

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company)
For: (1) Approval of A Deviation From The)
Requirements Of 807 KAR 5:006,)
Section 8(1)(d)(3)(d) And 807 KAR 5:006,)
Section 11(5) To Permit The Company To Establish) Case No. 2015-00364
Additional Means Of Making Refunds; (2) For)
Authority To Amend Its Tariffs To Establish)
Additional Means Of Making Refunds; And)
(3) For All Other Required Approvals and Relief)

DIRECT TESTIMONY OF

JOHN A ROGNESS

ON BEHALF OF KENTUCKY POWER COMPANY

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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” or the “Company”). My business
4 address is 101 A Enterprise Drive, Frankfort, Kentucky 40601.

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

1 Distribution at the Department for Energy Development and Independence in
2 Kentucky's Energy and Environment Cabinet. On March 17, 2014, I began my
3 duties as Director of Regulatory Services for Kentucky Power Company.

4 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR,**
5 **REGULATORY SERVICES?**

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

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

13 A. Yes. I filed testimony and testified in the previous three periodic fuel
14 proceedings, Case No. 2014-00225, 2014-00450 and 2015-00232. I also filed
15 testimony in the Economic Development Rider proceeding, Case No. 2014-
16 00336, the base rate filing, Case No. 2014-00396, the transmission inspection
17 deviation case, Case No. 2014-00479, the Big Sandy coal ash impoundment
18 closure case, Case No. 2015-00152, and the Demand Side Management program
19 review case, 2015-00271.

III. PURPOSE OF YOUR TESTIMONY

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

21 A. I am supporting the Company's request for a deviation from 807 KAR 5:006
22 Section 8 (3)(d) and 807 KAR 5:006, Section 11(5) regarding the manner in

1 which the Company provides refunds to its residential customers. I also support
2 the Company's request to make conforming amendments to its tariffs. Each of
3 these requests will enable Kentucky Power to provide refunds to customers in a
4 manner that is more efficient, reduces the potential for fraud, and improves
5 customer relations.

IV. THE COMPANY'S CURRENT REFUND PROCEDURES

6 **Q. PLEASE DESCRIBE THE MEANS BY WHICH KENTUCKY POWER**
7 **COMPANY MAKES DEPOSIT REFUNDS TO ITS RESIDENTIAL**
8 **CUSTOMERS.**

9 A. Deposits are refunded as bill credits, or at the customer's request as a check, to
10 customers who continue as customers of the Company. If the person to whom the
11 deposit is refunded will not continue as a customer of Kentucky Power, the refund
12 is first applied as a bill credit and any excess funds are refunded by check.

13 **Q. ARE CUSTOMERS THE ONLY PERSONS WHO POST DEPOSITS?**

14 A. No. In many instances, the party making the deposit is the account holder.
15 However, there are other instances where the party making the deposit payment is
16 not the account holder. For example, a parent may pay the deposit for a college
17 student who would be the account holder. In these instances the deposit is
18 refunded to the party who provided the deposit and not the account holder.

19 **Q. ARE DEPOSITS THE ONLY MONIES REFUNDED BY KENTUCKY**
20 **POWER TO ITS RESIDENTIAL CUSTOMERS?**

21 A. No. Refunds to residential customers are made by Kentucky Power in other
22 instances such as: (a) bill adjustments as a result of a meter test; (b) refunds made

1 in connection with budget plans; (c) refunds of amounts paid in aid of
2 construction; and (d) refunds to customers terminating service with a credit
3 balance.

4 **Q. WHAT IS THE COMPANY'S PROCEDURE FOR MAKING REFUNDS**
5 **AS A RESULT OF BILLING ADJUSTMENTS FOLLOWING A METER**
6 **TEST?**

7 A. Kentucky Power issues bill credits, or if requested by the customer, issues checks
8 for refunds for amounts due residential customers as a result of billing
9 adjustments.

10 **Q. HOW ARE REFUNDS TO RESIDENTIAL CUSTOMERS AS A RESULT**
11 **OF RECALCULATIONS OF BUDGET PAYMENTS OR RESIDENTIAL**
12 **CUSTOMERS TERMINATING SERVICE WITH A CREDIT BALANCE**
13 **MADE?**

14 A. They also are made by check.

15 **Q. IS THE SAME TRUE FOR REFUNDS OF AMOUNTS TO PAID**
16 **RESIDENTIAL CUSTOMERS IN AID OF CONSTRUCTION?**

17 A. Yes, they also are made by check.

18 **Q. PLEASE DESCRIBE THE COMPANY'S EXISTING PROCESS FOR**
19 **ISSUING REFUND CHECKS TO RESIDENTIAL CUSTOMERS.**

20 A. American Electric Power Service Corporation, on behalf of Kentucky Power and
21 the other operating companies, recently partnered with Citibank to disburse
22 customer refund payments by check. Kentucky Power provides Citibank with the
23 name of the party to receive a refund, the last known mailing address, and the

1 refund amount. In the case of a deposit refund, the Company provides Citibank
2 with the name of the party who paid the deposit even if that person is not the
3 customer. Citibank then issues a refund check to the appropriate party.

