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JEFFREY D. LAFLEUR, called by Kentucky Power Company, having been first duly sworn, testified as follows:

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

THE WITNESS: Jeffrey D. LaFleur.

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

THE WITNESS: I'm employed with AEP Service Corporation.

VICE-CHAIRMAN GARDNER: And what's your position, please?

THE WITNESS: Vice President of generating assets for Kentucky Power Company and Appalachian Power Company.

VICE-CHAIRMAN GARDNER: Mr. Gish, you may ask.

MR. GISH: Thank you, Mr. Vice-Chairman.

DIRECT EXAMINATION

By Mr. Gish:

Q. Mr. LaFleur, did you have filed in this case direct testimony, rebuttal testimony, and responses to data requests?

A. I do.

1 Q. Do you have any updates or clarifications or  
2 corrections to your testimony or data requests?

3 A. I have an update to my direct testimony. Page 16  
4 in the table.

5 Q. And what is your update on page 16?

6 A. Project number 17 and 18, what I have in project  
7 costs, those numbers, I need to change those numbers,  
8 so strike the 148,568 and insert 172,076,862.

9 Q. And your update for Project 18?

10 A. Project 18, strike the 22 million and insert  
11 34,569,485.

12 Q. And those costs are the costs associated with  
13 installing the Dry Sorbent Injection System at the  
14 Rockport Plant; is that correct?

15 A. That is correct. That's the estimated project  
16 cost.

17 Q. Right. And those numbers were for the total  
18 Rockport Plant, correct?

19 A. Correct.

20 Q. So Kentucky Power's share of that for the entire  
21 agreement is 15 percent?

22 A. Correct.

23 Q. And are you aware what the budgeted amount is for  
24 the total DSI project? And just so we're clear, the  
25 Project 17 and 18 are part of the DSI project, right?

1 A. Right, 17 and 18 together, the budget was  
2 214 million.

3 Q. So the project is below budget?

4 A. Correct.

5 Q. Okay. If I were to ask you the same questions in  
6 your testimony, your direct testimony, rebuttal  
7 testimony, and data requests with these clarifications,  
8 would you give the same answers as you have provided?

9 A. I would.

10 MR. GISH: Mr. Vice-Chairman, the witness is  
11 available for cross-examination.

12 VICE-CHAIRMAN GARDNER: Mr. Williamson?

13 MR. WILLIAMSON: (Shaking head.)

14 VICE-CHAIRMAN GARDNER: Mr. Cook?

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

16 CROSS-EXAMINATION

17 By Mr. Cook:

18 Q. Good afternoon, Mr. LaFleur.

19 A. Good afternoon.

20 Q. Now, if I understand correctly, you've had over  
21 30 years of experience in power plant operation and  
22 maintenance; is that correct?

23 A. Correct.

24 Q. And five years of experience with the Mitchell  
25 Station; is that correct?

1 A. That is correct.

2 Q. Okay. So I take it you're familiar with the  
3 performance of the two Mitchell units, then?

4 A. I am.

5 Q. Okay. We want to hand out a document to you, and  
6 I'll wait until you have it before I ask you anything.

7 VICE-CHAIRMAN GARDNER: AG-7.

8 Q. Okay. And, Mr. LaFleur, I think you have in  
9 front of you a document there. It's a public document,  
10 of course, filed on March 2nd of this year with the  
11 Kentucky Public Service Commission, and I think you'll  
12 see on page 2 that it was filed under case number  
13 2012-578. Do you see that?

14 A. Yes.

15 Q. Okay. And the title of the document, could you  
16 read that, please?

17 A. Mitchell Generating Plant, March 2nd, 2015,  
18 Annual Performance Report and Report on Potential  
19 Impacts of Future Environmental Regulation.

20 Q. All right. Thank you, sir. And this is the  
21 first report to this Commission regarding the Mitchell  
22 Unit's performance; isn't that correct?

23 A. I believe we filed a report in 2014.

24 Q. Oh, you did? Okay.

25 A. Yeah.

1 Q. All right. So this one was filed just a few  
2 weeks ago, apparently, March. Could you turn to page 3  
3 of this document, using the pagination at the bottom of  
4 the page, that is.

5 A. Okay.

6 Q. And do you see where it says that ML-1 -- and I  
7 take it that means Mitchell 1 --

8 A. Correct.

9 Q. -- had vibration issues in January and  
10 February 2014?

11 A. Yes, sir.

12 Q. And this was after the transfer to Kentucky  
13 Power, correct?

14 A. Yes, sir.

15 Q. Okay. And on the next page, page 4 of that  
16 document, it provides a table depicting actual O&M  
17 expense versus budgeted. Do you see that?

18 A. Yes.

19 Q. Okay. And isn't it true that actual O&M expenses  
20 for the two units exceeded the budget by over  
21 \$4 million in 2014?

22 A. They did.

23 Q. Okay. And isn't it true that the 2015 O&M budget  
24 is nearly \$10 million more than the 2014 budget, and  
25 the reason given is that planned increase in scheduled

1 outages?

2 A. Correct.

3 Q. Okay.

4 A. Well, increase in scheduled outages and the scope  
5 of those outages.

6 Q. Okay.

7 MR. COOK: Next, Mr. Vice-Chairman, I had some  
8 questions for Mr. LaFleur that are going to be of a  
9 confidential nature regarding information that was  
10 provided in a confidential data response.

11 VICE-CHAIRMAN GARDNER: Okay. Are there --  
12 before we go in closed session, are there any other  
13 questions in open session for this witness? So that  
14 we're not going back -- pardon?

15 MR. KURTZ: I think actually, I do.

16 VICE-CHAIRMAN GARDNER: Okay.

17 MR. NGUYEN: I've got a few as well.

18 VICE-CHAIRMAN GARDNER: Okay. Let's do them this  
19 way. Does that work?

20 MR. COOK: Sure.

21 CROSS-EXAMINATION

22 By Mr. Kurtz:

23 Q. Mr. LaFleur, are you in charge of the Big Sandy 1  
24 conversion to natural gas?

25 A. Well, our project, our construction project group

1 is heading it up, but I get updates.

2 Q. Okay. What is the expected heat rate on the unit  
3 after it's been converted to natural gas?

4 A. It's around 10,000, but I'd have to check. It's  
5 subject to check.

6 Q. Do you know what it is expected -- \$3 per mBtu  
7 gas, what will it produce energy at per megawatt hour?

8 A. It's going to be in the mid -- per megawatt hour,  
9 it's probably going to be in the mid 30s.

10 Q. So do you expect it to dispatch much with that  
11 operations cost?

12 A. It's -- what's your view of fuel price. The --  
13 right now, and when we justified the project, we  
14 thought the capacity factor would be very low, be more  
15 like a peaker, you know, 7, 10 percent type of capacity  
16 factor.

17 Q. So that you would run that in lieu of making  
18 expensive market purchases?

19 A. Absolutely.

20 Q. Okay. What about the CO2 per megawatt hour  
21 output of that gas unit compared to coal?

22 A. Well, generally, CO2 gas is about half of coal.  
23 The gas conversion actually, on Big Sandy 1, the heat  
24 rate is not going to change appreciably. So I don't  
25 recall the tons of CO2, but it should be, you know,

1 around half, maybe a little less CO2 once it's  
2 converted to gas.

3 Q. So in a carbon constrained environment, all else  
4 equal, that would be --

5 A. It would be an improvement.

6 Q. Be an improvement?

7 A. Absolutely.

8 MR. KURTZ: Thank you, Your Honor.

9 VICE-CHAIRMAN GARDNER: Mr. Nguyen.

10 CROSS-EXAMINATION

11 By Mr. Nguyen:

12 Q. Good afternoon, Mr. LaFleur. Can you turn to  
13 page 14 of your direct testimony?

14 A. Okay.

15 Q. Okay. At lines 13, discussing the landfill that  
16 was constructed at the Mitchell Station, and at the  
17 bottom from line 18 to 20 it says that the landfill and  
18 haul road were placed in service in 2014; is that  
19 correct?

