

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter Of:

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
KENTUCKY POWER COMPANY FROM) Case No. 2014-00450
NOVEMBER 1, 2012 THROUGH OCTOBER)
31, 2014)

| **REVISED** DIRECT TESTIMONY OF

JOHN A ROGNESS

ON BEHALF OF KENTUCKY POWER COMPANY

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TABLE OF CONTENTS

I.	Introduction	<u>12</u>
II.	Background	<u>12</u>
III.	Purpose of Testimony	<u>23</u>
IV.	Base Fuel Rate.....	<u>34</u>
V.	No Load Costs.....	<u>78</u>
VI.	PJM Code Charges and Credits.....	<u>840</u>

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I. INTRODUCTION

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

2 A: My name is John A. Rogness. My position is Director, Regulatory Services for
3 Kentucky Power Company (Kentucky Power, KPCo or Company). My business
4 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 received a Bachelor of Science in Economics from the University of
8 Chattanooga in 1980, a Master of Science in Economics from Vanderbilt
9 University in 1984 and a Ph.D. in Economics from the University of Kentucky in
10 1991.

11 In January 1990, I began working in the Kentucky Office of Financial
12 Management and Economic Analysis. From July 1991 – September 1998, I
13 served as an Economist with the Kentucky Public Service Commission (KPSC).
14 From September 1998 – July 2010 I served as Manager of the Management Audit
15 Branch at the KPSC. From August 2010 – September 2012 I served as the
16 Director of the Financial Analysis Division at the KPSC. From October 2012 –
17 March 2014, I served as the Director, Energy Generation, Transmission and
18 Distribution at the Department for Energy Development and Independence in

1 Kentucky's Energy and Environment Cabinet. On March 17, 2014, I began my
2 duties as Director of Regulatory Services for Kentucky Power Company.

3 **Q: WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR,**
4 **REGULATORY SERVICES?**

5 A: As Director of Kentucky Power's Regulatory Services, I am responsible for the
6 rate and regulatory matters of Kentucky Power. This includes the preparation of
7 and coordination of the Company's testimony and exhibits in rate cases and any
8 other formal filings before this Commission. In addition, I am responsible for
9 assuring the proper application of the Company's rates and tariffs in all
10 classifications of business.

11 **Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

A: Yes. I filed testimony and testified in the previous six month fuel proceeding,
Case No. 2014-00225. I also filed testimony in the Economic Development Rider
proceeding, Case No. 2014-00336 and in the Company's base rate filing, Case
No. 2014-00396.

III. PURPOSE OF YOUR TESTIMONY

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

13 A. I am supporting the Company's decision to request a change to the base fuel rate
14 that is built into base rates. I will also address the inclusion of no load costs in the
15 determination of the base fuel rate. Finally, I will respond to the Commission's
16 question regarding PJM codes included in the calculation of the FAC.

1 **IV. BASE FUEL RATE**

2 **Q. WHAT BASE FUEL AMOUNT IS BEING PROPOSED BY THE**
3 **COMPANY?**

4 A. As demonstrated in the Company's February 25, 2015 response to the
5 Commission's data request Item Nos. 1, 2, 3, and 4, the Company is proposing to
6 reduce the base fuel amount from the current 2.84 cents per kWh to 2.725 cents
7 per kWh. This is the first change in the FAC base requested by the Company
8 since the current base fuel cost rate was approved by the Commission in Case No.
9 2008-00518.

10 **Q. HOW DID THE COMPANY DETERMINE THERE WAS A NEED TO**
11 **REDUCE THE BASE FUEL AMOUNT?**

12 A. The Company examined both historic and projected fuel costs. Because of the
13 fundamental transformation of the generation resources available to Kentucky
14 Power with (a) the December 31, 2013 termination of the AEP East
15 Interconnection Agreement; (b) the transfer of the 50% undivided interest in the
16 Mitchell generating station to the Company; (c) the retirement of Big Sandy Unit
17 2 in May 2015; and (d) the beginning of the conversion of the 278 MW Big
18 Sandy Unit 1 to a 268 MW natural gas fired unit in late 2015, Kentucky Power
19 focused its review on the Company's forecasted cost of fuel for calendar years
20 2015 and 2016.

