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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	
POWER COMPANY FOR (1) A GENERAL	)	
ADJUSTMENT OF ITS RATES FOR ELECTRIC	)	CASE NO.
SERVICE; (2) AN ORDER APPROVING ITS	)	2017-00179
2017 ENVIRONMENTAL COMPLIANCE PLAN;	)	
(3) AN ORDER APPROVING ITS TARIFFS	)	
AND RIDERS; (4) AN ORDER APPROVING	)	
ACCOUNTING PRACTICES TO ESTABLISH	)	
REGULATORY ASSETS AND LIABILITIES;	)	
AND (5) AN ORDER GRANTING ALL OTHER	)	
REQUIRED APPROVALS AND RELIEF	)	

**VOLUME I**

Transcript of December 6, 2017, hearing  
before Michael Schmitt, Chairman; Robert Cicero,  
Vice-Chairman; and Talina R. Mathews, Commissioner,  
at the Kentucky Public Service Commission, 211 Sower  
Boulevard, Frankfort, Kentucky 40602-0615.

LAURA J. KOGUT, RMR, CRR, CRC  
McLendon-Kogut Reporting Service, LLC  
Anchorage Office Plaza  
2525 Nelson Miller Parkway, Suite 204  
Louisville, Kentucky 40223  
(502) 585-5634  
lkogut@mclendon-kogut.com  
www.mclendon-kogut.com

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\* \* \*

## APPEARANCES

1  
2  
3 FOR KENTUCKY POWER COMPANY:  
4 Mr. Mark R. Overstreet  
5 Ms. Katie M. Glass  
6 Stites & Harbison PLLC  
7 421 West Main Street  
8 P.O. Box 634  
9 Frankfort, Kentucky 40602-0634  
10 (502) 223-3477  
11 moverstreet@stites.com  
12 kglass@stites.com

13 and

14 Mr. Kenneth J. Gish, Jr.  
15 Stites & Harbison PLLC  
16 250 West Main Street, Suite 2300  
17 Lexington, Kentucky 40507-1758  
18 (859) 226-2300  
19 kgish@stites.com

20 and

21 Mr. Hector Garcia  
22 American Electric Power  
23 1 Riverside Plaza, 29th Floor  
24 Columbus, Ohio 43215  
25 (614) 716-3410  
hgarcial@aep.com

FOR KENTUCKY ATTORNEY GENERAL:  
Mr. Lawrence W. Cook  
Mr. Kent A. Chandler  
Mr. Justin M. McNeil  
Ms. Rebecca W. Goodman  
Commonwealth of Kentucky  
Office of the Attorney General  
Office of Rate Intervention  
700 Capitol Avenue, Suite 20  
Frankfort, Kentucky 40601-8024  
(502) 696-5300  
larry.cook@ky.gov  
kent.chandler@ky.gov  
justin.mcneil@ky.gov  
rebecca.goodman@ky.gov

APPEARANCES  
(Continued)

1  
2 FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.:

3 Mr. Michael L. Kurtz  
4 Ms. Jody Kyler Cohn  
5 Boehm, Kurtz & Lowry  
6 1510 URS Center  
7 36 East Seventh Street  
8 Cincinnati, Ohio 45202  
9 (513) 421-2255  
10 mkurtz@bkllawfirm.com  
11 kboehm@bkllawfirm.com  
12 jkylercohn@bkllawfirm.com

13 FOR KENTUCKY COMMERCIAL UTILITY CUSTOMERS, INC.:

14 Mr. James W. Gardner  
15 Mr. Todd Osterloh  
16 Sturgill, Turner, Barker & Moloney, PLLC  
17 333 West Vine Street, Suite 1400  
18 Lexington, Kentucky 40507  
19 jgardner@sturgillturner.com  
20 tosterloh@sturgillturner.com

21 FOR KENTUCKY SCHOOL BOARDS ASSOCIATION:

22 Mr. Matthew R. Malone  
23 Hurt, Deckard & May PLLC  
24 The Equus Building  
25 127 West Main Street  
Lexington, Kentucky 40507  
(859) 254-0000  
mmalone@hdmfirm.com

FOR KENTUCKY LEAGUE OF CITIES:

Mr. Gregory T. Dutton  
Goldberg & Simpson  
9301 Dayflower Street  
Prospect, Kentucky 40059  
(502) 589-4440  
gdutton@goldbergsimpson.com

and

Ms. Morgain Sprague  
Kentucky League of Cities  
100 East Vine Street, Suite 800  
Lexington, Kentucky 40507  
(859) 977-3700  
msprague@klc.org

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APPEARANCES  
(Continued)

FOR WAL-MART STORES EAST, LP AND SAM'S EAST, INC.:

Ms. Carrie M. Harris  
Mr. Don C. A. Parker  
Spilman Thomas & Battle  
1100 Bent Creek Boulevard, Suite 101  
Mechanicsburg, Pennsylvania 17050.  
(717) 795-2740  
charris@spilmanlaw.com  
dparker@spilmanlaw.com

FOR KENTUCKY CABLE TELECOMMUNICATIONS ASSOCIATION:

Mr. Laurence J. Zielke  
Zielke Law Firm, PLLC  
452 South Fourth Street  
1250 Meidinger Tower  
Louisville, Kentucky 40202  
(502) 589-4600  
lzielke@zielkefirm.com

FOR KENTUCKY PUBLIC SERVICE COMMISSION STAFF:

Ms. Nancy J. Vinsel  
Mr. Quang D. Nguyen  
Ms. Jenny L. Sanders  
Mr. Richard Raff  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602  
(502) 564-39404  
nancy.vinsel@ky.gov  
QuangD.Nguyen@ky.gov  
jenny.sanders@ky.gov  
richard.raff@ky.gov

ALSO PRESENT:

Ms. Pam Hughes, Videographer

\* \* \*

1 (Hearing commenced at 9:02 a.m.)

2 CHAIRMAN SCHMITT: We are now on the record.  
3 This is the Kentucky Public Service Commission. My  
4 name is Michael Schmitt. I'm Chairman of the  
5 Commission. Seated to my right is Vice-Chairman  
6 Robert Cicero, and to my left, Commissioner Talina  
7 Mathews.

8 We are here this morning to receive evidence  
9 in Case Number 2017-00179, the Application of  
10 Kentucky Power Company for General Adjustment of its  
11 Rates for Electric Services; for an Order Approving  
12 its 2017 Environmental Compliance Plan; for an Order  
13 Approving its Tariffs and Riders; an Order Approving  
14 Accounting Practices to Establish Regulatory Assets  
15 or Liabilities; and an Order Granting All Other  
16 Required Approvals and Relief.

17 At this time would counsel for the respective  
18 parties please identify themselves, those who are  
19 with them today, and their witnesses who are here?  
20 Beginning with Mr. Overstreet, please.

21 MR. OVERSTREET: Thank you, Chairman.

22 Mark Overstreet, Stites & Harbison, PLLC, 421  
23 West Main Street, Frankfort, Kentucky.

24 Appearing with me here today is Ken Gish of  
25 the Lexington office of Stites & Harbison, and Katie



1 Glass, who splits her time between Lexington and  
2 Frankfort.

3 And -- I'm sorry. And then Hector Garcia,  
4 who has been granted admission pro hac vice.

5 CHAIRMAN SCHMITT: Okay. The Office of the  
6 Kentucky Attorney General, Office of Rate  
7 Intervention, please.

8 MR. COOK: Good morning, Mr. Chairman.

9 On behalf of the Attorney General, Lawrence  
10 Cook and Kent Chandler, Justin McNeil, Rebecca  
11 Goodman.

12 Our witnesses are Dr. David Dismukes, Dr.  
13 Randall Woolridge, Mr. Ralph Smith, and we have with  
14 us Roger --

15 VICE-CHAIRMAN CICERO: McCann?

16 MR. COOK: McCann. Sorry. It's early in the  
17 morning.

18 It's my understanding, however, that the  
19 Commission has excused Mr. McCann, but we don't know  
20 yet whether the Company or any of the other  
21 intervenors has excused him.

22 CHAIRMAN SCHMITT: Well, we might -- I might  
23 want to ask Mr. McCann --

24 MR. COOK: Okay.

25 CHAIRMAN SCHMITT: -- a couple questions too,

1 so --

2 MR. COOK: Certainly.

3 CHAIRMAN SCHMITT: -- if it's not  
4 inconvenient.

5 MR. COOK: Certainly.

6 CHAIRMAN SCHMITT: But if it is, we might be  
7 able to reschedule him. You know, we're going to be  
8 here, it looks like, three days, so he might not  
9 have to sit through the whole thing, especially  
10 today.

11 MR. COOK: Yes, sir. Thank you, sir.

12 CHAIRMAN SCHMITT: All right. The Kentucky  
13 Industrial Utility Customers.

14 MR. KURTZ: Thank you, Mr. Chairman.

15 Mike Kurtz and Jody Cohn for KIUC. The KIUC  
16 members who are participating in this case are  
17 Marathon Petroleum, AK Steel, Airgas, and Air  
18 Products & Chemicals. Combined, those four large  
19 industrials buy about 20 percent of the electricity  
20 that Kentucky Power sells at retail.

21 Thank you.

22 CHAIRMAN SCHMITT: Thank you.

23 Kentucky Commercial Utility Customers.

24 MR. GARDNER: Good morning, Your Honors.

25 Jim Gardner and Todd Osterloh from the

1           Lexington law firm of Sturgill, Turner, Barker &  
2           Moloney for KCUC.

3                     Our witness, Kevin Higgins, will be here  
4           tomorrow by agreement of the parties.

5                     CHAIRMAN SCHMITT:   Okay.

6                     MR. GARDNER:   And the two representative  
7           members are BPM Lumber Company, of which its  
8           principal owner is here in the courtroom today,  
9           Richard Sturgill, as well as Appalachian Healthcare.

10                    CHAIRMAN SCHMITT:   Thank you.

11                    MR. GARDNER:   Thank you, Your Honor.

12                    CHAIRMAN SCHMITT:   Kentucky School Boards  
13           Association.

14                    MR. MALONE:   Good morning, Your Honor.

15                    Matt Malone for the Kentucky School Boards  
16           Association of the law firm of Hurt Deckard & May,  
17           127 West Main in Lexington.

18                    And Mr. Willhite, my witness, is actually  
19           across the street, but will be here about 10:30.

20                    CHAIRMAN SCHMITT:   Thank you.

21                    MR. MALONE:   Thank you.

22                    CHAIRMAN SCHMITT:   I don't -- we'll probably  
23           get -- won't get to Mr. Willhite until the end of  
24           the --

25                    MR. MALONE:   I figured.

1 CHAIRMAN SCHMITT: -- proceedings, so fine.  
2 Kentucky League of Cities.

3 MR. DUTTON: Good morning, Commissioners.  
4 Gregory Dutton from Goldberg Simpson here on  
5 behalf of the Kentucky League of Cities. Morgain  
6 Sprague is my co-counsel, and she'll be joining me  
7 later this afternoon.

8 CHAIRMAN SCHMITT: Thank you.  
9 Wal-Mart East, Sam's Club East.

10 MS. HARRIS: Good morning, Your Honor.  
11 Carrie Harris, joined by my colleague, Don  
12 Parker, with the law firm Spilman Thomas & Battle on  
13 behalf of Wal-Mart Stores East, LP, and Sam's East,  
14 Inc.

15 Our witnesses are not present today as it's  
16 my understanding that all parties and the Commission  
17 have waived their presence.

18 CHAIRMAN SCHMITT: I think that's correct.

19 MS. HARRIS: Thank you so much, Your Honor.

20 CHAIRMAN SCHMITT: Kentucky Cable. Cable  
21 Communications. Yes, sir.

22 MR. ZIELKE: Good morning.

23 I'm Larry Zielke. I represent Kentucky Cable  
24 Telecommunications Association. I'm at 1250 South  
25 Fourth Street, Louisville, Kentucky 40202.

1           CHAIRMAN SCHMITT: And for Public Service  
2 Commission Staff.

3           MS. VINSEL: Nancy Vinsel, Quang Nguyen,  
4 Jenny Sanders, and Richard Raff for the Commission  
5 Staff.

6           CHAIRMAN SCHMITT: Thank you.

7           Have I left anybody out?

8           Okay. I notice that in the record the notice  
9 of hearing has been filed and that evidence of  
10 publication has been given.

11          MR. OVERSTREET: That's correct, Your Honor.

12          CHAIRMAN SCHMITT: So we will -- I guess the  
13 next order of business would be for public comment,  
14 but I understand a state representative, someone is  
15 here, I guess, that wants to make a -- could you  
16 please come forward?

17           And we would normally at this time, and I  
18 guess this is the beginning of it, ask for comment  
19 from any member of the public, and I'd ask only that  
20 you come forward, state your full name, your  
21 address, and then provide, either in writing or  
22 orally, any statement that you might wish the  
23 Commission to receive.

24           Yes, sir.

25          MR. SINNETTE: Thank you very much.

1           May I proceed?

2           CHAIRMAN SCHMITT: Yes.

3           MR. SINNETTE: Thank you.

4           I'm Kevin Sinnette, State Representative for  
5 the 100th District, Boyd County. This general  
6 region will be affected by this rate increase.

7           I think you have to historically look at what  
8 has transpired over the last ten years, and it  
9 appears that AEP has continuously gotten rate  
10 increases, and these affect the people who can least  
11 afford these rate increases.

12           Now, reading some of the propaganda that has  
13 been promulgated by AEP, the reason for these rate  
14 increases is the fact that they have lost  
15 ratepayers, and it's due to the economy.

16           But let's look at the big picture. One of  
17 the reasons that we have a loss of population and  
18 decline in the economy is directly a result of AEP's  
19 actions. We are coal country. Boyd County, not  
20 necessarily we mine coal, but as you well know, in  
21 deep Eastern Kentucky it's mined, it comes down 23,  
22 and it's made into steel.

23           What we have seen due to the result of AEP  
24 first saying they were going to continue burning  
25 coal, has decided to switch to natural gas. As a

1 result, that's going to put another nail in the  
2 coffin of the declination of the economy in Eastern  
3 Kentucky, which means that we've lost coal miners,  
4 that we've lost truckers, that we've lost mechanics,  
5 that we've lost barge travel. We've lost all of  
6 these elements as a result of AEP's direct  
7 transformation from coal to gas. As such, we have  
8 so many unemployed people.

9 Now, what really bothers me is the -- I guess  
10 is really the propaganda that goes around this  
11 economic development board or entity that they have  
12 created that they say that they're going to use to  
13 bring in jobs, to entice jobs, to bring back Eastern  
14 Kentucky. Well, what really puts insult to injury  
15 is, they're adding it as a line item on the bill.  
16 So it's not this goodwill act of saying we're going  
17 to put money back in Eastern Kentucky to create  
18 jobs. The people who can least afford the rate  
19 increase are also responsible for this money that  
20 has no criteria on how it's going to be dispensed,  
21 given out, and they can least afford it.

22 Now, I understand that the PSC, when they  
23 look at a rate increase, it's a business. It has to  
24 make money. I understand that. But you can't  
25 really separate out. You have to look at the big

1 picture. AEP, American Electric Power, you have  
2 Appalachian Power and you have Kentucky Power. They  
3 are the subsidiaries. But at the end of the day,  
4 the revenue they get is through AEP.

5 Yes, they've lost money in our region, no  
6 question about it. We have seen devastation in  
7 regard to employment. But you have to look at the  
8 overall big picture when it looks to shareholders,  
9 and that's really what they're all looking out for.  
10 And if you look at the period since 2005, the  
11 increase of the share has gone up, I believe a  
12 hundred percent, dividends 70 percent.

13 So we're not talking about a company that is  
14 losing money. What we're talking about is a company  
15 that's taking advantage of the least fortunate that  
16 can afford to pay a rate increase and not using the  
17 smoke and mirrors of saying that we're developing an  
18 economic board to entice businesses. Because one of  
19 the things we have in Eastern Kentucky that would  
20 entice businesses is the low rates of electricity  
21 that we currently have. When you put on this  
22 additional rate of electricity, that's going to be  
23 an impediment to businesses locating in Eastern  
24 Kentucky.

25 I think that we have to step back, and I



1       implore the PSC to look at the overall corporate  
2       picture, because it's easy to say when you have any  
3       type of business that maybe services different  
4       areas, you're going to have revenue that's higher in  
5       one area and lower in the other, but you don't go  
6       and you increase the cost of whatever you're selling  
7       to the ones that can least afford it to try and make  
8       up the big corporate profit and hoping that you're  
9       going to get more businesses and ratepayers.

10           I get the fact that they have lost the  
11       revenue. I get that. I see it every day in my  
12       community, of the people who have lost jobs. But I  
13       just got finished talking to an 89-year-old lady who  
14       can't afford her electric bill, and it's going to go  
15       up. They're on a fixed income. I have individuals  
16       who have lost their jobs at AK Steel, who can't find  
17       any other job, but they're hoping that AK Steel is  
18       going to reopen and start pushing out steel.

19           We have new industry coming in, Braidy  
20       Industry. What effect is this going to have on new  
21       businesses that we have, because they're going to be  
22       telling them, "Oh, by the way, you're locating here  
23       because of the low cost of utilities, but now you're  
24       going to get an additional cost on top of that."

25           I just think that there has got to be a

1 bigger picture in the whole scheme of American  
2 Electric Power, not just Kentucky Power.

3 I've been in the General Assembly going on  
4 ten years, and I remember vividly that American  
5 Electric Power, Kentucky Power were going to put  
6 scrubbers on down in Louisa to continue using coal.  
7 Got a rate increase. It was a hard pill to swallow,  
8 but my constituents and the citizens of Eastern  
9 Kentucky took it because that meant that, number  
10 one, there was going to be people employed in  
11 Lawrence County at the Big Sandy plant, coal was  
12 going to continue to be mined and business was going  
13 to be as usual. We don't have that situation now.

14 We have an economic development fluff board  
15 with no criteria on how they give out money. And  
16 the worst thing about it is, the ones that are going  
17 to be hit with the rate increase are paying for that  
18 economic development board.

19 We want low-cost, bare-bone energy.  
20 Electricity.

21 It's a sad day. And I know families that  
22 have to pick and choose what they're going to pay.  
23 If their electric bill is high, I've seen families  
24 that have stoves, gas stoves, they turn on the  
25 stoves for heat because their electric bill was just

1 too high.

2 And like I said, I get it. There's a  
3 balance, that a corporation has to make money, but  
4 there's also a balance as to the livelihoods of the  
5 individuals that they serve.

6 Thank you.

7 CHAIRMAN SCHMITT: Thank you.

8 Is there anyone else here who would like to  
9 come forward and either make an oral statement or  
10 file a written statement into the record?

11 If not, we'll move forward, then, with --

12 MR. COLEMAN: I'd like to say something.

13 CHAIRMAN SCHMITT: I'm sorry? Yes, sir.

14 MR. COLEMAN: I'd like to say something.

15 CHAIRMAN SCHMITT: Well, you need to come  
16 forward to the microphone, identify yourself by name  
17 and address, and then you can make whatever  
18 statement you choose.

19 MR. COLEMAN: My name is Freddie Coleman, and  
20 I'm from Whitesburg, Kentucky, and I just want to  
21 make a statement.

22 Don't forget the customer. I'm a customer of  
23 both -- Kentucky Power. Don't forget the customers,  
24 because we cannot afford no more.

25 And also I'd like to speak about the Rockport

1 1 plant, one of the towers that they are wanting to  
2 put on us. That has nothing to do with Kentucky  
3 Power customers, and they -- and we already paid for  
4 the plant at Louisa, and we paid for the plant at  
5 Moundsville. Let's see. Moundsville, West  
6 Virginia, we paid on that plant. We cannot pay no  
7 more and that should not be put on us. Kentucky  
8 Power's just price gouging. I mean, we just  
9 cannot -- people just can't pay no more.

10 That's all I got to say.

11 CHAIRMAN SCHMITT: Okay. Thank you.

12 MR. COLEMAN: You're welcome.

13 CHAIRMAN SCHMITT: Anyone else care to come  
14 forward and make a statement, provide a comment?

15 Okay. If not, then we'll move forward with  
16 the -- with the hearing. I note that there are, I  
17 think, seven motions for confidentiality that have  
18 been filed but have not been ruled on.

19 MR. OVERSTREET: I believe that's --

20 CHAIRMAN SCHMITT: Is that approximately  
21 correct? And for the people in the -- here who may  
22 not know, if a matter which is the subject of a  
23 pending confidentiality motion comes up or comes  
24 before the Commission, then counsel will so advise  
25 the Commission and we'll go into confidential

1 session so that the Company's position can be  
2 preserved.

3 So I take it -- I notice there's about -- a  
4 lot of different areas, so please be vigilant and  
5 let us know --

6 MR. OVERSTREET: Certainly.

7 CHAIRMAN SCHMITT: -- in the event that  
8 something might come up that -- so you could protect  
9 your position. Okay?

10 MR. OVERSTREET: Thank you, Your Honor.

11 CHAIRMAN SCHMITT: There is also, I guess, at  
12 least two pending motions to strike the testimony of  
13 Kevin Higgins, which was filed in opposition to the  
14 proposed partial settlement of the case.

15 Are there any other pending motions at this  
16 time?

17 MR. OVERSTREET: To my mind, no, Your Honor.

18 CHAIRMAN SCHMITT: Okay. Let me ask Mr.  
19 Gardner and Mr. Osterloh. Those motions were filed  
20 yesterday. We have read them. Would you care to  
21 respond? Or if you need more time, then at some  
22 point in time before the proceeding is over we  
23 can -- we can entertain it, but if you're prepared  
24 to respond now, we'll let counsel argue it or just  
25 submit it on the record if you choose.

1 MR. OSTERLOH: Yes, Your Honor, we are  
2 prepared to orally respond to those motions.

3 CHAIRMAN SCHMITT: Okay. Would you like  
4 to -- your position and that of Kentucky School  
5 Board Association is in the record, but I'd like to  
6 offer you and counsel for KSBA, Mr. Malone, the  
7 opportunity to argue it if you'd like.

8 MR. OVERSTREET: Thank you, Your Honor. I'll  
9 be very brief, but before doing that, my co-counsel  
10 reminded me, we also have a motion for deviation  
11 that would allow us to file the 2,600 pages of data  
12 request responses that were filed on Friday in  
13 electronic form instead of providing about eight  
14 feet of paper, and so that's also pending.

15 CHAIRMAN SCHMITT: Okay.

16 MR. OVERSTREET: But it would not have to be  
17 resolved right now.

18 CHAIRMAN SCHMITT: All right. Well, before  
19 we get to that, then, is there any objection to the  
20 filing of the motion -- the filing of the data  
21 electronically rather than by paper?

22 MS. VINSEL: No, Your Honor. It would be  
23 consistent with previous orders in this case.

24 CHAIRMAN SCHMITT: And if no one else has any  
25 objection --

1 MR. COOK: No objection.

2 CHAIRMAN SCHMITT: -- then that motion will  
3 be sustained.

4 MR. OVERSTREET: Thank you.

5 CHAIRMAN SCHMITT: And it will be so filed.  
6 Would you like to move forward?

7 MR. OVERSTREET: I'll be very brief. We've  
8 set out our position in our papers that we filed  
9 yesterday.

10 On October 3, in conformity with the  
11 Commission's procedural schedule, KCUC filed Mr.  
12 Higgins' testimony, and in that testimony Mr.  
13 Higgins took the position that in terms of class --  
14 class revenue allocation, that 50 percent, as  
15 opposed to the five percent proposed by the Company,  
16 of the residential subsidy should be eliminated, and  
17 the -- that those savings, if you will, be allocated  
18 among the remaining classes.

19 After the close of business on Monday, two  
20 days before this hearing, Mr. Higgins filed  
21 supplemental testimony purporting to respond to the  
22 settlement agreement, but in fact what he's done is  
23 he's changed his theory. And his theory is now that  
24 instead -- or perhaps in addition to shifting the  
25 50 -- or reducing the residential subsidy by 50

1       percent, that if, if, the Commission were to reduce  
2       the Company's revenue requirement, that the first  
3       \$500,000 of that reduction should be allocated to  
4       the LGS class.

5               In filing its testimony, KCUC did not seek  
6       leave of the Commission, it did not file a motion to  
7       amend the procedural schedule, nor did it address  
8       this Commission's October 24th order denying the  
9       Attorney General essentially the same relief. And  
10      we think that there's simply no basis in the record  
11      for this late-moment filing.

12             CHAIRMAN SCHMITT: Thank you.

13             Mr. Malone.

14             MR. MALONE: I would just echo the comments  
15      of Kentucky Power. I can't say it any better.

16             CHAIRMAN SCHMITT: Okay. Thank you.

17             Mr. Osterloh or Mr. Gardner.

18             MR. OSTERLOH: Thank you, Mr. Chairman and  
19      Commissioners.

20             Being an attorney in this field, I'm  
21      frequently called on to argue what's fair and  
22      reasonable. Usually that's in -- on a substantive  
23      issue like rates, but right now it's actually a  
24      procedural issue.

25             And it may go without saying that I was



1 surprised yesterday to receive the motions to  
2 strike, because when we filed Mr. Higgins'  
3 testimony, we thought we were doing what was fair  
4 and what was reasonable. We considered filing the  
5 testimony and determined it was most appropriate to  
6 provide the Commission, the parties, and the public  
7 with notice of what Mr. Higgins' belief and response  
8 was to this proposed settlement. And the  
9 alternatives that we had would simply not be as fair  
10 or as reasonable.

11 I mean, what would you prefer? Would you  
12 prefer to know Mr. Higgins' position on that newly  
13 filed settlement before he gets in that witness  
14 stand, or would you prefer and would the parties  
15 prefer to have him in that witness stand and be  
16 asked the question, "Now, you've seen that  
17 settlement, what's your response to the settlement?"  
18 Clearly it would be better off to have that in  
19 advance of the hearing.

20 The motion suggested an all-or-nothing  
21 approach, really. Either accept the settlement  
22 that's dictated by other parties or adhere to the  
23 originally filed position. But the more reasonable  
24 approach is to allow movement after seeing that  
25 settlement.

1           And that's really what the settling parties  
2           did. They had their initial position and they moved  
3           off of that position. And so Mr. Higgins' testimony  
4           in response to that reviewed the settlement and  
5           moved from that position.

6           If you were to follow the motions' analysis  
7           to their logical end, it essentially advocates for  
8           only two possible settlement options: Either a  
9           unanimous settlement, which we don't have here, or  
10          all the parties going forward with their original  
11          position. And I don't think that that's really what  
12          is in the best interest for this Commission. We  
13          want to encourage advocating settlements that all  
14          the parties, or as many parties can get behind.

15          Now, the motions argue that Mr. Higgins  
16          should not be able to propose a different  
17          allocation. To be clear, Mr. Higgins proposes an  
18          option, a unique option, to rule upon the issues.  
19          And you know what, that's exactly what Mr.  
20          Satterwhite says with respect to the settlement in  
21          his settlement testimony. He says, "You know what,  
22          this is a unique option that the Commission can  
23          consider." That's the same thing that Mr. Higgins  
24          is doing.

25          Moreover, the settlement completely changes

1 the way that Kentucky Power proposed its allocation.  
2 So to the extent that they are arguing, "Well, Mr.  
3 Higgins is changing his," that's exactly what  
4 Kentucky Power is doing as well. And setting aside  
5 some of the more general aspects, that they may have  
6 changed it to, like, IGS or the lighting classes,  
7 there's a \$500,000 component that LGS will have to  
8 pay on top of what may have otherwise been required,  
9 to the benefit of the public schools.

10 Likewise, there's a complete change to the  
11 rate design for the Kentucky Economic Development  
12 surcharge that disproportionately impacts the  
13 commercial GS customers.

14 Neither of those things were initially  
15 proposed by the Company in its application.

16 So when a company proposes a new settlement  
17 with new terms, changing its position, isn't it  
18 reasonable for a nonsettling party to come in and  
19 provide -- or have an opportunity to respond to  
20 that? In fact, isn't that what due process  
21 dictates? But at the very fundamental level due  
22 process requires notice and opportunity to be heard.  
23 Kentucky Power gave us notice of what their  
24 settlement proposal was. Don't we have an  
25 opportunity to be heard on that?

1           And just an aside. I mentioned the \$500,000  
2           subsidy that the LGS would be contributing as a part  
3           of that settlement if it was accepted. The School  
4           Boards in their motion indicate that Mr. Higgins is  
5           somehow attacking that, which, if you read his  
6           settlement testimony, that's not what he's saying.  
7           In fact, he doesn't ask that that be rejected at  
8           all.

9           The other point that was made by the motions  
10          was that it was filed outside the time allotted for  
11          by any certain procedural schedule. Well, isn't the  
12          same thing true, and, in fact, I think the School  
13          Board points this out, that the Company's testimony  
14          in support of the settlement agreement wasn't filed  
15          with any -- within any certain timeline for the  
16          procedural schedule. Neither party filed a motion  
17          to accept such testimony outside the procedural  
18          schedule.

19          So if the Commission is inclined to strike  
20          Mr. Higgins' testimony, wouldn't it have the same  
21          grounds to strike Mr. Satterwhite's or Mr. Vaughan's  
22          settlement testimony?

23          As I have stated before, what we have tried  
24          to do from day one is propose and do what is most  
25          reasonable. So if the Commission deems it

1 appropriate, what we'd like to do is move orally for  
2 acceptance into the record of Mr. Higgins' direct  
3 settlement testimony.

4 We mentioned it before: If you would prefer  
5 us to file something in writing, we're happy to do  
6 that. We believe that there is good cause to accept  
7 that testimony for the reasons that I mentioned as  
8 well as a few others.

9 We would also ask that the motions to strike  
10 be denied. At the end of the day, we wanted to  
11 provide Mr. Higgins' position to the Commission, to  
12 Commission Staff, to the parties, so that they knew  
13 what he would be saying on the witness stand before  
14 he got there. We think that that is the most fair  
15 and reasonable approach, and that's what we were  
16 trying to do.

17 Appreciate your time.

18 If you have any questions, we'll be happy to  
19 answer those. We'll also entertain the arguments  
20 that counsel may have.

21 Thank you.

22 CHAIRMAN SCHMITT: Anything further, Mr.  
23 Overstreet?

24 MR. OVERSTREET: I think not, Your Honor.

25 CHAIRMAN SCHMITT: Mr. Malone.

1 MR. MALONE: Just briefly, Your Honor.

2 You know, the suggestion that there wasn't  
3 notice or opportunity to be heard, I tend to  
4 disagree with that, frankly, because Mr. Willhite,  
5 our witness, the School Board's witness, proposed  
6 the allocation from the get-go. That was always in  
7 the record, so they always had the chance to attack  
8 that. Well, when they initially filed their  
9 testimony, they didn't. So now, merely after the  
10 settlement, it's sour grapes and here we are, and  
11 that's where we're -- that's where we are now with  
12 respect to their newly filed testimony.

13 So I think the due process notice,  
14 opportunity to be heard, they had the chance, they  
15 simply have changed their position as time has gone  
16 on here after the settlement was filed.

17 Thank you, Your Honor.

18 CHAIRMAN SCHMITT: Well, here's what --  
19 here's what we think: As I recall, and correct me,  
20 Mr. Overstreet, if I'm wrong, when Kentucky Power  
21 filed its application for the rate increase and for  
22 other relief, the -- it was Kentucky Power's --  
23 initially it was Kentucky Power's position that this  
24 K-12, PS, or whatever tariff should be eliminated  
25 and that schools should be included in the LGS

1 classification or some other; is that correct?

2 MR. OVERSTREET: That's accurate, Your Honor.

3 CHAIRMAN SCHMITT: And ultimately, I guess as  
4 time went on and throughout the course of the  
5 proceeding and the settlement negotiations,  
6 positions changed, and through the give and take of  
7 negotiations, a partial agreement was reached  
8 between Kentucky Power and some, but not all, of the  
9 intervenors. And that agreement, of course, is  
10 about as -- is worth about what -- as much as the  
11 paper that it's written on, because the Commission  
12 ultimately will set the rates and the terms of  
13 service and will acknowledge or incorporate all or  
14 some part of that agreement based upon the evidence  
15 we hear today and tomorrow and Friday and that's  
16 already in the record.

17 But I do think that there is nothing in the  
18 procedural order that would permit or deny Kentucky  
19 Power or any other intervenor the opportunity of  
20 filing testimony in support of the settlement, which  
21 was done.

22 And by the same token, I think any intervenor  
23 that would protest or disagree with the proposed  
24 settlement would have an opportunity to file  
25 something else.

1 I do understand the position of Kentucky  
2 Power and Kentucky School Boards, but it does occur  
3 to me that the utility, the commercial customers  
4 could put on Mr. Higgins and questions could be  
5 asked which would involve the same sort of thing on  
6 the cross-examination.

7 So I think what it is -- I understand your  
8 position and appreciate the movants' positions, but  
9 I think the motion ought to be overruled because in  
10 the end the witness is going to be here and testify,  
11 and if he had never filed anything, it is more  
12 likely than not, in my opinion, that we would  
13 ultimately get into this testimony under a wide-open  
14 cross-examination rule anyway.

15 So with that being the understanding, the  
16 motion to strike the testimony of Mr. Higgins will  
17 be overruled. Okay?

18 Now, as -- before we get started, I  
19 understand we have a lot of witnesses here, and a  
20 number of witnesses, particularly experts, can't  
21 always be here at the time when a party might  
22 otherwise call them.

23 So as I understand it, maybe Kentucky Power  
24 would like to call Mr. -- its witness Mr. McManus,  
25 then Mr. Satterwhite, and then the Attorney



1 General's witness Mr. Smith; is that correct?

2 MR. OVERSTREET: That's accurate, Your Honor.

3 CHAIRMAN SCHMITT: And then I know tomorrow  
4 there are a couple of other witnesses, maybe,  
5 that -- maybe one that Kentucky Power has and --

6 MR. OVERSTREET: She's been excused.

7 CHAIRMAN SCHMITT: She's been excused. Okay.

8 But the Attorney General's office will have a  
9 couple of witnesses tomorrow, Mr. Dismukes and  
10 someone else, I think, that has to be on stand.

11 MR. CHANDLER: We'll do our best trying to  
12 herd cats. Mr. Dismukes will be here today and for  
13 a good portion of tomorrow. Dr. Woolridge will be  
14 here at lunch and will need to leave by lunch  
15 tomorrow. But they will be available.

16 CHAIRMAN SCHMITT: So we can put Mr.  
17 Woolridge on first thing in the morning? Is that  
18 the --

19 MR. CHANDLER: I believe so. And I think  
20 that Mr. Baudino will be here as well, so that may  
21 be the best --

22 CHAIRMAN SCHMITT: Well, we'll try -- if we  
23 have a problem, just bring it to our attention and  
24 we'll try to accommodate everybody so that all  
25 witnesses have an opportunity to be subject to

1 cross-examination.

2 MR. OVERSTREET: Thank you, Your Honor. And  
3 I think we've been able to give and take and work  
4 things out. Mr. Cook and Mr. Chandler called me  
5 yesterday and indicated that they would like to  
6 speak to Mr. Pyle, they had previously excused him,  
7 and we made Mr. Pyle available. So I think we can  
8 work together and get this accomplished.

9 CHAIRMAN SCHMITT: Yes, Mr. Kurtz.

10 MR. KURTZ: Mr. Chairman, we have -- excuse  
11 me -- three out-of-town witnesses that will all be  
12 here tomorrow.

13 CHAIRMAN SCHMITT: Okay. Well, we'll try to  
14 accommodate and get everyone on as best we can, and  
15 if something comes up in the meantime that changes  
16 things or alters the order of witnesses, if you'll  
17 just let us know, we'll do our best.

18 Now, what we had planned on trying to do,  
19 because of the number of witnesses available, is, at  
20 least for today, to maybe go to 6:00 o'clock, and  
21 we'll go two hours, take a break for ten minutes or  
22 so, 10 or 15 minutes, come back, maybe have a lunch  
23 break for an hour at 1:00, come back and then go to  
24 3:00, or, you know, 1:00, 2:00 -- 2:00, and then go  
25 to 4:00 and 6:00, and then adjourn at 6:00, and then

1 we can see how much time we need for maybe tomorrow  
2 and Friday. Is that acceptable?

3 MR. OVERSTREET: Very much so.

4 CHAIRMAN SCHMITT: Okay. Thank you.

5 Now, I know we have a -- Kentucky Power filed  
6 a motion to have a court reporter present to take --  
7 to make a transcript, and the only thing I would ask  
8 is, is if Kentucky Power asks the reporter to  
9 provide daily copy that that also be offered to any  
10 of the other intervenors at their cost. All right.  
11 Is that a problem?

12 MR. OVERSTREET: That's -- we've done that in  
13 the past and that's perfectly acceptable.

14 CHAIRMAN SCHMITT: Thank you.

15 Well, with that understanding, let's move  
16 forward then, and, Mr. Overstreet, would you like to  
17 call your first witness?

18 MR. OVERSTREET: Yes. Your Honor. Our first  
19 witness is John McManus, and Mr. Gish will present.

20 CHAIRMAN SCHMITT: Mr. McManus, will you  
21 please raise your right hand? Do you solemnly swear  
22 or affirm, under penalty of perjury, that the  
23 testimony you are about to give will be the truth,  
24 the whole truth, and nothing but the truth?

25 MR. MCMANUS: Yes, I do.

1 CHAIRMAN SCHMITT: Please be seated.

2 Mr. Overstreet, you may ask.

3 MR. OVERSTREET: Is it okay if Mr. Gish asks?

4 CHAIRMAN SCHMITT: Oh, yes, Mr. -- I'm sorry.

5 Apologize.

6 MR. GISH: Thank you, Mr. Chairman.

7 JOHN M. MCMANUS, called by Kentucky Power  
8 Company, having been first duly sworn, testified as  
9 follows:

10 DIRECT EXAMINATION

11 By Mr. Gish:

12 Q. Mr. McManus, can you state your full name for  
13 the record, please?

14 A. John M. McManus.

15 Q. Can you please state your position and place  
16 of -- place of business?

17 A. I'm Vice President of Environmental Services  
18 for American Electric Power Service Corporation.

19 Q. And your business address?

20 A. It's 1 Riverside Plaza, Columbus, Ohio.

21 Q. And did you file direct and rebuttal  
22 testimony and responses to data requests in this  
23 case?

24 A. Yes, I did.

25 Q. And do you have any updates to your testimony

1 or responses to data requests?

2 A. Yes, I do. I have an update to my direct  
3 testimony. I have one small correction to the  
4 direct testimony as well.

5 Q. And what is that?

6 A. On page 6, line 9 of the direct testimony,  
7 there's a reference to three modifications of the  
8 consent decree. There actually have been four  
9 modifications to the consent decree, so that three  
10 should be four.

11 The fourth modification was finalized in  
12 January of this year, and it was solely to address  
13 the sale in January of the Gavin plant in Ohio and  
14 to bring the new owner of that plant into the  
15 consent decree as a party, and there was no other  
16 changes to the consent decree.

17 Q. And do you have any updates to your testimony?

18 A. Yes. I have an update to Section VI of the  
19 testimony. It begins on page 8. That section  
20 discusses three EPA regulations: the clean -- the  
21 CCR rule, Coal Combustion Residual Rule, the  
22 Effluent Limitation Guidelines Rule, and the Clean  
23 Power Plan.

24 Since the testimony was filed, EPA has taken  
25 action on all three rules. I thought it might be

1 helpful to just update where the -- those  
2 regulations stand at this point.

3 The Coal Combustion Residual Rule, an  
4 industry group asked EPA to reconsider the rule,  
5 filed a petition for reconsideration. EPA has  
6 accepted that position for reconsideration and has  
7 indicated the schedule by which they will revise  
8 that regulation.

9 They're going to embark on rulemaking to  
10 propose changes to the regulation and to finalize  
11 that regulation over the next couple of years.

12 So that regulation is in effect now. It has  
13 not changed at all, but EPA has indicated that they  
14 may be making changes to that rule.

15 On the Effluent Limitation Guidelines Rule,  
16 the testimony indicates that an industry group had  
17 filed a petition for reconsideration to EPA and that  
18 EPA had accepted that.

19 They have subsequently identified the  
20 schedule that they will undertake to revise the  
21 Effluent Limitation Guidelines Rule, and they have  
22 changed the initial compliance deadline.

23 That rule initially had a November 2018  
24 compliance deadline, they have delayed that by two  
25 years till 2020, and have indicated they will do a

1 rulemaking and complete that rulemaking sometime in  
2 2020.

3 So there may be changes to that rule and the  
4 compliance deadline has changed.

5 Then on the Clean Power Plan, EPA has issued  
6 a proposal to repeal the Clean Power Plan. That is  
7 now in a public comment period until about mid  
8 January, and then they will issue a final rule  
9 taking into account the comments that they receive.

10 Q. With the updates and minor correction to your  
11 testimony, if I were to ask you the same questions  
12 in your direct and rebuttal testimony, would you  
13 give the same answers today?

14 A. Yes, I would.

15 MR. GISH: With that, Mr. Chairman, I tender  
16 the witness for cross-examination.

17 CHAIRMAN SCHMITT: As I understand it,  
18 counsel for all of the parties participating in the  
19 proposed partial settlement have agreed to waive  
20 cross-examination; is that correct? Or waive  
21 hostile cross-examination.

22 MR. GISH: That's correct, Mr. Chairman.

23 CHAIRMAN SCHMITT: Retain the opportunity  
24 to -- to gild the lily by asking the questions that  
25 would support the settlement; is that correct?

1 MR. GISH: That is correct, Mr. Chairman.

2 MR. OVERSTREET: You apparently have  
3 practiced law.

4 CHAIRMAN SCHMITT: All right. Then before we  
5 get to the other side, does any other party that has  
6 agreed to the proposed partial settlement desire to  
7 ask this witness any questions? If so, you may do  
8 so now.

9 If not, then we'll move to the Attorney  
10 General.

11 MR. CHANDLER: We have no cross for Mr.  
12 McManus.

13 CHAIRMAN SCHMITT: Okay. What about counsel  
14 for the commercial customers, utility customers?

15 MR. GARDNER: No questions, Your Honor.

16 CHAIRMAN SCHMITT: Staff?

17 MS. VINSEL: We have a few questions.

18 CROSS-EXAMINATION

19 By Ms. Vinsel:

20 Q. Good morning, Mr. McManus.

21 A. Good morning.

22 Q. When -- because the consent decree is rather  
23 complicated and has had these modifications, can you  
24 give us a brief, or as brief as possible, overview  
25 of the consent decree?



1           A.       I will certainly try.  You're right, it's  
2           long and it's complicated.

3                    The consent decree initially was entered into  
4           by all of the parties in December of 2007, and it  
5           culminated a number of years of litigation between  
6           the federal government, some state plaintiffs, and  
7           some environmental groups and AEP related to claims  
8           that we had undertaken modifications to our --  
9           certain of our power plants without getting the  
10          appropriate permits.

11                   We understood at the time -- and the  
12          litigation started in 1999.  We understood the  
13          applicable regulations and permit requirements at  
14          the time.  The work that we did at our power plants  
15          we considered to be routine maintenance of the  
16          plant, common maintenance that is done at coal-fired  
17          boilers all across the country, and so we believed  
18          that the claims that the government was -- brought  
19          against us were not correct.

20                   After, what, eight years or so of litigation,  
21          the parties all reached agreement and entered a  
22          settlement that identified certain requirements that  
23          we would have to apply to our plants, installation  
24          of pollution control technology, caps on emissions  
25          of sulfur dioxide and nitrogen oxide, and there were

1       some other provisions. But that was the core of the  
2       consent decree was the schedule for the installation  
3       of pollution controls and putting caps on emissions  
4       across our eastern fleet of coal-fired power plants.

5       Q.       And the -- you mentioned the fourth  
6       modification in January. The first three  
7       modification -- the first three modifications, can  
8       you briefly tell us what they covered?

9       A.       Yeah. The first two modifications were  
10       relatively minor and dealt with the schedule for  
11       certain pollution control installations, and one in  
12       particular, I think at our -- at our Amos power  
13       plant in West Virginia. We had dates for  
14       installation of scrubbers on Units 1 and 2. We  
15       actually completed those scrubbers in the opposite  
16       order that was in the consent decree, so that  
17       modification was simply to adjust those dates to  
18       reflect the actual physical work at those units.

19       The third modification was more meaningful in  
20       making changes to the schedule, in particular for  
21       the Rockport unit in Indiana, which had dates for  
22       installation of nitrogen oxide controls and sulfur  
23       dioxide controls the latter part of this decade.

24       That modification changed the schedule for  
25       the sulfur dioxide controls to require a relatively

1 low capital cost technology to be in place in 2015,  
2 but the delay, a potential requirement for a full  
3 sulfur dioxide scrubber until the mid -- the latter  
4 part of the next decade. So that modification was  
5 more significant specifically for the Rockport  
6 plant.

7 Q. One of the Attorney General's witnesses  
8 was -- Ralph Smith, has argued that but for the  
9 consent decree, the retirement of Big Sandy Unit 2  
10 and then the purchase of that 50 percent undivided  
11 interest in the Mitchell Plant by Kentucky Power  
12 might not have been necessary.

13 Can you explain what considerations are  
14 involved in decisions regarding the retirement of  
15 generation facilities in a vertically -- vertically  
16 integrated regulated state versus a nonregulated  
17 state?

