 8.4?

23 A. That's my understanding.

24 Q. So that's not an authorized return. That's a
25 guaranteed return.

1 A. Well, it's a formula rate plan, so that's why
2 it's so much lower.

3 Q. Well, what kind of incentive does the utility
4 have to control costs if you're guaranteed a return?

5 A. Well, they certainly still have regulatory
6 oversight. They still have the -- they still operate
7 under the purview of the regulatory commission, so
8 there is obviously an incentive to make sure that
9 they operate in an efficient manner.

10 Q. Well, let's contrast that to the settlement
11 here. There's a three year stay-out with a 9.75
12 authorized. Wouldn't Kentucky Power have every
13 incentive to control costs over the three years to
14 maybe earn its authorized return?

15 A. Yes, and I think that's certainly the company's
16 objective. It's been a problem in the past that the
17 impact of attrition and the inability to earn the
18 return, so clearly there's a motivation to do that.

19 Q. One last thing. The settlement includes a 1
20 percent cap -- imputed essentially short-term debt at
21 1.25 percent for 1 percent of total capitalization.
22 Are you aware of that?

23 A. I'm vaguely aware of it, yes.

24 Q. Okay. Well, 1.25 percent is cheaper than
25 long-term debt --

1 A. Yes.

2 Q. -- and certainly cheaper than an equity amount
3 of the same 1 percent, correct?

4 A. Yes.

5 Q. One last thing. This QE2 Federal Reserve, how
6 much money do they have on their balance sheet? This
7 is a big news issue.

8 A. 4.2 trillion, give or take. Now they've
9 started a process of normalizing the balance sheet
10 holdings so they're reducing those up to a cap of
11 10 billion, I believe, per month.

12 Q. So as they sell bonds, that creates more supply
13 of the bonds, which tends to drive down the price of
14 bonds, which will tend to increase the yield, the
15 interest rate.

16 A. That's correct. And then coupled with
17 expectations of perhaps increasing deficit spending
18 as a result of the Tax Reform Act, it's another
19 factor that would contribute to expectations for
20 higher interest rates.

21 MR. KURTZ: Okay. Thank you, Mr. Chairman.

22 CHAIRMAN SCHMITT: Counsel for any of the other
23 settling intervenors have questions? If not,
24 Mr. Chandler?

25 MR. CHANDLER: I do have some more questions,

1 Your Honor. But if I may, I believe I negated to, in
2 my haste, number and reference the specific exhibits.
3 Can I do that now?

4 CHAIRMAN SCHMITT: Yes, you may.

5 MR. CHANDLER: I think the only ones that I
6 referenced that are not in the testimony would be the
7 tab E, I'd like to make Attorney General Number 7.
8 Tab G/T, Attorney General Number 8.

9 CHAIRMAN SCHMITT: This is under tab 2?

10 MR. CHANDLER: Yes. Yes, sir. Tab H, Attorney
11 General's Number 9, tab I, Attorney General's Number
12 10, and tab J, Attorney General's -- no, excuse me.
13 Tab -- no, that would have been all of them. Excuse
14 me. Got ahead of myself again. Just ten, Your
15 Honor.

16 CHAIRMAN SCHMITT: Any objection?

17 MR. GARCIA: Your Honor, the only objection
18 that I have is to the extent that some of these tabs
19 are excerpts from previously filed testimony, that
20 the entire testimony be included instead of just the
21 excerpts.

22 CHAIRMAN SCHMITT: Well, the entire testimony
23 is already in the record anyway, so it will be a part
24 of the official record, but what he's asking is, I
25 guess, is for purposes perhaps later if it goes

1 somewhere else or for briefing that this be filed as
2 an exhibit, and I'm going to sustain his motion and
3 let those exhibits be introduced.

4 MR. GARCIA: Your Honor, if I may clarify my
5 observation. It's only for the testimony excerpts
6 that are not part of the record in this case.

7 CHAIRMAN SCHMITT: Well, I understand. Okay.
8 What part -- what part are you talking about?

9 MR. GARCIA: Like, for example, Exhibit H.

10 MR. CHANDLER: I believe there are excerpts
11 from Mr. McKenzie and Dr. Avera's testimony in the
12 last Kentucky Power rate case, which are on file with
13 the Commission, and I've provided Mr. McKenzie with a
14 copy of that on the stand for his references to check
15 if they were correct. I'm more than happy to tender
16 an entire one for the record for those pages, but one
17 was tendered to the application -- to the witness.

18 CHAIRMAN SCHMITT: Well, I'm going to overrule
19 your objection and allow it to be sustained. If in
20 the future or at the conclusion of the case, if you
21 have some reason to need the other testimony and want
22 to use it, if you'll file a motion then we will allow
23 that entire transcript to be introduced into the
24 record in this case.

25 MR. GARCIA: Thank you, Your Honor.

1 Q. Do you mind to look at the area roughly between
2 the column for public utility bonds, Baa, the end of
3 2005, would you agree that the bond yields then were
4 essentially 5 and a half percent?

5 MR. GARCIA: I'm sorry --

6 Q. Excuse me, column under public utility bonds,
7 Baa?

8 A. Which year?

9 Q. 2015. That's the second time today. Excuse
10 me. 2015. Would you agree that they're roughly 5
11 and a half percent, in the neighborhood?

12 A. Well, at the end of the year they were.

13 Q. At the end of the year. And you've already
14 agreed that right now they're roughly 4.24 percent?

15 A. Yes.

16 Q. What causes bond yields to go down?

17 A. There's any number of factors. There could be
18 changes in risk perceptions for an industry or a
19 sector that could cause risk premiums to change.
20 Changing inflation rates can cause bond yields to
21 change.

22 Preference for one asset class over another,
23 for instance if people want to buy more stocks than
24 bonds there could be more demand for stocks, less
25 demand for bonds, and then obviously inflation, if I

1 hadn't already mentioned that, and general conditions
2 in the economy.

3 So if we have a economy that's running well,
4 and there's demand for credit, then typically
5 interest rates will go up, and I think then there's
6 also competition between various kinds of bonds, so
7 we have arguments about whether the treasury crowds
8 out private issuers and causes bond yields to rise if
9 there's deficit spending, those types of features.

10 Q. We've talked quite a bit, maybe not
11 specifically, but around capital and capital markets.

12 A. Right.

13 Q. In the United States is there one big capital
14 market, or are there a lot of different smaller
15 capital markets as a general proposition?

16 A. Well, I mean --

17 Q. Can I rephrase the question? I know I'm
18 putting you in a spot because I'm asking you -- for a
19 company like AEP, is there generally just the capital
20 market? Is there one big place, is that kind of how
21 it's looked at by investors? Is everybody getting
22 their money from the general same place by investors?

23 A. Yes, I think that's the question. It's really
24 about investors when we're talking about capital
25 markets, and in theory investors have any number of

1 asset classes they can invest in, including fancy
2 sports cars and paintings, so the class of assets
3 that compete for an investor's capital is almost
4 unlimited.

5 Now, of course to kind of get our hands on
6 that, within that framework we've talked about U.S.
7 capital markets or the U.S. stock market or the U.S.
8 bond market or even Nasdaq versus the New York Stock
9 Exchange, so --

10 Q. But so as a general proposition there's the
11 U.S. bond market and the U.S. stock market, correct,
12 and there may be subsets of those, but those are, as
13 a general proposition, those are the two big ones,
14 right?

15 A. Right.

16 Q. Would you agree that Ameren competes for
17 capital in both of those markets?

18 A. Yes, I do, and again, as I discussed earlier, I
19 think based on their specific risks, so they're a
20 distribution-only utility, and they have a particular
21 structural rate format that goes into that equation.

22 Q. Thank you. You mentioned earlier, and I just
23 need to clarify, you were discussing different
24 approaches earlier, and I believe it was one of your
25 approaches, and you specifically mentioned something

1 along the lines of it is an approach similar to that
2 that the Supreme Court looked at and then followed up
3 with book returns. What were you speaking about
4 specifically?

5 A. The expected earnings approach.

6 Q. And when was that used by the Supreme Court?

7 A. Back in the -- in really before the advent of
8 kind of what we would consider modern capital market
9 methods, so, I mean, the DCF is a recent newcomer.
10 It really wasn't used in the utility industry until
11 the late '70s, so before that, and the capital asset
12 pricing model and other models were nonexistent back
13 in the early days of regulation, so that is what was
14 typically relied on. It was often applied to
15 nonutility companies as a basis to try to figure out
16 what the comparable earned return on book value
17 should be.

18 Q. And so because it was used then you believe
19 that's a reasonable basis for looking at it now for
20 direction?

21 A. No, my basis for using it now is not because it
22 was used then. I think it's still a valid benchmark.
23 I think when someone pulls up a Value Line sheet, a
24 potential investor, and looks at an expected earned
25 return on book value for utility Y, and it's

1 10.2 percent, and they look at an expected earned
2 return on book value for utility Z, and it's
3 8.6 percent, they're going to go with the 8.2.

4 Q. And so if enough people look at stocks and make
5 the decision like you were just discussing, what
6 happens generally, all things equal, to stock prices,
7 to those individual stock prices?

8 A. You'll have to clarify your question.

9 Q. When people purchase stocks as a general
10 proposition, what happens to the stocks, the price of
11 the stocks?

12 A. You're asking me what happens to the price?
13 Stock prices can move up and they can move down. We
14 could have capital gains or losses.

15 Q. All things equal, if it's purchased more often
16 than sold, or if it's -- excuse me. If it's
17 purchased for an increasing price, what happens to
18 the price?

19 A. I think by default it goes up. I think what
20 you're saying is if there's certainly more demand for
21 a stock than current supply exists, then the price
22 will be bid up until the market reaches equilibrium,
23 or vice versa.

24 Q. You mentioned LG&E and KU as a global
25 settlement; is that correct?

1 A. No, I don't believe I said that.

2 Q. Is it your understanding that the LG&E
3 settlement that was offered to the Commission for
4 acceptance or modification or denial was a global
5 settlement and that it was a unanimous settlement?

6 A. That's my recollection.

7 Q. And do you -- is it your understanding that the
8 current stipulation or non -- the current stipulation
9 is a nonunanimous settlement?

