

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

REBUTTAL TESTIMONY OF
RANIE K. WOHNHAS
ON BEHALF OF KENTUCKY POWER COMPANY

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CASE NO. 2014-00396

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I. INTRODUCTION

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

2 A. My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory
3 and Finance, Kentucky Power Company (“Kentucky Power” or “Company”). My
4 business address is 101 A Enterprise Drive, Frankfort, Kentucky 40601.

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

8 A. Yes, I am.

II. PURPOSE OF REBUTTAL TESTIMONY

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. The purpose of my rebuttal testimony is to respond to the testimony of Attorney
12 General Witness Smith and KIUC Witness Kollen. Specifically, I will respond to
13 Intervenor testimony relating to (1) capitalization adjustments, (2) modifications
14 to the interest synchronization adjustment; (3) recovery of Big Sandy flue gas
15 desulfurization (“FGD”) system preliminary engineering costs; (4) the proper off-
16 system sales margin sharing split; (5) the Big Sandy Retirement Rider (“BSRR”)
17 revenue requirement; (6) the Big Sandy 1 Operation Rider (“BS1OR”); (7) the
18 NERC Compliance and Cybersecurity Rider (“NCCR”); (8) recovery of costs

1 associated with incentive compensation programs; (9) recovery of costs
2 associated with the Company's Engage to Gain program; (10) liability related to
3 the Conner Run Impoundment; and (11) accounting for the vegetation
4 management program.

5 **Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES?**

6 A. Yes, I am sponsoring Exhibit RKW-R1 which is the revised calculation of interest
7 synchronization adjustment.

8 **Q. WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR**
9 **SUPERVISION?**

10 A. Yes.

III. CAPITALIZATION ADJUSTMENTS

11 **Q. PLEASE DESCRIBE THE CAPITALIZATION ADJUSTMENTS**
12 **PROPOSED BY MESSRS. SMITH AND KOLLEN.**

13 A. Both Messrs. Smith and Kollen testify that the Company should eliminate the
14 negative short term debt value used to develop overall capitalization and that
15 bonus depreciation would result in a reduction in capitalization and rate base. Mr.
16 Kollen further argues that the Company's capitalization should be further reduced
17 by the amount of Kentucky Power's investment in the AEP Utility Money Pool.

18 **Q. DO YOU AGREE WITH THE PROPOSAL OF MESSRS. SMITH AND**
19 **KOLLEN TO ELIMINATE NEGATIVE SHORT TERM DEBT IN THE**
20 **COMPANY'S JURISDICTIONAL CAPITALIZATION?**

1 A. Yes. The Company agrees that all of the capitalization adjustments shown in
2 Section V, Exhibit 1, Schedule 3 should be allocated on a pro rata basis between
3 long-term debt and equity with short-term debt set at zero.

4 **Q. PLEASE DESCRIBE THE TESTIMONY OF MESSRS. SMITH AND**
5 **KOLLEN WITH REGARD TO BONUS DEPRECIATION.**

6 A. Mr. Kollen states that while the reduction in current income tax expense and the
7 increase in deferred income tax expense net to zero, and have no effect on the
8 revenue requirement, the reduction in income tax payable and increase in ADIT
9 result in a reduction to the Company's capitalization and rate base. Mr. Smith
10 agrees that reflecting the impact of the 50% bonus depreciation would result in a
11 reduction to rate base and capitalization.

12 **Q. DO YOU AGREE WITH THE RECOMMENDED REDUCTIONS TO**
13 **CAPITALIZATION BASED ON BONUS TAX DEPRECIATION**
14 **PROPOSED BY MESSRS. SMITH AND KOLLEN?**

15 A. No. As Company Witness Bartsch describes in his rebuttal testimony, the
16 accounting entries that would have been included in the Company's income
17 statement and balance sheet if the 50% bonus tax depreciation were included
18 would have produced equal and off-setting entries. These adjustments would
19 have had no effect on the Company's capitalization for rate making purposes.

