

1 THE WITNESS: William E. Avera.

2 VICE-CHAIRMAN GARDNER: Mr. Avera, with whom are  
3 you employed?

4 THE WITNESS: I am the president of FINCAP,  
5 Incorporated, in Austin, Texas.

6 VICE-CHAIRMAN GARDNER: You may ask, Mr.  
7 Overstreet.

8 MR. OVERSTREET: Thank you, Mr. Chairman. Mr.  
9 Garcia is going to handle the direct.

10 DIRECT EXAMINATION

11 By Mr. Garcia:

12 Q. Good afternoon, Dr. Avera.

13 A. Good afternoon, Mr. Garcia.

14 Q. Did you and Mr. McKenzie submit direct and  
15 rebuttal testimony and discovery responses in this  
16 case?

17 A. Yes, sir.

18 Q. And just since he's not here, who is  
19 Adrien McKenzie?

20 A. Mr. McKenzie is a colleague. He's vice president  
21 of our firm. We have worked together for 30 -- now for  
22 35 years.

23 Q. And this testimony, you can answer to all of it  
24 on your own?

25 A. Yes, sir.

1 Q. Okay. Do you have any corrections to your direct  
2 testimony or exhibits to that direct testimony?

3 A. Yes. I have one correction to the exhibits on  
4 the direct. It's Exhibit WEA-AMM-4, page 1 of 1.

5 Q. And what's the correction?

6 A. In the left-hand column of the table after  
7 "Company," there is an "A" in parentheses, a small A.  
8 That should not be there. That is incorrect.

9 And associated with it is a footnote at the  
10 bottom of the -- well, sort of in the middle of the  
11 table that says, A, "Excluding American Electric Power  
12 Company, Inc." That should be stricken, so there are  
13 no notes A, and the note A that appears should be  
14 stricken.

15 Q. And just to clarify, I see that in that same  
16 table, number 2 on the Electric Group, it's American  
17 Electric PWR.

18 A. Right.

19 Q. That's American Electric Power?

20 A. We used American Electric Power in this analysis  
21 and every other analysis because it was part of our  
22 peer group for Kentucky Power.

23 Q. Okay. And does this deletion change your  
24 analysis in any way?

25 A. It does not.

1 Q. Do you have any other corrections or deletions to  
2 either your direct testimony, your rebuttal testimony,  
3 or the discovery answers that you provided in this  
4 case?

5 A. No, sir.

6 Q. If I were to ask you the same questions today,  
7 your answers would be substantially the same?

8 A. They would be.

9 Q. And you adopt your direct testimony jointly with  
10 Mr. McKenzie, your rebuttal testimony and the discovery  
11 responses, as your evidence in this case?

12 A. Yes, sir.

13 MR. GARCIA: Your Honor, Dr. Avera is available  
14 for cross-examination.

15 VICE-CHAIRMAN GARDNER: Thank you. Mr.  
16 Williamson?

17 MR. WILLIAMSON: No questions, sir.

18 VICE-CHAIRMAN GARDNER: Mr. Cook?

19 MR. COOK: Thank you, Mr. Vice-Chairman.

20 CROSS-EXAMINATION

21 By Mr. Cook:

22 Q. Good afternoon, Dr. Avera.

23 A. Good afternoon.

24 Q. Welcome back to Kentucky.

25 A. It's great to be here as always.

1 Q. Now, you were the rate-of-return witness for the  
2 Company, Kentucky Power, in the last rate case they  
3 filed in 2013, were you not?

4 A. Yes, sir.

5 Q. All right. And 2013-00197, I believe that's the  
6 number. Will you agree that you recommended an ROE of  
7 10.65 for the Company in the last case? Isn't that  
8 correct?

9 A. If you're looking at it, that sounds  
10 approximately correct. I will certainly accept it.

11 Q. All right. Okay. Now, a few things about that  
12 last case. In your CAPM analysis, you used a projected  
13 30-year Treasury yield of 4.40, and I can hand this out  
14 to you if you'd like.

15 VICE-CHAIRMAN GARDNER: Mark it as AG Number 3.

16 MR. COOK: Okay.

17 Q. And do you have that in front of you now, sir?

18 A. I do.

19 Q. Okay. And I believe it's page 2 of what was then  
20 Exhibit WEA-8, under that case.

21 A. Yes, in that case, as in this one, I offer one  
22 CAPM with a current interest rate, which then was 3.3,  
23 and another with projected interest rate, which then  
24 was 4.4.

25 Q. Thank you. And do you know what the 30-year

1 Treasury yield was as of yesterday or today?

2 A. I know as of yesterday it closed at 2.896.

3 Q. All right. And so interest rates are quite a bit  
4 below your projected Treasury yields from two years  
5 ago, correct?

6 A. Yes, they are.

7 Q. Okay.

8 A. But let me make sure that the record is clear.  
9 In that case as this, this is not my estimate. This is  
10 an estimate taken from accepted forecasting services.

11 And if you look at the footnote C on the page  
12 we're talking about, that's the average yield for U.S.  
13 Treasury bonds based on data from the Value Line  
14 Investment Survey forecast of the U.S. economy.

15 Q. All right. Okay. And now in the current case,  
16 your risk premium is found in Exhibit 9 of your  
17 testimony; is that correct?

18 A. You mean the CAPM, or the risk premium?

19 Q. One moment.

20 A. The CAPM is Exhibit 8. That's the one that  
21 corresponds to what we're talking about here.

22 Q. Okay. We're talking about risk premium.

23 A. The utility risk premium is Exhibit 9.

24 Q. Okay. There we go. And on page 3 of Exhibit 9,  
25 I think there you provide the utility bond yields and

1 authorized ROEs used in your risk premium analysis; is  
2 that correct?

3 A. Yes, sir.

4 Q. All right. Thank you.

5 And looking at page 3 for the electrics, the  
6 allowed ROEs are averages provided by Regulatory  
7 Research Associates; is that correct.

8 A. Yes, sir.

9 Q. And the last full year that you used there is  
10 2013; is that correct?

11 A. Yes.

12 Q. And so I presume that you review the RRA that  
13 Regulatory Research Associates -- I presume you review  
14 those; is that correct?

15 A. Yes, sir.

16 Q. Okay. Did you use the averages or the results  
17 from the individual rate cases?

18 A. I used the averages reported by RRA. They report  
19 an average for the year, and that is one of the  
20 confusions that Professor Woolridge had. He was  
21 worried about the perturbations of individual rate  
22 cases. Well, I don't use individual rate cases. I use  
23 the average for the year.

24 Q. I understand. And does RRA also publish the  
25 individual rate case ROEs?

1 A. Yes, they do. Not going way back in history, but  
2 in recent years, they do.

3 Q. I understand. Would you agree that in recent  
4 years, RRA reports two different averages for electric  
5 utilities, one average that includes all electric rate  
6 cases, and another average that excludes Virginia cases  
7 that include plant-specific ROE premiums?

8 A. It has in recent years. It still on its average  
9 reports the average of all cases, but in its discussion  
10 in the RRA report -- I'm holding the most recent one  
11 here -- it notes what the average would be, absent  
12 Virginia, and that's not the only time it's done this.

13 There were a number of years back when New Jersey  
14 had some punitive rate cases for their utilities having  
15 excess outages, so they had very low allowed returns as  
16 a penalty.

17 And again, RRA presented the national average,  
18 and then it reported what the average would be absent  
19 those New Jersey cases. But in all events, I've used  
20 the national average as consistently reported by RRA.

21 Q. And there on, back to Exhibit 9, your Exhibit 9,  
22 there on page 3, the 10.02 percent that you use for  
23 allowed ROE for 2013 includes the Virginia cases that  
24 include plant-specific premiums; is that correct?

25 A. Yes.

1 Q. Okay. And you did not use the 9.8 percent, which  
2 excludes the Virginia plant-specific premiums, correct?

3 A. No, because they are allowed returns, and the  
4 theory of this methodology is you're looking at the  
5 allowed returns, recognizing that each rate case has  
6 its own story, but we average out all the returns, the  
7 ones that may be high for some reason or low for some  
8 reason, to get an annual average, and we compare that  
9 to the contemporaneous bond yield, and we get a very  
10 good statistical relationship.

11 Q. Now, would you also agree that for the year 2014,  
12 RRA reported an average authorized ROE that was  
13 9.91 percent for all electric cases including the  
14 Virginia rider cases, and 9.76 percent excluding the  
15 Virginia rider cases; is that correct?

16 A. Yes.

17 Q. Okay. And would you not agree that in that  
18 publication, the RRA publication, for the first quarter  
19 of 2015, RRA reports an average authorized ROE of 10.37  
20 percent for all electric cases including the Virginia  
21 rider cases, and 9.67 percent excluding the Virginia  
22 rider cases?

23 A. Yes, but the headline is the all rate cases.  
24 That's the one they bring first, and that's the one  
25 that's carried forward if you look at the subsequent

1 pages that present the historical averages.

2 MR. COOK: No further questions, Mr.  
3 Vice-Chairman.

4 VICE-CHAIRMAN GARDNER: Mr. Kurtz?

5 MR. KURTZ: No questions.

6 VICE-CHAIRMAN GARDNER: Mr. Malone?

7 MR. MALONE: No questions.

8 VICE-CHAIRMAN GARDNER: Mr. Spenard?

9 CROSS-EXAMINATION

10 By Mr. Spenard:

11 Q. Good -- good afternoon, Dr. Avera.

12 A. Yes, good afternoon.

13 Q. As summarized on page 4 of your prefiled direct  
14 testimony, you recommend an ROE for Kentucky Power of  
15 10.62 percent; is that correct?

16 A. Yes, sir.

17 Q. And you have reviewed the testimony submitted by  
18 Dr. Woolridge and Mr. Baudino; is that correct?

19 A. I have.

20 Q. And on page 2 of your rebuttal testimony, you  
21 have a discussion of Dr. Woolridge's and Dr. Baudino's  
22 characterization of capital market conditions, and you  
23 indicate that their characterization of capital market  
24 condition is flawed and fails to reflect widely-held  
25 expectations for higher capital costs.

1 Do you see that?

2 A. Yes.

3 Q. Is there any indication, based on recent events,  
4 that interest rates can be expected to rise in the near  
5 future?

6 A. Yes. First of all, it's not what I think; it's  
7 what the market thinks. And if you look at what the  
8 forecasting services say, and I report these in my  
9 rebuttal testimony, the forecasting services expect  
10 interest rates to rise.

11 If you look at the financial media, the big game  
12 being played is when the Federal Reserve is going to  
13 be -- quit being patient. And some analysts say maybe  
14 as early as June. Some say maybe as late as November,  
15 but I don't think there's any analyst out there that  
16 expects the Federal Reserve to maintain its  
17 extraordinary monetary ease beyond this year or even,  
18 if beyond this year, for the first few months of 2016.

19 So I believe in the market where capital costs  
20 arise, there is an expectation that interest rates are  
21 going to go up because we have an improving, slowly  
22 improving U.S. economy. We have -- one of their  
23 benchmarks is unemployment; unemployment, again,  
24 slowly, but it's trending down.

25 The other benchmark is inflation, and slowly

1 there are indications of inflation, and I think the  
2 chair of the Federal Reserve has made clear that the  
3 ultimate goal is to return to a normal interest rate  
4 regime. We are in an abnormal interest rate regime  
5 now.

6 Now, this has been a long time coming. There's  
7 been disappointment again and again at how the economy  
8 has performed, but the important thing is what  
9 investors expect. And as revealed in the recognized  
10 national forecasting services, as revealed in the  
11 national media, there is an expectation that we are  
12 transitioning to a normal capital market environment.

13 Q. Thank you. With regard to page 11 of your  
14 rebuttal testimony, you state that the ROE  
15 recommendations of Dr. Woolridge and Mr. Baudino fall  
16 well below the average returns authorized for other  
17 utilities. Do you see that?

18 A. Yes.

19 Q. Okay. You reference your Exhibit WEA/AMMR-2,  
20 filed with your rebuttal testimony, which shows  
21 authorized -- which shows average authorized ROEs of  
22 10.16 percent for Dr. Woolridge's proxy group, and  
23 10.03 percent for Mr. Baudino's proxy group. Is that  
24 correct?

25 A. Yes, sir.

1 Q. Your recommended ROE of 10.62 percent falls above  
2 the average for each of the Woolridge and Baudino's  
3 group; is that correct?

4 A. Yes. And both Dr. Woolridge and Mr. Baudino go  
5 to the top of their range because of the relative risk  
6 of Kentucky Power; in fact, Dr. Woolridge adds an extra  
7 25 basis points.

8 So I think all the witnesses in this case agree  
9 that Kentucky Power is on the high risk end of the  
10 electric utility industry. So if other companies are  
11 being allowed in the lower 10s, it is appropriate for  
12 Kentucky Power to be to the mid and upper 10s. So I  
13 think this data is consistent with my recommendation.

14 Q. Okay. Turning to page 23 of your rebuttal  
15 testimony, you quote from pages 30 and 31 from the  
16 Commission's July 30th, 2010, final order in Kentucky  
17 Utility's case number 2009-548, including the portion  
18 of that order that states, "The Commission agrees that  
19 analysts' projections of growth will be relatively more  
20 compelling in forming investors' forward-looking  
21 expectations than relying on historical performance."

22 Do you see that reference in your testimony?

23 A. Yes, sir.

24 Q. With regard to page 31 of that order, are you  
25 also aware that Commission added the statement, "As to

1 flotation costs, the Commission agrees with the AG's  
2 position that no upward adjustment to the equity cost  
3 rate is necessary and this finding is consistent with  
4 past Commission practice."

5 A. Yes. I'm aware of that. I was obviously  
6 disappointed in this and subsequent testimony. I have  
7 tried to make as clear a case and as compelling a case  
8 as I could why flotation costs should be accepted.

9 And I think that's especially true in this case  
10 for Kentucky Power where the parent, American Electric  
11 Power, had the largest utility issue in the history of  
12 the earth in 2009, and we had actual numbers from that  
13 issue, and I could use those in calculating the  
14 flotation cost.