18 A. Yeah. I'm --

19 Q. Well, let's -- let's take a --

20 A. I'm not sure I quite understand the question.

21 Q. Okay. Let's take a step back.

22 Are there -- are there -- in your opinion,  
23 are there any differences in making a determination  
24 whether or not a generation is -- a generation  
25 facility is retired in a state like Kentucky where

1 it's vertically integrated as opposed to a state  
2 where it's nonregulated?

3 A. I guess based on my understanding and the  
4 area that I work in, in environmental, decisions on  
5 retirement are based on sort of the economics of the  
6 unit regardless of the state it might be in.

7 And in the case of Big Sandy, looking at the  
8 economics of installing very expensive pollution  
9 control equipment, it does that make financial sense  
10 for that facility. I would think you would consider  
11 the same factors regardless of the state that you're  
12 in.

13 Q. And Mr. Smith has recommended that the  
14 Commission deny recovery of the Big Sandy Unit 2  
15 Retirement Rider. Can you speak to that in your  
16 response, or is there someone else that you think  
17 should answer that?

18 MR. GISH: Ms. Vinsel -- I'm sorry.

19 MS. VINSEL: Yes.

20 MR. GISH: Ms. Vinsel, Mr. Wohnhas testified  
21 about the -- in response to Mr. Smith's testimony  
22 regarding the Big Sandy Retirement Rider, so perhaps  
23 the questions might be better addressed to him.

24 MS. VINSEL: I will save that. I will save  
25 that. Thank you.

1 We have no further questions at this time.

2 CHAIRMAN SCHMITT: Commissioner Cicero, any  
3 questions?

4 EXAMINATION

5 By Vice-Chairman Cicero:

6 Q. You've indicated that there are major changes  
7 occurring in terms of rules like the CCR and the  
8 Clean Power Plant rules that are being modified by  
9 the EPA, and you also just made the comment that  
10 it's economics of the unit that determine whether or  
11 not they continue to operate.

12 So I understand that there's always the fuel  
13 cost comparison between coal and gas, and you've got  
14 your O&M costs.

15 Has the fact that the environmental picture  
16 has changed in terms of EPA compliance made a  
17 difference in how AEP looks at the coal generation  
18 for their future plans?

19 A. I would say it hasn't made a change yet  
20 because we don't know what EPA may do with these  
21 rules. I think we're optimistic that when EPA  
22 undertakes its rulemaking for the coal ash rule and  
23 the effluent limitations guidelines rule, they will  
24 issue a final rule that has maybe a little less  
25 stringent requirements, which would make it more --

1 would make compliance come at a lower cost.

2 So that's what we hope will be the outcome,  
3 but we won't know until we see at least a proposed  
4 rule from EPA. But at this point it hasn't really  
5 changed how we view the economics of the coal units.

6 We try and factor in our -- some of our  
7 future look at what environmental requirements might  
8 be and what that cost might be as we look at the  
9 economics of our units. We always try and look out  
10 down the road if we see rules that we think may be  
11 coming.

12 Q. So how often do you go through that process?

13 A. We look at the -- what we call sort of our  
14 environmental capital plan probably a couple times a  
15 year, to look at has there been any change in the  
16 regulations at all, has there been any change in the  
17 compliance deadlines that we face, has there been  
18 any change in what we think the cost of a compliance  
19 technology might be as we evaluate technology  
20 options and try and find the best compliance  
21 solution and do more detailed engineering and design  
22 work, sometimes those costs might come down.

23 So I would say probably a couple times a year  
24 we try and update that information to make sure it's  
25 current.

1 Q. So your process is very current, very  
2 up-to-date, you look at these costs on an ongoing  
3 basis. And do you know that the EPA and with this  
4 administration, the focus on how compliance with the  
5 CCR and Clean Power Act generally are change --  
6 going to change dramatically. I don't know what the  
7 timing is going to be, but it appears that it's  
8 going to change dramatically.

9 So based on that, it would appear that your  
10 planning cycle would dictate that you'd be looking  
11 at this very closely on how you approach your coal  
12 generation.

13 A. That's correct.

14 Q. Is that an accurate statement?

15 A. Yes.

16 Q. So based on that, I don't know how far out  
17 you look, but given that scenario and the potential  
18 for a short timeline, how would AEP look at coal  
19 generation, say three years from now or four years  
20 from now? Are they looking to retain coal  
21 generation or are they moving more towards gas?

22 A. I guess I would -- I would look at -- you  
23 know, come back to what do the economics of the  
24 units look like going forward and where we think --  
25 and I'm getting a little bit out of my area here,

1 but looking forward, where we think power markets  
2 might be, natural gas markets, coal price forecasts,  
3 technology, and look at that as a whole on a  
4 facility-by-facility basis to see what makes  
5 economic sense.

6 Q. Do we have your assurance that you're going  
7 to evaluate coal versus gas purely on an economic  
8 basis and not on some kind of movement towards gas  
9 because it -- in terms of gas pricing out  
10 projections, if coal maintains an economic and  
11 viable factor in terms of pricing, they'll be  
12 compared and the assessment made if economic -- or  
13 the Environmental Protection Agency backs off on  
14 some of their rules, then you're going to give coal  
15 a fair assessment?

16 A. That's my understanding of what we would do,  
17 yes.

18 VICE-CHAIRMAN CICERO: I don't have any other  
19 questions, Mr. Chairman.

20 CHAIRMAN SCHMITT: Commissioner Mathews,  
21 questions?

22 MS. MATHEWS: I don't have any.

23 CHAIRMAN SCHMITT: I have no questions.

24 MR. GISH: I have one redirect question.

25 CHAIRMAN SCHMITT: Mr. Gish.



## REDIRECT EXAMINATION

1  
2 By Mr. Gish:

3 Q. Mr. McManus, Ms. Vinsel asked you a question  
4 about the relationship of the New Source Review  
5 Consent Decree and the retirement of Big Sandy Unit  
6 2.

7 Would the evaluation that led to the  
8 retirement of Big Sandy Unit 2 have occurred in the  
9 absence of the consent decree?

10 A. Yes.

11 Q. And why is that?

12 A. The consent decree did have a requirement  
13 related to Big Sandy 2 and a deadline in it, but  
14 subsequent to the consent decree being entered into  
15 in 2007, EPA conducted rulemaking to address air  
16 toxic emissions from coal-fired power plants.

17 That rule, when EPA finalized it, they called  
18 it the Mercury and Air Toxics Standards rule, MATS.  
19 We kind of use MATS as a shorthand for that. That  
20 rule went into effect -- or that rule was issued as  
21 final in early 2012, with a compliance deadline in  
22 April of 2015.

23 The MATS rule established very stringent  
24 unit-specific emission limitations for mercury, for  
25 acid gasses, for particulate matter. For Big Sandy

1 to comply with the MATS rule, it would have had to  
2 install a flue gas desulfurization system on both of  
3 the units or it could not have complied.

4 So the MATS rule itself was a major driver in  
5 looking at options available to the Big Sandy plant.

6 MR. GISH: I have no further questions, Mr.  
7 Chairman.

8 CHAIRMAN SCHMITT: Any questions from any of  
9 the settling intervenors?

10 MR. KURTZ: Can I ask one question, Your  
11 Honor?

12 CHAIRMAN SCHMITT: Yes, you may.

13 CROSS-EXAMINATION

14 By Mr. Kurtz:

15 Q. Had Big Sandy 2 -- had a scrubber been placed  
16 on Big Sandy Unit 2, what type of coal would it --  
17 would it have burned? A high-sulfur coal or a  
18 low-sulfur coal?

19 A. I mean, ultimately it would be whatever was  
20 most economical, but a scrubber provides a unit the  
21 ability to burn a much wider range of coal than it  
22 might otherwise. Big Sandy had an SO2 emission  
23 limit that had been in place for many years that was  
24 tied to lower sulfur content coal. A scrubber would  
25 have opened up the range of coals that it could have

1 potentially burned.

2 Q. And that would include Illinois Basin coal as  
3 well as East Kentucky coal?

4 A. Potentially, yes.

5 MR. KURTZ: Thank you, Mr. Chairman.

6 MR. CHANDLER: Just one question.

7 CHAIRMAN SCHMITT: Yes, sir.

8 CROSS-EXAMINATION

9 By Mr. Chandler:

10 Q. Was Kentucky Power named as a party in the  
11 litigation that led to the consent decree?

12 A. Initially the complaints were filed against a  
13 number of our coal-fired units in West Virginia,  
14 Ohio, and Indiana. Kentucky Power was not named in  
15 that.

16 The settlement, though, brought all of our  
17 operating companies and all of our coal units into  
18 it. The purpose for that was the claims that the  
19 government made related to what we considered  
20 routine maintenance at our plants, we did that  
21 maintenance at all of our coal units because it's  
22 pretty routine, and the government could have  
23 subsequently filed the same claims against our units  
24 that weren't initially named. So we felt that it  
25 was in the interest of all of our units to bring all

1 of the units in the companies into the settlement.

2 Q. So Kentucky Power is not a named defendant in  
3 the litigation?

4 A. Not initially.

5 Q. And the Big Sandy units were not named as, I  
6 guess, defendant generators in the initial  
7 complaint?

8 A. That's correct.

9 MR. CHANDLER: That's all the questions we  
10 have.

11 CHAIRMAN SCHMITT: Staff?

12 RE CROSS-EXAMINATION

13 By Ms. Vinsel:

14 Q. We do have a follow-up question, Mr. McManus.  
15 In your rebuttal testimony you discussed the  
16 expectation that litigating each of those units that  
17 were part of that litigation but also including Big  
18 Sandy and Rockport and other units would lead to a  
19 less favorable outcome as compared to the  
20 settlement.

21 Could you explain in more detail the risks  
22 that were in regards to a full litigation of those,  
23 which includes Big Sandy and Rockport?

24 A. The risk that we saw at the time was an  
25 outcome could have been establishment of stringent

1 unit-specific emission limitations for nitrogen  
2 oxide, sulfur dioxide at our units.

3 The value that we saw in the system  
4 settlement was, while there was a schedule for  
5 installation of our pollution control, there were  
6 not -- with maybe one exception, there were not  
7 unit-specific emission rates. We addressed  
8 emissions with a systemwide annual cap for sulfur  
9 dioxide and nitrogen oxide.

10 So that provided a lot more flexibility in  
11 how we could comply and how we would then operate  
12 the units going forward to stay within that system  
13 cap as opposed to unit-specific emission rates,  
14 which was the government's objective initially.

15 MS. VINSEL: We have no further questions at  
16 this time.

17 CHAIRMAN SCHMITT: Commissioner Cicero,  
18 questions.

19 VICE-CHAIRMAN CICERO: No questions at this  
20 time.

21 CHAIRMAN SCHMITT: No questions.  
22 Anything further?

23 MR. GISH: No, Mr. Chairman.

24 CHAIRMAN SCHMITT: Is there any reason why --  
25 does anyone object to this witness being permanently

1           excused?

2           MR. COLEMAN:    Could I ask a question?

3           CHAIRMAN SCHMITT:  No, you cannot.

4           MR. COLEMAN:    Okay.

5           CHAIRMAN SCHMITT:  Any objection to this  
6           witness --

7           MR. CHANDLER:  We have no objection to  
8           excusing Mr. McManus.

9           MS. VINSEL:    We have no objection.

10          CHAIRMAN SCHMITT:  Thank you.

11          Mr. McManus, you may be permanent -- step  
12          down and permanently excused.

13          MR. MCMANUS:  Thank you.  And I appreciate  
14          the Commission accommodating my scheduling needs.  
15          Thank you very much.

16          MR. COOK:    Mr. Overstreet, before -- and Mr.  
17          Chairman, before we proceed, I'm just wondering  
18          procedurally, these monitors here that usually are  
19          on during a hearing, they're not in operation, and I  
20          don't know if it's possible for them to be in  
21          operation or not, but they're very helpful to  
22          intervenors, and I'm sure Company counsel too, to  
23          note the time references.

24          CHAIRMAN SCHMITT:  Is your monitor on?

25          MR. OVERSTREET:  It is not on, Your Honor,

1 but I don't think they have been on, like during the  
2 fuel adjustment clause hearings for some time.

3 MR. CHANDLER: Do we maybe just need to turn  
4 them on? I don't know, it may just be as simple  
5 as --

6 CHAIRMAN SCHMITT: Before Mr. Satterwhite,  
7 why don't we take five minutes and ask our technical  
8 person here --

9 MR. OVERSTREET: Surely.

10 CHAIRMAN SCHMITT: -- about the situation.  
11 We'll be in recess for perhaps ten minutes.

12 (Recess from 10:00 a.m. to 10:06 a.m.)

13 CHAIRMAN SCHMITT: All right. We're now back  
14 on the record.

15 Mr. Overstreet, please call your next  
16 witness.

17 MR. OVERSTREET: Thank you, Mr. Chairman. We  
18 call Matthew J. Satterwhite.

19 CHAIRMAN SCHMITT: Mr. Satterwhite, please  
20 raise your right hand. Do you solemnly swear or  
21 affirm, under penalty of perjury, that the testimony  
22 you are about to give will be the truth, the whole  
23 truth, and nothing but the truth?

24 MR. SATTERWHITE: I do.

25 CHAIRMAN SCHMITT: Please be seated.

1 Mr. Overstreet, you may ask.

2 MR. OVERSTREET: Thank you, Mr. Chairman.

3 MATTHEW J. SATTERWHITE, called by Kentucky  
4 Power Company, having been first duly sworn,  
5 testified as follows:

6 DIRECT EXAMINATION

7 By Mr. Overstreet:

8 Q. Mr. Satterwhite, please state your name and  
9 position.

10 A. My name is Matthew J. Satterwhite, and I'm  
11 the President and Chief Operating Officer of  
12 Kentucky Power Company.

13 Q. And when did you become President and Chief  
14 Operating Officer of Kentucky Power Company?

15 A. Officially my first day was December 8th,  
16 2016.

17 Q. And where is your business office?

18 A. My office is located at 855 Central Avenue,  
19 Ashland, Kentucky 41101.

20 Q. Okay. And, Mr. Satterwhite, did you cause to  
21 be filed in the record of this case direct  
22 testimony, rebuttal testimony, and settlement  
23 testimony?

24 A. Yes, I did.

25 Q. And did you also cause to be filed in this



1 case responses to data requests?

2 A. Yes.

3 Q. Do you have any corrections to those filings?

4 A. No.

5 Q. And if you were asked those same questions  
6 here today, would your answers be the same?

7 A. Yes.

8 MR. OVERSTREET: Your Honor, the witness is  
9 available for cross-examination.

10 CHAIRMAN SCHMITT: Any -- counsel for any of  
11 the settling intervenors have any questions?

12 MR. KURTZ: Yes, sir. I have a question to  
13 Mr. Satterwhite that's sort of been raised by the  
14 commercial group promotion that's not addressed in  
15 the settlement agreement.

16 CROSS-EXAMINATION

17 By Mr. Kurtz:

18 Q. Mr. Satterwhite, you believe that the revenue  
19 requirement contained in the settlement agreement is  
20 reasonable, correct?

21 A. Correct.

22 Q. And you believe the Commission should approve  
23 it, correct?

24 A. Yes.

25 Q. Now, if the Commission does not approve it

1 and creates what's called new money, the type of new  
2 money that the commercial group was talking about,  
3 the Commission would have discretion as to how to  
4 allocate that new money?

5 A. Correct.

6 Q. And the proposal from the commercial group is  
7 to give the first 500,000 to rate LGS, correct?

8 A. That's my understanding. I have not read  
9 their stuff in detail.

10 Q. Now, would the Commission also have  
11 discretion, in your opinion, to give all the new  
12 money to the residential customers, for example?

13 A. That's ultimately in the Commission's  
14 decision. I guess the one caveat I would put in  
15 there is if the -- I think there's fair balance  
16 amongst the parties that did reach a settlement  
17 agreement in this case, and if the Commission were  
18 to decide to change something in one area, it would  
19 be to provide that balance still and change  
20 something else in the settlement agreement in a  
21 different area to still provide that overall balance  
22 that the parties have met.

23 But ultimately it's up to the Commission's  
24 discretion, and I think it's perfectly reasonable if  
25 there is something to apply that to the residential

1 class.

2 Q. Would Kentucky Power object if 100 percent of  
3 any new money was allocated to the residential  
4 customers?

5 A. Again, with seeing my previous answer of  
6 hoping there's balance overall, because it was tough  
7 to reach a settlement, we wouldn't object to  
8 anything being applied to the residential class.

9 MR. KURTZ: Thank you, Mr. Chairman.

10 CHAIRMAN SCHMITT: Thank you.

11 Any other intervenor, settling intervenor,  
12 have any questions of Mr. Satterwhite?

13 If not, Mr. Chandler, questions.

14 MR. CHANDLER: If the Commission doesn't mind  
15 if Mr. -- is it okay if Mr. Gardner goes first?

16 CHAIRMAN SCHMITT: He certainly may.

17 MR. CHANDLER: Thank you.

18 CHAIRMAN SCHMITT: Mr. Gardner.

19 MR. GARDNER: Thank you, Your Honor.

20 CROSS-EXAMINATION

21 By Mr. Gardner:

22 Q. Good morning, Mr. Satterwhite.

23 A. Good morning.

24 Q. You -- is it fair to say that your  
25 participation during the settlement was active, that

1           you were an active participant in the settlement?

2           MR. OVERSTREET: Your Honor, those settlement  
3 negotiations are confidential, and there's certainly  
4 no problem with this particular question, but I  
5 would strongly object to any discussion of the  
6 substance of representations and comments.

7           CHAIRMAN SCHMITT: Point taken.

8           You may ask, but with the understanding that,  
9 you know, settlement -- the details of the  
10 settlement negotiations won't be admissible.

11          MR. GARDNER: The -- this is the full extent  
12 of my questions regarding his involvement in the  
13 settlement.

14          A.       With all those caveats, I guess what I'd say  
15 is yes. We manage as a team at Kentucky Power, so I  
16 rely on my team, and I try to build that culture  
17 that I want to hear what the input is of everyone,  
18 and I have a lot of people that are a lot smarter  
19 than me that I rely on, but I was actively involved  
20 in the discussions and making decisions as we moved  
21 through the settlement discussions.

22          Q.       And you were physically here?

23          A.       Absolutely.

24          Q.       Okay.

25          THE WITNESS: And let me just say one more

1 thing. It's sort of a point of privilege. I've  
2 informed the court reporter that sometimes I talk  
3 fast, and if she would just raise her hand if she  
4 gets -- if I start talking too fast, if that's okay  
5 with the bench.

6 CHAIRMAN SCHMITT: That's fine.

7 THE WITNESS: Just so she can keep up, or to  
8 tell me to slow down probably is more --

9 Q. Mr. Satterwhite, do you have your testimony  
10 in front of you in support of the settlement  
11 agreement?

12 A. Yes.

13 Q. The second one or the more --

14 A. Yes.

15 Q. Okay. If you would turn to page 5 of your  
16 testimony. In the bottom, the very last sentence in  
17 it, that -- on that page beginning on line 19, if  
18 you could read that one sentence, please, that  
19 begins with "Representatives."

20 A. (Reading) Representatives of KCUC attended  
21 all three settlement conferences, and the signatory  
22 parties provided copies of all term sheets to KCUC.

23 Q. Okay. Thank you.

24 MR. GARDNER: Your Honor, if we may approach  
25 with respect to an exhibit.

1 CHAIRMAN SCHMITT: Yes, you may.

2 MR. GARDNER: Okay. It's -- we're going to  
3 label this as KCUC Exhibit 1, and Mr. Osterloh is  
4 going to hand everybody a copy of it, if it could be  
5 marked that way.

6 CHAIRMAN SCHMITT: Yes. Let it be marked  
7 as --

8 MR. GARDNER: Thank you, Your Honor.

9 CHAIRMAN SCHMITT: At this point for  
10 identification.

11 MR. GARDNER: Only.

12 (KCUC Exhibit 1 marked for identification.)

13 MR. OVERSTREET: And, Your Honor, just so I  
14 can understand, the -- that yellow highlight does  
15 not indicate confidential information?

16 MR. GARDNER: Correct. Correct.

17 MR. OVERSTREET: Okay. Okay. Just --

18 MR. GARDNER: There is -- as far as I know,  
19 there is nothing --

20 MR. OVERSTREET: Okay.

21 MR. GARDNER: -- in any of our exhibits.

22 Q. So, Mr. Satterwhite, are you familiar with  
23 this document from the Public Service Commission  
24 called Annual Report Statistics?

25 A. I have not reviewed this document before, no.

1 Q. Okay. Let me ask you -- I have highlighted  
2 the line Kentucky Power showing the number of  
3 customers, and it shows in there commercial  
4 customers 30,293 and industrial customers 1,191.

5 Do you have any reason to dispute those  
6 numbers from the -- from the 2016 annual report  
7 statistics, in rough -- roughly?

8 A. I'm checking my initially filed testimony to  
9 see if I actually discussed this. Give me one  
10 second. Maybe it's not in my testimony, maybe it's  
11 in somebody else's testimony in the case.

12 What I can say is, I am familiar and my  
13 testimony does include the around 168,000 customers  
14 total. How that breaks down between commercial and  
15 industrial I can't testify to, but I'm sure somebody  
16 can for the company. But I can't -- I can't  
17 validate this for sure.

18 Q. Sure. And do you have any reason to doubt  
19 that this came from the PSC's website, the annual  
20 report statistics for the different utilities?

21 A. I'm not going to say it didn't. I see it's  
22 page 1 of 2. I imagine page 2 is other utilities.  
23 I don't -- I don't like to -- I have a one page with  
24 nothing on the back, so I can't say either way.

25 Q. Okay. Do you have any objections to me

1 saying in this -- in my questions of you of  
2 approximately 30,000 commercial and approximately  
3 1,000 industrial customers in your territory?

4 A. You know, I guess we can treat it sort of as  
5 a hypothetical and someone later on can validate.

6 Q. Subject to check. Subject to check.

7 A. So I'd rather someone validate it within the  
8 record. There's always problems with subject to  
9 check of, when the hearing's over, how do you check  
10 it, how do you get something back in the record,  
11 but --

12 Q. Do you know --

13 A. For purposes of your questions, we can assume  
14 that, I think.

15 Q. Okay. I mean, do you want me to ask you  
16 specifically as to whom at Kentucky Power would have  
17 submitted this data that is on the website with the  
18 annual report? Do you want me to -- in order to  
19 validate it, is that what you would like to happen,  
20 at a break you determine who --

21 A. That's probably the best way. And I can even  
22 validate it at the break as well.

23 Q. Okay.

24 A. I'm not trying to be difficult, I just don't  
25 want to --



1 Q. Okay.

2 A. Because I haven't seen it before, I just want  
3 to be clear I haven't, but I'm sure we can validate  
4 this rather quickly.

5 Q. Well, we'll make sure that that happens at a  
6 break, and we'll have plenty of breaks over the next  
7 couple days, so we'll make sure that that happens.

8 But for purposes of my questions of you, I'm  
9 going to just refer to approximately 30,000  
10 commercial customers and approximately 1,000  
11 industrial customers.

12 A. Okay.

13 MR. GARDNER: All right. Your Honor, I have  
14 marked KCUC Exhibit Number 2, if we may approach and  
15 also provide that to the witness.

16 CHAIRMAN SCHMITT: Let it be so marked as  
17 KCUC Exhibit 2 for purposes of identification.

18 MR. GARDNER: Thank you, Your Honor.

19 (KCUC Exhibit 2 marked for identification.)

20 Q. What I have handed out in your -- are the  
21 tariff sheets for general service, the tariff sheet  
22 for large general service, and the tariff sheet for  
23 industrial general service. Are you familiar with  
24 these tariff sheets that were submitted as part of  
25 the settlement?

1 A. Yes. And these are the ones that are, on the  
2 bottom, date effective January 19th, 2018, so these  
3 are the proposed tariff sheets, correct? That's my  
4 understanding.

5 Q. Okay. So what I want to do is ask you a  
6 couple questions just to make sure I understand  
7 what -- how these tariffs will work and are supposed  
8 to work. One of the things is that, under the  
9 as-filed, the small and the medium general service,  
10 the small and medium commercial customer classes are  
11 being combined into Tariff GS, General Service?

12 A. Correct.

13 MR. GARDNER: Okay. And again, all of these  
14 highlights are mine, Mark, to make it ease -- Mr.  
15 Overstreet, to make it easier for the witness.

16 Q. So I've also highlighted that, this general  
17 service, which is the new where small and medium get  
18 put. Could you read that, how long -- or what's the  
19 upper limit until their maximum demand exceeds that  
20 in the GS?

21 A. So on the front page here under Rate, you're  
22 asking for the over 4,450 kilowatt hours?

23 Q. No. On the highlighted in the first  
24 paragraph about availability --

25 A. Oh, I'm sorry.

1 Q. -- for service.

2 A. I had should have taken your cue that you  
3 highlighted stuff for my ease.

4 Q. I'm trying to make this easy and fast.

5 A. It says maximum demand exceeds 100 kilowatts.

6 Q. Okay. So if there -- as it says in that  
7 first paragraph, if there's a general service  
8 customer and they have less than 100 kilowatts, this  
9 is the tariff that they would be served by?

10 A. And to be specific, it says, (Reading)  
11 Customers may continue to qualify for service under  
12 this tariff until their normal maximum demand  
13 exceeds 100 kW, excluding the demands served by the  
14 load management time-of-day provision.

15 Q. Perfect. You're allowed to read more than  
16 just -- just what I highlighted.

17 Okay. So let's turn to the next sheet, which  
18 is large general service, and could you read the  
19 first paragraph there? And, of course, read it all.

20 A. Sure. Under Availability of Service, the top  
21 of regional tariff sheet 9-1, (Reading) Available  
22 for general service to customers with normal maximum  
23 demands greater than 100 kW but not more than 1,000  
24 kW, excluding demands served by the load management  
25 time-of-day provision.

1 Q. Okay. And let's go to the third sheet there,  
2 which is Tariff IGS, the industrial general service.  
3 Could you read that same language, please?

4 A. Sure. (Reading) Available for commercial and  
5 industrial customers with contract demands of at  
6 least 1,000 kW. Customers shall contract for a  
7 definite amount of electrical capacity in kilowatts  
8 which shall be sufficient to meet the normal maximum  
9 requirements.

10 Q. Okay. So let me -- let me repeat, just to  
11 make sure this is correct. Up to 100 kilowatts, and  
12 I understand that, it's you're in the general  
13 service. Between 100 and 1,000 you're in large GS,  
14 large general service. And above 1,000 you're in  
15 IGS, the industrial general service?

16 A. Those would be the qualifications listed in  
17 these tariffs, yes.

18 Q. Okay. And is there any reason why a -- that  
19 a -- for example, a large -- well, is there any  
20 reason why a manufacturer, for example, that has  
21 less -- a small manufacturer, a small industry, has  
22 a load that does not reach above 1,000 kilowatts,  
23 would that person be served under the large general  
24 service?

25 A. I'm not sure if there's other criteria that

1 would put them in beyond a special contract, but  
2 clearly here the availability for these tariffs  
3 depends on the maximum demand of what they would  
4 use, so whatever that is, they would fall into that  
5 tariff.

6 Q. Okay. So -- but -- so again, if it was a  
7 manufacturer, except for what you've described, that  
8 person would be served under this as opposed to a  
9 large industrial -- the large industrial class?

10 A. Yes. Their usage would match with which  
11 tariff is in here, and that's how they would be  
12 served.

13 Q. Okay. So the way that these tariffs are set  
14 up, they're really not set up on the type of  
15 business, the function of the business, whether it's  
16 a manufacturer, whether it's retail, whether it's a  
17 large Wal-Mart, it's not set up that way? These  
18 tariffs are driven by the -- the actual maximum K --  
19 the normal maximum demands, that's what determines  
20 which of these classes?

21 A. Maybe, I would say. The caveat is, I have  
22 some really good customer service people and they  
23 get very creative working with people located in our  
24 territory. So I think this is the standard that's  
25 used. I don't want to say this is absolute. There

1        might be something else that I'm just not aware of  
2        in my position, but as a general sense, the first  
3        line here is sort of the eligibility of how they  
4        would -- how they would be used, and the type of  
5        business I don't think would enter into this, but  
6        the caveat being that the people that do this every  
7        day might -- might know of something I'm not  
8        thinking of.

9        Q.        Okay. So -- one second. So -- and let's go  
10        back to the -- the third one, the industrial general  
11        service with the demand, maximum demand -- excuse  
12        me. And would it -- the tariff says industrial  
13        general service, but the first -- how it describes  
14        who's eligible, it says available for commercial and  
15        industrial customers. So if a commercial customer  
16        had more than a thousand kW, that commercial  
17        customer would be served under the industrial --  
18        this industrial tariff?

19        A.        Yeah. I think this isn't trying to pick  
20        labeling what class a customer fits in. It's trying  
21        to say for purposes of if you use a certain amount  
22        of power, this is the tariff that's available to  
23        you, sort of the contract with you that you can  
24        count on if you're going to be operating in our  
25        territory.

1 Q. Okay. And this -- other than what I  
2 described with respect to the combining of the two  
3 smaller general tariffs, this is the format that  
4 you-all already use? This isn't new for Kentucky  
5 Power with this rate case?

6 A. You mean the tariffs that we use and the --

7 Q. Correct.

8 A. -- the values? That's my understanding, yes.

9 Q. Okay. And another approach might have been  
10 to use NAICS? I mean, there may have -- the North  
11 American Industrial, whatever those standards are,  
12 to determine which is in -- which customer is served  
13 by which class, but these do not -- but these  
14 tariffs you're looking at load; is that correct?

15 A. Yeah. I'm not familiar with the NAICS  
16 example that you brought up. I will say that when I  
17 came in, I took our entire company across the board  
18 and said, "I want to understand everything we're  
19 doing here and what options we have in the case,"  
20 and that didn't come up as a change --

21 Q. Okay.

22 A. -- that would want to be proposed.

23 Q. Okay. So if a -- so it wouldn't surprise you  
24 if, in fact, there were some retail customers  
25 serviced under the Tariff IGS, the Industrial

1 General Service?

2 A. My expectation would be that we look at the  
3 sentences that we've talked about, and if a customer  
4 fits in there, that's available to them. It's not  
5 that we're labeling and saying -- judging customers,  
6 I guess. The purpose of tariffs, as you know, is to  
7 put a contract out there for customers in the public  
8 domain so they can count on something and know what  
9 tariff class they fit into. And so people can fit  
10 in here regardless of what they may label themselves  
11 in their everyday business.

12 Q. Okay. So it wouldn't surprise you if one of  
13 the representative members of the commercial class  
14 being Appalachian Regional Health Care is served --  
15 part of their load is served under this tariff, the  
16 IGS?

17 A. Under the IGS tariff?

18 Q. It wouldn't surprise you if that were true?

19 A. I guess I'm just struggling with the word  
20 "surprise." If someone is served under the IGS  
21 tariff, we consider them an IGS customer, because  
22 that's the tariff that's guiding them.

23 Q. Okay.

24 A. So while they may call themselves commercial  
25 or IGS for purpose of the company, if you fit within



1 the tariff, we're considering you IGS.

2 Q. Okay. And that's very precise. I mean, I  
3 hear you say that there are -- you know, you could  
4 have asked -- you know, you could get your customer  
5 service to see if there's some creative way to get  
6 somebody to a favorable tariff, but other than that,  
7 these -- this 1,000 and this 100, I mean, those are  
8 precise?

9 A. This is the standard way of looking at how  
10 you fit into a classification of tariff.

11 Q. Okay. Likewise, in part of the testimony  
12 later on there's testimony about the importance of  
13 manufacturing jobs and that one of the reasons for  
14 that being so and to the -- to the company, but not  
15 all manufacturers, not all people who add value to  
16 products necessarily end up in the industrial class,  
17 correct?

18 A. Customers can end up anywhere. The  
19 industrial class really is the economic driver in  
20 the region. The way I look at it is, someone that's  
21 typically an IGS customer could probably locate  
22 anywhere in the country, and so the competition is  
23 not just regionally around population centers, it's  
24 more of a type of industry, a larger manufacturer  
25 that could go across the river to Ohio or West

1 Virginia, could go to California. So an IGS  
2 customer is someone I think could be more mobile.

3 Q. Okay. But they -- but that doesn't mean they  
4 are more mobile? I mean, you're -- I mean, that's  
5 just your -- your summation -- your belief that  
6 that's the case?

7 A. Nothing -- nothing's an absolute. I'm just  
8 saying in general how I look at the customers, and  
9 typically the ones with IGS are the ones that I know  
10 we're competing with with other states, now that  
11 I've been so involved in economic development. So  
12 we'll look at that tariff. That's really what we're  
13 comparing to someone that is competing nationally.

14 Q. Okay. But those are not necessarily the only  
15 customers that fit into that particular class?

16 A. No. You talked about the hospital.  
17 Obviously the hospital wants to be near where  
18 patients are going to be, and they might not be in  
19 California serving Eastern Kentucky, so obviously  
20 there's exceptions.

21 Q. Okay. And so your tariff structure is really  
22 just a convenient sort of general way of looking at  
23 the different classes, commercial and industrial; is  
24 that correct?

25 A. Again, I think the label you're putting on,

1 is a convenient way to look, that's what I'm  
2 struggling with in your question. It's based on  
3 usage and it's a convenient way to put a tariff out  
4 there for the public to understand what their price  
5 is going to be if they locate there.

6 Picking whether you're commercial or  
7 industrial as a label, quote, unquote, the Company  
8 really isn't interested in. It's a matter of  
9 letting companies know, when you run your metrics  
10 and you run your dollars and your usage, where are  
11 you going to fit when you locate.

12 Q. Okay. And, I mean, you've already talked  
13 about this, but economic development is very  
14 important, is an important -- is important to you,  
15 it's important to the Company, and you've spent a  
16 lot of time with economic development on behalf of  
17 the Company; is that correct?

18 A. It's not just important, it's vital. I  
19 mean --

20 Q. Okay.

21 A. -- you know, when I -- when they asked me and  
22 I was considering becoming president of Kentucky  
23 Power, I looked at the financials and knew a rate  
24 case was needed. And the regulatory compact says a  
25 company has the ability to file rate cases because

1 they have a right to earn a fair return. But I knew  
2 over time you can't just constantly come in and file  
3 rate cases, so you have to change the denominator  
4 overall to be respective of your community and your  
5 whole region.

6 And so I came in as my number one goal, after  
7 the safety of my employees, is economic development.  
8 We've gotta put all of our efforts into there. We  
9 gotta tear down county lines, political lines and  
10 everything and be one big region. And I think we've  
11 been successful in that so far.

12 A lot of the groundwork was laid before I  
13 even got there. But it really is what we're focused  
14 on every day, because we need to change the face of  
15 Eastern Kentucky and bring the diversity of industry  
16 there. And that's going to help heal not just the  
17 concerns people have with the electric rates but  
18 everything else. All the social issues that  
19 sometimes get mixed up when someone comes in and  
20 asks for an increase under the regulatory compact,  
21 those social issues also get taken care of when we  
22 rise all boats with economic development.

23 Q. The -- do you remember speaking at a  
24 Leadership Kentucky presentation in Hazard that I  
25 happened to be at?

1 A. I do remember, yes.

2 MR. GARDNER: All right. So we'd like to  
3 hand out, if we may, Your Honor, KCUC Exhibit 3.

4 CHAIRMAN SCHMITT: Let it be so marked as  
5 KCUC Exhibit 3.

6 MR. OVERSTREET: I'm sorry, Your Honor. Did  
7 you say 2 or 3?

8 CHAIRMAN SCHMITT: This is 3.

9 MR. OVERSTREET: Three. Okay. That's what I  
10 thought you said. Thank you.

11 (KCUC Exhibit 3 marked for identification.)

12 Q. (By Mr. Gardner) Mr. Satterwhite, are you  
13 familiar with this document, this Exhibit 3?

14 A. Yes. I was just flipping through. Yes, this  
15 is the document I presented to your group.

16 Q. And if you would turn to page 7 of that  
17 doc -- unnumbered 7. It doesn't have a number.

18 A. I apologize. That makes me a bad presenter,  
19 right? I didn't number my pages.

20 Just for clarification, is that the defense  
21 of aviation?

22 Q. Yes. Yes. And in the middle of the page on  
23 the left it talks about those skills that are  
24 existing there, and it talks about transition into  
25 these industries. And one of those industries is

1 automobile part manufacturing, one is aerospace.

2 And by the way, you're pretty aggressive in  
3 pursuing aerospace as an industry, right?

4 A. It's the -- it's the leading opportunity we  
5 have to diversify the economy in Eastern Kentucky,  
6 so yes.

7 Q. Okay. And you also mention in this wood  
8 product manufacturing.

9 A. I'm sorry, I missed that last part.

10 Q. You -- right beside aerospace you mention  
11 wood product manufacturing.

12 A. I'm not seeing where that is on here.

13 MR. OVERSTREET: May I?

14 MR. GARDNER: Sure. Sure.

15 A. Oh, in the -- yes. Okay.

16 Q. Do you see that?

17 A. I see that now. I was looking on the side,  
18 the language on the side. Yes, I see that.

19 Q. Okay. And you're aware, aren't you, that one  
20 of the representatives for KCUC is, in fact, in wood  
21 product manufacturing and operates mills in east --  
22 in the territory of Kentucky Power?

23 A. Yes. And, in fact, one of the first meetings  
24 I had before I was president was with that  
25 individual.

1 Q. Okay. And you know that in spite of the fact  
2 that they are adding -- that's an important  
3 industry, isn't it? Because it meets the  
4 qualifications of adding value that could be  
5 exported.

6 A. It's an important industry because any  
7 industry in Eastern Kentucky is important.

8 Q. Okay.

9 A. So -- and also it can be exported as well.

10 Q. Okay.

11 A. I don't want to pick winners and losers of  
12 what's not an important industry. I want to support  
13 everything.

14 Q. The -- are you aware that that is serviced  
15 not under the industrial but under the commercial  
16 class?

17 A. I have not reviewed their bill to see what  
18 class they're under.

19 Q. Okay. Do you remember also at that meeting  
20 where you indicated that at the current time you're  
21 not recruiting as -- businesses that you're looking  
22 at do not include data centers because data centers  
23 are not producing -- although they generate a lot of  
24 kilowatt hours, they're not -- they don't provide  
25 many jobs?

1           A.       Yeah.  What I was explaining there was what I  
2           look at when I go to look for companies, and my goal  
3           was to bring large users that have a lot of jobs.  
4           So if they have very few jobs, I don't want to use  
5           the precious flat ground we have in Eastern Kentucky  
6           for something that would just help the utility  
7           company with usage, I want to provide the balance to  
8           make sure I bring a lot of the jobs would that to  
9           bring people -- put back -- people back to work that  
10          are there and bring people back that have left.

11          Q.       Okay.  As you go out recruiting, is -- do  
12          recruit -- do companies ask about the education, or  
13          is the education that they'll be going to important?

14          A.       Yes.  Brad Hall, who talks with more  
15          companies than me -- I tend to get involved when  
16          it's a likely prospect to come in.  Brad Hall, who  
17          hopefully you'll get the chance to talk to and can  
18          really tell the story of all the work that's been  
19          done here, because it's exciting, he might have a  
20          better explanation for that.  But the companies that  
21          I have met with, education is important.

22          Absolutely.

23          Q.       And I'll ask him that as well, but if I could  
24          ask you likewise, is high-quality health care such  
25          as ARH important when they -- for companies that



1 would be coming to Eastern Kentucky?

2 A. The companies I've talked with, the education  
3 is really focused on training the skilled worker and  
4 can it be adjusted. We have the best -- you know,  
5 the technical schools that we have here in Kentucky  
6 are the best I've seen anywhere I've lived, and I've  
7 lived a lot of states, and they have really been  
8 open to changing their curriculum.

9 If I bring a company in, let's say from  
10 Germany, and they want to have a specific system put  
11 in place, all the technical schools have said,  
12 "We'll change our curriculum directly for that."

13 So on education, that's really what the focus  
14 has been.

15 I'm sorry. Was your question, though, health  
16 care? Was that a separate question?

17 Q. Health care. Yeah, second, is that --

18 A. Health care has not come up in the  
19 conversations I've had with these companies as  
20 something that they're looking for. I'm sure it's a  
21 concern every company has.

22 As an executive, I know that's a concern, but  
23 that's not come up in the lead conversations.  
24 That's not why someone's locating in Eastern  
25 Kentucky. They're locating for the skilled

1 available workforce that we've documented that we  
2 have and the opportunities that they have in the  
3 area.

4 Q. Is it an important asset to have high-quality  
5 health care?

6 A. I think benefits are always an important  
7 thing that any company, hopefully, with a good  
8 corporate culture is looking for for their -- for  
9 their employees.

10 Q. So the answer is yes?

11 A. Well, is your question about what people --  
12 are you asking me individually or for what companies  
13 have --

14 Q. Well, I'm asking you individually or as the  
15 president of Kentucky Power, is having high-quality  
16 health care such as ARH of value?

17 A. Absolutely.

18 Q. Okay. Kentucky Power -- excuse me. KIUC had  
19 a particular witness named Barry Kornstein who  
20 talked about economic development. Do you know him?

21 A. I do not know him.

22 Q. Okay. Did you read his testimony?

23 A. I'm trying to think. I don't remember that  
24 name. I'm sure I read it, but I don't remember  
25 specifics right now.

1 Q. Okay. He indicates in his testimony, and I'm  
2 just going to say this generally, that manufacturing  
3 is important because of its in the global market,  
4 you're exporting products, and he also mentions  
5 sawmills and wood product processing.

6 Do you have any --

7 MR. OVERSTREET: Your Honor, could I show the  
8 witness that page of the testimony?

9 MR. GARDNER: Sure. It's page -- he mentions  
10 that -- yeah, you can do that. It's page 6 of his  
11 testimony.

12 MR. OVERSTREET: May I approach?

13 CHAIRMAN SCHMITT: Yes, you may. Yes, you  
14 may.

15 THE WITNESS: Thank you.

16 MR. OVERSTREET: Mr. Gardner, I think you  
17 said page 6?

18 Q. Page 6 of his testimony, and lines 16 through  
19 20. And among others he mentions wood product  
20 processing.

21 A. So here it's referring to the top 13  
22 industries that he's found in the territory, and he  
23 mentions chemical manufacturing, food processing,  
24 wood product processing, tire manufacturing, and  
25 metal production.

1 Q. Okay.

2 A. Is that what you're referring to?

3 Q. Yes, sir. And then in his report, which is  
4 attached as an exhibit, on page 3 of his report.

5 A. Okay.

6 Q. That very last line in the first paragraph  
7 that begins with "Though not necessarily labeled in  
8 the chart, the industries include." Do you see that  
9 sentence? Page 3 of his report, the economic  
10 importance of industries in Kentucky and electric --

11 A. I see a paragraph that starts "However" and a  
12 paragraph that starts "With." Which one are you  
13 referring to?

14 Q. This is page 3 of his -- of his attachment to  
15 his testimony.

16 A. Yeah. Does the last paragraph start with the  
17 word "With"?

18 Q. No. I'm sorry. I'm talking about the  
19 paragraph that says "The figure below."

20 A. Okay. Now I'm with you.

21 Q. And then I'm talking about the last sentence  
22 in that paragraph.

23 A. Okay.

24 Q. If you could read that.

25 A. Let me read the whole paragraph real quick.

1 Q. Sure.

2 A. Okay. I've read it.

3 Q. And if you could read out loud that last  
4 sentence.

5 A. Though not -- it talks about the industries  
6 in the overall paragraph, what's found in the  
7 counties, and then it says, (Reading) Though not  
8 necessarily labeled in the chart, the industries  
9 include chemicals, both human and animal food  
10 manufacturing, sawmills, and iron and steel plants.

11 Q. Okay. Thank you.

12 A. If you have further questions, I think,  
13 again, Mr. Brad Hall would -- he's more in touch  
14 with the exact industries at every level in the  
15 territory.

16 Q. As -- if you could turn to your own  
17 testimony, the same one that we were -- on page 9 of  
18 your testimony, please.

19 MR. OVERSTREET: And this is the settlement  
20 testimony?

21 MR. GARDNER: Settlement testimony.

22 MR. OVERSTREET: Thank you, Mr. Gardner.

23 MR. GARDNER: And that's the only testimony  
24 that I'll be asking questions from.

25 MR. OVERSTREET: All right. Thank you.

1 Q. And at the top of page 9, if you could read  
2 the sentence beginning "The signatory parties."

3 A. Sure. (Reading) The signatory parties used  
4 the decrease in the revenue requirement first to  
5 remove the subsidy provided to the residential  
6 customers by the industrial customers receiving  
7 Tariff -- receiving service under Tariff IGS.

8 Q. So what -- tell me what that means. What  
9 happened?

10 A. The settlement provided a unique opportunity  
11 with an idea that was first raised in the KIUC  
12 testimony to reduce the revenue requirement by using  
13 a creative option for deferral of some Rockport  
14 costs and some other things that we worked in  
15 through settlement. We found a level that we could  
16 be comfortable with with the balance of everything  
17 else in the settlement testimony, and so there was  
18 an overall decrease in the revenue requirement.

19 So we took that -- and one of the goals of  
20 the Company overall has always been -- and the  
21 Commission in the past has been to gradually move  
22 away from the subsidies that a lot of classes have  
23 provided to the residential customers.