20 **Q. DO YOU AGREE WITH MR. KOLLEN'S ADJUSTMENT TO REDUCE**
21 **CAPITALIZATION FOR THE COMPANY'S SHORT TERM DEBT**
22 **INVESTMENTS IN THE AEP MONEY POOL?**

1 A. No. As described in the rebuttal testimony of Company Witness Reitter, the AEP
2 Utility Money Pool is the portion of the Corporate Borrowing Program that serves
3 as the short-term funding mechanism for AEP's regulated operating companies,
4 including Kentucky Power. Mr. Reitter further explains in detail how the AEP
5 Utility Money Pool works, the benefits it provides to Kentucky Power's
6 customers, and why the Company's participation in the AEP Utility Money Pool
7 is a reasonable and cost-effective part of Kentucky Power' total capitalization. In
8 light of Mr. Reitter's testimony, and the fact that the Company would incur
9 increased short-term borrowing and related expenses if it did not participate in the
10 AEP Utility Money Pool, Mr. Kollen's recommendation to reduce the Company's
11 capitalization for short-term investments in the AEP Utility Money Pool is
12 unreasonable and should be rejected.

IV. INTEREST SYNCHRONIZATION

13 **Q. PLEASE EXPLAIN MR. SMITH'S PROPOSED MODIFICATIONS TO**
14 **THE COMPANY'S INTEREST SYNCHRONIZATION ADJUSTMENT.**

15 A. Mr. Smith, in his Exhibit RCS-1, Schedule C-13, proposes to modify the
16 Company's proposed interest synchronization adjustment to reflect his proposed
17 changes to the Company's capitalization and to include tax-deductible interest
18 relating to the Company's accounts receivable financing.

19 **Q. DO YOU AGREE WITH MR. SMITH'S ADJUSTMENT TO INTEREST**
20 **SYNCHRONIZATION?**

21 A. Not entirely. The Company agrees with Mr. Smith's recommendation that its
22 capitalization should be adjusted to set short-term debt at zero and to include an

1 interest calculation for Accounts Receivable Financing. The Company, however,
2 does not agree with the modifications in whole, because the long-term debt
3 amount used by Mr. Smith in his capitalization is incorrect. As discussed above
4 and in the rebuttal testimony of Company Witness Bartsch, Mr. Smith improperly
5 reduced the Company's capitalization for the bonus tax depreciation.

6 Please see Exhibit RKW-1R to my rebuttal testimony for the Company's
7 revised calculation of the interest synchronization adjustment. The revised
8 calculation results in a total tax adjustment of \$2,204,585 or an increase of
9 \$103,407 over what was originally filed.

V. BIG SANDY FGD PRELIMINARY ENGINEERING COSTS

10 **Q. BOTH MESSRS. SMITH AND KOLLEN STATE THAT THE BIG SANDY**
11 **FGD PRELIMINARY ENGINEERING COSTS WERE PREVIOUSLY**
12 **DISALLOWED BY THE COMMISSION. DO YOU AGREE WITH**
13 **THEIR STATEMENTS?**

14 **A.** No. In the Stipulation and Settlement Agreement in Case No. 2012-00578, the
15 Company and the other settling parties agreed that Kentucky Power would be
16 authorized to treat the Big Sandy FGD Preliminary Engineering costs as a
17 deferred regulatory asset to be recovered over a five year period. In its Order in
18 approving the Mitchell Transfer, the Commission conditioned its approval of the
19 transfer on the Company agreeing to modify the July 2, 2013 Stipulation and
20 Settlement Agreement to delete Kentucky Power's right under the agreement to
21 defer and recover over a five-year period the Big Sandy FGD Preliminary
22 Engineering costs. Contrary to what Messrs. Smith and Kollen claim, neither the

1 Commission's Order in Case No. 2012-00578, nor the Company's acceptance of
2 the modification required by the Order, provided that the Company was precluded
3 from seeking Commission approval to recover the Big Sandy FGD Preliminary
4 Engineering costs in a future rate proceeding. Moreover, the Commission based
5 its decision to require the modification in part on the rate impact of recovering the
6 Big Sandy FGD Preliminary Engineering costs over a five year amortization
7 period.