15 I think one of the things that troubled the  
16 Commission that was brought up by Dr. Woolridge is the  
17 absence of specific numbers. And in this case, we have  
18 specific numbers.

19 Q. Yes, sir. Thank you. With regard to  
20 Dr. Woolridge, Dr. Woolridge indicates on page 55 of  
21 his prefiled direct testimony that the trend has been  
22 for state utility commissions to award lower ROEs and  
23 that the norm is now below 10 percent.

24 Can you confirm that Dr. Woolridge's statement is  
25 correct, or do you believe otherwise.

1 A. I believe state commissions have gone -- some are  
2 above, some are below -- but the norm, like he says, is  
3 in the neighborhood of 10 percent. It's not at 8.6 or  
4 8.75 as Dr. Woolridge and Mr. Baudino suggest. That is  
5 not competitive.

6 And remember that we're talking here about a  
7 utility that's risky relative to the industry, so it  
8 needs to be north in its allowed return to compete for  
9 capital with utilities of lesser risk.

10 Q. Yes, sir. Thank you.

11 MR. SPENARD: One second, please.

12 Yes, sir. Thank you so much. We have no further  
13 questions at this time.

14 VICE-CHAIRMAN GARDNER: Any redirect?

15 MR. GARCIA: A little bit, Your Honor. Thank  
16 you.

17 REDIRECT EXAMINATION

18 By Mr. Garcia:

19 Q. Dr. Avera, you were asked about Treasury yield  
20 that was at 2.896?

21 A. Yes.

22 Q. Do you recall that? What is Kentucky Power's  
23 actual ROE earned during the 12 months ending  
24 March 31th, 2015?

25 A. 2.4 percent below Treasury's.

1 Q. Just for clarification --

2 A. Excuse me.

3 Q. Go ahead.

4 A. It was 2.4 percent on a rolling basis since March  
5 to March, four quarters.

6 Q. For the 12 months ending 2015.

7 A. Yes.

8 Q. March 31st, 2015.

9 A. Yes.

10 Q. Is that a sustainable ROE for Kentucky Power?

11 A. No, it is not.

12 Q. Why is that?

13 A. Well, that is a return on equity. Kentucky  
14 Power's bonds, its rating is triple B. Triple B bonds  
15 now yield about 4 and a half to 4.6 percent. So it  
16 doesn't make sense that a company could return less to  
17 its equity holders who bear the risk of the company --

18 MR. COOK: Mr. Vice-Chairman, I'd like to enter  
19 an objection because I don't believe what Dr. Avera is  
20 testifying to right now has anything to do with bonds.

21 VICE-CHAIRMAN GARDNER: So noted.

22 MR. COOK: Thank you.

23 VICE-CHAIRMAN GARDNER: You may proceed.

24 A. So if you compare the bond yields, and all the  
25 witnesses in this case have bond yields as a benchmark

1 to the analyses they do, a realized 2.4 percent ROE is  
2 insufficient to compete with fixed income bonds either  
3 issued by the Treasury or issued by other utilities.

4 Q. Thank you, Dr. Avera. And you were also asked  
5 about your testimony in case number 2013-00197 that was  
6 subsequently withdrawn?

7 A. Yes.

8 Q. Okay. Do you understand that in 2010 the  
9 Commission approved the settlement that authorized  
10 Kentucky Power to earn an ROE of 10.5 percent?

11 A. Yes, sir.

12 Q. Okay. And to your understanding, is that the  
13 current authorized ROE for Kentucky Power?

14 A. It is.

15 Q. Okay. You were also asked about Regulatory  
16 Research Associates?

17 A. Yes.

18 Q. And I think that in your response you were making  
19 reference to the most recent one from April 13, 2015;  
20 is that correct?

21 A. Yes, sir.

22 MR. GARCIA: Your Honor, if we could mark an  
23 exhibit?

24 VICE-CHAIRMAN GARDNER: Please. KYPC Number 1.

25 MR. GARCIA: Thank you, Your Honor.

1 Q. Dr. Avera, are you familiar with this document  
2 that you have been given?

3 A. I am.

4 Q. And what is it?

5 A. It is the quarterly report that the Regulatory  
6 Research Associates, a recognized source that  
7 accumulates the outcome of state rate cases throughout  
8 the United States and has done so since 1974.

9 Q. And I think that you responded to this in  
10 cross-examination, but just to clarify, can you tell me  
11 what this report indicates for the first quarter of  
12 2015?

13 A. It indicates -- the first sentence under Major  
14 Rate Case Decisions, "The average return on equity,  
15 ROE, authorized electric utilities was 10.37 in the  
16 first quarter of 2015, compared to 9.91 percent in  
17 calendar 2014."

18 MR. GARCIA: No further questions, Your Honor.

19 VICE-CHAIRMAN GARDNER: Do you have any recross,  
20 Mr. Cook?

21 MR. COOK: No further questions.

22 MR. SPENARD: Nothing further.

23 MR. GARCIA: Thank you, Your Honor.

24 VICE-CHAIRMAN GARDNER: Sure. You're excused.

25 Thank you, Dr. Avera.

1 THE WITNESS: Thank you, Mr. Vice-Chair.

2 VICE-CHAIRMAN GARDNER: So I assume that, Mr.  
3 Cook, you'd like to introduce AG Number 3?

4 MR. COOK: Yes, please.

5 VICE-CHAIRMAN GARDNER: Any objections?

6 MR. OVERSTREET: No objections.

7 MR. GARCIA: So ordered.

8 (AG Exhibit 3 admitted.)

9 VICE-CHAIRMAN GARDNER: And, Mr. Garcia, would  
10 you like --

11 MR. GARCIA: We'll move for the admission of  
12 KPCO-1.

13 VICE-CHAIRMAN GARDNER: Any objections?

14 MR. COOK: No objection.

15 VICE-CHAIRMAN GARDNER: So ordered.

16 (KPCO Exhibit 1 admitted.)

17 VICE-CHAIRMAN GARDNER: Call your next witness.

18 MR. OVERSTREET: Your Honor, our next witness  
19 would be John Rogness, but I understand Mr. -- excuse  
20 me, Dr. Woolridge has travel constraints?

21 MR. COOK: If that's -- yes. If it's possible to  
22 take him out of order, that would be most helpful.

23 VICE-CHAIRMAN GARDNER: Is that okay?

24 MR. OVERSTREET: That's certainly fine with us.  
25 We're willing to accommodate.

1 VICE-CHAIRMAN GARDNER: Sure. Okay.

2 MS. HANS: That's the Staff's preference as well.

3 VICE-CHAIRMAN GARDNER: Sure, sure.

4 J. RANDALL WOOLRIDGE, called by the Kentucky  
5 Attorney General, having been first duly sworn,  
6 testified as follows:

7 VICE-CHAIRMAN GARDNER: Please have a seat.  
8 State your full name, please.

9 THE WITNESS: My name is initial J. Randall  
10 Woolridge, and that's spelled W-O-O-L-R-I-D-G-E.

11 VICE-CHAIRMAN GARDNER: And with whom are you  
12 employed?

13 THE WITNESS: I am a professor of finance at the  
14 Pennsylvania State University.

15 VICE-CHAIRMAN GARDNER: All right. You may ask.

16 MR. COOK: Thank you, sir.

17 DIRECT EXAMINATION

18 By Mr. Cook:

19 Q. Good, sir.

20 A. Good afternoon.

21 Q. Are you the same Dr. J. Randall Woolridge who  
22 caused to be filed prefiled written direct testimony in  
23 this case?

24 A. Yes.

25 Q. And do you have any additions or corrections to

1 your testimony?

2 A. I have one change which I think we're just going  
3 to hand out an alternative page. It is for Exhibit  
4 JRW-10, page 2.

5 Q. Okay.

6 A. And I'll wait till they distribute that.

7 VICE-CHAIRMAN GARDNER: Mark this AG-4.

8 MR. COOK: Thank you, Mr. Vice-Chair.

9 A. In the original Exhibit JRW-10, page 2, for the  
10 Avera/McKenzie Proxy Group there was one company that  
11 was in there, Xcel Energy, which should not have been  
12 in there, and there's another company, CMS Energy,  
13 which should have been in there.

14 Now, they have about the same dividend yield, so  
15 it really doesn't affect the results, but in the  
16 revised page 2 of 6, you'll notice that CMS Energy is  
17 in the Avera Group, and Xcel Energy is not, but  
18 overall, the dividend yields are pretty much the same.  
19 It really didn't change anything.

20 Q. Thank you, sir. Do you have any other additions  
21 or corrections to your testimony?

22 A. No.

23 Q. If I were to ask you the same questions today,  
24 would your responses be the same other than this  
25 correction?

1 A. Yes.

2 MR. COOK: The witness is tendered for cross.

3 VICE-CHAIRMAN GARDNER: Mr. Garcia?

4 MR. GARCIA: Thank you, Your Honor.

5 CROSS-EXAMINATION

6 By Mr. Garcia:

7 Q. Good afternoon, Dr. Woolridge.

8 A. Good afternoon.

9 Q. Just for starters, would you agree with the  
10 general proposition that a company with higher risk  
11 should be allowed a higher return on equity than a  
12 company with lower risk?

13 A. As a general concept, yes, I agree.

14 Q. Okay. Would you also agree that investors look  
15 at rating agency issuer ratings of companies to compare  
16 the relative risk?

17 A. I don't -- I think they look at rating agencies,  
18 yes. And Dr. Avera and I both used rating -- bond  
19 ratings or credit ratings as measure of risk, yes.

20 Q. And credit ratings would be the issuer ratings?

21 A. That would be the issuer ratings. There's bond  
22 ratings, and then there's issuer ratings.

23 Q. Okay. Now, just to clarify the record a little  
24 bit. From an investor's perspective, is it my  
25 understanding that the better rating means lower risk,

1 and the lower rating means higher risk?

2 A. Yes.

3 Q. Okay. Among rating agencies, Moody's rates  
4 individual utility operating companies, including  
5 Kentucky Power, correct?

6 A. Yes, they do.

7 Q. If you know, did Moody's upgrade the ratings of  
8 many utilities recently?

9 A. In January 2014 they increased the ratings of a  
10 number of utilities, yes.

11 Q. And you said "a number of utilities." Do you  
12 have a sense if it was actually almost all the  
13 utilities that they rate?

14 A. I'm not sure exactly what fraction. It was over  
15 half. I know that. There was like 63 utilities, I  
16 think, had their -- and that includes operating  
17 companies and that sort of thing that had their ratings  
18 upgraded.

19 Q. You have testified in other jurisdictions, have  
20 you not, that it was probably 90 percent of them?

21 A. I don't know if it's 90 percent. There's 63. I  
22 don't know how many they actually rate, so it was a  
23 large percentage.

24 Q. It's a large percentage, okay. And do you know  
25 whether Kentucky Power was one of the utilities that

1 did not get upgraded?

2 A. No, that's correct, their rating is still Baa2.

3 Q. Okay.

4 A. And I made an adjustment for that because of  
5 their slightly higher bond -- or slightly lower bond  
6 rating.

7 Q. Thank you.

8 MR. GARCIA: Your Honor, I would like to mark an  
9 exhibit.

10 VICE-CHAIRMAN GARDNER: This will be KYPC Number  
11 2.

12 Q. After you have an opportunity to look at the  
13 document, Dr. Woolridge, my first question is going to  
14 be whether you know what this is?

15 A. It's a Moody's rating for LG&E and KU Energy,  
16 LLC.

17 MR. COOK: I just want to enter an objection just  
18 for the record that it pertains to LG&E, KU Energy,  
19 which is not the utility here today.

20 VICE-CHAIRMAN GARDNER: So noted.

21 MR. COOK: Thank you.

22 VICE-CHAIRMAN GARDNER: You may answer.

23 MR. GARCIA: Thank you, Your Honor.

24 Q. Dr. Woolridge, is the issuer rating for Kentucky  
25 Utilities Company A3?

1 A. No, this is for LG&E, KU Energy, LLC.

2 Q. Well, let me direct your attention -- do you see  
3 on the first page on the column to --

4 A. Yes.

5 Q. -- the left where it says Kentucky Utilities  
6 Company?

7 A. Yes.

8 Q. Okay. Let me ask you again: Is the issuer  
9 rating for Kentucky Utilities Company A3?

10 A. I'm sorry. Now I do see that. I didn't see that  
11 here. Yes, it has an A3 rating for Kentucky utilities,  
12 and it has an A3 issuer rating for LG&E.

13 Q. And I think that you already told me this, but A3  
14 is better than Baa2, correct?

15 A. Yes. And again, in my equity cost rate  
16 recommendation, I've made adjustment for the relative  
17 risk as measured by credit rating, so of Kentucky Power  
18 relative to the two proxy groups, so I've accounted for  
19 the higher risk in my -- in my recommendation.

20 Q. Thank you.

21 MR. GARCIA: Your Honor, at this point I would  
22 move the admission of KPCO-2.

23 VICE-CHAIRMAN GARDNER: Any objection?

24 MR. COOK: No objection, just subject to my  
25 objections on the record.

1 VICE-CHAIRMAN GARDNER: Sure. So ordered. It's  
2 admitted.

3 (KPCO Exhibit 2 admitted.)

4 MR. GARCIA: Thank you, Your Honor. No further  
5 questions at this time. Thank you.

6 VICE-CHAIRMAN GARDNER: Would you like to  
7 introduce your AG Number 4?

8 MR. COOK: Yes, please, yes.

9 VICE-CHAIRMAN GARDNER: Any objections?

10 MR. OVERSTREET: No objection, Your Honor.

11 VICE-CHAIRMAN GARDNER: So ordered.

12 (AG Exhibit 4 admitted.)

13 VICE-CHAIRMAN GARDNER: Do you have any  
14 questions, Mr. Williamson?

15 MR. WILLIAMSON: No, sir.

16 VICE-CHAIRMAN GARDNER: Mr. Malone, any  
17 questions? Mr. Malone, any questions?

18 MR. MALONE: No, Your Honor.

19 MR. KURTZ: I do. Thank you, Your Honor.

20 VICE-CHAIRMAN GARDNER: Sure.

21 CROSS-EXAMINATION

22 By Mr. Kurtz:

23 Q. Good afternoon, Dr. Woolridge.

24 A. Good afternoon.

25 Q. The -- you're familiar with the nonunanimous

1 stipulation that was presented to the Commission?