24 And this provided an opportunity to start  
25 with that economic sort of theme that we have

1 economic development, remove the subsidy from the  
2 industrial class, the largest sort of national-view  
3 companies, and remove that subsidy and then still  
4 apply some of that benefit that you can only get  
5 through that settlement to the other classes as well  
6 to reduce overall the rates for everyone.

7 Q. Okay. So in other words, what the settlement  
8 did, which was not asked for in the -- you-all's  
9 original application, was came close or  
10 approximately made that industrial class, those  
11 thousand or so, quote, industry or commercial  
12 customers in that class were reduced basically to  
13 cost?

14 A. Yeah. The goal was to reduce the subsidy on  
15 them to fit the overall theme of the economic  
16 development and attracting new industry from all  
17 over the country and all over the world in Eastern  
18 Kentucky. So that's where we applied the first  
19 part.

20 And then we made sure that the impact of the  
21 creative balance in the settlement agreement could  
22 also help all the other classes as well by  
23 decreasing the cost. But it started with the  
24 industrial class, trying to remove that subsidy.

25 Q. Okay. And that first reduction was not

1 applied to all the other classes, correct?

2 A. Correct.

3 Q. Okay. And you --

4 A. You can't -- you really can't, in one case,  
5 probably do that for everyone. As we said -- as I  
6 said before, the Commission has talked about  
7 gradualism of moving towards that, but the  
8 uniqueness of this settlement provided an  
9 opportunity really to hear and respond to what we  
10 have heard in the public hearings and everywhere  
11 else: How are you going to attract major business,  
12 major industrial customers? And so this gave us a  
13 chance to apply that to the IGS rate.

14 Q. But that was not gradualism with respect to  
15 that class, that was basically with one fell swoop  
16 that was done, right?

17 A. It was not -- because there was such a big  
18 movement and balance provided by the settlement  
19 agreement, there was a large an opportunity to  
20 really take care of an issue that -- I don't want to  
21 get too close to what we talked about in settlement  
22 discussions, but I think publicly people would all  
23 say, you know, new rates, there's concern about  
24 industry moving in, the large, high-volume,  
25 lots-of-employee industries, and so we took -- we



1 seized upon that opportunity, as you can see  
2 reflected in the settlement, to take away that  
3 subsidy to try to make sure we don't have that risk  
4 as we move forward with all the companies I'm  
5 talking to every day.

6 Q. Even though some of the -- I don't know how  
7 many, but even though I can -- I would assume many,  
8 some of the -- those who take tariff under IGS are  
9 not these -- do not have large amounts of jobs, and  
10 people on the other side of that 1,000 kilowatt  
11 line, such as wood products manufacturing or  
12 sawmills, provide jobs, lots of jobs, they export,  
13 and they're not on that line, so -- across that  
14 line, right?

15 A. They're not on the IGS?

16 Q. Yeah.

17 A. That's correct. That doesn't mean that  
18 there's, you know, any less concern for those  
19 businesses. This was just a matter of -- you know,  
20 they all received, as a result of the balance in the  
21 settlement, a decrease in the expected increase that  
22 comes from this rate case.

23 The settlement, though, goes above and beyond  
24 that and really supports the overall -- overall  
25 efforts of what we're trying to do in the region,

1 and you can't take away everything for everyone in  
2 subsidies from the beginning, because then the  
3 residential customers are paying a lot more.

4 What this did was not add to the residential  
5 customers and allowed them to also have a decrease  
6 but also still support the overall theory of the IGS  
7 customers. The large 900, 1,000 jobs that could  
8 come in, I can go attract those now. I have a  
9 better chance of doing that. Which a lot of the  
10 commercial customers, there are some that look more,  
11 walk and talk like an IGS customer and are served  
12 under that tariff, but also a lot of those are  
13 really dependent on me and the communities and the  
14 judge execs and everyone else working together to  
15 bring in those large companies so that the hair  
16 salons, the fast food places, the restaurants, all  
17 those can open up because they can cluster to when I  
18 bring in those IGS customers.

19 Q. So it's your opinion that giving that subsidy  
20 to that class was -- and that others who are close  
21 to that -- who had some of the characteristics that  
22 you want which are not in that class, that that's  
23 fair, just, and reasonable?

24 A. I wouldn't say I have given a subsidy to any  
25 class. It's removing a subsidy.

1 Q. Excuse me. Correct.

2 A. So what it does is it starts to work towards  
3 sort of where most commissions want to be, you know,  
4 cost-causer, and it starts with the IGS. That's  
5 where we started with this.

6 So we had an opportunity, because we were  
7 decreasing the revenue requirement, to start with  
8 that largest class, and that's just where we  
9 started.

10 Q. So you believe that's fair, just, and  
11 reasonable?

12 A. Yes. Absolutely. It's good for economic  
13 development, it's good for Eastern Kentucky, and I  
14 know it's going to help me bring more jobs to the  
15 region.

16 Q. Let me ask you if you could turn to your  
17 testimony, please, again, or keep it there. And on  
18 page 2 and 3 -- starting on line 18 of page 2 you  
19 say, "The major terms of the settlement agreement,"  
20 in your testimony.

21 A. Page 2, line 18, that's where I start to  
22 summarize the major terms, yes.

23 Q. Okay. And the next page, item number 8 is  
24 the Kentucky Economic Development Surcharge?

25 A. Yes.

1 Q. And this was where -- so do you recall what  
2 was in the -- in the application with respect to  
3 KEDS --

4 A. Yeah.

5 Q. -- and what the change was in the settlement?

6 A. Let me start with what we have currently  
7 today in rates.

8 Q. Great.

9 A. That's a 15-cent charge that customers pay,  
10 and then shareholders match that dollar for dollar.

11 Q. All customers, no matter what the class?

12 A. It's been per meter.

13 Q. Okay.

14 A. And in the application that we filed, we  
15 proposed, after talking with our community groups --  
16 and they were very encouraged by this and thought it  
17 was a great program, and we knew there was lots of  
18 need for it. We increased that to 25 cents per  
19 meter.

20 Through settlement negotiations, that changed  
21 to what's reflected here, where it decreased that  
22 amount to 10 cents overall for residential customers  
23 per meter and increased it to \$1 for nonresidential  
24 customers.

25 Q. Okay. So that that -- so -- and that was

1 done in the settlement, where the per meter was --  
2 for the nonresidential customers was increased to  
3 \$1?

4 A. That's a result of the balance of the overall  
5 settlement agreement, correct.

6 MR. GARDNER: And we'll hand out Exhibit  
7 Number 4, please, Your Honor, KCUC Exhibit 4. And  
8 this is part -- or Exhibit Number 1 to the  
9 settlement agreement. And again the yellow is what  
10 I marked.

11 A. Just to be clear, this is what's already in  
12 the settlement -- the attachment to the settlement  
13 agreement?

14 Q. Yes.

15 A. This is the same document?

16 Q. This came from that, yes.

17 A. Okay.

18 Q. And your attorneys can check that, but --

19 MR. OVERSTREET: I have. Thank you.

20 Q. Okay. So this is -- so in -- so I've  
21 highlighted HEAP KEDS. And so what you see here is  
22 what the -- if you look at SGS and you look at the  
23 lines MGS and you add those two together, you get  
24 the 316,830, which is the new category GS?

25 A. Correct. SGS and MGS are just shown for ease

1 of understanding what changes were, but GS is the  
2 category.

3 Q. Okay. And where -- and the total, then, in  
4 GS, the small- and medium-size customers is what,  
5 the increase?

6 A. The amount listed here is \$316,830, and that  
7 represents the \$12 a year that each commercial  
8 customer would pay for the program.

9 Q. Okay. And that's, in broad terms, consistent  
10 with this notion that there are 30,000 commercial  
11 customers serving -- served?

12 A. Yes. I could probably do the math and see --

13 Q. Okay.

14 A. -- divide that and see how many customers  
15 there are, but yes.

16 Q. Okay. So --

17 A. It's the \$12 times the number of commercial  
18 customers.

19 Q. Okay. And the increase -- what is the  
20 increase to IGS?

21 A. IGS is \$694.

22 Q. Okay. So my question for you is: Do you  
23 believe that that big increase to small and medium  
24 commercial customers of 316,000 is fair, just, and  
25 reasonable?

1 A. Yes.

2 Q. Okay.

3 A. The overall theory of this, again, is, you  
4 know, we want to -- we want to help all our  
5 communities. A lot of the grants that we're able to  
6 give out do help commercial customers, a lot of very  
7 small customers.

8 Mr. Hall can talk about the organizations  
9 that have already opened up. I'm thinking of the  
10 helicopter manufacturing company, Thoroughbred, and  
11 others that would fit into that classification.  
12 There's a real benefit, a lot of opportunity for  
13 them there. And also, again, if this is -- this  
14 is --

15 Q. And, excuse me --

16 A. -- a matter of the number of customers, and  
17 it's the \$12 a year for the number of customers to  
18 benefit the whole region.

19 Q. So -- I'm sorry. So the manufacturing one  
20 that you described, that takes service under  
21 commercial?

22 A. I'm not sure. I think they do, because it's  
23 not a large company. It's a small -- really it's a  
24 maintenance facility.

25 Q. Okay. If you could turn to your testimony

1 again, please, Mr. Satterwhite, pages 13 and 14.

2 I'm sorry. The settlement. Excuse me. The  
3 settlement.

4 A. The settlement agreement?

5 Q. Yes.

6 A. I am there.

7 Q. Okay. So the last sentence on page 13 of the  
8 settlement, continuing over to the top line on the  
9 next page, could you read that, please?

10 A. Sure. This is under the Tariff K-12 School,  
11 extension of what we were doing before, and it says,  
12 (Reading) Tariff K-12 School shall reflect rates for  
13 customers taking service under the tariff designed  
14 to produce annually in the aggregate \$500,000 less  
15 from Tariff K-12 School customers than will be  
16 produced under the new LGS rates to be established  
17 under this settlement agreement from customers  
18 eligible to take service under Tariff K-12 School.

19 Q. Okay. So this is the 500,000 that was  
20 discussed earlier that basically came out of the  
21 settlement? The 500,000 came from LGS to public  
22 schools?

23 A. Yes. I would state it a little differently.  
24 This is the continuation of what was in existence  
25 with the rates that we have today. That wasn't



1 proposed by the Company in the case, but at a  
2 settlement, it was a term that was decided by the  
3 parties to continue.

4 Q. Okay. And so in addition to LGS not getting  
5 to participate in that first line of reducing  
6 their -- the IGS costs, this is -- LGS is  
7 actually -- their subsidy of other classes actually  
8 increases with this \$500,000 subsidy?

9 A. Not from the rates in existence today.

10 Q. Okay. It is nonetheless a -- it was added  
11 during the settlement to take -- to reduce -- to  
12 increase the subsidy that -- I'm not -- it's -- get  
13 that right.

14 But it -- this 500,000 provides, in effect,  
15 that LGS is then subsidizing the public schools to  
16 the extent of 500,000?

17 A. That's -- you know, I don't know if I agree  
18 with the terms, but the impact of the result of  
19 continuing the program that we have now, that  
20 \$500,000 comes from that LGS class, yes.

21 Q. And that was not in the original application?

22 A. Correct.

23 Q. That arose out of the settlement?

24 A. Yes. It's here now because of the  
25 settlement, but it's also in existence today with

1       our rates. That's where I'm struggling with the  
2       "arose out of."

3       Q.       You can tell you're a lawyer. And I'm not  
4       trying --

5       A.       I try not to be.

6       Q.       So I'm -- and you believe that that is fair,  
7       just, and reasonable --

8       A.       Yes.

9       Q.       -- to -- and although these -- this --  
10       although in your major terms, bullets, at the  
11       beginning of your testimony, you talk about the --  
12       in paragraph 10 you talk about the school energy  
13       manager and Tariff K Through 12. You don't mention  
14       as a major term that that 500,000 to support that  
15       program is coming just from LGS, do you?

16       A.       The purpose of the major terms is to sort of  
17       give a quick summary of here are the topics, you can  
18       read more about the details. If I had all the  
19       details in the major -- in the sort of executive  
20       summary, there would be no reason to have a summary.  
21       You wouldn't have a summary.

22               So, no, it doesn't include it, but it  
23       includes it later in the testimony.

24       Q.       Okay.

25       A.       Especially since I -- you know, to me, when I

1 was preparing this, since it's a continuation of  
2 what we already have in existence, it was sort of --  
3 I was able to just display that.

4 Q. One second. If we could turn to your  
5 testimony on page 23.

6 A. I'm there.

7 Q. And so -- and in the middle of that page  
8 you're talking about these two tariffs, the Tariff  
9 CS-Coal -- Coal, and Tariff CS-IRP.

10 MR. GARDNER: And I'd like to have marked  
11 KCUC Exhibit 5, which are likewise those tariffs.

12 MR. OVERSTREET: Excuse me, Mr. Gardner. Are  
13 these the currently filed tariffs, or they appear to  
14 be the --

15 MR. GARDNER: Yeah, they're attached to the  
16 settlement.

17 MR. OVERSTREET: Okay.

18 CHAIRMAN SCHMITT: Let 4 and 5 both be marked  
19 for identification.

20 MR. GARDNER: Thank you.

21 (KCUC Exhibits 4 and 5 marked for  
22 identification.)

23 Q. So there are two different tariffs that  
24 you're talking about, and I've handed you those two  
25 tariffs. So the first is Contract Service-Coal

1 Power and the second one is Contract Service-  
2 Interruptible Power.

3 And I'd like to ask you -- and I understand  
4 the purpose of this in general, and you're welcome  
5 to, you know, elaborate if you like, but it's to  
6 encourage coal companies to reopen or so that -- so  
7 that they -- so that that benefits the customer  
8 base, and so I understand that, but I'm trying to --  
9 so in conditions of service on that page, on the  
10 first one of Contract Service-Coal Power, that last  
11 paragraph that begins with, "The customer shall  
12 contract for capacity sufficient," if you could read  
13 that, the rest of that, and then I need to ask you a  
14 question about that.

15 A. Sure. It says, (Reading) The customer shall  
16 contract for capacity sufficient to meet normal  
17 power requirements, but in no event will the amount  
18 contracted be for less than 1,000 kW at any delivery  
19 point.

20 Q. So does that mean that a mining operation, a  
21 coal mine that is not served under IGS because of  
22 the 1,000 kilowatt would not be eligible for this?

23 A. Well, I have to check here. Yes, that would  
24 mean that. I just paused because what -- as you  
25 said, the goal of this really was to do what we

1           could do to see what -- how we could help the coal  
2           industry in Eastern Kentucky. And there was a sense  
3           that some of the tariffs that we had available  
4           currently coal companies weren't eligible for.

5           And so I sat down with my team and I said,  
6           "Assume -- presume nothing. What can we do to  
7           reduce barriers for coal operations, to get the  
8           regulatory world out of the way and let the coal  
9           companies tell us what they can do to operate and  
10          reopen?"

11          And so some of these -- I don't know if these  
12          were clarifications for preexisting conditions just  
13          in the interruptible and the general tariffs and  
14          they just followed this to make it clear that coal  
15          now also fits in that territory -- in that category.

16          Witness Wohnhas might know better, because  
17          he's the one that helped put this together for me so  
18          we could provide this benefit for coal.

19          So yes. The short answer is yes, that's what  
20          that means. I don't know if that's because it's  
21          parroting a different tariff we had in place and  
22          we're just clarifying to let the coal companies know  
23          they are now eligible for this.

24          Q.       But it's only the large coal mines?

25          A.       The ones that are above this category of

1 1,000 kW, correct.

2 Q. Okay. Even though on line 16 of your  
3 testimony you state, (Reading) Many of the coal  
4 operations are served under Tariff IGS.

5 So you acknowledge that there are coal mine  
6 operations that are not served under IG -- Tariff  
7 IGS, which is the -- you know, the 1,000 kilowatt  
8 IGS?

9 A. I'm not sure I understand your question. Can  
10 you ask it again?

11 Q. Well, my question is: So there are coal  
12 operations that are not served -- in your territory  
13 that are not served by Tariff IGS?

14 A. Correct.

15 Q. Okay.

16 A. And I think the goal of this overall was to  
17 let coal companies know -- was to open a  
18 conversation so that they would approach us. If  
19 there's someone that fits under less than this, they  
20 can approach us and then we have opportunities,  
21 under the provisions the Commission allows us, to  
22 approach the Commission if it makes sense.

23 We knew we couldn't do a bunch of, you know,  
24 quick hits, tiny things overall and sort of create a  
25 new tariff class for coal in the absence of a rate

1 case, but certainly one of the tariffs that we  
2 proposed and the Commission approved was -- you  
3 know, there's no pride of authorship with us. If  
4 they have a great idea, bring it to us. And the  
5 ultimately the Commission is the check and balance  
6 to make sure it makes sense for all customers, but  
7 any customer, any coal customer can come to us, and  
8 if it makes sense, we'll present that to the  
9 Commission for their decision, to see how we can all  
10 be supporting coal.

11 Q. So you're saying that that 1,000 kilowatt  
12 is -- should not be viewed as a barrier to  
13 participation by a small -- a smaller man -- a  
14 smaller coal company to participate in because you  
15 then present -- you have to come to the Commission  
16 to get approval for that?

17 A. What I'm saying is, I don't know if this is  
18 all three of the tariffs that were approved. It's  
19 sort of a suite of options for the companies. And  
20 this will let a company know -- and the Commission  
21 approved it, so companies would know they could  
22 automatically count on this. And that's what the  
23 tariff sheets really are, it's the contract with the  
24 customers. You can do it, you can take advantage of  
25 it.

1           But we also wanted to tell companies, "If you  
2           have other ideas, come to us, and we're more than  
3           willing to talk to the Commission about presenting  
4           those ideas."

5           So if a coal company is watching and sees  
6           this, they're less than 1,000 kW and they have an  
7           idea, I'd say at least come talk to us. It might  
8           not work, but we want conversation to go, we're  
9           succeeding at that with a lot of companies, and we  
10          could present something to the Commission.

11         Q.       So you do not view this 1,000 kW as truly a  
12         barrier?

13         A.       For these tariffs, the 1,000 kW is a barrier  
14         to take service under these tariffs.

15         Q.       But you do not believe it's a barrier for the  
16         company to potentially participate in this?

17         A.       I don't want any -- I don't want any company  
18         that could open up a coal facility or any kind of  
19         industry in Eastern Kentucky to think there's a  
20         barrier without talking to me. That's kind of the  
21         culture change we're trying to do in Eastern  
22         Kentucky.

23                 If you have an idea and we can get the  
24         regulatory rolled out of the way and it makes sense  
25         and other customers aren't subsidizing that, I want



1 to talk to you and problem solve that together  
2 versus having coal tariffs somewhere that someone  
3 says, "I guess I'm not eligible, so I guess I can't  
4 do something." We're not going to rebuild Eastern  
5 Kentucky that way.

6 So I'm advertising, "Come talk to us. Bring  
7 every" -- I tell people, "Bring me crazy ideas.  
8 It's okay. We're willing to talk about them,  
9 because we gotta get a little crazy to build up  
10 Eastern Kentucky."

11 They're going to have to be smart, and this  
12 Commission is going to check that, and we'll file it  
13 with them to make sure it makes sense, but we want  
14 all ideas.

15 Q. So if you have a company that is, say, 700 --  
16 not coal. If you have a company that's 750  
17 kilowatts that describe the demand, you know, usual,  
18 whatever that language was that we looked at, and  
19 they are -- they're a small manufacturer, could they  
20 qualify with your blessing in going to the  
21 Commission to be tariffed under IGS?

22 I mean, how do you define -- or is your  
23 description about being flexible -- you used  
24 "flexible" earlier. I mean, I'm trying to  
25 understand what the standard is that -- I mean, it

1 sounds as if on these tariffs they're not quite as a  
2 strict line as I was led to believe. Is that true  
3 or --

4 A. Absolutely not. If I gave that impression, I  
5 apologize. These tariffs are exactly the words that  
6 are in these tariffs, and eligibility, because the  
7 Commission has approved these, are bound by this.

8 I'm saying beyond these tariffs, I'm trying  
9 to create a culture in Eastern Kentucky of  
10 businesspeople talking to each other and seeing what  
11 they can do to create jobs in Eastern Kentucky.

12 So if you're looking to come through here and  
13 say, "I want to take advantage of this. Can you  
14 waive something directly in here and do that  
15 unilaterally?" I can't do that. I can only do what  
16 the Commission gives me permission to do. But if  
17 somebody has an idea, I'm saying come talk to us.

18 I think the other -- I think the point you  
19 were confused on is you said would we reallocate and  
20 call someone an IGS customer. We wouldn't do that  
21 either. That's not what we're saying. We're not  
22 going to relabel someone an IGS customer that's not  
23 an IGS customer.

24 Q. Even if they have a manufacturing capability,  
25 or even if they're a manufacturer?

1 A. Based on -- it's based on the usage for those  
2 categories. What I was talking about is there's a  
3 provision that we can talk to customers, and if the  
4 Commission agrees there's some kind of special  
5 circumstance, then the Commission can bless  
6 something different for them. I can't do that. I  
7 can only offer what's in my tariffs.

8 Q. No. I understand that.

9 A. That's what I was referring to.

10 Q. Sure. Sure.

11 A. If I was confusing, I apologize.

12 Q. But you don't view these as barriers to doing  
13 what might be best -- in the best interest of the  
14 individual customer, right?

15 I mean, if they convince you of a crazy idea,  
16 you're willing to go to the Commission to try to  
17 have that example that I gave you?

18 A. Yeah. And when I say "crazy," I --

19 Q. Manufacturer of widgets who has 750 is the  
20 maximum demand and they're not going to be in IGS, I  
21 mean --

22 A. Right. When I say -- I'm sorry.

23 Q. No, I mean, I'm just trying -- again, I  
24 understand you don't have the power to do it and  
25 only the Commission could make exceptions to that,

1 but you -- you're sort of the gatekeeper, as you  
2 describe it. If it meets with your approval, you're  
3 willing to go to the Commission to try to, you know,  
4 alter some of these lines?

5 A. And that sort of -- I think you're trying to  
6 put stuff too much into a box where you can check it  
7 or not check it. I don't know that I'm the  
8 gatekeeper. I'm trying to facilitate free thought  
9 in Eastern Kentucky. I think there's some places,  
10 "It's never going to get better." That's what  
11 people think, and so people don't even try and have  
12 discussions.

13 A lot of crazy ideas, I use that facetiously  
14 because I don't want people to feel inhibited by --  
15 it might be a perfectly logical idea, but it's been  
16 told no six times before. So all I'm asking for is  
17 an open conversation on ideas.

18 When I raise these tariffs, these tariffs are  
19 exact, they're in writing, follow them to the T for  
20 the Commission. But I don't want people that think  
21 only inside the box that's on the -- on the page, to  
22 treat that as we can't talk about other ideas.

23 So when I talk about bringing other ideas,  
24 I'm saying it's beyond these tariffs, but, you know,  
25 we can't just bring a -- just because someone says,

1 "I want to pay a cheaper rate, that's my crazy  
2 idea," that doesn't make sense. It has to make  
3 sense for the region overall, this Commission has to  
4 approve it, so we have to bring them something that  
5 we agree upon, makes sense, that would really help  
6 Eastern Kentucky.

7 But I don't want to be -- I don't want to  
8 ever be perceived as limiting someone from bringing  
9 up an idea. Some of the best ideas that have been  
10 brought to me in my company, you know, are just  
11 someone has been told no three or four times before,  
12 and so I want to make sure people are sharing their  
13 ideas.

14 Q. Yeah, and I appreciate that. But you  
15 understand there are this line at 1,000 megawatts  
16 between upper level load commercial or  
17 manufacturers. There's a lot of rate differences on  
18 that line, and this -- and this rate case  
19 exacerbates that. It increases more and the  
20 increase is a lot greater than it is for the  
21 industrial class.

22 So there's going to be people on the -- I  
23 mean, I don't know how many of the 30,000 are going  
24 to say, you know, "I think I should be under there  
25 because I've got these characteristics, you know,

1       because I'm a wood -- I'm a sawmill and I produce --  
2       you know, I have 250 employees and I export half of  
3       my product overseas."

4               I mean, are you -- are you saying that people  
5       like that should come talk to you to see if you will  
6       make an exception to going on that -- you know, what  
7       that line is?

8       A.       If this was about opening -- yes, in short,  
9       with the caveat that this was about new operations  
10      opening up, not existing operations that are just  
11      looking for a break for what they're doing right  
12      now.

13              And I guess when you talk about exacerbating  
14      the situation, I look at it completely different. I  
15      think what this case is doing is allowing a vital  
16      corporate partner to provide safe, reliable service,  
17      which is a key component for companies located in  
18      Eastern Kentucky, and bring more companies in so  
19      that the commercial companies, the commercial  
20      customers that help serve all the employees that  
21      come with those are vibrant and pop up and there's a  
22      lot more of those customers.

23              So it's really an overall strategy of: Do  
24      you stick where you are or do you want to have a  
25      strategy that grows the entire region and helps the

1 commercial customers overall? And I think that's  
2 the strategy we have.

3 Q. So, just to conclude on this, you believe  
4 that notwithstanding that there's -- there are --  
5 there are coal companies who are serviced under  
6 the -- or excuse me. You said it's future. So  
7 future company is going to be serviced under the  
8 commercial -- large commercial tariff. You think  
9 it's fair, just, and reasonable even though they're  
10 not eligible for these -- this CS tariffs?

11 A. You're using "fair, just, and reasonable." I  
12 think it's fair, just, and reasonable for people to  
13 have conversations. What those lead to and the  
14 result of that will then be provided to the  
15 Commission to decide if it's fair, just, and  
16 reasonable.

17 So I can't -- I can't pre-bless everything  
18 someone brings to me now that I haven't seen. This  
19 is just the concept of these tariffs have already  
20 been declared fair, just, and reasonable, and  
21 companies can take advantage of those. Something  
22 else, let's talk about it. Let's see if it makes  
23 sense.

24 Q. So you believe as these are -- as this is,  
25 that it is fair, just, and reasonable?

1 A. What are you referring to as "this"? Are you  
2 going back to the coal tariffs?

3 Q. The tariffs, these --

4 A. The coal tariffs, yes.

5 Q. These -- these -- okay.

6 A. Absolutely. These are just an extension of  
7 what the Commission has already approved as fair,  
8 just, and reasonable.

9 Q. Okay.

10 CHAIRMAN SCHMITT: Before we go on to another  
11 topic, let's take a break for about 15 minutes.

12 Okay? We'll come back -- be in recess until 11:30.

13 (Recess from 11:14 a.m. to 11:28 a.m.)

14 CHAIRMAN SCHMITT: We are back on the record,  
15 but just a second before we start. We will -- at  
16 1:00 o'clock we'll recess for lunch. So I know  
17 there's a little restaurant up on the hill here at  
18 the 300 Building, but the reason I say that, if  
19 someone wanted to order now or get your group  
20 together, if you had to bring something in, now  
21 would be the time to do it, because otherwise you  
22 may not have much time from 1:00 to 2:00.

23 Mr. Chandler, your witness this afternoon,  
24 does he have to leave? Does he have a flight out  
25 this afternoon?



1 MR. CHANDLER: Yes, sir.

2 CHAIRMAN SCHMITT: What time?

3 MR. CHANDLER: What time is your flight?

4 MR. SMITH: If I leave by 5:30 or 6:00, it  
5 should be okay.

6 MR. CHANDLER: As long as he leaves Frankfort  
7 by 5:30 or 6:00, he should make it. I think it's at  
8 7:30, 7:40 out of Lexington.

9 CHAIRMAN SCHMITT: Okay. Well, we just need  
10 to think about getting him on the stand. Depending  
11 on how long Mr. Satterwhite goes after lunch, we may  
12 have to interrupt and --

13 MR. SATTERWHITE: I'll assume that's not a  
14 comment on me.

15 CHAIRMAN SCHMITT: Oh, well, just don't let  
16 us -- make sure you keep track of your time so you  
17 can get your witness.

18 MR. CHANDLER: We'll be watching the monitor.  
19 Thank you.

20 CHAIRMAN SCHMITT: All right. Mr. Gardner,  
21 you may proceed.

22 MR. GARDNER: Thank you, Your Honor. We have  
23 tendered KCUC Exhibit Number 6.

24 CHAIRMAN SCHMITT: Let it be marked.

25 MR. GARDNER: Thank you.

1 (KCUC Exhibit 6 marked for identification.)

2 Q. Mr. Satterwhite, I am showing you an exhibit  
3 from Mr. Buck that was attached to Kentucky Power  
4 Company's Supplemental Request to KP -- Kentucky  
5 Public Service Commission Data Request Number 1,  
6 question 73.

7 Is Mr. Buck here? Is he going to be here  
8 this afternoon?

9 MR. OVERSTREET: Mr. Buck is here.

10 MR. GARDNER: Okay. Well, let me --

11 MR. OVERSTREET: I doubt he'll get on this  
12 afternoon.

13 MR. GARDNER: Okay.

14 Q. Well, let me just ask you this question:  
15 Does this table where column 4 is Current Income, is  
16 that the income to the Company that is produced by  
17 the particular rate class?

18 So if you would -- so IGS is 12 million, the  
19 commercial classes of roughly 20, 21 million.

20 A. I did not review this with Mr. Buck. He  
21 would probably be the better person to ask. It  
22 would be a guess. I believe so, but Mr. Buck could  
23 confirm.

24 Q. So -- okay. I'll ask him, but if that's  
25 correct, then this shows how much actual income the

1 Company makes from different rate classes; is that  
2 right?

3 A. If that's what this means, then yes.

4 Q. And if it shows that the income that the  
5 Company is receiving from the commercial classes is  
6 already roughly \$8 million in excess of IGS, do you  
7 think that's fair, just, and reasonable?

8 A. That that's the income that we get from  
9 commercial customers, are you asking if that's fair,  
10 just, and reasonable?

11 Q. Right.

12 A. If the rates are fair, just, and reasonable,  
13 then the income that comes from that is fair, just,  
14 and reasonable.

15 MR. GARDNER: Okay. So that's all I have,  
16 Your Honor. If I could move to admit the --

17 A. If I may, I did confirm something you asked  
18 me earlier. Do you want me to do that now?

19 Q. Sure. That's great.

20 A. On the 30,000 customers, I conferred with  
21 Company Witness Vaughan, who confirmed that that's  
22 right around what those customers are, and he also  
23 offered that if you have any questions about the  
24 variation and what changes when you get from a large  
25 commercial customer to an industrial customer and

1 some of the line of questioning that you had, he can  
2 discuss that, and if you make a change, the impact  
3 of how that change is being -- IGS cost as well as  
4 the commercial cost.

5 MR. GARDNER: Okay. Great. Thank you.

6 Your Honor, that concludes my cross-  
7 examination of Mr. Satterwhite, and if I could move  
8 for the KCUC Exhibits 1 through 6 to be admitted.

9 CHAIRMAN SCHMITT: Any objection?

10 MR. OVERSTREET: No objection.

11 MS. VINSEL: No objection.

12 CHAIRMAN SCHMITT: Let them be admitted, KCUC  
13 Exhibits 1 through 6, into evidence.

14 (KCUC Exhibits 1 through 6 admitted.)

15 CHAIRMAN SCHMITT: Mr. Chandler, do you have  
16 cross-examination?

17 MR. CHANDLER: Thank you.

18 CROSS-EXAMINATION

19 By Mr. Chandler:

20 Q. And for this line of questioning, Mr.  
21 Satterwhite, I believe I handed you a binder earlier  
22 with some -- just to have on hand.

23 A. Okay.

24 Q. There may be --

25 A. Is there a surprise on each page.

1 Q. What's that?

2 A. Is there a surprise on each page?

3 Q. On each and every one. You only find out  
4 when you open it.

5 A. All right.

6 MR. CHANDLER: And, Your Honor, just as a  
7 precursor, these -- some of these are for reference  
8 and some of these may not be needed at all, so if  
9 it's okay if I wait to the end to -- or as I  
10 introduce them to number each one, if that's --

11 CHAIRMAN SCHMITT: That'll be fine.

12 MR. CHANDLER: -- fine with the Commission.

13 Thank you.

14 Q. Ready, are you?

15 A. Yeah. Please.

16 Q. Mr. Satterwhite, how long have you been in  
17 your current position?

18 A. I officially started my current role on  
19 December 8th of 2016.

20 Q. And so I'm going to assume from that date  
21 that this is your first rate case in this position,  
22 correct?

23 A. Correct.

24 Q. And was this rate case initiated before  
25 assuming your position by a predecessor or did you

1 initiate this rate proceeding?

2 A. It was not filed until after I became  
3 president.

4 Q. It was not filed until you became president.  
5 Was -- I have to assume that there's a little bit of  
6 legwork leading up to filing of a rate case; is that  
7 correct?

8 A. Absolutely.

9 Q. So did you --

10 A. More than a little.

11 Q. Did you initiate that legwork or was it  
12 initiated prior to you being there?

13 A. The Company's earnings over the past few  
14 years have been well below the authorized return in  
15 the last rate case, so there was consideration of  
16 when to file a rate case already.

17 When I came into office, for lack of a better  
18 term, I guess -- when I took this position, there  
19 was consideration of what would go into a rate case.  
20 I asked that to sort of being restarted so I could  
21 take a fresh look at how we could minimize the  
22 impact of what we were going file and talked to our  
23 community groups.

24 We have a community advisory panel. We  
25 actually surveyed them and talked with them a lot

1 about some of the ideas that we had, to see what we  
2 could put into a rate case that provided the balance  
3 for the Company, for the regulatory compact, but  
4 still respected the community.

5 Q. So is it fair to say that one of your -- one  
6 of your first actions in office, in your position,  
7 was to -- was to initiate this rate case?

8 A. No. My first action in office, I remember  
9 very specifically, was I emailed all the  
10 superintendents at the high schools in my 20  
11 counties and said, "I can't pay for everything, but  
12 let's be partners. I really want to focus on  
13 education. It's a -- it's a big point for me."

14 I went off and fought for half a million  
15 dollar grant for the schools to do video distance  
16 learning. We call it the GOAL program, Go Online  
17 and Learn.

18 But there were a number of things I did right  
19 away. The finances of the Company, making sure  
20 we're operating properly and earning the return that  
21 we should be earning under the regulatory compact,  
22 which is one of the many things I worked with.

23 Q. So let me reask my question, because I said  
24 one of the first things. I think you had alluded to  
25 that earlier. Do you disagree that it was one of

1 the first things?

2 A. Can you restate the question of what one of  
3 the first things was, just so I make sure I'm  
4 answering?

5 Q. You initiated Kentucky Power to begin  
6 changing the way they look towards filing a rate  
7 case?

8 A. I don't think it was specifically on a rate  
9 case. I think I asked everyone to look overall at  
10 all of our financials. I wanted explanations for  
11 what we do and how we do things.

12 The rate case that we filed is a result of  
13 that overall look at everything, but it wasn't come  
14 in and file a rate case, it was look at the overall  
15 financials, see where we are, what we should be  
16 doing going forward.

17 Q. And that's looking at the Company's  
18 financials, correct? And the word "looking," study,  
19 is that how you would --

20 A. I wouldn't say it's a study, I'd say it's  
21 leadership. I looked at the financials of -- to the  
22 best I could, of the region of the Company even  
23 before accepting the position.

24 That's one of the reasons why I talk about I  
25 knew -- if I didn't think I could help change the



1 denominator on economic development, I wouldn't have  
2 accepted the job. Whoever took the job in Eastern  
3 Kentucky, the corporate leader out there, you have  
4 to be committed to economic development.

5 So I was looking at the region as a whole, of  
6 how we could impact that, because we're all in it  
7 together, you know, it's all one team, and I want to  
8 make the whole region -- so it's not just the  
9 Company, it's the region as a whole.

10 Q. So would you agree that the Company provided  
11 quite a few figures in this case?

12 A. You mean like financial figures?

13 Q. Figures. Numbers, studies. I mean, I think  
14 it's a pretty hefty document, would you agree?

15 A. As with every rate case, there's a lot of  
16 documents and a lot of figures, yes.

17 Q. So I'm just going to run down here and refer  
18 to some of the figures or studies that the Company  
19 provided in support of its application and see if  
20 you agree that -- subject to check, that these  
21 things were filed in the case.

22 So a cost-of-service study, do you agree that  
23 there was a --

24 A. Yes.

25 Q. -- cost-of-service study filed? And there

1 were numbers and figures provided, I think in your  
2 testimony, to show that there has been a loss of  
3 customers?

4 A. Yes.

5 Q. And a study that determined -- or I say  
6 determined. An amount that was determined that --  
7 an estimated amount that -- of increased revenues  
8 from deterred theft from adding additional  
9 employees?

10 A. Say that part again.

11 Q. A determination of an estimate of increased  
12 revenues from deterred theft from additional  
13 employees. I believe the Company looked at hiring a  
14 couple of employees to investigate things like that?

15 A. Yes. I believe that's in Witness Wohnhas'  
16 testimony.

17 Q. And I think in your testimony you provided  
18 the number of contractors at Kentucky Power --

19 A. Correct, in general.

20 Q. -- and employees? And the number of  
21 employees the Company employs?

22 A. Correct.

23 Q. You provided the AEP Foundation grant totals?

24 A. Correct.

25 Q. You provided -- given a 25-cent KEDS

1 increase, you provided the amount that that would  
2 total to the -- the amount that would equal to to be  
3 provided for -- in the K-PEGG program, correct?

4 A. I believe the detail was in Witness Hall's  
5 testimony. When you say "you," am I thinking the  
6 royal you?

7 Q. I'm -- as the president of the Company, I  
8 kind of -- I think I'll be specific, if I --

9 A. To me specifically?

10 Q. To you, yeah.

11 A. Okay.

12 Q. The Company provided estimates of what their  
13 OATT charges will be in 2018?

14 A. Correct.

15 Q. And then that was later revised, correct?

16 A. Correct.

17 Q. And then this is all without getting Mr.  
18 McKenzie's testimony, which I will try my best not  
19 to.

20 So where in the application or in the case  
21 did the Company provide studies on the ability for  
22 customers of any class to pay the proposed rates?

23 A. I don't think that's part of the filing  
24 requirements up front, so I don't think we did  
25 provide a study overall of going through all of our

1 communities and seeing what the direct impact will  
2 be.

3 What we did was provide testimony recognizing  
4 the economic situation in Eastern Kentucky and  
5 talking about how we're trying to change the  
6 denominator on economic development to really make  
7 sure we can not just deal with the charges we have  
8 as a utility, which is a service that people need,  
9 but for everything that people need, change in the  
10 overall environment in Eastern Kentucky.

11 Q. So you mentioned that, but you didn't file  
12 any studies in the application. Did you file any  
13 studies in response to data requests as to  
14 customers' ability to pay any of the proposed rates?

15 A. We gave a lot of information in the data  
16 requests. I can't say I've read through them all.  
17 I know there were questions on a lot of things.  
18 "Studies" is the word I keep getting stuck on that  
19 you keep providing. We provide information.

20 I don't know if the word "studies" is  
21 supposed to have a special connotation, but there's  
22 lots of information that was provided. I don't know  
23 anything specifically to what you're asking about,  
24 though, of an overall study of ability to pay.

25 Q. I guess -- and to clarify -- so maybe I can

1 ask it again. To clarify, I believe study, maybe  
2 the next step is: Has the cust -- has the Company  
3 looked at the information that it has or can get and  
4 conducted an analysis as to whether or not customers  
5 can pay the proposed rates?

6 A. I don't know of a study that has that as,  
7 like, its purpose and the objective and then what is  
8 the outcome of that study. I would say overall, you  
9 know, we're in all our communities with our customer  
10 service representatives and our leadership. I'm  
11 talking to the county judges.

12 There is an understanding of what the  
13 situation is, but as far as applying the regulatory  
14 compact to that and saying, "This class is going to  
15 have this increase. What's that exact impact going  
16 to be?" I don't think we've done that study.

17 But I don't want to make that seem like  
18 there's a lack of understanding by the Company of  
19 the economic situation we have, and that's why we're  
20 so focused on what we're doing in Eastern Kentucky.

21 Tomorrow there's going -- I've asked for  
22 another grant from the foundation for \$50,000 for a  
23 low-income weatherization and senior citizens with  
24 the Christian Appalachian Project. These are the  
25 type of things we're constantly looking for to see

1           what we can do to help the situation.

2           Q.       Did the Company look at the effect that IGS  
3           rates may have on economic development, the  
4           expansion of coal mining, or Marathon's discussion  
5           about combined heat and power?

6           A.       Can you ask your question again? I'm sorry.

7           Q.       Has the Company looked or studied the effect  
8           on the IG -- that -- on -- that's probably the  
9           mistake.

10                    Has the Company studied the effect that the  
11           increase of IGS rates will have on economic  
12           development, coal mining, or Marathon's discussion  
13           about combined heat and power?

14           A.       We've discussed overall, in general, the  
15           impact it's going to have on customers that fall  
16           under the IGS tariff. It's part of the reason why  
17           we think the balance of the settlement agreement is  
18           very helpful going forward.

19                    We've had some discussions with Marathon that  
20           I -- on the side. We're -- they're a good partner,  
21           right? And the head of Marathon lives about four  
22           houses away from me in Ashland. So we're constantly  
23           discussing to make sure we're in partnership of how  
24           we move forward to make sure they stay in Eastern  
25           Kentucky.

1 Q. But there's been no specific studies the  
2 Company has conducted?

3 A. Again, it's that word "study." We haven't  
4 done a formal "Here's the purpose of the study,"  
5 there's -- it's constantly with what we do. We talk  
6 about the impact it's going to have on our  
7 customers. We talk with those customers directly.  
8 But a formal study, no, we haven't done that.

9 Q. Has there been any -- has the Company done  
10 any analysis about what the increase in  
11 uncollectibles may be due to either the proposed  
12 increase in the application or the stipulated  
13 amount?

14 A. Not that I know of.

15 Q. Did the Company determine what the overall  
16 impact would be on the average customers in each  
17 class and provide it in the rate case?

18 MR. OVERSTREET: Could you clarify your term  
19 "impact"? You mean -- because we published that in  
20 the newspapers.

21 MR. CHANDLER: Sorry. I'll restate that.

22 Q. Did the Company determine what overall --  
23 overall. Not just base rates, but overall increase  
24 in rates would have on the average customer in each  
25 class?

1 A. I believe if you look at Exhibit 1 to the  
2 settlement agreement, it gives the impact by class,  
3 the percentage increase. And it figures in from the  
4 settlement agreement -- if that were to be accepted  
5 by the Commission, it goes beyond just the revenue  
6 requirement in this case to apply that impact to  
7 the -- how those might impact surcharges that are  
8 also charged.

9 So I sort of look at that second column of  
10 increase incorporating surcharge changes as the  
11 total bill impact. I wanted to make sure we  
12 reflected that and not just stick solely to a cold  
13 revenue requirement number.

14 Q. So that is the proposed -- that settlement  
15 column is the one you're referring to?

16 A. Correct.

17 Q. And can you --

18 A. Wait. Not -- the increase incorporating  
19 surcharge changes, that column. So the second big  
20 box, I guess.

21 Q. And so you think that includes all riders and  
22 trackers that the Commission --

23 A. I think that --

24 Q. -- or that the Company may have?

25 A. I think that includes the changes that might



1       come to riders as a result of what's in the  
2       settlement agreement.

3       Q.       But that doesn't reflect the actual  
4       percentage change, the actual dollar or percentage  
5       change to the total bill? That includes things like  
6       DSM, the Big Sandy -- the Big Sandy Decommissioning  
7       Rider, things like that, right?

8       A.       The --

9       Q.       There's nothing in the record that shows the  
10      effect of the all-in impact of this rate case?

11      A.       DSM is not considered as part of this rate  
12      case, that wouldn't be on here, but everything else  
13      that's changed in any manner as in relation to  
14      what's in the settlement agreement is reflected here  
15      on this exhibit.

16      Q.       Again, I'm asking: Has the Company provided  
17      anything that says, "This is what the average  
18      customer's bill is going to look like. This is  
19      what -- the average rate they're going to pay"? At  
20      the bottom of the bill, the amount that's payable to  
21      the Company in a check form, has the Company  
22      provided that in this case?

23      A.       I don't believe that's in any of the  
24      testimony. What's represented is the percent  
25      increase on this chart.

1 Q. Is the Company aware of any businesses that  
2 may be shuttered or expanded due to this rate case?

3 A. No one's come to me and said, "I am closing  
4 down because of your rate case."

5 Q. Okay.

6 A. That I can remember. People -- no one's  
7 called me up, I don't -- I've been in a lot of  
8 public hearings. I don't think people even said --  
9 they might have said it's going to be difficult, but  
10 I don't know of anyone that says, "I'm shutting down  
11 because of this."

12 Q. Has the Company explored working with  
13 low-income advocates to develop rate structures to  
14 mitigate the effects of rate increases on low-income  
15 customers?

16 A. Yeah. We -- this was started earlier this  
17 year, I believe, in our regulatory office to work  
18 with low-income advocates to see how we can better  
19 cooperate. And it started with our DSM program, but  
20 then our other programs, how we can better partner.

21 One of the big things they told us is,  
22 there's always going to be customers that need the  
23 ultimate help and maybe aren't paying their bills at  
24 all. They want to find ways to help those senior  
25 citizen customers or customers that are right on the

1 edge and find some way that we can maybe just get  
2 them past that one month.

3 We also talked with our community groups, our  
4 community advisory panels when we talked about what  
5 should or shouldn't be in a rate case that we would  
6 file. And they also talked about the low income and  
7 senior citizens as being their main concern. That  
8 led to our increase in the HEAP funds that we put in  
9 there to try to provide for those agencies.

10 But there hasn't been a discussion on a  
11 specific rate class, if that's your question, of a  
12 tariff for that.

13 Q. And do you know how a nine percent increase  
14 to the residential customers will help those  
15 efforts?

16 A. Help what efforts?

17 Q. The efforts that you just described.

18 A. Yeah. That'll provide the extra HEAP funds  
19 to help them provide help to those low-income  
20 customers.

21 Q. And how much --

22 A. That's part of that.

23 Q. How much -- how much -- is it five cents a  
24 meter per month? Is that the increase?

25 A. It's going up five cents.

1 Q. Going up five cents. It's going to be at 20  
2 cents; is that correct?

3 A. I think it's 15. I'm not positive.

4 Q. It's going up to 15 or going up to 20?

5 A. I think it's at 10 now and going to 15,  
6 subject to check. I know --

7 Q. Subject to check, would you --

8 A. Or it's five --

9 Q. Do you know how much additional --

10 A. Or it's five, going to ten, one of those two.

11 Q. Do you know how much additional revenue that  
12 that'll --

13 A. That's reflected, I think, in the chart here.  
14 HEAP and KEDS are put together for the 326,000. So  
15 I'd have to do the math to separate those two out,  
16 but I believe that's in --

17 Q. You had a -- sorry. KCUC 4 had that amount,  
18 I believe.

19 A. Yeah, I think that's the same chart that  
20 combines the KEDS and the HEAP together.

21 Give me a second. It's definitely in my  
22 testimony, I just can't remember off the top of my  
23 head.

24 It goes from five to ten cents. That's on  
25 page 12 of my initial testimony.

1 Q. Five to ten cents?

2 A. Correct. And that estimates a combined  
3 increase of -- we'll add \$284,891 to the annual  
4 amount, and the Company then matches that, for lack  
5 of a better term, shareholder dollar.

6 Q. And that's for HEAP --

7 A. Correct.

8 Q. -- correct? Has the Company explored working  
9 with any customers to develop rate structures or  
10 other ideas to mitigate effects of rate increases or  
11 poor economic conditions?

12 A. As far as a new tariff class?

13 Q. Let's make it maybe a little bit more broad  
14 than that.

15 A. I guess I'd have to understand what you're  
16 asking, then, because I'm not sure. That's -- when  
17 I hear that question, I hear, "Would you create a  
18 special tariff class?" Because that would be how we  
19 would reflect something like that.

20 Q. So you would agree that Mr. Gardner  
21 cross-examined you on the coal tariffs, correct, on  
22 the --

23 A. Yes.

24 Q. I think you refer to them as coal plus, the  
25 coal-plus tariffs?

1 A. Correct.

2 Q. And those are modifications of tariffs that  
3 apply to a specific class, right?

4 A. Correct.

5 Q. And did you -- can you -- can you tell me how  
6 those modifications came about in terms of the  
7 process before the Commission?

8 A. Sure. It started with me. When I came down  
9 here, I quickly noticed a perception that people  
10 perceive Kentucky Power as being against coal, which  
11 surprised me, because 80 percent of our generation  
12 is still supported by burning coal.

13 So as I reached out into the communities, you  
14 know, I knew a bit of the past, but I thought, you  
15 know, for economic development overall, we're not  
16 leaving coal behind. That's part of economic  
17 development. There's a big infrastructure there  
18 already. So what can we do to show we're a good  
19 partner and create more jobs in Eastern Kentucky?

20 So I had asked our staff to sit down and say,  
21 okay, like I -- as I said before, let's take away  
22 all barriers. People get confused with the  
23 regulatory process and tariffs. They hear "tariff"  
24 and they think tax, because that's the old English  
25 word for tax. That's something we found in our

1 communities.

2 So I asked what can we do. And some of the  
3 questions and things that my staff brought up were,  
4 we have things like the interruptible tariff that in  
5 the past the coal association and the coal companies  
6 didn't know if they were eligible for. And I said,  
7 "Well, let's pull that thread. What else is out  
8 there that we can just make it perfectly clear that  
9 coal could be eligible for these things?" I said,  
10 "And let's take that to the Commission and file  
11 those to make sure it's clear and get the  
12 Commission's agreement that we could be doing  
13 these -- have these type of offerings."

14 So we did that as a way to say that Kentucky  
15 Power is a partner, the Commission is a partner, we  
16 all want to support coal operations and bring jobs  
17 if we can, and here are some possibilities if you're  
18 a new and you can put coal miners back to work, a  
19 possibility for you to take advantage of tariffs,  
20 most of which were already in existence, but it just  
21 clarified that the coal companies would be eligible.

22 Q. So you filed an application?

23 A. Yes.

24 Q. Thank you.

25 MR. CHANDLER: Can I make the tab A in the

1 binder AG Exhibit 1, please?

2 CHAIRMAN SCHMITT: Yes, you may.

3 MR. CHANDLER: Thank you, Mr. Chairman.

4 (AG Exhibit 1 marked for identification.)

5 Q. And will you let me know when you're at tab

6 A?

7 A. I'm there.

8 Q. And so -- I guess subject to check, but given  
9 that it has the stamp at the top of it as received,  
10 would you agree that this is the application that  
11 Kentucky Power caused to be filed in support of  
12 the -- as you refer to it, the coal-plus tariff  
13 changes?

14 A. Yeah, subject to verification of the  
15 document, this looks like it, yes.

16 Q. And for expediency I've left out the -- and  
17 to save the state a little bit of paper and money,  
18 I've left out the tariffs, but we have the new  
19 tariffs in the record in the current case, the  
20 stipulated tariffs.

21 So can you kind of -- to the best of your  
22 knowledge, did this application include requests to  
23 have certain accounting treatments that are  
24 different than the average accounting treatments the  
25 Company has?



1           A.       I think you'd have to ask Witness Wohnhas  
2           that.  He'd know better exactly what was in.  I was  
3           more involved in the conceptual concept of what  
4           could we do, and then he sort of carried that out  
5           with his team of what to put into this filing, how  
6           that -- how what we wanted to do is impacted and  
7           reflected for accounting rules for the Commission to  
8           approve.

9           Q.       Okay.  Would you agree that this application  
10          is supported by economic data that is looking at the  
11          Kentucky Power service territory and the companies  
12          that Kentucky Power operates in?

13          A.       Which parts of the application are you  
14          talking about?

15          Q.       I would say parts -- page 2 through -- 2  
16          through 9.  I think on page 2, would you agree that  
17          you note that it discusses the amount of coal  
18          produced in given years historically?

19                 MR. OVERSTREET:  Can you direct him to a  
20          paragraph?

21          Q.       Paragraph 3.  It notes that Kentucky in 1988  
22          was the largest coal-producing state in the union,  
23          on page 2.

24          A.       I have no reason to argue with the footnotes  
25          that are here that give the sources.

1 Q. I'm asking: Is this -- would you agree that  
2 this is economic data?

3 A. I'm not sure what that term means, "economic  
4 data," so I'm --

5 Q. Data that analyzes the economy. Data that  
6 annualize -- that looks at production, that looks at  
7 sales, that looks at -- I didn't -- I didn't have  
8 economic data on me as a definition.

9 Would you agree that on page --

10 A. I think these are facts that are -- there's  
11 references for where those facts come from. That's  
12 how I would look at this.

13 Q. Would you agree that on page 4, in paragraph  
14 7, it explicitly -- paragraph 7, line 3 and 4, that  
15 the Company's application explicitly cites total  
16 wages and benefits and GDP of 31 coal-producing  
17 counties?

18 A. The footnote says that comes from footnote 7,  
19 Coal Facts, directs that -- so any of that  
20 information is a fact that came from that document.

21 Q. Would you agree that the Company included it  
22 in their application?

23 A. Yeah, those are the word -- yes, those are  
24 the words here. Absolutely.

25 Q. Thank you. And would you agree that on page

1 8, in the table, that the Company included  
2 percentage change in employment in support of its  
3 application?

4 A. Yes.

5 Q. And so are you -- was it your position that  
6 if I had any questions about accounting treatment  
7 due to perceived risks of some of these tariffs,  
8 that those questions you would not be able to  
9 answer, those would be for Mr. Wohnhas?

10 A. I believe he would be the right witness, just  
11 because -- or he would know who the right witness  
12 is, because he's in charge of the regulatory group  
13 that put this together. I don't know if he'd need  
14 an accounting witness to -- that he relied upon, but  
15 that's who I relied upon to put this together after  
16 the concept was decided.

17 Q. And you supported the settlement -- or the  
18 stipulation with your testimony, correct?

19 A. We're talking about in this case now?

20 Q. In this case now.

21 A. Yes.

22 Q. Yes. And in that stipulation it included the  
23 continuation of the tariffs that were approved in  
24 this coal-plus docket, correct?

25 A. Correct.

1 Q. Did that also -- would -- does the  
2 stipulation speak to any specific accounting  
3 treatments regarding the coal-plus tariffs?

4 A. It speaks to just the Commission-approved  
5 tariffs. It speaks to continuing -- what the  
6 Commission approved really had an expiration date  
7 for the end of this year, and so the sole purpose  
8 was to say -- to extend that.

9 Q. Would you go to 3 three -- to tab B --

10 A. Sure.

11 Q. -- in your binder, please?

12 A. I'm there.

13 MR. CHANDLER: And, Your Honor, can I make  
14 this AG Exhibit Number 2?

15 CHAIRMAN SCHMITT: Let it be marked as AG  
16 Exhibit 2.

17 (AG Exhibit 2 marked for identification.)

18 Q. On page 10 of this order -- let me know when  
19 you're there.

20 A. I'm there.

21 Q. On the second full sentence that starts, "The  
22 Commission further."

23 A. Okay.

24 Q. Will you read that into the record, please?

25 A. Sure. One second. (Reading) The Commission

1 further finds that Kentucky Power should be able to  
2 defer any financial loss incurred in connection with  
3 the proposed amendments to Tariff CS-IRP and Tariff  
4 EDR and the proposed new Tariff CS-Coal for review  
5 and recovery at its next base proceeding -- next  
6 rate proceeding. Sorry.

7 Q. And do you know if anybody has taken  
8 advantage of the coal-plus tariffs?

9 A. I believe there's three companies that have  
10 so far.

11 Q. And do you know which of the tariffs they  
12 have taken advantage of?

13 A. I know the one for sure I'm thinking of took  
14 advantage of the CS-IRP.

15 Q. Subject to check, would you agree that all of  
16 them have taken under CS-IRP?

17 A. I don't know. It wouldn't surprise me.

18 Q. And the KCUC Exhibit 4 earlier, which is just  
19 the proposed Tariff CS-Coal, are you aware if any --  
20 any customers have opted to take advantage under  
21 this tariff?

22 A. I know of the one that's taken advantage of  
23 the CS-IRP. That's all I know.

24 Q. Of the contract service?

25 A. I'm not sure what you're asking right now.

1 Q. There's a Tariff CS-Coal?

2 A. Right. Of the one -- the one I know of, they  
3 took advantage of the CS-IRP. If there's something  
4 else, I'm not sure what it is. I've talked to other  
5 customers about using it, but nothing else has been  
6 used yet.

7 Q. Is it your understanding that these tariffs  
8 were temporary because there is an inherent risk for  
9 possible financial loss in connection with them?

10 A. I think that's always a potential concern. I  
11 think that it was temporary to try to jump-start and  
12 show the coal industry that the utility company and  
13 the Commission were supportive of trying to find  
14 answers and taking out barriers.

15 We proposed it as a year because we didn't  
16 know how it would work, if customers would even want  
17 it. Some customers have, others have talked about  
18 it. So we thought it was a good idea to extend it  
19 again and see what we get from there. Just trying  
20 to help coal.

21 Q. You mentioned earlier that you proceeded  
22 to -- one of the things -- I don't want to put words  
23 in your mouth.

24 That the Company's goal with CS-Coal is to  
25 start a conversation, with the coal-plus tariffs is

1 to start a conversation; is that correct?

2 A. I think that whole conversation kind of got  
3 conflated. My overall statement was: I want to  
4 talk in general in Eastern Kentucky about how we  
5 succeed. This is an example of one of the tools I'm  
6 using to talk to coal companies, but we want to  
7 start a conversation with all companies to focus on  
8 success.

9 Q. Right. But you're -- I guess your point,  
10 though, was that when these are filed, people know  
11 where they stand, right? That a coal operator or a  
12 potential coal operator would know -- knew where the  
13 Company stood; is that --

14 A. Correct. We wanted to sort of demystify. We  
15 heard -- some of our own people that deal with  
16 customers had heard companies saying they weren't  
17 eligible for certain tariffs, so we thought we could  
18 demystify that so that we weren't just hiding in our  
19 office, but we were out there explaining to  
20 customers what they can do.

21 And then the final tariff was sort of  
22 catchall, that if there were ideas that we hadn't  
23 thought of, we could bring those back to the  
24 Commission, and if they made sense to the  
25 Commission, we could move forward with those.

1 Q. Is the Company unable to -- is Kentucky Power  
2 unable to enter into special contracts with coal  
3 operators in the absence of the Tariff CS-Coal?

4 A. Yes.

5 Q. They're unable to enter --

6 A. Oh. They're able to. I'm sorry.

7 Q. They're able to enter into a special  
8 contract?

9 A. Yes.

10 Q. So this is just a -- you're kind of raising a  
11 flag, is that -- I mean, this -- the Tariff CS-Coal  
12 doesn't do anything other than say "Come talk to  
13 us," right?

14 A. Is that the third tariff, the catchall  
15 tariff?

16 Q. The catchall tariff.

17 A. Yeah. That was -- as we introduced this  
18 concept, as I said, there was confusion in the  
19 market, and people hear about a utility and hear  
20 about the Commission, and sometimes they shy away  
21 and don't want to look any closer. And there was  
22 some thought that they weren't eligible for certain  
23 tariffs.

24 We tried to clear that up, and as  
25 continuation of that filing we also tried to say,



1 "Let's continue the conversation. If theirs is  
2 something else that you're thinking of that we don't  
3 know, here's the -- here's the Commission and the  
4 Company saying we want to talk about those."

5 Q. So it's your understanding that the Company's  
6 filed tariffs were keeping coal operators from  
7 opening brand-new coal mines?

8 A. Absolutely not. It was the -- it was the  
9 concept out there that some coal operations thought  
10 they weren't eligible for certain tariffs that we  
11 had. We wanted to make sure that was clear.

12 There's a lot of confusion in the regulatory  
13 world, a lot of people don't understand it, and so  
14 we wanted to make sure that we weren't going to get  
15 in the way, and we didn't want the Commission in the  
16 way, so there was any perception at all that the  
17 regulatory industry was stopping coal operations  
18 from reopening. And so we thought this was good to  
19 file and take away those misconceptions and also  
20 sort of advertise that the Commission is here and  
21 it's able to support coal as well if the idea makes  
22 sense, but bring the new ideas and let's talk about  
23 them.

24 Q. So in your direct testimony you note that  
25 Kentucky Power considered the effect of the rate

1 increase on your customers.

2 MR. OVERSTREET: I'm sorry. Can you direct  
3 him to a page?

4 MR. CHANDLER: I sure can.

5 Q. It is your direct testimony, page 14, line 8.

6 A. Yes, I'm there.

7 Q. So line 8 you note, the question you asked  
8 yourself was: Did Kentucky Power consider the  
9 effect of its requested rate increase on its  
10 customers, right?

11 A. Correct.

12 Q. What was -- your answer was yes, correct?

13 A. Correct.

14 Q. What was that based on?

15 A. Understanding of the economy. We have a  
16 community advisory panel, as I talked about before.  
17 We -- after I asked our whole company and everyone  
18 that has a different part of the case to kind of go  
19 through it again with a finer tooth comb, because  
20 they had already gone through with a fine tooth  
21 comb, to see what the impact was sort of -- you  
22 know, each individual item that we have, does that  
23 actually necessarily need to be in this case? Does  
24 it need to be in this case or could it be held off  
25 in the future? Can we try to manage the Company to

1 cover those costs somewhere else?

2 Our community advisory panel, we actually --  
3 we had ideas internally, and we sent a survey out to  
4 them so we could meet and say, you know, "Here's the  
5 idea. What do you think of this?"

6 And that was important because the concept  
7 was great. As we first met with these people -- and  
8 it happened before I even came on, with the previous  
9 president. They kind of came in, and the thought  
10 all along was, "We should get free electric  
11 service." And then we kind of talked to them about  
12 what it takes to be in a regulatory compact, what  
13 the regulations and statutes are, and they started  
14 to understand the dilemma that we have of making  
15 sure we get a return for our shareholders and so  
16 that we continue to invest and still be honorable to  
17 our community.

18 And so as we moved through, we then put the  
19 decisions we have to make every day sort of in a  
20 survey to kind of see -- it'll be interesting to see  
21 what kind of feedback we get.

22 Some things we took out of the case. There  
23 was one issue, customers can pay their bill with a  
24 credit card online. AEP doesn't want to take the  
25 liability, with all the data breaches, of holding

1 their credit card, but -- so we used a third party  
2 that they could use. But there's a cost to that.  
3 It was about \$4 or 2.80 or something like that. We  
4 thought, "That makes sense. If you buy a pizza,  
5 that's already socialized, we should just put that  
6 in general rates."

7 As we talked to our communities and our  
8 community advisory panels, they said, "Nope. You  
9 know, it's a good thought overall, but if people  
10 want to pay with their credit card, that's on them.  
11 Don't put that in the case."

12 So we pulled that out. We didn't file that  
13 with what we put in the case.

14 So it's conversations like that, talking to  
15 our community.

16 And on the flip side, as I said, we've been  
17 so involved in economic development, it's a  
18 what-can-we-do-to-get-out-there for economic  
19 development.

20 And our community groups said -- when we  
21 talked about increasing the charge per customer for  
22 the KEDS grant, they said, "Absolutely. We all see  
23 impact in our cases -- in our local communities, and  
24 we'd like to see that increase. That's actually a  
25 great investment we're putting in our communities

1 through the electric company."

2 So those are some of the examples of what we  
3 did.

4 Q. On page 19 of your direct testimony, will you  
5 please read into the record the question that starts  
6 on page 6 and your first sentence of your answer,  
7 or -- page 6? Sorry. Line 6, and the first  
8 sentence of your answer.

9 A. Page 19?

10 Q. Page 19, direct, line 6, please.

11 A. The question is, on 6, (Reading) Are there  
12 other options the Company is exploring to mitigate  
13 future customer bill impacts?

14 The answer starts on 8. (Reading) The  
15 Company continues to explore all possible approaches  
16 to provide safe and reliable power in compliance  
17 with all applicable regulations in the most  
18 cost-effective manner.

19 Q. And so, you know, I guess I go back to my  
20 original question: Have you provided any studies to  
21 that effect? Have you provided any analysis that  
22 you're providing power in the most cost-effective  
23 manner? Is there anything in the record other than  
24 direct testimony saying you did so or saying you  
25 explored or saying you considered? Is there any

1 hard evidence to show that you are providing power  
2 in the most cost-effective manner?

3 A. I'd say the hard evidence is every witness  
4 you're going to see here today and every employee  
5 that I have. I mean, what you're asking is: Do we  
6 do our job every day? And the answer is absolutely  
7 yes, and I'll be evidence to that. This is what we  
8 do. We manage a company. Everything we look at is  
9 how we can be more efficient.

10 Some of the things we have done are, you  
11 know, we have contract crews that we employ.  
12 There's opportunities sometimes to maybe slim down  
13 the contract crews because we don't have a lot of  
14 work in that area. We don't like to do that because  
15 we like to have the investment in the local  
16 community, but it decreases the cost that we have.

17 We could be more efficient in how we route  
18 our meter readers. They go out and they have a  
19 certain system. We looked at that and though, huh,  
20 we could be more efficient if we reroute this.

21 Every day we want to make sure we're running  
22 this company properly, and all of the employees that  
23 I have look closely at doing that, to make sure that  
24 we're being efficient.

25 You know, AEP overall talks about we want to

1 have continuous improvement. What are we doing to  
2 make sure we're always challenging everything.

3 That's sort of been, I think, sort of  
4 refreshing with me coming in brand new as well,  
5 because I've empowered every employee. You know, I  
6 have people calling me that are at the lowest pay  
7 grade we have, and they have an email address  
8 directly to me that they can get in contact with me  
9 directly. The public doesn't get it, anything else.  
10 It's to every employee. They can call me, but if  
11 they're not comfortable, email me anything and I'll  
12 look into it and I'll bring the supervisors in,  
13 because we want to have that whole team atmosphere  
14 that everybody is involved in making sure it's safe,  
15 reliable service. If it's just management only, it  
16 doesn't work.

17 So we're really creating buy-in and changing  
18 the culture overall that we're efficient, that we're  
19 smart with the customers' money, and the investments  
20 we make are prudent.

21 Q. What I'm asking for, and I want to make this  
22 clear in response to your answer, is: Have you  
23 provided evidence in the record that are in the form  
24 of studies or analysis to the effect of your  
25 previous answer?

1           A.       And, see, that's where I get stuck on, when  
2           you say "studies and analysis." I think what we do  
3           every day are the studies and analysis. It's just  
4           the normal course of running a business. That's  
5           what it takes to run your business.

6                    So my testimony, if you want to call that a  
7           study or analysis, that's what I do. I manage a  
8           company. All my managers that work underneath me,  
9           they help manage a company. We make sure we're  
10          being as efficient as possible.

11                   In discovery I know we provided a lot of  
12          detail that talked about the efforts that we do to  
13          make sure we're being efficient and constantly  
14          improving our process. So to me that's evidence in  
15          the record.

16          Q.       And I believe this may be a question you  
17          don't need to refer to your testimony for, but if  
18          you need to, it's on page 19. You talk about the  
19          best opportunity to address increasing rates is  
20          increased economic development. Is that a fair --

21          A.       Where are you, just so I get the context of  
22          what I -- why I said it this way?

23          Q.       I kind of -- I kind of assumed you'd agree.  
24          I apologize.

25          A.       I definitely agree in general, I just want to



1 make sure I'm referring to --

2 Q. Yeah. That's fine.

3 MR. GISH: Line 12.

4 MR. CHANDLER: What's that?

5 MR. GISH: Line 12.

6 Q. Line 12. I think it begins, "Ultimately, it  
7 is increased economic development."

8 A. Correct. And we're going to -- I mean, the  
9 people before me managed the Company. I'm taking a  
10 fresh approach at managing the everyday, but with  
11 the situation we find overall outside the Company,  
12 with the local economy, with people leaving the  
13 territory, economic development is going to help  
14 overall as the biggest push forward to help in this  
15 area.

16 Q. Do you mind to -- do you have a copy of the  
17 stipulation?

18 A. Yes.

19 Q. Do you mind to go to page 13, paragraph 11?

20 A. The backup and maintenance service?

21 Q. Yes, sir.

22 A. Yes.

23 Q. I have read this a few times, and I guess I'm  
24 sort of confused. What does -- what is the -- what  
25 is Kentucky Power's -- why is this in the

1 settlement? Why is this in the stipulation?

2 A. Well, I can't get into the settlement  
3 discussions. This was something that was included  
4 in KIUC's testimony.

5 Q. That's --

6 A. So I guess I'd refer you maybe to Brad Levi's  
7 testimony, to their concern. This is an example, I  
8 would say, on a greater, higher scale, I'm  
9 constantly working with my customers, especial --  
10 all customers, but Marathon, you know, very large  
11 customer, I want to make sure I'm being a utility  
12 that serves my customers.

13 I'm in customer service, and this is  
14 something that concerns them, and so I want to make  
15 sure I'm in partnership with them. I never want to  
16 be at opposite ends with my customers, I want to be  
17 making sure we're working together in what we do for  
18 the economy.

19 Q. And so can you tell me what you've agreed to  
20 here?

21 A. We've agreed to talk. If Marathon moves  
22 forward and has some concept that there is a need  
23 for backup and maintenance service, that we'll  
24 review that, and if we can't come to some kind of  
25 agreement of what that looks like, we'll bring that

1 to the Commission to decide how we should move  
2 forward.

3 Q. You -- I'm going to -- I assume that Kentucky  
4 Power is more than happy to talk with their  
5 customers; is that correct?

6 A. Yes.

7 Q. And does Kentucky Power need, in a settlement  
8 or a stipulation, to necessarily bring them to the  
9 table to have discussions with customers?

10 A. Again, I can't say. The reason this was put  
11 in the stipulation, because we -- I'm not -- I'm  
12 never going to say it's because we weren't talking  
13 to our customers. I've been talking with Brad Levi,  
14 who I said is my neighbor, for a long time about  
15 these general concepts.

16 This was just, I think, a term in the  
17 settlement agreement to formalize if something  
18 happens and we can't come to some agreement, let's  
19 go to the Commission and see what ground rules we  
20 should have to govern this going forward. That's  
21 all.

22 Q. And what would that agreement be to?

23 A. I don't know. We'll have to see what  
24 Marathon wants to do.

25 Q. Well, it explicitly says here that it's for

1 backup and maintenance service, that that's what the  
2 discussion will be about. So what does that mean?

3 A. This is written broadly. Marathon, I don't  
4 want to get too closely into my discussions with  
5 them, because I don't -- I know they're doing some  
6 work, and I want to respect that, because I've had  
7 private, probably confidential conversations with  
8 Mr. Levi.

9 And, you know, I don't know if KIUC has an  
10 opinion, but I don't want to expose even what  
11 Marathon is thinking about or what they have done so  
12 far, because it's a competitive world for capital.  
13 But we've talked in general about, you know,  
14 cogeneration, of possibilities of what they can do.  
15 And I look at this as a path forward, just to  
16 whatever they come up with. They're always  
17 studying.

18 Brad Levi is a great guy, very smart. If  
19 they come up with some idea, we're going to talk  
20 about what that means overall to the system. And if  
21 we can't come to some kind of agreement of a change  
22 that might happen in the future, that would  
23 ultimately come to the Commission to say, "Give us  
24 guidance on which way we should go here."

25 Q. I mean, isn't this sort of the discussion

1       that you can have with any customer? We talked  
2       about Coal-CS earlier, about entering into special  
3       contracts. I mean, these sort of negotiations,  
4       these sort of discussions can happen outside of a  
5       settlement or a stipulation, right?

6       A.       Absolutely.

7       Q.       And so why does it need to be in this  
8       stipulation?

9       A.       Again, I think you're asking me why something  
10      in the settlement discussions were put --

11     Q.       No. I'm --

12     A.       -- into the stipulation.

13     Q.       I'm sorry. Let me clarify. Why is it  
14      reasonable for this to be in the stipulation?

15     A.       Two parties thought it was okay to -- all the  
16      parties to the settling -- settlement agreement  
17      thought it was okay to put it in there, so it was  
18      put in there. It's not precluded to have outside --

19     Q.       So that is -- that's your basis for the  
20      reasonableness of it being included in the  
21      settlement agreement?

22     A.       Well, what it does is --

23     Q.       Because everybody got together and agreed on  
24      something, it's reasonable?

25     A.       No. It's reasonable because there is a

1 concern put in testimony in this case about what a  
2 company in Eastern Kentucky could - should do if  
3 it's moving forward down a path in these different  
4 areas.

5 So it was an issue raised by a party. We  
6 respected that issue that was raised by a party,  
7 treated that at the settlement agreement with a path  
8 forward with how we would talk about it.

9 Why they included it in their settlement --  
10 why they included it in their initial testimony, I  
11 can't say. It wasn't my testimony.

12 Did I listen to it and we talk about it in  
13 the settlement discussions and make sure it was  
14 talked about in the settlement agreement?  
15 Absolutely. It was important to my customer.

16 Q. Is it your understanding that if Marathon  
17 builds a combined heat and power generator, I guess,  
18 a combined -- a CHP, I guess is how it's referred to  
19 in some testimony, that that will ultimately reduce  
20 the load that Marathon buys from Kentucky Power?

21 A. There's the potential for that, yes.

22 Q. And subject to check, would you agree that  
23 Mr. Levi notes that Marathon -- excuse me.

24 A. If you're going to be reading from Mr. Levi's  
25 testimony, can I get a copy too?

1 Q. You're more than happy to. I'm more than  
2 happy to let you, sir.

3 MR. OVERSTREET: May I approach?

4 CHAIRMAN SCHMITT: Yes, you may.

5 Q. And it's on page 3 of Mr. Levi's testimony.

6 A. Okay.

7 Q. Subject to check, and in accordance with Mr.  
8 Levi's testimony, does the fact -- does his  
9 assertion that Marathon is currently the largest  
10 customer of Kentucky Power, with the Catlettsburg  
11 Refinery purchasing more than 19 percent of the  
12 energy sold at retail by Kentucky Power?

13 A. Yeah. That's what that says, yes. And  
14 really, I mean, if I may, the reason I think you  
15 sort of insinuate that it's improper to memorialize  
16 that we talk to our customers, that's kind of that  
17 mind-set I'm trying to get over in Eastern Kentucky.  
18 We want to make sure we're talking with our  
19 customers. They can move forward without us, and we  
20 don't have any input or we can move forward as a  
21 team to see how it impacts all customers and how it  
22 impacts the grid. I much prefer a customer that  
23 respects the fact that we should move forward  
24 together, I think we have that with Marathon, and  
25 this is just respect for that.

1 Q. But you can move forward together without it  
2 being in the settlement, correct?

3 A. Ultimately something has to come to the  
4 Commission. Absolutely.

5 Q. But you're asking them to -- I think the term  
6 you used earlier, in a different context, but bless  
7 this before you might actually come back later with  
8 tariffs, correct?

9 A. All this is, is if Mar -- it was an important  
10 issue to Marathon, they wanted to talk about this,  
11 they put it in their testimony, and so the  
12 settlement agreement says, "Yes, we'll talk about  
13 it. And if for some reason we can't work something  
14 out amongst ourselves, we'll bring it to the  
15 Commission to say, 'Hey, what's your input on  
16 this?'"

17 That's all this is saying. Could we do that  
18 without this agreement? Absolutely. But there's --  
19 I don't think there's harm of putting it in this  
20 agreement to show the camaraderie and the  
21 constructive working together that we have in  
22 Eastern Kentucky with our largest customer.

23 Q. So throughout your testimony and on the stand  
24 today you talk about your goals to -- and I think  
25 it's -- I want to get the quote right -- change the



1 denominator?

2 A. Correct.

3 Q. And so changing the denominator is selling  
4 more electricity, right?

5 A. Changing the denominator refers to the --  
6 basically the rules and statutes of the regulatory  
7 compact, that there's a certain amount of costs that  
8 are recovered from customers to make sure that a  
9 utility can provide safe and reliable service. The  
10 less customers we have, the more spread out amongst  
11 the customers that are left behind.

12 So it's really changing that equation to have  
13 more customers, more load, more customers' ability  
14 to pay. All of that comes together to change the  
15 denominator.

16 Q. But it's not necessarily customers, it's  
17 electricity, right? I mean, that's what --

18 A. That's how it manifests it -- sorry. I cut  
19 you off.

20 Q. That's all right. In kilowatt hours and in  
21 kilowatts, your goal is to ultimately increase  
22 those, right? And those are your denominators when  
23 you're talking about price?

24 A. For the regulatory compact equation, yes, but  
25 I think you can explode that beyond that to talk

1 about customers' ability to pay as well, change the  
2 denominator of what customers have, how many  
3 customers there are. That manifests itself for the  
4 cold equation we have for regulatory purposes as  
5 usage, but overall it's about reinventing the entire  
6 area so the denominator for everything we do is  
7 better.

8 Q. So how will the rates in the stipulation or  
9 in the testimony affect your economic development  
10 efforts?

11 A. Can you be more -- can you clarify that? I'm  
12 not sure what you're asking.

13 Q. How will an increase in rates affect your  
14 economic development efforts?

15 A. Included in this rate is an increase in the  
16 KEDS program, which will allow us to invest further  
17 in our local communities and our partners, to  
18 attract more companies to the area, help with the  
19 infrastructure that we have.

20 Mr. Hall can talk a lot about the insights  
21 that we had and really the need of developing the  
22 area so that we were attractive and can actually  
23 attract these other companies, and also building up  
24 our local economic development departments all  
25 across our 20 counties so that they could really

1 attract those as well, because it doesn't take  
2 one -- it's not just one of us that's attracting it.  
3 If we're all working together, we're going to have a  
4 better chance to do it. So that's a big impact of  
5 this case.

6 Q. So if you'll refer to KCUC Exhibit Number 4,  
7 and that was just the allocation that Mr. Gardner  
8 provided, it states that both HEAP and KEDS funds  
9 combined end up being an increase of \$326,000. Is  
10 that correct?

11 A. Yes. For a total of, I think, about 550.

12 Q. For which one?

13 A. For KEDS.

14 Q. For KEDS. So you think that the total KEDS  
15 funding from customers would be about \$550,000 a  
16 year?

17 A. I think -- that's what I'm trying to  
18 remember, and I think that's right, and then  
19 shareholders will match that to double the fund.

20 Q. So you think an increase of a couple hundred  
21 thousand dollars or a few hundred thousand dollars  
22 in KEDS funding, and with the caveat of it'll be  
23 doubled with shareholder money, is going to offset  
24 the 30 plus million dollar increase in the  
25 stipulation and the 60 plus million dollar amount in

1 the application?

2 A. No.

3 Q. So you think it'll be -- the rate -- any --  
4 either rate increase would be a net negative on  
5 economic development?

6 A. No.

7 Q. So in the question I asked earlier about how  
8 will the increase in rates in either the stipulation  
9 or the testimony affect your economic development  
10 efforts, you just spoke to KEDS.

11 So do you not think that the increase in  
12 rates will affect the -- whether or not companies  
13 want to come and relocate in your -- in your  
14 territory?

15 A. You know, rates are always a factor in a  
16 company deciding to relocate to anywhere, including  
17 Eastern Kentucky. The overall package that we have  
18 has tried to take, you know, that into  
19 consideration. The allocation and the balance that  
20 we have in the settlement agreement tries to  
21 decrease that burden upon the IGS customers so that  
22 we can continue to attract those, to get the overall  
23 number of jobs up.

24 But I guess overall economic development is  
25 part of what the Company wants to give back and be

1 involved in and provide leadership in Eastern  
2 Kentucky from the corporate side.

3 I mean, at the basis of what this rate case  
4 is, it's about the regulatory compact. It's about  
5 making sure that the Company can operate and provide  
6 safe and reliable service, which we have a duty to  
7 do, to every customer that's in our service  
8 territory. That's what this rate case is paying  
9 for.

10 On top of that, we've gone an extra step.  
11 We've gone above and beyond and said, we're going to  
12 really focus on economic development. Hopefully  
13 that, in the future, avoids us having to file  
14 something or avoids us having to file something with  
15 such a large increase, because we have changed that  
16 denominator.

17 So we're not just sitting here in a shell,  
18 turtle shell saying we can just file rate cases  
19 whenever we want, take care of ourselves. We've  
20 said let's go out and invest in our community.

21 There's costs to having safe, reliable  
22 service. We think we do a good job of that. That's  
23 what this case is about. But we're not cold to the  
24 idea we need to be out there leading, and that's  
25 what we're doing right now, leading to make sure

1 we're changing that denominator for the future.

2 Q. If I ask you a question about KEDS, would it  
3 confuse you to interchange KEDS and K-PEGG, just in  
4 a question? Is that -- the KEDS funds are used for  
5 the K-PEGG grants, I mean, that it's the -- it's the  
6 same money, just -- it's different --

7 A. I understand what you mean.

8 Q. -- it's a different name coming in and a  
9 different --

10 A. As opposed to the KEAP program --

11 Q. -- name going out, correct?

12 A. -- which is a different economic development  
13 program?

14 Q. That's correct.

15 A. Correct.

16 Q. So the KEDS -- the K-PEGG program, I'll try  
17 to be -- the K-PEGG program is half funded by  
18 customers through KEDS funding and half from Company  
19 donations; is that correct?

20 A. Correct.

21 Q. And the purpose of economic development is  
22 to -- at least one of them, and I know you said  
23 there's many, but is to expand the load and sell  
24 more electricity than you currently are, correct?

25 A. Say that again.

1 Q. One of the purposes for the -- for economic  
2 development, one of the reasons for economic  
3 development is to sell more electricity?

4 A. Yes.

5 Q. And to expand load?

6 A. And to grow the entire region and increase  
7 the -- and better the lives of everyone in Eastern  
8 Kentucky. Absolutely. They all go together.

9 Q. So are there any customers on the KEDS review  
10 team, the K-PEGG grant review team?

11 A. I know there's someone from -- and Brad Hall  
12 knows specifically, so he's the better person to  
13 ask, but I know there's a member of the state  
14 Economic Development Cabinet, a representative from  
15 that, and also another, I believe, statewide -- or I  
16 don't know if it's a regional or statewide economic  
17 development group.

18 Q. And they're there due to their official  
19 positions, I assume, right?

20 A. Just when we put together the program, asked  
21 the Commission for approval, that's how we set it  
22 up, to put someone outside the Company on the board  
23 as well.

24 Q. Are those two individuals customers of the  
25 Company?

1 A. I'm not sure.

2 Q. So, if you will, do you mind to turn to tab  
3 E? And it's a data request response. I believe it  
4 was from Mr. Hall. And I'll give you a second to  
5 look it up.

6 A. Okay.

7 Q. So will you read the first question there,  
8 395 a.?

9 A. Well, this isn't -- I didn't respond to this.  
10 This isn't my data request.

11 Q. Right. But you-all have filed testimony in  
12 support of the settlement, and the settlement  
13 specifically discusses a --

14 A. Yeah, I understand.

15 Q. -- total increase in K-PEGG funding.

16 A. I understand. But if you have questions  
17 about this data request, it might be better to ask  
18 the witnesses that sponsored, that's all.

19 Q. I promise I think you can -- you can answer  
20 the question I'm going to ask you. I just want --

21 A. Okay.

22 Q. I want you to read the first question there,  
23 if you don't mind.

24 A. So just the question that you -- that the AG  
25 had asked --



1 Q. That the AG had asked, the a.

2 A. (Reading) Identify the incremental revenue  
3 generated --

4 Q. Oh, I'm sorry. The tab E. It should be a  
5 response to -- I believe it's tab E. Excuse me.

6 A. Let me read it again, then. Sorry. I was  
7 on --

8 Q. AG 1 395.

9 A. Let me review this real quick. I was  
10 reviewing --

11 Q. That's fine.

12 A. -- a previous one.

13 MR. CHANDLER: And while he's reviewing, Mr.  
14 Chairman, can I make this AG 3, Exhibit 3?

15 CHAIRMAN SCHMITT: Let it be marked as AG  
16 Exhibit 3.

17 (AG Exhibit 3 marked for identification.)

18 A. Okay. I've reviewed it now.

19 Q. And do you mind to actually just read a.  
20 through c. there, just to kind of get an  
21 understanding of what the questions were about?

22 A. Sure. It says, (Reading) Refer to the  
23 testimony of Brad Hall at page 14, then it asks the  
24 following questions: How was the K-PEGG program  
25 review team chosen? B., were customers provided the

1 opportunity to nominate or choose any members of the  
2 team? And, c., did the Public Service Commission  
3 approve the positions to be represented or  
4 individuals chosen to be representatives?

5 Q. And so in response to b., the question that  
6 states, (Reading) Were responses provided the  
7 opportunity to nominate or choose any members of the  
8 team, did Mr. Hall provide an answer?

9 A. Yes, he did.

10 Q. And can you -- do you mind, just for the  
11 record, to read that answer into the -- into the  
12 record?

13 MR. OVERSTREET: Just for purposes of  
14 clarification --

15 MR. CHANDLER: Just --

16 MR. OVERSTREET: -- you said were --

17 MR. CHANDLER: B.

18 MR. OVERSTREET: You said "Were responses," I  
19 think you meant "Were customers."

20 MR. CHANDLER: Oh, I'm sorry. "Were  
21 customers." Yeah. Sorry. I got a -- yeah. Thank  
22 you.

23 Q. "Were customers." The question says "Were  
24 customers." Do you mind to read the response to b.  
25 Into the record, please?

1 A. Sure, with the caveat that Mr. Hall would  
2 have the context of this, because this is his  
3 response and I wasn't with the Company --

4 Q. I'll accept that Mr. Hall was the --  
5 responsive to the data request, the witness in the  
6 data request.

7 A. (Reading) No. The Company selected the team  
8 based on experience and understanding of the  
9 community and economic development as well as  
10 availability to participate in the process  
11 confidentially, frequently, and reliably. Economic  
12 development and community development are technical  
13 processes and require understanding of the process  
14 to evaluate applications appropriately.

15 Q. Subject to your checking with Mr. Vaughan  
16 earlier, in a response to Mr. Gardner, would you  
17 agree that there are roughly 30,000 commercial  
18 customers in Kentucky Power's territory?

19 A. I believe that was the understanding, yes.

20 Q. And the document that Mr. Gardner provided  
21 stated that there were over 1,000 industrial  
22 customers in Kentucky Power's territory, correct?

23 A. I believe so, yes.

24 Q. And so the answer here talks about technical  
25 processes that require understanding of the process

1 to evaluate applications appropriately.

2 Is -- I guess what I'm confused about or what  
3 I'm hoping you can clear up, does Kentucky Power --  
4 what is Kentucky Power's issue with including  
5 customers in the decision-making to determine where  
6 customers' money goes for -- where customers' money  
7 goes for economic development purposes?

8 A. First of all, you seem to say there's an  
9 issue. I don't know that there is an overall issue.  
10 This is how the program is structured, and I  
11 think -- you know, again ask Mr. Hall, but in the  
12 answer a. it talks about economic development  
13 cabinet and the other members that are on the  
14 committee. There's a lot of confidentiality in this  
15 stuff. There's big companies coming in that want to  
16 come into the area, and we're dealing with our local  
17 representatives in Hazard, Pikeville, elsewhere to  
18 make sure that we can maintain that confidentiality  
19 and make sure that we have the best chance to  
20 attract these big companies coming in.

21 Q. And you're --

22 A. Sometimes these could be competition of  
23 customers that we already have in the territory, so  
24 I believe, and you can talk to Mr. Hall, as I said,  
25 the concept here was to look at this from a global

1 point of view and involve the economic development  
2 cabinet, whose job it is to make sure the entire  
3 state is healthy and move forward so we have actual  
4 strategy.

5 And I think it's worked. I think what we've  
6 shown over the past few years is the benefit from  
7 it. So there's -- this is a good program that's  
8 worked, and that's why we're asking to sustain it.

9 Q. So the only involvement the customers have,  
10 aside from the benefits of economic development, are  
11 to pay the money to the Company, correct?

12 A. No.

13 Q. So where in the K-PEGG review process do they  
14 get to determine where their KEDS grants go?

15 A. It's not formally in the review process, but  
16 I don't even have final say over this. The  
17 committee has final say. I get to have input on how  
18 this is carried out.

19 One of our community advisory panels had some  
20 concerns with how we were using some of the money,  
21 and he raised that. And he actually wrote an op-ed  
22 piece in the Pikeville paper criticizing us.

23 And he called me up and said, "I'm going to  
24 resign from your committee because I've criticized  
25 you."

1           And I called him up and I said, "Please don't  
2 resign. That's exactly what I want to hear. This  
3 is the input I want. What's the concern?"

4           He said, "I don't like where you're putting  
5 this money."

6           I said, "Well, that's on me, then. I need to  
7 start bringing some of these concepts for my review,  
8 because I get to have input to the committee.  
9 Here's where we're thinking about things going.  
10 What do the community advisory panels think, to the  
11 extent I can share some of that information."

12           So customers do have input. It's not in the  
13 formal process, but it's not like we're hiding  
14 something behind a curtain. What we can share with  
15 customers, we're sharing, because, again, we're all  
16 trying to work together to build the local economy.

17 Q.       But doesn't that anecdote provide evidence  
18 that customers want to be involved in this process  
19 and the Company's not giving them the opportunity?

20 A.       We're giving them the opportunity now. In  
21 those meetings I said, "I will bring what I can  
22 bring to you to those meetings and we can talk about  
23 that."

24 Q.       So only in an informal manner, none of the  
25 decision-making?

1 A. What do you mean?

2 Q. So their involvement is only in an informal  
3 manner and it's not in the decision-making of who  
4 gets the grants and how much and for what purposes?

5 A. Yeah, the system setup, and approved by the  
6 Commission, is exactly what's outlined here in Mr.  
7 Hall's testimony.

8 The customers have input by talking with me,  
9 just like I have input. The final decision is made  
10 by this committee with people from the state  
11 economic development cabinet overall to make sure  
12 it's moving forward with the strategy. When we can  
13 share things, we will share things with customers.

14 Q. And this -- the K-PEGG and the KEDS program  
15 are in front of the Commission for modification in  
16 this case, correct?

17 A. I believe the funding is, correct.

18 Q. So you -- are you saying that the Commission  
19 can't -- I guess I'm confused, then. When you said  
20 a second ago that this K-PEGG was set up by the  
21 Company and approved by the Commission?

22 A. Uh-huh.

23 Q. So are you saying that in this case the  
24 Company -- that the Commission cannot modify the  
25 K-PEGG grant review program?

1 A. No, I didn't say that. I said as proposed,  
2 we're continuing what we have already.

3 Q. So -- but it's up for modification? The KEDS  
4 funding and the K-PEGG, that system is -- the  
5 funding is up for modification in this case?

6 A. Well, there's -- I guess I would say there's  
7 been no testimony saying there should be a proposal  
8 to change it that we've had an opportunity to  
9 respond to and say that -- why that would be good or  
10 bad.

11 But, yes, the Commission has control of the  
12 Company and they can do what they want in an order,  
13 but I don't think there's been a lot of evidence and  
14 a big proposal to change this with the opportunity  
15 for us to say what the impact would be.

16 Q. Do -- was the Company provided the  
17 opportunity for rebuttal testimony?

18 A. Yes.

19 Q. Thank you. So you've very generally here  
20 stated that the customer base has been shrinking in  
21 terms of number of customers over the past few  
22 years, correct?

23 A. Correct.

24 Q. And the result of that, all things equal, is  
25 that fixed costs are being spread over fewer



1 remaining customers?

2 A. That is the result of that, yes.

3 Q. As a result of that. If a company in a  
4 competitive market, or any competitive market, not  
5 talking about utilities specifically, was losing  
6 customers and the sales of its products or services  
7 were declining, would you agree that the Company may  
8 have to look at cutting costs to survive?

9 A. Are you talking about just a general  
10 business, not a regulated utility?

11 Q. Theoretically. I'm talking about shirt  
12 makers and concrete guys.

13 A. I think any company, even if its client base  
14 is increasing, is always looking at what it can do  
15 to control costs. So I don't think that's just in  
16 the -- in the presence -- a good company, at least,  
17 that isn't just in the presence of declining sales.

18 Q. And you've noted earlier your hopes of  
19 changing the denominator for Kentucky Power,  
20 correct?

21 A. Correct.

22 Q. And that includes selling more electricity,  
23 correct? I know we're going back over it, but  
24 correct?

25 A. Yes.

1 Q. On the other side of that, what specific  
2 studies has the -- what specific studies or analysis  
3 has the Company conducted and provided in the record  
4 to look at the numerator in those equations, which  
5 are costs?

6 A. I think in a lot of data requests we  
7 responded the things that we've done to try to  
8 control costs. And, I mean, this kind of gets down  
9 to the same line of questioning you were asking  
10 earlier about what we've done within the Company.

11 So a lot of data requests. That goes on to  
12 our active management of what we're doing. That's  
13 what I do every day, try to see if there's a better  
14 way, more efficient way to do things, and challenge  
15 and empower our employees to raise those.

16 Q. Has the Company looked at reducing the number  
17 of contractors that work for them --

18 A. Always.

19 Q. -- and doing more work in-house?

20 A. I don't know that that's a decreased cost,  
21 but that's one of the things we do look at, yes.

22 Q. But I guess that's -- ultimately my question  
23 is: Have you looked at it and determined if it is  
24 or is not a decreased cost? Those are the sort of  
25 studies I was asking about.

1 A. Yeah, you keep -- I think you're kind of  
2 stuck on, "Is there an absolute study that you did  
3 on this date certain?" And what I'm trying to  
4 explain to you is, this is management of a company.  
5 That's what I look at all the time.

6 I've sat down with my people in the  
7 operations and said -- like when we were putting  
8 together this rate case, "What are our options? Why  
9 do you do that?"

10 Even in this case we provided options for the  
11 Commission that we think aren't the right way to go  
12 on the vegetation management, depreciation, but we  
13 wanted to show that we're looking at these things  
14 constantly to lower impact to customers.

15 So is it a formal study? It's our job.  
16 That's what we do every day. That's what we ask our  
17 people to look at every day. So I don't think it's  
18 a formal study that we would, you know, publish in a  
19 paper or something somewhere, it's just the ongoing  
20 job duties that we have involved in doing our job  
21 properly.

22 Q. But you keep talking about the regulatory  
23 compact and talk about recovering costs, but the  
24 Commission is limited in the record -- to the record  
25 in determining what's fair, just, and reasonable for

1 costs, correct?

2 A. The Commission has access to data requests  
3 and everything else we file. All the numbers you  
4 were talking about earlier of all the documentation  
5 that we file, we file all of our financials and the  
6 Commission has access to all of those, and if they  
7 want to ask more questions, they can. But we  
8 provide all that financial information to show what  
9 we've been doing. As you said, there's no shortage  
10 of numbers in this case.

11 Q. So we spoke about it earlier, but will you  
12 confirm that the Company in this case is requesting  
13 to add five more employees?

14 A. Yes. As part of an adjustment, I'll  
15 probably -- you know, if the Commission approves the  
16 settlement agreement, I've got three years. I'll  
17 add more employees than that. You know, I've got a  
18 real issue down in Hazard, Kentucky. A lot of my  
19 linemen that climb poles are between 55 and 65.  
20 They're great guys, they know the work. I've gotta  
21 bring more people in to make sure we have people  
22 that can climb poles and fix things. I'm going to  
23 constantly have to be adding, but I'm going to have  
24 to manage with what we have in this rate case.

25 So employees will be added. What was added

1 in this case was, there were five that we absolutely  
2 knew we were going to add, it was absolutely  
3 certain, and so it was a proper adjustment for the  
4 case.

5 Q. And subject to check -- well, we'll just go  
6 to your -- do you mind to turn to your direct  
7 testimony?

8 A. Sure.

9 Q. Page 5. You're waiting on me now. Sorry.

10 A. That's okay. I'm there.

11 Q. Will you -- from page 4 to 5, will you read  
12 the sentence that runs from one to the other,  
13 please, that starts with "The Company"? Like all of  
14 them start with "The Company." "The Company  
15 proposes to."

16 A. Sure. (Reading) The Company proposes to  
17 adjust the test year complement of employees in this  
18 case to add five employees to meet safety and  
19 efficiency needs.

20 Q. And would you agree that we discussed earlier  
21 that some of those safety and efficiency needs are  
22 the reduction in the amount of stolen electricity?

23 A. One of the positions that we've added is some  
24 support for our revenue recovery, to go after them  
25 for fraud on the system.

1 Q. And did you include an amount in the --  
2 anywhere in the record that you expected how much --  
3 the amount of electricity you expect to convert from  
4 nonrevenue electricity to revenue electricity due to  
5 the -- due to the addition of these employees?

6 A. I'm not positive. Mr. Wohnhas would probably  
7 have a better answer to that, of what was included  
8 in that area.

9 Q. And in this case you're also requesting to  
10 increase wages; is that correct?

11 A. Correct.

12 Q. And do you think that wages -- I guess a  
13 better way to ask it is: How much are wages  
14 increasing around you in your service territory with  
15 other employers?

16 A. It's dangerous for me to answer here. I  
17 think we definitely have witnesses that can speak  
18 directly to the wage increases, I know, because  
19 there's a union increase and then there's a nonunion  
20 increase, so they -- they're probably better  
21 prepared to talk about the comparison we've done to  
22 people around us.

23 Q. Yeah. And I'm asking you sort of a different  
24 question, and maybe you may pass this to Mr. Hall,  
25 but you do a lot -- you talk about how often you go

1 out, you meet with customers, you meet with  
2 commercial customers, industrial customers,  
3 prospective customers. How much are those employers  
4 giving wages generally? Do you hear them talking  
5 about increasing wages --

6 A. Two things --

7 Q. -- three and three and a half percent?

8 A. -- one, I have the advantage of talking to  
9 companies that are here and ones that are coming  
10 here, and even the ones that hopefully are announced  
11 soon coming here, and those are some pretty exciting  
12 wages for the region that I think all of Eastern  
13 Kentucky is going to be excited about. But I think  
14 you can't just compare it to potentially a  
15 commercial customer we might have in Pikeville right  
16 now.

17 A regulated industry is a highly regulated  
18 and highly dangerous industry. It takes specialty.  
19 And if we aren't paying along with the national  
20 average -- and I think you can, you know, talk to  
21 Mr. Carlin about this -- we're not going to have top  
22 talent, it's not going to be safe for our customers,  
23 it's not going to be safe for our employees.

24 And so that's why it's important, when you're  
25 in a regulated industry, you make -- you can hire

1 the people that can do the job and do it well so you  
2 have safe, reliable service and everyone is safe.

3 You can't compare the two, I don't think.

4 Q. I'm going to ask you a question that maybe  
5 we've covered before, but it's a very specific one.  
6 Has the Company ever conducted a formal study of  
7 its -- all of its expenses and formed a formal plan  
8 to reduce those expenses, to the best of your  
9 knowledge?

10 A. I guess my answer is, that's what I do every  
11 day. Is there a -- on my shelf a volume where we  
12 started with something a date certain, finished a  
13 date certain? There's not that type of study. But  
14 every day I'm with an employee, when we're going to  
15 build our budgets, budget from the bottom up, making  
16 sure people justify every dollar that we spend. And  
17 we have -- I brought in a director of business  
18 operations and services to make sure someone is  
19 bird-dogging this stuff and making sure they're  
20 watching it. That's all part of what we do in the  
21 general management, but there's not a single study  
22 with tabs in it if that's what you're asking for.

23 Q. You noted that you came on December the 8th,  
24 2016, officially, right?

25 A. Yes.



1 Q. And you talk about kind of shaking things up  
2 a bit and having people look at things differently,  
3 correct?

4 A. I like to think so.

5 Q. And would you agree -- and this is not part  
6 of this record, but would you agree that the Company  
7 has also looked at its processes and -- its  
8 different processes to make them more efficient or  
9 better for customers, such as changing the way that  
10 they handle customer complaints?

11 A. So I thought you were going somewhere  
12 different, so I'm not sure, customers complaints  
13 to -- so can you ask the question again?

14 Q. Yeah. Does streamlining processes and making  
15 them better and making them better for the  
16 customers, you know --

17 A. Has that been part of the --

18 Q. Has that been part of what you've been --  
19 what you've been looking to do since December the  
20 8th?

21 A. That is on the table right now. There's an  
22 opportunity -- we have someone retiring that's very  
23 involved in our complaint process, so I'm directly  
24 involved in how we're going to do that going forward  
25 to make sure we're being responsive to the

1 Commission. There's a requirement to get back to  
2 the Commission, I believe within 24 hours, whenever  
3 a customer raises any complaints, or making sure we  
4 have the right staff assigned to that and they have  
5 the resources to make sure we're interacting with  
6 customers. So absolutely that's something we're  
7 looking at now.

8 Q. And so you talk about kind of looking at  
9 things differently. With you kind of coming in and  
10 having this -- this fresh set of eyes on Kentucky  
11 Power at the local level, have you considered  
12 initiating any sort of independent management or  
13 audit with an outside, nonaffiliated group or entity  
14 of Kentucky Power?

15 A. No. I think that's what my role is, and I've  
16 brought resources in from the Service Corp to give  
17 me fresh look in other areas, to also see what my  
18 impact is, because I'm part of the elements now that  
19 lead to what we do, and so I wanted fresh eyes to  
20 what my impact was and how my leadership was  
21 affecting that.

22 But that's just part of good management  
23 overall to make sure you're getting different points  
24 of view within your organization. But, no, we've  
25 not thought about an independent auditor to come in.

1 Q. Do you know if Kentucky Power has ever had a  
2 independent management audit, either initiated by  
3 the Company or initiated by the Commission that's  
4 from a nonaffiliate?

5 A. I guess I should rephrase that. That's the  
6 nonaffiliate. We have -- AEP overall has an  
7 independent audit group internally that answers only  
8 to the CEO of the Company, and so we -- every year  
9 there's a matter of what are they going to come in  
10 and audit, what process should they audit, and they  
11 come in and do that. But that's all internally with  
12 the Company.

13 And then we also have auditors that come in  
14 from the outside. Deloitte and Touche were the  
15 previous ones. I forget, we -- I think we just  
16 switched to a new auditor. And they do audits as  
17 well and look at our systems. So I guess there is  
18 an external auditor as well.

19 Q. But that's more for financial and processes,  
20 correct? For -- more for financial rather than  
21 management processes?

22 A. Correct.

23 Q. And I'm going to ask you one question about  
24 expenses. I'll save the rest for Mr. Wohnhas.  
25 You-all have a test year relocation expense that

1 reflects the expenses in the -- in the test -- in  
2 the historical test year?

3 A. Correct.

4 Q. And do you mind to turn to tab -- and this is  
5 just for reference. Tab G. And this is just an  
6 excerpt from the direct testimony of Ralph Smith,  
7 the Attorney General's witness.

8 Subject to check, would you agree that the  
9 amount in C-11, line 4, of \$318,073 is the amount of  
10 test year relocation expense?

11 A. It's clearly referencing something with a  
12 very specific line. I don't have that in front of  
13 me. So I don't know that this is wrong, but if Mr.  
14 Wohnhas covers this, I'd prefer him to --

15 Q. Well, would you agree that that amount is  
16 cited by Mr. Smith in response to a Company data  
17 request?

18 A. This document speaks for itself. Mr. Smith  
19 has that number in his testimony. I'm not really  
20 challenging it, I'm just not saying I -- I don't  
21 know why you need me to corroborate that.

22 Q. That's okay. So would you agree that --  
23 looking at the historical test year, that within  
24 that time period Kentucky Power moved its  
25 headquarters from Frankfort to Ashland?

1 A. Absolutely.

2 Q. And does Kentucky Power intend on moving its  
3 headquarters again in the next year?

4 A. Well, moving the headquarters was the sum and  
5 substance of two employees moving from Frankfort on  
6 the employee account that's caught up here.

7 Q. And --

8 A. So I think your deeper question is about is  
9 it a reasonable amount for employee relocation, and  
10 that can happen in any year.

11 Q. I think my question is: Does Kentucky Power  
12 intend to move its headquarters again in the next  
13 year?

14 A. No, not from -- not out of Ashland.

15 Q. So if you'll turn to tab I. And I'll give  
16 you a chance to look. These are 11 documents  
17 printed directly from the Commission's website, and  
18 if your counsel or yourself would like to stipulate  
19 that these figures may or may not be correct, I'm  
20 more than --

21 A. I can stipulate they may or may not be  
22 correct.

23 Q. I can only print them, so --

24 MR. OVERSTREET: I'm sorry. Mr. Chandler,  
25 what -- where on the Commission's website could this

1 be filed -- found?

2 MR. CHANDLER: These is in the -- these are  
3 directly from the Commission's records and the  
4 annual report, and this is page 5. The first one is  
5 page 5 of 163 of Kentucky Power's annual report for  
6 the year January 1-December 31, 2016.

7 MR. OVERSTREET: Okay. That's what I need.

8 MR. CHANDLER: And they're for the next 11  
9 years -- or for the past 11 years, as long as I  
10 didn't reprint any two of them. But they are  
11 directly from the Company's annual report.

12 MR. OVERSTREET: All right.

13 Q. A few minutes ago we talked about costs. I  
14 made the assertion that it's sort of the numerator  
15 when you're talking about if kilowatt hours are  
16 the -- or kilowatts are the denominator.

17 Do you mind to look at what the revenues  
18 number for -- in the line that states Total Sales to  
19 Ultimate Customers?

20 A. So third from the bottom?

21 Q. Third from the bottom, that's correct.

22 MR. OVERSTREET: In which of the 11 pages?

23 MR. CHANDLER: Oh, I'm sorry. This is the  
24 first page.

25 And I'm kind of getting ahead of myself. Mr.

1 Chairman, can I make this, I believe it's Attorney  
2 General 4.

3 CHAIRMAN SCHMITT: Yes, let it be so marked.

4 (AG Exhibit 4 marked for identification.)

5 Q. Will you read that amount into the record?

6 A. Sure. Is this the \$572,810,777? That  
7 number?

8 Q. Yes, sir.

9 A. Okay.

10 Q. So this is the -- would you agree that this  
11 is the retail annual sales for the year 2016 for  
12 Kentucky Power, according to the Kentucky Power's  
13 own annual report?

14 A. That's what I would believe it would be. Mr.  
15 Wohnhas might be a better witness to talk about  
16 exactly what's in these reports, because his group  
17 helps put them together, so I don't want to, you  
18 know --

19 Q. Would it make sense that the --

20 A. -- mislead. That's what it appears. That's  
21 what it appears.

22 Q. Would it make sense that that line is to  
23 retail sales and the one that says Sales For Resale  
24 is off-system sales? Is that --

25 A. That I don't know.

1 Q. Okay. So assuming -- pending confirmation  
2 from Mr. Wohnhas, but assuming that those are retail  
3 sales for that \$572 million number you read in, do  
4 you mind to go to that line on the very last page of  
5 the exhibit? Do you mind to note what the  
6 corresponding amount is in the year 2006?

7 A. 181,168,000 --

8 Q. I'm sorry. I believe that's the sales for  
9 resale. Do you mind --

10 A. Oh, sorry.

11 Q. -- to read in the retail?

12 A. 391,934,420.

13 Q. So subject to check, would you agree that the  
14 retail revenue for Kentucky Power has increased  
15 almost 120 -- or roughly 120 -- excuse me. I have  
16 the number here. 180 -- almost \$180 million?

17 A. If there's one thing I --

18 Q. That's not right.

19 A. I'm sorry.

20 Q. No, I'm completely wrong. Yes. \$180 million  
21 over 11 years?

22 A. If there's one thing I've learned as I've  
23 been here, it's that if I'm not sure what's in a  
24 financial number, to have the person that knows  
25 what's in the financial number talk about it.



1           So I really can't speak to that. I would  
2           rather have Mr. Wohnhas understand what's in that  
3           number. There could be other things that aren't  
4           reflected in the report that need to be considered  
5           in here, so I wouldn't want to -- I wouldn't want to  
6           guess.

7           Q.        Would you agree that those two numbers are  
8           the difference of 100 -- over \$180 million?

9           A.        I can do math between these two numbers and  
10          subtract them and say that's 180 million.

11          Q.        So you would agree that that's roughly  
12          \$180 million?

13          A.        Whatever you plug into the calculator between  
14          those two numbers, it's probably 180 million.  
15          That's fine. I'm just saying I wouldn't count on  
16          that for anything for me. If you want to talk about  
17          those numbers and what they mean, you need to talk  
18          to Mr. Wohnhas.

19          Q.        Well, I think as long as -- and I will follow  
20          up with Mr. Wohnhas to confirm those numbers, that  
21          they are what they are for the record, but you  
22          started -- you have spoken about the regulatory  
23          compact today, and you mentioned recovery of  
24          reasonable costs; is that correct?

25          A.        Yes.

1 Q. And so would you agree that in a -- this is  
2 taking a step back.

3 A. Okay.

4 Q. In a regulated utility, as revenues increase,  
5 so too must costs have increased? Since revenues  
6 are limited by the regulatory compact, I think as  
7 you noted earlier, in regulated states to reasonable  
8 return and reasonable costs, would you agree that as  
9 revenues rise, costs have probably also risen over  
10 time?

11 A. It depends. It's not always the case. O&M  
12 can stay flat for a company for a long time, and  
13 there's other factors that factor in, like overtime.

14 You're talking between a ten-year period.  
15 There's all kinds of other things that figure into  
16 what a revenue might be, including all the capital  
17 that's been added in, all the income that comes  
18 from -- hopefully people are investing in their  
19 system. I don't know if that's reflected in here or  
20 not.

21 Q. But those are costs? Those are expenses?

22 A. Expense, yes.

23 Q. Those are costs?

24 A. Absolutely.

25 VICE-CHAIRMAN CICERO: May I interject just

1 for a second? So if revenues increase, typically  
2 the cost of goods sold number is going to increase,  
3 which is a cost of the sale of the product, which is  
4 a cost that he's referring to? So typically the  
5 costs will increase? Is that an accurate statement?

6 THE WITNESS: Yes.

7 VICE CHAIRMAN CICERO: Thank you.

8 Q. So you have stipulated that the difference  
9 between the number on the first page and the number  
10 on the last one is 180 and -- roughly \$180 million?

11 A. Yes.

12 Q. Okay. That -- just --

13 A. That's a math --

14 Q. -- talking numbers. Talking numbers.

15 A. That's a math --

16 Q. It's math.

17 A. -- math answer, correct.

18 Q. \$180 million. Okay. Thank you. That's  
19 perfect. That's what I was looking for. I'll take  
20 the rest up with Ranie.

21 A. And I -- the reason I say that is, I don't  
22 want to attribute something to this and have that be  
23 wrong. I just want the person that has the  
24 knowledge to speak to what it is, the full  
25 knowledge, to make sure it's correct for the

1 Commission.

2 Q. That's perfectly fine. And if you had a  
3 calculator in front of you, would you agree that  
4 that's a roughly 46 percent increase over the number  
5 on the last page?

6 A. If that's what the math turns out to be,  
7 that's a simple equation.

8 Q. Okay. When you look at the corresponding  
9 amount on that same line on the first page, that is  
10 a 5.8 billion number?

11 A. You're on the first page for 2016, right?

12 Q. That's right.

13 A. All right. Where are you now?

14 Q. The Total Sales to Ultimate Customers, under  
15 the column KWHs Sold, 5.5 --

16 A. Gotcha.

17 Q. Will you read that amount into the record,  
18 please?

19 A. Again, the number here is 5,862,696,815.

20 Q. And will you also read the corresponding  
21 amount on the last page, under line Total Sales to  
22 Ultimate Customers, under column Kilowatt Hours  
23 Sold?

24 A. The 7,122,459,000, that number?

25 Q. Yes, sir.

1 A. Yes.

2 Q. Subject to check, would you agree that that's  
3 roughly 1.25 billion kilowatt hours' difference?

4 A. I will trust your calculator is correct.

5 Q. And --

6 CHAIRMAN SCHMITT: Mr. Chandler, it's  
7 1:00 o'clock. That's --

8 MR. CHANDLER: I can -- I have about ten more  
9 seconds on this line of questioning if you don't  
10 mind. Sorry.

11 CHAIRMAN SCHMITT: You may complete.

12 Q. So subject to check, would you agree that  
13 that's roughly 17.7 percent difference between 2006  
14 to 2016 as these numbers --

15 A. If that's how the math checks out.

16 MR. CHANDLER: Okay. I'm fine to take a  
17 break.

18 CHAIRMAN SCHMITT: Thank you. We'll take our  
19 lunch break now, come back at 2:00 o'clock, when we  
20 will continue with Mr. Satterwhite.

21 (Recess from 1:02 p.m. to 2:01 p.m.)

22 CHAIRMAN SCHMITT: We're now back on the  
23 record.

24 Mr. Chandler, do you have any idea about how  
25 long Mr. Smith will take? Or let me ask Mr.

1 Overstreet too, because he'll will be conducting  
2 cross-examination.

3 MR. OVERSTREET: I think -- I think I can get  
4 through Mr. Smith in an hour.

5 MR. CHANDLER: I think that I may have maybe  
6 another 30 to -- 30 minutes with Mr. Satterwhite,  
7 and then I think the rest would just depend upon how  
8 many questions Staff and the Commissioners may  
9 have --

10 CHAIRMAN SCHMITT: Well, I think --

11 MR. CHANDLER: -- of Mr. Satterwhite and  
12 Smith.

13 CHAIRMAN SCHMITT: I just asked -- I just  
14 asked Ms. Vinsel, and she said maybe she had a half  
15 an hour. So, I mean, if we went, we did that, we're  
16 talking maybe 3:30, and then we have -- you know, I  
17 don't want to fix it so -- have it turn out that Mr.  
18 Smith can't testify or can't finish.

19 So maybe the best thing to do would be to --  
20 if we could let -- you think you have how much?  
21 Another --

22 MR. CHANDLER: Do you mind if we just take  
23 one second to converse about it?

24 CHAIRMAN SCHMITT: Yeah. Sure.

25 MR. SATTERWHITE: Are you that sick of me?

1 CHAIRMAN SCHMITT: You don't count.

2 MR. OVERSTREET: You don't count.

3 MR. SATTERWHITE: I don't count. That's  
4 right. I feel like I'm at home.

5 CHAIRMAN SCHMITT: Your opinion doesn't  
6 count.

7 MR. SATTERWHITE: It's good to know.

8 MR. CHANDLER: I'm just -- that's what the  
9 Commissioner -- the Chairman said. I'm saying that  
10 it will not affect my cross-examination of Mr.  
11 Sat -- I'm at a -- I was at a very good stopping  
12 point with Mr. Satterwhite. I can pick back up at  
13 any time.

14 CHAIRMAN SCHMITT: Well, what I want to do is  
15 just make sure that your witness -- you have an  
16 opportunity to have your witness speak and everybody  
17 has a chance to cross, so maybe --

18 MR. CHANDLER: And as long as -- as long as  
19 the Company is fine with that, I mean, we would be  
20 fine with tendering Mr. Smith at this time and come  
21 back to Mr. Satterwhite.

22 MR. OVERSTREET: That's fine.

23 CHAIRMAN SCHMITT: Okay. I hate to do this,  
24 but we're going to have to probably patch this  
25 together --

1 MR. OVERSTREET: Absolutely.

2 CHAIRMAN SCHMITT: -- as we go along because  
3 of scheduling problems.

4 MR. SATTERWHITE: No problem.

5 CHAIRMAN SCHMITT: Mr. Satterwhite, would you  
6 please step down --

7 MR. SATTERWHITE: No problem.

8 CHAIRMAN SCHMITT: -- temporarily.

9 Mr. Chandler, would you like to introduce and  
10 call your witness?

11 MR. CHANDLER: I'll let Mr. Cook. That's  
12 fine.

13 CHAIRMAN SCHMITT: Mr. Cook.

14 MR. COOK: Your Honor, at this time we'll  
15 call Ralph C. Smith.

16 CHAIRMAN SCHMITT: Mr. Smith, will you please  
17 raise your right hand? Do you solemnly swear or  
18 affirm that the testimony you are about to give will  
19 be the truth, the whole truth, and nothing but the  
20 truth?

21 MR. SMITH: I do.

22 CHAIRMAN SCHMITT: Please be seated.

23 Counsel, you may ask.

24 \* \* \*

25



1           RALPH C. SMITH, called by the Kentucky  
2 Attorney General, having been first duly sworn,  
3 testified as follows:

4                                   DIRECT EXAMINATION

5 By Mr. Cook:

6 Q.        Could you state your name and business  
7 address for the record, please?

8 A.        My name is Ralph C. Smith. My business  
9 address is Larkin & Associates, PLLC, 15728  
10 Farmington Road, Livonia, Michigan 48154.

11 Q.        Thank you. And are you the same Ralph C.  
12 Smith who caused to be filed direct testimony into  
13 this case?

14 A.        I -- yes.

15 Q.        Okay. And did you have any changes to your  
16 testimony?

17 A.        Yes. There was a qualification appendix that  
18 was filed, I believe later this week, and I also had  
19 an errata sheet, which I believe was also filed  
20 yesterday.

21 Q.        Okay. In addition to those changes that were  
22 filed of record, did you have any other changes?

23 A.        No.

24           MR. COOK: Okay. Mr. Chairman, the witness  
25 is available for cross.

1 MR. OVERSTREET: Thank you, Mr. Chairman.

2 CHAIRMAN SCHMITT: Mr. Overstreet,  
3 cross-examination.

4 CROSS-EXAMINATION

5 By Mr. Overstreet:

6 Q. Mr. Smith, please turn to page 68 of your  
7 testimony, line 5. Just let me know when you're  
8 ready.

9 A. Yes.

10 Q. Would you read the two sentences beginning  
11 "Thus the initial impact"?

12 A. (Reading) Thus the initial impact on KPCO  
13 customers of Big Sandy's inclusion in the consent  
14 decree was to shutter their own Kentucky in-state  
15 generation, which had provided significant --  
16 significant economic benefits to the service  
17 territory and the state as a whole. This was done  
18 to benefit AEP and its other AEP operating companies  
19 at the expense of KPCO and its customers.

20 Q. Okay. And that second sentence, you -- well,  
21 let me back up. By (Reading) shutter their own  
22 state -- by "shutter their own in-state generation,"  
23 am I correct in assuming you're referring to the  
24 retirement of Big Sandy Unit 2 in mid 2015?

25 A. Yes.

1 Q. And then that second sentence, you have  
2 footnote 25 appended to it. And is the purpose of  
3 that footnote to provide support for that sentence?

4 A. It is.

5 Q. Okay. And that sentence refers to the Sixth  
6 Circuit's opinion in the Wilmington Trust case and  
7 which is attached to your testimony as RCS-20?

8 A. Yes.

9 Q. Okay. Isn't it true that the dispute before  
10 the Sixth Circuit in the Wilmington Trust case  
11 involved the owners and lessees of the two Rockport  
12 generating units?

13 A. That was the subject matter of that dispute,  
14 yes.

15 Q. And isn't it true that Kentucky Power was not  
16 a party to that litigation?

17 A. Yes, that's true.

18 Q. And isn't it true that the dispute involved  
19 the requirements of the documents governing the sale  
20 and leaseback of the two Rockport units?

21 A. That and the other issue of one additional  
22 pollution control retrofits would need to be  
23 installed at that plant.

24 Q. Okay. Would you please turn to page 3 of  
25 RCS-20?

1 A. Yes, I have it.

2 Q. Okay. And you see the first complete  
3 paragraph on that page, "With this complex deal"?

4 A. Yes.

5 Q. Am I reading this correctly, (Reading) With  
6 this complex deal came several interlocking  
7 instruments. Two sections from two of these  
8 instruments are at the core of the owner's claims,  
9 each providing some protection to the plant's  
10 residual values.

11 Do you think Judge Griffin properly  
12 characterized the dispute in those sentences?

13 A. I think that's part of the dispute, yes.

14 Q. Okay. Would you agree that that's the core  
15 of the owner's claims, as Judge Griffin indicated?

16 A. That was part of the dispute. The other part  
17 of the dispute related to the timing of the  
18 installation of additional environmental controls on  
19 the Rockport units, which came out of the consent  
20 decree.

21 Q. So when Judge Griffin said that these two  
22 instruments were at the core of the owner's claims,  
23 he was mistaken?

24 A. No. Interpreting the sale-leaseback  
25 agreement was at the core.

1 Q. Okay. Thank you. And isn't true that the  
2 Big Sandy generating unit is not subject to the  
3 several interlocking instruments Judge Griffin  
4 indicated at page 3 of the Sixth Circuit's opinion  
5 were at the core of the owner's claims?

6 A. The Big Sandy unit is part of the consent  
7 decree, but it wasn't part of the Rockport  
8 sale-leaseback arrangements.

9 Q. And isn't it true that the Big Sandy  
10 generating station and Unit 2 of Big Sandy are not  
11 even mentioned in the opinion?

12 A. Those are not mentioned, but it does refer  
13 back to the consequences of the consent decree.

14 Q. Units weren't mentioned in the agreement,  
15 correct? I mean, excuse me, in the opinion.

16 A. I believe that's correct.

17 Q. Thank you. Mr. Smith, you were a witness,  
18 were you not, in the Company's last rate case, Case  
19 Number 2014-396?

20 A. Yes.

21 Q. Okay. And did you read the Commission's  
22 order in that case before you -- before preparing  
23 your testimony in this case?

24 A. At some point I did, yes.

25 Q. Okay. Do you have that order in front of

1           you?

2           A.       No, I don't believe so.

3           MR. OVERSTREET:   Your Honor, may I provide?

4           CHAIRMAN SCHMITT:   Yes, you may.

5           MR. OVERSTREET:   Mr. Smith and Attorneys  
6           General, I'm going to provide you and Staff and the  
7           Commissioners with the entire order as well as the  
8           specific pages I'm going to be asking about.

9           May I approach, Your Honor?

10          CHAIRMAN SCHMITT:   Yes, you may.

11          MR. OVERSTREET:   Would you give that to the  
12          Commissioners?

13          Q.       And does that -- and just let me know when  
14          you're ready, Mr. Smith.

15          A.       If you're referring to the skinny document,  
16          I'm ready.

17          Q.       Okay. And that's what I'm going to refer to.  
18          I just wanted to make sure that --

19          MR. GISH:   Want these in?

20          MR. OVERSTREET:   Oh, I'm sorry. I thought  
21          you did. I apologize. These -- one moment.

22          Q.       All right. And if you'll turn to -- the  
23          first page of the skinny document is the -- is the  
24          cover page of the order, and then the next page is  
25          page 67, and then the last sentence of the first

1 complete paragraph provides -- well, why don't you  
2 just read that into the record? It starts, "Due to  
3 the planned."

4 A. The last sentence on page 67?

5 Q. 60 -- I'm sorry. It's the first complete  
6 paragraph on 67. So the paragraph starts, "Kentucky  
7 Power removed previously-approved environmental."

8 Do you see that?

9 A. Okay. I see it.

10 Q. Okay. Then I'm asking --

11 A. What's the --

12 Q. -- about the last sentence of that paragraph.

13 A. The last sentence of that paragraph?

14 Q. Okay. It starts, "Due to the planned."

15 A. (Reading) Due to the planned retirement of  
16 Big Sandy Unit 2 by June 1st, 2015, to comply with  
17 the Mercury and Air Toxics Standards, MATS, rule,  
18 Kentucky Power removed the Big Sandy Unit 2 projects  
19 it previously recovered through the environmental  
20 surcharge.

21 Q. So in its order in the last rate case, the  
22 Commission stated that the Big Sandy Unit 2 was  
23 retired to comply with the MATS rule that Mr.  
24 McManus discussed earlier today, correct?

25 A. That's what it says here, yes.

1 Q. Okay. And if you'll turn to the next two  
2 pages, which happen to be pages 68 and 69 of the  
3 same order, the Commission, in fact, discussed the  
4 MATS rule.

5 And if you'll look at page 69 -- and take  
6 your time, read as much as you need, but what I'd  
7 like you to do when you're ready is to read the  
8 final sentence above the heading Consent Decree.

9 A. (Reading) The closure of Big Sandy Unit 2 and  
10 the conversion of Big Sandy Unit 1 to a natural  
11 gas-fired generating facility were precipitated by  
12 the MATS compliance deadline.

13 Q. Thank you. Back to your statement.

14 (Reading) Thus the initial impact on Kentucky Power  
15 customers of Big Sandy's inclusion in the consent  
16 decree was to shutter their own in-state generation,  
17 which had provided significant economic benefits to  
18 the service territory and the state as a whole.

19 And I'm sorry, I didn't mean to get ahead of  
20 you.

21 A. Okay. I'm back at page 63.

22 Q. Okay. And that sentence "Thus the initial  
23 impact." It's that first sentence of that  
24 paragraph.

25 A. Yes.



1 Q. Do you see that? Are you aware that in Case  
2 Number 2011-401 Kentucky Power sought a Certificate  
3 of Public Convenience and Necessity authorizing the  
4 Company to scrub the Big Sandy Unit 2 and thus avoid  
5 retiring it?

6 A. I don't remember the docket number  
7 specifically, but I do recall that other options for  
8 Big Sandy had been presented.

9 Q. Right. In fact, the Company filed a case  
10 without regard to that, the docket number, and asked  
11 for a Certificate of Public Convenience and  
12 Necessity to do that.

13 A. I recall a filing of that nature, I just  
14 don't recall the case number.

15 Q. Okay. Fair enough. Are you aware that  
16 the -- your client, the Attorney General, opposed  
17 the Company's efforts to scrub Big Sandy Unit 2?

18 A. From what I can recall, I think there was  
19 concern about the cost of doing it.

20 MR. OVERSTREET: Okay. Your Honor, could I  
21 have that skinny document --

22 CHAIRMAN SCHMITT: Yes.

23 MR. OVERSTREET: -- marked Kentucky Power  
24 Cross Exhibit 1?

25 CHAIRMAN SCHMITT: Let it be so marked.

1 MR. OVERSTREET: Okay.

2 MS. HUGHES: Mr. Overstreet.

3 MR. GISH: I'll get it for you.

4 MR. OVERSTREET: I'm sorry.

5 MR. GISH: I'll give it to her.

6 MR. OVERSTREET: And -- thank you.

7 (KPCO Cross Exhibit 1 marked for  
8 identification.)

9 MR. OVERSTREET: May I approach the witness,  
10 Your Honor?

11 CHAIRMAN SCHMITT: Yes, you may.

12 Q. Mr. Smith.

13 MR. OVERSTREET: Oh.

14 MR. GISH: I got those two.

15 MR. OVERSTREET: And there's -- there's the  
16 complete document.

17 MR. GISH: Hold on.

18 MR. OVERSTREET: Okay. That'll be 2.

19 MS. HUGHES: This is 2?

20 MR. OVERSTREET: Yeah.

21 (KPCO Cross Exhibit 2 marked for  
22 identification.)

23 Q. Are you ready, Mr. Smith?

24 A. I think so.

25 Q. Okay. Great. Okay. If you look at page 6,

1       which is the second page of the skinny document.

2       A.       Okay.

3       Q.       And your memory of the reason for the  
4       Attorney General's concern was very accurate.  Could  
5       you read the last sentence on that page?

6       A.       (Reading) KPCO's customers can thus ill  
7       afford, if at all, the whopping 1.65 billion pretax  
8       bill for the proposed Big Sandy retrofit promises to  
9       bring.

10       MR. COOK:  Your Honor, I'm just going to  
11       introduce an objection, for the record only, because  
12       this document that has been passed out is very  
13       selective in the pages that it has attached to it,  
14       and I believe the document that is on record with  
15       the Commission, the entire document, will speak for  
16       itself.  So that's -- just want to get it into the  
17       record.

18       CHAIRMAN SCHMITT:  I assume that the larger  
19       document is the complete version.

20       MR. OVERSTREET:  It is, Your Honor, and I  
21       apologize.  I thought I had enough copies for the  
22       Attorney General.  Apparently --

23       MR. COOK:  I don't believe we got the full  
24       one, no.

25       COMMISSIONER MATHEWS:  Here's a copy of it.

1 CHAIRMAN SCHMITT: Here, you can use mine if  
2 you'd like.

3 COMMISSIONER MATHEWS: Here you go.

4 CHAIRMAN SCHMITT: Have someone to come  
5 forward and get it.

6 MR. COOK: Thank you, Your Honor.

7 MR. OVERSTREET: I apologize, Mr. Cook.

8 Q. Your statement from your testimony that we  
9 discussed a few minutes ago in which you indicated  
10 that Big Sandy Unit 2 had provided significant  
11 economic benefits to the service territory and the  
12 state as a whole, you remember that statement?

13 A. Yes.

14 Q. Okay. Would you turn to pages 9 and 10 of  
15 the skinny -- of either -- it's 9 and 10 of the  
16 brief. It's the next two pages of the skinny  
17 document.

18 A. Okay. I have those in front of me.

19 Q. Okay. And on page 9, the final sentence  
20 starts on page 9 and continues into page 10. Would  
21 you please read that?

22 A. (Reading) As such, it is clear that whatever  
23 economic benefits the Big Sandy retrofit option  
24 could or may maintain are insufficient factors in  
25 determining whether the incident ECR plan and the

1 accompanying CPCN petition meet the clear legal  
2 standards set forth in KRS 278.183 and 278.020.

3 Q. Thank you. Mr. Smith, would you turn to page  
4 60 of your testimony?

5 A. Yes.

6 Q. Actually, I think we've covered that. We  
7 don't need to go there.

8 Page 62 of your testimony, please.

9 A. Okay. I'm there.

10 Q. Okay. And at line 13 you list as one of the  
11 consequences of the consent decree as, quote, the  
12 operation of 50 percent of the Mitchell Plant.

13 Do you see that statement?

14 A. Yes.

15 Q. Okay. Did the Attorney General make you  
16 aware that in Case Number 2012-578, which is the  
17 Mitchell Transfer case where the Commission  
18 authorized Kentucky Power to require a 50 percent  
19 undivided interest in the Mitchell Generating  
20 Station, that the Company -- excuse me, that the  
21 Commission found that doing so was the least-cost  
22 alternative?

23 MR. CHANDLER: Objection, Your Honor. It's  
24 attorney-client privilege. Any discussion the  
25 Attorney General had with its witness is

1 confidential.

2 MR. OVERSTREET: I can rephrase the question.

3 CHAIRMAN SCHMITT: Please do.

4 Q. Would you look at -- well --

5 MR. OVERSTREET: May I approach, Your Honor?

6 CHAIRMAN SCHMITT: Yes, you may.

7 MR. OVERSTREET: Be three.

8 Q. And could you turn to -- I'm sorry. Could  
9 you turn to page 31, which is the second page of the  
10 skinnier of the two?

11 A. Yes, I'm there.

12 Q. Okay. And read the first sentence in the --  
13 the paragraph that starts on page 31 that starts  
14 "Lastly."

15 A. (Reading) Lastly, the Commission finds that  
16 Kentucky Power's comprehensive economic analysis  
17 sufficiently supports the Company's conclusion that  
18 the Mitchell acquisition is the least-cost  
19 alternative and would not result in wasteful  
20 duplication.

21 Q. And then drop down to the bottom of that  
22 page, and then the -- start at the third from the  
23 last sentence. It starts, "The economic analysis  
24 showed that the Mitchell proposal," and read those  
25 three sentences.

1           A.       (Reading) The economic analysis showed that  
2           the Mitchell proposal, combined with the conversion  
3           of Big Sandy Unit 1 to gas, was the least-cost  
4           alternative by a wide margin. Sensitivity and  
5           break-even analyses also demonstrated that the  
6           Mitchell acquisition is the least-cost option.  
7           Accordingly, we concluded that the proposed Mitchell  
8           acquisition represents the least-cost alternative to  
9           meeting Kentucky Power's capacity and energy needs  
10          and would not result in wasteful duplication of  
11          facilities.

12          Q.       And you have no basis to disagree with that,  
13          do you?

14          A.       No.

15          Q.       Would you refer --

16                 MR. OVERSTREET: And, Your Honor, may I have  
17          that marked as Kentucky Power Cross 3?

18                 CHAIRMAN SCHMITT: Yes. Is that 3?

19                 MR. OVERSTREET: I -- 3, the --

20                         (KPCO Cross Exhibit 3 marked for  
21          identification.)

22          Q.       And then if you'll refer back to Number 2,  
23          which is the Attorney General's brief in the  
24          scrubber case, the 401 case. And look at page 14,  
25          which would be the last page of the skinny version.

1 A. Okay. I have it.

2 Q. And there's a paragraph that starts at the  
3 top of that page, "The option of obtaining power  
4 from the Mitchell Plant." And would you read that  
5 paragraph down to the "begin confidential"?

6 A. (Reading) The option of obtaining power from  
7 the Mitchell Plant is very important and highly  
8 relevant for several reasons, none of which is more  
9 important than the fact that it is already compliant  
10 with all of the new EPA standards. Additionally,  
11 Mitchell's power cost is only \$640 per kW on a net  
12 book value basis, as contrasted with the projected  
13 \$1,175 per kW cost of power from Big Sandy 2  
14 following the proposed retrofit. Despite the fact  
15 that purchasing power generating at the Mitchell  
16 Plant is a highly attractive and highly viable  
17 option.

18 Q. And then the confidential?

19 A. And then there's some confidential.

20 Q. Okay. Right. And you have no reason to  
21 disagree with what your client, the Attorney  
22 General, wrote in that case, do you?

23 A. No.

24 CHAIRMAN SCHMITT: Has that post-hearing  
25 brief, has that been marked as Exhibit 2? Is that



1 your --

2 MR. OVERSTREET: Yes. I'm sorry. If I  
3 failed to do that, that should be Cross Exhibit 2.

4 CHAIRMAN SCHMITT: All right. Thank you.  
5 Let's let that be marked.

6 MR. CHANDLER: Mark the Mitchell? Is that  
7 going to be Number 3, the Mitchell Transfer?

8 MR. OVERSTREET: Yeah. Maybe we'll --

9 MR. CHANDLER: I'm sorry.

10 MR. OVERSTREET: Get caught up.

11 MR. CHANDLER: Sorry.

12 Q. Okay. Now, could I get you to turn to pages  
13 63 to 66 of your testimony? And there -- are you  
14 there, Mr. Smith?

15 A. Yes.

16 Q. Okay. And there you discuss your proposal  
17 that the Commission consider writing down some or  
18 all of the Big Sandy Retirement Rider, soon to be  
19 known as the Big Sandy Decommissioning Rider,  
20 regulatory asset; is that correct?

21 A. Yeah. We think that the Commission needs to  
22 take a look at the Big Sandy Retirement Rider.  
23 That's providing a large burden on KPCO's customers.  
24 We think, at minimum, the financing cost component  
25 of that rider needs to be reviewed --

1 Q. Well, let's talk --

2 A. -- if not some more drastic changes --

3 Q. Excuse me. I'm sorry. I didn't mean to cut  
4 you off. I thought you had paused.

5 And you were actually asked a data request  
6 about that testimony by the Staff. It would be 1 --  
7 Staff's Request 4. Do you remember that?

8 A. I don't remember the number offhand, but I do  
9 remember being asked.

10 MR. OVERSTREET: May I approach, Your Honor?

11 CHAIRMAN SCHMITT: Yes, you may.

12 MR. OVERSTREET: That would be 4, Your Honor,  
13 or 5? I've lost track.

14 CHAIRMAN SCHMITT: I think that would be 4.

15 MS. HUGHES: Four.

16 MR. COOK: Mark, I don't know --

17 MR. CHANDLER: That's why I was asking. I  
18 don't think you've mentioned 3 yet.

19 MR. GISH: Yeah, we did. Three was the --

20 CHAIRMAN SCHMITT: Three's been -- yeah, 3  
21 has been marked.

22 MR. CHANDLER: Okay. That's what I was  
23 asking. Sorry.

24 COMMISSIONER MATHEWS: 578. 2012-578.

25 MR. CHANDLER: Okay. Thanks.

1                   (KPCO Cross Exhibit 4 marked for  
2                   identification.)

3                   MR. OVERSTREET: Ken, can you bring one of  
4                   those back to me?

5                   Q.       And just to help you get oriented, Mr. Smith,  
6                   the first page is just the title page, and then  
7                   Question 2 is the second page. I'm not going to ask  
8                   you about that right now. And then the remaining  
9                   five pages are Question 4 that was posed to the  
10                  Attorney General that you answered on behalf of the  
11                  Attorney General. Okay?

12                 A.       Okay.

13                 MR. CHANDLER: I missed the end of your  
14                 question. I'm sorry.

15                 MR. OVERSTREET: I was just orienting him.

16                 Q.       Are you ready, Mr. Smith?

17                 A.       I think so.

18                 Q.       Okay. So 4 a. asks, (Reading) State whether  
19                 the Attorney General is aware of any cases in which  
20                 this Commission or another state public utility  
21                 regulatory agency has denied the recovery of costs  
22                 that are similar to the Rockport and Big Sandy costs  
23                 that the Attorney General proposes be denied in this  
24                 proceeding.

25                 Did I read that correctly?

1 A. Yes.

2 Q. Okay. And then in response -- and you're  
3 listed as the witness, right? Is that correct?

4 A. I am listed as the witness.

5 Q. Okay.

6 A. Although the attorneys were the ones that  
7 researched the cases.

8 Q. Okay. So you didn't compile the list?

9 A. I did not compile the list. It was compiled  
10 by counsel.

11 MR. OVERSTREET: Okay. I would move that it  
12 be stricken from the record since the data request  
13 needs to be sponsored by the witness who's -- who  
14 could be cross-examined and testify concerning it.

15 MR. CHANDLER: Your Honor, I don't believe  
16 that's what was said. I think it was said that it  
17 was compiled, but the respondent clearly states  
18 Ralph C. Smith. I think that's a distinction.

19 CHAIRMAN SCHMITT: Well, I think it is a  
20 distinction. You need to --

21 MR. CHANDLER: To --

22 CHAIRMAN SCHMITT: -- clear it up, though.

23 MR. CHANDLER: Thank you.

24 CHAIRMAN SCHMITT: I assume he's seen the  
25 documents or information or he's done something to

1 verify this; isn't that correct?

2 MR. CHANDLER: I mean, I -- Mr. Smith  
3 reviewed all of these and provided his affidavit to  
4 that effect. I don't --

5 Q. Well, let me just ask this question: Have  
6 you read each of the referenced sources? And --

7 A. I don't think I've read every single one, no.

8 MR. OVERSTREET: Okay. I'll move -- move to  
9 strike it again, Your Honor.

10 MR. CHANDLER: Well --

11 CHAIRMAN SCHMITT: Well, if the witness is  
12 not familiar with the instances set out in the  
13 response, I think it should be stricken. I mean, it  
14 all depends on what knowledge he has. He hasn't --  
15 says he hasn't -- he hasn't read it all, but he may  
16 or may not have read enough to qualify him. I'm not  
17 certain.

18 MR. CHANDLER: I would -- I would -- it would  
19 be our position that it's Kentucky Power's counsel's  
20 task to determine what he does and doesn't know  
21 about these. I mean, he filed an affidavit to the  
22 effect that this is his response. I think it's a  
23 bit interesting that it's expected that -- of these  
24 18, that he's read the entirety of every single  
25 case.

1 I don't want to get in trouble with my own  
2 counsel, but I think there are portions of certain  
3 cases that you skim and read certain sections. I  
4 don't think that that should equate to striking a  
5 response.

6 CHAIRMAN SCHMITT: Here's what -- here's how  
7 it's handled: Mr. Overstreet, why don't you -- if  
8 you desire to, you can cross-examine him on one,  
9 more, or all of these instances to test his  
10 knowledge and understanding, and when you are  
11 through, if there's something -- before we proceed  
12 further, if you want to ask the witness questions on  
13 direct to try to rehabilitate him, I'll let you do  
14 that.

15 MR. CHANDLER: Thank you.

16 CHAIRMAN SCHMITT: They might have to do  
17 something.

18 So please proceed if you'd like

19 MR. OVERSTREET: Thank you, Your Honor. I'm  
20 prepared to do that.

21 May I approach the witness, Your Honor?

22 CHAIRMAN SCHMITT: Yes, you may.

23 MR. OVERSTREET: And would this be 5?

24 CHAIRMAN SCHMITT: It will be 5.

25 MR. OVERSTREET: Thank you.

1                   (KPCO Cross Exhibit 5 marked for  
2                   identification.)

3           Q.       Mr. Smith --

4                   MR. OVERSTREET: I'll get you copies of all  
5                   of these.

6           Q.       And I want to direct your attention to the  
7                   tenth case you list there. And, Mr. Smith, I think  
8                   Mr. Raff and I are the only ones in the room who  
9                   spent three weeks in December of 1986 that turned  
10                   out to be -- feel like three years in this  
11                   particular case, but this -- you list In re Big  
12                   River Electric Corporation's Notice of Changes in  
13                   Rates and Tariffs for Wholesale Electric Service,  
14                   and a Financial Workout Plan, Case Number 96-13.

15                   And your synopsis of that case is, (Reading)  
16                   in which the Commission excluded the cost of the  
17                   Wilson plant from rate base. Order dated March 17,  
18                   1987.

19                   So first of all, will you check to make sure  
20                   that I gave you the correct order? And the date  
21                   will be on the last page.

22           A.       I think I only have the two-page --

23           Q.       Okay. You only have the two-page one? I  
24                   apologize.

25           A.       Okay. Got a whole stack of those.

1 Q. Oh, okay. I thought that was the whole  
2 thing. I'm sorry.

3 A. Okay. I do see the date on the last page.

4 Q. Okay. And it's March 17, 1987?

5 A. Yes.

6 Q. And the case number on the first page is  
7 96-13?

8 A. Yes.

9 Q. Okay. Did you read this?

10 A. Not the whole thing.

11 Q. Did -- can you tell me where in there the  
12 Commission excluded from Big Rivers' rate base the  
13 Wilson plant?

14 A. I may have to take a couple minutes to peruse  
15 it.

16 MR. CHANDLER: Your Honor.

17 CHAIRMAN SCHMITT: Yes.

18 MR. CHANDLER: The Attorney General is  
19 willing to stipulate that number 10 in this list was  
20 written in error and would agree to strike number 10  
21 of the data request response.

22 CHAIRMAN SCHMITT: All right. So noted, and  
23 the response that is designated number 10, In re Big  
24 Rivers Electric Corp. Notice of Changes in Rates and  
25 Tariffs for Wholesale Electric Service, Case 96-13,



1 is hereby stricken.

2 MR. OVERSTREET: Okay. Thank you, Your  
3 Honor.

4 May I ask one follow-up question about that?

5 CHAIRMAN SCHMITT: Yes, you may.

6 Q. Mr. Smith, would you turn to page 16?

7 A. Of what?

8 Q. Of that 90 -- that order in 96-13.

9 A. Okay. I'm there.

10 Q. Okay. And you see the dot at the top, or the  
11 bullet, I guess they call them?

12 A. Yes.

13 Q. Okay. Could you read the sentence that  
14 follows that, or the -- yeah, the two sentences.

15 A. That start with the dot or --

16 Q. The "Wilson is not a half-finished."

17 A. (Reading) Wilson is not a half-finished  
18 nuclear station. It is revenue-producing,  
19 state-of-the-art coal-fired unit that may be capable  
20 in the long run of producing enough revenue as part  
21 of the Big Rivers system to repay a substantial  
22 portion or possibly all of the creditors'  
23 investment.

24 Q. And you would agree that that doesn't sound  
25 like a unit that's going to be excluded from the

1 rate base?

2 A. Again, it may have been temporarily excluded.

3 Q. Well, it's been stricken.

4 MR. CHANDLER: Your Honor, we've already  
5 asked for it to be stricken.

6 Q. All right. I'd like to ask you about your  
7 second example.

8 MR. OVERSTREET: May I approach, Your Honor?

9 CHAIRMAN SCHMITT: You may.

10 MR. OVERSTREET: And this, I think, is Number  
11 6.

12 (KPCO Cross Exhibit 6 marked for  
13 identification.)

14 Q. Mr. Smith, this is an article from Columbus  
15 Business First that you footnote as support for your  
16 second example. And do I have the right article?

17 A. I believe you do, yes.

18 Q. Okay. Now, the subject matter of this  
19 article is the write-off of -- by American Electric  
20 Power Company, Inc. of certain unregulated units in  
21 the state of Ohio; is that not correct?

22 A. That's correct.

23 Q. Okay. And the question was -- the data  
24 request was to provide, quote, cases where the  
25 Commission or any other state public utility

1 regulatory agency has denied recovery of costs that  
2 are similar to -- and end of the quote, to the Big  
3 Sandy regulatory asset that we're talking about.

4 Is -- did I capture the question correctly?

5 A. The question says "similar to the Rockport  
6 and Big Sandy costs."

7 Q. That you proposed.

8 A. Right.

9 Q. Okay. To disallow.

10 A. Right.

11 Q. Okay. So tell me, Mr. Smith, what state  
12 public utility regulatory agency denied the recovery  
13 of those costs?

14 A. This write-off was a consequence of the  
15 deregulation in Ohio of generating -- of electric  
16 generation.

17 Q. Right. And so the Ohio Public Utility  
18 Commission did not sanction the write-off of those  
19 costs; isn't that correct?

20 A. No, it was an economic consequence of having  
21 these units deregulated.

22 Q. And that was done by the Ohio legislature,  
23 right?

24 A. Correct.

25 Q. Thank you. All right. I'd like to talk

1 about the remaining 16 instances you or your counsel  
2 list in response to this data request. And first of  
3 all, I'd like to ask you some questions about the  
4 Big Sandy regulatory asset that you're proposing to  
5 write off.

6 A. Well, I think that might be a  
7 mischaracterization. I think we want it reviewed,  
8 and particularly the financing component. This Big  
9 Sandy Regulatory Rider is a large burden on the  
10 customers of Kentucky Power Company. We think that,  
11 at minimum, the financing cost component needs to be  
12 reviewed and probably reduced.

13 Q. Okay. Sorry.

14 A. And maybe, depending on how that can be dealt  
15 with, reducing the financing costs we would suggest  
16 as one option. If securitization would be available  
17 to deal with these costs, which are basically for  
18 units that are not providing service at this point  
19 to customers. It's essentially like sink costs. If  
20 securitization were available, that might --

21 MR. OVERSTREET: Well, Your Honor, may -- the  
22 witness is not -- he's giving a speech. I asked him  
23 a question and now he's giving a speech.

24 MR. COOK: Your Honor, I believe he should be  
25 allowed to continue his answer.

1           CHAIRMAN SCHMITT: Go ahead and finish the  
2 answer and then we'll --

3           A.       So we would suggest reviewing that, examining  
4 the financing costs, considering if securitization  
5 might be an option that some of the other AEP  
6 affiliates have applied to their sunk costs, various  
7 types, and that depending on the regulatory  
8 treatment and what adjustment is made, that may lead  
9 to some kind of impairment recognition on the  
10 Company's books. Impairment would -- is another  
11 term for write-down.

12          Q.       Is that -- are you complete?

13          A.       Yes.

14          Q.       Thank you. So the question was: State  
15 whether the Attorney General is aware of any cases  
16 in which this Commission or another state public  
17 regulatory agency has denied recovery of costs that  
18 are similar to the Rockport and Big Sandy costs that  
19 the Attorney General proposes to be denied in this  
20 proceeding.

21                 Can you show me where in your response you  
22 gave any of the information that you just provided  
23 or that you told Staff that it had mischaracterized  
24 your testimony?

25          A.       Okay. I think you're asking a different

1 question than the one you just asked. In response  
2 to this data request from the Staff, the attorneys  
3 did research, identifying cases that were believed  
4 to be similar where costs of various types  
5 associated with utility generation was either  
6 disallowed or, as a result of consequences such as  
7 in Ohio, where electric generation was deregulated,  
8 where large impairment write-downs occurred.

9 Q. The question is cases where public utility  
10 regulatory agencies denied the recovery of costs  
11 that are similar to the Big Sandy costs that the  
12 Attorney General proposes to be denied.

13 Now, with respect to the Big Rivers case,  
14 your counsel has indicated that was a mistake, so we  
15 know that's not one.

16 With respect to the AEP write-down, you  
17 indicated that wasn't as a result of a -- of the  
18 Ohio Public Utility Commission's order.

19 Now I want to talk to you about the remaining  
20 16, and in particular I want to talk to you about  
21 your proposal in your testimony, as characterized by  
22 Staff, not by me, that the Big Sandy costs be denied  
23 in this proceeding.

24 And so in that regard, would you agree that  
25 the regulatory -- Big Sandy regulatory asset was

1 established in Case Number 2012-578, the Mitchell  
2 Transfer case we talked about a minute ago? Would  
3 you agree with that?

4 A. I agree that the Big Sandy Regulatory Rider  
5 was established in a prior case.

6 Q. Okay.

7 A. I'll have to accept the document number that  
8 you --

9 Q. Okay. And that the cost of retiring Big  
10 Sandy Unit 2 and the coal-related plant and assets  
11 of Big Sandy Unit 1 make up that regulatory asset;  
12 is that correct?

13 A. That's my understanding, yes.

14 Q. Okay. And those costs are to be recovered on  
15 a levelized basis over 25 years?

16 A. Over 25 years, including a very, very high  
17 financing cost. We think that, at minimum, the  
18 financing cost needs to be examined again.

19 Q. So the -- and the Commission sanctioned that,  
20 right?

21 A. Yes.

22 Q. Okay. And then the regulatory mechanism for  
23 actually recovering those costs, the Big Sandy  
24 Retirement Rider, was approved by the Commission in  
25 Case Number 2014-396, the case you testified in, the

1 Company --

2 A. Based on my recollection --

3 Q. -- the Company's last rate case?

4 A. It does agree with my recollection.

5 Q. I apologize. I didn't mean to talk over you.

6 Mr. Smith, Big Sandy Unit 1 went into service  
7 in 1963; isn't that correct?

8 A. I believe so, yes.

9 Q. And that it provided service to Kentucky  
10 Power's customers as a coal-fired unit for at least  
11 52 years prior to its conversion to a gas-fired  
12 unit?

13 A. I'll accept that, yes.

14 Q. Okay. And even now, as a gas-fired unit, it  
15 continues to provide service to Kentucky Power's  
16 customers; isn't that correct?

17 A. As a gas-fired unit it is providing service.

18 Q. And then Big Sandy Unit 1 -- I mean, excuse  
19 me, Big Sandy Unit 2 went into service in 1969; is  
20 that correct?

21 A. I don't recall the exact date, but I'll  
22 accept 1969 sounds about right.

23 Q. And then it retired in the May-June 2015  
24 time; is that correct?

25 A. That's my understanding.



1 Q. Okay. And so for approximately 46 years it  
2 provided service to Kentucky Power's customers; is  
3 that correct?

4 A. That would be correct, yes.

5 Q. So can you please identify for the Commission  
6 which of the 18 instances you list in this response  
7 to Staff 1-4 where this Commission or some other  
8 state public utility body required a public utility  
9 to write off some or all of the cost of the Big  
10 Sandy regulatory asset -- excuse me, cost of a  
11 regulatory asset like the Big Sandy regulatory asset  
12 previously approved by a regulatory body?

13 A. Again, I'm not sure that there's --

14 MR. CHANDLER: Objection, Your Honor. That's  
15 not the question that was asked in the data request.  
16 He's asking him to apply his answer to a data  
17 request to a completely different question he just  
18 asked.

19 CHAIRMAN SCHMITT: I think you're correct.  
20 Yeah, I mean, you changed the question.

21 MR. OVERSTREET: No, I -- I --

22 CHAIRMAN SCHMITT: You said previously --  
23 which had been previously approved by the -- by the  
24 Commission. Isn't that correct, Mr. Chandler?

25 MR. CHANDLER: That's correct, but he's also

1 specifically talking about a regulatory asset, but  
2 the question specifically cited that are similar to  
3 the Rockport and Big Sandy costs.

4 MR. OVERSTREET: Okay. May I respond?

5 CHAIRMAN SCHMITT: Yes, you may.

6 MR. OVERSTREET: Okay. The question, as I  
7 understand it, asked the Attorney General to provide  
8 authority for Mr. Smith's testimony that the Big  
9 Sandy Retirement Rider regulatory asset should be  
10 written off.

11 And Mr. Smith has agreed to the following:  
12 Number one, that the establishment of the regulatory  
13 asset was approved by this Commission; number two,  
14 that its amortization over a 25-year period was  
15 approved by this Commission; number three, that it  
16 was to be recovered on a levelized basis over that  
17 period; and, number four, that the regulatory  
18 mechanism for amortizing that asset was approved by  
19 this Commission.

20 Mr. Smith has also agreed that Big Sandy Unit  
21 1 provided service for over 50 years, and Big Sandy  
22 Unit 2 provided service for more than 45 years.

23 So what I propose to do is ask him, given  
24 what he's already agreed to, which of those cases  
25 involved any of those characteristics.

1           CHAIRMAN SCHMITT: I think you can ask him  
2           that.

3           MR. OVERSTREET: Okay.

4           Q.       Okay. Mr. Smith --

5           CHAIRMAN SCHMITT: I'm not sure that -- but I  
6           won't say anything else. You can answer.

7           Q.       Mr. Smith, which of those cases involved any  
8           of those characteristics?

9           A.       I might have to go back and read more  
10          carefully, but I think the characteristics would  
11          include that the units -- components of the units'  
12          costs that went into the regulatory asset are no  
13          longer -- those components of costs are no longer  
14          providing service.

15          Q.       Okay. Well, let's talk about some of those  
16          specifics, then, because Case Number -- the very  
17          first one you list there. Do you have that in front  
18          of you?

19          A.       Yes.

20          Q.       Okay. In Case Number 2013-199 this  
21          Commission denied immediate recovery of depreciation  
22          costs associated with the Coleman and Wilson  
23          generating stations owned by Big Rivers and instead  
24          ordered that those costs be deferred in a regulatory  
25          asset.

1           The Commission didn't require Big Rivers to  
2 write off that regulatory asset and, in fact, it did  
3 the exact opposite, right? It established the rate.

4           A.       It established a regulatory asset, yeah.

5           Q.       Was that one of the cases you read?

6           A.       Parts of it.

7           Q.       Number eight, A Formal Review of the Current  
8 Status of Trimble County Unit Number 1, Case Number  
9 9934, again this Commission, disallowed 25 percent  
10 of Louisville Gas & Electric's interest in the  
11 Trimble unit.

12           Isn't it true that the reason that that was  
13 disallowed was that the Commission concluded that  
14 that 25 percent interest was not needed to provide  
15 service?

16           A.       I believe it was something to that effect.

17           Q.       And, in fact, it was in connection with the  
18 start-up. It had not -- Trimble Unit 1 had not been  
19 providing service to LG&E's customers; isn't that  
20 correct?

21           A.       If I recall correctly, and I may be getting  
22 some of these confused, but I think that one may  
23 have been a determination that it wasn't needed  
24 because it was excess capacity.

25           Q.       Thank you. And then number 14, Petition of

1 Public Service Company of New Hampshire. That's a  
2 New Hampshire -- 1988 New Hampshire Supreme Court  
3 case. Did you read that case?

4 A. Not the whole thing.

5 Q. Isn't it true that the issue in that case was  
6 the constitutionality of New Hampshire's anti-CWIP  
7 statute?

8 A. I think that that's correct, yes.

9 Q. Okay. And, in fact, the unit had never -- at  
10 the time of the decision of the Public Service  
11 Commission of New Hampshire, that -- the unit had  
12 not even gone into service?

13 A. It appears it was dealing with the  
14 precommercial operation regulatory treatment.

15 Q. And were you aware that, in fact, the New  
16 Hampshire Commission was reversed by the New  
17 Hampshire Supreme Court, and so the Commission  
18 decision was to allow the recovery of the CWIP  
19 costs?

20 A. That's not what I got out of that particular  
21 decision.

22 Q. Okay. Well -- and then the next one, the  
23 Citizens Action Coalition versus NIPSCO. I think  
24 that's Northern Indiana Public Service Company.  
25 Your summary -- have you read that case?

1 A. Ports -- parts of it, not the whole thing.

2 Q. Okay. Your summary -- did you write the  
3 summary or did counsel write the summary?

4 A. Counsel drafted the summary and I reviewed  
5 it.

6 Q. Okay. The summary provides that the state,  
7 the Indiana Commission -- or let me back up.

8 The case involved the recovery of \$205  
9 million on the proposed Bailey 1 nuclear generating  
10 unit before canceling the project; is that correct?

11 A. Yes.

12 Q. And the state utility commission allowed the  
13 utility to amortize the sunk cost; isn't that  
14 correct?

15 A. Yes.

16 Q. Okay. But, again, that unit had never gone  
17 into service, right?

18 A. It was my understanding it was canceled  
19 before becoming commercially operational.

20 Q. Thank you. All right. Can you turn to page  
21 10 of your testimony?

22 A. Okay. I have it.

23 Q. Okay. And at line 3 you state a purpose of  
24 your testimony. Could you read that, please?

25 A. (Reading) The purpose of my testimony is to

1 present the Commission an appropriate test period  
2 rate base, capitalization, overall rate of return,  
3 and utility operating income, as well as an overall  
4 revenue requirement.

5 Q. Okay. And I take it you believe that you  
6 accomplished that objective successfully?

7 A. We gave it our best effort.

8 Q. Okay.

9 A. I mean, there's probably some more  
10 adjustments we could have proposed.

11 Q. So you continue, at line 6 on the same page,  
12 (Reading) In the determination of the AG's  
13 recommended overall revenue requirement and revenue  
14 increase, I have relied on and incorporated the  
15 recommendations of AG Witness Dr. J. Randall  
16 Woolridge concerning the appropriate capital  
17 structure ratios, cost rates for short- and  
18 long-term debt, and common equity, and the resulting  
19 overall rate of return for the Company in this  
20 proceeding.

21 Is that correct?

22 A. Yes.

23 Q. Okay. And I take it that -- I think you  
24 filed your testimony on October 3rd, but are you --  
25 are you still relying on Dr. Woolridge's testimony

1 and work?

2 A. For the cost of capital?

3 Q. Yeah.

4 A. Yes.

5 Q. Okay. Thank you. And as part of your  
6 reliance and incorporation of Dr. Woolridge's  
7 recommendations, am I correct that you incorporated  
8 his recommendation of an 8.6 percent return on  
9 equity for the Company? Is that correct?

10 A. That's correct.

11 Q. Okay. And then once the Company's cost of  
12 debt is factored into the capitalization, it  
13 produced an overall rate of return for Kentucky  
14 Power of 6.03 percent; is that correct? And that's  
15 on page 11, numbered paragraph 3 of your testimony.

16 A. 6.03 percent, yes.

17 Q. Thank you. Do you have Mr. Woolridge's  
18 testimony in front of you? Excuse me, Dr.  
19 Woolridge. I didn't mean to slight him.

20 A. I don't have his testimony in front of me.

21 Q. Okay.

22 MR. OVERSTREET: It's in the record, Your  
23 Honor, but I'm going to provide him with the subject  
24 pages. And may I approach?

25 CHAIRMAN SCHMITT: Yes, you may.



1 MR. OVERSTREET: This would be 7?

2 CHAIRMAN SCHMITT: It'll be 7.

3 (KPCO Cross Exhibit 7 marked for  
4 identification.)

5 MR. OVERSTREET: Did it again. I'm sorry.

6 Q. And I think this is going to be an easy  
7 question, but on line 18 on page 2, you write -- I'm  
8 sorry, Dr. Woolridge writes -- and you've read his  
9 testimony, of course?

10 A. Yes.

11 Q. Okay. (Reading) The United States Supreme  
12 Court established the guiding principles for  
13 determining an appropriate level of profitability  
14 for regulated public utilities in two cases: Number  
15 one, Bluefield, and, number two, Hope. And then you  
16 provide the citations to those two cases. He  
17 provides the citations to those two cases.

18 (Reading) In those cases the Court recognized  
19 that the fair rate of return on equity should be:  
20 One, comparable to returns investors expect to earn  
21 on other investments of similar risk; two,  
22 sufficient to assure confidence in the company's  
23 financial integrity; and, three, adequate to  
24 maintain and support the company's credit and to  
25 attract capital.

1 Did I read that correctly?

2 A. Yes.

3 Q. And do you have any reason to disagree with  
4 Dr. Woolridge with respect to what I just read?

5 A. Not with respect to what you just read.

6 Q. Okay. Do you have reasons to disagree with  
7 Dr. Woolridge about anything else?

8 A. I can't think of anything, no.

9 Q. Okay.

10 MR. COOK: That's a leading statement.

11 Q. Okay. Now, if you'll turn to -- please turn  
12 to pages 10 to 12 of your testimony.

13 A. 10 to 12?

14 Q. Yeah.

15 A. Okay.

16 Q. And there you kind of lay out your findings  
17 and conclusions; is that correct?

18 A. That's correct.

19 Q. Okay. Do you believe that there's anything  
20 questionable about the merits of those findings and  
21 conclusions?

22 A. I don't know if I'd use that term, but I  
23 believe there were a bunch of other deferral items  
24 that could have been incorporated. Certainly it  
25 would have produced a lower base rate revenue

1 requirement --

2 Q. Okay. Do you believe there's any --

3 A. -- be calculated.

4 Q. I'm sorry. I thought you had finished.

5 Do you believe there's anything questionable  
6 about it?

7 A. Again, I wouldn't use the term  
8 "questionable." I mean, I believe we've given  
9 reasons for each of our recommendations --

10 Q. Okay.

11 A. -- and provided references to the supporting  
12 documentation.

13 Q. And that is your recommendation, right?

14 A. Yes, as of the date that this was filed.

15 Q. Okay. And do you think there's anything  
16 questionable about the calculations that you used in  
17 arriving at those findings and conclusions?

18 A. I think we used standard calculations for  
19 calculating a base rate revenue requirement --

20 Q. Sure.

21 A. -- and revenue deficiency.

22 Q. And, in fact, you do it in a step-by-step  
23 basis and lay it out in your testimony, don't you?

24 A. It's laid out in the testimony and exhibits,  
25 yes.

1 Q. You know, for example, in pages 23 to 52 of  
2 your testimony, you detail 18 -- I mean, excuse me,  
3 15 adjustments; isn't that correct?

4 A. We do detail each of our adjustments in the  
5 testimony.

6 Q. Right.

7 A. I didn't catch the specific page references,  
8 but we do.

9 Q. Okay. And now if you'll turn to line 3 on  
10 page 12 of your -- of your testimony. Are you  
11 there?

12 A. I'm here. Yeah.

13 Q. Okay. (Reading) Applying the updated gross  
14 revenue conversion factor of 1.643342 indicates the  
15 Company has an annual base revenue requirement  
16 excess. And then in your errata you corrected that,  
17 said it was the deficiency. Do you remember that?

18 A. Yes.

19 Q. Okay. Of approximately 39.9 million, as  
20 shown on Exhibit RCS-1, Schedule A, column B, line  
21 7. Is that correct?

22 A. That's what it says, yes.

23 Q. Now, you were also listed as the witness in  
24 the Attorney General's response to Staff 1-2 b. And  
25 you should have that up there. I think it might be

1 4, Mr. Smith.

2 A. I still have it, yes.

3 Q. Okay. And in that data request Staff asked  
4 you to, quote -- asked the Attorney General to,  
5 quote, Reconcile the Attorney General's support for  
6 a revenue increase of approximately 40 million, or  
7 eight percent, with the Attorney General's  
8 October 4, 2017, press release in which he  
9 recommends that Kentucky Power, and then there's an  
10 internal quote, forego the requested increase on  
11 ratepayers by implementing stronger controls on  
12 spending and by decreasing the amount returned to  
13 its shareholders.

14 And then did -- did you provide the response  
15 or did counsel write that?

16 A. I'm listed as the responsible witness. I  
17 think counsel helped to draft it.

18 Q. Okay. Sure. And so in that response you  
19 point to a sentence on page 3 of Dr. Dismukes -- am  
20 I pronouncing that correctly?

21 A. I've heard it pronounced that way.

22 Q. Okay. Dismukes' testimony where he states  
23 Kentucky Power's customers are unable to afford any  
24 increase. Right?

25 A. Yes.

1 Q. Okay.

2 A. That's part of the response.

3 Q. Okay. That's right. And then you go on to  
4 say, (Reading) Having made his position clear, the  
5 Attorney General also has a duty to point out to the  
6 Commission that Kentucky Power's requested increase  
7 is unreasonable and unsubstantiated even if  
8 customers could afford it, which they cannot. As  
9 such, Mr. Smith's testimony provided evidence that  
10 the Company's request was unsupported and  
11 unreasonable.

12 So you would agree that in both of those  
13 sentences, I think, you refer to Kentucky Power's  
14 requested increase; is that correct?

15 A. The approximately 60.3 million that was in  
16 the Company's supplemental filing, that's what is  
17 being referred to, I believe, here.

18 Q. Right. And would you also agree that the  
19 data request asked not about Kentucky Power's  
20 request but your testimony in which you indicated  
21 that the Company's current base rates produced a  
22 revenue deficiency of approximately 39.9 million?

23 A. That's what part a. asks.

24 Q. Right.

25 A. And then we --

1 Q. And that's what you answered?

2 A. -- confirmed that that was a -- 39.9 million  
3 was a deficiency.

4 Q. Right. But what the -- part b. asked you to  
5 reconcile the 39 -- your statement of approximately  
6 40 million revenue deficit, deficiency, with the  
7 Attorney General's press release.

8 Do you -- and your response talks not about  
9 your testimony but about the Company's application,  
10 correct?

11 A. And the concerns about affordability, which I  
12 think you've heard from -- not only from the  
13 Attorney General, but also from other parties.

14 Q. Okay.

15 A. And you'll be hearing more about when Mr. --  
16 when Dr. Dismukes testifies.

17 Q. Okay. But the answer you provided did not  
18 purport to reconcile the \$39.9 million revenue  
19 deficiency with the Attorney General's statement,  
20 those two sentences; is that correct?

21 A. I think it explained that notwithstanding --  
22 this is my paraphrasing of it. Notwithstanding the  
23 calculation of a \$39.9 million revenue deficiency,  
24 there remains serious concerns about the  
25 affordability of any rate increase for this

1 particular service territory at this particular time  
2 under these particular economic conditions.

3 Q. So tell me, Mr. Smith, is it your testimony  
4 that your calculation of the \$39,876,068 revenue  
5 deficiency that you identify at Exhibit RCS-1,  
6 Schedule A, column B, line 7, and about which the  
7 Commission inquired in data -- AG Data Request 1-2  
8 b. is unreasonable and unsubstantiated here?

9 A. It's a number that was calculated at that  
10 point in time using adjustments that are documented  
11 and supported in the record.

12 Now, there could very well be additional  
13 adjustments, primarily a series of deferrals, such  
14 as there's a number of deferral items in the  
15 settlement agreement. Had those been incorporated  
16 on top of our number, which didn't really include  
17 wide-ranging deferrals, the revenue deficiency could  
18 be lower.

19 And notwithstanding the calculated number,  
20 there remains a serious concern about affordability,  
21 which is the subject of Dr. Dismukes' testimony.

22 Q. Are you standing behind your calculation of  
23 the \$39.9 million number or not?

24 A. At that point in time it was the number we  
25 had calculated and supported. Had we done it at



1       this point in time, we would probably stack on a  
2       bunch of the deferral items as additional creative  
3       thinking among the parties or other ways of reducing  
4       the impact on customers in this service territory at  
5       this point in time due to the economic conditions  
6       and the affordability concerns.

7               So we could come up with a much lower number  
8       by stacking some other adjustments on top of what we  
9       had calculated.

10      Q.       But you didn't come up with that much-lower  
11      number when you filed your testimony; isn't that  
12      correct?

13      A.       We came up with a number of 39.9 million, and  
14      it wasn't -- it didn't involve a whole bunch of  
15      adjustments to defer costs off into the future where  
16      they would be -- result in future rate increases.

17      Q.       Okay. Have you calculated, Dr. Smith --  
18      excuse me, Mr. Smith, based on the test year ended  
19      February 28th, 2017, which is the test year in this  
20      case, but adjusted for the 15 adjustments you  
21      identified at pages 23 to 52 of your testimony, what  
22      Kentucky Power's return on equity would be if the  
23      Commission were to accept the recommendation of  
24      Attorney General Andy Beshear that the Commission  
25      deny the Company's rate increase in its entirety?

1 A. No, I haven't calculated that.

2 MR. OVERSTREET: That's all I have, Your  
3 Honor.

4 CHAIRMAN SCHMITT: Thank you.

5 I'm going to pass -- I mean, we've already  
6 finished some of this testimony, I guess, about the  
7 15 or 18 different parts, and when -- I am now going  
8 to change my ruling to overrule the objection.

9 I think you -- Mr. Overstreet has done a good  
10 job in testing the witness on those parts, and some  
11 he has tested and some he hasn't, so I'm going to  
12 let it stand unless there's something else.

13 MR. CHANDLER: We're fine with the number 10  
14 being stricken, if that's -- if that's how we  
15 understand the --

16 CHAIRMAN SCHMITT: Well, that's the only --  
17 yeah, the motion that's been made to this point.

18 Now, at this point, then, is there any -- I  
19 guess that leaves Kentucky Industrial -- or Kentucky  
20 Commercial Utility Customers. Do you wish to ask  
21 the witness questions?

22 MR. GARDNER: No, Your Honor.

23 CHAIRMAN SCHMITT: Staff.

24 MR. KURTZ: Your Honor --

25 MR. OVERSTREET: Your Honor --

1 CHAIRMAN SCHMITT: Oh.

2 MR. OVERSTREET: I don't mean to bust in, but  
3 may I move the admission of those exhibits before I  
4 forget?

5 CHAIRMAN SCHMITT: Yes. And is there any  
6 objection to introducing the exhibits?

7 MR. CHANDLER: No objection.

8 CHAIRMAN SCHMITT: If not, then let them be  
9 introduced into evidence as Kentucky Power  
10 Cross-Examination Exhibits, I think 1 through 6?

11 MR. CHANDLER: I have a 7.

12 MR. OVERSTREET: Seven.

13 CHAIRMAN SCHMITT: Seven. One through 7.  
14 (KPCO Cross 1 through 7 admitted.)

15 MR. KURTZ: Very briefly, I have some  
16 questions for the witness.

17 CHAIRMAN SCHMITT: Okay. Well, I would have  
18 taken you before, I guess, cross-examination. I  
19 apologize. I'll go ahead with -- go ahead now and  
20 ask him questions.

21 MR. KURTZ: Thank you. And I actually prefer  
22 going after the Company, so that's fine.

23 CROSS-EXAMINATION

24 By Mr. Kurtz:

25 Q. But, Mr. Smith, your revenue -- your

1 testimony indicates that Kentucky Power justified a  
2 \$40 million rate increase? 39.9 million?

3 A. That's the number we had calculated as the  
4 revenue deficiency.

5 Q. And that includes an 8.6 percent return on  
6 equity?

7 A. Yes.

8 Q. Okay. And the settlement agreement is 9.75  
9 percent?

10 A. Yes.

11 Q. Okay. If you're -- with your -- if we put a  
12 9.75 percent return on equity -- let me back up.

13 Are you aware of any decision by this  
14 Commission in the last 10, 15, 20 years that the ROE  
15 was as low as 8.6 percent?

16 A. No. The last decision I'm aware of I think  
17 was the settlement of the Kentucky Utilities and  
18 Louisville Gas & Electric, and I think they used 9.7  
19 there. I think that might have been part of a  
20 settlement.

21 Q. The settlement was 9.75 and the Commission  
22 knocked it down to 9.7, correct?

23 A. My recollection is it ended up at 9.7. I  
24 don't recall exactly how it got there.

25 Q. If we use a 9.75 percent ROE and kept all of

1 your other adjustments, isn't it correct that your  
2 recommendation would be a 40 -- \$49 million rate  
3 increase?

4 A. I haven't calculated that number, but it  
5 would be higher.

6 Q. Well, every one percent ROE is about eight  
7 percent -- or, excuse me, \$8 million in revenue  
8 requirements --

9 A. Approximately.

10 Q. -- base rates?

11 A. Yes.

12 Q. So the 9.75 is 1.15 percent higher than the  
13 number you used of 8.6?

14 A. Yes.

15 Q. So 1.15 times 8 is about 9.2 million?

16 A. The math is roughly correct, yes.

17 Q. Okay. So if we -- if you had ever -- if you  
18 got every adjustment that you testified to, but the  
19 Commission used a 9.75 ROE, the rate increase would  
20 be 49.2 million?

21 A. That's how the math would work out. I think  
22 if the number was that high, we would have had to do  
23 some other work and come up with some other  
24 adjustments.

25 Q. And the settlement was 31.8?

1           A.       With a bunch of loading rate increases on to  
2           future years, but, yeah, that's the base rate  
3           increase.

4           MR. KURTZ:   Okay.   Thank you.

5           Thank you, Mr. Chairman.

6           CHAIRMAN SCHMITT:  Are there attorneys for  
7           any of the other settling intervenors who would like  
8           to ask any questions of this witness?

9           If not, then is there cross-examination by  
10          Staff?

11          MR. NGUYEN:  Yes, Your Honor, just a few.

12                                    CROSS-EXAMINATION

13          By Mr. Nguyen:

14          Q.       Good afternoon, Mr. Smith.

15          A.       Good afternoon.

16          Q.       Is it -- just for clarification, is it your  
17          testimony that you are standing by your prefiled  
18          testimony with respect to the adjustments that you  
19          recommended?

20          A.       Yes.

21          Q.       Okay.  So you're not recommending any other  
22          adjustments that result in an approximately 39 --  
23          \$39 million -- or identified a \$39 million revenue  
24          deficiency for Kentucky Power Company; is that  
25          correct?

1 A. No. That would be the result of applying a  
2 9.75 ROE. As I just had the exchange with KIUC  
3 counsel, that's how we got up to the 39 million, and  
4 that's not what is being recommended by myself. And  
5 Dr. Woolridge, as I understand it, is still  
6 recommending the 8.6 percent ROE, which is reflected  
7 in our number of approximately 39.9 million.

8 Q. Okay. So you're standing by that  
9 recommendation?

10 A. Yes.

11 Q. Okay. You also recommended a specific  
12 adjustment with respect to rate case expense; is  
13 that correct?

14 A. Yes.

15 Q. There were two parts to it. One was the  
16 removal of the expenses associated with  
17 Communication Council of America, Inc. --

18 A. Yes.

19 Q. -- correct? And then you also recommended  
20 that the remaining rate case expense be disallowed  
21 as well; is that correct?

22 A. That is correct.

23 Q. Okay. Can you provide the basis for that  
24 recommendation?

25 A. Yes. And I admit that one's a bit extreme,

1 but the basis of it is that an issue was raised in  
2 the last case concerning affiliated charges, and  
3 nothing was done about that issue.

4 The Company has a unit power sales agreement  
5 with an affiliated company for the Rockport units,  
6 and it is paying over a 12 percent return on equity.

7 We've identified in the last case, and have  
8 done so again in this case, approximately how much  
9 annual savings could be provided to customers of  
10 Kentucky Power Company by various levels of  
11 reduction from that extremely high ROE on that unit  
12 power sales agreement.

13 So we would like to see that reduced  
14 before -- we would have liked to see that reduced  
15 before Kentucky Power came in and filed this rate  
16 case. And we just want to highlight that issue.

17 And one of the remedies we've come up with,  
18 since that appears to be an issue that needs to be  
19 addressed at FERC, and if it's not addressed, we're  
20 suggesting as an alternative to the Commission to  
21 disallow the rate case expense.

22 Q. Okay. So the total rate case expense as of  
23 now is around 1.3 million; is that correct?

24 A. Yes. And it's amortized, I believe, over  
25 three years.



1 Q. Okay. So your disallowance would be  
2 approximately about 450, \$460,000?

3 A. Yes. Which was in line with the -- roughly  
4 in line with the amount of reduction to Kentucky  
5 Power's expenses that would result from addressing  
6 that excessively high, extremely high ROE on the  
7 Rockport unit power sales agreement.

8 Q. Okay. Would you -- how would you properly  
9 characterize the rationale for that type of  
10 disallowance? Would that be a penalty, penalizing  
11 Kentucky Power for not doing what you think would  
12 have been prudent in the past, or would that be an  
13 incentive for them to do so in the future?

14 A. I guess I like to think of things positively,  
15 so I would probably frame it as an incentive, but I  
16 suppose you could view it as -- you know, the  
17 opposite way, as a penalty for not addressing this  
18 affiliated cost and attempting to reduce the costs  
19 that they're requesting to pass on to their  
20 ratepayers.

21 Q. And then to the extent that -- if the  
22 Commission does do this, to the extent that Kentucky  
23 Power is prompted to file something at FERC, what do  
24 you envision the results would be at FERC?

25 A. I would envision the results would be a lower

1 ROE and lower charges to Kentucky Power Company from  
2 that affiliated contract.

3 Q. Another adjustment that you had recommended  
4 was the disallowance for corporate aviation  
5 expenses; is that correct?

6 A. That's correct.

7 Q. Okay. And looking at your schedule, Exhibit  
8 RS -- RCS-1, Schedule A, page 2 of 2, that amount  
9 was -- well, you tell me. Was that identified on  
10 this exhibit?

11 A. On Schedule A, page 2 of 2?

12 Q. Yes.

13 A. Yes. It's on line 18, Affiliate Charges for  
14 Corporate --

15 Q. Okay.

16 A. -- Aviation Expense.

17 Q. And how much was that amount?

18 A. The pretax operating income amount was  
19 \$382,769, and then operating income amount was  
20 \$234,185, and the revenue requirement estimated  
21 impact amount was \$384,845.

22 Q. Okay. And what was the basis for your  
23 recommendation for that disallowance?

24 A. That these are affiliated charges. They're  
25 not necessary for Kentucky Power Company to provide

1 utility service.

2 When you look at the use of this AEP  
3 Corporate Aviation Department, I believe there's  
4 data requests, and I believe they're in the record,  
5 that show the people that are traveling on this, it  
6 tends to be heavily used by AEP officers. There's  
7 very little that appears to be directly related to  
8 Kentucky Power, so we just think it's an unnecessary  
9 cost. It's an affiliated cost which deserves  
10 heightened regulatory scrutiny, and it could even be  
11 viewed as additional perquisite for the AEP officers  
12 and the directors that are using a number of these  
13 flights.

14 Q. You were allow -- you recommended a  
15 disallowance of all of that expense that's been --

16 A. All of the affiliated --

17 Q. -- allocated to Kentucky Power?

18 A. All of the affiliated charge for the AV --  
19 the AEP Corporate Aviation Department that flows  
20 through from the AEP Service Company --

21 Q. You say that --

22 A. -- to Kentucky Power.

23 Q. -- there were -- the majority of that was not  
24 Kentucky Power-related; is that correct?

25 A. The majority of it was not.

1 Q. But there was some that were Kentucky Power-  
2 related business?

3 A. Some appear to be directly Kentucky Power-  
4 related flights. I think that's about 50 or 60,000,  
5 40 -- 40 to 60,000.

6 Q. But for those, you're still recommending that  
7 those be disallowed as well?

8 A. Right. When you look at the cost of some of  
9 these flights -- I mean, this is corporate aircraft.  
10 Right? I don't know if you remember the scandal  
11 recently about -- I forget which department, cabinet  
12 position, flying on the military jets, but, I mean,  
13 the cost of some of these flights is very high. So  
14 there's a concern over the cost too. Even the  
15 Kentucky Power-related stuff, you know, there may be  
16 a lower cost that would be associated with a  
17 different form of travel.

18 MR. OVERSTREET: Your Honor, I'm going to  
19 object. I don't think it's proper to compare cost  
20 of flying on a military aircraft, with the security  
21 required for public officials, to flying on  
22 corporate aircraft, and to the extent that Mr. Smith  
23 is trying to conflate the two, it's improper and I  
24 would move to strike his testimony.

25 CHAIRMAN SCHMITT: I understand, but I'm

1 going to let him complete his answer and then we can  
2 move on to something else.

3 A. Yeah. Even with respect to the Kentucky  
4 Power-specific items, there's a concern about the  
5 cost. You know, was there a more economical form of  
6 transportation?

7 MR. NGUYEN: Those are all the questions.  
8 Thank you.

9 CHAIRMAN SCHMITT: Commissioner Cicero,  
10 questions?

11 EXAMINATION

12 By Vice-Chairman Cicero:

13 Q. Mr. Smith, you've indicated that although  
14 your review indicates a \$39.9 million revenue  
15 increase for Kentucky Power, I think you're saying  
16 you stand behind it, but there's been a lot of back  
17 and forth here.

18 Are you -- are you standing behind the  
19 39.9 million?

20 A. We stand behind the 39.9 million and the  
21 adjustments that are included in that. I just  
22 wanted to make sure the Commission is aware that  
23 there's another basket of adjustments, including  
24 many adjustments that essentially defer costs out of  
25 the test year into future periods that could be

1 utilized, and if they were utilized, that would  
2 reduce the base rate revenue requirement in this  
3 case even further.

4 Q. So you're referring to deferral of costs,  
5 which really aren't savings, it's just pushing  
6 things out into the future. It's kicking the can  
7 down the road, is it not?

8 A. Yes, and there's quite a bit of that going on  
9 in the stipulation.

10 Q. There is, and you believe there should be  
11 more?

12 A. No. All I'm saying is, we didn't do those  
13 types of adjustments as a general matter in our  
14 coming up with the 39 million. Had we done various  
15 types of adjustments that would shift the cost out  
16 of the test year into the future, you know,  
17 potentially doing those could have gotten the number  
18 down lower.

19 Q. So you indicate --

20 A. And some of those are definitely worthwhile  
21 considering for the Commission.

22 Q. You indicate that the rate filing expense,  
23 including it as an adjustment, was a bit of a  
24 stretch. I think that was the word you used, or the  
25 words you used.

1 A. Yeah, I think under normal circumstances we  
2 wouldn't have recommended a total disallowance of  
3 the rate case expense.

4 Q. And the reason why I ask that is because it  
5 sounds like you reached for every bucket of money  
6 that you could in order to come up with the number  
7 you came up with, including the 8.6 ROE, and yet  
8 there was still a \$39.9 million revenue  
9 justification according to your calculation?

10 A. Yeah, I don't want to leave you with that  
11 impression. I know on the rate case expense, I  
12 would characterize that as being probably  
13 aggressive. The 8.6 return on equity is recommended  
14 by Dr. Woolridge. You know, he presents a lot of  
15 support for coming up with that number. He'll be a  
16 witness here, you can ask him.

17 But I don't want to create an impression that  
18 we exhausted all of the potential adjustments,  
19 because we clearly did not. There were a bunch of  
20 other things that could have been adjusted. A lot  
21 of those would involve, say, lengthening  
22 amortization periods, lengthening useful lives over  
23 which the Big -- for example, the Big Sandy plant is  
24 being depreciated over, creating deferrals that push  
25 cost -- take costs out of the test year and push

1           them off into future periods.

2                       So there were -- you know, that kind of  
3           creative regulatory thinking could have produced  
4           additional adjustments. And there are some in the  
5           record, and I want to leave the Commission with an  
6           impression that we think that you should definitely  
7           look at those and consider the merits of each one.

8           Q.       Did you have a chance to read Mr. Woolridge's  
9           testimony before you completed the report or during  
10          the time you were completing your report?

11          A.       I don't know if I read the whole thing prior  
12          to completing my report. We work with Dr.  
13          Woolridge, have worked with him on a number of  
14          cases, and I think his stuff tends to be similar.  
15          Like he presents it in a similar manner and shows  
16          the building blocks of how he comes up with the ROE.

17                       So I know we had some discussions about what  
18          the numbers would be, how we were coordinating on  
19          what the capital structure was. So -- and I've  
20          definitely totally read his testimony in other  
21          cases. I don't remember if I read his complete  
22          draft here.

23          Q.       I think you referenced back and said that  
24          there would be -- there should be economic  
25          considerations given to the rate increase in terms



1 of how it could be modified.

2 In other words, I believe what you're saying  
3 is that Eastern Kentucky, because of its economic  
4 dilemma, there should be consideration given to how  
5 the increase is structured or whether there's an  
6 increase at all. Is that paraphrasing correctly or  
7 not? Correct me if I'm wrong.

8 A. I think that's an issue -- definitely an  
9 issue in this case, and the Attorney General is  
10 presenting another witness, Dr. David Dismukes, who  
11 addresses the affordability concerns. And I think  
12 that that is something else that is the overall  
13 presentation of the Attorney General's case, that  
14 the Attorney General is definitely asking the  
15 Commission to consider the affordability factor as  
16 well as, you know, the calculated numbers of the  
17 revenue deficiency, to also consider affordability.

18 Q. So statutorily, what power does the Public  
19 Service Commission operate under in order to make  
20 adjustments for economic depravity or economic  
21 conditions in general?

22 A. Again, I'm probably not to ask -- the person  
23 to ask about, you know, the Commission's statutory  
24 authority. I know in some other jurisdictions in  
25 which we operate that have similar issues, perhaps

1 not as severe as Kentucky Power has, with low-income  
2 customers and difficulty in paying electric bills,  
3 sometimes special rates are developed for low-income  
4 customers with discounts or forgiveness periods. So  
5 rate design would be one element.

6 Potentially one solution, or at least partial  
7 solution might be to carve out a subset of  
8 residential customers meeting certain income  
9 criteria, say some multiple of the poverty level,  
10 and creating a special rate for them that they can  
11 actually afford. And I've seen that done in other  
12 jurisdictions.

13 Now, I don't know what the boundaries of, you  
14 know, the Commission's ability is, because I haven't  
15 attempted to analyze that, but I would think that  
16 rate design might be something the Commission could  
17 consider that could be helpful in addressing the  
18 affordability situation.

19 Q. Well, given that the residential class is  
20 already heavily subsidized by the rest of the rate  
21 classes and the fact that your review indicated a  
22 \$39.9 million increase, do you believe the rest of  
23 the rate classes should subsidize to the tune of  
24 39.9 million? Is that what you're stating?

25 A. I don't think that's what I'm stating.

1 Generally, you know, when you have a group of  
2 customers and the issue is that they just can't  
3 afford to pay the utility rates, you have to  
4 consider different options for trying to deal with  
5 that.

6 One of the options is to try to create a  
7 special rate class, create some rates that the  
8 people can actually afford to pay. That's one  
9 option.

10 The other option is to just, you know,  
11 continue on with the rates and then they won't be  
12 able to pay, and that builds up uncollectibles,  
13 which then becomes part of the cost of service that  
14 is then paid for by other customers.

15 Another option that's not usually a very good  
16 one is, I mean, if they're not paying, to cut off  
17 their electric service, and I don't think people  
18 want to do that if that can be avoided.

19 You know, other options are, you know, trying  
20 to come up with other ways of reducing costs that go  
21 into rates. There have been several creative  
22 suggestions that are now presented to the Commission  
23 in terms of cost deferrals.

24 You know, part of what the customers are  
25 paying is this Big Sandy Retirement Rider that has

1 a -- you know, this very high financing cost built  
2 into it. One of the things that we're suggesting is  
3 that the Commission relook -- reexamine that and  
4 figure out a way of getting the financing cost down.

5 So there's -- there's a lot of different ways  
6 that this issue can potentially be addressed.

7 Q. The Big Sandy financing cost is probably a  
8 situation that's not going to be addressed in this  
9 base rate case that we're going through right now.

10 What I heard you say was -- the only item  
11 that I heard you say that's not a socialization of  
12 costs upon other rate cases is the cutting of costs,  
13 which I agree that's a valid way to try to reduce  
14 the revenue requirement is reduce the amount you  
15 spend.

16 Other than that, do I understand correctly,  
17 you have a \$39.9 million recommendation that you  
18 developed for the Attorney General, and absent  
19 spreading costs on to other rate classes, I don't  
20 know how you reduce rates to the residential portion  
21 where there's an economic situation where they can't  
22 pay. So I'm not sure what your recommendation is  
23 other than socialization of costs to other rate  
24 classes.

25 A. Yeah, I guess I haven't developed a specific

1 recommendation, but since there's definitely, I  
2 believe, an interest in trying to find a good  
3 solution for this issue, I've been trying to present  
4 ideas for the Commission's consideration.

5 Again, the developing of a special rate for  
6 low-income customers is one idea. That probably  
7 will involve some kind of subsidization by other  
8 customers if the Company is going to collect the  
9 approved revenue requirement.

10 Again, if you think the economic conditions  
11 are going to improve two or three years down the  
12 road, the cost-deferral idea, you know, is probably  
13 worth consider -- considering.

14 There's been some degree of -- you've used  
15 the term "subsidization," so I'm going to use that  
16 same term -- shifting of cost responsibility that's  
17 been built into the settlement agreement, where it's  
18 not just an across-the-board, same -- all the  
19 classes get the same percentage increase.

20 The residential increase is higher than any  
21 of the other classes, so maybe apply more gradualism  
22 to removing those interclass subsidies might be one  
23 way of helping the residential.

24 Q. I would just leave you with the fact that I  
25 think in the agreement that has been presented,

1           there is an increase in the HEAP program, which an  
2           attempt to at least provide some assistance to  
3           low-income ratepayers. Other than that, I'm not  
4           sure how to resolve the problem.

5           But I don't have any other questions. I  
6           thank you.

7           CHAIRMAN SCHMITT: Commissioner Matthews,  
8           questions?

9           MR. MATHEWS: I have none.

10          CHAIRMAN SCHMITT: I have no questions.

11          Would you like, Mr. Chandler, to interrogate  
12          your witness further?

13          MR. CHANDLER: Hopefully it's not an  
14          interrogation, but just a couple. Thank you.

15                               REDIRECT EXAMINATION

16          By Mr. Chandler:

17          Q.       The document that Kentucky Power provided  
18          you, I believe it's Kentucky Power's Number 1, do  
19          you have that in front of you?

20          A.       Yes, I still do.

21          MR. CHANDLER: Sorry.

22          MR. OVERSTREET: Just trying to hear.

23          Q.       Do you mind to turn to page 69 of that? And  
24          I believe it may be in the smaller version, but  
25          Larry has my copy.

1 MR. OVERSTREET: And, I'm sorry, which one  
2 was 1?

3 MR. CHANDLER: The 20 -- the last rate case  
4 final order.

5 MR. OVERSTREET: 396.

6 MR. CHANDLER: 396.

7 MR. OVERSTREET: Yeah.

8 Q. On page 69 there's a paragraph titled Consent  
9 Decree. Just let me know when you're there.

10 A. Yes, I have it.

11 Q. Were you in the room when Mr. McManus  
12 provided testimony earlier?

13 A. Yes.

14 Q. And do you remember me asking him if any of  
15 the Kentucky Power units were named in the  
16 complaints that led to the con -- that ultimately  
17 led to the consent decree?

18 A. Yes.

19 Q. And do you remember his answer?

20 A. Not word for word, but I think the answer --

21 Q. Do you remember if he indicated that the  
22 Kentucky Power Big Sandy units were included in the  
23 complaints that ultimately led to the consent  
24 decree?

25 A. They were not included in the original

1 complaints that led to the consent decree.

2 Q. And since we're reading sentences in from  
3 this order, will you read that first sentence into  
4 the record, please?

5 A. Starting under Consent Decree?

6 Q. Yes, sir.

7 A. (Reading) Kentucky Power's generating units  
8 are subject to requirements imposed by the consent  
9 decree entered by the United States District Court  
10 for the Southern District of New York in an action  
11 arising under the CAA, Clean Air Act, United States  
12 versus American Electric Power Service Corp., Civil  
13 Action C2-99-1250, and all modifications thereto,  
14 the consent decree.

15 Q. Thank you, Mr. Smith. Will you also go to  
16 page 10 of Kentucky Power's Exhibit Number 2? It  
17 seems to be the version -- or the small or the big  
18 version of the -- a CPCN, Case 2011-401.

19 A. Okay. I think I have it. What page did you  
20 say?

21 Q. 2011-401.

22 A. Yes, I have what I think is the order, but  
23 what page number? Or the brief.

24 MR. OVERSTREET: This.

25 Q. Yes, it's -- yeah, it's either one. It's



1 just page 10 in the 2011-401 final order. It  
2 state -- oh, I'm sorry. I apologize it is the  
3 Attorney General's post-hearing brief. I apologize.  
4 Sorry.

5 A. Yes.

6 Q. It's been a long day already.

7 Let me know when you're at page 10, please.

8 A. I have page 10 of the brief.

9 Q. Will you read -- of the first full paragraph  
10 there, will you read the last sentence into the  
11 record?

12 A. (Reading) KPCO's ratepayers simply cannot  
13 afford the gargantuan increase in rates, especially  
14 when other feasible, lower-cost options exist and  
15 were not fully explored.

16 Q. Can you also go to page 64 of your direct  
17 testimony, please?

18 A. Okay. I have it.

19 Q. Just one second, please. Will you read --  
20 just quickly look at that first paragraph there.  
21 Starting from line 1 to line 11, that question and  
22 answer. Will you -- can you confirm in that  
23 paragraph that you do not use the terms "recommend"?  
24 Term "recommend," excuse me. It's just one word.

25 A. I don't use the word "recommend" in that Q

1 and A on page 64.

2 Q. Thank you. And have you had an opportunity  
3 to look at the stipulation that's been filed in this  
4 case?

5 A. Yes.

6 Q. And to your understanding, did the  
7 stipulation include any of the adjustments you  
8 provided in your direct testimony in the amounts  
9 that you provided in your direct testimony?

10 A. Only the incentive compen -- stock-based  
11 comp. It included a revenue requirement amount that  
12 was similar to what we had recommended in our  
13 testimony.

14 Q. But it wasn't the exact amount, that's  
15 correct? It was the amount that Mr. Kollen  
16 provided; is that right? Subject to check.

17 A. It was pretty close to our amount.

18 Q. Okay.

19 A. It might have been based on Mr. Kollen's  
20 amount.

21 MR. CHANDLER: The AG has no more questions.

22 CHAIRMAN SCHMITT: Mr. Kurtz?

23 MR. KURTZ: Thank you, Your Honor.

24 \* \* \*

25

## 1 RE CROSS-EXAMINATION

2 By Mr. Kurtz:

3 Q. Very briefly, Mr. Smith. The deferral and  
4 the kick the can down the road and that whole  
5 discussion, do you think that considering the  
6 deferral -- first of all, the settlement would defer  
7 \$50 million of Rockport costs over a five-year  
8 period, correct?

9 A. Yes.

10 Q. Okay. With carrying charges, at the end of  
11 five years it would be 59 million?

12 A. Yes. It has a very hefty carrying card --  
13 charge cost on top of it.

14 Q. Okay. And so the recovery of the \$59 million  
15 deferral balance would begin when the Rockport unit  
16 power agreements expire on December 8th, 2022,  
17 correct?

18 A. I believe that's the intent of it, yes.

19 Q. Are you aware that the fixed costs in the  
20 Rockport contract that would end on December 8th,  
21 2022, are \$54 million?

22 A. I know they're very high, and the ROE on the  
23 Rockport is very high.

24 Q. So essential --

25 A. I don't know what the exact number is.

1 Q. Okay. So all else being equal, customers  
2 would start paying off a \$59 million deferral  
3 balance in five years but would also get a  
4 \$54 million rate reduction per year beginning in  
5 five years, all else equal? I know lots of things  
6 change, but just looking at losing the Rockport  
7 fixed costs and starting to pay off the Rockport  
8 deferral. Is that accurate?

9 A. It's -- I'm not sure if it'll actually  
10 happen, but it's, I think, one of the things that  
11 might happen.

12 Q. Now, hopefully there will be new customers  
13 and Mr. Satterwhite will, you know, invigorate the  
14 economy and so forth and there will be more load to  
15 pay off the \$59 million deferral in five years.  
16 That would be your hope, would it not?

17 A. That would, I think, be everybody's hope, but  
18 with Marathon talking about putting in their own  
19 generation, there may actually be less. I mean,  
20 that's the Company's biggest customer, and, you  
21 know, there's -- they're at risk of, maybe not  
22 losing them, but losing a significant part of the  
23 service that they're providing.

24 Q. You know, customers are allowed to make their  
25 own electricity under federal and state law, and the

1 utility is required to provide backup service.

2 That's the PURPA law, 1978. That is law, isn't it?

3 A. It's my understanding they have that option,  
4 yes.

5 Q. And one reason Marathon might justify  
6 building its own power plant, essentially, would be  
7 its electric rates are just too high for its  
8 business purposes? That's a reason you would --

9 A. Businesses of that magnitude are generally  
10 very concerned about the power costs.

11 Q. So one last thing. Hopefully there will be a  
12 rate reduction for all customers, really across the  
13 whole state, because of a reduction in the corporate  
14 income tax rates, and that would help the situation  
15 here, would it not?

16 A. If the corporate income tax rate is reduced  
17 from the current 35 percent to the 20 percent  
18 that's -- is my understanding is in both the House  
19 and Senate bill, although kicking in at different  
20 points in time, that could provide a nice pool of  
21 cost savings that I would hope would be passed on to  
22 customers.

23 Q. With no effect on the utility's earnings,  
24 because it would just be passing through a cost  
25 reduction, correct? I mean, it wouldn't -- it

1 wouldn't come out of the utility's earnings, it  
2 would just be flowing through a reduction in cost  
3 just like flowing through an environmental cost is a  
4 flow-through of an increase in cost?

5 A. It could be a very significant cost  
6 reduction, and that could provide a significant  
7 source of savings that, if passed back to customers,  
8 could certainly lighten the impact of a rate  
9 increase.

10 Q. So that, again, would be something that would  
11 happen in the future, but let's keep the rate  
12 increase down as low as possible today and maybe  
13 that will be a rate reduction in a year or two.  
14 Would that be your hope?

15 A. Would it be my hope that corporate income  
16 taxes are reduced?

17 Q. Yeah.

18 A. I'm not sure. I have -- you know, I don't  
19 know all the -- I've studied certain aspects of the  
20 bills. I mean, it seems like there's a lot of  
21 concerns about some of the other aspects. But if it  
22 does happen, I would certainly hope that the utility  
23 savings would end up getting passed on to their  
24 customers in a fairly responsive manner.

25 Q. In the settlement agreement, the three-year

1 base rate freeze excludes a tax change. In other  
2 words, the base rate stay out would not preclude the  
3 Commission from flowing through tax savings. Is  
4 that your understanding of the settlement?

5 A. It sounds like it would require a legal  
6 interpretation.

7 Q. It's black and white right in the settlement  
8 that the rate case stay out does not preclude  
9 flowing through tax savings.

10 A. Oh, was there something about flowing through  
11 tax savings in the settlement?

12 Q. Yeah.

13 A. I don't know if I noticed that part, but,  
14 yeah, I think recent settlements that I've seen have  
15 contemplated, if this happens, how the impact would  
16 be flowed through so it doesn't end up flowing to  
17 the company shareholders.

18 Q. Couple last points. Are you aware that in  
19 1986, when the corporate income tax rate went from  
20 46 to 34 percent, the Commission lowered rates for  
21 all of the investor-owned utilities, not the co-ops  
22 or the munis, which they don't regulate, but for all  
23 the investor-owned utilities when the income tax  
24 rate went down in '86?

25 A. I don't recall exactly what happened in

1 Kentucky. I think throughout the country, though,  
2 there were efforts to quantify what the savings were  
3 and to figure out how to adjust rates to reflect  
4 those savings.

5 Q. One last point. And you're the revenue  
6 requirements expert. There's two elements of tax  
7 savings, just a reduction in the tax expense, plus  
8 the flow-through or the giveback of excess ADIT,  
9 correct?

10 A. Current income tax expense would be reduced  
11 if the corporate income tax rate is reduced.

12 Q. And wouldn't there be excess ADIT that would  
13 have to come back there?

14 A. There would also be excess ADIT, and that  
15 would also be available to be flowed back in some  
16 manner.

17 Q. And the ADIT is money that customers have  
18 prepaid the utility under the assumption that they  
19 are going to pay the government at 35 percent, but  
20 they would have over prepaid if the tax rate goes  
21 down to 20 percent, hence excess ADIT. Is that your  
22 understanding?

23 A. That's one way of looking at it, yes.

24 MR. KURTZ: Thank you, Mr. Chairman.

25 CHAIRMAN SCHMITT: Staff, any questions?



1 MR. NGUYEN: Yes, Your Honor. Just a couple.

2 RE-CROSS-EXAMINATION

3 By Mr. Nguyen:

4 Q. Mr. Smith, just want to reference you that  
5 the Vice-Chairman asked you a couple questions  
6 regarding interclass subsidies. Do you recall  
7 those?

8 A. Yes.

9 Q. Okay. And were you here earlier for the --  
10 when Mr. Satterwhite was testifying with respect to  
11 the \$500,000 subsidy that the public schools would  
12 receive by all other customers in the LGS class  
13 under the settlement agreement?

14 A. I was here this morning, yes, and I did hear  
15 questions to that effect.

16 Q. Okay. Do you support or oppose that \$500,000  
17 subsidy to the public schools as proposed in the  
18 nonunanimous settlement agreement?

19 MR. CHANDLER: Your Honor, I hate to object  
20 to Staff's question, but Mr. Smith provided  
21 testimony on revenue requirements and not allocation  
22 or rate design.

23 CHAIRMAN SCHMITT: I understand, but I  
24 think --

25 MR. CHANDLER: We have tendered him.

1           CHAIRMAN SCHMITT: -- he is permitted to be  
2 asked questions on any subject relevant to this  
3 proceeding.

4           So you may ask and you may answer if you have  
5 an opinion.

6           Q.       Just based upon your own knowledge, your own  
7 expertise, and your understanding of the  
8 nonunanimous settlement agreement, do you support or  
9 oppose the \$500,000 subsidy being received by the  
10 public schools as proposed in that settlement?

11          A.       I don't know if I really support or oppose  
12 that position. I really haven't taken a position on  
13 that particular component of the settlement  
14 agreement.

15          Q.       Have you reviewed the settlement agreement --

16          A.       Yes.

17          Q.       -- in total? Okay.

18          A.       Yes.

19          Q.       Again, based upon your background and  
20 expertise, do you -- do you think that the  
21 settlement agreement produces a fair, just,  
22 reasonable resolution to the issues addressed in the  
23 settlement and in this case?

24          A.       No. I think it has some good components in  
25 it. Definitely some creative thinking went into the

1       compromise that the other parties reached, but I  
2       don't think it goes far enough in reducing the rate  
3       increase, and it also creates concerns about some of  
4       these deferrals that are being pushed off into the  
5       future with, you know, financing costs components  
6       piled on top of them.

7               So we don't think the settlement is adequate,  
8       but it does include some good ideas.

9       Q.       So on what basis are you -- think that the  
10       settlement agreement does not go far enough in terms  
11       of reducing the revenue requirement?

12       A.       Well, out of all the adjustments that we've  
13       identified, it basically only picked up the one for  
14       incentive compensation and stock-based compensation.  
15       We certainly think there's merit in some of the  
16       other adjustments, so that's kind of a  
17       disappointment. And reflecting some of the other  
18       adjustments would serve to further reduce it.

19               The deferral with additional financing costs  
20       creates concerns. I mean, to me that's one of the  
21       main problems and issues with the Big Sandy  
22       Retirement Rider is the very large financing cost  
23       that's been included in that.

24               So to create another situation that  
25       essentially applies a similar formula with, you

1 know, a weighted average cost of capital financing  
2 cost with the equity return grossed up and charging  
3 that to ratepayers I think is just going to result  
4 in further rate increases down the road.

5 You know, there's -- while everybody might  
6 hope that the economic conditions in this particular  
7 service area are going to improve, we've heard  
8 testimony that the Company's largest customer,  
9 Marathon, is considering other options.

10 You know, the loss of some of the service  
11 that the Company is providing to Marathon is going  
12 to have a major impact. I don't know, you know,  
13 what -- spending a couple thousand dollars of  
14 economic development dollars, seems like that's not  
15 going to make up for something that Marathon might  
16 do to curtail the types of services that they're  
17 currently taking from Kentucky Power Company.

18 And even beyond that, I think there's the  
19 affordability concerns that Dr. Dismukes is  
20 testifying on and that I believe you may have heard  
21 from some other, you know, members of the public  
22 that are Kentucky Power customers.

23 MR. NGUYEN: That's all the questions I have.

24 CHAIRMAN SCHMITT: Commissioner Cicero.

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## REEXAMINATION

By Vice-Chairman Cicero:

Q. Well, I didn't have any questions until you contradicted yourself in your answers to Staff.

When I asked you prior about what other adjustments could be made, you said there could be deferrals, and then in responding to Staff you just made the comment that the deferral, the primary one, which is \$15 million, puts a burden on future rates because you're not sure what the future is going to hold, but that contradicts your statement about how other pieces could be stacked into this to reduce the amount of revenue that was required of the 39.9 million. So now I'm -- now I'm confused.

Are you saying the kicking-the-can-down-the-road theory is bad or good? Because you said you could reduce your revenue requirement by kicking the can down the road, but then when we talk about deferring through this -- the deferral of the nonenvironmental expenses that that's not a good thing.

So what -- what exactly are you saying? Because I want to understand your position.

A. Okay. I think if the major concern is reducing base rates, the base rate increase in the

1 current rate case, that one of the ways you can do  
2 that are by deferring costs out of this rate case  
3 and into future rate cases.

4 I'm just saying that that is one way you  
5 could deal with it, but there is a cost of these  
6 deferrals. These deferrals are going to require  
7 rate recovery in future proceedings.

8 This deferral of the unit power sale cost,  
9 the \$15 million in the first couple years amounting  
10 to about 50 million over the entire deferral period,  
11 is going to have financing costs piled on top of it.

12 These financing costs are at the Company's  
13 weighted average cost of capital, including the  
14 9.75 percent return on equity, which then gets a tax  
15 gross up on top of that.

16 Some of the other deferrals, like linking an  
17 amortization period for some storm costs, you know,  
18 that's a modest thing that could be done.

19 Q. But same theory.

20 A. It's a similar theory, but there's different  
21 gradients of this, and on some of these other ones  
22 you're not necessarily locking in for the Company  
23 the recovery of its -- all of its financing costs,  
24 including the return on equity.

25 The way I understand it, some of these

1 components of the settlement agreement essentially  
2 lock in a 9.75 percent return on equity for the  
3 Company, in addition to kicking the can down the  
4 road and piling financing costs on top of it.

5 So, I mean, this is kind of a balancing act,  
6 and, you know, you're the people that have to do the  
7 balancing. But if the main objective is keeping  
8 rates down now, the deferrals serve that purpose,  
9 but, you know, in a few years the chickens come home  
10 to roost and the rate pressures --

11 Q. The main -- the main objective is to have a  
12 fair and reasonable settlement for all the parties  
13 involved. That's the main objective. How we get  
14 there depends on the testimony that's provided by  
15 witnesses like you.

16 I've heard the Attorney General say that  
17 there should be no rate increase whatsoever, yet  
18 I've got a witness that says it should be  
19 39.9 million, and I'm trying to judge, on that 39.9  
20 versus zero, where it should actually be.

21 And that's where I -- there's a conundrum  
22 here. I'm trying to figure out what actually you're  
23 supporting and what you're not supporting.

24 But Staff asked you a question that said, "Do  
25 you support the settlement agreement of 31.985," or

1       whatever it is, it's close to \$32 million, and you  
2       said no. And one of the reasons why you said no is  
3       because all of the adjustments you proposed weren't  
4       put into that 39.9 million calculation, which I look  
5       at as being about \$2.5 million.

6               So if I take the \$2.5 million and I reduce it  
7       out of there, I still don't come close to your 39.9  
8       versus 31.2. And the only difference is whether we  
9       amortize costs into the future, which you're  
10      objecting to, and I -- so I don't know how I -- I  
11      can't reconcile your position. That's my problem.  
12      I can't get to where you are.

13      A.       Some of the cost deferrals I think are fine.  
14      The ones that involve also locking in the 9.75  
15      return on equity, I think there's more of a concern  
16      with those.

17      Q.       So it's okay to kick the can down the road as  
18      long as there's no carrying cost or return on  
19      equity?

20      A.       Not totally. I think it's okay to kick the  
21      can down the road, especially if there's concern  
22      about holding rates down in this particular case,  
23      but if you could manage to do that without  
24      guaranteeing that ratepayers will be paying this  
25      9.75 percent equity on some of the cost deferrals, I



1 think that would be a better way to go.

2 Q. We're still not going to get to your -- to  
3 your two numbers reconciling, but that's okay. I've  
4 beat this horse to death, I think.

5 VICE-CHAIR CICERO: I have no more questions.

6 CHAIRMAN SCHMITT: Commissioner Matthews.

7 MR. MATHEWS: None.

8 CHAIRMAN SCHMITT: I have none.

9 Mr. Overstreet.

10 MR. OVERSTREET: Just a very few.

11 RE-CROSS-EXAMINATION

12 By Mr. Overstreet:

13 Q. Mr. Smith, in response to data requests from  
14 the KIUC, I think it's 1-43, the Company provided to  
15 KIUC and all of the parties in this case its  
16 Rockport Unit Power Agreement billing statements,  
17 and I'm just going to ask -- you don't have to --  
18 I'm not going to ask you about specifics of it, so  
19 you don't have to go look for it.

20 Did you have an opportunity to review those  
21 billing statements?

22 A. Are you asking me if I reviewed the billing  
23 under the Rockport Unit Power sale?

24 Q. Right. And they were provided in response  
25 to -- I think it was KIUC 1-43.

1 A. Yeah, those were included in Exhibit RCS-15.

2 Q. Okay. And do you know what the actual return  
3 on equity that Kentucky Power paid in connection  
4 with those billing statements during the test year  
5 was?

6 A. It provides for a 12.16 percent ROE.

7 Q. But do you know what the Company actually  
8 paid?

9 A. Well, I've added up all the invoices that  
10 were billed to the Company and show that result for  
11 the test year ending February 2017 on my Exhibit  
12 RCS-14.

13 Q. Right. Did you calculate the actual ROE that  
14 Kentucky Power paid in connection with its Unit  
15 Power Agreement bills for the Rockport station?

16 A. Again, I didn't calculate the ROE, I took the  
17 amounts directly off the invoices, which were billed  
18 at 12.16 percent ROE.

19 Q. And that's your testimony, it was billed at  
20 12.16 percent?

21 A. Yes, per the invoices and per the contract.

22 Q. You're sure of that?

23 A. Pretty sure that the invoices were billed in  
24 accordance with the contract, and that's what is  
25 provided in the contract.

1 MR. OVERSTREET: Thank you. I have no  
2 further questions.

3 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

4 MR. KURTZ: No. No, Your Honor.

5 CHAIRMAN SCHMITT: Anything, Mr. Chandler?

6 MR. CHANDLER: One last.

7 REDIRECT EXAMINATION.

8 By Mr. Chandler:

9 Q. In your testimony did you address the  
10 affordability of any increase?

11 A. No. That issue is being addressed by  
12 Attorney General Witness Dr. David Dismukes.

13 Q. And isn't it true that in your testimony you  
14 actually stated that?

15 A. I think near the end of my testimony, I did.

16 MR. CHANDLER: That's all we have.

17 CHAIRMAN SCHMITT: Any --

18 MR. OVERSTREET: Nothing further.

19 CHAIRMAN SCHMITT: Anything further?

20 May this witness be finally excused?

21 MR. OVERSTREET: He certainly may.

22 CHAIRMAN SCHMITT: All right. Mr. Smith, you  
23 may -- you may stand down and you may be permanently  
24 excused.

25 MR. SMITH: Thank you.

1           CHAIRMAN SCHMITT: Thank you.

2           MR. COOK: Mr. Chairman, may we take a quick  
3 recess?

4           CHAIRMAN SCHMITT: I'm sorry?

5           MR. COOK: May we take a quick recess?

6           CHAIRMAN SCHMITT: We're going to take a  
7 recess until 4:30 and come back, and Mr. Satterwhite  
8 will then retake the stand.

9           (Recess from 4:13 p.m. to 4:29 p.m.)

10          CHAIRMAN SCHMITT: We are back on the record.  
11 I guess it's been brought to our attention that  
12 maybe Kentucky Power has a witness who needs to get  
13 back this evening or something.

14          MR. OVERSTREET: Well, we will obviously do  
15 what meets the Commission's schedule. My thought  
16 was is that if -- depending on how much longer  
17 everyone has with Mr. Satterwhite, if we could go a  
18 little bit past 6:00, perhaps we could complete Mr.  
19 Phillips.

20          CHAIRMAN SCHMITT: The only problem with  
21 going past 6:00 is that basically we have told Pam  
22 and the -- and then we have the court reporter, and  
23 out of deference to them, I'd like to have 6:00.

24          MR. OVERSTREET: That's fine.

25          CHAIRMAN SCHMITT: And, you know, we talked

1 about tomorrow, if we needed to, maybe we can go to  
2 7:00 or so, but I'd like to stop at 6:00.

3 MR. OVERSTREET: That's fine.

4 CHAIRMAN SCHMITT: But if there's a problem,  
5 and everybody's gotten along real well, and Mr.  
6 Satterwhite doesn't care, he's here for the duration  
7 anyway, if you wanted to call Mr. Phillips, we could  
8 do that.

9 MR. OVERSTREET: Okay. Well, let's see how  
10 far we get with Mr. --

11 MR. CHANDLER: Mark, we have no objection if  
12 you would like to go ahead and call Mr. Phillips  
13 now.

14 CHAIRMAN SCHMITT: Why don't you -- we don't  
15 know how long Mr. Satterwhite might take.

16 MR. CHANDLER: Okay.

17 CHAIRMAN SCHMITT: Since Mr. Satterwhite has  
18 nothing to say about it.

19 MR. COOK: He's a patient man.

20 MR. SATTERWHITE: I can go home for this  
21 treatment.

22 MR. PHILLIPS: It's not often I get to knock  
23 my boss out of his seat.

24 CHAIRMAN SCHMITT: Mr. Phillips, please raise  
25 your right hand. Do you solemnly swear or affirm,

1 under penalty of perjury, that the testimony you are  
2 about to give will be the truth, the whole truth,  
3 and nothing but the truth?

4 MR. PHILLIPS: I do.

5 CHAIRMAN SCHMITT: Please be seated.

6 Counsel.

7 MR. OVERSTREET: Thank you, Mr. Chairman.

8 EVERETT G. PHILLIPS, called by Kentucky Power  
9 Company, having been first duly sworn, testified as  
10 follows:

11 DIRECT EXAMINATION

12 By Mr. Overstreet:

13 Q. Mr. Phillips, state your name and business  
14 address for the Commission, please.

15 A. Everett G. Phillips, 855 Central Avenue,  
16 Ashland, Kentucky.

17 Q. And, Mr. Phillips, what is your position with  
18 the Company?

19 A. I'm Managing Director of Distribution  
20 Operations for Kentucky Power.

21 Q. Okay. And does that entail the Company's  
22 Vegetation Management Program?

23 A. Yes, it does.

24 Q. Okay. But it has a whole lot of other --

25 A. A lot more, yes.

1 Q. Yeah. And did you cause to be filed in the  
2 record of this case direct testimony?

3 A. That is correct.

4 Q. And did you cause to be filed responses to  
5 data requests?

6 A. Correct.

7 Q. But you did not file any rebuttal testimony?

8 A. Correct.

9 Q. Okay. And do you have any corrections to  
10 your direct testimony or data requests?

11 A. In my direct testimony, page 54, line item 9,  
12 the 24 months should read 18 months.

13 Q. And with that one modification, if you were  
14 asked those same questions here today, would your  
15 answers be the same?

16 A. Yes.

17 MR. OVERSTREET: The witness -- excuse me.  
18 The witness is available.

19 CHAIRMAN SCHMITT: Mr. Kurtz.

20 MR. KURTZ: No question.

21 CHAIRMAN SCHMITT: Any questions from counsel  
22 for any of the settling intervenors?

23 If not, Mr. Cook, Mr. Chandler.

24 MR. COOK: The AG has no questions.

25 CHAIRMAN SCHMITT: Staff.

1 MS. VINSEL: Staff has a few questions.

2 CROSS-EXAMINATION

3 By Ms. Vinsel:

4 Q. Good afternoon, Mr. Phillips.

5 A. Good afternoon.

6 Q. Is it fair to characterize the Vegetation  
7 Management Plan presented in this case as a  
8 modification of the Vegetation Management Plan  
9 approved by the Commission in the last rate case?

10 A. I don't know -- not -- it is a modification,  
11 but only in that we're completing the task early  
12 from what we originally had planned. We're  
13 completing our Task 1 or the initial clear, we're  
14 completing that approximately nine months early.  
15 And Task 2, the reclear, which was started after the  
16 last rate case, we are completing that six months  
17 early.

18 Q. Let me jump into, then, a few things that are  
19 changed in the plan.

20 A. Okay.

21 Q. And as you just said, that both Task 1 and  
22 Task 2 -- Task 2 are being completed early, what is  
23 the impact, that impact on the plan, the current  
24 Vegetation Management Plan?

25 A. What that'll do is reduce the overall



1 expenses early, 18 months early. We'll be able to  
2 reduce from a 27.6 million that we're currently  
3 spending to a 21.465 million going forward, starting  
4 in 2018.

5 Q. And just to confirm, the reduction of the O&M  
6 expense in the Vegetation Management Plan in the  
7 current -- is being achieved because the work is  
8 being completed early?

9 A. That's correct. The initial clear, Task 1,  
10 is the most expensive. That's where the vegetation  
11 is the heaviest. There's been several years growth  
12 in that, so there's a lot of tree volume to remove.

13 To date we've already removed one and a half  
14 million trees, which is double -- basically double  
15 from what we originally estimated when the  
16 vegetation plan started back in 2010.

17 So the plan does allow us -- or not --  
18 doesn't allow -- it does allow, but the plan is for  
19 us to get Task 1 completed, which then focuses on  
20 Task 2, which is at a lesser expense than Task 1,  
21 and we're able to complete that and move on to Task  
22 3, which will be our maintenance cycle.

23 Q. So -- and I want to be clear. I think it --  
24 I think Staff has been working on this, understand  
25 this. Task 1 was the original clearing, Task 2 is

1 the reclearing, and then Task 3 is the ongoing  
2 maintenance; is that correct?

3 A. That's correct. That's correct. Task 3 is  
4 the ongoing, if you will. If you'd look at Table 8  
5 in my testimony, it shows that the Task 3 is the  
6 one-fifth of the mile, the primary mile. There's a  
7 little over 8,000 primary miles, so when you're on  
8 that maintenance cycle you're going to be clearing  
9 one-fifth of that or about 1,622 miles a year. So  
10 that will be the maintenance cycle, using our terms.

11 Q. Now, one of the changes that's been requested  
12 is to -- and I'm going to read from my notes to make  
13 sure I say this correctly.

14 A. Sure.

15 Q. (Reading) To modify the Commission  
16 preapproval for deviations of more than ten percent  
17 when expenditure is anticipated to deviate from the  
18 forecasted projections by more than ten percent.

19 Am I saying that correct?

20 A. The -- if I understand you correctly, you're  
21 asking about the deviation requirements when  
22 we're -- when we're required to file a deviation --

23 Q. Yes.

24 A. -- from our plan? Yes. To give a little bit  
25 of background, we file a plan each year, the

1 preceding year for the following work plan, or for  
2 the following year. And then in -- by April 1 of  
3 the -- after that year, we then file how we  
4 completed that plan and how we worked toward that  
5 plan, what we accomplished toward that plan.

6 If for some reason -- the way it is set up  
7 now in the settlement agreement from the 2014 case,  
8 if we deviate more than ten percent of the cost for  
9 any one district of the three districts that we  
10 serve, Ashland, Pikeville or Hazard, we have to file  
11 for a deviation. So that's the way it's set up  
12 today.

13 What I have proposed in the -- in this rate  
14 case is to change that deviation requirement to be  
15 anytime the Company deviates from ten -- more than  
16 ten percent from the entire plan, the 21.465  
17 million.

18 Q. So, and just to be clear, the proposal is to  
19 change from a deviation from one of the -- you know,  
20 looking at each of the three areas as discrete  
21 sections and instead now looking at it in the  
22 aggregate?

23 A. That's correct. One of the challenges that  
24 you have in looking at the three districts is the  
25 work that you have. If you're -- if you're -- for

1 example, we have -- you know, we had one deviation  
2 that we filed, and the Commission acted very quickly  
3 on the deviation, but it allowed us -- what we had  
4 to do, if we weren't -- if we weren't successful in  
5 that deviation request, we would have had to have  
6 either laid crews off in the Hazard district,  
7 because they were -- had completed more of their  
8 plan than the Pikeville district, for example.

9 So we wanted to shift crews from Hazard to  
10 Pikeville, but in order to do that, we were going to  
11 have to deviate from the plan, and so we were able  
12 to finish it, all three districts, roughly about the  
13 same time, so this way we're treating our customers  
14 more fairly, or more equally, if you will, amongst  
15 all three districts.

16 But if we -- if we had to focus on keeping  
17 the plan the same for all three districts, or the  
18 plan that we had filed, rather, then we would  
19 have -- we would have essentially had to probably  
20 lay off some contract crews in Hazard and either had  
21 to -- we would still be working on the Pikeville  
22 district, we'd still be further behind than Hazard  
23 district would be, as an example.

24 Q. So it's a question of efficiency?

25 A. That's correct. Correct. Thank you.

1 Q. Another one of the proposed changes -- let me  
2 think. I'm going to check my notes to make sure I  
3 get this correct.

4 A. Sure.

5 Q. The expenditures, the reporting of the  
6 expenditures, you're currently -- currently Kentucky  
7 Power is planning on a vegetation management year  
8 which doesn't line up with the calendar year; is  
9 that correct?

10 A. That's correct. Because of the last rate  
11 case, the settlement, that started in July of 2015,  
12 so that was -- so we're trying to keep track of it  
13 both on a calendar year, which is the way we  
14 operate, and on the July 1 to June 30th year.

15 Q. Let's call it the vegetation management year.

16 A. Okay. Thank you.

17 Q. So the proposal is then to switch it to a  
18 calendar year. Can you -- can you just explain  
19 briefly why, what the benefits are to change it?

20 A. It's because we operate on a calendar year,  
21 all of our reporting, our annual reports that we  
22 file with the Commission is done on a calendar year  
23 basis, be it reliability or be it Vegetation  
24 Management Plan, both of those are filed on a  
25 calendar year. So it's easier for us to keep track

1 of our spending on a calendar-year basis.

2 Q. So is this again a question of administrative  
3 efficiency, but also perhaps is it economic  
4 efficiency?

5 A. Yes, it would be, because you're not having  
6 to keep track of it based on any one given month,  
7 'cause things happen. For example, you know, we've  
8 had -- the country's had several hurricanes this  
9 year. We were able to send crews out and help  
10 through mutual assistance. That's what we do. And  
11 then at times they have come and helped us. We've  
12 had major storms ourselves in the past.

13 But doing so, you know, that -- your plan  
14 fluctuates and you have to adjust, and it's just  
15 much easier to do that on -- looking at it at one  
16 12-month period, and for us, because that's the way  
17 we've operated, it's best for us to do it on a  
18 calendar year. That's the way our reporting is done  
19 to the Commission, and so it's just -- it's just  
20 more efficient that way.

21 Q. If the Commission approves Kentucky Power's  
22 request in this case in regard to the Vegetation  
23 Management Plan, can you confirm that any  
24 undercollection of the Vegetation Management Plan,  
25 of that monies, will be refunded or credited to the

1 customers?

2 A. That is not -- that's not my -- you have to  
3 speak to Witness Wohnhas.

4 Q. Okay.

5 A. I deal with expenses, so I -- you know, we  
6 will -- we will report those expenses in our annual  
7 reports and at such time, but -- but I can tell you  
8 we spend every dollar that we can, because it's very  
9 important for us to remove the trees from the lines.  
10 It's a safety concern to our public, to our  
11 employees, to our customers.

12 Trees and electricity do not -- you know, do  
13 not go together. I'm sure everybody's aware of  
14 that. But -- so from that perspective, we try to  
15 use -- utilize the funds that we have as efficiently  
16 and as effectively as we can to remove as many trees  
17 as possible.

18 Now, we're willing to replant trees, and we  
19 have a lot of tree programs to replant, so, I mean,  
20 we -- I love trees, I mean, they're beautiful, they  
21 just don't go together with electricity.

22 Q. The replanting, is that -- is it replanted in  
23 a different location or is it -- there's probably no  
24 one ground rule, is there?

25 A. No, there's not. There's -- it's at the

1 customer's request, but we will provide -- and we  
2 have tree day every year during Earth Day, sometime  
3 in April usually, I think is when it is, subject to  
4 check. But we have tree day, we give away trees,  
5 but they're normally the small-growing trees,  
6 dogwoods, redbuds, those type of things.

7 And so we will -- anytime we go on a  
8 customer's property, if they request it, we will  
9 provide them some trees in -- you know, in  
10 replacement of removing their other trees, their  
11 tall-growing trees.

12 Q. And there wasn't an option that was presented  
13 in this plan, the -- as I understand, the primary,  
14 the best choice, or what seemed to be best choice is  
15 a five-year cycle, correct?

16 A. That is --

17 Q. For Task 3.

18 A. The five-year cycle is what we agreed to in  
19 the last settlement case on a request by the Staff  
20 in the last -- in the 2014 case.

21 Now, I will say that the industry standard is  
22 a four-year cycle. Our -- we have compared other  
23 utilities. We went onto Kentucky Utility property  
24 in Pineville prior to the last rate case to look at  
25 their program, and that's how we established our



1 estimates at that time. It was one of them, our  
2 sister company, and PSO, Public Service Oklahoma,  
3 that was also on a four-year cycle -- a four-year  
4 cycle, and then that's what the industry standard  
5 recommends.

6 But through the settlement agreement in the  
7 2014 case, we agreed to a five-year cycle, and we  
8 think that, for now, is the best for our customers.

9 We did look at a six-year cycle at the  
10 request of Witness Satterwhite, my boss. He did  
11 challenge my staff and I to look at all avenues of  
12 where we could reduce our expenses. That's how we  
13 came up with this plan to reduce expenses early, and  
14 which I think will be a great benefit to the  
15 customers.