8 In this proceeding, the Company is proposing to recover these costs over a
9 twenty-five year period, significantly mitigating the rate impact. The Company
10 prudently incurred these costs as part of its long-term investigation of alternatives
11 to address emerging environmental requirements, an investigation that resulted in
12 the Mitchell transfer and a savings of between \$469 and \$663 million (on a
13 cumulative present worth basis) compared to retrofitting Big Sandy Unit 2. The
14 Commission, in its Order in Case No. 2012-00578, recognized the recovery of
15 costs incurred as part of studies or evaluations associated with multi-year capital
16 projects are generally reasonable.¹ The Company's proposal in this proceeding is
17 reasonable.

18 **Q. IS THE COMPANY SEEKING A REVERSAL OF THE COMMISSION'S**
19 **OCTOBER 7, 2013 ORDER IN CASE NO. 2012-00578 BY SEEKING**

¹ Order, *In the Matter of: Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act Requirements; and (5) All Other Required Approvals and Relief*, Case No. 2012-00578 at 38 (Ky. P.S.C. October 7, 2013).

1 **RECOVERY OF THE BIG SANDY UNIT 2 PRELIMINARY**
2 **ENGINEERING COSTS IN THIS PROCEEDING?**

3 A. No. This is a separate request, with one-fifth the effect on the Company's annual
4 revenue requirement. Reversal of the Commission-ordered modification would
5 have "authorized [Kentucky Power] to amortize and recover the [\$28,113,304]
6 regulatory asset over a five year period commencing with the implementation of
7 base rates ..." established in this case without further review and scrutiny. That
8 has not, and is not occurring, here.

VI. OFF-SYSTEM SALES MARGIN SHARING

9 **Q. WHAT SHARING MECHANISM DO MESSRS. SMITH AND KOLLEN**
10 **PROPOSE?**

11 A. Messrs. Smith and Kollen both propose a 90/10 sharing split where 90% of off-
12 system sales margins above (or below) the base amount would flow to the
13 customer through a credit or a charge and the remaining 10% would be retained
14 by the Company.

15 **Q. DO YOU AGREE WITH THE PROPOSED OFF-SYSTEM SALES**
16 **MARGIN SHARING SPLIT?**

17 A. No. The Company's proposed 60/40 sharing split with 60% to the customers and
18 40% to the Company, equitably and reasonably addresses the customer
19 contribution, while similarly providing a reasonable incentive to the Company to
20 maximize off-system sales.

21 Second, increasing the customer share increases customer market risk.
22 Under the Company's Tariff S.S.C. customers and the Company share the

1 difference (both above and below) between the Company's monthly off-system
2 sales margins and the base monthly revenues for off-system sales margins
3 contained in the Company's tariff. Increasing the 60/40 split to the 90/10 split
4 proposed by Messrs. Smith and Kollen would provide customers with 90% of the
5 amount by which off-system sales margins exceed the monthly margins contained
6 in the tariff. It also would require customers to assume the risk of paying 50%
7 more ($90\%/60\% = 150\%$) of the amount by which off-system sales margins fall
8 below the monthly tariff amount. The 60/40 sharing percentage provides a more
9 balanced risk and reward relationship for both the customer and Company.

10 Mr. Kollen argues that the nature of the Company's operation in the PJM
11 wholesale market limits the "incentive" effect that Company's split may have on
12 operations. Even if true, Mr. Kollen's approach requires customers to assume
13 50% greater market risk. The more balanced risk and reward relationship
14 proposed by Kentucky Power reasonably ensures that risk of not meeting the off-
15 system sales base amount is not borne disproportionately by either side. The
16 Company's proposed 60/40 sharing split is a reasonable balance and should be
17 approved.

VII. BIG SANDY RETIREMENT RIDER (BSRR)
REVENUE REQUIREMENT

18 **Q. DO YOU AGREE WITH THE ADJUSTMENTS PROPOSED BY MESSRS.**
19 **SMITH AND KOLLEN TO THE ANNUAL REVENUE REQUIREMENT**
20 **TO BE RECOVERED UNDER TARIFF BSRR?**

21 A. No. Messrs. Kollen and Smith both contend that the Company should not include
22 estimated retirement costs in the initial revenue requirement to be recovered via

1 Tariff B.S.R.R. However, Paragraph 14 of the Stipulation and Settlement
2 Agreement in Case No. 2012-00578 authorizes the Company to recover the Big
3 Sandy Retirement Costs, including the coal-related retirement costs of Big Sandy
4 Unit 1, the retirement costs of Big Sandy Unit 2, and other site related retirement
5 costs that will not continue in use over a levelized basis for a 25 year period.
6 Many of these costs necessarily will not be incurred immediately and,
7 accordingly, Kentucky Power included an estimate in the annual revenue
8 requirement under the BSRR. Using estimated costs is necessary to recover these
9 costs on a levelized basis over the full 25 year period identified in Paragraph 14 of
10 the Stipulation and Settlement Agreement.