10 A. Yes, sir, that's my understanding.

11 MR. CHANDLER: That's all the questions I have.

12 CHAIRMAN SCHMITT: Mr. Gardner, Osterloh,
13 questions? Staff, question?

14 MS. VINSEL: Nothing further.

15 CHAIRMAN SCHMITT: Commissioner Cicero,
16 Mathews?

17 COMMISSIONER MATHEWS: No.

18 MR. GARCIA: Your Honor --

19 CHAIRMAN SCHMITT: Mr. Garcia.

20 MR. GARCIA: -- actually just to clean up the
21 record, I think there might be a number that was
22 flipped.

23 REDIRECT EXAMINATION

24 By Mr. Garcia:

25 Q. Mr. McKenzie, when you were answering some of

1 the questions from the AG, and you were talking about
2 expected choice of investment between -- I think that
3 the numbers were presented to you is a 10.8 or a
4 10.2. I think that your answer might have referred
5 to 8.2, and I just wanted to make sure if you could
6 restate.

7 If you have an investor that is choosing
8 between investment choices.

9 A. Yes.

10 Q. And say that both of them are of similar risk,
11 and one is pricier than the other, what would the
12 investor pick?

13 A. I think if we're going back to the example of
14 the expected earnings approach, if I misspoke I
15 apologize, but what I was trying to say is that for
16 two investments of comparable risk, if one is
17 expected to earn a return of 8.6 percent, and another
18 is expected to earn a return of 10.2 percent, for
19 example, the investors will prefer to purchase the
20 stock of the company that's expected to earn
21 10.2 percent.

22 Q. Right. At the core of the Bluefield and Hope
23 doctrine is that a company needs to be allowed to
24 earn a return, that it's able to attract that
25 investment against similarly -- similar risk

1 investments.

2 A. That's correct. One of the fundamental
3 principles of Bluefield and Hope is the financial
4 integrity principle, so the company should be allowed
5 to maintain its access to capital in its financial
6 integrity, which in my view is undermined if the
7 allowed ROE is set far below what other utilities are
8 expected to earn.

9 MR. GARCIA: Thank you. That's all, Your
10 Honor.

11 CHAIRMAN SCHMITT: Mr. Kurtz?

12 MR. KURTZ: No, sir.

13 CHAIRMAN SCHMITT: Anyone else? Mr. Chandler?

14 MR. CHANDLER: I'm done, thank you.

15 CHAIRMAN SCHMITT: If there are no further
16 questions, may Mr. McKenzie be excused as a witness?

17 MR. OVERSTREET: Yes, Your Honor.

18 CHAIRMAN SCHMITT: Thank you, Mr. McKenzie.
19 You may step down.

20 At this time we're going to take a -- let's
21 take a 15 minute recess, but when the gavel falls and
22 we go off the record would Counsel please approach so
23 I can have a brief conversation with you? Thank you.
24 We'll be in recess until 25 after 4:00.

25 (Recess from 4:09 p.m. to 4:23 p.m.)

1 CHAIRMAN SCHMITT: Okay. We're now back on the
2 record. Would Kentucky Power please call its next
3 witness?

4 MR. OVERSTREET: Thank you, Mr. Chairman. Our
5 next witness is Mr. Carlin, and Mr. Garcia will
6 present.

7 CHAIRMAN SCHMITT: Okay. Thank you.

8 Mr. Carlin, please raise your right hand.

9 ANDREW R. CARLIN, called by the Kentucky Power
10 Company, having been first duly sworn, testified as
11 follows:

12 DIRECT EXAMINATION

13 By Mr. Garcia:

14 CHAIRMAN SCHMITT: Thank you. Please be
15 seated.

16 Mr. Garcia, you may ask.

17 MR. GARCIA: Thank you, Your Honor.

18 Q. Would you state your name and business address
19 for the record, please?

20 A. Andrew R. Carlin, 1 Riverside Plaza, Columbus,
21 Ohio, 43015.

22 Q. And by whom are you employed and what capacity?

23 A. I'm employed by American Electric Power
24 Services Company in the capacity of director of
25 compensation and executive benefits.

1 Q. Thank you, Mr. Carlin. Did you cause direct
2 testimony consisting of 39 pages of questions and
3 answers and ten exhibits be submitted in this case?

4 A. Yes, I did.

5 Q. And did you also cause rebuttal testimony
6 consisting of 35 pages of questions and answers to be
7 submitted in this case?

8 A. Yes, I did.

9 Q. And did you also submit discovery answers in
10 this case?

11 A. Yes, I did.

12 Q. Do you have any corrections or additions to
13 either your direct testimony or your rebuttal
14 testimony?

15 A. No, I do not.

16 Q. If I were to ask you the same questions today
17 would you substantially provide the same answers?

18 A. Yes, I would.

19 Q. And was that direct testimony and rebuttal
20 testimony and the corresponding exhibits prepared by
21 you are or under your supervision?

22 A. Yes, they were.

23 Q. Do you adopt your direct testimony, including
24 exhibits, rebuttal testimony, and the discovery
25 answers that you have provided in this case as your

1 evidence?

2 A. Yes, I do.

3 MR. GARCIA: Your Honor, witness is tendered
4 for cross.

5 CHAIRMAN SCHMITT: Okay. Thank you.

6 Mr. Kurtz, questions?

7 MR. KURTZ: No, sir.

8 CHAIRMAN SCHMITT: Counsel for any of the
9 settling intervenors, any questions of this witness?
10 If not, Mr. Chandler, Mr McNeil?

11 MR. CHANDLER: Mr. McNeil has some questions,
12 but may I approach?

13 CHAIRMAN SCHMITT: Yes, you may.

14 CROSS-EXAMINATION

15 By Mr. McNeil:

16 Q. Good afternoon, Mr. Carlin.

17 A. Good afternoon.

18 Q. Let me know as soon as you've got that settled.

19 A. It doesn't actually fit in the binder, but I'm
20 good. Go ahead.

21 Q. Okay. All right. Earlier today
22 Mr. Satterwhite testified, and were you in the room
23 for that?

24 A. I've seen it on video.

25 Q. Okay. At one point he said something to the

1 effect that you've dealt with lots of studies and as
2 far as wage and pension competitiveness; is that
3 correct?

4 A. Yes.

5 Q. Can you tell me, has the company prepared any
6 studies regarding the ability of rate payers to
7 afford the SERP, the Settlement Employee Retirement
8 Program, expenses embedded in the application?

9 A. The company does study its nonqualified benefit
10 expense and finds it to be a normal cost of doing
11 business. We have not done a study specific to
12 customers' ability to pay for those costs. I don't
13 think anyone has ever done that study, but one would
14 expect that as a reasonable cost of -- imprudent cost
15 of doing business, that it would be included in the
16 company's cost of service.

17 Q. Are the sort of studies you mention, are those
18 company facing only? Do they address sort of the
19 rate payers and customers?

20 A. They address the compensation benefits expense
21 that we find in the marketplace for similar positions
22 for similar companies, both in general industry and
23 in the utility industry.

24 Q. Okay. Could you please refer to your rebuttal
25 testimony? Do you have that available?

1 A. Yes, I do.

2 Q. At page 31, please. Let me know when you're
3 there.

4 A. I'm there.

5 Q. Okay. So at lines 11 and 12. It's your sworn
6 testimony that incentive compensation adjustments
7 should not flow through to cause savings plan
8 adjustments, isn't it?

9 A. Yes, it is.

10 Q. Okay.

11 A. The reason for that is that our incentive
12 compensation expense is part of a market competitive
13 compensation package, and if we were to change or
14 eliminate incentive compensation, reduce it, we would
15 need to increase base pay, and base pay would be
16 included in that savings plan as well as the
17 incentive compensation is currently included, so it
18 wouldn't flow through. A change like that would not
19 flow through to reduce savings plan expense.

20 Q. Would you please then turn to tab 1 in the
21 documents I handed you. This tab consists of
22 documents that are already in the record.

23 First two pages are 15 and 16 of Mr. Ross's
24 direct testimony, and then the next two pages are
25 from Section 5, Exhibit 2 of the company's

1 application, pages 33 and 37. Do you see those pages
2 there?

3 A. Yes, I do.

4 Q. Okay. Prior to filing your rebuttal testimony,
5 had you read the portions of the company's
6 application and direct testimony filed here that
7 related to savings plan expense?

8 A. Probably had not read all of it, no.

9 Q. Okay. Well, then isn't it true that company
10 witness Ross's direct testimony on page 15, line 18,
11 addresses the company's proposed adjustment to
12 savings plan expense with the question, (Reading)
13 Please describe the cost of service adjustment for
14 savings plan expense.

15 And then it has the section relevant. Do you
16 see that?

17 A. I do see it.

18 Q. Now turning to page 16 of Mr. Ross's direct
19 testimony, lines 3 to 6, doesn't it say (Reading),
20 This cost of service adjustment for savings plan
21 expense is determined by taking the net forecasted
22 decrease related to changes in incentives, et cetera?

23 A. Yes, it does say related to changes in
24 incentives.

25 Q. So the company itself calculated an adjustment

1 to savings plan expense based on its adjustment to
2 incentive compensation expense, didn't it?

3 A. Let me carefully read the testimony here.

4 Q. Sure, go ahead.

5 A. I think there's a difference between the
6 changes that Mr. Ross is contemplating here and the
7 changes that I'm responding to, which would be to
8 remove the substantial portion, or a substantial
9 portion of the company's incentive compensation
10 expense from its cost of service, and so the change
11 I'm responding to would be much more substantial than
12 what Mr. Ross is responding to here.

13 Q. But you had said that, in your testimony, that
14 compensation -- incentive compensation adjustments
15 should not flow through to cause savings plan
16 adjustments, right?

17 A. It depends what those adjustments or those
18 changes are related to. If it's related to replacing
19 annual incentive compensation with base pay, which is
20 what we would need to do if we eliminated incentive
21 compensation expense to a substantial degree, then
22 no, they should not flow through because base pay is
23 included in the 401(k) match as well.

24 If it's related to an adjustment related to
25 head count or something like that, then yes, it

1 probably should flow through.

2 Q. So did you not make a distinction as to the
3 amount?

4 A. Well, I was responding to the specific
5 situation in which the intervenor testimonies, the AG
6 and the industrials had suggested eliminating a very
7 large portion of the company's annual incentive
8 compensation expense, and I was pointing out that if
9 we did that we would need to replace it with
10 additional base pay, and therefore that adjustment
11 would not flow through or should not flow through
12 because base pay would also be included. The
13 offsetting increase in base pay would also be
14 included in the savings plan.

15 Q. Okay. But I just want to make sure before you
16 had filed your rebuttal you said you hadn't read the
17 application or direct testimony that was referenced
18 here?

19 A. I've read a great deal in this case. I'm not
20 sure if I've read this specific testimony of Mr. Ross
21 or the application in total, but I've read a great
22 deal.

23 Q. All right. If you would refer to the third
24 page of that tab. It has a label of W32 at the top.
25 Did you review either of these next two pages?