20 A. Yes.

21 Q. And that there's a planned expansion of that  
22 landfill to be added and then placed in service in  
23 2015.

24 A. That's correct.

25 Q. So has the construction regarding expansion of



1 the landfill already taken place?

2 A. It's going on right now.

3 Q. Okay. And when will that complete?

4 A. It will be later this year.

5 Q. Okay. And in terms of additional capacity, what  
6 are we talking about?

7 A. In years, I think it takes us out to 2019, I  
8 believe.

9 Q. 2000 -- I'm sorry?

10 A. 2019, I believe.

11 Q. Okay.

12 A. I'd have to check, but -- and it is going on the  
13 table.

14 Q. Right, on page 16?

15 A. Right.

16 Q. Okay. So can I ask why, since it was just placed  
17 in service in 2014, there's already a need to expand it  
18 one year later?

19 A. Well, the landfill construction is done really by  
20 efficiency, and it was more efficient to construct that  
21 much landfill now. And when we look at that, we  
22 believe Mitchell is going to be a base load unit, so  
23 we're really looking at the most efficient construction  
24 as we can in doing those landfills.

25 As you can tell going forward, that capital and

1 those landfills is a large project for us. After we  
2 complete that, the capital really falls off.

3 Q. So how many phases in all is envisioned for the  
4 Mitchell landfill?

5 A. I could get it for you. I don't recall. You  
6 mean through 2040, through the life of the plant?

7 Q. Yes, yes.

8 A. I don't recall how many phases, you know, and  
9 that the -- you know, how fast we construct those, of  
10 course, is going to be determined by the capacity  
11 factor, how much product you're producing.

12 Mitchell, of course, sells most of their scrubber  
13 waste to the wallboard company, so that's reducing the  
14 capacity that we landfill.

15 Now that we've moved to dry fly ash, the fly ash,  
16 we're starting to get cement companies interested in  
17 that as a product. And that may push those, those  
18 construction, those landfills out even further.

19 Q. Just out of curiosity, could you provide as a  
20 post-hearing data request the total number of phases --

21 A. Sure.

22 Q. -- envisioned for the Mitchell landfill?

23 A. That's no problem.

24 VICE-CHAIRMAN GARDNER: Total what, I'm sorry?

25 MR. NGUYEN: The number of phases for the

1 landfill.

2 Q. And also, would there be projected cost estimates  
3 with each phase?

4 A. Sure.

5 Q. Provide that as well? And going to the --

6 A. Realizing they're going to be a little rough --

7 Q. Absolutely.

8 A. -- because it's going to be pretty far out there.

9 Q. Sure. Sure. On page 16 you have a table, which  
10 you had mentioned just a little while ago regarding the  
11 estimated projected cost.

12 A. Yes, sir.

13 Q. For the various environmental compliance plan  
14 projects, for the 2014 environmental compliance plan  
15 for the landfill, for the Mitchell Station, is that  
16 Project Number 13?

17 A. That is.

18 Q. Okay. And as in your in-service year as 2014 and  
19 2015, so does that include both Phase I -- I'm going to  
20 call it, Phase I and Phase II?

21 A. Yes, sir.

22 Q. Okay. And the total cost of both phases is  
23 \$38,319,000?

24 A. That's the projected cost right now.

25 Q. Okay. What was the cost, what was the actual

1 cost? You would have the actual cost for the first  
2 phase of the landfill, wouldn't you?

3 A. I don't have it.

4 Q. You don't?

5 A. I don't have it with me.

6 Q. Okay. So you don't know what the breakdown  
7 between the two?

8 A. Sure don't.

9 Q. Okay. Could that be provided?

10 A. Yeah. We can provide that.

11 MR. GISH: We might be able to provide that in  
12 response to the question you asked Ms. Elliott.

13 MR. NGUYEN: For the total? Oh, for the --

14 MR. GISH: About the various projects and the  
15 unit specific.

16 MR. NGUYEN: Sure. Sure.

17 MR. GISH: May be able to break this into Phase I  
18 and Phase II for that.

19 MR. NGUYEN: Okay.

20 MR. GISH: I say that without knowing that she's  
21 glaring at me behind me, but we can probably do that.

22 MR. NGUYEN: That will be fine. That will be  
23 fine.

24 Those are all the questions I have.

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## EXAMINATION

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By Vice-Chairman Gardner:

Q. Mr. LaFleur, two questions or series of questions I asked were referred to you. The first is a follow-up to the AG Exhibit Number 7 which was just handed to you. And my question was the -- had to do with the document that you-all filed in 2014 here?

A. Uh-huh.

Q. And let me find that because that had substantially different budgeted numbers with both O&M and capital.

A. Are you -- you're referring to the 2014 document compared to the '15 document?

Q. Yes, sir.

A. Yeah. In 2014, the document that's dated 2014 that we submitted?

Q. Right.

A. Those were 100 percent Mitchell cost.

Q. Okay.

A. These are reflected as 50 percent of the cost are Kentucky Power's ownership piece.

Q. I see. I see. Okay.

A. Should be about double.

Q. That makes sense.

A. The last -- the previous one should be about

1 double.

2 Q. Let me see if I can find that quickly. I'm not  
3 sure I can. Just -- okay. That seems right. My  
4 recollection of the 2014 -- find it here. Oh, here it  
5 is.

6 You're exactly right. Okay. Thank you. So it  
7 wasn't -- so it's not like there were a bunch of  
8 changes in the budgeting during the course of that  
9 year.

10 A. No.

11 Q. It's just 50 percent.

12 A. We're on plan.

13 Q. Okay. That makes sense.

14 My other question had to do with the Mitchell  
15 purchase. And what I have is the order from the  
16 West Virginia Public Service Commission where they  
17 approved it, and I was wondering what the -- what the  
18 amount that was paid for.

19 A. I don't know the exact number, but I know they  
20 paid the net book value.

21 Q. Of that facility at that time?

22 A. At that time.

23 Q. Okay.

24 VICE-CHAIRMAN GARDNER: I guess what I'd like is  
25 what that net book value was as a post-hearing --

1 MR. OVERSTREET: We'll provide that as  
2 post-hearing data request.

3 VICE-CHAIRMAN GARDNER: Yeah, yeah. And, you  
4 know, I mean, frankly, the reason is because that's  
5 what our Mitchell order made reference that we couldn't  
6 pay more than -- I mean, it would be less depending on  
7 what they paid on West Virginia, so I just wanted to  
8 confirm, I guess, that.

9 Does that make sense?

10 MR. OVERSTREET: That makes sense with, of  
11 course, the Vice-Chair understands that the net book  
12 values were at two different points in time.

13 VICE-CHAIRMAN GARDNER: Exactly. Okay.

14 That's all I have.

15 Do you have any?

16 MR. GISH: I have no redirect.

17 MR. KURTZ: Could I just ask a couple more before  
18 we go to confidential?

19 VICE-CHAIRMAN GARDNER: Sure.

20 RE-CROSS-EXAMINATION

21 By Mr. Kurtz:

22 Q. The gypsum from your scrubber that you sell to  
23 the wallboard Company, they pay you for that?

24 A. Yes.

25 Q. Okay. And I'm sure you don't know how that's

1 reflected in rates of Kentucky Power, or maybe you do.

2 A. I think -- I think we show it. We might show  
3 that. I don't know how it's reflected in rates, but if  
4 you look on my testimony on page 6 where we're looking  
5 at O&M expenses, the gypsum operation shows a negative  
6 132,000 in that table on line 10, and that reflects the  
7 payment.

8 Q. Okay. And then the fly ash, the dry fly ash that  
9 the cement companies are interested in, would you be  
10 paying them to take it away, or would they be paying  
11 you to come get it?

12 A. No, they'd be paying us.

13 Q. What's the market for that?

14 A. I don't know. I'm sure it's going to be a  
15 negotiated amount. I mean, we'll be looking for -- of  
16 course, our bogey is the price of these expensive  
17 landfills, trying to offset that, so it doesn't end up  
18 being a huge amount of money, but it offsets that  
19 capital investment in the future.

20 Q. So even if they took it away for free, it would  
21 be better than landfilling it.

22 A. Absolutely.

23 MR. KURTZ: Okay. All right. Thank you, Your  
24 Honor.

25 VICE-CHAIRMAN GARDNER: Any further questions



1 before we go in closed session?

