

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

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I. INTRODUCTION

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

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

5 **Q. ARE YOU THE SAME JOHN A. ROGNESS WHO PREVIOUSLY FILED**
6 **DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF**
7 **KENTUCKY POWER COMPANY?**

8 A. Yes, I am.

II. PURPOSE OF REBUTTAL TESTIMONY

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

10 A. The purpose of my rebuttal testimony is to respond to the testimony of Attorney
11 General Witness Ralph C. Smith regarding the Company’s proposed Kentucky
12 Economic Development Surcharge (K.E.D.S.)

III. DISCUSSION OF K.E.D.S. ISSUES

13 **Q. WHAT ISSUES HAVE BEEN RAISED BY THE ATTORNEY GENERAL**
14 **REGARDING THE K.E.D.S. TARIFF?**

15 A. On page 71 of his testimony, Mr. Smith stated that as part of the Attorney
16 General’s proposal, “A new surcharge for Kentucky Economic Development is
17 not needed and has not been adequately justified and is therefore being removed.”

1 Mr. Smith asserts that the K.E.D.S. is not needed because specific projects have
2 not been identified and because the Company has previously committed to
3 continue funding shareholder provided funding via the KPCo Economic
4 Advancement Program (KEAP) through 2018.

5 **Q. IS THERE A NEED FOR ECONOMIC DEVELOPMENT IN THE**
6 **COMPANY’S SERVICE TERRITORY?**

7 A. Yes there is. The January 13, 2014 Final Report presented to Governor Steve
8 Beshear and Congressman Hal Rogers in connection with the Shaping Our
9 Appalachian Region (SOAR) initiative underscored the immediate need for
10 economic development throughout eastern Kentucky. For example, the report
11 noted that through November of 2013, only one of the 227 announcements by the
12 Commonwealth of new or expanded industries in Kentucky involved a project
13 located in a 17 county area in eastern Kentucky. Also, between January 2012 and
14 the date of the January 2014 SOAR report, 43.1% of the coal jobs in the SOAR
15 area were lost due to coal companies closing or cutting back. The geographic area
16 of SOAR encompasses all of the Company’s service territory.¹ That same report
17 identified the lack of professionals to manage the economic development process
18 as among the reasons for the poor economic development showing by the SOAR
19 area. Kentucky Power’s current economic development efforts, along with those

¹ The official SOAR area is the ARC (Appalachian Regional Commission) counties that are designated as ARC counties in Kentucky. The fifty four counties in the SOAR territory include Adair, Bath, Bell, Boyd, Breathitt, Casey, Carter, Clark, Clay, Clinton, Cumberland, Edmonson, Elliott, Estill, Fleming, Floyd, Garrard, Green, Greenup, Harlan, Hart, Jackson, Johnson, Knott, Knox, Laurel, Lawrence, Lee, Leslie, Letcher, Lewis, Lincoln, Metcalfe, McCreary, Madison, Magoffin, Martin, Menifee, Monroe, Montgomery, Morgan, Nicholas, Owsley, Perry, Pike, Powell, Pulaski, Robertson, Rockcastle, Rowan, Russell, Wayne, Whitley, Wolfe

1 planned for the proposed KEDS; include providing training for economic
2 development professionals in the region.

3 Second, the Company’s customer base, over which the fixed costs of providing
4 service to the remaining customers can be spread is declining. As of year to date
5 December 2010, the Company had approximately 174,578 customers and
6 7,199,156 MWh in sales of electricity. As of year to date December 2014, the
7 Company had approximately 171,011 customers and 6,688,179 MWh in sales of
8 electricity. In a span of four years, the Company has approximately 3,567 fewer
9 customers and 510,977 MWh in lower annual sales. Within the mine power
10 sector, the decline is more dramatic. In year to date December 2010, the
11 Company had 448 customers with sales of 962,778 MWh. As of year to date
12 December 2014, the number of customers and sales had fallen to 357 and 617,131
13 MWh respectively.