11 Excluding retirement costs until they are incurred shifts the recovery of
12 those costs later in the 25 year period. Under the proposals outlined in the
13 testimony of Messrs. Kollen and Smith, retirement costs will be recovered over a
14 shorter time period increasing the annual effect of the plant retirement for
15 customers receiving service later during the 25 year period. Current customers
16 were the beneficiaries of both Big Sandy Unit 1 and 2 as their generation
17 resource. Shifting removal costs that will occur later in the 25 year period will
18 only push those costs on future customers who received no benefit of either of
19 these units. The Company's proposal, including the provisions for true ups,
20 ensures that the proper retirement costs are recovered over a period long enough
21 to mitigate the rate effects of the retirements consistent with the Stipulation and
22 Settlement Agreement.

VIII. BIG SANDY 1 OPERATION RIDER (BS1OR)

1 **Q. DO THE INTERVENOR WITNESSES PROVIDE ANY**
2 **RECOMMENDATIONS REGARDING THE BS1OR IN THEIR**
3 **TESTIMONIES?**

4 A. Yes. Both Messrs. Smith and Kollen recommend changes to the BS1OR. Mr.
5 Smith recommends removing the PJM Charges and Credits associated with
6 operating Big Sandy Unit 1 as a coal unit from the BS1OR. Mr. Kollen
7 separately recommends deferring and amortizing non-recurring O&M expenses
8 (such as severance expenses) over a three year period, capping the revenue
9 requirement at \$18.245 million, and not allowing the Company to recover a return
10 on and of the capital associated with the conversion of Big Sandy Unit 1 to a
11 natural gas-fired unit.

12 **Q. DO YOU AGREE WITH MR. SMITH'S RECOMMENDATION?**

13 A. No. As explained in rebuttal testimony of Company Witness Vaughan, the PJM
14 Charges and Credits to be recovered via the BS1OR are Big Sandy Unit 1
15 operating costs and should be recovered via the rider. Further, Mr. Smith's
16 allegations regarding potential abuse from including PJM Charges and Credits in
17 the BS1OR are baseless. As described in more detail in the rebuttal testimony of
18 Company Witness Vaughan, the PJM bills received by the Company are not
19 confusing. If they were, the Company could set up a subaccount for PJM charges
20 and credits relating solely to Big Sandy Unit 1 allowing a clearer audit trail.

21 **Q. DO YOU AGREE WITH THE RECOMMENDED CHANGES TO THE**
22 **BS1OR PROPOSED BY MR. KOLLEN?**

1 A. No. First, Mr. Kollen proposes that any non-recurring O&M expenses such as
2 severance expenses be deferred and amortized over three years. He provides no
3 support for his reasoning and thus his recommendation should be rejected. The
4 BS1OR will collect the actual costs incurred for operating Big Sandy Unit 1, no
5 more and no less. The operating costs should not be deferred over an extended
6 time period. Second, he proposes to cap the revenue requirement under the
7 BS1OR at \$18.245 million based upon the test year. The purpose of the rider is to
8 collect from customers only the actual costs incurred to operate Big Sandy Unit 1
9 during this transitional period. This method benefits both our customers and the
10 Company through concurrent reduction or increases during the transition period.
11 The rider mechanism should flow both ways to be fair to both the customer and
12 the Company. Finally, Mr. Kollen recommends rejecting the Company's
13 proposal to recover a return on and of the capital cost of the conversion of Big
14 Sandy Unit 1 when it goes into service. The Commission has already granted, in
15 Case No. 2013-00430, a CPCN authorizing the conversion of Big Sandy Unit 1
16 from a coal-fired to natural gas-fired unit at an expected cost of approximately
17 \$60 million. By allowing the Company to recover these costs when incurred, the
18 BS1OR will eliminate the need for a base rate case proceeding following the
19 conversion