2 MR. GISH: No, sir.

3 VICE-CHAIRMAN GARDNER: Okay. So did people sign  
4 confidentiality agreements? Is that out there, or is  
5 everybody here a party, and that means they don't sign  
6 it? What's the --

7 MR. OVERSTREET: I know that all parties signed  
8 the confidentiality agreement, including Mr. Malone.  
9 He doesn't remember, but I remember receiving it from  
10 him.

11 MS. HANS: And all our experts and counsel have  
12 signed it.

13 VICE-CHAIRMAN GARDNER: Okay. So -- and I guess  
14 the gentleman with Mr. Malone can be --

15 MR. OVERSTREET: Mr. Willhite, I do not remember  
16 one way or the other about you. Do you remember  
17 signing it?

18 MR. MALONE: I think he did.

19 MR. OVERSTREET: And if you didn't, would you  
20 agree to sign one?

21 MR. WILLHITE: Yes.

22 VICE-CHAIRMAN GARDNER: All right. So we are  
23 going off -- we're going into closed session,  
24 confidential session.

25 (Confidential testimony of JEFFREY D. LAFLEUR

1 heard from 5:31 p.m. through 6:04 p.m.)

2 VICE-CHAIRMAN GARDNER: So we're back on the  
3 record, and I do not believe, Mr. Cook, that there was  
4 a motion for number 7; is that correct? Did we have a  
5 motion to --

6 MS. HARWARD: Not sure.

7 MR. OVERSTREET: I don't think there was. I  
8 think the agreement was is that we would just refer to  
9 what was already in the --

10 MR. GISH: Number 7.

11 MS. HARWARD: That would have been Number 8.

12 MR. OVERSTREET: I apologize.

13 VICE-CHAIRMAN GARDNER: Do you have any  
14 objection?

15 MR. OVERSTREET: No. It's got my signature on  
16 it, got to live by it.

17 VICE-CHAIRMAN GARDNER: So ordered.

18 (AG Exhibit 7 admitted.)

19 VICE-CHAIRMAN GARDNER: So any further questions  
20 for this witness?

21 Okay. You're free to go. Thank you,  
22 Mr. LaFleur.

23 THE WITNESS: Thank you.

24 MR. OVERSTREET: Your Honor, the Company calls  
25 its final witness in its direct case, Mr. Alex Vaughan.

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ALEX E. VAUGHAN, called by Kentucky Power Company, having been first duly sworn, testified as follows:

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

THE WITNESS: My name is Alex E. Vaughan.

VICE-CHAIRMAN GARDNER: And with whom are you employed, Mr. Vaughan?

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

VICE-CHAIRMAN GARDNER: And what's your position.

THE WITNESS: I'm a manager of regulated pricing and analysis.

MR. OVERSTREET: And Mr. Gish will present.

VICE-CHAIRMAN GARDNER: Mr. Gish.

MR. GISH: Thank you, Mr. Vice-Chairman.

DIRECT EXAMINATION

By Mr. Gish:

Q. Mr. Vaughan, did you have cause to -- did you cause to have filed in this case direct testimony, rebuttal testimony, and responses to data requests?

A. Yes, I did.

1 Q. And do you have any corrections or updates to  
2 your direct testimony, rebuttal testimony, or responses  
3 to data requests?

4 A. I have one small correction to make on my  
5 rebuttal testimony at page 7, line 4. The X in  
6 brackets should be the number 20, two zero, so the  
7 question reads "Do you agree with Mr. Baron's comments  
8 regarding tariff CS-IRP on page 20 of his direct  
9 testimony."

10 Q. Thank you. And if I were to ask you the same  
11 questions that are in your direct testimony, rebuttal  
12 testimony, and data requests today, would you give the  
13 same answers?

14 A. Yes, sir.

15 Q. Thank you.

16 MR. GISH: Mr. Vice-Chairman, Mr. Vaughan is  
17 available for cross-examination.

18 VICE-CHAIRMAN GARDNER: Any questions?

19 MR. WILLIAMSON: I do have a couple of questions.

20 VICE-CHAIRMAN GARDNER: Yes, sir, proceed.

21 CROSS-EXAMINATION

22 By Mr. Williamson:

23 Q. Good afternoon, Mr. Vaughan.

24 A. Good evening.

25 Q. Corrected me once again.

1           Are you familiar with the rate IGS rates as  
2 they're reflected in the settlement agreement?

3           A.     Yes, I support them.

4           Q.     Exhibit 16? And do you recall that in at least  
5 in other jurisdictions, Virginia and recently in West  
6 Virginia, you've testified that it's important to  
7 strike a balance between high and low load factor  
8 customers within a rate schedule? Do you recall that  
9 testimony?

10          A.     I do recall that, and I have testified to that.  
11 The circumstances were different in Virginia, West  
12 Virginia, and Kentucky, but those are my words.

13          Q.     And in striking that kind of balance, you're able  
14 to, I think, account for what you've also referred to  
15 as diversity benefits within a rate class. Do you  
16 recall that testimony?

17          A.     Yes, sir.

18          Q.     And could you just briefly define what you mean  
19 by diversity benefits within a rate class?

20          A.     A diversity benefit is generally when you have  
21 a -- within the same rate class or tariff you have  
22 different populations of load factor customers.

23                 For example, we discussed this in Virginia where  
24 you had some higher load factor customers and some  
25 lower load factor customers, and we were -- in that

1 instance we were talking about moving the percent of  
2 full cost in the demand charge from I believe  
3 40 percent upwards to 100 percent, and what I wanted to  
4 recognize in that testimony was that the higher load  
5 factor customers who would benefit from the higher  
6 percent of full cost demand charge in the rate design  
7 were receiving a cost allocation benefit from the  
8 population of lower load factor customers.

9 And so when you were trying to adjust the percent  
10 of full cost demand, which would harm the lower load  
11 factor customers in that instance, I said you needed to  
12 strike a balance between the two rather than just  
13 saying, well, let's go to full cost demand.

14 Q. That was a thorough response. And all I'm  
15 getting at is I just would like your testimony. Do you  
16 agree that the rate IGS rates as they're reflected in  
17 the settlement at Exhibit 16 are reasonable with  
18 respect to all the customers that will now be served  
19 under that new rate schedule?

20 A. Absolutely.

21 MR. WILLIAMSON: All right. Thank you. That's  
22 all I have.

23 MR. COOK: We have no questions.

24 MR. KURTZ: No questions.

25 VICE-CHAIRMAN GARDNER: Mr. Malone?

1 MR. MALONE: No questions.

2 VICE-CHAIRMAN GARDNER: Mr. Nguyen?

3 MR. NGUYEN: Yes, thank you. Just a couple  
4 questions.

5 CROSS-EXAMINATION

6 By Mr. Nguyen:

7 Q. Good afternoon. Good evening, Mr. Vaughan.

8 A. Good evening.

9 Q. Can you refer to pages 6 and 7 of your rebuttal  
10 testimony?

11 A. Yes, sir, I'm sure.

12 Q. Okay. This is addressing the Big Sandy 1  
13 Operating Rider and PJM charges or credits associated  
14 with the operation of Big Sandy 1?

15 A. Yes, sir.

16 Q. You make an argument that the PJM charges and  
17 credits related to the operation of Big Sandy Unit 1  
18 should be recovered through the proposed BS1OR Rider;  
19 is that correct?

20 A. That's correct.

21 Q. And as proposed in the settlement agreement, just  
22 to confirm, I think it was stated earlier, would the  
23 PJM charges and credits related to the operation of Big  
24 Sandy Unit 1 be recovered through the BS1OR Rider?

25 A. Yes, they are not included in that 74 point -- I

1 can't remember, 74, \$75 million base number because  
2 they were segregated into the Company's final case for  
3 the Big Sandy 1 Operations Rider because of how we  
4 interpreted paragraph 3 of the Mitchell settlement  
5 stipulation agreement.

6 Q. Okay. At the bottom of page 6 of your rebuttal  
7 testimony, in response to Mr. Smith, AG's witness's  
8 concerns about issues with auditing those particular  
9 PJM charges and credits that could flow through the  
10 BS10R rider.