14 Unemployment also is a major problem within the Company’s service territory.
15 February 2015 preliminary data published by the Kentucky Career Center indicate
16 that many of the counties in the Company’s service territory have unemployment
17 rates that approach or exceed two times Kentucky’s state-wide 5.5%
18 unemployment rate. For example, Magoffin County (14.3%), Elliot County
19 (11.8%), and Carter County (11.1%), all located within the Companies service
20 territory, each reported a February 2015 unemployment rate greater than 11.0%.
21 In fact, six of the ten counties with the highest unemployment rates in Kentucky
22 (Magoffin, Elliott, Carter, Leslie (10.3%), Letcher (10.2%), and Breathitt
23 (10.1%)) lie within the Company’s service territory.

1 **Q. DO YOU AGREE WITH ATTORNEY GENERAL’S IMPLICATION**
2 **THAT THE COMPANY’S ANNUAL \$200,000 CONTRIBUTION FOR**
3 **THE KEAP PROGRAM IS SUFFICIENT FOR ECONOMIC**
4 **DEVELOPMENT?**

5 A. No, I do not. Mr. Smith correctly points out that the shareholder funding for the
6 KEAP program was agreed to by Kentucky Power in connection with the
7 modified Stipulation and Settlement Agreement approved by the Commission in
8 Case No. 2012-00578. The KEAP program specifically targets funds toward
9 Lawrence County and contiguous counties. However, the Company serves 20
10 counties, not just the seven counties benefitting from the KEAP program. In
11 contrast to the KEAP program, the K.E.D.S. program is designed to allow the
12 Company to make resources available to all the service territory counties.

13 **Q. DO YOU AGREE THAT THE LACK OF SPECIFIC IDENTIFIED**
14 **PROJECTS THAT WILL BENEFIT FROM K.E.D.S. FUNDING IS A**
15 **REASON TO DENY THE PROGRAM?**

16 A. Absolutely not. Program flexibility is a strength and the K.E.D.S. program is
17 designed to be as flexible as possible. The process of successfully attracting
18 industries is competitive and dynamic. While there may be elements common to
19 all development projects, a cookie cutter approach is not feasible. The K.E.D.S.
20 program is designed to give the Company the maximum flexibility in allocating
21 the program funds to improve the economic development capabilities of local
22 economic officials, to meet the needs of particular prospects looking to expand or
23 relocate in the Company’s service territory, as well as to address any required

1 site-specific improvements. For example, there may be a suitable location for a
2 particular project, but the site needs work to make the site “move in ready.” The
3 program would allow the Company to provide some additional resources to the
4 site development effort in order to make it competitive with similar sites in other
5 locations. The Company will also have the flexibility to contribute funds toward
6 the continuing education and training of county economic development personnel.
7 Increasing the knowledge and abilities and, hence, the effectiveness of economic
8 development personnel will make their economic development efforts more
9 successful throughout the service territory.

10 **Q. DO YOU AGREE WITH MR. SMITH THAT THE K.E.D.S PROGRAM**
11 **SHOULD NOT BE RECOVERED VIA A SEPARATE SURCHARGE?**

12 A. No, I do not. Collecting K.E.D.S. program funds through general rates, as
13 opposed to through a rider, would make it more difficult to know exactly how
14 much is being collected from which customers. Through the program rider, the
15 Company will collect exactly \$0.15 per month (\$1.80 annually) for every
16 customer account and contribute a matching amount. Collecting the funds
17 through the rider is more accurate, transparent and administratively easier than
18 collection through general rates.

19 **Q. DO YOU AGREE WITH MR. SMITH THAT THE K.E.D.S PROGRAM IS**
20 **NOT SIGNIFICANTLY MATERIAL?**

21 A. No, I do not. With matching shareholder funds from the company, the total
22 annual amount of funds that will be available through the K.E.D.S. program is
23 anticipated to be approximately \$615,000. Targeting these funds toward specific

1 project deficiencies, enhancing the knowledge and abilities of county economic
2 development professionals to plan, develop and market their counties and the
3 region will materially affect economic development going forward.

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

5 A. Yes.