COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE		
REASONABLENESS OF THE DEMAND	**)**	
SIDE MANAGEMENT PROGRAMS AND	**)**	**CASE NO. 2017-00097**
RATES OF KENTUCKY POWER COMPANY	**)**	

REBUTTAL TESTIMONY OF

RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

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RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

I. INTRODUCTION

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

A: My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory and Finance, Kentucky Power Company. My business address is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.

II. BACKGROUND

Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A: I received a Bachelor of Science degree with a major in accounting from Franklin University, Columbus, Ohio in December 1981. I began work with Columbus Southern Power Company in 1978, and worked in various customer services and accounting positions. In 1983, I transferred to Kentucky Power Company and worked in accounting, rates, and customer services. I became the Billing and Collections Manager in 1995. My duties included overseeing all billing and collection activity for the Company. In 1998, I transferred to Appalachian Power Company and worked in rates. In 2001, I transferred to the American Electric Power Service Corporation working as a Senior Rate Consultant. In July 2004, I transferred back to Kentucky Power Company and assumed the position of Manager, Business Operations Support. I was promoted to Director in April 2006. I was promoted to my current position as Managing Director, Regulatory and Finance effective September 1, 2010.

Q: WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR, REGULATORY AND FINANCE?

A: I am primarily responsible for managing the regulatory and financial strategy for Kentucky Power. This includes planning and executing rate filings for both federal and state regulatory agencies, as well as certificate of public convenience and necessity filings before this Commission. I am also responsible for managing the Company's financial operating plans. Included as part of this responsibility is the preparation and coordination of various capital and O&M operating budgets with other American Electric Power Company, Inc. affiliates. I work with various American Electric Power Service Corporation departments to ensure that adequate resources such as debt, equity, and cash are available to build, operate, and maintain Kentucky Power's electric system assets used to provide service to our retail and wholesale customers. In my role as Managing Director, Regulatory and Finance, I report directly to Matthew J. Satterwhite, President and Chief Operating Officer of Kentucky Power.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A: Yes, I have testified on multiple times. I testified before this Commission in various fuel adjustment clause review proceedings, certificate of public convenience and necessity filings, and filed testimony in the Company's five most recent base rate case filings, Case No. 2005-00341, Case No. 2009-00459, Case No. 2013-00197, Case No. 2014-00396, and Case No. 2017-00179. Other cases in which I testified include an environmental compliance plan, Case No. 2011-00401; a real-time pricing proceeding, Case No. 2012-00226; the transfer of a fifty percent undivided interest in the Mitchell generating station to Kentucky Power, Case No. 2012-00578; the filing to convert Big Sandy Unit 1 to a gas-fired unit, Case No. 2013-00430; and a DSM application, Case No. 2014-00271. I also recently filed testimony in connection with the Company's application in Case No. 2017-00328 to rebuild the Hazard-Wooton transmission line.

III. <u>PURPOSE OF TESTIMONY</u>

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: I am testifying in response to the testimony of Sierra Club witness Jim Grevatt. I also describe the Company's proposal, following the Commission's November 30, 2017 Order, for its 2018 DSM programs.

IV. <u>BACKGROUND</u>

Q. BEFORE ADDRESSING MR. GREVATT'S TESTIMONY PLEASE SUMMARIZE THE EVENTS PRECEDING ITS FILING.

A. The Commission initiated this proceeding on February 23, 2017 to investigate the reasonableness of the Company's demand-side management programs in light of the program's 2017 rates and its concerns regarding worsening economic conditions in Kentucky Power's service territory. With its Order, the Commission also issued written discovery to Kentucky Power. The Company filed its discovery responses on March 17, 2017. Subsequently the Commission granted the motions of the Attorney General, Kentucky Industrial Utility Customers, Inc., and Sierra Club to intervene. Both Sierra Club and K.I.U.C. were parties to the July 2, 2013 Stipulation and Settlement Agreement in Case No. 2012-00578 that required Kentucky Power to increase its annual DSM spending to six million dollars by 2016 and to maintain that level through 2018. The Commission approved the Stipulation and Settlement Agreement by Order dated October 7, 2013. Its approval was contingent on Kentucky Power's agreement to maintain its post-2018 DSM spending at or above $6 million annually absent Commission authority to reduce the spending.