2 A. Yes, I am.

3 Q. And the return on equity for certain purposes in  
4 that stipulation was 10.25 percent?

5 A. Yes, I am.

6 Q. Now, the 10.25 percent does not apply to base  
7 rates, correct, because base rates were a black-box  
8 settlement?

9 A. I believe so. I didn't read it that closely. I  
10 just saw the 10.25 was tied to some riders and that  
11 sort of thing.

12 Q. Right. The environmental surcharge, the weighted  
13 average cost of capital, and a few other items?

14 A. Yes.

15 Q. But not 10.25 percent for base rates.

16 A. I don't think it does, but I'm not sure.

17 Q. Are you aware that the settlement agreement also  
18 calls for Kentucky Power to withdraw all of its Fuel  
19 Adjustment Clause appeals challenging the \$54 million  
20 no-load disallowance?

21 A. I am not familiar with that.

22 Q. You weren't aware that's part of the proposal  
23 presented to the Commission in the settlement  
24 agreement?

25 A. No.

1 Q. So you would have no way of valuing that position  
2 of Kentucky Power, that agreement to withdraw its fuel  
3 adjustment appeals?

4 A. No. I mean, I saw it. I really didn't read it  
5 in detail, so I'm not familiar with the particulars of  
6 it.

7 MR. COOK: I'm going to object just for the  
8 record as to relevancy.

9 VICE-CHAIRMAN GARDNER: Overruled. You may ask.

10 Q. So you don't know how much value the Commission  
11 should place on Kentucky Power's agreement to withdraw  
12 its fuel adjustment appeals.

13 A. No, I don't.

14 Q. If Kentucky Power was giving up a right that it  
15 felt was valuable, wouldn't that go into the overall  
16 reasonableness of the settlement agreement, including  
17 the 10.25 percent?

18 A. I mean, settlements are settlements, and there's  
19 give or take here or there. I mean, I obviously  
20 focused on the 10.25 percent thinking that your  
21 witness, Mr. Baudino, was at 8.75, and that's a long  
22 way from 10.25, and I really kind of focused on that.

23 But that's why they call them settlements,  
24 because one group is going to give someplace, and  
25 somebody else gets something else, so I really didn't

1 look at all the particulars. I just really focused on  
2 the ROEs.

3 Q. And your focus on the ROE was before there was a  
4 settlement agreement including the fuel adjustment  
5 settlement?

6 A. I don't know. I was sent -- my attorney sent me  
7 a document within the past week, but I don't know if it  
8 was -- what it included or not. I just didn't read it  
9 that closely.

10 Q. No, my point was your testimony was submitted six  
11 weeks ago or something, and the settlement agreement  
12 was submitted last week.

13 A. Yes.

14 Q. So there's no way you could have taken into  
15 account the fuel adjustment settlement in making your  
16 return on equity recommendation.

17 A. No.

18 Q. If the Commission adopts your recommendation for  
19 return on equity, what happens to the settlement  
20 agreement?

21 A. I don't know. I would assume that it would, I  
22 mean, they'd probably have to go back into negotiations  
23 because I would assume Kentucky Power wouldn't want to  
24 settle at a lower ROE.

25 Q. Well, wouldn't Kentucky Power have the right

1 under the settlement agreement, if the Commission  
2 adopts your recommendation, to tear up the settlement  
3 agreement, including its willingness to drop its fuel  
4 adjustment appeals?

5 A. That's what I said. They'd probably go back to  
6 negotiate.

7 Q. But there's no guarantee that we would get the --  
8 Kentucky Power --

9 MR. COOK: Object because I think he's asking for  
10 a legal opinion.

11 VICE-CHAIRMAN GARDNER: Why don't you move on.

12 Q. Are you aware that the Commission was presented  
13 two weeks ago with a unanimous settlement agreement  
14 with a 10 percent return on equity for KU and LG&E?

15 A. No.

16 Q. Kentucky Power is riskier than KU and LG&E.  
17 Among other things, it has a lower equity ratio in its  
18 capitalization?

19 A. It is riskier. I look at credit ratings, issuer  
20 ratings, and, yes, it is slightly riskier. I made an  
21 adjustment for that. And so, I mean, I've tried to  
22 account for that by making a direct risk comparison  
23 between the proxy groups and -- and Kentucky Power.

24 Q. And I think you've agreed to this, all else  
25 equal, a riskier utility should get a higher return on

1 equity?

2 A. Yes, and I've taken that into account.

3 Q. Kentucky Power's equity ratio is about  
4 43 percent?

5 A. With -- when you include the receivables and that  
6 sort of thing, yes.

7 Q. Do you know that KU and LG&E are in the low 50s,  
8 52, 53 percent equity capitalization?

9 A. Yes, but in that case I wasn't recommending those  
10 capital structure ratios. But again, that sort of  
11 thing is going to be taken into account when they look  
12 at the credit ratings. And Kentucky Power has a  
13 slightly lower credit rating, so I made an adjustment  
14 for it.

15 MR. KURTZ: Thank you, Your Honor.

16 VICE-CHAIRMAN GARDNER: Thank you. Ms. Vinsel?

17 CROSS-EXAMINATION

18 By Ms. Vinsel:

19 Q. Good afternoon, Dr. Woolridge.

20 A. Good afternoon.

21 Q. Could you refer to your direct testimony on pages  
22 6 and 7, and please let me know when you're there.

23 A. Yes.

24 Q. At the bottom of page 6, actually the last  
25 sentence with footnote 4, you provide information from

1 RRA that the return on equity authorized by state  
2 utility commissions declined from 10.1 percent in 2012  
3 to 9.8 percent in 2013 to 9.76 percent in 2014, and  
4 these numbers exclude the Virginia State Utility  
5 Commission; is that correct?

6 A. Yeah, they do. And I excluded them for a  
7 specific reason. I know Dr. Avera offered his opinion.  
8 If you go in and look at those orders, for example,  
9 this year, you know, 11 and 12 percent for Virginia  
10 Electric & Power, if you go in and look at those  
11 documents, two years ago in November in a case I was  
12 involved with, Virginia Electric Power got a 10 percent  
13 ROE.

14 And what these 11 and 12 percent ROEs are in,  
15 say, March of this year was that 10 percent plus the  
16 100 to 200 basis point riders they were given for their  
17 generation project. So the actual ROE was established  
18 two years ago.

19 And last year in a case with Dr. Avera and I were  
20 together with Appalachian Power in the state of  
21 Virginia, they got a base ROE of 9.7 percent. And if  
22 you look in this year's RRA, they get a 9.7 plus a  
23 rider, I think it's 11.4 percent, so that, you know, I  
24 exclude them because the actual ROEs were established  
25 in the biannual rate reviews in the state of Virginia.

1 Q. And were you aware that RRA report for the first  
2 quarter 2015 showed authorized ROEs for electric  
3 utilities average 9.67 percent, excluding Virginia?

4 A. Yes, and I know it. I know Dr. Avera quoted the  
5 10.37. That's because there were four or five cases  
6 from Virginia. And again, these were ROEs that were  
7 established in the past plus the update of the  
8 generation riders for both Virginia Electric Power and  
9 for Appalachian Power.

10 Q. You state in your testimony on page 7 that it's  
11 your opinion that state utility commission ROE awards  
12 are too high because they lag behind capital market  
13 cost rates. Do you see that trend changing?

14 A. I think they've lagged for some time. Many state  
15 commissions, I believe, were stuck, would not go below  
16 ten, but I talk about the trend in the norm.

17 If you go back in 2014, 2015, over 80 percent of  
18 the rate cases had ROEs below 10 percent. I mean that,  
19 to me, means the norm is below 10 percent, and the  
20 trend clearly is. But I think they've been slow to  
21 recognizing that, you know, capital costs are low.

22 Q. Can you confirm that the norm has not been to  
23 award an ROE below 9 percent?

24 A. It has not, but they're heading my direction.

25 Q. Are you aware of any state utility commissions

1 that have awarded an ROE below 9 percent?

2 A. There have been several.

3 Q. Several? Do you -- other than RRA, do you happen  
4 to know which states they are?

5 A. Illinois had two cases or so a couple years ago  
6 where the -- they had an authorized return below  
7 9 percent. There was a case five or six years, maybe  
8 longer, seven years ago that Dr. Avera and I were  
9 involved with in Connecticut where United Illuminating  
10 got 8.75 percent. Those are the primary cases that  
11 stick out.

12 I agree, my number is low, but I think it  
13 reflects the extremely low capital cost we have today.

14 Q. Dr. Woolridge, is there any indication, based on  
15 current information, that interest rates can be  
16 expected to rise in the near future?

17 A. My experience, and I talk about it in my  
18 testimony, I think it's impossible to forecast interest  
19 rates. As it turns out, last year, 100 percent of the  
20 economists said interest rates are going up. They went  
21 down.

22 I think it's impossible to forecast interest  
23 rates, you know. You're really speculating, and I know  
24 Dr. Avera doesn't forecast interest rates, he uses  
25 other services, but these services tend to be

1 continually wrong.

2 I think it's just -- interest rates are one of  
3 those things that are going to go up, they're going to  
4 go down, and economists universally always say they  
5 look at the yield curve, they see a positive slope to  
6 the yield curve, and they say interest rates are going  
7 up.

8 Q. If and when interest rates begin to rise, do you  
9 believe that the return on equities awarded by state  
10 utility commissions will likewise continue to lag  
11 behind capital markets?

12 A. I don't know. Interest rates have been going  
13 down for ten years, and so -- and it's clear that I  
14 think, I believe that the authorized returns have been  
15 slow to reflect those low interest rates. And so as it  
16 turns out, and I think usually commissions are looking  
17 at some forecasts and say, well, we don't want to go  
18 that low.

19 I don't know, but it's clear that, you know, with  
20 interest rates going down slowly, authorized ROEs have  
21 declined as well.

22 MS. VINSEL: One moment, please.

23 We have no further questions.

24 VICE-CHAIRMAN GARDNER: Mr. Garcia?

25 MR. GARCIA: Just a second, Your Honor.

1 No further questions, Your Honor.

2 VICE-CHAIRMAN GARDNER: Any additional cross?  
3 Any redirect?

4 MR. COOK: We have no redirect.

5 VICE-CHAIRMAN GARDNER: Okay. Thank you,  
6 Dr. Woolridge. You're free to go.

7 MR. OVERSTREET: Our next witness is  
8 John Rogness.

9 JOHN A. ROGNESS, called by Kentucky Power  
10 Company, having been first duly sworn, testified as  
11 follows:

12 VICE-CHAIRMAN GARDNER: Please have a seat.  
13 State your full name. State your full name.

14 THE WITNESS: John A. Rogness.

15 VICE-CHAIRMAN GARDNER: And with whom are you  
16 employed, Dr. Rogness?

17 THE WITNESS: Kentucky Power Company.

18 VICE-CHAIRMAN GARDNER: And what is your  
19 position?

20 THE WITNESS: I'm the director of regulatory  
21 services.

22 VICE-CHAIRMAN GARDNER: You-all may ask.

23 MR. OVERSTREET: Thank you, Mr. Vice-Chairman.

24 \* \* \*

25

## 1 DIRECT EXAMINATION

2 By Mr. Overstreet:

3 Q. Mr. Rogness, did you cause to be filed in this  
4 proceeding testimony and data request responses?

5 A. I did.

6 Q. Do you have any changes or updates to those  
7 filings?8 A. Yes, and they were provided to the Commission,  
9 but I can walk through them.

10 Q. These were filed some time ago?

11 A. Yes, they were.

12 Q. So since that time, you've had no updates or  
13 changes?

14 A. No further changes.

15 Q. And if you -- with those modifications that  
16 previously were filed, if you were asked the same  
17 questions today, would your answers be the same?

18 A. Yes, they would.

19 MR. OVERSTREET: The witness is available,  
20 Mr. Vice-Chairman.

21 VICE-CHAIRMAN GARDNER: Mr. Williamson?

22 MR. WILLIAMSON: No questions.

23 VICE-CHAIRMAN GARDNER: General Cook?

24 MR. COOK: We have no questions,  
25 Mr. Vice-Chairman.

1 VICE-CHAIRMAN GARDNER: Mr. Malone?

2 MR. MALONE: No questions.

3 MR. NGUYEN: Thank you, Your Honor. Just a  
4 couple.

5 CROSS-EXAMINATION

6 By Mr. Nguyen:

7 Q. Good afternoon, Dr. Rogness.

8 A. Good afternoon.

9 Q. Can you refer to Item 23 of Commission Staff's  
10 third information request?

11 A. Okay.

12 Q. Page 2 of 2, Part B. Well, first off, the  
13 question is related to the changes Kentucky Power is  
14 proposing to make to the tariff PPA to allow for  
15 recovery of power purchases in excess of its peaking  
16 unit equivalent; is that correct?

17 A. (Witness nodding.)

18 Q. And then on page 2 to this response states that  
19 "During 2014, Kentucky Power did not recover \$655,017  
20 of purchase power cost due to the peaking unit  
21 equivalent limitation."

22 And is it your testimony from this response that  
23 none of the \$655,017 mentioned is included in the  
24 requested revenue requirement in this case.

25 A. Yes, it is.

1 Q. You say yes, it is included, or yes, that is not  
2 included?

3 A. It is not included --

4 Q. Okay.

5 A. -- in the revenue requirement.

6 Q. Thank you. Did you review the Attorney General's  
7 prefiled testimony of its witness Ralph Smith?

8 A. I am somewhat familiar with it, yes.

9 Q. Okay. Do you have his testimony available?

10 A. I do not.

11 MR. OVERSTREET: We can provide it.

12 Q. Okay. Can you turn to page 34 to 36. I'll give  
13 you a little bit of time to just read over those pages.  
14 Just let me know when you're ready.

15 A. Okay.

16 Q. Okay. On these pages, Mr. Smith discusses the  
17 commercial industrial expansion projects occurring  
18 within Kentucky Power service territory; is that  
19 correct?