1 A. I see one that says page 33 of 60.

2 Q. Yes, and the next page. If you can just look
3 at those and tell me if you remember reviewing those
4 prior to filing your rebuttal testimony?

5 A. I don't recall.

6 Q. Okay. Well, that page that is 33 of 60,
7 doesn't that show that the company's own proposed
8 adjustment to incentive compensation is here on this
9 page?

10 A. What line would it be on?

11 Q. Looks like line 29.

12 A. It reads, (Reading) Combined adjustment to
13 incentive compensation cost.

14 I assume that's what it is.

15 Q. All right. And if you turn to the next page,
16 which would be labeled 37 of 60, that shows the
17 company's own proposed adjustments to savings plan
18 expense, doesn't it?

19 A. Yes, it does.

20 Q. Okay. And it's clear from looking at line 1 at
21 that page that the company itself calculated its own
22 proposed adjustment to savings plan expense by, among
23 other things, multiplying its adjustment to incentive
24 compensation expense by the 4 percent savings plan
25 loading rate. Right?

1 A. That's correct, but as I previously stated,
2 that's not replacing annual incentive compensation
3 with base pay, which was what I was responding to in
4 my testimony.

5 What this is is it's bringing -- it's
6 normalizing the value of incentive compensation to
7 the target level, and that adjustment would flow
8 through, as opposed to a replacement where you would
9 substitute base salary for incentive compensation.

10 Q. But doesn't that still -- doesn't the
11 application contradict your rebuttal testimony where
12 you said any incentive compensation adjustments
13 should not flow through to cause savings plan
14 adjustments?

15 A. Well, not in the context in which I said that.
16 It does not, no. I'm talking about replacing base
17 salary with an annual -- or, I'm sorry, replacing
18 annual incentive compensation with additional base
19 salary, so in that context it should not flow
20 through.

21 That's what was contemplated by the intervenors
22 that I was responding to, and that was the discussion
23 prior to that paragraph in my testimony. I think
24 that's clear.

25 Q. Okay. Now, isn't it true -- turning to tab 2

1 actually, if you would. Isn't it true that the
2 Commission made an adjustment to disallow some of the
3 company's incentive compensation expense in its last
4 rate case?

5 A. That is correct.

6 Q. Since the company's last rate case, was the
7 company able to hire and retain competent employees?

8 A. Generally speaking, yes.

9 Q. What do you mean by "generally speaking"?

10 A. We are always in a constant struggle to hire
11 competent and capable employees. It's -- it's
12 something that we work hard at each and every day.
13 Sometimes we win, sometimes we don't get the
14 competent employees that we would like to get, and we
15 get someone else, but most of the time we're
16 successful.

17 MR. MCNEIL: Sorry. One second, Judge.

18 Q. So doesn't the stipulation in this case exclude
19 incentive compensation?

20 A. It excludes a portion of incentive
21 compensation, which was a management decision. The
22 stipulation in this case makes it clear that it's
23 part of a whole settlement, and the company is
24 willing to reduce its costs in the manner described
25 in that settlement as part of a whole package deal.

1 And that's a management decision, not a
2 compensation decision, that I support, but I still am
3 arguing and my testimony supports recovery of the
4 full amount should the Commission decide not to agree
5 to the settlement.

6 Q. Do you recall the total amount of that portion?

7 A. The way we divide the work load is that the
8 accounting witnesses cover the dollars, and I cover
9 the reasons for, so that may be in my testimony, but
10 it would be better to rely on witness Ross for those
11 numbers.

12 Q. Okay. So you don't know the total incentive
13 compensation number that was disallowed in the
14 stipulation?

15 A. 3.15 million was the dollar value that the
16 company agreed not to include in its cost of service
17 in the stipulation, if that stipulation is adopted.

18 Q. Okay.

19 MR. MCNEIL: That's all the questions we have
20 at this time, Your Honor.

21 CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh,
22 questions?

23 MR. GARDNER: No, Your Honor.

24 CHAIRMAN SCHMITT: Staff?

25 MS. VINSEL: Yes, we have a few questions.

CROSS-EXAMINATION

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By Ms. Vinsel:

Q. Good afternoon, Mr. Carlin.

A. Good afternoon.

Q. I don't know if you were here this morning when Vice-Chairman Cicero was asking Mr. Satterwhite about, particularly about the defined benefit plans. Were you here then?

A. I was not in the room, but I have heard about it, and we've discussed it, so I'm familiar with it.

Q. Okay. Could you first just give us an overview of all of the -- of these particular retirement plans, defined benefit, defined compensation?

A. Certainly. For details on that, I can cover it at a high level, but for details on that Mr. Cooper, who is up next, is the director of benefits, and he is the best witness on detailed questions on benefits in particular.

But the company does have defined benefit and defined contribution plans. The way I would describe it is that these plans are part of a market competitive benefit package that we benchmark against both utility industry, energy industry, and general industry companies.

It is market competitive. By that I mean it's

1 a single serving. In total. We do have two
2 different kinds of plans. Think of it as the soft
3 serve swirl where half is chocolate and half is
4 vanilla, still fitting in the same size cup. So it's
5 a single serving cup. We paid the same for it as we
6 might if we had all of one or all of the other, but
7 it's a swirl of the chocolate and the vanilla in this
8 case.

9 Q. Are there employees who qualify for both
10 defined benefit and defined compensation?

11 A. Defined contribution.

12 Q. Contribution, excuse me, yes.

13 A. Is the word you're looking for there.

14 Q. Thank you.

15 A. Yes. In fact, almost all employees qualify for
16 both of those. Again, it's part of an overall market
17 competitive benefit package that's a single serving.
18 It's not a double dip.

19 Q. Can I have you turn to -- do you have this
20 packet that --

21 A. This one here?

22 Q. Yes.

23 A. What number?

24 Q. Tab 7. And this is an exhibit to your direct
25 testimony. It's Exhibit ARC-4, and in this case it's

1 Kentucky Power's target total compensation versus
2 market compensation for technical, craft, and
3 clerical jobs, correct?

4 A. Correct.

5 Q. Okay. In looking at this exhibit, it indicates
6 that Kentucky Power's total compensation for
7 technical, craft, and clerical jobs lagged behind the
8 survey medians; is that correct?

9 A. That is correct. 5.4 percent behind survey
10 median.

11 Q. Can you explain the reason for that
12 compensation lag?

13 A. The primary reason is that our base wage rates
14 have lagged, and that is because we had a salary
15 freeze back in 2009, and we've -- over the period
16 since then we've had some years where we've done a
17 little better than market and other years that we've
18 done a little worse, and so we haven't really made up
19 much ground, and we're trying to make up some ground
20 now, but we got behind market back in '09, back in
21 the great recession because we had a salary freeze,
22 which we felt was the right thing to do for our
23 customers at that point in time, but it's been
24 difficult for us to catch up. Now seven, eight years
25 down the road we still haven't caught up.

1 Q. So I think you may have answered this, but I'm
2 going to ask it anyway. That compensation lag, has
3 that played a role in recent years' payroll increases
4 or salary increases?

5 A. Yes, that's -- that is the main reason why,
6 we're trying to catch up, and we -- to catch up we
7 necessarily have to provide bigger increases than the
8 market median. Otherwise we won't make any progress
9 in catching up to the market, but that's the whole
10 reason we're behind, and we're trying to catch up.

11 Q. Okay. In your testimony you indicated that the
12 salary structure, the overall salary structure is
13 designed to reward performance through incentive
14 compensation. Is there a similar lag in terms of the
15 incentive compensation?

16 A. Well, incentive compensation is a product of
17 base wages, so every employee has an incentive
18 compensation target. The physical workforce that's
19 used in this example, the target is 5 percent of
20 their base wages. And so if base wages lag, then
21 their total compensation will lag because 5 percent
22 of a lower number is still a lower number.

23 Q. Point taken. I want to make sure I'm
24 understanding the dates of the various surveys. The
25 most recent salary surveys are from 2016, is that

1 correct, or that were used, reported on this
2 application.

3 A. Used in this case, that's correct. We have
4 since gotten the 2017 surveys in, but they came in
5 after we filed our testimony in this case.

6 Q. And then the incentive plan surveys, is the
7 last date of that 2010?

8 A. It is. We're hoping to get an update on that,
9 but these surveys cost money, and we don't have one
10 at this time.

11 Q. So the reason that you haven't updated it since
12 2010 is just a question of money?

13 A. Yes.

14 Q. Primarily.

15 A. Primarily money. Participation. It also takes
16 time to participate in these studies, and for
17 whatever combination of those reasons we don't have
18 it.

19 Q. Does Kentucky Power either conduct or contract
20 with a third party to conduct a salary survey for
21 regional companies, other than utilities, so getting
22 a sense of a local or regional. Say, for example, in
23 the Kentucky Power service territory?

24 A. We do benchmark jobs that are not unique to the
25 utility industry to general industry, so about, I

1 think it's either 40 or 60 of our jobs, 60 percent of
2 our jobs, let's say that subject to check, are not
3 unique to the industry, so we benchmark those against
4 general industry, and we have general industry
5 surveys that we do that against.

6 MS. VINSEL: That's all the questions I have at
7 this time.

8 CHAIRMAN SCHMITT: Commissioner Cicero,
9 questions?

10 EXAMINATION

11 By Vice-Chairman Cicero:

12 Q. Let me understand. The last survey you had was
13 2010?

14 A. No, that's the last survey we have that was
15 specific incentive compensation designed. That's a
16 pretty unique type of survey. It's not a survey of
17 wages. It's just a survey of how incentive plans are
18 designed and their prevalence, the prevalence of
19 different design factors in them. It's an exhibit in
20 my testimony if you wish to read it. We do benchmark
21 our wages annually.

22 Q. Against?

23 A. Against the -- well, the utility industry jobs,
24 there's only one place to benchmark them against, and
25 that's utility industry data. If the job is

1 available in the general industry we benchmark it
2 against general industry data, which is a wider cut.

3 Q. But your chart, table ARC-3, you indicate
4 that -- I think that's where you were saying you were
5 behind because you didn't give an increase in 2009,
6 and then you have '10, '11, '12, '13, '14, '15, '16,
7 and you compare only to the utility industry market.
8 Are you saying that those percentage increases are
9 strictly related to the hourly and craft employees?