4 **Q. HOW ARE REFUNDS MADE BY BILL CREDIT PROCESSED?**

5 A. Refunds made by bill credit are calculated and applied to the customer's account
6 by Kentucky Power.

**V. THE COMPANY'S PROPOSAL TO ISSUE REFUNDS USING
PREPAID CARDS**

7 A. Description Of The Proposal And Features Of The Prepaid Card.

8 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO USE PREPAID
9 CARDS TO MAKE REFUNDS.**

10 A. The Company will issue prepaid cards to residential customers who currently
11 receive their refunds by check. That is, Kentucky Power will issue prepaid cards
12 to its residential customers for refunds in the following circumstances:

13 ➤ Deposit refunds to persons who posted a deposit but are not a
14 customer, or customers who have left the Company's system and who have a
15 credit balance after applying the deposit to the former customer's account
16 balance.

17
18 ➤ Refunds in connection with billing adjustments following a meter
19 test; and

20
21 ➤ Refunds made following the annual recalculation of budget
22 payment plan amounts.

23
24 Refunds to residential customers for contributions made in aid of construction
25 will continue to be made by check.

1 **Q. WHY ARE REFUNDS TO RESIDENTIAL CUSTOMERS OF**
2 **CONTRIBUTIONS IN AID OF CONSTRUCTION NOT INCLUDED IN**
3 **THE NEW PROGRAM?**

4 A. These amounts are considered accounts payable and are handled through a
5 separate system.

6 **Q. WHY IS THE PROGRAM LIMITED TO RESIDENTIAL CUSTOMERS?**

7 A. Commercial and industrial customers typically prefer a paper check or bill credit
8 for record keeping and cash management purposes.

9 **Q. HOW WILL THE PROGRAM WORK?**

10 A. Refund amounts will continue to be calculated by the Company. For each type of
11 refund included in the program, Kentucky Power will provide Citibank with the
12 amount of the refund, the customer's name, and the customer's address. Citibank
13 will produce the prepaid card and "load" it with the amount of the refund. The
14 prepaid card will be mailed by Citibank to the customer along with an explanatory
15 letter. The form of the letter issued by Citibank and mailed to customers along
16 with the prepaid card is attached to the Application as **EXHIBIT 2**.

17 **Q. WHAT WILL THE EXPLANATORY LETTER FROM CITIBANK**
18 **PROVIDE?**

19 A. The letter will include information on how to use the prepaid card. It will also
20 provide instructions on how to replace the prepaid card with a paper check or by
21 electronic transfer of the refund amount to the customer's bank account. The
22 option to do so will be available to the customers 24 hours a day, seven days a
23 week by telephone or through Citibank's website. Electronic transfers of funds

1 will be made to the customer's account within approximately three business days.
2 Checks, which take longer to process and travel by mail, may take two weeks
3 before being received.

4 **Q. DOES THE PREPAID CARD HAVE TO BE ACTIVATED?**

5 A. Yes. The easy to follow instructions for doing so are provided with the card. The
6 card may be activated by phone or online 24 hours a day and 365 days a year.

7 **Q. WHERE CAN THE PREPAID CARD BE USED?**

8 A. The prepaid card can be used nationwide, including throughout the Company's
9 service territory. This includes gas stations, convenience stores, groceries,
10 clothing and discount stores, pharmacies, auto repair shops, physicians' offices,
11 and hundreds of other locations. Prepaid cards may also be used to pay many
12 bills online and to pay for online purchases.

13 **Q. ARE THERE ANY CUSTOMER-PAID FEES ASSOCIATED WITH THE**
14 **PREPAID CARD?**

15 A. In most cases no. However, if the prepaid card is not used within six months of
16 issuance a \$3.00 monthly maintenance fee will be imposed beginning six months
17 after the card is issued. In addition, a three percent foreign currency fee is applied
18 to all transactions outside the United States. Otherwise, there are no fees.

19 **Q. DO THE FUNDS LOADED TO THE PREPAID CARD EXPIRE?**

20 A. No. Subject to the \$3.00 monthly maintenance fee beginning six months after
21 issuance, and the applicable laws of escheat, the card will not expire.

22 **Q. MAY THE PREPAID CARD BE USED TO OBTAIN CASH FROM A**
23 **BANK OR ATM?**

1 A. No. The same is true with most prepaid cards.

2 **Q. WHAT HAPPENS IF THE PREPAID CARD IS LOST OR STOLEN?**

3 A. The third-party issuer will replace a lost or stolen prepaid card one time without
4 charge. In addition, the third-party issuer protects persons to whom the prepaid
5 card is issued against liability for fraudulent use of the card.