Q. DID THE COMPANY MAKE ANY SUBSEQUENT FILINGS IN THIS CASE?

A. Yes. On March 31, 2017 Kentucky Power filed a motion for an interlocutory order seeking to clarify the Company's DSM spending obligations until the Commission reached a decision in this investigation. In particular, Kentucky Power notified the Commission and the parties that in the normal course of administering its DSM programs the Company would be required to execute change orders and contract extensions and renewals that could obligate the Company past the date of any final order in this case. In addition, Kentucky Power sought clarification of its six million dollar annual spending obligation in light of the Commission-initiated investigation. On May 4, 2017, the Commission entered an Order finding:

> Kentucky Power has an ongoing obligation to administer its DSM portfolio in the ordinary course of business during the pendency of this proceeding, but should not expand or increase expenditures on any existing DSM program. Further, Kentucky Power is relieved of the obligation of achieving the existing $6 million DSM expenditure level in 2017 during the pendency of this proceeding.… It therefore follows that any discretionary increases to the costs of the DSM program should be curtailed during the pendency of this proceeding.

Q. DID THE COMPANY MAKE ANY SUBSEQUENT FILINGS REGARDING THE STATUS OF ITS PROGRAMS?

A. Yes. Kentucky Power administered its approved DSM programs in the ordinary course of business while awaiting the conclusion of the Commission's investigation. As the third quarter of 2017 began, Kentucky Power determined it was important to inform the Commission of the steps it planned to take in administering the programs and to preserve the Company's ability to provide DSM services in 2018. Kentucky Power its September 12, 2017 status report identified program implementation contracts that were scheduled to expire during the remainder of 2017 and that which would have to be renewed if the Company were to continue to provide DSM program services in 2018 at 2017 levels. Kentucky Power also indicated that, absent contrary direction from the Commission, it would renew or extend the expiring contracts.

Q. DID THE COMMISSION PROVIDE FURTHER DIRECTION?

A. Yes. On November 2, 2017 the Commission issued an Order:

> clarify[ying] its May 4, 2017 Order to state that Kentucky Power's obligation to annually spend $6 million on DSM programs is suspended during the pendency of this investigation. Consequently, once existing third-party residential DSM contracts expire, Kentucky Power is relieved of any obligation to renew, extend, or replace those contracts, or to enter into other DSM contracts, or to maintain or develop internal programs, in an effort to achieve or maintain an annual DSM spending level of $6 million.

The Order also established a procedural schedule in furtherance of this proceeding. The procedural schedule required any intervenor seeking to file testimony to do so on or before November 22, 2017, and for the Company to file its rebuttal testimony, if any, on or before December 13, 2017.

Q. WHAT ACTIONS DID KENTUCKY POWER TAKE IN RESPONSE TO THE COMMISSION'S NOVEMBER 2, 2017 ORDER?

A. The following day the Company suspended all new activity in connection with its DSM programs. It did so by notifying its implementation contractors of the suspension, by notifying the contractors not to enroll any new customers, and by further directing its contractors not to obligate Kentucky Power for any new DSM spending. That same day, Kentucky Power notified the Commission and the parties it was suspending new program activity and that it was working with its contractors to manage ongoing DSM program activities to limit further expenditures.