IX. NERC COMPLIANCE AND CYBERSECURITY RIDER (NCCR)

20 **Q. PLEASE SUMMARIZE MR. KOLLEN'S TESTIMONY WITH REGARD**
21 **TO THE NCCR.**

1 A. Mr. Kollen argues that the NERC compliance and cybersecurity costs that the
2 Company proposes to recover via the NCCR should be recovered via base rates.
3 To support his argument, Mr. Kollen claims that such costs are fixed in nature,
4 not volatile, will only increase over time, not readily and objectively identifiable
5 or quantifiable, and not solely the result of NERC requirements. Finally, he
6 argues that the NCCR provides a disincentive to the Company to actively manage
7 NERC compliance and cybersecurity costs. Mr. Kollen misconstrues the purpose
8 of the NCCR.

9 **Q. HOW DOES MR. KOLLEN MISCONSTRUE THE NCCR?**

10 A. The NCCR is a placeholder mechanism. The Company would only use the rider
11 if and when *new* NERC compliance or cybersecurity mandates are issued. The
12 rider does not provide for automatic recovery of any costs. Instead, all costs will
13 be reviewed and approved for recovery by the Commission. The Company bears
14 the burden of demonstrating to the Commission that the costs it seeks to recover
15 via the NCCR are reasonable. The Commission is well aware of the global
16 cybersecurity issues and the possible impacts both to the security of the electric
17 grid and the costs to protect the grid. The costs associated with NERC
18 compliance and cybersecurity measures can be material. Approval of the NCCR
19 does not give the Company a blank check to automatically and immediately pass
20 all NERC compliance and cybersecurity expenditures through to its customers.
21 However, it does provide a mechanism to address any new NERC compliance and
22 cybersecurity issues in a timely manner.

X. INCENTIVE COMPENSATION PROGRAMS

1 **Q. DO YOU AGREE WITH MESSRS. SMITH'S AND KOLLEN'S**
2 **RECOMMENDATIONS TO REMOVE INCENTIVE COMPENSATION**
3 **PROGRAMS FROM THE COMPANY'S REVENUE REQUIREMENT?**

4 A. No. Company Witness Carlin's direct and rebuttal testimony explains in great
5 detail the specifics of AEP's compensation programs, including the incentive
6 compensation program ("ICP") and the long-term incentive program ("LTIP"),
7 and the benefits those programs provide to **both** the customer and the shareholder.

8 Kentucky Power is a part of the AEP System and the Company and its
9 customers benefit from the expertise and the work performed by AEP Service
10 Corporation ("AEPSC") employees to control costs and provide reliable service to
11 all of its customers. For example, the current project to convert Big Sandy Unit 1
12 to a natural gas-fired unit, a project that the Commission agreed was an integral
13 part of the lowest cost alternative to provide reliable service in the face of
14 emerging environmental regulations, was supported in key part by subject matter
15 experts at AEPSC. The subject matter experts from AEPSC supplemented the
16 Company's staff in performing the environmental evaluation, engineering,
17 scheduling, and budgeting necessary to successfully and cost-effectively manage
18 the Big Sandy Unit 1 conversion. Without this resource, Kentucky Power would
19 be forced to either hire additional personnel or contract with outside providers
20 without the experience and institutional knowledge that AEPSC possesses. The
21 incentive compensation programs are an integral component of the overall

1 compensation package necessary to attract and retain those subject matter experts
2 that benefit the Company and its customers.

XI. ENGAGE TO GAIN

3 **Q. DO YOU AGREE WITH MR. SMITH'S ADJUSTMENT TO ELIMINATE**
4 **THE ENGAGE TO GAIN COSTS?**

5 A. No. The Engage to Gain program provided an opportunity for employees to
6 submit cost-saving and revenue-enhancing ideas to create sustainable savings to
7 the Company. As demonstrated in the Company's response to Data Request AG
8 2-32, the costs incurred as part of the Engage to Gain program have contributed to
9 sustained savings that are reflected in the current cost of service. Along with the
10 savings, the costs incurred to achieve those savings should be reflected in the cost
11 of service. The Company manages and controls its costs on a total basis. Mr.
12 Smith's recommendation eliminates prudently incurred costs that should be
13 recovered by the Company.