B. Deployment Of Prepaid Cards To Make Refunds By
Kentucky Power's Affiliates.

6 **Q. HAVE ANY OF KENTUCKY POWER'S AFFILIATED OPERATING**
7 **COMPANIES TAKEN STEPS TO USE PREPAID CARDS TO MAKE**
8 **REFUNDS TO RESIDENTIAL CUSTOMERS?**

9 A. Yes. Each of the American Electric Power Company, Inc. operating companies
10 intends to use prepaid cards to make refunds to residential customers as described
11 above. The program was implemented in Ohio by Ohio Power Company in April
12 2015 and by Public Service Company of Oklahoma in Oklahoma in September
13 2015. Southwestern Electric Power Company intends to implement the program
14 this month in Arkansas and Louisiana. Additionally, on October 28, 2015
15 SWEPCo filed a petition for approval to implement the program in Texas. The
16 goal is to have the program implemented by early 2016 in each of the states in
17 which Kentucky Power and its affiliates provide residential service

18 **Q. OHIO POWER BEGAN ITS PROGRAM ABOUT SIX MONTHS AGO.**
19 **WHAT ARE THE RESULTS THUS FAR?**

1 A. Since April 20, 2015, Citibank has issued approximately 38,000 customer refunds
2 to Ohio Power customers. Of these, about 23,000 refunds were made with a
3 prepaid card and 15,000 with a check.

C. Benefits To Customers And The Company Through Use Of
Prepaid Cards To Make Refunds To Residential Customers.

4 **Q. HOW WILL THE COMPANY’S RESIDENTIAL CUSTOMERS BENEFIT**
5 **FROM THE COMPANY’S PROPOSAL TO OFFER REFUNDS BY**
6 **MEANS OF PREPAID CARDS?**

7 A. First is greater access. Unlike a check or bill credit, a prepaid card will provide
8 customers with immediate access to their funds. Once activated, the card can be
9 used immediately like any other prepaid card, without having go to a bank to
10 deposit or cash the check.

11 Second is greater flexibility. Currently, residential customers may receive refunds
12 only through a check or bill credit. The Company’s proposal to use prepaid cards
13 will provide residential customers at least one, and in the case of bill adjustments,
14 two, additional means by which they may receive their refund. A customer will
15 receive a prepaid card, and upon receipt of the card will be provided with the
16 further options of receiving the refund by means of a check or , or an electronic
17 funds transfer in lieu of the prepaid card.

18 **Q. ARE THERE ADDITIONAL CUSTOMER ADVANTAGES TO**
19 **RECEIVING A PREPAID CARD?**

20 A. Yes. For those customers who use banks, prepaid debit cards can avoid the
21 inconvenience of taking time to travel to the bank to cash or deposit a check.

1 Moreover, not all customers have access to or use banks to manage their money.
2 According to the “2013 FDIC National Survey of Unbanked and Underbanked
3 Households” 7.7 percent (1 in 13) of households nationally did not use a bank and
4 20 percent were underbanked¹. In Kentucky, approximately 33.2 percent of
5 residential customers are either unbanked or underbanked². For these unbanked
6 or underbanked customers, there could be both delays and fees associated with
7 using alternate financial service providers.

8 Finally, customers will have access to Citibank’s Cardholder Customer Services
9 24 hours a day, seven days a week, 365 days a year by telephone or website.

10 **Q. WILL CUSTOMERS BE ABLE TO CONTINUE TO RECEIVE REFUNDS**
11 **BY BILL CREDITS IF THE COMPANY’S PROPOSAL IS APPROVED?**

12 A. Yes. Those types of refunds made by bill credit (principally refunds of deposits
13 made to customers who will continue as such) will continue to be made by bill
14 credits.

15 **Q. DOES KENTUCKY POWER BENEFIT FROM PARTNERING WITH**
16 **CITIBANK IN THIS NEW PROGRAM?**

17 A. Yes, the program benefits the Company. First, using prepaid cards will help
18 reduce the number of check fraud cases and the expense of investigations.
19 Second, Citibank charges the Company less to issue prepaid cards than checks.

¹ The term “underbanked” refers to households that may have a bank account, but had a strong reliance on alternate financial service providers such as check cashing services, loan sharks, and pawnbrokers. It may also mean households with language barriers and or those who do not use ATM machines.

² “2013 FDIC National Survey of Unbanked and Underbanked Households Appendices,” Appendix G, Table G-1 Banking Status By State, 2013, Page 116.

1 Third, it improves customer satisfaction by offering a faster more convenient
2 payment option than check payments or bill credits.