10 A. So you've mixed a couple of things there. The
11 wage increases that I showed in my testimony have
12 really been the same for the utility industry as they
13 have been for general industry. Those have been
14 remarkably consistent since -- for years. There's
15 very little variance in those surveys. The wages on
16 the tab ARC-4 --

17 Q. This is ARC-3.

18 A. Well, the one that the staff handed me before,
19 physical and craft positions, is marked ARC-4.

20 Q. I'm not talking to the one that -- I'm --

21 A. Oh, okay.

22 Q. I'm referring to your Carlin page 20, table
23 ARC-3, and I don't have a handout for you.

24 A. Oh, okay. Yes. Let me just make sure I find
25 that in my testimony. There's ARC-2. ARC-3. So

1 these are the wages for physical and craft positions,
2 and the conference board is the source for this data.
3 This is not, make sure, this is not -- no, this is
4 specific --

5 Q. To utility.

6 A. -- to utilities. I would venture to say that
7 there's very little difference in any of these years
8 between the utility and general industry. The
9 numbers have been quite consistent.

10 Q. Well, you chose to go back all the way to 2009
11 to do your comparison so I guess that you could show
12 that the company was below the market?

13 A. Well, correct. We're still catching up. We
14 haven't had an opportunity to fully catch up yet, so
15 it felt that that period was relevant for that
16 reason.

17 Q. So all the way back to 2009 because it appears,
18 if you take the last five years, you're basically
19 right on top of the market, 14 percent versus 15.

20 A. But that leaves out the year that we had the
21 zero, and that's a big difference. When everyone
22 else is moving by 3 percent and you're moving by
23 zero.

24 Q. But I don't know what happened prior to 2009.
25 It could have been above. At 2008 it could have been

1 3 percent and the rest of the market be 1 percent.

2 A. And that's a good point, but I would refer you
3 to ARC Exhibit -- Exhibit ARC-4, which shows where we
4 are in total relative to the market, so these are the
5 increases we provided that you're talking about in
6 table ARC-3.

7 The exhibit ARC-4 shows where we stand relative
8 to the market for these physical and craft jobs, and
9 it shows that we are also behind, so we have
10 confirmation from two different points of view that
11 we remain behind the market.

12 Q. First of all, I'd like to say that I believe
13 that the utility industry should pay market price,
14 but not just based on the utility industry. It
15 should be a comparison that includes other salary
16 surveys for geographic area and other industries, so
17 I'm -- I personally am not opposed to you paying a
18 market-based price for salaries, so I'm not even
19 really arguing that point, but now I'm going to get
20 into benefits, and that's where I think that the
21 utility industry does tend to overreach in what they
22 believe is a way to compensate their employees.

23 In my opinion, it's not necessary to
24 overcompensate on the benefits side if you're paying
25 market value on the salary side, and here's where

1 we're going to come in to you talked about this --
2 your double twist, there's the vanilla and the
3 chocolate, but the cone is the same size. When was
4 the defined dollar benefit plan put into place? How
5 long has that existed?

6 A. So the company's had a pension plan for at
7 least two decades. Probably well before that,
8 certainly before my time.

9 Q. As a defined dollar benefit?

10 A. Well, so I was going to explain that. I think
11 we need some background there. So there are two
12 formulas in the current company -- in the company's
13 current pension program. There is a final average
14 pay formula that was put in well before my time.

15 It was in -- 2000, at the end of 2000 we added
16 a cash balance formula, which looks very much like a
17 401(k) defined contribution, but it falls under the
18 rules of defined benefit plans. And we put that in,
19 and we ran the two formulas. The participant got the
20 two formula -- higher of the two formulas. We ran
21 them side by side for ten years, but at the end of
22 the 2000 we froze the final average pay formula for
23 participation, so I think that's what you mean by --

24 Q. Thank you. So was it lock and freeze or was it
25 grandfathered?

1 A. It was -- more background needed here.

2 Q. Okay.

3 A. We froze participation at the end of 2000.

4 Q. Grandfathered.

5 A. At the end of 2010 we froze the benefit.

6 Q. Okay. Lock and freeze.

7 A. Okay. So two different periods, but it's
8 locked and frozen at this point. No -- there aren't
9 any significant costs in this case related to that
10 formula. There are still people who, myself
11 included, that's still the higher benefit, so the
12 cash balance has -- was loaded with an amount back in
13 2000 and has continued to grow, but because of the
14 way interest rates have changed, have been low
15 through the period 2000 through 2017, the final
16 average pay formula grew pretty fast up until 2010
17 when it was frozen, and it remains, for me at least,
18 the higher of the two benefit formulas, which means
19 since 2010 my pension formula hasn't grown at all.

20 So my -- and there's a significant chunk of the
21 employee population that's in the same camp that I'm
22 in because I've got a frozen benefit that's the
23 higher benefit, and it's the winning formula. The
24 cash balance hasn't caught up, and so I've not gotten
25 a bigger benefit. It's not grown at all since 2010.

1 Q. That's okay. That was a very good background
2 because I understand what you're saying is the plan
3 was locked and froze in 2010. You're not earning any
4 additional benefit by being in that plan, and so now
5 the company is offering another formula, if I
6 understand correctly, that's basically a 401(k) type
7 savings plan that for new participants, new
8 employees, they go into that plan, and you're saying
9 right now there's a parallel formula running.

10 You're not earning in both, you're going to
11 catch up one way or the other to whatever the best
12 benefit is. Is that a correct statement?

13 A. It's close. So a little bit more background.
14 I apologize. I think -- well, the cash balance plan
15 is not a savings plan. Employees don't contribute to
16 it. Only the company contributes to it. We also do
17 have a savings plan, which the employees do
18 contribute to, and the company then matches their
19 contribution.

20 Q. Okay. We're going to talk about that in a
21 moment.

22 A. All right? So but the rates for the cash
23 balance pension plan are set knowing what we're also
24 contributing in the K plan, so that the total amount
25 of the company's subsidy, or contribution on behalf

1 of employees, is market competitive, so we know we're
2 matching 75 -- well, it comes out to 75 cents on the
3 dollar for a 6 percent contribution. That's not
4 exactly the way it works, but it's close enough, in
5 the K plan, and we know the rates, they start at 4
6 and a half percent of eligible compensation, and the
7 pension plan, those two add up to a market
8 competitive total retirement benefit.

9 Q. Yes, and you keep referring to market
10 competitive plan, and here's where I'm coming from.
11 A pension plan, either a defined dollar benefit or a
12 cash value plan, I have no problem with that, or a
13 401(k) plan by itself with a company match, have no
14 problem with that, or a 401(k) plan not matched by
15 the company, that participants in a pension plan,
16 defined dollar benefit or cash value where the
17 company doesn't contribute, no problem with that.

18 I do have a problem if you're going to
19 contribute a match into a 401(k) at the same time
20 you're allowing an individual to earn a pension plan
21 that is either defined dollar benefit or a cash value
22 plan. That is double dipping. That's not one cone.
23 That's two cones. That's whatever you want to call
24 it, but it's two pension plans.

25 You're allowing -- and you're just saying that

1 it's market competitive, and that's how you're
2 justifying it, and I'm saying that you show me an
3 industry outside the utility industry that allows
4 people to earn two pension plans, and I'll show you
5 something that exists on a very minute percentage
6 basis because it doesn't exist out there.

7 I find it exists in the utility industry. I
8 call the utility industry an incestuous industry
9 because you compare against each other, and then it
10 all looks like it's what you've got to pay for
11 market, but you don't have to -- you can argue this
12 hourly craft employee argument because those are very
13 specific, highly valued people that work for you, but
14 when you get into office personnel and the rest of
15 the people who work there, those people don't have
16 such a specialized craft or profession that they
17 can't be found anywhere out in the marketplace,
18 geographically or otherwise, and I don't understand
19 why the company is incurring this greater cost and
20 passing on to the rate payers. I don't see the
21 justification.

22 A. Well, I disagree that it's greater cost. We
23 are -- our cost is the market competitive cost. We
24 have designed these two plans together to do what
25 other companies are doing, to provide the median

1 amount of pension benefits together as a total, and
2 so yes, we have two plans, but they're not creating a
3 value for participants that's any greater than if we
4 had a full-blown 401(k) plan with 100 percent or
5 125 percent match or a full-blown pension plan with a
6 greater employee contribution there as well.

7 Q. You're matching .75 up to 6 percent?

8 A. Yes.

9 Q. Okay. So you've got basically what some plans
10 offer on a 401(k) plan just stand alone by itself
11 because it can be 1 percent maxed on 4 percent or
12 half half, and then another 3 to get the employee
13 contributes 4 and ends -- or 5 and ends up with 4,
14 but at the same time you're permitting earnings on a
15 defined dollar benefit plan or a cash value plan,
16 that those by themselves are a valid pension plan.

17 How much of the industry in general offers a
18 defined dollar benefit plan? Is it about ten
19 percent? I think that's what it is in private
20 sector.

21 A. I think it's a little larger than that, but
22 it's certainly been shrinking. It's been 25,
23 20 percent maybe recently.

24 Q. So even at 20 percent you're offering a plan
25 that only 20 percent of the general industry offers

1 in the private sector, and you're saying that you
2 have to offer an additional savings plan besides?

3 A. I'm saying that the total dollars that the
4 company is contributing to these plans is what our
5 peer companies are contributing. It's actually a
6 little bit less.

7 Q. I know, and you keep referring to peer
8 companies. It's the utility industry that offers
9 this dual type of incentive to their employees. It's
10 two pension plans. And you're calling it market
11 valued.

12 A. If you look at -- and so you're not
13 disagreeing, I don't think, that other companies in
14 the utility industry are offering the same pension in
15 total that we're offering, the same market
16 competitive amount. Or you're not disagreeing that
17 we're market competitive relative to the utility
18 industry.

19 What I think you're saying is the utility
20 industry should take into account other industries,
21 and we do. Other large employers offer benefits very
22 similar to those that we offer.

23 Q. I think what I'm trying to say is in the
24 Commonwealth of Kentucky that utilities should start
25 looking for the rate payers' benefit and saying this

1 is a reasonable compensation.

2 Again, I'm not arguing paying market price for
3 salary. I just don't believe that utilities should
4 be overpaying -- what I talked to Mr. Satterwhite
5 about, doubling insuring yourself. What's the
6 turnover rate for Kentucky Power?

7 A. It's four-ish, three and a half, four,
8 somewhere in there.

9 Q. Three and a half to four?

10 A. Three to four, maybe three and a half. I'm not
11 exactly sure, but it's low. I'll agree to that.

12 Q. It's low, yes. It's low because the benefits
13 that are offered are probably in excess what they
14 need to be, and I continue to argue, and I argued
15 this point, and the Commission has argued this point
16 with all the rate cases that have come before us in
17 recent time about double dipping, having two pension
18 plans.

19 There's no argument that employees deserve a
20 pension plan. That goes without saying. I don't
21 think any of us on the Commission would disagree that
22 that is a benefit that's enjoyed by a lot of people,
23 not all, but a lot of people, but certainly having
24 the opportunity for two pension plans is considered
25 to be a little excessive. I know you keep saying

1 market, I hear that argument, but I'm not certain
2 that it's valid.