21 **Q. WHAT ARE THE COMPANY'S PROJECTED 2015 AND 2016**
22 **PROJECTED FUEL COSTS?**

1 A. The Company’s projected fuel costs for the calendar years 2015 and 2016 are
 2 2.615 cents per kWh and ~~2.658~~2.655 cents per kWh, respectively. As shown in
 3 Table 1 Revised below, the average of the two annual forecasts of ~~2.637~~2.635
 4 cents per kWh is ~~0.203~~0.205 cents per kWh below the current base fuel rate.

<u>-Year-of Projection</u>	<u>Projected Fuel-Cost</u>	<u>Projected kWh Sales</u>	<u>Projected Fuel-Cost-in cents/kWh</u>	<u>Fuel-Cost-in Current-Base Rates-in cents/kWh</u>	<u>Difference-in Fuel-Cost-in cents/kWh</u>
2015	\$177,659,632	6,794,955,000	2.615	2.840	(0.225)
2016	\$180,932,444	6,805,974,000	2.658	2.840	(0.182)
Average			2.637	2.840	(0.203)

Table 1 Revised

<u>Year of Projection</u>	<u>Projected FuelCost</u>	<u>Projected kWh Sales</u>	<u>Projected Fuel Cost in cents/kWh</u>	<u>Fuel Cost in Current Base Rates in cents/kWh</u>	<u>Difference in Fuel Cost in cents/kWh</u>
2015	\$177,659,632	6,794,955,000	2.615	2.84	-0.225
2016	\$180,676,733	6,805,974,000	2.655	2.84	-0.185
<u>Average</u>	-	-	2.635	2.84	-0.205

5 The fuel projections reflect the retirement of Big Sandy Unit 2 in 2015 and Big
 6 Sandy Unit 1 conversion to natural gas in 2016.

7 **Q. HOW DO THESE PROJECTED COSTS COMPARE WITH THE**
 8 **COMPANY’S HISTORICAL FUEL COSTS DURING THE TWO-YEAR**
 9 **REVIEW PERIOD?**

10 **A.** The Company forecasts lower fuel costs than those experienced during the review
 11 period. During that two year period, as shown in Table 2 Revised below, the fuel

1 costs ranged from a low of 2.068 cents per kWh in November 2012 to a high of
2 4.031 cents per kWh in January 2014.

3

TABLE 2

Month & Year	Monthly fuel rate in cents per kWh	cents per kWh above (or below) base fuel rate
November 2012	2.068	(0.772)
December 2012	2.942	0.072
January 2013	3.001	0.161
February 2013	3.119	0.279
March 2013	3.251	0.411
April 2013	3.252	0.412
May 2013	2.781	(0.059)
June 2013	2.881	0.041
July 2013	2.856	0.016
August 2013	2.886	0.046
September 2013	2.645	(0.195)
October 2013	2.730	(0.110)
November 2013	2.801	(0.039)
December 2013	2.401	(0.439)
January 2014	4.031	1.191
February 2014	3.518	0.741
March 2014	3.756	0.916
April 2014	3.709	0.869
May 2014	3.416	0.576
June 2014	3.744	0.904
July 2014	3.562	0.722
August 2014	3.606	0.766
September 2014	3.075	0.235
October 2014	2.725	(0.115)
Two Year Average	3.116	0.276