11 You state that Kentucky Power could move Big  
12 Sandy Unit 1 into its own PJM account, and if it did it  
13 would receive a monthly PJM bill for only the activity  
14 associated with Big Sandy Unit 1 operations; is that  
15 correct.

16 A. That's correct.

17 Q. Did Kentucky Power commit to creating a separate  
18 PJM account -- PJM account for PJM charges and credits  
19 related to the operation of Big Sandy Unit 1?

20 A. I'm not sure I have the authority to commit to  
21 anything. I would say that I would prefer it myself  
22 because it would make the calculation of this rider  
23 easier, so I would be in total agreement with moving  
24 Big Sandy Unit 1 into its own PJM subaccount for  
25 visibility and audit and purposes of this rider.



1 Q. Do you know if your recommendation would hold any  
2 sway with any of your higher ups?

3 A. Let me check.

4 MR. OVERSTREET: I checked. It will.

5 MR. NGUYEN: Okay. Thank you.

6 Q. Going to your direct testimony, you don't have to  
7 flip to it, but in your direct testimony you address  
8 the reasonableness of the proposed \$16 residential  
9 monthly service charge; is that correct?

10 A. Yes, sir.

11 Q. And the reasonableness of the proposed  
12 100 percent increase from \$8, current level of \$8?

13 A. Yes, sir.

14 Q. Okay. So given the Company's position that a  
15 100 percent increase is reasonable, I would assume that  
16 you would believe that the 75 percent increase from \$8  
17 to \$14 for the residential monthly service charge  
18 included in the settlement agreement is also  
19 reasonable.

20 A. Absolutely, and you've got to remember that the  
21 \$14 is a compromise with everything else in the  
22 settlement agreement. I still believe \$16 is the right  
23 step, especially when you consider the full cost is  
24 around \$40 per customer per month, and no one has  
25 argued with those numbers, no one has rebutted them in

1 any way. Those are accounting costs.

2 So making that, while you characterize as a 100  
3 percent increase, it's still a small step towards the  
4 cost of service of simply connecting each customer in  
5 the distribution system.

6 Q. How long has it been, if you know, since the \$8  
7 residential monthly service charge was first approved  
8 by the Commission?

9 A. It's at least been since the 2010 rate case. I'm  
10 not certain if it was established in the 2005 rate case  
11 or not.

12 MR. NGUYEN: Those are all the questions. Thank  
13 you.

14 EXAMINATION

15 By Commissioner Logsdon:

16 Q. I just had a couple. On page 15 of your direct  
17 testimony, and this is referenced in the settlement,  
18 page 17, 13B. It lists out the PJM LSE charges and  
19 credits which are currently made up, but not limited to  
20 the following.

21 I don't see anything in there, obviously it  
22 doesn't have to be, it says it's not limited to, but in  
23 my limited experience with RTOs and PJM, if you commit  
24 to a certain number of watts, when they call that, if  
25 it's not available, your company, any company is

1 subject to a large penalty. I know that's true for  
2 MISO. I think it's true for PJM.

3 A. Are you speaking on a capacity or an energy  
4 basis?

5 Q. Yeah, capacity.

6 A. There's no PJM charges currently related to  
7 capacity included in here. There's some performance  
8 and maintenance testing charges the Company could  
9 receive, but in general we are an FRR entity for the  
10 purposes -- Fixed Resource Requirement for purposes of  
11 meeting our capacity requirements in PJM, so there's no  
12 actual dollars exchanged.

13 Like we don't -- the Company doesn't purchase its  
14 load from PJM and then offset it with the generation.  
15 It self-supplies kind of outside of the market, so we  
16 don't have capacity charges in there.

17 Q. Okay. And then last question, are these all PJM  
18 terms on page 15?

19 A. Yes, sir.

20 Q. Okay. So they've got that glossary on the  
21 website, all these terms would be --

22 A. You can go to the customer guide to billing.

23 Q. Yeah.

24 A. And you can find most of these. Some of these, I  
25 think I just kind of speak generally about ancillary

1 services, but no, no, actually I list them all out  
2 here, yes. So like you can go to the PJM guide to  
3 billing and find these terms.

4 CHAIRMAN LOGSDON: All right. Thank you.

5 EXAMINATION

6 By Vice-Chairman Gardner:

7 Q. So I do have just one question, and that is, is  
8 it possible to compute what, from the information that  
9 the Commission has, what the energy charge would be for  
10 these different classes given that we know what the --  
11 the customer charge is, or is that just not possible?

12 A. We actually filed it in the tariffs that are  
13 attached to Mr. Wohnhas's settlement testimony.

14 Q. Okay. The energy charges. The energy charges?

15 A. Cents per kilowatt hour charge.

16 Q. Yeah. Okay.

17 A. Yeah, the full tariff rates are in there, sir.

18 Q. Okay. Good.

19 VICE-CHAIRMAN GARDNER: That's all I have.

20 Do you have any redirect?

21 MR. GISH: Just one quick redirect question.

22 REDIRECT EXAMINATION

23 By Mr. Gish:

24 Q. You testified about the increase in the 14 -- in  
25 the customer charge to -- from 8 to \$14. That has a

1 corresponding offset in the amount of energy charge  
2 that has to be -- the costs have to be covered through  
3 the energy charge, correct?

4 A. Yes, sir.

5 MR. GISH: Okay. That's all.

6 VICE-CHAIRMAN GARDNER: Okay. Any further  
7 questions? Mr. Williamson?

8 MR. WILLIAMSON: No, sir.

9 VICE-CHAIRMAN GARDNER: Okay. You're free to go.  
10 Thank you, Mr. Vaughan.

11 MR. OVERSTREET: Mr. Vice-Chairman, that's the  
12 Company's -- that was the last of the Company's  
13 witnesses the Staff or the AG asked to appear.

14 VICE-CHAIRMAN GARDNER: Okay. So you don't have  
15 questions for Mr. Smith?

16 MR. OVERSTREET: Mr. Satterwhite will take that,  
17 but --

18 MR. COOK: Mr. Smith is the second and last  
19 witness for the AG.

20 RALPH C. SMITH, called by Kentucky Attorney  
21 General, having been first duly sworn, testified as  
22 follows:

23 VICE-CHAIRMAN GARDNER: Please state your name.

24 THE WITNESS: My name is Ralph C. Smith.

25 VICE-CHAIRMAN GARDNER: And with whom are you

1 employed, Mr. Smith?

2 THE WITNESS: I'm employed by Larkin &  
3 Associates.

4 VICE-CHAIRMAN GARDNER: I'm sorry, I couldn't  
5 hear. I couldn't hear.

6 THE WITNESS: By Larkin & Associates, PLLC.

7 VICE-CHAIRMAN GARDNER: Okay. And what is your  
8 address, please?

9 THE WITNESS: The address is 15728 Farmington  
10 Road, Livonia, Michigan, 48154.

11 VICE-CHAIRMAN GARDNER: And what is your position  
12 with the Company?

13 THE WITNESS: I am senior regulatory consultant.

14 VICE-CHAIRMAN GARDNER: Okay, thank you.

15 You may ask.

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

18 DIRECT EXAMINATION

19 By Mr. Cook:

20 Q. Mr. Smith, are you the same Ralph C. Smith who  
21 caused to be filed prefiled written direct testimony in  
22 this case?

23 A. Yes, I am.

24 Q. Okay. And did you also file responses to data  
25 requests that were filed by the Commission Staff and by

1 the Kentucky Power Company?

2 A. Yes.

3 Q. Thank you. And with regards to those, to your  
4 testimony and to those responses, if I were to ask you  
5 the same questions today would your responses be the  
6 same?

7 A. Yes.

8 Q. Do you have any corrections to make to your  
9 testimony?

10 A. Yes, I do. I have three corrections on page 60,  
11 and they all relate to the same item. This was also  
12 addressed in one of our responses to a data request.

13 Q. Okay.

14 A. Basically on page 60, on lines 10 and 11 we refer  
15 to their -- the Asset Transfer Rider-2, and the dash 2  
16 should be stricken. The reference on line 10 should  
17 read, "Asset Transfer Rider."