3 A. So my other point besides it being market is
4 that you certainly can design a pension, or a
5 retirement program that would include both pieces
6 that would be reasonable. I mean, you can have a K
7 plan that didn't have a match, or you could have a
8 pension plan with a very low contribution rate. They
9 both have benefits to customers.

10 The K plan encourages employees to save because
11 we know that the company's contribution to the
12 retirement program isn't enough for most employees.
13 They aren't going to be able to retire comfortably
14 with that, so they need to be encouraged, and the K
15 plan does that, encouraged to save for their own
16 retirement.

17 The pension plan is managed by the company, and
18 the employee doesn't have the investment risk. And
19 that pension plan takes that investment risk away.
20 We're able to do it much more efficiently and without
21 taking on much risk ourselves when it's fully funded,
22 so that --

23 Q. Who fully funds it?

24 A. The company funds it.

25 Q. Of course.

1 A. But I guess what I'm saying is if you were to
2 design this so that you would think it's reasonable,
3 in your view, that the two pieces would be small
4 enough in total that they're reasonable, well, that
5 pension plan has value because employees don't always
6 make the best investment decisions, and they have a
7 lot of control over what they do with those assets
8 when they retire, and they may disappear.

9 The pension plan solves some of those problems,
10 not all of them, and therefore it's got value that
11 the K plan doesn't have. Both pieces together, we
12 think, are the best way to go for employees.

13 Q. So I would agree that a defined dollar benefit
14 plan is the best -- it's obviously the most benefit
15 rich for the employee because a defined dollar
16 benefit plan is just that. It doesn't matter how
17 well the employee makes a decision because it's taken
18 out of his hands.

19 There's a formula. It's run by the company
20 based on an actuarial calculation. At the end of the
21 day you're going to multiply the formula times
22 earnings, and he's going to have a benefit; is that
23 correct?

24 A. That's correct.

25 Q. That's correct. So I'm guessing one of the

1 reasons why Kentucky Power decided to first
2 grandfather in employees and then lock and freeze it
3 was because it was an expensive plan, and so they
4 decided to go to something less expensive. Is that
5 pretty reasonable?

6 A. That's very reasonable.

7 Q. Yes.

8 A. That's exactly right. We also saw that the
9 market was moving, and we wanted to move with the
10 market, which is why we made the change.

11 Q. Uh-huh. But instead of doing what a lot of
12 companies did, which was just eliminate any type of
13 other pension plan and go to a 401(k) savings plan,
14 Kentucky Power has retained, either through a cash
15 value plan or a defined dollar benefit plan, one
16 piece of the pension, and on the other side said,
17 well, people aren't smart enough to invest on their
18 own, even though we're going to allow them to match
19 three quarters of a percent on every percent up to
20 six percent, we don't know how good they'll do or how
21 good the stock market will do, so we'll also going to
22 protect them on the other side.

23 Go out to the industry and look. How many
24 companies say, well, our employees aren't smart
25 enough to do that, so we're going to have a backup

1 plan?

2 A. So what I would suggest, and what I think we
3 actually did, was we looked at where the market was
4 when we put in the cash balance plan for benefits in
5 total, and at the time we froze -- or we froze
6 participation and then we've ultimately froze the
7 benefit from the final hours paid formula, put in the
8 cash balance plan.

9 We made the decision that in total we're going
10 to design the combination of the two going forward
11 formulas to be market competitive rather than going
12 all one direction or all the other direction.

13 That to me is not a material difference in
14 terms of cost. It's just the administration. For
15 the customers in Kentucky or anywhere else. It's the
16 same total cost.

17 Q. Based on a market value that you consider to be
18 cost competitive for your employees that that's what
19 you need to do to maintain a good workforce, and here
20 again, you're valuing it on a valuation to a market
21 that basically at this point is the utility industry,
22 and that's your primary comparison. Is that a fair
23 assessment?

24 A. It's -- it's one of our comparisons. I'll let
25 Mr. Cooper decide and tell you whether it's our

1 primary comparison or not. We use several
2 comparisons.

3 Q. So let's just take one more step and go towards
4 the benefit side, which is the healthcare, and I
5 noticed that the chart that was supplied gave a
6 blended formula on the company cost for different
7 levels of healthcare.

8 So if you had employee, employee plus spouse,
9 employee plus children, it still had the same value,
10 and can you verify that the company is paying the
11 same rate regardless of whether it's a single or a
12 married with children or whatever, or whether that
13 chart needs to be updated?

14 A. This would be a great question for Mr. Cooper.

15 Q. Okay. I'll save that for Mr. Goodwin?

16 A. Cooper.

17 Q. Cooper.

18 A. He's up next.

19 Q. I'll save that for him.

20 CHAIRMAN SCHMITT: He can't wait, can he?

21 Commissioner Mathews, questions?

22 I have none. Mr. Garcia?

23 MR. GARCIA: Just a few, Your Honor.

24 * * *

25

REDIRECT EXAMINATION

1
2 By Garcia:

3 Q. Mr. Carlin, you had a thorough discussion with
4 Commissioner Cicero, and I wanted to ask you a couple
5 questions about that.

6 But stepping back for a second, when we are
7 looking at the question of employee benefits, does
8 the company, and when I say "the company," in this
9 case I mean Kentucky Power and the American Electric
10 Power Service Corporation employees that provide
11 services to Kentucky Power. When you look at the
12 market value of total compensation, are you looking
13 only at the benefits portion, only at the incentive
14 compensation portion, only at the wages portion, or
15 are you looking at everything as a whole?

16 A. We look at everything in total, and we also
17 look at the individual pieces, so our primary
18 benchmark on the compensation side is total
19 compensation, but we also are looking at total cash
20 compensation, which is base pay plus annual
21 incentive. Total compensation also in addition to
22 that includes long-term compensation for higher paid
23 employees, and we look at base salary, so we want to
24 make sure the mix of those elements is reasonable
25 within the market practice and fits the company's

1 needs and that in total the compensation is market
2 competitive.

3 Q. And one observation that you make, just to
4 clarify the record, when you're talking about market
5 competitive, are you talking only about the market
6 for employees for utilities, or is it a broader
7 market?

8 A. It's broader. So obviously the jobs that only
9 exist in utility industry you're going to have to
10 benchmark against utility industry because that's the
11 only industry they're in. You won't find line
12 mechanics, for the most part, outside the utility
13 industry.

14 But admin jobs we benchmark against general
15 industry. That's because we can recruit them from
16 across the street, to Your Honor's point, and so
17 that's why we do benchmark against them, against a
18 broader general industry survey data when we do that.

19 Q. Okay.

20 MR. GARCIA: Nothing further, Your Honor.

21 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

22 MR. KURTZ: No questions.

23 CHAIRMAN SCHMITT: Anyone else?

24 Well, let me ask, we've been going to the
25 Attorney General. Mr. McNeil, do you have any

1 questions?

2 MR. MCNEIL: I have a few follow up, Your
3 Honor.

4 CHAIRMAN SCHMITT: Okay. Then Mr. Gardner,
5 we'll let Mr. Gardner go after you do.

6 RE-CROSS-EXAMINATION

7 By Mr. McNeil:

8 Q. Mr. Carlin, as a general proposition are wages
9 rising 3 percent in Kentucky Power's service
10 territory?

11 A. So when we talk about the wage increases I'd
12 say yes, wages are -- for salaried employees are
13 going up 3 percent. There is attrition in the
14 marketplace, so when you talk about the general rate
15 of wage increases, it goes up by something less than
16 that amount, and we've been moving our salary
17 structure by two percent. That's -- that's very
18 common practice of among companies in our industry
19 and outside our industry.

20 Q. Well, specific to the Kentucky Power territory,
21 what do you base that on?

22 A. Survey information for wage increases in
23 general. I don't have a lot of survey information on
24 specific positions for Kentucky because Kentucky
25 doesn't have enough companies in our surveys that we

1 use to have a Kentucky only cut, so -- and in
2 addition, we are in 11 states, 18,000 employees, and
3 it is a problem when we have rates that are at
4 different levels in different locations.

5 Our line mechanics, for instance, have been to,
6 you know, they work in Kentucky, they've been to
7 Maine, they've been to Texas, they've been to
8 Florida, all in the last few months. We -- you know,
9 it can cause issues. Our labor unions are
10 negotiating with us to standardize our rates across
11 our service territories, and we're working towards
12 that.

13 Q. Would you be able to provide in a post-hearing
14 data request that info that you have for the 3
15 percent -- wages are rising at a rate of 3 percent in
16 this territory, in your service territory?

17 A. I think I said that the wages -- the wage --
18 I'm sorry, the salary increase budgets tend not to
19 vary, and so I don't know that I have a Kentucky cut
20 for that, but they've been very consistent throughout
21 the U.S. by location and by industry as well, so I
22 don't know that I have a Kentucky cut of that, but
23 they've been consistently 3 percent. It's almost a
24 foregone conclusion at this point.

25 Q. So what about in Hazard in Perry County, do you

1 think that holds true there?

2 A. For salaried employees, yes, I do. There may
3 be more attrition, maybe the wages in general are
4 going down in Hazard if population is shrinking
5 because people are leaving Hazard, but those people
6 that have jobs for the beginning of the period and
7 the end of the period that we're talking about here,
8 their salary increased budget for those companies
9 probably was 3 percent. Not been a lot of variance
10 around that.

11 Now, you know, any one company or any group of
12 companies it could be different, but you get a
13 statistically significant sample, they all seem to
14 show 3 percent.

15 Q. Do you have a study that shows a sample like
16 that that you're talking about to support this?

17 A. There are many studies. I don't have one
18 specific to Kentucky. I'm using some of my general
19 knowledge here to having looked at these studies
20 throughout the years, and for the last number of
21 years it's been 3 percent with very little variance,
22 if any, by industry or geography.

23 Q. But hasn't the information in this case,
24 testimony, studies, documents shown that Eastern
25 Kentucky is not like the national trend, the national

1 average? Isn't it different in that it's not
2 increasing in the same way?

3 A. Well, as I explained, the wage increase budgets
4 of the companies in Hazard, it's a different thing
5 from the wage level or the average wage level for any
6 position, say welder or something like that in
7 Hazard. Those are two different -- those are apples
8 and oranges.

9 The companies in Hazard, if they're -- if it's
10 a significant sample, statistically significant
11 sample, I should say, they're probably following the
12 trend throughout the U.S., which is 3 percent.