20 A. Yes.

21 Q. Okay. He argues that the estimated monthly  
22 revenues of \$88,636 related to those projects have  
23 already occurred, should be annualized and added to  
24 revenues. And he then calculates an annualized amount  
25 of \$1,051,938 on a Kentucky jurisdictional basis; is

1 that correct?

2 A. That is his number on page 36.

3 Q. Okay. Sure. If the Commission does not approve  
4 the settlement agreement in this case, do you agree  
5 with Mr. Smith that an adjustment should be made to  
6 increase test year revenues by the amount of his  
7 calculation?

8 A. No. The revenues that are associated with the  
9 projects are already in. If they're in service, then  
10 they are already in the revenues.

11 Q. So --

12 A. Are you asking me if we would make an adjustment?  
13 I'm not sure I understand your question.

14 Q. Well, let me ask you this: Are those amounts  
15 included in the revenue requirements requested in this  
16 proceeding?

17 A. If the projects are already in service, then yes,  
18 they would be if it's in service during the test year.

19 Q. If they're not, if they're not already included  
20 in the revenue requirement, would you agree with his  
21 characterization that they should be if those projects  
22 have already occurred?

23 A. Yes.

24 Q. Kentucky Power has also proposed increasing  
25 several of its nonrecurring charges, the meter reading,

1 certain reconnect charges, collection trip, bad check,  
2 and meter test; is that correct?

3 A. Yes, that is true.

4 Q. And according to the terms of the settlement,  
5 those increases will be unlimited; is that correct as  
6 well?

7 A. Could you repeat the question, please?

8 Q. Will those increases, will those nonrecurring  
9 charges, the increases to those nonrecurring charges,  
10 would those be part of the terms of the settlement  
11 agreement?

12 A. They were not discussed specifically in the  
13 settlement agreement. So if -- if the Commission  
14 approves the settlement agreement, those rates would go  
15 into effect.

16 Q. Okay. Do you know when the existing nonrecurring  
17 charges were established?

18 A. In our last base rate case.

19 Q. In 2009?

20 A. Yes.

21 Q. Okay.

22 MR. NGUYEN: Those are all the questions. Thank  
23 you.

24 \* \* \*

25

## EXAMINATION

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By Vice-Chairman Gardner:

Q. Dr. Rogness, are you familiar at all with the Mitchell case, which was 2012-00578?

A. Somewhat familiar, yes.

Q. Are you aware that there was a requirement that was agreed to by the Company to increase its DSM expenditures from around the then current 3 million a year to 6 million a year in 2016?

A. Yes.

Q. Okay. And are you familiar with the DSM case, with the -- with the DSM case number 2014-00271 that the Commission issued an order, excuse me, in February of this year?

A. Yes.

Q. Okay. Isn't it fair to say that in that order the Commission expressed concern about the -- the level of spending on the DSM, as well as the lack of understanding of what -- why the -- why the Company was falling behind in its spending?

A. Yes. I'm aware that the Commission was concerned.

Q. And you -- you filed exhibits -- or, excuse me, you filed correspondence with the Commission in February and March and in April describing various

1 elements of what you -- what the Company was obligated  
2 to provide the Commission?

3 A. Yes.

4 Q. Okay.

5 VICE-CHAIRMAN GARDNER: What I would like in a  
6 post-hearing data request is that -- let me just -- on  
7 February 27th -- the information -- the statistical  
8 information that the Company provided, that's the level  
9 of detail that we wanted, okay?

10 So the level of detail that was provided in the  
11 March 23rd and the March -- excuse me, and April 20th.  
12 And I don't even know if you-all have those. And if  
13 not, I'm not going to ask you questions about them now,  
14 but I'll show them to you after the hearing if you want  
15 to see what I'm talking about.

16 MR. GISH: That would be very helpful.

17 VICE-CHAIRMAN GARDNER: Yeah. Are not  
18 sufficient. In other words, the March and April one  
19 are not sufficient. We'd like the level of detail that  
20 you-all provided in January, and also the -- one of the  
21 things that we requested was to provide us with  
22 information if you were behind, and still you continue  
23 to be behind, as to what your plan was to catch up.  
24 Okay?

25 And the sentence that you-all are supplying in

1 this report is not, again, sufficient in detail because  
2 all you're saying is the Company remains on target to  
3 achieve the spending level included with case. So that  
4 one sentence which you're putting in every one of these  
5 reports is not the level of detail that we wanted as to  
6 what the problem is or how you're going to catch up  
7 with that.

8 Does that make sense?

9 MR. OVERSTREET: I understand what the Commission  
10 is saying, and we will fully address it.

11 VICE-CHAIRMAN GARDNER: Thank you. I appreciate  
12 that. That's all the questions I have.

13 MR. OVERSTREET: Okay. Thank you.

14 VICE-CHAIRMAN GARDNER: But I do want March and  
15 April revised with the level of detail that's in the  
16 January report.

17 MR. OVERSTREET: Understood.

18 VICE-CHAIRMAN GARDNER: Thank you.

19 REDIRECT EXAMINATION

20 By Mr. Overstreet:

21 Q. Mr. Rogness, do you have your testimony in front  
22 of you?

23 A. I do, yes.

24 Q. Would you please turn to page 24?

25 MR. COOK: Is this his direct?

1 MR. GISH: Yes.

2 MR. OVERSTREET: I'm sorry. Thank you.

3 A. I'm there.

4 Q. Do you have that in front of you?

5 A. Yes. Yes.

6 Q. And you remember Mr. Nguyen asking you about  
7 whether -- when the Commission's -- excuse me, the  
8 Company's special charges were last established?

9 A. Yes.

10 Q. Okay. And I think you indicated in the -- as  
11 part of the 2009 rate case, but they weren't modified  
12 in that rate case; is that correct?

13 A. That is correct.

14 Q. If you read the -- and could you read into the  
15 record, please, the sentence that begins at the bottom  
16 of 24 and continues on to page 25?

17 A. "The existing special charges were last modified  
18 in Case Number 2005-00431. The Company sought to  
19 modify the special charges in the last base rate case,  
20 Number 2009-00459, but the special charges were not  
21 changed as part of the settlement agreement resolving  
22 that case."

23 Q. Okay. Does that refresh your memory as to when  
24 they were last changed?

25 A. Yes, it does.

1 Q. Okay. Thank you. And you were asked about  
2 Mr. Smith's testimony and the adjustment to reflect  
3 commercial and industrial changes in usage. Do you  
4 remember that, that series of questions?

5 A. Yes.

6 Q. If such changes were to be reflected, could  
7 they -- should they be reflected only in isolation?

8 A. No.

9 Q. And would you think that you would also have to  
10 reflect any sort of either closures such as coal mine  
11 closures or other declines in load?

12 A. Yes. It should be all the net additions and  
13 subtractions.

14 Q. And then beyond that, should any sort of  
15 adjustment reflect increased O&M expenses, for example,  
16 to generate that extra kWh that Mr. Smith suggests that  
17 the Company --

18 A. Yes, it should.

19 MR. OVERSTREET: That's all I have.

20 MR. COOK: No questions.

21 VICE-CHAIRMAN GARDNER: Mr. Malone?

22 MR. MALONE: No questions.

23 VICE-CHAIRMAN GARDNER: Mr. Nguyen?

24 MR. NGUYEN: No questions.

25 VICE-CHAIRMAN GARDNER: You're free to go. Thank

1 you.

2 MR. OVERSTREET: And we will address your issue.

3 VICE-CHAIRMAN GARDNER: Sure.

4 MR. OVERSTREET: Mr. Vice-Chairman, our next  
5 witness is Ms. Amy Elliott. Mr. Gish will present her.

6 AMY J. ELLIOTT, called by Kentucky Power Company,  
7 having been first duly sworn, testified as follows:

8 VICE-CHAIRMAN GARDNER: Please have a seat.

9 State your full name.

10 THE WITNESS: Amy J. Elliott.

11 VICE-CHAIRMAN GARDNER: And with whom are you  
12 employed?

13 THE WITNESS: Kentucky Power.

14 VICE-CHAIRMAN GARDNER: And what is your position  
15 with Kentucky Power?

16 THE WITNESS: I'm a regulatory consultant for  
17 Kentucky Power.

18 VICE-CHAIRMAN GARDNER: You're not employed by  
19 them?

20 THE WITNESS: I am employed by Kentucky Power,  
21 yes, sir.

22 VICE-CHAIRMAN GARDNER: All right. Thank you.

23 MR. GISH: Thank you, Mr. Vice-Chair.

24 VICE-CHAIRMAN GARDNER: You may ask.

25 \* \* \*

## 1 DIRECT EXAMINATION

2 By Mr. Gish:

3 Q. Ms. Elliott, did you have cause to be filed in  
4 this case direct testimony and responses to data  
5 requests?

6 A. Yes, sir, I did.

7 Q. Do you have any updates to your direct testimony  
8 or responses to data requests?9 A. I do. I have one change. It's on page 9,  
10 line 3. The word "Mitchell" should be "Rockport."11 Q. So the sentence should now read "Kentucky Power  
12 proposes to add the following Rockport Plant  
13 environmental projects to the 2014 plan"?

14 A. Yes, that's correct.

15 Q. With that modification, if I were to ask you the  
16 same questions that are included in your direct  
17 testimony and in your data requests, would you provide  
18 the same answers?

19 A. I would, yes.

20 MR. GISH: Mr. Vice-Chairman, Ms. Elliott is  
21 available for cross-examination.

22 MR. WILLIAMSON: No questions.

23 MR. COOK: No questions.

24 MR. MALONE: No questions.

25 VICE-CHAIRMAN GARDNER: Mr. Nguyen?

1 MR. NGUYEN: Yes. Thank you, Your Honor.

2 CROSS-EXAMINATION

3 By Mr. Nguyen:

4 Q. Good afternoon, Ms. Elliott.

5 A. Good afternoon.

6 Q. Can you refer to your responses to Staff's second  
7 data request, item number 37?

8 A. Yes, sir. Give me just a second to get there,  
9 please.

10 MR. GISH: You said 37?

11 MR. NGUYEN: Yes.

12 A. I made it to 36. Okay. I'm there.

13 Q. The question is in regards to the proposed, the  
14 new proposed monthly environmental surcharge forms to  
15 reflect the proposed environmental compliance plan  
16 projects, and your answer stated that Kentucky Power is  
17 currently in the process of preparing the revised  
18 environmental compliance surcharge forms. What's the  
19 status of that revision?

20 A. We are nearly finalizing those environmental  
21 surcharge forms, and just because of the sheer number  
22 of changes and riders in this case, we wanted to come  
23 in, request an informal conference to review those  
24 forms, as well as the other rider forms that were  
25 addressed in 333, I think, but we wanted to be able to

1 have the opportunity to sit down and review those with  
2 you.

3 Q. Okay.

4 A. So we plan on doing that soon.

5 Q. Sure. Can you refer now to your direct  
6 testimony, first exhibit, Exhibit AJE-1?

7 A. Okay. I'm there.

8 Q. Okay. The table -- well, there's two tables.  
9 Top table reflects Kentucky Power Company's previously  
10 approved environmental compliance plan projects, and  
11 then the bottom table is the proposed environmental  
12 compliance plan projects for Kentucky Power; is that  
13 correct?

14 A. Yes.

15 Q. Can you provide, by the type of environmental  
16 control at both the Mitchell Plant and the Rockport  
17 Plant, the investment cost of the projects listed in  
18 the proposed environmental surcharge tariff, along with  
19 the associated accumulated depreciation of those  
20 environmental costs?

21 So for the past, I said proposed, but for the  
22 past and prior environmental --

23 A. Certainly. We can provide that if it's not  
24 already a part of the record.

25 MR. GISH: We can certainly provide that for you

1 as a post-hearing data request.

2 MR. NGUYEN: Sure, yes.

3 A. Okay.

4 Q. And I mentioned all of these projects with the  
5 exception of project 6, 7, and 8, which relate to the  
6 Commission's allowances.

7 A. Okay.

8 Q. And just to be clear, the environmental controls  
9 by plants should be segregated by, you know, either  
10 related to their specific units, or if it's in common  
11 with the entire station, with the entire station as the  
12 most current available date.

13 A. Okay. We'll gladly provide that.

14 MR. NGUYEN: Those are all the questions I have.  
15 Thank you.

16 EXAMINATION

17 By Vice-Chairman Gardner:

18 Q. Ms. Elliott, I have just a couple questions. The  
19 first is on page 8 of your direct testimony, line 23.  
20 It's really 21, 22, and 23 because you're saying under  
21 the unit power agreement, Kentucky Power receives  
22 30 percent of the AEP Generating Company's 50 percent  
23 share at these two generating units and is responsible  
24 for 30 percent of AEP Generating Company's costs.  
25 Should that actually be 15 percent?

1 A. I think we might be saying the same thing. The  
2 30 percent of the 50 percent, so it's 15 percent of the  
3 total plant, yes, sir.

4 Q. Okay. And then, and if Mr. LaFleur is better for  
5 this question. So do you have the settlement agreement  
6 in front of you?

7 A. No, sir, I don't.

8 MR. OVERSTREET: I can provide it to her.

9 VICE-CHAIRMAN GARDNER: Okay.

10 MR. OVERSTREET: Does she just need the agreement  
11 or the exhibits?

12 VICE-CHAIRMAN GARDNER: It's Exhibit 4.

13 MR. OVERSTREET: Exhibit 4. Thank you. May I  
14 approach her to provide?

15 VICE-CHAIRMAN GARDNER: Yes, you may.

16 A. Okay, I have it.

17 Q. Okay. And I want to make sure I understand. So  
18 these -- so numbers -- excuse me, column number 3 is  
19 the monthly environmental cost for Big Sandy; is that  
20 correct?

21 A. Well, let me explain exactly what's in the  
22 column.

23 Q. Does it include Rockport and the pool?

24 A. It includes Rockport and also includes the pool  
25 for October, November, and December of '13.

1 Q. Okay.

2 A. So it was the projects and the associated cost of  
3 the projects in our currently approved environmental  
4 compliance plan.