18 And then on line 11 it's in quotes, "ATR-2," end  
19 quote. The dash 2 should be stricken there, and the  
20 following sentence starts out, "The ATR-2," and the  
21 dash 2 should be stricken from that reference on line  
22 11 as well.

23 Q. Okay. Are there any other corrections?

24 A. Not that I'm aware of.

25 MR. COOK: Okay. With that, the witness is ready

1 for cross.

2 VICE-CHAIRMAN GARDNER: Mr. Satterwhite?

3 CROSS-EXAMINATION

4 By Mr. Satterwhite:

5 MR. SATTERWHITE: Thank you, Your Honor. Let me  
6 start by saying I neglected to express my appreciation  
7 for the ability to appear. I appreciate that. Last  
8 time I was here, I believe I was in front of you two  
9 dealing with some wind, but Mr. Kurtz and Mr. Cook were  
10 in the same seats as well back then, so it was a good  
11 time.

12 Q. I believe I just have one question for you,  
13 Mr. Smith. The testimony and the items that you talked  
14 about with Mr. Cook that you've caused to be filed in  
15 this case, you relied on Mr. Woolridge for the rate of  
16 return and the return on equity for the AG's position  
17 in this case, correct?

18 A. I did rely on Dr. Woolridge for the return on  
19 equity.

20 Q. Okay. And the rate of return, correct?

21 A. For the rate of return there was a little bit of  
22 back and forth because I had to calculate the adjusted  
23 capitalization.

24 Q. Correct, but you relied on the work that he did  
25 to put into your work to project the Attorney General's



1 position in this case, correct?

2 A. I relied on his recommended return on common  
3 equity, and there was a little bit of back and forth  
4 about the capitalization because we had to make some  
5 adjustments to that such as to remove the negative  
6 short-term debt, so I'm the one that did those  
7 calculations, and then I kind of passed them back to  
8 him.

9 Q. Fair enough.

10 A. He said the capital structure as adjusted in the  
11 capitalization was reasonable.

12 Q. Thank you.

13 MR. SATTERWHITE: That's all I have for right  
14 now. Thank you.

15 VICE-CHAIRMAN GARDNER: Mr. Malone?

16 MR. MALONE: No questions.

17 VICE-CHAIRMAN GARDNER: Mr. Kurtz?

18 MR. KURTZ: Thank you.

19 CROSS-EXAMINATION

20 By Mr. Kurtz:

21 Q. Mr. Smith, what is your recommendation on a base  
22 rate reduction for Kentucky Power?

23 A. Base rate reduction?

24 Q. Yes.

25 A. If you refer to my Exhibit RCS-1, Schedule A,

1 page 1 of 2, line 7, compared to the Company's  
2 approximately 4.7 million base rate reduction we are  
3 recommending approximately a \$34.3 million base rate  
4 revenue reduction.

5 Q. Okay. Does that include the transfer of PJM cost  
6 from the Big Sandy 1 Operations Rider in the base  
7 rates?

8 A. It does.

9 Q. Now, your Big Sandy Retirement Rider, you're  
10 recommending 11.1 million?

11 A. That's correct.

12 Q. And your Big Sandy Operations Rider, 12.6?

13 A. Yes.

14 Q. Okay. And then you're recommending the  
15 Commission not approve the economic development  
16 surcharge for \$300,000 per year, which would then  
17 trigger the company's match of 300,000 per year,  
18 correct?

19 A. Yes, as I explained in the testimony, it's  
20 extremely unusual to have a special rider for that type  
21 of cost, so we basically removed it. To acknowledge  
22 that that part of Eastern Kentucky could definitely  
23 benefit from some additional economic development  
24 efforts and, you know, we're not opposed to the concept  
25 of the Company matching funds. We didn't think a new

1 rider was necessarily needed in order to achieve those  
2 objectives.

3 Q. Okay. The 8.65 percent return on equity that  
4 Dr. Woolridge recommended is incorporated throughout  
5 your recommendations?

6 A. It's incorporated whenever a rate base rate of  
7 return concept was applied, including a weighted  
8 average cost of capital concept.

9 Q. That would apply to base rates, the Big Sandy,  
10 the Big Sandy Retirement Rider, and the environmental  
11 surcharge?

12 A. It did apply to all three of those, yes.

13 Q. And if the Commission went with a higher return  
14 on equity, it would increase the revenue requirements  
15 on each of those items?

16 A. If it went with the higher return on equity than  
17 Dr. Woolridge recommended, each of those three items,  
18 the negative amount of base rate excess would decrease,  
19 and the two revenue requirement amounts for the Big  
20 Sandy Retirement Rider and the environmental surcharge  
21 related to the Mitchell FGD, those would both increase  
22 to some increment based on the return on equity  
23 difference.

24 Q. How much is 1 percent on equity in terms of the  
25 total revenue requirement on all three of the items?

1 A. I don't have that information available.

2 Q. Did you see Mr. Kollen testify as to that on page  
3 51 of his testimony, quantifying a 1 percent return on  
4 equity having a \$10.38 million revenue requirement  
5 effect?

6 A. Can you give me the page reference again?

7 Q. Fifty-one.

8 MR. COOK: I just want to clarify too, I'm not  
9 sure that that might be a little bit of apples to  
10 oranges, so to the extent you know, please do answer,  
11 but --

12 A. Yes, I see it. I'm not sure about the other  
13 numbers, but I think the 1 percent return on common  
14 equity on the base rate revenue requirement would be  
15 similar in my presentation.

16 Q. Why wouldn't it be similar on the environmental  
17 surcharge and the Big Sandy Retirement Rider also?

18 A. I think he went about those a little bit  
19 differently. I know that he broke out incremental  
20 impacts from his recommended gross revenue conversion  
21 factor, which was different than the Company's.

22 Q. What would your -- what would your -- the  
23 settlement package is at \$45.4 million, correct? Have  
24 you reviewed the settlement package?

25 A. Yes, I did.

1 Q. Okay. That's at 45.4 million, correct?

2 A. Net of everything, yes.

3 Q. And the file case was 70 million net of  
4 everything, correct?

5 A. Yes.

6 Q. If the Commission -- what would your -- if the  
7 Commission accepted every one of your recommendations,  
8 except took the rate of return on equity from 8.65 to  
9 10 percent, what would your recommendation be?

10 A. I don't have that calculation with me.

11 Q. You made three rate base adjustments in your  
12 testimony to reduce the revenue requirement; is that  
13 correct?

14 A. Three rate base adjustments, but only two of them  
15 actually impacted the revised capitalization and  
16 affected the revenue requirement. The cash working  
17 capital adjustment had no impact on the adjusted  
18 capitalization and therefore no impact on the revenue  
19 requirement.

20 Q. And you made 13 operating income adjustments to  
21 reduce the Company's revenue requirement?

22 A. Some of them increased it and some of them  
23 reduced it, but we did have 13 operating income  
24 adjustments.

25 Q. The -- if the Commission went through all of your

1 13 adjustments on operating income and all three of  
2 your rate base adjustments and all the rate of return  
3 impacts on base rates, the Big Sandy Requirement Rider,  
4 the environmental surcharge, and let's assume that they  
5 came up with a revenue requirement, accepting some of  
6 your adjustments, rejecting others, of \$45.3 million  
7 rather than the \$45.4 million in this settlement.

8           Would you recommend to the Commission that they  
9 reject the settlement to take that extra \$100,000?

10 A.       It's not -- I'm not the one that's recommending  
11 that the Commission reject or accept the settlement.  
12 That's coming from the Attorney General's office.

13 Q.       But what if the revenue requirement effect of  
14 your recommendations, as accepted by the Commission,  
15 came in at \$45.3 million, 100,000 less than the  
16 settlement?

17           MR. COOK:  Objection, asked and answered and  
18 he --

19           MR. KURTZ:  I don't think it was answered.

20           MR. COOK:  He has already answered that that is  
21 up to the Attorney General to decide, Mr. Kurtz.

22           MR. KURTZ:  Well, I'm --

23           MR. COOK:  And that is the case.

24           MR. KURTZ:  I'm asking for his opinion.

25           VICE-CHAIRMAN GARDNER:  I'll let him ask --

1 answer, if you know.

2 A. Yeah, I mean, it's not up to me to accept or  
3 reject the settlement. That decision is made by other  
4 people.

5 MR. COOK: And to that extent also it gets into  
6 work product and attorney/client privilege.

7 MR. KURTZ: I'm not asking --

8 MR. COOK: If I have to instruct him to not  
9 answer, I will do so.

10 MR. KURTZ: That's fine, Larry.

11 Q. Can you predict how the Commission will come out  
12 on your 13 operating income adjustments, and the  
13 three -- the three rate base adjustments, and the  
14 return on equity and capitalization adjustments, you  
15 don't know as a witness how the Commission would rule  
16 on those issues, correct?

17 A. I think on the ones that have been accepted, I  
18 think they would definitely agree with those. The ones  
19 that have been contested, it's hard to say.

20 Q. Wouldn't it be a prudent policy for the  
21 Commission if they were going to -- let me start again.

22 Are you aware that if the Commission rejects the  
23 settlement agreement, all the fuel litigation -- none  
24 of the fuel litigation goes away, all that is still  
25 with the Commission?

1 A. It's my understanding that the appeals of the  
2 fuel litigation would still be there.

3 Q. Does that have a value, in your opinion? How  
4 would you value the certainty of customers receiving  
5 that \$54 million no-load disallowance without the  
6 chance of that decision being reversed on appeal? How  
7 would you value that monetarily?

8 A. I guess you'd have to evaluate the litigation  
9 risk, which I have not done, and assign some -- if you  
10 thought there was litigation risk, assign some  
11 probability to it and apply the probability factor to  
12 the dollars.

13 Q. That's right, you would do that, and you're not  
14 in a position because you don't know the underlying  
15 facts of the fuel case or the Commission's rationale, I  
16 take it; is that correct?

17 A. I've read the fuel case. I'm not sure of all  
18 the -- I haven't attempted to evaluate the legal risk  
19 of the appeal. I understand that it's already been  
20 approved at one level.

21 Q. What about the cost and the uncertainty of  
22 continuing to litigate that case through the courts,  
23 would that be a consideration also?

24 A. I'm not sure it would be a major consideration.  
25 That would be a decision again from the Attorney



1 General's office, how much money they want to devote to  
2 the obligation.

3 Q. No, I'm talking -- I'm sorry, from the  
4 Commission's perspective of getting certainty for  
5 consumers about having the fuel matters put to rest and  
6 then moving this company forward with the certainty of  
7 knowing what the rates are.

8 MR. COOK: Well, I'm not sure -- I think I need  
9 to object because I'm not sure if you're asking him to  
10 speak for the Commission, which of course he can't do.

11 Q. I'm asking him how would you value that? How  
12 would you value that, the certainty of consumers  
13 knowing what the rates are going to be and having the  
14 litigation uncertainty put to rest?

15 A. I think I've already explained that. I think  
16 you'd have to do an analysis of the legal issues.  
17 Based on your legal analysis you would have to develop  
18 some kind of probability of the likelihood of success  
19 or having it overturned in whole or in part, and  
20 whatever probability factor you came up with, you would  
21 have to apply that to the dollars then, and for each  
22 party that's involved in the appeal their probability  
23 may be different. They're looking at it from a  
24 different perspective.

25 Q. Are you in a position to do that calculation?

1 A. I haven't attempted to analyze the legal risks --

2 MR. COOK: Objection.

3 VICE-CHAIRMAN GARDNER: He can answer.

4 A. -- of continuing the litigation versus resolving  
5 it.

6 MR. COOK: Asked and answered.

7 Q. If the Commission accepted your recommendation to  
8 not have the economic development surcharge, then the  
9 shareholder contribution of \$300,000 per year would go  
10 away as well, would it not?

11 A. As would the rate payer contribution, and  
12 presumably rates would be somewhat lower. When you're  
13 talking about economic development, one of the key  
14 considerations for companies locating in an area is how  
15 high are the electric rates, so you can help economic  
16 development by keeping the electric rates lower in  
17 general.

18 Q. Right. Do you know what the amount of the  
19 surcharge is?

20 A. It's 15 cents per month per bill, so, I mean, it  
21 means something to residentials, not a lot, but it's  
22 another little incremental increase, and the overall  
23 rates, as I understand it, are not -- I mean the  
24 overall rates levels, especially with this increase  
25 piled on top of them, that in itself may be enough to

1 defeat the economic development that pouring another  
2 \$600,000 into that area, you know, that would be a  
3 positive. The rates that are already in effect, and  
4 this rate increase piled on top of them would be a  
5 negative.

6 Q. If the Commission accepted your recommendation,  
7 is it more likely or less -- versus the settlement, is  
8 it more likely or less likely that Kentucky Power would  
9 be here for another rate case sooner?

10 MR. COOK: Objection, speculation.

11 VICE-CHAIRMAN GARDNER: You can answer it if you  
12 know.

13 A. Yeah, I think it would involve some speculation.  
14 There's a lot of riders involved. I think if these  
15 riders are put into effect in some form or another, the  
16 Company is required -- is recovering more and more of  
17 its overall revenue requirement outside the base rate  
18 case, so it would depend on how the costs that are left  
19 within the base rate revenue requirement, how those are  
20 fluctuating subsequent to the resolution of the case.

21 Q. Isn't it a truism that if the Commission accepted  
22 your recommendation to reduce the overall rate increase  
23 to the level you recommend, versus the settlement  
24 amount, isn't it a truism that it's more likely that  
25 the Company will be in for a rate case sooner?

1 A. Not necessarily. They would have to look at the  
2 reasoning of why the Commission adopted those numbers,  
3 which may be an indication that they come back right in  
4 again and ask for the same stuff.

5 If the Commission rejected some of that here,  
6 they're not going to get it if they file a year from  
7 now, so you'd have to look at the reasoning of the  
8 order, I think, not just the overall result.

9 Q. Well, under your proposal as filed, is it more  
10 likely or not that the Company would be in for a rate  
11 increase sooner --

12 VICE-CHAIRMAN GARDNER: I think he's already  
13 answered that.

14 MR. KURTZ: Okay. Okay. You're right, he did.  
15 Those are all my questions.

16 VICE-CHAIRMAN GARDNER: Thank you.

17 Ms. Vinsel?

18 CROSS-EXAMINATION

19 By Ms. Vinsel:

20 Q. Good evening, Mr. Smith.

21 A. Good evening.

22 Q. I want to confirm that you have reviewed Kentucky  
23 Power's proposed -- or the proposed settlement  
24 agreement and Kentucky Power's rebuttal testimony in  
25 support of the proposed settlement agreement?

1 A. I reviewed the settlement agreement. I reviewed  
2 Mr. Wohnhas's testimony in support of that, and the  
3 other thing was, what, the rebuttal testimony?

4 Q. Yes.

5 A. I reviewed portions of that.

6 Q. I'm sorry, let me strike that. I really meant  
7 Mr. Wohnhas's testimony in support, so you've answered  
8 my question.

9 A. Okay.

10 Q. Yes. Based on the proposed settlement agreement,  
11 do you have any additions or revisions to your file  
12 testimony?

13 A. I don't think so because the Attorney General  
14 didn't agree with it, so we're back to our as-filed  
15 recommendation.

16 Q. Okay. In this application Kentucky Power  
17 proposed a 60/40 off-system sales margin sharing, with  
18 the rate payers receiving 60 percent of the off-systems  
19 sales margins and Kentucky Power retaining 40 percent.

20 In your testimony you recommended or you proposed  
21 an adjustment to a 90/10 split between the rate payers  
22 and Kentucky Power. Is that correct.

23 A. That's correct.

24 Q. How does your proposed 90/10 sharing allow  
25 adequate balance between the risk to customers of any

1 shortfall from the amount in base rates and  
2 compensation to Kentucky Power for additional  
3 off-system sales compared to the amount included in  
4 base rates?

5 A. Well, the customers are basically paying for the  
6 cost of the capacity and the operating cost of  
7 utilities' generating plants, so the off-system sales  
8 represent an opportunity to utilize the amount of that  
9 capacity by generating energy that's not needed to  
10 serve native load, and therefore the margins received  
11 on the off-system sales help go to pay for the capacity  
12 costs or offset the payment that's included in base  
13 rates.

14 Q. Can I have you refer to your direct testimony,  
15 page 71, and please let me know when you're there.

16 A. Yes, I have it.

17 Q. And this is your testimony regarding the economic  
18 development surcharge. On lines 1 through 6 you state  
19 that the new surcharge for economic development has not  
20 been adequately justified and should be removed,  
21 correct?

22 A. Correct.

23 Q. If the Commission were to approve the economic  
24 development surcharge with the requirement that  
25 Kentucky Power had to file project details before the

1 funds were spent, would that alleviate your objections  
2 to the economic development surcharge?

3 A. I think it would represent an incremental  
4 improvement over what the Company proposed. I don't  
5 think it would necessarily eliminate all of the other  
6 concerns we have about it.

7 Q. Based upon Kentucky Power's cost of service  
8 study, do you have an opinion about what a reasonable  
9 residential customer charge could be?

10 A. Well, with the large base rate decrease holding  
11 the same -- holding the customer charge for residential  
12 customers constant, would be one way that it could be  
13 dealt with, but again, I didn't address that specific  
14 issue in my testimony, and the Attorney General, I  
15 think, is reserving the right to make further comments  
16 in their briefs.

17 MS. VINSEL: Thank you. We have no further  
18 questions.

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

21 MR. COOK: Just one moment. I don't have any.

22 VICE-CHAIRMAN GARDNER: Mr. Satterwhite?

23 MR. SATTERWHITE: No, thank you.

24 VICE-CHAIRMAN GARDNER: Okay. Anybody else?

25 MR. MALONE: I do, Your Honor.

1 VICE-CHAIRMAN GARDNER: Mr. Malone, why don't you  
2 come to the mike so you can be heard easier.

3 CROSS-EXAMINATION

4 By Mr. Malone:

5 Q. The economic development surcharge, I understand  
6 you're recommending that not be pressed forward.

7 Logically it seems to me that that would provide jobs  
8 in an area that needs jobs. Would you not agree with  
9 that statement?

10 A. Just spending the money would provide jobs,  
11 you're saying?

12 Q. Providing the opportunity to people in Eastern  
13 Kentucky that need an opportunity, would provide an  
14 option for them to actually have gainful employment.

15 A. I think economic development involves a number of  
16 factors. I mean, you can spend money to promote sites,  
17 you can try to entice businesses to move into an area,  
18 but when I've seen businesses evaluate whether they  
19 want to move into an area or not, they're not just  
20 looking at the promotions saying, you know, come  
21 relocate to Eastern Kentucky.

22 They're looking at a number of economic factors  
23 and quality of life factors, including one of the key  
24 economic factors they look at is what is the cost of  
25 power, what is the cost of utilities there in the area.



1 Quality of life factors, you know, is it conducive to a  
2 good quality of life, is it close to amenities, are  
3 there good schools there, that sort of thing.

4 Q. The reason I asked is --

5 A. So I think there is -- there could definitely be  
6 benefit. This area looks like it really needs some  
7 economic development help, but I guess what I'm  
8 suggesting is spending another \$600,000 there and not  
9 addressing the problem of high electric rates, you  
10 know, may not be a real solution.

11 I mean, it may be something that you could do,  
12 but if the electric rates are still higher than the  
13 surrounding areas, that may in itself be a deterrent to  
14 having businesses locate there.

15 Q. You would agree, however, that potentially  
16 provided jobs are created from the economic development  
17 surcharge, that would then in turn help property  
18 values, in turn keep jobs, and in turn help support  
19 local schools that need the money in revenue from  
20 people being in the area?

21 A. Positive economic development, I think, could be  
22 a very positive aspect for Eastern Kentucky. Spending  
23 another \$600,000, half rate payer money, half, you  
24 know, AEP shareholder money, you know, may be a little  
25 bit, but you still have other more serious issues out

1 there like high electric rates, high power costs.

2 So, I mean, do you want to do this, add an  
3 additional amount to customer bills, which is really  
4 not that large an amount, and it's going mainly on the  
5 residential customers because there's more of them out  
6 there. There's more bills going out to the  
7 residential.

8 But I'm not trying to in any way denigrate the  
9 fact that this area needs economic development. I'm  
10 just trying to point out, you know, what companies  
11 usually look for when they're considering relocating to  
12 a region, and electric rates are a big item.

13 You know, there's a number of other factors, and  
14 maybe some of those other positive factors could be  
15 highlighted or, you know, emphasized in a way that  
16 they're not currently being done.

17 Q. I get your point. I've just got one other  
18 question. You do understand that if the Commission  
19 accepts what you're suggesting, that throwing out the,  
20 some of the surcharges, throwing out the settlement,  
21 for instance, that that will hurt the public schools in  
22 Eastern Kentucky?

23 A. I don't see it hurting the public schools. I  
24 know --

25 Q. Did you review the settlement?

1 A. -- having the lower rate increase, I mean it  
2 depends why the settlement is not adopted. If it's not  
3 adopted because the Commission produces a better result  
4 for customers and for schools, it seems like that would  
5 help them.

6 Q. Based on the settlement agreement there is a  
7 separate tariff for the public schools. Are you aware  
8 of that?

9 A. I read that there was some special items in there  
10 for public schools.

11 Q. Okay.

12 A. I'm not sure, you know, what the alternative  
13 would be for schools if the settlement agreement were  
14 not adopted. I didn't attempt to analyze that.

15 MR. MALONE: All right. Thank you.

16 MR. COOK: Just one follow-up.

17 REDIRECT EXAMINATION

18 By Mr. Cook:

19 Q. Mr. Smith, if per chance the Commission should,  
20 as was just suggested, throw out the proposed  
21 settlement, would there be anything preventing the  
22 Commission from giving the schools what they requested?

23 A. I don't think so. I mean, I haven't really  
24 focused on what the schools are asking for and what the  
25 alternatives are. I'm not aware of any limitations on,

1 you know, giving the schools the type of tariff that  
2 they may be seeking.

3 MR. COOK: Thank you. That's all.

4 VICE-CHAIRMAN GARDNER: Okay. Any further  
5 questions of this witness?

6 You're free to go. Thank you, Mr. Smith.

7 So before I ask questions related to settlement,  
8 let's make sure we're set on the, first the exhibits.  
9 I've got two Kentucky Power exhibits; is that right?  
10 And seven Attorney General exhibits; is that right.

11 MS. HARWARD: That is correct, yes.

12 VICE-CHAIRMAN GARDNER: Okay. And then we've got  
13 quite a few post-hearing data requests, so what if  
14 we -- who wants to read those?

15 MR. OVERSTREET: Mr. Gish has been --

16 VICE-CHAIRMAN GARDNER: Okay. Mr. Gish, why  
17 don't you start, and let's just crank them out.

18 MR. GISH: Certainly, Mr. Vice-Chairman. The  
19 first one we had was related to providing the  
20 nonwinning bids, nonwinning proposals for the 2014 KEAP  
21 grant applications.

22 There was a post-hearing data request regarding  
23 clarifying which of the Kentucky Power service  
24 territory counties are located within the source -- the  
25 SOAR territory area.

1           There was a request to provide a rate -- the  
2 impact on the average residential -- excuse me, average  
3 residential kilowatt hour usage rate impact on a  
4 monthly dollar amount of the bill way.

5           There was a request for the average customer ATR,  
6 or average amount charged to the customers under tariff  
7 ATR over -- over a 12 month period.

8           There was a request to -- for the -- the support  
9 for the calculation of the Mitchell FGD costs in  
10 electronic form.

11           VICE-CHAIRMAN GARDNER: Right.

12           MR. GISH: Testing my note-taking abilities.

13           VICE-CHAIRMAN GARDNER: That's good.

14           MR. GISH: There was a request to fix or confirm  
15 the formula that was in Exhibit RKW Settlement Exhibit  
16 2 relating to the Biomass Energy Rider.

17           There was a request to submit an updated and  
18 corrected version of the tariff schools, K-12 schools  
19 to clarify its pilot and also to clarify that we're not  
20 going to make it available to mining camps.

21           You know what -- okay. I have now the column 7  
22 of the Exhibit 4, which is the monthly economic -- I'm  
23 sorry, the monthly environmental charge, column 7 in  
24 electronic format.

25           There's a requirement to provide the amounts that

1 would be how the BS1D, the BS1E would be split in  
2 tariff BS1OR.

3 VICE-CHAIRMAN GARDNER: Was there something left  
4 out, or was that -- what about Exhibit 3 to the  
5 settlement on page 73? Was that covered --

6 MR. NGUYEN: That's the K through 12.

7 MR. GISH: Yeah, it's the K through 12.

8 VICE-CHAIRMAN GARDNER: Okay. All right. Thank  
9 you.

10 MR. GISH: I lumped that into one correction.

11 VICE-CHAIRMAN GARDNER: No, that's good. Okay.

12 MR. GISH: Then, Mr. Vice-Chairman, you asked for  
13 us to provide an update using the same methodology as  
14 was used in data request 5-10 in the Mitchell case to  
15 confirm over the past 16 months what the actual  
16 difference in the cost of the coal blend at Mitchell  
17 compared to the cost of the coal blend at --

18 VICE-CHAIRMAN GARDNER: Big Sandy.

19 MR. GISH: -- Big Sandy.

20 Then post-hearing data request to provide the  
21 numbers of off-system sales margins by month during the  
22 overlap period, and then to also -- so that's one.

23 Next one is to provide the amount that would have  
24 been charged under the environmental surcharge during  
25 the overlap period using the pre -- the 2013

1 environmental base numbers as a reference point.

2 And then you asked us to provide the level of  
3 detail that was provided in our January DSM report in  
4 our March and April, to use that, use that level of  
5 detail going forward.

6 VICE-CHAIRMAN GARDNER: Correct. And just to be  
7 clear, I'm not sure our order was as clear as we  
8 intended it to be, so I wasn't implying that you-all  
9 were not complying with the order.

10 MR. GISH: Next one was to provide the capital  
11 and depreciation amounts for all of the environmental  
12 compliance plan projects with the exception of those  
13 projects 6, 7 and 8, the allowances segregated by  
14 units, and we've also then subsequently said we would  
15 phase -- provide the Phase I and II of the Mitchell dry  
16 ash landfill construction.

17 Also next one would be to file the -- to update  
18 the as-filed Exhibit AJE-4 to reflect the change in  
19 WACC and gross revenue conversion factor and  
20 depreciation.

21 We will provide a copy of the safety training  
22 manuals or safety training materials we provide to --

23 MR. NGUYEN: I think that was provided in  
24 response to AG's first set of data requests.

25 CHAIRMAN LOGSDON: My mistake. Sorry.

1 MR. GISH: We will cross that one off.

2 We will file corrected testimony pages  
3 representing the updated testimony from Mr. Carlin.

4 I was a little out of the room for this one, but  
5 the test year savings for the Engage to Gain Program.  
6 The cost -- the cost of the -- in the test year.

7 And then we will provide the -- all the phases  
8 for the Big Sandy -- I'm sorry, the Mitchell dry fly  
9 ash landfill, including our very rough cost estimate of  
10 those in the future.

11 Provide the net book value of Mitchell assets  
12 that were transferred to Wheeling Power in accordance  
13 with the Wheeling -- I'm sorry, the West Virginia  
14 Public Service Commission approval.

15 We'll provide an update on the potential  
16 citizens' suit that was referenced in the testimony of  
17 Mr. LaFleur, provide information whether or not the  
18 Company has insurance for potential liability at Connor  
19 Run.

20 I believe that's all of them.

21 MS. HARWARD: I have one kind of addition. There  
22 was part of a question you asked about provide the  
23 level for, you know, for March and April, the same as  
24 February, and the second part of it said the DSM  
25 spending and the plan they have outlined to catch up.



1 VICE-CHAIRMAN GARDNER: Yeah.

2 MR. GISH: Okay. So the level of power going to  
3 get caught up.

4 VICE-CHAIRMAN GARDNER: Right. Needs to have  
5 more detail, correct.

6 Okay. So how long do you-all want to answer  
7 them.

8 MR. OVERSTREET: That's a robust list. They're  
9 telling me if we could have somewhere between 10 and 15  
10 business days?

11 MR. NGUYEN: So on May 22nd. May 22nd would give  
12 you 13 business days. Would that be sufficient?

13 MR. OVERSTREET: That is more than generous.  
14 Thank you, Mr. Nguyen.

15 VICE-CHAIRMAN GARDNER: May 22nd for the  
16 post-hearing data requests. And I assume folks are  
17 going to want to file a brief, so --

18 MR. OVERSTREET: Mr. Cook suggested June 5th for  
19 the brief, and that certainly works for me if that  
20 works for him.

21 MS. HANS: That's two weeks after.

22 MR. NGUYEN: That's the date that I was thinking.

23 VICE-CHAIRMAN GARDNER: Okay, June 5th for  
24 briefs.

25 Any other deadlines, any other matters before I

1 swear folks in?

2 MR. OVERSTREET: I think that covers it.

3 VICE-CHAIRMAN GARDNER: Okay. So for the three  
4 parties who signed the settlement agreement, if I could  
5 have your counsel and everyone who participated, so  
6 counsel and parties just stand and -- yeah, just stand  
7 where you are. So all witnesses who participated in  
8 this as well, in the settlement discussions. Why  
9 don't -- just tell them to stand.

10 MR. OVERSTREET: Do I have to swear I have never  
11 dueled?

12 VICE-CHAIRMAN GARDNER: Close. Were you aware of  
13 and did you have an opportunity to participate in all  
14 of the negotiations that resulted in the settlement  
15 agreement?

16 COUNSEL AND PARTICIPANTS: Yes.

17 VICE-CHAIRMAN GARDNER: Did you voluntarily sign  
18 the settlement agreement, and do you fully support each  
19 and every provision contained therein?

20 COUNSEL AND PARTICIPANTS: Yes.

21 VICE-CHAIRMAN GARDNER: Are there any provisions  
22 in the settlement agreement that you do not understand,  
23 you object to, or take issue with?

24 COUNSEL AND PARTICIPANTS: No.

25 VICE-CHAIRMAN GARDNER: Was any consideration of

1 any kind offered, or were any promises made, other than  
2 what is expressly set forth in the settlement  
3 agreement, to induce you to negotiate and sign the  
4 settlement agreement?

5 COUNSEL AND PARTICIPANTS: No.

6 VICE-CHAIRMAN GARDNER: Are you aware of any  
7 reason why the Commission should not adopt and approve  
8 the settlement agreement in its entirety?

9 COUNSEL AND PARTICIPANTS: No.

10 VICE-CHAIRMAN GARDNER: Okay. That's all the  
11 questions.

12 Thank you all for your cooperation in this matter  
13 today, and good luck.

14 (Hearing concluded at 7:02 p.m.)

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1 STATE OF KENTUCKY )  
2 )  
3 ) SS.  
4 COUNTY OF JEFFERSON )

5 We, Laura J. Kogut and Jennifer R. Janes,  
6 Notaries Public within and for the State at Large, our  
7 commissions as such expiring 25 July 2015 and 16 May  
8 2015, respectively, do hereby certify that the forgoing  
9 hearing was taken at the time and place stated and for  
10 the purpose in the caption stated; that witnesses were  
11 first duly sworn to tell the truth, the whole truth,  
12 and nothing but the truth; that the hearing was reduced  
13 to shorthand writing in the presence of the witnesses;  
14 that the forgoing is a full, true, and correct  
15 transcript of the hearing; that the appearances were as  
16 stated in the caption.

17 WITNESS my hand this 11th day of May 2015.

18  
19   
20 \_\_\_\_\_  
21 Registered Merit Reporter  
22 Certified Realtime Reporter  
23 KY CCR 20042BF060  
24 Notary Public, State at Large

25   
26 \_\_\_\_\_  
27 Registered Professional Reporter  
28 Certified Realtime Reporter  
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