13 Q. I'm not trying to do apples to oranges here. I
14 just mean as a general proposition you still think 3
15 percent is what that entire area is --

16 A. For the wage and increase budgets, which again
17 is different from general wage levels, yes, I do.

18 MR. MCNEIL: That's all the questions we have,
19 Your Honor.

20 CHAIRMAN SCHMITT: Mr. Gardner?

21 MR. GARDNER: Thank you. Thank you, Your
22 Honor.

23 CROSS-EXAMINATION

24 By Mr. Gardner:

25 Q. Mr. Carlin, I just have a couple quick

1 questions. How many of the 30,000 commercial
2 customers in the Kentucky Power territory do you
3 think can afford a pension plan or pension plans as
4 generous as Kentucky Power's?

5 A. I have no idea.

6 Q. How many of the 30,000 commercial customers can
7 even afford one pension plan in Kentucky Power's
8 territory?

9 A. Again, I would have no idea.

10 MR. GARDNER: Okay. Thank you.

11 CHAIRMAN SCHMITT: Staff, questions?

12 MS. VINSEL: Nothing further.

13 CHAIRMAN SCHMITT: Commissioner Cicero?

14 REEXAMINATION

15 By Vice-Chairman Cicero:

16 Q. Just one other. In your testimony on page 21,
17 you talked about steps to control compensation
18 expense in light of the great recession and weak
19 recovery, and there was a list of about 1, 2, 3, 4,
20 5, 6 items, okay?

21 As a post-hearing data request, can I have
22 those dollarized to see what the cost savings or what
23 the company actually ended up saving through these
24 programs, through these efforts?

25 A. Unfortunately, I don't know that there -- we

1 can get a dollarized amount for each of these. A lot
2 of these programs were in years past that that
3 information may never have been collected or may now
4 be lost.

5 Q. Well, I understand that you go back to 2008 and
6 2009, which I think stretches the whole process, but
7 it does say in light of the great recession, which
8 did start in 2008, but there's items like reduce the
9 employee workforce through staff reduction and
10 severance programs, implemented efficiency measures
11 such as Lean and other continuous improvement
12 initiatives.

13 Those types of programs I would have thought as
14 part of the corporate culture there would have been
15 some dollarization in order to go back to management
16 and say we implemented these programs, and here's the
17 dollar savings associated with it.

18 A. There undoubtedly was at one point in time.
19 Those may have been local management, not collected
20 at a central location, especially the Lean programs.
21 There's been many, many Lean initiatives, two or
22 three in the HR department, for instance, over that
23 long period. I don't know that those have been
24 aggregated in a central location that I'd be able to
25 provide to you the dollar impact.

1 Q. So how does Kentucky Power manage their costs
2 if they don't somehow have an overview of savings
3 programs or a way to go back to management to review
4 whatever those savings that are associated with these
5 type of initiatives? How can management determine
6 whether they're doing effective job or not unless
7 there's some kind of review?

8 A. Well, I didn't say there wasn't a review. I
9 think there probably was at some point in time.
10 Whether that information has been collected and
11 aggregated in a central place that's now accessible
12 to me is a much different question, and I don't think
13 it probably is.

14 It may be that management knew that, for
15 instance, we had the integrated disability center in
16 the HR department went through a process improvement
17 as part of the Lean initiative, and those budget
18 dollars were baked into the budget two or three years
19 ago. Don't know what that -- and that was -- it was
20 implemented, we got the savings, the budget year went
21 on, and I don't know now whether that's information
22 is accessible.

23 That's one, that one probably is because it's
24 in the HR department, but there may not be somebody
25 at the corporate center that collected all the

1 different initiatives from all the different
2 departments and to be able to provide you a total.

3 Q. Let me approach it from the other direction.
4 Typically when a program is implemented there's a
5 target that says this is what we expect to achieve
6 through this program, this initiative. Do those
7 target dollars exist that are associated with this?

8 I mean, only reason why I'm asking is because
9 from a managerial standpoint one of the worst things
10 that I hate to see personally is when savings are
11 referenced with no dollars, and I call them foo-foo
12 dollars. They make things look good, but there's
13 nothing to substantiate them, and it's always nice to
14 have something that goes along with it that says, you
15 know, we had savings, here's what our target was. I
16 always like to see them make good on it, but this is
17 what we actually achieved, but somewhere a
18 measurement process that says we were successful,
19 unsuccessful, this is we were trying to do, but shows
20 an approach by the organization to reach some target.

21 A. So the Lean initiative is an example. A lot
22 of -- and some of those had very explicit targets
23 that were probably achieved. Others did not. They
24 had sort of save ourselves targets.

25 If we've got 40 percent more work than we can

1 really handle in our integrated disability center,
2 and we can cut 30 percent of that out, we're cutting
3 back nonexempt overtime, which is not paid overtime,
4 so there's no dollar savings, but that process
5 improvement enables us to get our work done without
6 being there till 8:00 o'clock every night, and that's
7 a huge improvement on company culture.

8 Q. But this specifically says take into control
9 compensation expense. This wasn't an efficiency
10 list. This was a control compensation expense list.

11 A. And many of the Lean initiatives were. The one
12 example I just used was not, I'm sorry, but I still
13 don't know that those have been collected in a
14 central location. In fact I don't believe they have.
15 You are not the first one to ask.

16 Q. Well, how about making an attempt to see what
17 you can do?

18 A. I shall do so.

19 Q. Thank you.

20 CHAIRMAN SCHMITT: Commissioner Mathews?

21 I have none.

22 Mr. Garcia, any follow-up?

23 MR. GARCIA: Nothing further, Your Honor.

24 Thank you.

25 CHAIRMAN SCHMITT: Any questions from anyone

1 else? If not may, this witness be excused?

2 MR. OVERSTREET: Yes, Your Honor.

3 CHAIRMAN SCHMITT: Like to call your next
4 witness?

5 MR. OVERSTREET: Our next witness is
6 Mr. Cooper, and Mr. Garcia will present him.

7 CURT D. COOPER, called by the Kentucky Power
8 Company, having been first duly sworn, testified as
9 follows:

10 DIRECT EXAMINATION

11 By Mr. Garcia:

12 CHAIRMAN SCHMITT: Please be seated. Mr.
13 Garcia, you may ask.

14 MR. GARCIA: Thank you, Your Honor.

15 Q. Would you please state your name and business
16 address for the record?

17 A. My name is Curt D. Cooper, business address 1
18 Riverside Plaza, Columbus, Ohio, 43215.

19 Q. By whom are you employed and in what capacity?

20 A. American Electric Power Service Corporation,
21 and I'm the director of employee benefits.

22 Q. Mr. Cooper, did you cause in this case rebuttal
23 testimony to be submitted consisting of five pages of
24 questions and answers?

25 A. Yes.

1 Q. And if -- was that prepared by you or under
2 your supervision?

3 A. Yes.

4 Q. And if I were to ask you the same questions
5 today, would you provide substantially the same
6 answers?

7 A. Yes.

8 Q. Do you have any changes or additions to your
9 testimony?

10 A. No.

11 Q. Did you also provide answers to discovery
12 requests?

13 A. I did.

14 Q. And do you adopt your rebuttal testimony and
15 the answers to your discovery questions as your
16 evidence in this case?

17 A. Yes.

18 MR. GARCIA: Your Honor, the witness is
19 tendered for cross.

20 CHAIRMAN SCHMITT: Mr. Kurtz, any questions?

21 MR. KURTZ: No, sir.

22 CHAIRMAN SCHMITT: Counsel for any of the
23 settling intervenors have any questions for this
24 witness? If not, Mr. Chandler, Mr. McNeil, any
25 questions?

1 MR. CHANDLER: The AG does not have any cross
2 for this witness.

3 CHAIRMAN SCHMITT: Mr. Osterloh or Mr. Gardner?

4 MR. GARDNER: No, Your Honor.

5 CHAIRMAN SCHMITT: Staff, questions?

6 MS. VINSEL: We do have just a few questions.

7 CROSS-EXAMINATION

8 By Ms. Vinsel:

9 Q. Also I'm going to hand out the filing that the
10 Vice-Chair was just referring to. I will explain as
11 I'm going along. This will not be introduced as an
12 exhibit. This is a schedule that was filed into the
13 record.

14 A. Thank you.

15 Q. This is an updated schedule of a schedule that
16 was originally filed, Mr. Cooper, by you and
17 Mr. Ross. Its updated version was filed only by
18 Mr. Ross in staff's fourth data request.

19 I'll give you a minute to look at it. And this
20 is a printout of an Excel spreadsheet.

21 A. Okay.

22 Q. If you look at, it's column number 3 called
23 Blended Funding. It's underneath where it says
24 Expected 2017 Employee Medical Benefit Cost.

25 A. Uh-huh.

1 Q. So that where you see -- let me give you
2 example, lines 3 through 6. Employee only, the
3 blended funding is \$1,338.10. For employee and
4 spouse, same amount. Employee and children, same
5 amount. Employee and family, same amount.

6 So in this case it looks like Kentucky Power
7 pays the same amount no matter if it's a single
8 employee, an employee and his spouse, an employee and
9 children, or an employee and family. And that
10 continues through other of the entities -- other of
11 the plans.

12 A. So, sorry, could you repeat the question then?

13 Q. So does in fact -- is there blended funding --
14 does Kentucky Power pay the same amount, for example,
15 under the Anthem HRA, for a single employee as for an
16 employee and the employee's family?

17 A. No, that's not the way it works. And because I
18 didn't put together this chart I'm not sure exactly
19 where all the numbers were derived, but I can tell
20 you, describe in general the process that AEP uses to
21 calculate employee contributions for medical
22 coverage.

23 And so the starting point is we work with our
24 actuaries to predict what the costs are going to be
25 for our medical plans, and we have three different

1 medical plans, so we predict costs for all three of
2 the different plans, and then based on that overall
3 cost we divide that by the number of employees that
4 work for the company to get a per employee cost. But
5 then we change that cost based on the coverage level
6 of the family group, so an employee overall cost is
7 going to be lower than, say, a family cost.

8 And once we get those tier rates, then we apply
9 a percentage to that rate, and let's say the single
10 rate, let's just say it's a thousand dollars. Then
11 we apply a percentage to that overall thousand dollar
12 rate to determine what the company will contribute
13 towards that cost.

14 And, for example, for the HRA plan the company
15 contribution is about 76 percent. So that would mean
16 that the company would contribute \$760, whatever is
17 left over is what the employee would contribute, but
18 we don't use the thousand dollars for all four tiers,
19 so for a family it would be three times the thousand.
20 But the same methodology is used for all of the
21 different tiers.

22 Now that's the HRA plan. It's our starting
23 point. What we have decided to do as a company and
24 what we've done historically is that we've taken a
25 plan that we see as the target plan, and that's the

1 plan that has the sort of the broadest level of
2 coverage, and we determine our subsidy based on that
3 plan.

4 And then we contribute the same dollar amount
5 towards the other two plans that we have. So we have
6 three plans. They're all consumer-driven plans. We
7 moved to all consumer-driven plans in 2016, so we do
8 not have a traditional medical plan anymore.

9 We have three consumer-driven plans, and the
10 way the -- because the -- well, the HRA plan is the
11 target plan, and of the three plans that's the
12 closest one to a traditional plan. We moved away
13 from a PPO type plan, so the HRA is the closest to
14 the plans we used to have. That's the most expensive
15 plan. The company subsidizes a piece, and then the
16 employee covers the rest.

17 Then we have two what we call health savings
18 account plans, and under those plans, both of those
19 plans, the deductible is higher, so that means the
20 total overall cost for those plans is lower.

21 What we do as a company, though, is that we
22 normalize our subsidies, so the same subsidy we
23 provide to the HRA plan we provide to those two HSA
24 plans, and we think that's fair because that results
25 in a lower employee contribution for those plans.

1 So they're trading off a lower employee premium
2 for probably more out of pocket. So that at high
3 level is how we run through the methodology for
4 coming up with both the company subsidy, as well as
5 the employee contribution.

6 Q. Thank you. That was helpful in clarifying.

7 I will be asking for a post-hearing data
8 request, but I will reserve it until Mr. Ross is on
9 the stand.

10 A. Okay.

11 Q. And on a topic that gets to what Mr. Carlin was
12 recently testifying to, in your rebuttal testimony in
13 your responding to one of the Attorney General's
14 witness recommendations to exclude certain retirement
15 benefit costs, and in that testimony you
16 distinguished Kentucky Power's retirement plans
17 from -- there were some reductions in -- disallowance
18 of portions in three other cases involving utilities,
19 Kentucky Utilities, Louisville Gas & Electric, and
20 Cumberland Valley.

21 Could you speak to that, and why, why you say
22 that the Kentucky Power plant is not duplicative?

23 A. Sure, be happy to. So let's take, for example,
24 the Cumberland Valley plan. Our understanding was
25 that Cumberland Valley had both a defined benefit

1 pension plan and a 401(k) plan.

2 With respect to the defined benefit plan,
3 Cumberland Valley's company contribution towards that
4 benefit was a little bit north of 30 percent, so that
5 was the company's contribution to the defined benefit
6 pension plan.

7 They also had a 401(k) plan. The information
8 we had didn't describe what the match was there, but
9 let's just take the 30 percent. So we compare that
10 to AEP's contribution to both our cash balance
11 pension plan and our 401(k) plan, and if I could, I
12 think witness Carlin did a fine job of describing
13 general terms how the plans work, but I think I'm a
14 little bit more familiar, so let me try to fill in a
15 few blanks.

16 So let's start with the cash balance plan
17 first. The way that contribution works is it's based
18 on employee's age and years of service with the
19 company, and it can be as low as 3 percent for the
20 younger new hires with the company, and it can go up
21 to 8 and a half percent on the high end, so that's
22 the most for the long service older employees, that's
23 the most that contribution can be for the cash
24 balance plan. So that's our cash balance plan.

25 Now let's move over to the 401(k) plan because

1 as Andy was -- Mr. Carlin, sorry, was referring to,
2 we sort of have a swirl here. We have vanilla and
3 chocolate. So if we say the vanilla is the pension
4 plan, now we'll talk about the chocolate.

5 The chocolate would be the 401(k) plan, and the
6 company contribution there is based on what an
7 employee contributes. So if an employee contributes
8 1 percent, say the company matches 1 percent all the
9 way up to 6 percent. If the employee puts in
10 6 percent the company will match 4 and a half.

11 So if you look at the top end of both of those
12 contributions, the 8 and a half percent for the cash
13 balance, defined benefit pension, and I apologize for
14 all the terms, plus the 4 and a half percent 401(k)
15 contribution, you can see that in total the maximum
16 the company would contribute, and this again would be
17 for the longer service employees who are maxing out
18 on their 401(k), would be 13 percent. So you compare
19 that 13 percent to the 30 percent for Cumberland
20 Valley, and it's pretty apparent that their benefit
21 was significantly higher than ours.

22 So let's move over now to the Kentucky
23 Utilities and the LG&E case. Now they're a little
24 closer to what we have. Our understanding is that
25 for a group of employees they did have a defined

1 benefit pension that they made a contribution to.

2 They also had a 401(k) plan, but unlike AEP
3 where we make one contribution based on what the
4 employee contributes, those companies had two
5 contributions. And so the first contribution was not
6 based on what the employee contributed, and that
7 could be between 3 and 7 percent, and that was
8 strictly a company contribution in the plan for them.

9 They also had a 401(k) match component, and the
10 maximum match, if an employee contributed 6 percent
11 the company would match it 4.2 percent, I believe,
12 was the max.

13 So again, if you look at the contribution
14 amounts, and let's just look at the 401(k)
15 contribution amounts. On the low end it's 3 percent
16 and 4.2, so 7.2 percent. On the high end it could be
17 7 percent plus the 4.2, so that's 11.2.

18 So you can see that those percentages are close
19 to what AEP's contributing under both our 401(k) and
20 our pension, and that doesn't even factor in what
21 Kentucky Utilities and LG&E were contributing towards
22 the pension plan. We didn't have that information on
23 their contributions immediately available, but it
24 wouldn't take much of a contribution at all for them
25 to significantly exceed what AEP is doing.

1 MS. VINSEL: We have no further questions.

2 CHAIRMAN SCHMITT: Mr. Cicero?

3 EXAMINATION

4 By Vice-Chairman Cicero:

5 Q. So I want to make sure that I understand your
6 last explanation. It was good to compare to
7 Cumberland Valley and LG&E and KU, obviously
8 Cumberland Valley was out somewhere, I'm not even
9 sure where they were.

10 Right now you've got a savings plan or a dollar
11 savings plan that basically has taken the place of
12 your defined dollar benefit plan.

13 A. I wouldn't say taking the place. I'd say it's
14 the defined benefit plan in conjunction with the
15 401(k) provide a reasonable retirement benefit in
16 total.

17 Q. Let me restate it. You have a defined dollar
18 benefit plan that's locked and frozen as of 2010; is
19 that correct or not correct?

20 A. Well, we have two formulas under the defined
21 benefit plan.

22 Q. You guys get me right to the edge, and then you
23 always say but.

24 A. Apologize for that. It's the benefit director
25 full employment act: If we make these benefits

1 complicated enough I always have a job.

2 So the old plan that we used to have was what
3 we called a final average pay plan, and that plan was
4 your traditional defined dollar benefit plan. And so
5 the way that formula worked is if you looked at the
6 employee's compensation in their last three years of
7 employment, and then you applied a formula percentage
8 to that, and because the last three years typically
9 were their highest earning years, that created a
10 benefit. So that's formula number one under our
11 defined benefit program.

12 Q. Typically based on years of service determined
13 the factor.

14 A. Right. Right. So that formula was frozen. No
15 new employees were allowed into that program after
16 1/1/2001.

17 Q. Okay.

18 A. But between 1/1/2001 and 12/31/2010 we
19 continued to run that formula.

20 Q. Uh-huh.

21 A. Then at the end of 2010 that formula was, as
22 you say, frozen, so additional service after 2010 did
23 not change the amount of that benefit. So that
24 benefit is frozen as of the end of 2010.

25 The other benefit that we have, the one that I

1 described the contribution can be between 3 percent
2 and 8 and a half percent, that formula is still
3 running, so that -- that formula is not frozen. That
4 one is still, it still lives on, but the old final
5 average pay formula is frozen.

6 Q. So I'm an employee that's hired after 2001. My
7 service year is 2003. I never qualified for the
8 defined benefit plan in its traditional form.

9 A. Correct.

10 Q. I only qualified for a dollar savings plan; is
11 that correct? The 3 percent to the 8 and a half
12 percent.

13 A. That's right.

14 Q. That's all I qualified for.

15 A. Dollar savings plan will work, yes.

16 Q. Okay. So I get 3 to 8 percent. In addition to
17 that I can save an additional three quarters of a
18 point up to 6 points as a company match. I can put
19 in more than that, but the company is only going to
20 match 4 and a half percent of whatever it is.

21 A. Right.

22 Q. So the two of those, if I'm employed -- if my
23 employment service date is 2003 is 4 and a half
24 percent, and if I hit my years of service it puts me
25 at 8 percent, so I think you explained that these are

1 12 and a half to 13 percent or something?

2 A. Yeah, on the top end it's actually 8 and a half
3 percent, so the 8 and a half and 4 and a half would
4 get you to 13.

5 Q. Okay. I understand that piece. You can call
6 that one cone, whatever, that's fine.

7 Now let's go back to the defined dollar benefit
8 plan. My service year is 1995, okay, so now I'm in
9 the old plan, I'm grandfathered through to 2001
10 cutoff date that doesn't mean anything, and I make it
11 all the way up to 2010.

12 A. Yes.

13 Q. So in 2010 I've got 15 years of service under
14 defined dollar benefit plan.

15 A. Yes.

16 Q. Okay. What happens? Where do I go to from
17 there? What plan do I fall into?

18 A. At the end of 2010 you -- and now let's say you
19 would retire, you want to retire in 2015, so in 2015
20 you'd become eligible for your defined benefit
21 pension.

22 Q. Fifteen years of service, and the calculation
23 is based on 15 years of service, and the average is
24 three years at the 2008, '9, '10?

25 A. That's right, that's right. So here you are in

1 2015, so you've got that benefit under the final
2 average pay, you described very well what that amount
3 would be. You've also since your date of hire, which
4 we -- well, the cash balance formula, we started
5 running that in 2000.

6 Q. Okay.

7 A. So since 2000 you've also been accruing a
8 benefit under the cash balance plan, that 3 percent
9 to 8 and a half percent. So we contribute an amount
10 into your account every year based on those
11 contribution amounts, and then in 2015 when you
12 retire we compare what that amount has grown to with
13 what your old final average pay benefit was. Based
14 on your 2010 date was when we locked in what that
15 benefit amount was going to be, so we compare your
16 2010 final average pay benefit with your 2015 cash
17 balance benefit. Whichever one of those is higher,
18 that's what you're going to receive.

19 Q. And you will also receive whatever the balance
20 is in your 401(k) that's accrued through your
21 retirement date.

22 A. That's correct, yes.

23 Q. So you're not making a contribution into --
24 you're not making additional contributions -- you're
25 not making an actuarial calculation into the plan,

1 other than for what's determined to pay the benefits
2 for employees up through 2010, which has already been
3 actuarial calculated, and it should be minor.

4 A. Right.

5 Q. Shouldn't be much of a contribution into that
6 plan whatsoever.

7 A. A contribution to cover that benefit, yes.

8 Q. Right. Because actuarially you should have
9 already been -- I know there's -- no actuarial
10 calculation is guaranteed, so I know there's going to
11 be fluctuations, but it should be minor fluctuations.

12 A. Right.

13 Q. And then after that it's the cash value, which
14 is a pretty straightforward number, and whatever the
15 contribution is that is the match.

16 A. That's correct. And that dynamic is what
17 Mr. Carlin was describing. The final average pay
18 formula for a subset of employees has resulted in a
19 higher benefit even up to the present day, so even
20 though an employee is not accruing any more after
21 2010, for Mr. Carlin, and just so happens myself and
22 I think about 1,500 employees, that final average pay
23 benefit is still the winning benefit.

24 So what that really means is from an actuarial
25 perspective, from 2010 to now there's no additional

1 actuarial cost because we already accrued that back
2 in 2010.

3 Q. Okay. So thank you for that explanation.

4 A. You're welcome.

5 Q. Now let's go to the blended formula that you've
6 got here in healthcare. So I think the data request
7 that was made --

8 VICE-CHAIRMAN CICERO: You asked for a data
9 request; is that right?

10 MS. VINSEL: Yes.

11 Q. Requested a -- there was a spreadsheet
12 requested to be filled out that lists the total cost
13 for the company, the total cost for the employee by
14 class, and I understand when we've done this with the
15 smaller utilities they list it by employee, but I
16 understand with the number of employees you have
17 that's too difficult to do, so in the LG&E KU case
18 they did it by employee class.

19 A. Okay.

20 Q. But it's still broken out by inside those
21 classes what the coverage level is, whether it's
22 single, employee and family. In your case you've got
23 four different levels.

24 A. True.

25 Q. So the way you've presented it here, it

1 distorts the true contribution made by the employee
2 because if I look at your target class, which is
3 HRA --

4 A. Yes.

5 Q. -- it looks like the employee only is
6 contributing 10 percent, and the employee plus family
7 is contributing 30 -- 33 percent, but if I drop down
8 to the next one it's 7 and 22, and the next one it's
9 3.3 and 10, but I'm pretty certain that if I looked
10 at employee plus family, that blended rate, if I
11 actually had the actual rate, would be much higher
12 than 1,338, and the contribution that the employee is
13 making to that on a family basis would be lower, and
14 the employee only would be higher; is that correct?

15 A. That is correct, yes.

16 Q. So can I have those numbers so that I can
17 see -- it looks like you don't have -- you've got 513
18 employees, doesn't look like it should be that
19 difficult to split out what's associated by those
20 classes and those, because your premium has to
21 identify it.

22 A. It does, yes.

23 Q. Okay. Post-hearing data request?

24 A. Yes, absolutely.

25 Q. Thank you.

1 VICE-CHAIRMAN CICERO: I don't have any more.

2 CHAIRMAN SCHMITT: Mr. Mathews?

3 I have none. Mr. Garcia?

4 MR. GARCIA: Just one, Your Honor. Thank you.

5 REDIRECT EXAMINATION

6 By Mr. Garcia:

7 Q. Mr. Cooper, if you could explain in the context
8 of what you are talking about a second ago, how do
9 the HSA deductibles work and affect that calculation
10 that you were talking about a second ago?

11 A. In Mr. Carlin's testimony, direct testimony,
12 he -- we provided an exhibit, and that is exhibit
13 ARC-10, and the third and fourth pages is where we
14 weigh out -- is where he we lay out the plan design
15 for the three plans that we offer: HSA Basic, HSA
16 Plus, and the HRA plan.

17 So with respect to the HSA Basic plan, that as
18 the name implies is our sort of basic low level plan,
19 and for that particular plan there is a \$2,700
20 deductible for single coverage, and that amount can
21 go up to \$8,100 if it's full -- if it's a full family
22 tier. So what a deductible means is that is what the
23 employee has got to pay out of his or her pocket
24 before the plan will provide any benefit, so that's
25 the HSA Basic.

1 With respect to the HSA Plus, the reason we
2 call that a plus plan is because the company does
3 make a small contribution towards the health savings
4 account for the employee that helps them meet their
5 deductible, but with respect to the HSA Plus, the
6 deductible can go from 2,000 for a participant up to
7 4,000 for a participant and family.

8 Then the last plan is the HRA Plan, and that
9 particular plan for single coverage, the deductible
10 is \$1,500. That goes up to 3,000 for family. Now
11 with the HRA plan as well the company does make a
12 contribution into the HRA account for the employee,
13 and that amount varies from 1,000 to 2,000, so those
14 are the deductibles.

15 As I mentioned, we moved to this approach in
16 2016. The idea was for us to increase the amount of
17 deductibles, which in turn would make the employees
18 more prudent with respect to their healthcare usage
19 because they're going to be paying for the first
20 portion of their costs, in effect out of their own
21 pocket because of the application of the deductible.
22 So we moved to that approach in 2016.

23 Another significant change we made in 2016 was
24 we combined our vendors. We had two vendors
25 previously. We had Aetna and Anthem, and we combined

1 all of our coverage through Anthem, and as a result
2 of that change as well we were able to reduce the
3 admin fees because Anthem gave us additional
4 discounts based on the higher volume, and that
5 savings roughly was in the \$8 million range annually,
6 so the net effect of moving to the new plan design,
7 as well as consolidating our vendors actually allowed
8 us in 2016 to achieve a per person medical cost that
9 was slightly below what we saw in 2015.

10 And that's significant when you talk about
11 medical plans because medical plan inflation has been
12 increasing five to six percent a year, sometimes more
13 in a given year, so for us actually to reduce our
14 cost slightly was a significant achievement, and I
15 think it does speak to our broader approach, which is
16 to continuously look for cost savings opportunities
17 with respect to all of our benefit programs, and we
18 focus a lot on medical because a significant portion
19 of our benefit dollars is incurred under the medical
20 plan, so I think that's an example of that.

21 MR. GARCIA: Nothing further, Your Honor.

22 CHAIRMAN SCHMITT: Mr. Kurtz?

23 MR. KURTZ: No questions.

24 CHAIRMAN SCHMITT: Counsel for any of the other
25 parties wish to ask any additional questions of this

1 witness?

2 MR. CHANDLER: Can I just ask one?

3 CROSS-EXAMINATION

4 By Mr. Chandler:

5 Q. The \$8 million number that you just cited, that
6 was a savings to AEPSC?

7 A. That was actually savings to the medical plan
8 itself, and the medical plan costs are spread amongst
9 all of the subsidiaries, so a portion of that savings
10 would have flown through to Kentucky Power.

11 Q. And is that evidenced anywhere in the record as
12 a reduction to a specific amount or a specific
13 allocation?

14 A. We talked about in the -- in Mr. Carlin's
15 testimony we referred to that total dollar amount of
16 savings that I mentioned, the per person savings
17 under the medical plan was about 13,000, so we did
18 mention that in the testimony.

19 Q. I guess I just want to ensure that the
20 savings -- that it wasn't a savings to -- is there
21 any evidence that would show that it was a savings
22 ultimately to Kentucky Power, that there was any
23 savings ultimately to Kentucky Power pursuant to
24 that?

25 A. Nothing that I provided in the case would

1 provide that evidence.

2 Q. Do you know if there's any evidence outside of
3 the case that might provide that?

4 A. I'm not sure about that. I think, as
5 Mr. Carlin indicated, we tend to be more focused on
6 the design of the plans and the structure. With
7 respect to the exact dollar amounts, we might want
8 to -- you might want to ask witness Ross when he
9 takes the stand. He might be able to show that.

10 MR. CHANDLER: No other questions.

11 CHAIRMAN SCHMITT: Anyone else have any
12 questions?

13 MR. GARCIA: Nothing further, Your Honor.

14 VICE-CHAIRMAN CICERO: Yes, I do.

15 CHAIRMAN SCHMITT: Commissioner Cicero.

16 REEXAMINATION

17 By Vice-Chairman Cicero:

18 Q. So you were asked if -- you were asked about
19 the different plans, and you mentioned that there's a
20 contribution made by the company in the form of is it
21 a debit card, or what do you give them to help them
22 with their deductible?

23 A. So we establish an account for them and we
24 contribute money into an account.

25 Q. So when you provide the company cost, that

1 should be included as company costs on the medical
2 side because that's a medical expense to the company.
3 You're contributing to the deductible, so please
4 include that in your --

5 A. That's true. okay.

6 VICE-CHAIRMAN CICERO: Thank you.

7 MR. GARCIA: Actually if I may, a quick
8 redirect on that very point.

9 REDIRECT EXAMINATION

10 By Mr. Garcia:

11 Q. Mr. Cooper, if you would indicate are the
12 premium that the employees pay for these plans
13 affected by the question that you just described?

14 A. Yes. So when we calculate the amount of the
15 employee premium, we calculate what both the claims
16 cost is projected to be as well as the administrative
17 costs, so we add all those costs together, come up
18 with a total, and then the premium is a based on --
19 or the contribution is based on that.

20 MR. GARCIA: Thank you, Your Honor. Nothing
21 further.

22 CHAIRMAN SCHMITT: If there's nothing further,
23 may this witness be excused?

24 MR. OVERSTREET: Yes, Your Honor.

25 CHAIRMAN SCHMITT: Thank you. You may step

1 down.

2 All right. We're now at almost 6:00 o'clock,
3 so we will recess until tomorrow morning at 9:00 a.m.

4 MR. OVERSTREET: Thank you, Your Honor.

5 (Hearing adjourned at 5:58 p.m.)

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1 STATE OF KENTUCKY)
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 2) SS.
)
 3 COUNTY OF JEFFERSON)

4 I, Jennifer R. Janes, a Notary Public within
 5 and for the State at Large, my commission as such
 6 expiring 1 May 2019, do hereby certify that the
 7 foregoing hearing was taken at the time and place
 8 stated and for the purpose in the caption stated;
 9 that the witnesses were first duly sworn to tell the
 10 truth, the whole truth, and nothing but the truth;
 11 that the hearing was reduced by me to shorthand
 12 writing in the presence of the witnesses; That the
 13 foregoing is a full, true, and correct transcript of
 14 said hearing; that the appearances were as stated in
 15 the caption.

16 WITNESS my hand this 14th day of December 2017.

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 Registered Professional Reporter
 Certified Realtime Reporter
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