Q. DID KENTUCKY POWER MAKE ITS REQUIRED NOVEMBER 15, 2017 FILING WITH RESPECT TO 2018 PROGRAM ACTIVITY?

A. Yes. In response to the November 2, 2017 Order, Kentucky Power provided the Commission with additional data to assist in the Commission's review. Specifically, the Company presented two alternatives in its November 15, 2017 filing. Alternative A proposed continuing the Company's DSM programs in 2018 at approximately their 2017 spending levels but at a much-reduced (from \$0.008013/kWh to \$0.000542/kWh) residential DSM factor. The reduction in the residential rate was occasioned by the Company's recovery of its previous under-collection and, beginning September 2017, its over-collection of residential program costs, incentives, and lost revenues. Alternative B reflected a winding down of DSM program activity with the Company recovering in 2018 only its wind-down costs, lost revenues, and incentives. The two alternatives were provided to demonstrate the boundaries of any path forward. Although Kentucky Power still supported the continuation of the programs and spending levels approved by the Commission in conformity with the Settlement Agreement in Case No. 2012-00578, the

Company also acted to ensure the Commission had adequate information for its consideration.

Q. DID REPRESENTATIVES OF KENTUCKY POWER MEET WITH THE STAFF AND INTERVENORS CONCERNING THE COMPANY'S NOVEMBER 15, 2017 FILING?

A. Yes. An informal conference was convened on November 21, 2017. At the informal conference the Company explained the two alternatives and answered questions posed by Staff and the intervenors. Kentucky Power on November 30, 2017 filed additional information concerning the November 15, 2017 filing at the request of Staff.

Q. DID THE COMMISSION CHOOSE ONE OF THE TWO ALTERNATIVES?

A. Only in part. The Commission on November 30, 2017 entered an Order directing the Company to file revised tariffs sheets effective January 1, 2018 reflecting the continuation of only the Targeted Energy Efficiency program. The effect of the Commission's November 30, 2017 Order was to end effective January 1, 2018, and pending the resolution of this case, all of the Company's current DSM programs with the exception of the Targeted Energy Efficiency program. The Commission's Order further directed the Company to calculate and file new DSM rates reflecting the continuation in 2018 of only the Targeted Energy Efficiency program. Finally, the Commission determined that further proceedings were required to determine which of the remaining 2017 DSM programs would be continued in 2018. In that connection, the Commission indicated the Company should file its rebuttal testimony as scheduled on December 13, 2017.

Q. DID KENTUCKY POWER MAKE THE REQUIRED TARIFF AND RATE FILINGS?

A. Yes. On December 11, 2017 filed the revised tariff sheets reflecting the continuation in 2018 of only the Targeted Energy Efficiency Program. It also filed new DSM rates for 2018. The proposed residential rate was $0.001135/kWh credit; the proposed commercial rate was $0.002731/kWh charge.

Q. FOLLOWING THE COMMISSION'S NOVEMBER 30, 2017 ORDER KENTUCKY POWER FILED A MOTION ASKING THE COMMISSION TO AMEND ITS NOVEMBER 2, 2017 ORDER TO PERMIT THE COMPANY TO FILE ITS REBUTTAL TESTIMONY NO LATER THAN FEBRUARY 2, 2018. ON DECEMBER 11, 2017 THE COMPANY WITHDREW THAT MOTION. WHY DID KENTUCKY POWER FIRST REQUEST ADDITIONAL TIME TO FILE ITS REBUTTAL TESTIMONY AND THEN WITHDRAW ITS REQUEST?

A. Kentucky Power initially requested the additional time to permit the Company to review its existing DSM programs and develop a proposal for a portfolio of programs to be implemented in 2018 in light of the Commission's November 30, 2017 Order directing the Company to discontinue all but its Targeted Energy Programs in 2018 pending a final order in this case. At the time it filed its motion requesting additional time to file its rebuttal testimony, it appeared a 2018 portfolio could be developed by February 2, 2018. Upon further review, the Company concluded its customers would be better served by awaiting a final order in this case before taking further action. Then Kentucky Power can assess how best to present any further options for 2018, but more realistically to focus on filing its proposal for its 2019 portfolio in August 2018.

Q. WHY IS IT NECESSARY FOR KENTUCKY POWER TO AWAIT A FINAL ORDER IN THIS CASE BEFORE PROPOSING A NEW PORTFOLIO OF DSM PROGRAMS?