XII. CONNER RUN IMPOUNDMENT

14 **Q. DO YOU AGREE WITH MR. SMITH'S CONTENTION THAT THE**
15 **COMMISSION SHOULD RETROACTIVELY AMEND ITS ORDER**
16 **AUTHORIZING THE COMPANY TO ACQUIRE THE MITCHELL**
17 **GENERATING STATION'S ASSETS TO ELIMINATE LIABILITY IN**
18 **THE EVENT OF SOME FUTURE INCIDENT AT THE CONNER RUN**
19 **ASH POND?**

20 A. No. First, the Commission's October 7, 2013 Order in Case No. 2012-00578
21 authorized the Company to assume all assets and liabilities associated with the

1 Mitchell generating station. The Conner Run facility was among the assets that
2 were assumed. The facility has been and will continue to be used to provide
3 service to Kentucky Power's customers until sometime this year when Mitchell
4 fly ash and coal combustion residuals, along with cooling tower blow down will
5 no longer be deposited there. In addition, Kentucky Power is currently in
6 discussions with Consolidation Coal Company to transfer ownership of the
7 impoundment to Consolidation contemporaneously with the Company's cessation
8 of use of the impoundment. Mr. Smith provides no principled explanation why
9 hypothetical personal injury or property damage liability associated with
10 Company's ownership of the Conner Run facility with respect to an event that Mr.
11 Smith only speculates might occur sometime in the future should be treated any
12 differently than the Company's hypothetical liability with respect to any of the
13 assets acquired through the Mitchell Transfer.

14 **Q. MR. SMITH REFERS TO THE TRANSFER LAST YEAR OF THE**
15 **REMAINING 50% UNDIVIDED INTEREST IN THE MITCHELL**
16 **GENERATING STATION BY AEP GENERATION RESOURCES INC. TO**
17 **WHEELING POWER COMPANY. WAS THE CONNER RUN FACILITY**
18 **TRANSFERRED TO WHEELING POWER IN CONNECTION WITH**
19 **THAT TRANSACTION?**

20 A. No. As described in the Company's response to Data Request AG 2-36, the
21 Public Service Commission of West Virginia approved a settlement agreement
22 among the parties in the Wheeling Power Company Mitchell transfer case that
23 transferred the Mitchell Plant and generating facilities excluding the 50% interest

1 in the Conner Run impoundment. However, it also approved the payment by
2 Wheeling Power of \$20 million to AEP Generation Resources, Inc. (“AEPGR”)
3 and the establishment and recovery of a \$20 million regulatory asset to be
4 included in Wheeling Power’s rate base that approximated AEPGR’s book value
5 of Conner Run.

XIII. VEGETATION MANAGEMENT

6 **Q. DO YOU AGREE WITH MR. SMITH’S RECOMMENDATION FOR A ONE-**
7 **WAY BALANCING ACCOUNT FOR THE VEGETATION MANAGEMENT**
8 **SPEND?**

9 A. No. The current annual vegetation management filings, which Mr. Smith agrees
10 should continue, provide a comparison of the actual spent dollars versus the
11 amount included in base rates. Currently, if the Company under spends in a
12 calendar year, it makes up the shortfall in the next calendar year. This has worked
13 well, and has allowed the Company to administer its distribution vegetation
14 management program in an efficient fashion in light of the difficult terrain in
15 eastern Kentucky, and the unplanned work, weather, and other unanticipated
16 conditions regularly encountered in the Company’s service territory. Mr. Smith’s
17 contention that the Company can “influence and control” vegetation management
18 spending may be true in an abstract sense, however it also ignores the inherent
19 uncertainties of operating a distribution management program in some of the most
20 difficult terrain in the Commonwealth. Moreover, in light of the fact that the
21 Company has met its spending targets on a cumulative basis as explained by Mr.
22 Phillips at page 14 of his testimony, Mr. Smith’s recommendation seemingly is a
23 solution in search of a problem.

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes.