

**DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

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”).
4 My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

II. BACKGROUND

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
6 **BUSINESS EXPERIENCE.**

7 A. I earned a Bachelor of Science degree with a major in accounting from Franklin
8 University, Columbus, Ohio in December 1981. I began work with Columbus
9 Southern Power Company in 1978 working in various customer services and
10 accounting positions. In 1983, I transferred to Kentucky Power working in
11 accounting, rates and customer services. I became the Billing and Collections
12 Manager in 1995 overseeing all billing and collection activity for the Company.
13 In 1998, I transferred to Appalachian Power Company (“APCo”) working in
14 rates. In 2001, I transferred to the American Electric Power (“AEP”) Service
15 Corporation (“AEPSC”) working as a Senior Rate Consultant. In July 2004, I
16 assumed the position of Manager, Business Operations Support with Kentucky
17 Power and was promoted to Director in April 2006. I was promoted to my current

1 position as Managing Director, Regulatory and Finance effective September 1,
2 2010.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR,**
4 **REGULATORY AND FINANCE?**

5 A. I am primarily responsible for managing the regulatory and financial strategy for
6 Kentucky Power. This includes planning and executing rate filings for both
7 federal and state regulatory agencies and certificate of public convenience and
8 necessity ("CPCN") filings before this Commission. I am also responsible for
9 managing the Company's financial operating plans including various capital and
10 O&M operational budgets that interface with all other AEP organizations
11 affecting the Company's performance. As part of the financial strategy, I work
12 with various AEPSC departments to ensure that adequate resources such as debt,
13 equity and cash are available to build, operate, and maintain Kentucky Power's
14 electric system assets providing service to our retail and wholesale customers. In
15 my role as Managing Director, Regulatory and Finance, I report directly to
16 Gregory G. Pauley, President and Chief Operating Officer of Kentucky Power.

17 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

18 A. Yes. I have testified before this Commission in various fuel proceedings and
19 provided written testimony in the last two base rate case filings (Case Nos. 2005-
20 00341 and 2009-00459). I also provided written testimony and testified in the
21 pending filing by AEP Kentucky Transmission Company, Inc. seeking public
22 utility status (Case No. 2011-00042), and provided written testimony in support of
23 the Company's application for a CPCN to construct the proposed Bonnyman-Soft

1 Shell 138 kV transmission line and related facilities (Case No. 2011-00295). In
2 addition, I provided written testimony and testified in Case No. 2011-00401,
3 which included the Company's 2011 Environmental Compliance Plan, and
4 request for approval of a CPCN for the construction and acquisition of related
5 facilities. Most recently, I provided testimony in Case No. 2012-00226, which
6 requested the withdrawal of Tariff RTP and approval of Rider RTP and Case No.
7 2012-00578, which seeks approvals related to the transfer of a fifty percent
8 interest in the Mitchell generating station to Kentucky Power.

III. PURPOSE OF TESTIMONY

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

11 A. I provide through my testimony a summary of the estimated cost of service
12 impact of the proposed Renewable Energy Purchase Agreement For Biomass
13 Energy Resources ("REPA") between Kentucky Power and ecoPower
14 Generation-Hazard LLC ("ecoPower") as well as the Company's plans for
15 seeking recovery of the costs associated with the REPA. In addition, I provide a
16 brief overview of how credit rating agencies treat purchase power agreements
17 ("PPAs") such as the REPA when evaluating utility credit statistics, as well as
18 steps the Company took to minimize any adverse effect the REPA might have on
19 the Company's credit statistics.

IV. KENTUCKY POWER COST OF SERVICE IMPACTS

21 Q. HAS THE COMPANY ESTIMATED THE RELATIVE IMPACT ON THE
22 COST OF SERVICE DUE TO THE ECOPOWER REPA?

1 A. Yes, the calculation of an estimated 7% increase in Kentucky Power's cost of
2 service is shown in Exhibit RKW-1. This estimated increase is based upon
3 Kentucky jurisdictional sales revenue for 2012. The actual percent increase will
4 deviate from this estimate (up or down) based upon the Kentucky jurisdictional
5 sales revenue in 2017, which is the current estimated date for commercial
6 operation. This estimated cost of service increase does not account for any
7 potential offset related to the Section 45 Production Tax Credits described in the
8 testimony of Company Witness Godfrey.

9 **Q. WHEN DOES THE COMPANY ANTICIPATE SEEKING RECOVERY**
10 **FOR THE COST OF THE REPA WITH ECOPOWER?**

11 A. The Company currently intends to seek approval of the REPA cost recovery
12 mechanism in its next base rate case. Kentucky Power would nevertheless not
13 begin recovering the costs until they are incurred. Based upon ecoPower's
14 current projection, the facility will begin commercial operation in early 2017; the
15 Company thus anticipates beginning the recovery of the costs associated with the
16 REPA to coincide with the commercial operation date.

17 **Q. THROUGH WHAT MECHANISM DOES KENTUCKY POWER INTEND**
18 **TO SEEK RECOVERY OF THE COST OF SERVICE RELATED TO THE**
19 **REPA?**

20 A. Kentucky Power currently intends to seek approval of a monthly rider or
21 surcharge to its base rates that would permit the concurrent recovery of the REPA
22 costs. The specific formula for the rider will be presented for the Commission's
23 review in the Company's next base rate case.

1 V. TREATMENT OF PPAS BY CREDIT RATING AGENCIES

2
3 **Q. HOW ARE LONG-TERM PPAS EVALUATED BY CREDIT RATING**
4 **AGENCIES IN ASSESSING A UTILITY’S CREDITWORTHINESS?**

5 A. Credit rating agencies will evaluate PPAs to determine if additional debt should be
6 included in their evaluation of the credit strength of a company. These agencies
7 may view PPAs, such as the ecoPower REPA, as creating fixed, debt-like, financial
8 obligations that serve as substitutes for capital investments by the utility. PPA
9 obligations, in the form of capacity payments, are therefore evaluated by credit
10 agencies as part of their review of a utility’s creditworthiness. For example,
11 Standard and Poor’s (“S&P”) will impute a portion of the net present value of the
12 stream of capacity payments as a debt obligation in their evaluation of the utility’s
13 credit statistics. Where, as is the case with the ecoPower REPA, there is not a
14 separate capacity charge, the rating agencies indicate they use an implied capacity
15 payment in their evaluation.

16 **Q. HOW DOES S&P CALCULATE THE DEBT TO BE IMPUTED TO A**
17 **UTILITY AS A RESULT OF A PPA?**

18 A. First, the net present value of capacity payments under the PPA is calculated by
19 using the average cost of debt as the discount rate. Next, the portion of the net
20 present value of the capacity payments to be imputed as a debt obligation is
21 calculated by multiply the calculated net present value of the capacity payments by
22 a risk factor, typically ranging from 0% to 50%, that is assigned by the credit rating
23 agency.

24 **Q. HOW DOES S&P DETERMINE THE RISK FACTORS TO BE ASSIGNED?**

1 A. The manner in which S&P does so is discussed at pages 3-4 of Exhibit RKW-2. In
2 essence, the stronger the cost recovery mechanism, the lower the risk factor, which
3 in turn translates into a lower amount of imputed debt.

4 **Q. WHAT AMOUNT OF DEBT WILL BE IMPUTED TO KENTUCKY**
5 **POWER AS A RESULT OF THE ECOPOWER REPA?**

6 A. Because Kentucky Power does not make the calculation, the amount of debt, if any,
7 that might be imputed will not be known until there is a final order in this case and
8 a cost recovery mechanism is established in the Company's next base rate case.
9 Even then, the imputed debt, if any, should not affect Kentucky Power's credit
10 statistics until the plant becomes operational and the Company starts making
11 payments under the REPA.

12 **Q. DOES MOODY'S INVESTOR SERVICE ("MOODY'S") MAKE A SIMILAR**
13 **ADJUSTMENT FOR PURCHASE POWER AGREEMENTS?**

14 A. Yes. Moody's also evaluates PPAs for debt imputation. With clear recovery
15 mechanisms and the ability to pass through the cost of the purchasing the power to
16 customers, Moody's will regard these costs as operating costs and not include a
17 debt imputation.

18 **Q. DID KENTUCKY POWER TAKE ANY STEPS TO MINIMIZE THE**
19 **EFFECT THE ECOPOWER REPA MIGHT HAVE ON ITS CREDIT**
20 **STATISTICS?**

21 A. Yes. In response to the methodology employed by credit rating agencies in
22 evaluating PPAs, Kentucky Power insisted that the ecoPower REPA include certain
23 provisions designed to minimize, to the extent possible, the "risk factors" employed

1 by credit rating agencies such as S&P in evaluating the REPA. Under Section
2 6.1(A) of the REPA, the Company has the right to terminate the agreement if the
3 Company does not receive the approvals, including a declaratory order regarding
4 the cost recovery mechanism, sought in this application. In addition, Sections
5 6.1(B), 6.1(C), and 6.1(D) of the REPA, as well as the definition of “Cost Recovery
6 Order,” grant the Company the right to terminate the REPA, subject to limited cure
7 provisions, if it is ever denied full concurrent recovery of its costs under the REPA
8 by means of a rider or surcharge to base rates.

9 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

10 A. Yes.

Kentucky Power Company
Estimated Year 1 Impact on Cost of Service
ecoPower REPA

<u>Line</u>	<u>Description</u>	<u>Amount</u>
1	Estimated Purchase Power Costs (\$000)	50,661
2	Less:	
3	Avoided Fuel Costs (\$000)	12,780
4	Avoided Capacity Costs (\$000)	2,730
5	Incremental Rev. Req. (\$000)(L1 - L3 - L4)	35,151
6	KPCo Juris. Sales Revenue - 2012 (\$000)	501,037
7	Percent Increase (L5 / L6)	7.02%