A. The Commission's November 30, 2017 Order made clear that this Commission intends to take utility demand-side-management and energy efficiency programs in a different direction from past Commissions. This was underscored by the Commission's rejection of Alternative "A" proposed by the Company in its November 15, 2017 filing. Alternative "A" would have permitted Kentucky Power to maintain the status quo during the pendency of this investigation while reducing the DSM charge in 2018 to $0.000542/kWh. Given this fundamental change, the Company and its customers are better served by awaiting the Commission's decision in this case before the Company proposes a new portfolio.

Q. WERE THERE ANY ADDITIONAL ISSUES AFFECTING 2018 OFFERINGS?

A. Yes. The first is a simple matter of timing. The Company typically files its proposal for new programs in the August of the year preceding the year in which the new programs are to be implemented to provide adequate time for review by the Commission and further action by the Company in response to any order. It is not realistic for the Company to establish a calendar year program by starting from scratch in the year in which the program is to be initiated. In addition, the Company first suspended new program activity effective November 3, 2017 and then terminated most of its existing

DSM contracts following the Commission's November 30, 2017 Order. The only exceptions were the two contracts required to complete projects pending on November 3, 2017, and a third contract for Evaluation, Measurement, and Verification services for the Company's 2017 portfolio. Initiation of new programs will necessarily be delayed for several months while the Company rebids or otherwise obtains implementation contractor services. This in turn will push the start of any portfolio proposed by the Company for 2018 toward mid-year at the earliest even if the Commission were to enter a final order in the first quarter of 2018.

Q. WHAT IS THE SECOND ISSUE?

A. The Commission expressed a desire to review the cost-effectiveness of Kentucky Power's current portfolio. Kentucky Power currently is not scheduled to receive the evaluation by Applied Energy Group, Inc. of the cost-effectiveness of the Company's 2017 DSM portfolio prior to mid-2018. The study results to be provided by AEG will serve as an important component in the design of the Company's next portfolio. Given the proximity of its receipt to the August 2018 date for filing the Company's 2019 portfolio, coupled with the Commission-ordered withdrawal of all programs other than the Targeted Energy Efficiency program during the pendency of this investigation, it makes sense to wait until August 2018 and receipt of the evaluation before filing a complete portfolio.

V. <u>REBUTTAL TO MR. GREVATT'S TESTIMONY</u>

Q. HAVE YOU REVIEWED MR. GREVATT'S NOVEMBER 22, 2017 TESTIMONY?

A. Yes. Before responding to Mr. Grevatt's testimony it is important to note that it was filed prior to the Commission's November 30, 2017 Order. As a result, much of Mr. Grevatt's testimony was overtaken, for the reasons described above, by the subsequent entry of the Commission's November 30, 2017 Order.

Q. DO YOU AGREE WITH ANY ASPECTS OF MR. GREVATT'S TESTIMONY?

A. Yes. Kentucky Power agrees with much of what Mr. Grevatt proposes. In particular, the Company agrees that its DSM portfolio of demand-side-management programs has and can provide important benefits to Kentucky Power's residential and commercial customers. In addition, Kentucky Power was willing to continue to meet the 2018 spending levels required by the settlement agreement in Case No. 2012-00578. That is no longer possible given the Commission's November 30, 2017 Order requiring the Company to withdraw all DSM programs other than the Targeted Energy Efficiency program. Finally, the Company agrees that much of the increase in the 2017 DSM factor resulted from the need to recover prior under-recoveries.

Q. MR. GREVATT INDICATES THAT THE COMPANY'S METHOD FOR CALCULATING DSM RATES SHOULD BE MODIFIED TO PROVIDE MORE TRANSPARENCY AND TO PROVIDE RATE STABILITY. DO YOU AGREE?

A. The Company assumes Mr. Grevatt is referring to the calculation method Kentucky Power used prior to making its November 15, 2017 filing. Beginning with the November 15, 2017 filing the Company employed a simpler and more transparent method. For example, earlier filings combined program costs, lost revenues, and incentives in a single value. The new format breaks out each component separately. Kentucky Power also is now using a single calendar year for its filings. In the past, the Company used the second half of the preceding year and the first half of the current year.