5 Q. Okay. But it doesn't -- it doesn't include  
6 Mitchell in column 3.

7 A. Right.

8 Q. Okay. So what you do is you take out the pool,  
9 you remove Big Sandy, and then you've got column 6, and  
10 then you add in the Mitchell non-FGD costs; is that  
11 right?

12 A. Yes, sir.

13 Q. Okay. So that's what Mr. Nguyen was asking  
14 about, you know, in effect, what are the non-FGD  
15 Mitchell projects and for which unit, that sort of  
16 thing.

17 A. Okay.

18 Q. Is that right? I mean, that was one of the  
19 things he was asking you was --

20 A. I think he was asking more for the plant value of  
21 each of those projects --

22 Q. Okay.

23 A. -- but it's a portion of what's there. There's  
24 some O&M costs there also.

25 Q. Okay. And when you add in Rockport and you get

1 what the adjusted environmental base is, and this is  
2 what is going to be in base rates because, or at least  
3 under the settlement because then what you're proposing  
4 is that the Mitchell FGD be dealt with separately; is  
5 that correct?

6 A. Right. We are proposing as part of the Mitchell  
7 asset transfer case to only recover the FGD and all of  
8 its associated costs through the environmental  
9 surcharge.

10 Q. Okay. And the rest is going to be in base rates.

11 A. So the part that's in base rates is for the  
12 projects that were in service during the test year,  
13 yes.

14 Q. Okay. And the revenue requirement for the  
15 Mitchell FGD is in the range of two million seven, two  
16 million eight, two million nine per month?

17 A. So the FGD, if you'll refer to AJE-4, that  
18 presents the FGD revenue requirement. So, yeah, your  
19 numbers are on target, but that's obviously in addition  
20 to what's shown here in Exhibit 4.

21 Q. Now, in the -- in these numbers in column -- or,  
22 you know, October 2013, those numbers in column 3 are  
23 actual numbers; is that correct?

24 A. Yes. So those are the actual numbers. That's  
25 what we filed in our monthly environmental surcharge

1 reports with the Commission.

2 Q. Okay. And the tariff that you-all had filed as  
3 previously in -- effective January 1, 2014, has  
4 slightly different numbers from those numbers? Do you  
5 know why that might be?

6 A. I do. There were a few things that were updated.  
7 Mostly it's for the ROE had changed with the settlement  
8 agreement, the depreciation rate changed, and the gross  
9 revenue conversion factor changed.

10 I think there were also some adjustments done for  
11 maybe a settlement of bonus depreciation. I don't know  
12 if that was part of the black box, but that's what I  
13 included in my revision.

14 MR. OVERSTREET: Not anymore.

15 THE WITNESS: Sorry.

16 VICE-CHAIRMAN GARDNER: That's all I have. Thank  
17 you.

18 Do you have any redirect?

19 MR. GISH: Just one simple clarification.

20 VICE-CHAIRMAN GARDNER: Sure.

21 REDIRECT EXAMINATION

22 By Mr. Gish:

23 Q. Ms. Elliott, you referred Vice-Chairman Garmin --  
24 Gardner to, excuse me, to Exhibit AJE-4 of your direct  
25 testimony, correct?

1 A. Correct.

2 Q. And that -- those -- that exhibit shows a total  
3 revenue requirement for July of '15 through June '16,  
4 2016, of \$34.4 million approximately; is that correct?

5 A. Uh-huh.

6 Q. But this number was calculated using depreciation  
7 rates and a gross revenue conversion factor and a  
8 weighted average cost of capital that was filed with  
9 the Company's application, correct?

10 A. Correct.

11 Q. And as a result of the settlement, those numbers  
12 have decreased. So whether or not you've done the  
13 calculation or not, you would expect these numbers to  
14 decrease commensurate with the decrease in the annual  
15 revenue requirement for the tariff ES, correct?

16 A. Right. I updated the FGD numbers, made the same  
17 changes to the FGD revenue requirement as we made to  
18 the adjusted environmental base, based on the  
19 settlement agreement.

20 VICE-CHAIRMAN GARDNER: Okay. And where are  
21 those updated numbers?

22 THE WITNESS: It was just -- I don't think we  
23 filed it as an exhibit. We'd gladly provide that too.

24 VICE-CHAIRMAN GARDNER: Okay. So in effect  
25 that's sort of an amendment, if you will, to AJE-4?

1 MR. GISH: Yes, sir.

2 VICE-CHAIRMAN GARDNER: Okay. Great.

3 Any questions?

4 MR. WILLIAMSON: No, sir.

5 MR. COOK: No questions.

6 MR. KURTZ: No questions.

7 MR. NGUYEN: No questions.

8 VICE-CHAIRMAN GARDNER: Thank you, Ms. Elliott.

9 You're free to go.

10 MR. OVERSTREET: Next witness is Mr. Phillips.

11 EVERETT G. PHILLIPS, called by Kentucky Power

12 Company, having been first duly sworn, testified as

13 follows:

14 VICE-CHAIRMAN GARDNER: Please have a seat and  
15 state your name.

16 THE WITNESS: Everett G. Phillips.

17 VICE-CHAIRMAN GARDNER: Mr. Phillips, with whom  
18 are you employed?

19 THE WITNESS: Kentucky Power.

20 VICE-CHAIRMAN GARDNER: What is your position  
21 with Kentucky Power?

22 THE WITNESS: Managing director of distribution  
23 region operations.

24 VICE-CHAIRMAN GARDNER: And what is your business  
25 address?

1 THE WITNESS: 12333 Kevin Avenue, Ashland,  
2 Kentucky.

3 VICE-CHAIRMAN GARDNER: Thank you.

4 Mr. Overstreet and Mr. Gish, one of you-all may  
5 ask.

6 MR. OVERSTREET: It is me, Your Honor.

7 DIRECT EXAMINATION

8 By Mr. Overstreet:

9 Q. Good afternoon, Mr. Phillips.

10 A. Good afternoon.

11 Q. Did you cause to be filed in the record of this  
12 case direct testimony and responses to data requests?

13 A. That's correct.

14 Q. And do you have any additions or corrections to  
15 those responses?

16 A. No, sir.

17 Q. And if you were asked those same questions here  
18 today, would your responses be the same?

19 A. Yes.

20 MR. OVERSTREET: The witness is available,  
21 Your Honor.

22 MR. WILLIAMSON: No questions.

23 MR. COOK: No questions.

24 MR. KURTZ: None.

25 VICE-CHAIRMAN GARDNER: Mr. Malone?

1 MR. MALONE: No questions.

2 VICE-CHAIRMAN GARDNER: Mr. Spenard?

3 CROSS-EXAMINATION

4 By Mr. Spenard:

5 Q. Good afternoon, Mr. Phillips.

6 A. Good afternoon.

7 Q. Please turn to page 13 of your prefiled direct  
8 testimony and indicate when you've located that page.

9 A. Did you say page 13?

10 Q. Yes, sir.

11 A. I'm there.

12 Q. Beginning on line 14 of that page, there's a  
13 question for you to summarize the current status of the  
14 Kentucky Power vegetation management plan. Do you see  
15 that question?

16 A. Yes, sir.

17 Q. And beginning on line 16, you state that the  
18 original time estimate to clear all distribution  
19 circuits at the funding level that was approved in the  
20 2009 case, that original time estimate was seven years;  
21 is that correct?

22 A. That is correct.

23 Q. Mr. Phillips, when did Kentucky Power realize  
24 that it would need more time or funding to meet the  
25 Commission's and the Kentucky Power's expectations for

1 clearing those lines?

2 A. As we began the process of this vegetation  
3 management plan of 2010, we knew that we were tackling  
4 the worst-performing circuits first. So we knew at the  
5 time it would take longer in the initial years.

6 So at the end of 2013 or -- yeah, about the end  
7 of 2013 is when we made -- we recognized that if we  
8 stayed on the same pace we would not reach the seven  
9 years. So at that time is when we made some changes.  
10 I think it may have been during the fourth quarter of  
11 2013 we made some changes in hopes of trying to make  
12 some improvements.

13 So starting in 2014, we wanted to see some of  
14 those improvements made so in hopes that we could catch  
15 back up. And then in our September filing for our 2015  
16 plan is when we knew, as we started gathering that  
17 data, we realized then that we would not be able to  
18 finish the over 8,000 miles of primary to clear those  
19 end to end, so that's when we notified the Commission  
20 through our September filing.

21 Q. Okay. Mr. Phillips, please turn to page 23 of  
22 your prefiled direct testimony.

23 A. I'm there.

24 Q. And Kentucky Power has a distribution vegetation  
25 management plan that was approved by the Kentucky

1 Public Service Commission in case number 2009-459; is  
2 that correct?

3 A. That is correct.

4 Q. And beginning on line 12 of that page, there's a  
5 question for you to identify the changes to the  
6 vegetation management plan that are being proposed by  
7 Kentucky Power in this case. Do you see that question?

8 A. Yes.

9 Q. And beginning on line 14 of page 23, you state,  
10 "There are three fundamental tasks that are required at  
11 specific intervals to complete the transition from the  
12 former performance-based vegetation management program  
13 to a four-year cycle-based vegetation management  
14 program."

15 Do you see that?

16 A. Yes, sir.

17 Q. With regard to what is currently proposed as we  
18 sit here today, is that now a -- has that now been  
19 changed? Should that testimony now be changed to  
20 reflect five-year cycle-based, or is it still four-year  
21 cycle-based?

22 A. What's filed in the settlement agreement is a  
23 five-year cycle base.

24 Q. Okay. And beginning with line 17 of page 23, you  
25 state, "The first task is the initial end-to-end

1 reclearing of every distribution circuit ROW as  
2 contemplated by the unanimous settlement agreement."

3 Do you see that statement?

4 A. Yes, sir.

5 Q. And "ROW" is the abbreviation for right-of-way;  
6 is that correct?

7 A. That is correct.

8 Q. And the unanimous settlement agreement that you  
9 reference is the agreement from case number 2009-459;  
10 is that correct?

11 A. Yes, sir.

12 Q. And in your testimony, you note that the original  
13 estimate of seven years has been revised to eight and  
14 one-half years, correct?

15 A. That is correct.

16 Q. And so for the first task, the initial clearing,  
17 how confident is Kentucky Power that it will complete  
18 this job, this task, in eight and one-half years?

19 A. We're very confident. We -- it's based on our  
20 historical experience. We have over four years, nearly  
21 five now, and so we've been able to complete over half  
22 of our circuits, over half of our miles. We're around  
23 52 percent complete.

24 So we now have a good -- a better estimation of  
25 what is in front of us, and so we can now make better,

1 more confident estimates based on what we have left,  
2 based on what we have gone through.

3 Q. Okay. And the description of the second task  
4 begins at line 22 of page 23 and then continues over to  
5 page 24. And again, with regard to line 23 of page 23,  
6 we then go to the issue of the four-year cycle.

7 And as we sit here today, is that a four-year  
8 cycle, or will it -- under your proposal under this  
9 settlement agreement that Kentucky Power has submitted  
10 in this case, what is the number.

11 A. That would be -- in the settlement agreement,  
12 that would change to a five-year cycle.

13 Q. Okay. And the second task, the interim  
14 maintenance or the subsequent second pass-through, that  
15 is necessary prior to the establishment of either a  
16 four-year or a five-year cycle; is that correct?

17 A. That's correct. The reason for that is if you  
18 wait till you get to clear all the circuits, which is  
19 going to be roughly eight-and-a-half years, then you've  
20 allowed tree growth of eight-and-a-half years on the  
21 first circuits that we cleared back in 2010. 2011  
22 would be seven and a half, et cetera.

23 And so that is -- for example, you know, we have  
24 a lot of silver maples in our territory in our steep  
25 terrain, and so trees are a vital part of Eastern

1 Kentucky. It's part of its beauty, but it also allows,  
2 with the above average rainfall that we have received,  
3 allows trees to grow abundantly.

4 But to use an example, we have silver maples, and  
5 they have -- once you cut them, the sprout can grow  
6 back as much as 5 feet in one year. So if you allow  
7 that to go the full eight years, it's back in the  
8 primary or taller than most of our poles. Average pole  
9 height is 40 feet, and so you have 6 feet of that's in  
10 the ground. So the most height you have is, on  
11 average, is 34 feet, and that's roughly.

12 So that's -- that's a primary reason why we need  
13 to go back and reclear those circuits that we initially  
14 started in this program and keep that on a five-year  
15 cycle.

16 If we wait, the cost will remain high per mile,  
17 much where it is today. But if we're able to get that  
18 cleared away with only five years' growth, five to five  
19 and a half, we'll keep that height below the primary.  
20 We can clear it much quicker. It will not allow the  
21 density to grow back. We'll have less trees to clear  
22 in the right-of-way, and we can get through it much  
23 quicker at a much less cost.

24 Q. Mr. Phillips, was a second pass-through cycle  
25 identified and stated in the settlement agreement in

1 case number 2009-459?

2 A. Could you repeat the question?

3 Q. Was a second pass-through cycle identified and  
4 stated in the settlement agreement in 2009-459 in terms  
5 of the need for the second -- the second pass-through?

6 A. Oh, in the 2009 case?

7 Q. Yes, sir.

8 A. In the 2009 case, in my original testimony of the  
9 2009 case, our proposal was to do it in a five-year  
10 plan, to go through the -- with additional funds above  
11 what the settlement agreement of 2009, and would have  
12 went through it in five years. So essentially would  
13 have been on a four- to five-year cycle after that, so  
14 that was not discussed in direct detail, no.

15 Q. So with regard to achieving a cycle-based  
16 clearing without a second pass-through, Kentucky Power  
17 would have been required to have a spending amount  
18 above the level in the 2009-459 settlement agreement?

19 A. Could you repeat that just to make sure I'm  
20 clear?

21 Q. Yes, sir. In order to have achieved a  
22 cycle-based clearing without a second pass-through  
23 cycle, would Kentucky Power have been required to have  
24 spending above the level in case number 2009-459?

25 A. We would have had to specifically been above the

1 amount that was approved in the 2009 case, that's  
2 correct.

3 Q. Okay. So when did Kentucky Power recognize that  
4 without the second pass-through cycle it would not be  
5 able to achieve a cycle-based clearing?

6 A. Well, I guess -- could you repeat the question,  
7 make sure I'm --

8 Q. Yes, sir. When did Kentucky Power recognize that  
9 without the second pass-through cycle it would not be  
10 able to achieve the cycle-based clearing?

11 A. From the 2009?

12 Q. Yes, sir.

13 A. Well, I guess it's been about the same time as  
14 now, the end of -- beginning sometime in 2014 when we  
15 started seeing the close to five years' growth on the  
16 circuits that we cleared in 2010. We're seeing those  
17 start, the right-of-ways starting to grow back.

18 And so that's when we realized if we waited, like  
19 I stated earlier, waited till the eight-and-a-half  
20 years before we got through those, that we would not be  
21 able to -- be able to clear those at a reduced cost,  
22 and in order to pick up the time, clear more miles per  
23 year, to reach a four-year cycle or five-year cycle,  
24 four to five, so about the same time frame.

25 Q. All right. Thank you. Mr. Phillips, with regard

1 to the sentence that begins on page 23, line 23, and  
2 continues on the first two lines of page 24, you state  
3 that "If undertaken within four to five years of the  
4 initial reclearing, the second task can be performed at  
5 the lower maintenance cost."

6 Do you see that?

7 A. Oh, line 23, if undertaken -- okay. Within four  
8 to five -- on to page 24, correct?

9 Q. Okay. Mr. Phillips, how confident is  
10 Kentucky Power that the second pass-through, the  
11 interim maintenance that we're discussing, can be done  
12 at a lower maintenance cost?

13 A. We're very confident. Again, based on our  
14 experience, we can see that if we're able to start now,  
15 that we'll have less density. The trees will not be  
16 back in the primary. So from a safety concern, we'll  
17 not have to take as long to clear a tree.

18 For example, if a tree is up in the primary, one,  
19 it may have to be scheduled outage, but if they still  
20 can safely remove it, they must rope it, which takes  
21 time, and so that -- time is labor, and labor is money.  
22 So that's all what it costs.

23 And so we're able to -- we feel confident that  
24 this reduced cost, the maintenance cost level will be  
25 able to sustain that due to the fact that less trees

1 within the right-of-way have had an opportunity to grow  
2 back, and the ones that are there have not grown back  
3 into the primary yet.

4 Q. Okay. Mr. Phillips, how confident is  
5 Kentucky Power that it can meet its proposed, and  
6 meaning proposed through the settlement agreement  
7 that's been proposed, how confident is Kentucky Power  
8 that it can meet its proposed timeline projection for  
9 clearing 100 percent of the distribution circuits?

10 A. For Task 1, 2, and 3?

11 Q. Yes, sir.

12 A. We're very confident in all three. We have --  
13 our experience tells us, our employees out in the field  
14 that are watching our contractors, as well as our  
15 contractors are -- have provided us data, and we are --  
16 and we've been out in the field as well, so we're  
17 seeing great progress.

18 We've made -- we're improving service to our  
19 customers. We have received favorable comments about  
20 our tree trimming efforts. And so what we have done,  
21 we've been able to reduce outages, tree-related outages  
22 inside the right-of-way by 34 percent, as stated in my  
23 testimony. So we're very confident that we can achieve  
24 all three of these tasks in the time frame that we've  
25 identified.

1 Q. Mr. Phillips, in your prefiled testimony  
2 beginning on page 24, and then continuing, you  
3 identify -- you discuss four scenarios for the  
4 implementation for the modifications proposed by  
5 Kentucky Power; is that correct?

6 A. That's correct.

7 Q. Please take -- turn to page 26 and take a look at  
8 Table 7.

9 A. I'm there.

10 Q. Okay. With regard to Table 7, there is a portion  
11 at the bottom of that table that reads Task 1, Task 2,  
12 and Task 3. Do you see that?

13 A. Yes, sir.

14 Q. With regard to the clearing cost per mile for  
15 Task 2 and then the clearing cost per mile for Task 3,  
16 are those costs projected to be equal?

17 A. Yes, with a overall 1 percent improvement, an  
18 annual improvement.

19 Q. Okay. So when you identify that 1 percent annual  
20 improvement, just so that I'm clear -- I apologize, so  
21 that I'm clear on it -- so that would be after you  
22 finish Task 2 you're expecting a 1 percent improvement  
23 in Task 3, or 1 percent annual each year?

24 A. One percent annual each year.

25 Q. Okay. Is the sum of the mileage presented as

1 Task 1 equal to the number of miles in Kentucky Power's  
2 distribution system?

3 A. That is correct. Primary miles, to be exact.  
4 Primary distribution miles.

5 Q. Mr. Phillips, please turn to page 28 of your  
6 prefiled direct testimony.

7 A. I'm there.

8 Q. Beginning at line 2, there's a question that  
9 states, in part, you indicate the maintenance cost  
10 level is less than the clearing cost level. Do you see  
11 that portion of the question?

12 A. Yes.

13 Q. That line 5 on that page, you state that -- in  
14 your answer, you state that the Company estimates the  
15 reclearing cost of \$17,605 per mile. Do you see that  
16 statement?

17 A. Yes, sir.

18 Q. Is the reclearing cost of \$17,605 per mile  
19 identified on line 5 equal to the clearing cost level  
20 as that phrase is used in the question on line 3?

21 A. Yes.

22 Q. Mr. Phillips, please turn to page 29.

23 A. I'm there.

24 Q. Okay. Do you see the discussion of roving crews  
25 that begins on line 13?

1 A. Yes, sir.

2 Q. Does the reclearing cost of \$17,605 per mile  
3 identified on line 5 of the previous page include the  
4 costs of roving crews as discussed on page 29?

5 A. No, sir, it does not.

6 Q. It does not?

7 A. No. The clearing cost, the reclearing cost is  
8 the cost that we are experiencing to date or through  
9 the first nine months of 2014 as we prepared the direct  
10 testimony.

11 Q. Mr. Phillips, when Kentucky Power progresses to  
12 cycle-based clearing, will the roving crews continue to  
13 be necessary?

14 A. The roving crews will be necessary during this  
15 interim clear, this Task 2 portion. That's the time we  
16 use these roving crews because, as you can see on --  
17 well, go, since we're in the direct testimony. If you  
18 go back to page 26, we use Table 7. You can also go to  
19 the settlement agreement, Exhibit 10, if you'd like  
20 that as well.

21 But there is where the -- this section in yellow  
22 is the Task 2 section, and that is where we will need  
23 the roving crews. And we use roving crews because they  
24 are -- it's short duration, four years or less that we  
25 will need the roving crews, and roving crews are just

1 crews that we use from other utilities or other  
2 contractors that become available for various reasons.  
3 Another utility may finish up on a project, whatever.

4 We currently have ten roving crews that we  
5 recently just picked up for some capital work. We're  
6 working on some widening issues, addressing those, and  
7 so we already have a few on the property that we can  
8 switch over to this program if the Commissioners  
9 approve.

10 Q. So with regard to Table 7 on page 26 in your  
11 prefiled direct testimony, and we talked in terms of  
12 Task 1 and Task 2. Once Task 1 and Task 2 are  
13 complete, if I understood what you said, roving crews  
14 will then no longer be necessary?

15 A. That is correct.

16 Q. Thank you. Mr. Phillips, please locate your  
17 response to PSC Staff's Second Request, Item 5.

18 A. Which section? That's -- there's a lot in that  
19 section.

20 Q. Yes, sir. And have you got that in front of you?

21 A. Yes, sir.

22 Q. Okay. I'm looking at the request, and I'm  
23 looking at Part D. And Part D begins, "Provide the  
24 amount of tree-related outage overtime incurred by  
25 Kentucky Power during the September 30, 2009, test

1 year."

2 Do you see that portion of the question?

3 A. Yes, sir, I do.

4 Q. Okay. Would you turn to your response to item D  
5 that appears on page 3 of 4 of that item, of that  
6 response?

7 A. Turn to where, please?

8 Q. For that, for the response to item number 5.  
9 It's a four-page response, and I'm asking you to turn  
10 to page 3 of 4. And the top paragraph is the letter D,  
11 and it begins, "The supporting calculations are shown  
12 in attachment PSC" --

13 A. Okay.

14 Q. Okay? Item 5 concerns the amount of tree-related  
15 outage overtime incurred by Kentucky Power; is that  
16 correct?

17 A. This part D, yes.

18 Q. Okay. And are the costs for these emergency  
19 outage incidents booked separately from the vegetation  
20 management distribution clearing plan?

21 A. That is correct. They are -- yes.

22 Q. Mr. Phillips, could you -- could you explain how  
23 the cost -- two parts. First, please explain how the  
24 costs are booked. And then the second portion, please  
25 explain why they are booked in this manner.

1 A. We book all outages to a separate project outside  
2 of our forestry project. That way, all of our outages  
3 then are classified under a separate project versus --  
4 because not all outages are forestry-related, so we do  
5 not put those into the forestry project.

6 Q. Well, when you say that not all outages are  
7 forestry-related, for example, you could have storm  
8 outages; is that correct?

9 A. That's correct, or you could have a vehicle hit a  
10 pole, or, you know, other events, animals, different  
11 things outside of vegetation.

12 Q. So with regard to -- let's just use storm outages  
13 as an example. With regard to storm outages, those  
14 costs are not part of the vegetation management cost;  
15 is that correct?

16 A. That is correct.

17 Q. Okay. In your response to part D of item 5 --  
18 and this appears on page 3 of 4, and this appears in  
19 the -- the third paragraph, and it states, "From 2009  
20 to 2014 the cost per hour of overtime restoration  
21 increased by 106.7 percent."

22 Do you see that? Do you see that discussion?

23 A. Yes, sir, I do.

24 Q. Okay. Is your testimony that -- is it your  
25 testimony that Kentucky Power will pay overtime wages

1 for the completion of a systematic vegetation  
2 management plan?

3 A. These overtime restoration hours are not included  
4 in our vegetation plan. To answer your question, we do  
5 at times, if we deem necessary, we'll pay overtime to  
6 the forestry employees to complete the vegetation plan,  
7 but it's not associated with restoration.

8 Q. Okay. Mr. Phillips, one moment, please.

9 MR. SPENARD: Mr. Phillips, thank you. That's  
10 all the questions that the Staff has at this time.

11 EXAMINATION

12 By Commissioner Logsdon:

13 Q. Hey, Mr. Phillips. Could you look at page 15 of  
14 your direct testimony?

15 A. Sure. Give me one second.

16 Q. Just let me know when you're there.

17 A. Did you say page 15?

18 Q. Yes, sir. At the top.

19 A. I'm there.

20 Q. Okay. Question is, "Has the Company increased  
21 the number of vegetation contract or full-time  
22 equivalent employees since the implementation of the  
23 vegetation management plan," yes. So these FTE  
24 employees, they're contractors?

25 A. That is correct.

1 Q. Do they work for -- are they employed by the  
2 Company, or do you --

3 A. They're employed by -- we have two contractors on  
4 the property currently, Asplundh and Wright Tree  
5 Service.

6 Q. Okay. Oh, okay. So that's where my confusion  
7 was coming in. Down in about line 6 and 7 when you  
8 talk about the -- these numbers fluctuate during the  
9 year due to the transient nature of these employees, so  
10 because they're not your employees. You contract with  
11 these companies.

12 A. That's right, and it's also a very labor  
13 intensive job, and so there is some turnover.

14 Q. Okay.

15 A. In that line of work.

16 Q. And then on line 8, starting on line 7, "Adding  
17 vegetation contract employees requires recruitment and  
18 extensive training."

19 What kind of training do these employees -- do  
20 you-all train them, or do you ask them?

21 A. We require our tree contractors to provide the  
22 training. We oversee that training program, but we  
23 require them to go through very thorough training  
24 before they can ever have a chainsaw in their hand  
25 because safety is our primary focus for our

1 contractors, as well as our employees, as well as the  
2 public.

3 Q. So is it mostly safety training?

4 A. Well, safety and operational. There's certain  
5 techniques in order to cut a tree, especially a yard  
6 tree, in order to keep it alive. Some customers just  
7 simply don't want a tree removed, and we have to trim  
8 it. And to try to keep it alive for them, there's  
9 certain ways and techniques to do that.

10 Q. Is there any way the Commission could get a copy  
11 of these training materials that you-all go over with  
12 the contractors?

13 A. Yes. As a matter of fact --

14 Q. Oh, have you already provided it? If you have,  
15 I'm sorry. I didn't see it.

16 A. I'd have to look. They may be in the -- one of  
17 the data requests, but if not.

18 MR. OVERSTREET: Commissioner Logsdon, we'll  
19 either -- we'll file something identifying where it's  
20 in the record now, or we'll supplement the record with  
21 that information.

22 Q. Okay. And if it's in the record, I apologize. I  
23 didn't see it.

24 A. That's fine. There's a lot there.

25 Q. There is. When we were at a public meeting in

1 Pikeville, you know, it was a typical public meeting,  
2 but there was some complaints about contractors not  
3 disposing of the trees properly, not grinding them, and  
4 putting them into streams and creeks. What kind of  
5 oversight do you-all have to make sure that kind of  
6 thing doesn't happen?

7 A. What we do, we post inspect all the circuits that  
8 are -- or all the trimming that is done. Our current  
9 process is if it's in a customer maintained area, if  
10 they're currently clearing that land off, we clear it  
11 all up, put it through the grinder and haul it all off.

12 But if it's in an unmaintained area, we normally  
13 will leave it lay at the edge of the right of way.  
14 That's our normal. If a customer requests us to remove  
15 it, we normally try and negotiate with the customer and  
16 work something out because grinding it all up is an  
17 expense and time consuming, and we're all here to try  
18 to continue to improve customer service and reduce the  
19 tree-related outages, and so we need to keep moving on.

20 Q. Sure. So if you're out in the middle of nowhere,  
21 and you cut a tree, they just leave it laying where it  
22 is. They don't -- they want to obviously make sure  
23 it's not in a creek or anything, but they don't -- they  
24 don't remove it or anything.

25 A. That's right. Right. We don't leave it in the

1 waterways --

2 Q. Right.

3 A. -- but if it's in an unmaintained area, if it's  
4 out in the middle of the woods, we normally leave it  
5 lay.

6 Q. Okay. And then could you get, look at the  
7 settlement agreement? It's page -- it's Exhibit 10.

8 A. Okay.

9 Q. And just bear with me because I'm just trying to  
10 understand this. So 2010 you cleared 463 miles,  
11 correct?

12 A. That is correct.

13 Q. And so the proposal for the proposed settlement  
14 is this year you would clear 371 of what you cleared --  
15 of the 463 you cleared in '10.

16 A. That is correct.

17 Q. Okay. And then I can't see what this number is,  
18 it's over a thousand miles, in 2019 you would do  
19 something equivalent to -- I think it's --

20 A. The number in the red?

21 Q. Yeah.

22 A. That is 1,613 miles.

23 Q. Okay. 1,613 miles, and then what's the 370 below  
24 that?

25 A. The 370 is to finish up that second task, that

1 interim clear.

2 Q. Okay.

3 A. If you'll -- if you wanted to go through the  
4 process.

5 Q. Yeah.

6 A. The 371, you got 463 in 2010, so subtract off  
7 371, leaves you 92 miles. You say we'll clear that  
8 first in 2016 of that 771 in yellow, and then we'll  
9 clear the remaining 771 minus 92 of that 932 in 2011,  
10 so that will leave us 253 miles that we did -- left to  
11 clear in the first part of 2017 that was cleared  
12 sometime in 2011. So then 2017 we'll clear the 788,  
13 which will include the 253 of what's in 2012 of the  
14 891.

15 So then you take the eight -- but anyway, that  
16 will leave about 356 miles left over to carry over into  
17 2018. We'll cut that the first part of the year, so  
18 that will be no more than five-and-a-half years growth  
19 from what was in 2012, and then we'll clear the  
20 remaining miles of 2013 minus 370, and that will be  
21 done in 2019.

22 Q. Okay. And then you're on your five-year cycle?

23 A. Then we're on the maintenance cycle. Everything  
24 will be cleared from that point on between five and  
25 five and a half years.

1 CHAIRMAN LOGSDON: Okay. Thank you,  
2 Mr. Phillips. That's all I've got.

3 EXAMINATION

4 By Vice-Chairman Gardner:

5 Q. Mr. Phillips, I have a couple questions. So to  
6 whom do you report?

7 A. I report to Mr. Pauley.

8 Q. Okay. And in your testimony you list your  
9 general duties with respect to the maintenance of the  
10 distribution system and that sort of thing.

11 Approximately how much of your time would you say is  
12 spent on the vegetation management?

13 A. Probably half of it.

14 Q. And do you have full-time people reporting to you  
15 on vegetation management?

16 A. I have a support manager that reports directly to  
17 me, and then he's over our contractors, both overhead,  
18 underground, and our forestry group, as well as our  
19 overall reliability efforts. Then he has the foresters  
20 that are 100 percent of their time then is focused on  
21 forestry.

22 Q. And how many foresters do you have right now?

23 A. We have one forestry supervisor and three company  
24 foresters, and then we utilize three contracting  
25 foresters by Daviess Company, not associated with our

1 current contractors, forestry contractors.

2 Q. Did the -- did the amount of proposed  
3 expenditures change from the application to the  
4 proposed settlement?

5 A. No, sir, they did not.

6 Q. So why did the -- why did you make the change  
7 from four to five years, or maybe I misunderstood that.

8 A. Maybe I mis -- misspoke. The -- oh, let me back  
9 up. To the question. The dollars didn't change  
10 because of we're currently on a five year -- when we  
11 start in Task 2 it will be a five-year clearing because  
12 if we start in July 2015, it was, you know, 2010, so  
13 we've had five years growth, so in essence that is a  
14 five-year cycle. So the requested dollar amount needs  
15 to remain the same in order to get through that.

16 What does change is at the end of this interim  
17 clear at the beginning of the middle of July of 2019 is  
18 when a larger reduction in cost from the original  
19 proposal in my testimony of scenario two versus what's  
20 in the settlement on Exhibit 9 and 10, so that's what  
21 has changed, is beginning of 2019, July 2019.

22 Q. Okay. Are you -- there is -- all utilities are  
23 required to file certain reliability numbers with us,  
24 not just Kentucky Power, and are you familiar with that  
25 we changed some of the metrics in the last year or so

1 with respect to those reliability metrics?

2 A. Yes, I'm aware.

3 Q. Tell me one of the things that was added was  
4 the -- for some of the metrics was adding major event  
5 days. Tell me your opinion of the value of  
6 understanding, of adding those major event days to the  
7 metrics.

8 A. Those major event days are calculated using a --  
9 an industry standard, for lack of a better term, but an  
10 industry practice using I triple E 1366 model, and so  
11 that is to take a, to normalize weather patterns over  
12 five-year plan averaging it on a daily basis, and I  
13 don't have that formula in front of me. It's a long  
14 formula.

15 But it basically is to take a five-year average,  
16 and if you're above that five-year average then those  
17 unusual events are excluded for -- excluded out of the  
18 reliability indices.

19 Q. It seemed as if to me that we had added not an  
20 exclusion, but at least in certain categories we wanted  
21 those included because previously they weren't included  
22 in the metrics. Does that ring a bell with you, or am  
23 I not --

24 A. I know that we do file both excluding the MEDs,  
25 the major event days, and we also file including it.

1 Q. Isn't that a relatively new requirement, is  
2 including that certain of those metrics, both excluding  
3 and including?

4 A. I seem to recall we've included those for a  
5 while.

6 Q. Okay.

7 A. Both, but --

8 Q. Is there value to us in not all the time  
9 excluding major event days from the -- some of the  
10 indexes?

11 A. If it meets the threshold of being above the  
12 average, then it's an anomaly, it's unusual, and so it  
13 can -- if you're trying to compare year over year it  
14 becomes very difficult to make any type of comparisons  
15 from a year-over-year point of view.

16 Q. Prior to 2009 when we went to similar public  
17 meetings and started hearing folks complaining about  
18 the vegetation management, were you in charge of  
19 vegetation management at that time, or is this  
20 relatively new for you?

21 A. I was in charge in 2009, yes.

22 Q. Tell me what -- tell me what kind of vegetation  
23 management you did before we update, you know, the  
24 dollar -- the dollar amount, and then, you know, I know  
25 there's another 10 or 11 proposed increases. What

1 could you do with that \$7 million?

2 A. We had increased -- if you go way back to the  
3 Commission had a hazard management audit back in, if  
4 memory serves me, subject to check, I think it was  
5 around 2002, 2003 time frame, we had a hazard  
6 management audit in our hazard district service  
7 territory, and there the consultants saw the need to  
8 begin to increase our spend on vegetation and their  
9 efforts, and we began to do that, and since that time  
10 until the 2009 case we more than doubled, nearly  
11 tripled our spend from that time --

12 Q. It had already started increasing then.

13 A. That's correct.

14 VICE-CHAIRMAN GARDNER: All right. That's all I  
15 have. Thank you, Mr. Phillips.

16 MR. OVERSTREET: Just a couple,  
17 Mr. Vice-Chairman.

18 REDIRECT EXAMINATION

19 By Mr. Overstreet:

20 Q. Mr. Phillips, in your direct testimony in this  
21 case you present, and I think Mr. Spenard was asking  
22 you at least in part about this, you presented four  
23 scenarios for completing the journey from a  
24 performance-based plan to the cycle-based plan; is that  
25 correct?

1 A. That is correct.

2 Q. Okay. And did you have a recommendation as to  
3 which of the four scenarios the Company would like to  
4 undertake and receive sufficient funding to do so?

5 A. Yes, we recommended scenario two.

6 Q. Okay. And then scenario -- can you turn to  
7 Exhibit 9, page 1 of 2 of the settlement agreement?

8 A. You say Exhibit 9, page 1 of 2, correct?

9 Q. 1 of 2.

10 A. I'm there.

11 Q. It says, "Revision to Table 10 Phillips Direct  
12 Testimony, page 30," are you there?

13 A. I'm there.

14 Q. And what was the cost for the recommended, in  
15 your testimony, scenario two, total cost?

16 A. The full cost was \$287,851,038.

17 Q. And in the course of this proceeding, did you  
18 receive a data request from Staff, I think it was Staff  
19 37, where they -- where Staff asked the Company to look  
20 at start with scenario two, but instead of having a  
21 four-year maintenance cycle, phase three, make that a  
22 five-year maintenance cycle?

23 A. That is correct.

24 Q. And is that illustrated on scenario -- is that  
25 called scenario five?

1 A. That is called scenario five, correct.

2 Q. And what is the total cost to accomplish that  
3 scenario?

4 A. \$268,000,223.

5 Q. So that's about a \$20 million difference, is it  
6 not?

7 A. That is correct.

8 Q. And can you explain to the Vice-Chairman what the  
9 difference, what gives rise to that \$20 million  
10 difference?

11 A. The difference, if you're looking at Exhibit 9,  
12 page 1 of 2, the difference starts in 2019, or 2019 --  
13 or actually in 2020. Am I looking at it with my eyes  
14 here.

15 VICE-CHAIRMAN GARDNER: It's '19.

16 Q. Let me ask the question this way. Is the  
17 difference the fact that the maintenance cycle is being  
18 performed over five years instead of four years?

19 A. That is correct.

20 Q. Okay.

21 A. The difference, though, on this table on year  
22 2019 is we had to -- in the original testimony of the  
23 \$20 million in scenario two, that was -- did not  
24 encompass shifting Task 2 from six months in it, so  
25 2019 is \$21 million, but if you go to 2020 is when you

1 see the reduced amount of over \$4 million to go to a  
2 five-year cycle.

3 Q. And that six month shift is the final column,  
4 scenario two on five-year cycle revised on 4/20/2015;  
5 is that correct?

6 A. That is correct.

7 Q. But notwithstanding the fact you're shifting six  
8 months, the dollar amount totals are the same.

9 A. That is correct.

10 Q. And again, that reflects performing the  
11 maintenance cycle over five years as opposed to four.

12 A. That is correct.

13 Q. Okay. And, Mr. Phillips, in 2009 at the time the  
14 Company started this enhanced vegetation management  
15 plan, had the Company performed an inventory of the  
16 trees on its distribution circuits?

17 A. No, sir, it had not.

18 Q. Did the Company have an estimate of the number of  
19 trees it thought it would have to remove at that time  
20 to complete the entire 8,000 miles?

21 A. Yes, and direct testimony of 2009 we estimated  
22 we'd have an incremental tree removal of 753,000 trees.

23 Q. 753,000 trees, and that would take place over the  
24 entire -- that would be the number of trees to be  
25 removed over the entire 8,000 miles of the primary

1 distribution circuit; is that correct?

2 A. That's correct, over Task 1.

3 Q. Okay. Having completed 52 percent of Task 1, how  
4 many trees has the Company removed?

5 A. Well over a million trees through 2014.

6 Q. So you're basically finding twice as many trees  
7 as you had estimated?

8 A. That is correct.

9 Q. And is that one of the reasons it's taken longer  
10 than you originally estimated?

11 A. Yes, sir.

12 Q. Okay. Now, notwithstanding the fact that it's  
13 going to take a projected year and a half longer to  
14 complete the 8,000-mile original clearing, has the  
15 Company seen any improvements in its tree-related  
16 outages?

17 A. Yes, as I stated, we've seen 34 percent reduction  
18 in tree-related outages inside the right of way.  
19 That's also had a positive impact of 43 percent on our  
20 reliability saving indicator.

21 Q. And I understand that you -- now that you have a  
22 better knowledge base to make your estimates on both  
23 the Company's ability to meet the cost numbers and the  
24 timing numbers based upon four and a half years in the  
25 field, is that your testimony?

1 A. That is correct.

2 Q. Now, I guess there's things that could occur that  
3 might make that more of a challenge.

4 A. That's always a possibility, yes.

5 Q. But based upon what you know now, having been out  
6 in the field for four and a half years, those are  
7 reasonable estimates.

8 A. That is correct.

9 MR. OVERSTREET: That's all I have.

10 MR. COOK: No questions.

11 MR. KURTZ: Can I ask a couple things?

12 VICE-CHAIRMAN GARDNER: Sure.

13 MR. KURTZ: Thank you.

14 CROSS-EXAMINATION

15 By Mr. Kurtz:

16 Q. Mr. Phillips, the \$10.6 million of added tree  
17 trimming cost in the stipulation, you say that that's  
18 labor intensive work?

19 A. That is correct.

20 Q. About how many employees will be -- jobs will be  
21 created from that 10.6 million?

22 A. That -- we will bring on this year roughly 30  
23 crews, or 100 additional FTEs this year, and probably  
24 will see that increase even more.

25 Q. So that's at least 100 extra additional jobs?

1 A. That is correct.

2 Q. What do the contractors pay these individuals who  
3 do the tree trimming on average?

4 A. Well, starting out a ground man is 16 something  
5 an hour, but a GF is close to \$30 an hour.

6 Q. Okay. So those are high paying jobs?

7 A. General foremen.

8 Q. Relatively high paying jobs?

9 A. For the foremen, yes.

10 MR. KURTZ: Okay. Thank you.

11 Thank you, Your Honor.

12 MR. SPENARD: Nothing further, Mr. Vice-Chairman.

13 VICE-CHAIRMAN GARDNER: Free to go. Thank you,  
14 Mr. Phillips.

15 THE WITNESS: Thank you.

16 VICE-CHAIRMAN GARDNER: We'll take a break, come  
17 back in ten minutes.

18 (Recess from 4:45 p.m. to 4:58 p.m.)

19 VICE-CHAIRMAN GARDNER: Be seated.

20 MR. OVERSTREET: Mr. Vice-Chairman, our next  
21 witness is Jeff Bartsch, and Mr. Satterwhite will be  
22 presenting him.