Table 2 Revised

<u>Month & Year</u>	<u>Monthly Fuel Rate in Cents per kWh</u>	<u>Cents per kWh Above (or Below) Base Fuel Rate</u>
<u>November 2012</u>	<u>2.068</u>	<u>(0.772)</u>
<u>December 2012</u>	<u>2.912</u>	<u>0.072</u>
<u>January 2013</u>	<u>3.001</u>	<u>0.161</u>
<u>February 2013</u>	<u>3.119</u>	<u>0.279</u>
<u>March 2013</u>	<u>3.251</u>	<u>0.411</u>
<u>April 2013</u>	<u>3.252</u>	<u>0.412</u>
<u>May 13</u>	<u>2.781</u>	<u>(0.059)</u>
<u>June 2013</u>	<u>2.881</u>	<u>0.041</u>
<u>July 2013</u>	<u>2.856</u>	<u>0.016</u>
<u>August 2013</u>	<u>2.886</u>	<u>0.046</u>
<u>September 2013</u>	<u>2.645</u>	<u>(0.195)</u>
<u>October 2013</u>	<u>2.730</u>	<u>(0.110)</u>
<u>November 2013</u>	<u>2.801</u>	<u>(0.039)</u>
<u>December 2013</u>	<u>2.401</u>	<u>(0.439)</u>
<u>January 2014</u>	<u>4.031</u>	<u>1.191</u>
<u>February 2014</u>	<u>3.518</u>	<u>0.678</u>
<u>March 2014</u>	<u>3.756</u>	<u>0.916</u>
<u>April 2014</u>	<u>3.709</u>	<u>0.869</u>
<u>May 14</u>	<u>3.416</u>	<u>0.576</u>
<u>June 2014</u>	<u>3.744</u>	<u>0.904</u>
<u>July 2014</u>	<u>3.562</u>	<u>0.722</u>
<u>August 2014</u>	<u>3.606</u>	<u>0.766</u>
<u>September 2014</u>	<u>3.075</u>	<u>0.235</u>
<u>October 2014</u>	<u>2.725</u>	<u>(0.115)</u>
<u>Two Year Average</u>	<u>3.114</u>	<u>0.274</u>

1 The average fuel cost during the two year review period was ~~3.114~~3.114 cents per
2 kWh, or 0.479 cents per kWh higher than the projected average fuel cost for
3 calendar years 2015 and 2016.

4 **Q. WHY IS THE COMPANY RECOMMENDING A NEW BASE FUEL**
5 **RATE?**

1 A. A new base fuel rate is required by the four fundamental changes in the
 2 Company’s generation resources beginning January 1, 2014 and continuing
 3 through 2016 that I mention above, as well as the potential for lower future coal
 4 prices described by Company Witness West at pages 8- 9 of his testimony.

5 **Q. WHAT FUEL BASE RATE IS THE COMPANY RECOMMENDING AND**
 6 **WHY DID THE COMPANY SELECT THAT AMOUNT?**

7 A. The Company is recommending the Commission establish a base fuel rate of
 8 2.725 cents per kWh. It represents the October 2014 average fuel cost. During the
 9 2014 period, October 2014 was the month with fuel cost (2.725 cents per kWh)
 10 with the smallest differential above the projected fuel costs shown in Table 1
 11 Revised. ~~During the 24 month review period, October 2014 was the month with~~
 12 ~~fuel cost (2.725 cents per kWh) with the smallest differential, without exceeding~~
 13 ~~the projected fuel costs shown in Table 1.~~ Table 3 Revised calculates the
 14 difference between the Company’s proposed base fuel rate and the projected rates
 15 for 2015 and 2016. For both years, the October 2014 actual rate the Company is
 16 recommending be adopted as the new base fuel rate is only slightly greater than
 17 the projected rates:

TABLE 3

Year of Projection	Projected Fuel Cost	Projected kWh Sales	Projected Fuel Cost in cents/kWh	Proposed Fuel Cost in Base Rates in cents/kWh	Difference in Fuel Cost in cents/kWh
2015	\$177,659,632	6,794,955,000	2.615	2.725	(0.110)
2016	\$180,932,444	6,805,974,000	2.658	2.725	(0.067)
Average			2.637	2.725	(0.088)

Table 3 Revised

<u>Year of Projection</u>	<u>Projected FuelCost</u>	<u>Projected kWh Sales</u>	<u>Projected Fuel Cost in cents/kWh</u>	<u>Projected Fuel Cost in Base Rates in cents/kWh</u>	<u>Difference in Fuel Cost in cents/kWh</u>
<u>2015</u>	<u>\$177,659,632</u>	<u>6,794,955,000</u>	<u>2.615</u>	<u>2.725</u>	<u>-0.11</u>
<u>2016</u>	<u>\$180,676,733</u>	<u>6,805,974,000</u>	<u>2.655</u>	<u>2.725</u>	<u>-0.07</u>
<u>Average</u>	<u>-</u>	<u>-</u>	<u>2.635</u>	<u>2.725</u>	<u>-0.09</u>

1 The next lowest monthly historical fuel cost during the review period is 2.401
 2 cents per kWh in December 2013. Not only is it approximately 18-months
 3 removed in time from the expected effective date of the new base amount, these
 4 costs were incurred by the Company immediately prior to the fundamental
 5 transformation of the Company’s generation resources.