Q. WHAT CHANGES DID THE COMPANY MAKE TO REDUCE VOLATILITY?

A. Kentucky Power's new calculation incorporates two modifications to reduce volatility. They are:

- ► Previously the Company used the midpoint between a "floor" rate, consisting of the carryover from the prior program year, and the ceiling rate, consisting of full program costs, as its proposed DSM rate. Beginning with its November 15, 2017 filing the proposed DSM rate is calculated by adding any under-recovery or over-recovery from the prior program year plus estimated expenses for the upcoming program year and dividing that sum by forecasted sales for the upcoming program year. Doing so should permit the Company to limit the over-recoveries and under-recoveries and more closely align the amount collected to the amount to be collected.

- ► By using a calendar year of forecasted sales to calculate the DSM rate, instead the shorter period used in the past, the Company's new calculation further limits volatility by more closely aligning the rate to the period it will be in effect.

Q. MR. GREVATT ALSO REQUESTS THAT THE COMPANY CONFIRM THAT LOST REVENUES CAN BE COLLECTED FOR ONLY THREE YEARS, ABSENT AN INTERVENING BASE RATE CASE, AND THAT THEY SHOULD NOT EXCEED THE CLAIMED SAVINGS LIFE OF THE MEASURES. WHAT IS YOUR RESPONSE?

A. Kentucky Power confirms that absent an intervening base rate case the maximum period for recovery of lost revenues is three years. In the event of an intervening base rate case the lost revenues are "reset to zero" as of the effective date of the base rate case order. Kentucky Power also confirms that lost revenue recoveries in the future should be limited to the savings life of the DSM measure.

VI. KENTUCKY POWER'S 2018 DSM PORTFOLIO

Q. IN LIGHT OF THE COMMISSION'S NOVEMBER 30, 2017 ORDER WHAT PROGRAMS DOES THE COMPANY PROPOSE TO INCLUDE IN ITS 2018 DSM PORTFOLIO?

A. Given the actions the Company was required to take in response to the Commission's November 30, 2017 Order, it is impracticable, with a single exception, for Kentucky Power to seek and receive approval, following the Commission's Order in this case, of a portfolio of DSM programs for implementation in 2018. Thus, the Company's 2018 portfolio initially will be limited to the Targeted Energy Efficiency program and Kentucky Power will focus on making an August 2018 filing for its 2019 portfolio of programs. Of course, if the Commission were to approve as part of its final order in this case the reestablishment of some or all of the withdrawn programs, the Company would move to restart those programs in 2018 as soon as possible. They would operate for only a portion of the 2018 calendar year. Finally, Kentucky Power also will work with its Collaborative and other stakeholders to identify other opportunities.

Q. WHAT IS THE SINGLE EXCEPTION YOU MENTION?

A. Kentucky Power agreed as part of the settlement agreement in Case No. 2017-00179 to seek leave from the Commission to include $200,000 in funding for the existing School Energy Manager program in its 2018 and 2019 DSM programs. School districts operate on a July 1 to June 30 fiscal year. Thus, assuming a timely conclusion to this case, and the Commission's approval of the settlement agreement, Kentucky Power could include up to $200,000 in funding for the School Energy Manager Program in its August 2018 filing for the 2018-2019 school fiscal year. Kentucky Power also would include a like amount in its August 2019 filing to provide school energy manager program funding for the schools' 2019-2020 fiscal year. The program currently has $88,720 carried over from the 2016-2017 fiscal year to sustain it in the interim.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes.

VERIFICATION

The undersigned, Ranie K. Wohnhas being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power Company, that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Ranie K. Wohnhas

Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY)
) Case No. 2017-00097
COUNTY OF BOYD)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 11 day of December, 2017.

Trisha M. Young Blum

Notary Public

Notary ID Number: 530202

My Commission Expires: 3-18-19

TRISHA M. YOUNG
NOTARY ID 530202
COMMISSION EXPIRES 3-18-19