3 **Q. PLEASE EXPLAIN HOW USING PREPAID CARDS LOWERS THE**
4 **NUMBER OF FRAUD CASES AND THE EXPENSE OF**
5 **INVESTIGATIONS.**

6 A. Printed checks can be manipulated with copiers and computers. Although the
7 Company has robust systems in place to combat these efforts no system is perfect
8 and there are expenses associated with the anti-fraud measures. In addition,
9 because Citibank is the entity issuing the refund by means of the prepaid card it
10 bears the risk and expense of fraud rather than Kentucky Power.

11 **Q. WHAT HAPPENS TO ANY UNCLAIMED REFUNDS?**

12 A. The escheat process for unclaimed refunds will not change. Citibank will comply
13 with all applicable escheat or unclaimed/abandoned property laws.

VI. REGULATIONS AND TARIFF PROVISIONS AFFECTING THE METHOD
OF MAKING CUSTOMER REFUNDS

14 **Q. WHICH OF THE COMMISSION'S REGULATIONS ADDRESS**
15 **CUSTOMER REFUNDS?**

16 A. 807 KAR 5:006 Section 8(1)(d)(3)(d) governs the manner in which the Company
17 may refund customer deposits. The regulation requires that refunds be made
18 either by check, electronic funds transfer ("EFT"), or by a credit to the customer's
19 account. As such, it does not identify prepaid cards as a permitted method for
20 making refunds.

1 In addition, 807 KAR 5:006, Section 11(5) requires the Company to notify
2 customers due a refund following a bill adjustment concerning their ability to
3 request a check in lieu of a bill credit. The notification requirement does not
4 identify prepaid cards as a permitted method of making refunds.

5 **Q. DO THE COMMISSION’S REGULATIONS ADDRESS ALL INSTANCES**
6 **IN WHICH THE COMPANY MAKES REFUNDS?**

7 A. No. In addition to refunds of deposits, and refunds made in connection with bill
8 adjustments as a result of meter testing, the Company also makes refunds to
9 residential customers in connection with the recalculation of budget payment plan
10 amounts and when accounts are terminated with a credit balance. Although the
11 Company is not prohibited by Commission regulation from offering prepaid cards
12 to make these other refunds, the prepaid card program would be more efficient
13 and provide greater benefits to the Company’s residential customers if available
14 to the greatest extent possible to make residential customer refunds.

15 **Q. DO THE COMPANY’S TARIFFS ADDRESS THE METHODS BY WHICH**
16 **THE COMPANY MAY MAKE CUSTOMER REFUNDS?**

17 A. Yes. In accordance with both 807 KAR 5:006 Section 8(1)(d)(3)(d) and Tariff
18 Sheet 2-3, Section 4E, the Company refunds any customer deposit by check or
19 credit to the Customer’s bill. While the regulation permits the Company to utilize
20 EFT, its tariff does not provide for refunds to be made in this fashion. In addition,
21 issuing prefunded cards for refunds is not permitted by either the regulation or the
22 tariff.

**VII. REQUESTED DEVIATIONS FROM
807 KAR 5:006 SECTION 8(1)(d)(3)(d) AND 807 KAR 5:006 SECTION 8(11)(5)
AND PROPOSED MODIFICATION OF THE COMPANY'S TERMS AND
CONDITIONS OF SERVICE**

1 **Q. WHAT RELIEF IS THE COMPANY SEEKING?**

2 A. To offer improved residential customer service through the issuance of prepaid
3 cards for most residential customer refunds the Company is requesting that the
4 Commission grant a deviation from 807 KAR 5:006 Section 8 (1)(d)(3)(d) and
5 807 KAR 5:006, Section 11(5) to permit it to use prepaid cards. In addition, the
6 Company also is seeking permission to amend Tariff Sheets 2-3 and 2-11 to
7 include the options of making refunds via EFT and prepaid cards. See **EXHIBITS**
8 **3 AND 4** to the Application.

9 **Q. IF THE COMMISSION GRANTS THE COMPANY'S REQUEST FOR**
10 **DEVIATION FROM 807 KAR 5:006 SECTION 8 (3)(d) AND**
11 **AUTHORIZES KENTUCKY POWER TO AMEND TARIFF SHEETS 2-3**
12 **and 2-11, HOW WILL THE REFUND PROCESS CHANGE?**

13 A. Once it is determined that a residential customer is due a refund, the Company
14 will furnish Citibank with the customer's name, last known address and the
15 refund amount. However, instead of issuing a check, Citibank will issue a prepaid
16 card to the customer or, in the case of a deposit refund, to the party who made the
17 deposit payment. Once the prepaid card has been received by the party receiving
18 the refund, the party has the option of using the card just like any other prepaid
19 card. Or the customer may contact Citibank 24 hours a day, seven days a week,
20 365 days a year by telephone or Citibank's website to request a refund by check

1 or EFT. The instructions for doing so will be contained in the letter
2 accompanying the prepaid Card.

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

4 **A. Yes.**