6 Second, October 2014 is the month during the two-year review period closest in
 7 time to the beginning of time the new FAC base rate is expected to become
 8 effective.

V. NO LOAD COSTS

9 **Q. HAVE NO LOAD COSTS ASSOCIATED WITH THE MITCHELL**
 10 **GENERATION UNITS BEEN INCLUDED IN BOTH THE HISTORICAL**
 11 **FUEL COST DATA AND THE FUEL COST PROJECTIONS? IF SO,**
 12 **EXPLAIN WHY.**

1 A. Yes. No load costs associated with the Mitchell generating units have been
2 included in both the historical and projected fuel costs. The period during which
3 the Company's ownership of a 50% undivided interest in the Mitchell units
4 overlaps with the operation of Big Sandy Unit 2 prior to its shutdown is
5 approximately 17 months and includes portions of both the review period and the
6 next two year period. There are 10 months in the historical period and 7 months
7 in the subsequent two year period. No load costs are present in the 14 months of
8 data prior to January 2014 and the 16 months of data subsequent to June 2015.
9 For the purposes of this analysis, keeping no load costs in both the historical two
10 year review period and the projected two year review period provides a consistent
11 basis on which to compare fuel costs over time.

12 **Q. EXPLAIN WHETHER THE INCLUSION OF NO LOAD COSTS IN THE**
13 **SETTING OF THE BASE FUEL RATE VIOLATES THE COMMISSION'S**
14 **ORDER IN CASE NO. 2014-00225.**

15 A. Paragraph 5 of the Commission's order in Case No. 2014-00225 prohibits
16 Kentucky Power from collecting Mitchell "no load costs" through the conclusion
17 of the Overlap Period, May 31, 2015. The Company expects the new base fuel
18 rates to be established in this case will become effective sometime after that date.
19 Thus the inclusion for consistency of comparison purposes of no load costs in
20 setting the base fuel rate has no effect on the Company's ability to comply with
21 the Commission's order. The base fuel rate is simply an estimated fuel cost
22 benchmark. Over the next two year period, the Company will continue to either
23 refund over collections or bill under collections of fuel costs on a monthly basis.

1 The Company's refunds of no load costs to customers that have been ordered by
2 the Commission in Case No. 2014-00225 will proceed, subject to the Company's
3 current appeal, regardless of the base fuel rate.

VI. PJM CODE CHARGES AND CREDITS

1 **Q. PLEASE EXPLAIN WHICH PJM CHARGES AND CREDITS ARE**
2 **INCLUDED IN THE FAC.**

3 **A.** PJM costs are billed to the Company using PJM billing line items (“BLI”) rather
4 than codes. Beginning January 1, 2014 with the dissolution of the AEP
5 Interconnection Agreement, PJM began assigning costs directly to the Company.
6 These costs are then allocated between off system sales obligations and internal
7 load requirements. PJM BLI costs are recorded on the Company’s books by
8 FERC account numbers. PJM BLI 1200 and 1205 relate to spot market energy
9 purchase amounts allocated to internal load and are recorded in FERC account
10 555. PJM BLI 1220, 1225, 1420, 2220 and 2420 relate to marginal line losses
11 and credit. Until recently, these costs had been recorded in accounts 4470207 and
12 4470208. As stated above, the Company is now recording these costs in accounts
13 5550326 and 5550327. Marginal line losses and credits are eligible for billing
14 and recovery through the FAC in accordance with the Commission’s Order dated
15 June 12, 2008 in Case No. 2007-00522.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 **A.** Yes.