23 JEFFREY B. BARTSCH, called by Kentucky Power  
24 Company, having been first duly sworn, testified as  
25 follows:

1 VICE-CHAIRMAN GARDNER: Please have a seat.  
2 State your full name, please.

3 THE WITNESS: My name is Jeffrey B. Bartsch.

4 VICE-CHAIRMAN GARDNER: And with whom are you  
5 employed?

6 THE WITNESS: I'm employed by American Electric  
7 Power Service Corporation.

8 VICE-CHAIRMAN GARDNER: And what is your  
9 position?

10 THE WITNESS: I'm the director of tax accounting  
11 and regulatory support.

12 VICE-CHAIRMAN GARDNER: All right. You may ask,  
13 Mr. Satterwhite.

14 MR. SATTERWHITE: Thank you, sir.

15 DIRECT EXAMINATION

16 By Mr. Satterwhite:

17 Q. Afternoon, Mr. Bartsch.

18 A. Good afternoon.

19 Q. Did you cause in this case to be filed direct  
20 testimony, rebuttal testimony, and sponsor some  
21 discovery?

22 A. I did.

23 Q. Was that -- each of those things prepared by you  
24 or under your direction and have your name on them?

25 A. Yes.

1 Q. Do you have any changes or corrections to any of  
2 those documents today?

3 A. No.

4 Q. And when you answered those questions and  
5 discovery responses, did you answer those honestly,  
6 truthfully?

7 A. Yes.

8 Q. And do you adopt those as your testimony today  
9 for purposes of this hearing?

10 A. I do.

11 MR. SATTERWHITE: With that, Your Honor, I'll  
12 tender the witness for cross-examination.

13 VICE-CHAIRMAN GARDNER: Thank you.

14 Mr. Williamson.

15 MR. WILLIAMSON: No questions, sir.

16 VICE-CHAIRMAN GARDNER: General Cook?

17 MR. COOK: Thank you, Mr. Vice-Chairman.

18 CROSS-EXAMINATION

19 By Mr. Cook:

20 Q. Good afternoon, Mr. Bartsch.

21 A. Good afternoon.

22 Q. Late last year Congress passed, and the President  
23 signed into law, an act that will allow companies,  
24 including utilities, to claim bonus depreciation if  
25 they so choose, correct?

1 A. That is correct.

2 Q. Now although the law became effective shortly  
3 after the Company filed its application in this case,  
4 the law applied retroactively for the entire calendar  
5 year of 2014; isn't that correct?

6 A. Actually, the law was passed on December 19, and  
7 I believe we filed this case on December 23rd, I  
8 believe.

9 Q. Okay. All right. And -- okay. But it did apply  
10 retroactively for the entire calendar year of last  
11 year?

12 A. It was effective for all of 2014.

13 Q. Okay. Thank you. And let's see here. Have  
14 something to pass out. I'll let you take a look at it  
15 before I ask any questions.

16 A. Okay.

17 VICE-CHAIRMAN GARDNER: AG-5?

18 Q. I believe you have in front of you, it was your  
19 response on behalf of the Company to KIUC 1-30. Do you  
20 have that in front of you?

21 A. Yes, I do.

22 Q. Okay. And isn't it true that here you stated  
23 that the Company would have included the effective  
24 bonus depreciation in its application but for the  
25 timing of the law's effective date?

1 A. Yes.

2 Q. Okay. Thank you. The extension of bonus  
3 depreciation for 2014 would result in additional  
4 accumulated deferred income taxes to Kentucky Power  
5 related to a plant that was put in service during 2014,  
6 including the first nine months of 2014, all of which  
7 are included in the test year, correct?

8 A. That's correct.

9 Q. Okay. And the estimated impact on Kentucky Power  
10 is ADIT for the entire 2014 tax year is \$23.6 million,  
11 is it not?

12 A. That's the impact that we would have on ADIT as  
13 of September 30th had that law been in effect during  
14 the test year.

15 Q. Okay. Yeah, I want to pass out another document  
16 for you.

17 MR. COOK: Just one moment.

18 MS. HANS: AG-6, I believe?

19 VICE-CHAIRMAN GARDNER: Thank you.

20 Q. Now, I believe you should have in front of you  
21 Company's response to KIUC 1-21, and I think stapled to  
22 that you will see another document. Do you have that  
23 in front of you?

24 A. Yes, I do.

25 Q. Okay. And attached thereto I think you'll find a

1 document titled 2013 Tax Agreement Regarding Method of  
2 Allocating Consolidated Income Taxes; is that correct?

3 A. Yes.

4 Q. And isn't that document signed by an executive on  
5 behalf of Kentucky Power Company?

6 A. Yes, it is.

7 Q. Isn't it true that you just recently endorsed a  
8 PCLA on behalf of AEP affiliates Appalachian Power and  
9 Wheeling Power in West Virginia in a case which is  
10 still pending?

11 A. We did, and we did that because it was Commission  
12 precedent in West Virginia to include in tax expense  
13 for cost service purposes the tax benefit the parent  
14 company lost.

15 Q. Okay.

16 MR. COOK: No further questions, Mr. Vice-Chair.

17 MR. KURTZ: None.

18 MR. MALONE: No questions.

19 MR. NGUYEN: No questions.

20 VICE-CHAIRMAN GARDNER: Any redirect?

21 MR. SATTERWHITE: Just one clarification, Your  
22 Honor. I'll be really quick.

23 REDIRECT EXAMINATION

24 By Mr. Satterwhite:

25 Q. Mr. Bartsch, do you remember the questions you

1 were asked dealing with the Attorney General's Exhibit  
2 Number 5, which was KIUC 1-30 discovery response on  
3 bonus depreciation?

4 A. Yes.

5 Q. You already discussed this argument in your  
6 rebuttal testimony on pages 8 through 10, correct?

7 A. I did.

8 Q. And you addressed those arguments already in  
9 testimony?

10 A. In rebuttal testimony, yes.

11 MR. SATTERWHITE: Thank you. That's all I have.

12 VICE-CHAIRMAN GARDNER: Thank you.

13 You're free to go. Thank you, Mr. Bartsch.

14 THE WITNESS: Thank you.

15 VICE-CHAIRMAN GARDNER: And I assume you want  
16 these --

17 MR. COOK: Yes, admitted into the record.

18 VICE-CHAIRMAN GARDNER: Any objection to their  
19 admission?

20 MR. OVERSTREET: No objection, Your Honor.

21 VICE-CHAIRMAN GARDNER: So ordered.

22 MR. COOK: Thank you.

23 (AG Exhibits 5 and 6 admitted.)

24 VICE-CHAIRMAN GARDNER: Next witness?

25 MR. OVERSTREET: Our next witness is Mr. Carlin,

1 and Mr. Garcia will present.

2 \* \* \*

3 ANDREW R. CARLIN, called by Kentucky Power  
4 Company, having been first duly sworn, testified as  
5 follows:

6 VICE-CHAIRMAN GARDNER: Please have a seat.  
7 State your name.

8 THE WITNESS: Andrew R. Carlin.

9 VICE-CHAIRMAN GARDNER: And with whom are you  
10 employed, Mr. Carlin?

11 THE WITNESS: By American Electric Power Services  
12 Corporation.

13 VICE-CHAIRMAN GARDNER: And what is your position  
14 with them?

15 THE WITNESS: Director of compensation and  
16 executive benefits.

17 VICE-CHAIRMAN GARDNER: You may ask, Mr. Garcia.

18 MR. GARCIA: Thank you, Your Honor.

19 DIRECT EXAMINATION

20 By Mr. Garcia:

21 Q. Good afternoon, Mr. Carlin.

22 A. Good afternoon.

23 Q. Did you cause in this case to be filed direct  
24 testimony and exhibits thereto, rebuttal testimony, and  
25 discovery responses?

1 A. Yes, I did.

2 Q. And those were prepared by you or under your  
3 supervision?

4 A. Yes, they were.

5 Q. Do you have any corrections to your direct  
6 testimony?

7 A. Yes, I do. On page 26, there was some confusion  
8 about what was -- we were asking for, so line 4, we  
9 need to strike the word "target" at the end, or near  
10 the end of that line, and on line 5 after the word  
11 "compensation" we need to add the words "supported by  
12 Company witness Yoder."

13 And to make the change later in the paragraph, on  
14 line 9 strike the word "target," and then after the  
15 comma on line 9 add "supported by Company witness  
16 Yoder." And strike the rest of that sentence from --  
17 which starts with "which" and goes through "year."

18 MR. COOK: Sorry, where was that last one again?

19 A. Strike on line 9 "which" through line ten "year."  
20 And then just to clean things up, on line 10 strike "It  
21 is also" at the beginning of the sentence that starts  
22 on -- or on line 10 that starts on line 10, and add  
23 after "the" add the word "target," so reads "the target  
24 amount of annual incentive compensation," and then  
25 after "incentive" add "is the amount of compensation."

1 MR. GARCIA: Your Honor, at this point I will  
2 indicate that the Company will be filing a corrected  
3 version to simplify the process.

4 MS. HANS: Thank you.

5 Q. Mr. Carlin, does that complete the changes on  
6 page 26?

7 A. It does. There's one other change on page 28.

8 Q. Okay. Turning to page 28, what's the change  
9 there?

10 A. The change on page 28, line 16, is to strike the  
11 word -- I'm sorry, on line 15 strike the word "target."  
12 Then on line 16 after the words "incentive  
13 compensation" insert the word "supported by witness  
14 Yoder."

15 And after the word "any," add "compensation."  
16 Above -- and after the word "above" -- I'm sorry, yes,  
17 after the word "above" strike "target incentive  
18 compensation" and replace it with "this amount."

19 MR. GARCIA: And, Your Honor, the corrections  
20 that the Company will submit will include also page 28.

21 Q. Mr. Carlin, is that change necessitated because  
22 what the Company is asking for in the case is the  
23 amount supported by witness Yoder?

24 A. That is correct.

25 Q. Okay. Does that change any numbers in the case?

1 A. No, it does not.

2 Q. Okay. Does it change any of the substance of  
3 your testimony other than changing those specific  
4 words?

5 A. No, it does not.

6 Q. Okay. With those modifications, if I were to ask  
7 you the same questions in your direct or rebuttal  
8 testimony or in the discovery responses that were  
9 provided under your supervision, would you provide the  
10 same answers essentially?

11 A. Yes, I would.

12 Q. Do you adopt that direct testimony and rebuttal  
13 testimony and discovery answers as your evidence in  
14 this case?

15 A. Yes, I do.

16 MR. GARCIA: Your Honor, at this point I would  
17 tender the witness for cross-examination.

18 VICE-CHAIRMAN GARDNER: Okay. Did you-all know  
19 that this was -- this addition was going to happen or a  
20 change before now?

21 MS. HANS: We were advised prior to, just prior  
22 to Mr. Carlin coming.

23 VICE-CHAIRMAN GARDNER: Does this -- I mean, Mr.  
24 Yoder isn't here. Does that matter to you-all?

25 MR. COOK: We don't think so.

1 VICE-CHAIRMAN GARDNER: Okay.

2 MR. COOK: We do need to see it, but -- for the  
3 brief, but that's okay.

4 VICE-CHAIRMAN GARDNER: But I meant did you need  
5 to because of the addition of witness Yoder's to that  
6 testimony, did you need him, did you need to  
7 cross-examine him?

8 MR. COOK: Oh, cross-examine him?

9 MR. GARCIA: Your Honor, if I may point out, in  
10 Page 36 there was already a reference to the amount  
11 that it indicated Mr. Yoder, so actually this does not  
12 change the connection between Mr. Yoder's testimony and  
13 the testimony of Mr. Carlin.

14 MR. COOK: I don't think we need to ask him any  
15 questions anyway, so --

16 VICE-CHAIRMAN GARDNER: Okay. I just wanted to  
17 make sure.

18 MR. COOK: Thank you.

19 MS. HANS: Thank you, Your Honor.

20 VICE-CHAIRMAN GARDNER: Any cross now?

21 MR. COOK: Yes, we do.

22 CROSS-EXAMINATION

23 By Mr. Cook:

24 Q. Good afternoon, Mr. Carlin.

25 A. Good afternoon.

1 Q. Isn't it true that the goal of the Engage to Gain  
2 Program was a means for employees to suggest O&M cost  
3 savings?

4 A. That certainly was a major goal of it, yes, to  
5 achieve O&M cost savings through employee engagement  
6 and their suggestions on how best to go about that.

7 Q. Okay. Thank you. And this program ended in  
8 December of 2013, did it not?

9 A. Yes, it did.

10 Q. So it's no longer in effect; is that correct?

11 A. That particular program is no longer in effect,  
12 but we do have other cost saving initiatives in  
13 incentive compensation programs, so in a sense it was  
14 -- it was made more permanent. That was a one-time  
15 program, and we have now added that to the regular  
16 annual incentive program that is ongoing.

17 Q. And under the Engage to Gain Program there were  
18 \$145,421 in costs during the historic test year; is  
19 that correct?

20 A. That's not a number I can confirm for you, but  
21 subject to check in somebody else's testimony.

22 Q. Could you provide a response to that in a  
23 post-hearing data request?

24 A. I'm sure we can, yes.

25 Q. Okay. Thank you.

1 VICE-CHAIRMAN GARDNER: Can you state the  
2 question again, please?

3 MR. COOK: Certainly.

4 Q. The question was, and there were \$145,421 in  
5 costs during the historic test year.

6 A. Along with those costs there was more than twice  
7 that in savings.

8 Q. Okay. And is the Company still trying to recover  
9 costs for a program that no longer exists?

10 A. Can you be specific what you mean by "recover"?

11 Q. In the current application.

12 A. I'd have to defer to witness Yoder's testimony on  
13 that. I believe it is included.

14 MR. COOK: Okay. No further questions.

15 MR. KURTZ: No questions.

16 VICE-CHAIRMAN GARDNER: Mr. Malone?

17 Mr. Nguyen.

18 MR. NGUYEN: No questions.

19 VICE-CHAIRMAN GARDNER: Do you have any redirect?

20 MR. GARCIA: No, Your Honor. Thank you.

21 VICE-CHAIRMAN GARDNER: You're free to go. Thank  
22 you, Mr. Carlin.

23 MR. OVERSTREET: Next witness is Mr. Jeff  
24 LaFleur, and Mr. Gish will present.

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