16 Q. If the Commission should decide to go with  
17 the six-year cycle rather than the five-year, what  
18 kind of changes would occur to the plan?

19 A. I would not recommend the six-year, because  
20 the additional year's growth will allow the trees to  
21 get back into the power line. We would lose ground  
22 of what we've gained, and we've gained tremendous  
23 ground.

24 We have seen over a 60 percent reduction in  
25 interruptions of -- a 60 percent reduction in

1 customer outages. You know, that's significant.  
2 And I don't want to see us lose ground.

3 You know, a silver maple, for example, can  
4 grow as much as 15 feet in one year. A distribution  
5 line typically is only about 35 to 40 -- 35 to 45  
6 foot off the ground. And so, you know, a silver  
7 maple in three years is back up in that primary.  
8 And again, that's a -- that's a huge safety concern,  
9 notwithstanding it'll start causing operations on  
10 the line and causing outages and disrupt power to  
11 the customers.

12 So while we looked at that program to try to  
13 reduce expenses further, that's not recommended.

14 Q. My next question is about the one-way  
15 balancing account that was established in the last  
16 rate case, the 2014 rate case.

17 A. Okay.

18 Q. And my overarching question is: What is  
19 Kentucky Power proposing to do with any balance that  
20 is in that one-way balancing account? However,  
21 before we go there, perhaps can you give a thumbnail  
22 description of what the one-way balancing account  
23 is?

24 A. I will attempt to. That is -- may be better  
25 asked by Witness Wohnhas. He loves getting things

1 passed off to him. But the one-way balancing  
2 account was established in the last settlement case  
3 to track the expenditures, both on a calendar year  
4 basis and the vegetation management calendar year  
5 from July 1 to June 30th.

6 And so from beginning July of 2015 to  
7 June 30th of 2019, so in that four years it had to  
8 equal -- if we spent the \$27.6 million on an annual  
9 basis, if we spent that times four -- I can't do  
10 that in my head at the moment. Normally I can, but  
11 at the moment I can't.

12 But whatever that value is -- I think it's in  
13 my testimony, but if we were over -- in my terms, if  
14 we spent more than that, that was at the Company's  
15 expense. If we were under that amount, we would --  
16 then the expenses would be -- that's where you need  
17 to talk to Mr. -- Witness Wohnhas as to how that --  
18 the expense then would have to be handled through  
19 whatever Witness Wohnhas does.

20 Q. I'll reserve that question --

21 A. Okay.

22 Q. -- for Mr. Wohnhas.

23 A. All right.

24 MS. VINSEL: And with that, we have no more  
25 questions at this time.

1 CHAIRMAN SCHMITT: Commissioner Cicero.

2 EXAMINATION

3 By Vice-Chairman Cicero:

4 Q. Just one question.

5 A. Okay.

6 Q. How many times did you exceed and have to  
7 have a deviation from each of the individual  
8 districts in the past 12 months?

9 A. I think it was one, if I recall.

10 Q. Once in the last 12 months?

11 A. Yes.

12 VICE-CHAIRMAN CICERO: That's all I have.

13 CHAIRMAN SCHMITT: Commissioner Mathews.

14 MR. MATHEWS: I have none.

15 CHAIRMAN SCHMITT: I have no questions.

16 Mr. Overstreet, any questions?

17 MR. OVERSTREET: Just one question.

18 REDIRECT EXAMINATION

19 By Mr. Overstreet:

20 Q. Mr. Phillips, that deviation, would it  
21 surprise you to learn that it was longer than 12  
22 months ago?

23 A. You're correct. That's right. It was over  
24 12 months ago.

25 MR. OVERSTREET: That's all I have.

1 THE WITNESS: Yeah.

2 VICE-CHAIRMAN CICERO: I was just trying to --

3 MR. OVERSTREET: I understand.

4 THE WITNESS: Yeah.

5 MR. OVERSTREET: I just wanted to make sure  
6 the record was clear.

7 THE WITNESS: Yeah.

8 REEXAMINATION

9 By Vice-Chairman Cicero:

10 Q. Looking at the individual districts versus  
11 the whole, looks like it's not a big deal?

12 A. It's been one since the last rate case was  
13 what I was thinking in my head.

14 CHAIRMAN SCHMITT: Anything further?

15 MR. OVERSTREET: Nothing further.

16 CHAIRMAN SCHMITT: Mr. Cook?

17 MR. COOK: No questions.

18 CHAIRMAN SCHMITT: Attorney General.

19 MR. GARDNER: No questions.

20 CHAIRMAN SCHMITT: Okay. May this witness  
21 then be permanently excused?

22 With no objection, then you may be excused.

23 MR. PHILLIPS: Thank you.

24 CHAIRMAN SCHMITT: Okay.

25 MR. OVERSTREET: Mr. Satterwhite.

1 CHAIRMAN SCHMITT: Mr. Satterwhite.

2 I'm not sure where we left off. Had you  
3 finished, Mr. Chandler?

4 MR. CHANDLER: Your Honor, as much as some  
5 might have hoped, I have not, although I don't -- I  
6 do believe that the intervening witnesses may have  
7 negated the need for some of my questions, so if I  
8 could just have one second, I'll start right back  
9 up.

10 CHAIRMAN SCHMITT: If you need to take a  
11 minute or two, go right ahead.

12 MR. CHANDLER: Mr. Chairman, are you --

13 CHAIRMAN SCHMITT: Ready?

14 MR. CHANDLER: Yes, sir.

15 MATTHEW J. SATTERWHITE, called by Kentucky  
16 Power Company, having been previously sworn,  
17 testified as follows:

18 FURTHER CROSS-EXAMINATION

19 By Mr. Chandler:

20 Q. So, Mr. Satterwhite, I believe that when we  
21 last spoke, we had been discussing some of the  
22 figures from the Company's annual report. Do you  
23 remember that?

24 A. Yes.

25 Q. Have you had a chance to speak to anyone at

1 Kentucky Power about those annual reports?

2 A. Not really.

3 Q. Do you mind to go back to them? They're tab  
4 I in the binder, and it's AG Exhibit Number 4.

5 A. Okay.

6 Q. Let me know when you're there.

7 A. I'm there.

8 Q. So we had discussed the line on the first  
9 sheet regarding the two numbers, the first two  
10 columns regarding total sales to ultimate customers,  
11 correct?

12 A. That's what you had pointed me to, and I  
13 pointed out I wasn't familiar and there's probably a  
14 better witness to talk about this with.

15 Q. But you had read in both of those figures  
16 into the record?

17 A. I read numbers on the sheet in front of me,  
18 yes.

19 Q. And on the last page you had also read in too  
20 the line for the 2006 period, the same line for the  
21 same two columns, correct?

22 A. I believe so, yeah. We didn't go through  
23 each year by year, we just picked -- you had picked  
24 two and I had -- I read those.

25 Q. Just '16 to '6, right?

1 A. Correct.

2 Q. Just kind of skipping all the other ones?

3 A. Correct. And I believe you gave a  
4 percentage, and I believe you said it was annual,  
5 but it was the total amount between '6 and '16, some  
6 40 some percent I think is what you said, but if you  
7 break it down, it wasn't 40 percent, it was like  
8 three percent a year or something like that.

9 Q. So subject to check, would you say that the  
10 change between the first year to the last year, not  
11 on an annualized basis, from the '6 to '6 for column  
12 Revenues, and we're not -- we'll ignore the dollar  
13 sign for a second. Just talking math. The column  
14 on revenues and the line Total Sales to Ultimate  
15 Customers, subject to check, the difference there is  
16 46 percent?

17 A. Well, again, that's why I pointed out I'm  
18 uncomfortable. I don't know if you can really do  
19 the comparison between '6 to '16, what changes in  
20 the middle, what's impacted by these numbers.

21 So all I can say is, the numbers you had me  
22 read, that's the statistical difference between  
23 those, but I'd have to have a different witness come  
24 up and make sure that it means what you think it  
25 means.



1 Q. So what was the number you said -- you said a  
2 second ago about the annual change?

3 A. I believe you had me calculate a number, and  
4 you said the difference between the two was 42 or  
5 some percent like that between --

6 Q. 46 percent?

7 A. 46 percent.

8 Q. You mentioned another percentage.

9 A. And I think if you annualize that between '6  
10 and '16, I was just saying that wasn't a -- you  
11 didn't take it on an annual basis what the increase  
12 would be per year.

13 Q. Right. But you mentioned a number. What was  
14 that number?

15 A. I didn't -- it was three percent or three  
16 point something percent.

17 Q. So you haven't had a chance to ask anybody  
18 what these represent, but you've had a chance to  
19 figure up what the annual percentage change would  
20 have been?

21 A. I didn't talk in detail to anyone. Someone  
22 pointed out that -- I believe the word they used is  
23 the AG is cherry picking numbers, and if you  
24 actually look at it and you annualize it, it's not  
25 the big percentage that you said.

1 Q. Okay.

2 A. But that's the only conversation we had.

3 Q. So will you go to the 2006 numbers?

4 A. Okay.

5 Q. Let me know when you're there.

6 A. I'm there.

7 Q. So on column Revenues, line Total Sales to  
8 Ultimate Customers, if you compare that number to  
9 the line on the next year, for 2007, column  
10 Revenues, Total Sales to Ultimate Customers, does  
11 the number go up or down?

12 A. So the 391 number on '6 and then the 406  
13 number --

14 Q. Yes, sir.

15 A. -- on the '07? That's -- it's a larger  
16 number on the next page.

17 Q. Larger number. And do you mind to go to  
18 2008?

19 A. That goes from 406 to 476.

20 Q. Is that a larger number?

21 A. Yes.

22 Q. And will you go also to 2009?

23 A. It goes 476 to 487.

24 Q. And will you go into 2010?

25 A. Then to 541.

1 Q. And is that a larger number?

2 A. Yes.

3 Q. And the next year?

4 A. 559.

5 Q. And the next year?

6 A. 501.

7 Q. 501. So that goes down a little bit that

8 year?

9 A. Correct.

10 Q. Okay. And then it goes to --

11 A. 512.

12 Q. And the next year?

13 A. 556.

14 Q. And the next?

15 A. 537.

16 Q. 537. So the 2015 is 537. And then the '16

17 we just spoke about is --

18 A. 572.

19 Q. 572. Okay. And you mentioned -- and I don't

20 know if you've had a chance to calculate the annual

21 change, but I mentioned earlier, subject to check,

22 would you agree that the change from the year 2006

23 to the year 2016 for column Kilowatts Hours Sold at

24 line Total Sales to Ultimate Customers, subject to

25 check, that that's decreased 17.7 percent? Just the

1 math.

2 A. Can you go through that again? Sorry.

3 Q. From 2006, which is a \$7.1 billion number.

4 A. And which column are you in?

5 Q. Column Kilowatt Hours Sold.

6 A. Okay. Gotcha.

7 Q. And compare that to 2016, which is a  
8 5.8 billion difference. A 5.8 billion number. Is  
9 that --

10 A. I will agree the difference between 7.1 and  
11 5.8 is whatever the calculator says.

12 MR. OVERSTREET: Your Honor, we're -- the  
13 numbers are what they are. He's testified that he  
14 doesn't know what is represented by these numbers  
15 and has suggested that the Attorney General ask Mr.  
16 Wohnhas or another witness. You know, we can  
17 continue doing this, but it seems at 5:00 o'clock  
18 we'd have a better use of our time.

19 MR. CHANDLER: Your Honor, I have -- if I may  
20 reply, I have no more questions on this issue, but I  
21 would just like to note that we had a two-hour  
22 difference between the last time Mr. Satterwhite was  
23 there, and he easily could have asked what these two  
24 lines were from the witness he referred to.

25 CHAIRMAN SCHMITT: I understand. Overruled.

1 Q. You've mentioned in your direct testimony on  
2 page 18 that transmission costs to Kentucky Power  
3 have increased \$20 million since 2014 case?

4 A. I'm sorry. You -- which testimony are you  
5 in? Are you in the initial testimony?

6 Q. Your direct at 18.

7 A. Direct. Okay. I can say yes as I go there,  
8 but yes, I'm familiar with that.

9 Q. Okay. 20 sounds about right to you since the  
10 last rate case?

11 A. Yeah. It was 50 some million dollars in the  
12 last case and it's 70 some in this case.

13 Q. And you updated -- and I think you confirmed  
14 this earlier, but you updated in your settlement,  
15 your, I guess, errata, or not technically errata,  
16 your new settlement testimony that you expect in  
17 2018 for the transmission costs to increase 14  
18 million; is that right?

19 A. Yeah. These are volatile, so initially we  
20 thought it was going to be \$17 million. There was  
21 an update in a filing from another state, which that  
22 now we believe to be \$14 million.

23 The way we've asked to take care of that in  
24 the rate case, though, or in the settlement, is to  
25 track part of that, so the actual cost will be

1 actually what's reflected.

2 Q. So it's 14 million next year? That's your  
3 estimate?

4 A. That's the estimate right now, yes.

5 Q. That's the estimate. Okay. Is that  
6 \$14 million included in the test year?

7 A. As far as the LSC owed costs?

8 Q. Yeah, that \$14 million amount that you  
9 referred to in the settlement testimony, is that  
10 included in the test year?

11 A. No. That's the anticipated coming year.  
12 What's included in the test year is the LSC owed  
13 costs that were known during the test year.

14 Q. And why isn't that amount included in the  
15 test year? Is it because you filed a historical  
16 test year?

17 A. Yes.

18 Q. And that's the Company's election to file a  
19 historical or a future test year, right?

20 A. Yeah, that was one of the my decisions as  
21 well. When I sat down to see what kind of case we  
22 were going to filed, I wanted to make it as skinny  
23 as possible, and sometimes future test years are met  
24 with more concern. I wanted to be very  
25 straightforward, a very basic case to move forward,

1 so I decided a historic test year with some  
2 adjustments was more appropriate to move forward.

3 Q. So when you filed a historical test year but  
4 asked for a tracker, that would just take that exact  
5 cost and pass it directly on to the customers,  
6 right?

7 A. Yeah, it's an expense that comes directly to  
8 the Company, so the concept was, we know this  
9 expense is coming up, it's a highly volatile cost,  
10 it's completely outside the regulatory compact.  
11 It's not as if I could take a snapshot in time from  
12 a test year and have less employee lunches and put  
13 up a few less generators or transformers and cover  
14 that cost. It's completely outside that, my  
15 management ability.

16 So it's such an extreme cost, we thought it  
17 was appropriate to say let's track that. Customers  
18 will pay no more, no less than the actual costs that  
19 actually come from that, and we can take care of  
20 that now versus having to turn around and have the  
21 expense of filing another case to deal with that.

22 Q. You mentioned that it's kind of -- well, I  
23 don't want to -- you've made your answer.

24 Hypothetically, if you are dealing with a  
25 vendor and you believe that the costs are too high,

1       you have an opportunity as a company to either try  
2       to renegotiate that contract or to maybe go out and  
3       bid it with a different vendor, right?

4       A.       Potentially, yes.

5       Q.       Okay.

6       A.       Hopefully.

7       Q.       And these costs are determined at FERC,  
8       correct?

9       A.       Yeah, these are PJM costs, costs --

10      Q.       So they're --

11      A.       Part of the number --

12      Q.       -- they're determined --

13      A.       I'm sorry. I didn't mean to cut you off. Go  
14      ahead.

15      Q.       Go ahead. No, I interrupted you.

16      A.       These are load -- load serve -- we're a load  
17      serving entity, so under the federal jurisdiction  
18      and as a member of PJM, we have a responsibility as  
19      a load serving entity to pick up a share of these  
20      costs that flow through.

21             It's really what keeps the entire  
22      transmission system up and running and allows the  
23      power to move and congestion to be low and cheaper  
24      power to move all over the system.

25             But as part of that membership, we have a



1 responsibility to pay a percentage of those costs --

2 Q. And --

3 A. -- and that's what's represented here.

4 Q. And those are determined at FERC?

5 A. It's a PJM cost. Yes, it's FERC  
6 jurisdictional.

7 Q. It's a FERC -- that's a better -- thank you.  
8 That's a better way to explain it. Thank you.

9 A. Yeah. I'm not sure which room they're in,  
10 so --

11 Q. So -- and I know that this is a bit broader  
12 question than just the PJM LSE costs that you were  
13 mentioning, but how many times in the last five  
14 years has Kentucky Power been a plaintiff to case at  
15 FERC to attempt to lower OATT charges or  
16 transmission costs that would eventually be costs to  
17 its customers?

18 A. I'm not aware of us being a plaintiff in  
19 that. We have the ability, as part of the AEP  
20 network, to, you know, work overall what the  
21 transition system should look like. I think we  
22 understand the importance of building up the  
23 transmission system.

24 We have like over 7,000 miles, I think, in  
25 the AEP system the life of the facility is over 70

1 years old, and so we know there's a need to invest  
2 in transmission system.

3 And then you have things like coal plants  
4 retiring all over the system, which creates a lot of  
5 problems with congestion, and you really need to  
6 make sure you're investing in the network and the  
7 transmission system so that you can move power how  
8 you need to move it.

9 So I don't know of any -- I don't know of any  
10 times where we appeared, because I think we  
11 understand that it's important to have a robust  
12 transmission system.

13 Q. So is it fair to say that you've not  
14 advocated at FERC for lower OATT charges to your  
15 customers?

16 A. Correct. I've not been part of a filing that  
17 says we want to -- well, I'm trying to think.

18 Q. I think --

19 A. There's a --

20 Q. As a plaintiff.

21 A. As a plaintiff, correct.

22 Q. Would you like me to make that distinction?

23 A. Yes. There is a case pending right now that  
24 deals with some of the ROE attached to the PJM  
25 costs.

1 Q. And what is that -- what is that complaint by  
2 the complainants?

3 A. That they just want to lower the ROE that's  
4 attached to those transmission costs.

5 Q. And is the ROE like the -- let's just say the  
6 settlement ROE and the stipulation ROE here, is it  
7 like in that range, the 9.75 range, or is it higher  
8 than that?

9 A. It's above 11 percent. It's the -- when we  
10 have the transmission offset, what I call it, the  
11 part that brings down the federal rate down to the  
12 9.75 we have proposed in this case, it's that ROE.  
13 It's the difference between those two that we have  
14 contemplated in the settlement agreement.

15 Q. And so who -- who's getting these -- I guess  
16 for my own personal investment, who's getting these  
17 11 percent ROEs? Who are these other -- is it  
18 Kentucky Power that gets an 11 percent ROE at FERC  
19 or is it AEP affiliates of Kentucky Power? Who is  
20 the -- who are the other defendants in the case?

21 A. That's two different questions, I guess.  
22 The -- globally, it's how the transmission system is  
23 set up. FERC wants to incent because there is such  
24 a need, to make sure it's a transmission system that  
25 doesn't fall apart. And they're doing a good job

1 making sure it's not. So to incent that, that's  
2 where the ROE comes from, to make sure that  
3 companies will invest.

4 So if a company -- like here in Kentucky,  
5 I've recently advocated for more transmission  
6 investment to upgrade the transmission system here  
7 in Eastern Kentucky. So as a transmission owner, if  
8 I make that investment, that ROE will be attached to  
9 receiving that.

10 And that's -- again, that's what's in the  
11 stipulation, where if it moves forward and the  
12 Commission approves it, we actually wouldn't be  
13 earning that 11 percent, it would be -- that would  
14 be refunded to customers, the PPA, the difference  
15 between the -- what the Commission approves in this  
16 case and the FERC rate.

17 Q. And so in the stipulation you've -- and the  
18 stipulation notes that Kentucky Power had only  
19 earned a 9.75 for the jurisdictional -- for the  
20 Kentucky jurisdictional transmission, right?

21 A. What it says is --

22 Q. It's own transmission. Excuse me.

23 A. What it says is part of the -- the balance,  
24 the overall balance -- and, you know, I appreciated  
25 Mr. Smith saying there were some creative ideas in

1           there. It was hard to get to that point.

2                       But part of the balance is to take the  
3           revenue that Kentucky Power would get as a  
4           transmission owner, and rather than receive the 11.4  
5           or whatever it is, take that down to what the  
6           Commission approved in this case of 9.75 and provide  
7           it as a credit for customers for the Tariff PPA.

8           Q.        So 9.75 is, in your opinion, a reasonable  
9           amount for transmission?

10          A.        No. This is part of the overall balance.  
11        Believe me, I think, you know, with the territory  
12        that we have overall, 10.31 is the right ROE for  
13        this Company.

14                    And I think if you look at Mr. Vaughan's  
15        testimony, around page 18 he has a graph that talks  
16        about, you know, we have about 17 customers per  
17        mile. LG&E, KU, and Duke have 41 and 43. Just  
18        there's so much more risk.

19                    I think we've all talked about ability to pay  
20        too. The flip side of ability to pay is, you know,  
21        we might not get paid, so there's risk there as  
22        well.

23                    So the 9.75 is something that we've agreed to  
24        that -- you know, that's a compromise that we've  
25        made by the Company. The case that we've supported

1 supports 10.31. I think that's appropriate for the  
2 territory that we're in. It's tough.

3 But for purposes of settlement and the  
4 overall package and the affordability of all the  
5 partners to the stipulation put together, 9.75 is  
6 where we ended up.

7 Q. So do you think the 11.4 that Kentucky Power  
8 customers are paying to affiliates for transmission  
9 is reasonable?

10 A. That's the FERC-approved rate.

11 Q. Do you think that the FERC-approved rate of  
12 11.4 percent is reasonable for your customers to  
13 pay?

14 A. That's up for the FERC to decide, based on  
15 what they want to incent. Current -- in the past,  
16 if you read some of the orders in that case, even  
17 opening up when the plaintiffs filed it, the  
18 Commission recognizes that they wanted to have a  
19 higher premium on that to make sure they were  
20 incenting transmission.

21 So that's really a matter before FERC right  
22 now to decide, based on what it wants to incent,  
23 what the right amount is.

24 Q. I guess I'm asking -- you know, you talk  
25 about the regulatory compact a lot and recovering

1 costs, but it seems that if you're -- you're asking  
2 for customers to pay for transmission costs, I'm  
3 just curious, and you've noted it, and you don't  
4 remember a time or know of a time when you've been a  
5 plaintiff at FERC to argue for the lower rates  
6 there, who's -- what are -- what are customers left  
7 with? Who's going to be fighting for a lower ROE  
8 that they have to pay on transmission?

9 A. Certainly the FERC process allows anyone.  
10 The AG from Kentucky could absolutely intervene if  
11 they were very concerned and do that.

12 I looked at it on the flip side. You know,  
13 not everything's a problem, some things can be an  
14 opportunity, and so I looked at as it how I could  
15 advantage customers here in Kentucky. That's why I  
16 fought for more capital dollars, to have more  
17 transmission invested. Not only does it bring jobs  
18 to our local communities, but it allows potentially  
19 that higher ROE to be earned by Kentucky Power so  
20 that there's less burden upon the customers that we  
21 have within Kentucky.

22 Because that ROE is being -- and that cost is  
23 being recovered from the entire zone. We only pay  
24 for six percent of the actual costs that go through  
25 there. Other jurisdictions, the customers from

1 other places are paying 94 percent of the cost.

2 So I really made it a strategy, with all the  
3 other things I was doing, to go out and get more  
4 transmission investment, both for the immediate  
5 impact and also to offset some of the concerns we  
6 have with the rates.

7 Q. And so this would be transmission that  
8 you-all think is necessary, right?

9 A. It's a combination of all kinds of  
10 transmission.

11 Q. Well, so I guess I ask because you talk about  
12 only paying six percent. Isn't it true that the six  
13 percent would only require -- would only be required  
14 of baseline PJM projects that are mandated by PJM  
15 for reliability purposes, but isn't it true that a  
16 supplemental project that's at the Company's behest  
17 would be paid mostly by the customers in the local  
18 LSE?

19 A. There's different variations. I don't  
20 remember all the different levels, but a lot of the  
21 projects -- the projects that we have moved forward  
22 on in the near future here in Kentucky are not just  
23 solely our sole decision, like we've just decided to  
24 do this. We have to show that there's some benefit  
25 to the overall system overall, and so those do fall



1 into the only six percent we're paying for here,  
2 customers in Kentucky.

3 Q. I'd like to transition to the stipulation for  
4 a second.

5 A. Great.

6 Q. I'm confused about something. I'm hoping  
7 since you filed the stipulation testimony you can  
8 explain it to me. The -- on page 13 of the  
9 stipulation, and it's regarding the Rockport credit  
10 and offset, I believe is what the exact quote is.  
11 And it's not on 13.

12 MR. OVERSTREET: It was there earlier.

13 A. Around line 11.

14 Q. Is it on 13?

15 A. In the -- oh, I was on the testimony.

16 Q. Oh. We'll just go to your testimony. That's  
17 fine. Yeah, that's exactly where it was.

18 You discuss the Rockport offset and credit on  
19 line -- beginning -- explaining -- discussing it on  
20 line 13, correct?

21 A. Yes, it's discussed there.

22 Q. And you mention that it'll be a -- the credit  
23 will be a -- if you don't mind to read into the  
24 record the sentence that starts on line 14, please.

25 A. "If Kentucky Power"?

1 Q. Yes, sir.

2 A. (Reading) If Kentucky Power does not extend  
3 the Rockport agreement, then it will begin to credit  
4 the Rockport fixed cost savings through Tariff PPA  
5 until new base rates are set.

6 Q. So is it true -- is it correct to state that  
7 at the end of the Rockport UPA, when -- if rates are  
8 set into effect assuming that the Company has  
9 certain costs under the Rockport UPA, that the  
10 savings -- the savings to the Company, since they no  
11 longer have those expenses, will be flowed back to  
12 customers through Tariff PPA?

13 A. Absent this agreement, no. That wouldn't  
14 automatically happen. That's a term of the  
15 settlement agreement that we've allowed for that, so  
16 when we get to that day, there's already  
17 consideration for those costs, and that's  
18 effectuated through Tariff PPA.

19 Q. So absent this agreement, the Company would  
20 end up receiving how much money in excess that they  
21 no longer have expenses for?

22 A. The fixed costs at Rockport, I believe, of  
23 UPA are about \$54 million, I think is what we talked  
24 about earlier. So that would still be considered in  
25 base rates, because the unit power agreement, which

1 is what we're paying for, is already -- is in base  
2 rates in this case. So it's a question of how do  
3 you remove that from base rates. And so what the  
4 stipulation does is provide a mechanism to allow  
5 that to happen versus us having to try to figure out  
6 at that time how we're going to deal with it.

7 Q. So if the Company had, all things equal, an  
8 increase -- or, excuse me, the same level of  
9 revenues and a decrease of \$54 million in revenue,  
10 \$54 million in expenses, they wouldn't feel --  
11 you -- Kentucky Power wouldn't feel compelled to  
12 come back in to the Commission to adjust its rates?

13 A. That's not what this says. I mean, that's --

14 Q. No, I'm asking --

15 A. We're not at that point.

16 Q. -- what you said earlier, to your comment  
17 earlier.

18 A. You asked -- I -- you said what does this do,  
19 and this provides the mechanism now. As we got  
20 closer in time, if we didn't come in, I'm sure  
21 someone would bring us in, or the Commission might  
22 bring us in. We'd have to deal with it at the time.

23 What this does is say, looking at -- trying  
24 to wrap all of these intricate elements of this  
25 balance that we have together and consider all these

1 things, let's deal with it now. So if there's not  
2 another base rate case that comes in that says a  
3 future test year and we're not going to have  
4 Rockport, the UPA, in there, we have something on  
5 paper now that says how we are going to deal with  
6 that.

7 But it was not -- it was not saying that, you  
8 know, I was just hoping that no one would ever know  
9 that we had \$54 million extra. That was not the  
10 insinuation.

11 Q. So after it expires, the savings of, and I'll  
12 take your word, \$54 million flows back to customers,  
13 correct?

14 A. Absent the offset, the one-year protection  
15 that we put into the settlement agreement.

16 Q. And what is the protection?

17 A. Because we don't know what we'll be dealing  
18 with, typically you would have an entire rate case  
19 to deal with something like this, such a big impact.  
20 The offset is put in there to make sure that the  
21 Company is recovering the Commission-approved ROE.

22 So for one year there's an offset in there  
23 where some of those costs will be held to the side,  
24 just to make sure the Company can earn its ROE for  
25 that one year as it transitions away from having the

1 Rockport on its bill and the Rockport generation in  
2 its portfolio. So there's that one year just to  
3 make sure.

4 And then what happens at the end of --  
5 because this ends in 2022, so 2023 is the year we're  
6 looking at. At the end of 2023, we then take that  
7 balance, and in February we file something with the  
8 Commission to say -- if we collected too much over  
9 that past year that we held back, we give that back  
10 to customers over three months, or if it was too  
11 little, that we collect that over the next three  
12 months.

13 It's basically a security mechanism for the  
14 unknowns of what happens, because we're talking  
15 about unwinding such a big deal at \$54 million in  
16 2022 as we sit here in 2017.

17 Q. So let's just assume that -- arguendo, that  
18 you have a 9.75 ROE. This credit offset guarantees  
19 that you'll earn the ROE in that given year?

20 A. It can't go above the amount of the fixed  
21 costs from Rockport. There's a barrier there, or a  
22 protection, I guess, a cap on that. But what it  
23 does is it makes sure that there's not some  
24 unintended consequence, that the fact that we've  
25 lost or no longer have the Rockport generation in

1 our portfolio, that there's not a catastrophic event  
2 that impacts our ROE.

3 So the Commission is setting rates that says  
4 we should have the opportunity set up to earn a 9.75  
5 ROE if they were to accept this agreement. This  
6 just says for that one year, and that one year only,  
7 because we're willing to deal with this now and  
8 provide that automatic payback of this fixed cost,  
9 let's make sure that the ROE for that one year is  
10 protected and then we'll figure out how we go from  
11 there, potentially with a new rate case or  
12 something.

13 Q. So where in the stipulation does it talk  
14 about the determination of whether the expenses in  
15 that year are reasonable, that you're -- you're  
16 talking about using this \$54 million to offset  
17 whatever delta there is between what your ROE is and  
18 what you would need it to be at 9.75 up to the  
19 amount of the \$54 million.

20 A. Yes.

21 Q. So --

22 A. I'm sorry.

23 Q. -- my question is: What determination is --  
24 who makes a determination as to whether the expenses  
25 that were incurred in that year were reasonable as

1 to whether or not you should earn your ROE at that  
2 point?

3 A. Well, we're an open book. The Commission can  
4 look at our information all the time. They can call  
5 us in whenever they want. We make perfectly clear  
6 in the stipulation that nothing bars the Commission  
7 from saying come in and show us -- and changing our  
8 rates for any reason.

9 What this really is, and, you know, as your  
10 own witness testified earlier, this is a creative  
11 stipulation that I don't know that it could even be  
12 ordered on its own by a Commission unless you have  
13 all the agreement of the parties involved.

14 And what we've done is tried to create all  
15 the balance, think of all the things that might  
16 happen, and make sure that, if you're going to go to  
17 this extreme to make sure you're trying to provide  
18 affordability for customers in the near term, what  
19 are the protections that are needed on the back end?  
20 I mean, we need to make sure there's protections,  
21 otherwise we have parties that are claiming -- like  
22 the Big Sandy rider, you know, Commission approves  
23 something, you count on it, Wall Street counts on  
24 it, everyone counts on it, and then someone comes in  
25 and says, "Let's just do away with what everyone has

1 counted on under the regulatory compact."

2 So that's why it's so intricate in this  
3 settlement agreement, to make sure we have balance,  
4 the ying to the yang of all the points in here, to  
5 make sure the parties could agree on something.

6 Q. And the agreement ends up that the year that  
7 Rockport amounts -- the year that the Rockport costs  
8 end, the Company is guaranteed its rate of return up  
9 to the \$54 million amount?

10 A. No. It's the year after. The way it works  
11 is because we're agreeing to deal with those  
12 Rockport fixed costs the day the unit power  
13 agreement expires, in exchange for that there is a  
14 little backstop protection to make sure the  
15 following year there isn't some unintended  
16 consequence that just completely wrecks the return  
17 that the Commission says is reasonable.

18 So those costs will be refunded to customers,  
19 some of that will be held back just to be sure that  
20 we can get to that ROE, and then that will all be  
21 trued up in early 2024.

22 Q. So you will -- as long as the delta is not  
23 more than \$54 million, you will receive a guaranteed  
24 rate of return on equity that year?

25 A. That's --



1 Q. The year after the UTA expires?

2 A. The difference -- yeah, and there's an  
3 exhibit in my testimony that kind of describes  
4 how -- what the math is on that, so you can look at  
5 that.

6 But, yes, the way it works out in the end is,  
7 the Company's ROE that's recorded will be compared  
8 to what the Commission approves in this case, which  
9 we believe should be the 9.75 that the parties  
10 agreed to. And for 2023, this mechanism, this  
11 balance for the overall part of the settlement  
12 agreement, will allow that to happen.

13 Q. And you've mentioned a handful of times the  
14 regulatory compact. Do you believe that the  
15 regulatory compact guarantees a return on equity?

16 A. I believe the regulatory compact and  
17 commissions set rates to provide companies for an  
18 opportunity to earn what's set. There's no  
19 guarantees.

20 Q. And what should those rates cover?

21 A. Everything we filed in this case.

22 Q. Excuse me. Sorry. Revenue covers --  
23 generally would you agree that revenue generally  
24 covers expenses?

25 A. Yes.

1 Q. So it's a -- it's fair to say that you're --  
2 to determine whether rates are fair, just, and  
3 reasonable under the regulatory compact, one of the  
4 things you have to look at is whether or not the  
5 expenses are reasonable, correct?

6 A. Expenses are one of them, correct.

7 Q. And --

8 A. Investment, capital investment, what we put  
9 in the system.

10 Q. Absolutely. And -- but it's the reason --  
11 whether or not those expenses are reasonable, would  
12 you agree?

13 A. Yes. Correct. And that's my job to make  
14 sure that they are.

15 Q. Do you mind to turn to tab K in your binder,  
16 please?

17 A. Oh, your binder?

18 Q. It's our binder.

19 A. Okay. That's so nice of you. Okay. I'm  
20 there.

21 Q. In your direct testimony, the very last page,  
22 I believe, of the testimony portion, I believe it's  
23 page 20.

24 MR. OVERSTREET: Can you just give me a  
25 second, Mr. Chandler? I gotta get over there.

1 MR. CHANDLER: That's fine.

2 MR. OVERSTREET: Thank you.

3 MR. CHANDLER: And, Your Honor, I believe  
4 this is going to be AG Exhibit Number 4. Or, excuse  
5 me, 5.

6 A. Tab A is?

7 CHAIRMAN SCHMITT: Let it be marked Exhibit 5.  
8 (AG Exhibit 5 marked for identification.)

9 Q. Do you mind to look at your testimony on page  
10 20 and your response to your question that starts at  
11 line 11. Your response is on line 14. Would you  
12 mind to -- or I'm -- excuse me. I'm sorry. The  
13 question on page -- on line 4, the response starts  
14 on line 6. Do you mind to take a second and read  
15 that?

16 A. Sure. But before that, I'm in tab A, which  
17 is the coal.

18 Q. Oh, I'm sorry. Tab K.

19 A. Oh, I just misheard you. Okay.

20 Q. As in Kentucky Power.

21 A. Thank you. Sorry. Okay. I'm there.

22 Q. You'll be thrown for a loop tomorrow where  
23 there's an E where there should be a G, so -- on  
24 line 6, there's a response there. Do you mind to  
25 take a second to familiarize yourself with it?

1 A. Yes.

2 Q. And would you agree that you reference KRS  
3 278.040 there?

4 A. Yes.

5 Q. And under tab K is 278.040, correct?

6 A. Correct.

7 Q. Would you be able to provide exactly what it  
8 is under that statute you were referring to in the  
9 sentence that states, (Reading) Kentucky Power's  
10 proposed adjustments yield fair, just, and  
11 reasonable rates that will allow it to continue to  
12 provide the service that customers in KRS 278.040  
13 require?

14 A. Sure. Before looking at it, I can tell  
15 generally that the goal here was to provide sort of  
16 the general overview of the Commission's  
17 jurisdiction, because the Commission has primary  
18 jurisdiction, and we do what the Commission allows  
19 us to do. So the point was really to sort of  
20 provide the statutes that have the Commission the  
21 general jurisdiction. But I can take a look and see  
22 what in here was specific.

23 Yeah, like -- and just really quickly, in 2,  
24 (Reading) The Commission shall have exclusive  
25 jurisdiction of the regulation of rates and service

1 of utilities.

2 It talks about what the Commission shall  
3 adopt. So really it's just -- it's recognition of  
4 the Commission's overall jurisdiction of public  
5 utilities. That was the -- that was the goal.

6 Q. But their determination of whether rates are  
7 fair, just, or reasonable are located in a different  
8 portion of the statute, correct?

9 A. Well, this was meant to be a representation  
10 of the Commission's overall authority. I'm not  
11 licensed to practice in Kentucky and I wasn't trying  
12 to give a brief.

13 MR. CHANDLER: Pass the witness, Your Honor.

14 CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh,  
15 any questions?

16 MR. GARDNER: No, Your Honor.

17 CHAIRMAN SCHMITT: Staff?

18 MS. VINSEL: Yes, we have a few questions.

19 CROSS-EXAMINATION

20 By Ms. Vinsel:

21 Q. Before we begin, Mr. Satterwhite, I have an  
22 exhibit I want to pass out. I may have two,  
23 depending on your answer to this.

24 A. All right.

25 Q. Can you speak to the content of the proposed

1 tariff provision regarding denial of service?

2 A. Can you give me --

3 Q. Sure.

4 A. -- more detail what you're talking about?

5 Q. Sure. I can read to you from the tariff.

6 There's a new provision in one of the tariffs, sheet  
7 number 210, denial or discontinuance of service.

8 (Reading) The Company reserves the right to refuse  
9 service to any customer if the customer or any  
10 member of the customer's household is indebted to  
11 the Company for any service therefor rendered at any  
12 location.

13 A. I think there's probably -- I don't know if  
14 it's Steve Sharp --

15 Q. Okay.

16 A. -- is probably the proper witness to talk to  
17 about that. He's the tariff expert.

18 Q. That make makes the passing out easy.

19 A. He had a baby yesterday, so hopefully he's --  
20 he doesn't know I -- his wife, let me rephrase that,  
21 had a baby yesterday. I'm not going to let him take  
22 credit.

23 Q. Congratulations. Before I pass it out, I  
24 want to touch base on a couple other exhibits from  
25 other parties. I believe it's Attorney General's

1 Exhibit Number 2, but it's tab B in the Attorney  
2 General's binder.

3 A. Okay.

4 Q. And this is the final order in Case Number  
5 2017-00099. That approved the new Tariff CS-Coal  
6 and also approved modifications of two other.

7 A. Okay.

8 Q. In earlier testimony you had referenced that  
9 you believed that there were three companies that  
10 were taking service under these -- under one or  
11 both -- or all three of these tariffs, correct?

12 A. That's my -- that's my belief. And when I  
13 said, "Oh, I need to know that," and I think someone  
14 told me three. I know the name of one, and I know  
15 there's definitely another, and I thought there was  
16 a third.

17 Q. Who can best speak to how many entities are  
18 taking service?

19 A. I could make sure Witness Wohnhas is prepared  
20 to --

21 Q. Okay.

22 A. -- answer that.

23 Q. Well, I'm going to give him a spoiler. In  
24 that final order there are two provisions for filing  
25 with the Commission. One is in -- and I'll let you

1 turn. It's ordering paragraph number 7.

2 A. Okay.

3 Q. And in that, that ordering paragraph requires  
4 Kentucky Power to file a report of the activity  
5 generated as a result of the tariff changes, and I  
6 do note that Kentucky Power has filed one of those  
7 reports with two, two entities taking service.

8 A. Okay.

9 Q. And then right above it, ordering paragraph  
10 number 6, (Reading) All contracts related to these  
11 three tariffs shall be submitted to the Commission  
12 for approval.

13 And Staff reviewed and could only find two  
14 contracts that were filed with the Commission.

15 A. There's -- sorry.

16 Q. So our question -- our question is: We would  
17 like to verify how many con -- how many entities are  
18 taking service, what the contracts are, and make  
19 sure the contracts are filed.

20 A. Absolutely. Yeah. And I might have just  
21 misspoke, but we'll get to the bottom of that.

22 Q. Okay.

23 A. Thank you.

24 Q. I will -- I will also check with Mr. Wohnhas  
25 when his turn comes up.



1 A. Great.

2 Q. And also, if I ask you something and it  
3 really should be directed to someone else, please  
4 feel free to go ahead and just tell me.

5 A. Okay.

6 Q. Now, is it correct that Kentucky Power has a  
7 Tariff NUG which is applicable to non-utility  
8 generators seeking to remotely provide start-up and  
9 station power?

10 A. I'm not sure where that tariff would be.  
11 Again, Mr. Sharp might be the person to talk to  
12 about that.

13 Q. Okay.

14 A. Did you say NEG?

15 Q. Tariff NUG.

16 A. NUG. Oh, okay. That sounds more --

17 Q. Non-utility generator.

18 A. That sounds more familiar, but I can't speak  
19 to the specifics of it. I know there is an NUG.

20 Q. Okay. I will put that one to the side.

21 In your settlement testimony you discussed  
22 the interclass subsidies. When Kentucky Power  
23 originally filed the application, the proposed rates  
24 were set up to have a -- to reduce the interclass  
25 subsidies by five percent, correct?

1 A. Correct.

2 Q. What effect, if any, does the settlement have  
3 upon the reduction of interclass subsidies?

4 A. It starts off mainly with the -- taking  
5 the -- a large part of the savings from the change  
6 in the deferral and taking away the subsidy that the  
7 industrial customers are currently paying, and then  
8 the rest of the savings from that deferral and the  
9 other items that we agreed to and the decrease in  
10 the revenue requirement then go to decrease  
11 everyone's bills. But the subsidy change I think is  
12 mainly focused on the IGS.

13 Q. So it sounds like -- no. Strike that.

14 Is there still a five percent subsidy  
15 reduction in the rate design?

16 A. Ooh, math. I believe there's more than that,  
17 I think is my simple president answer. Alex Vaughan  
18 really gets into how these work and can provide a --  
19 probably a better answer, but, yeah, I think it's  
20 larger than that.

21 Q. Okay.

22 A. When we were deciding to put together the  
23 case overall and when I had all of my staff in in  
24 different parts of what to put together, you know,  
25 we thought about what we need to do for this

1 gradualism that the Commission had talked about,  
2 and, you know, it was a large rate for residential  
3 customers, and we were really concerned about the  
4 impact of that, but we thought we needed to continue  
5 for our economic development theme, and just to  
6 continue the theme of cost cause or paying the  
7 costs, we went ahead and put a five percent in the  
8 initial.

9 The settlement agreement allows us -- part of  
10 the balance of that is to do even more and sort of  
11 speed that up for the industrial customers, because  
12 it really marries into what we need to do overall in  
13 the territory to bring more jobs in.

14 Q. Speaking of economic development, this is  
15 KCUC Exhibit 3. This is your PowerPoint  
16 presentation, I believe from just a few weeks ago?

17 A. Correct. At the Kentucky Leadership --

18 Q. And this is --

19 A. -- or Leadership Kentucky.

20 Q. -- an unnumbered page, but it would likely be  
21 11, because it's right after pages 9 and 10.

22 A. Okay.

23 Q. I'm going to hold it up just to make sure  
24 it's clear.

25 A. Thank you.

1 Q. It says Kentucky Power Master Plan?

2 A. Correct.

3 Q. And this is referring to an economic  
4 development -- or is this referring to an economic  
5 development master plan?

6 A. Sure. This is kind of the -- what goes  
7 through my mind of what I need to be doing as  
8 anchors in each of the territories, and this kind of  
9 outlines that overall theory.

10 Q. Is there a master plan that's written down?

11 A. Sort of. Right here. It doesn't have A  
12 leads to B which leads to triple Z. Brad Hall and I  
13 and Jacob Colley and all of our partners in our  
14 economic development, One East Kentucky, Ashland  
15 Alliance. It's not a Kentucky Power-only plan. We  
16 try to bring in all of our partners. This is more  
17 conceptually as I look at what I think I need to do  
18 as from a corporate side with my partners to lead,  
19 impact full change.

20 I want to make sure I have large anchors in  
21 each of these areas and then have things cluster  
22 around them, but I want to start -- you know,  
23 obviously Braidy is coming up in the northern part.  
24 Hopefully very soon we'll all see some press and be  
25 like, "Oh, that's what he was talking about," if it

1 works out for something in the Pikeville area. And  
2 I've got some ideas for what to do in the Hazard  
3 area as well to make sure we're sort of rising in  
4 all the areas. I didn't want one area only to get  
5 the benefit of our efforts. I want to partner with  
6 everyone in all the 20 counties that we have.

7 And so that's probably a long answer to say  
8 it's right here and it's in my head.

9 Q. Okay. Well, if I were to ask for a  
10 post-hearing data request of a copy of such a master  
11 plan, could one be produced?

12 A. I think it would be collections of individual  
13 items. There's no -- I haven't written down,  
14 "Here's everything I'm going to do." It's kind of  
15 we're going off in this direction, and we're nimble  
16 enough that it's not written down as it has to be  
17 this, because as things change, as influence  
18 changes, as, you know, funds available, I don't  
19 think -- it's not written down in a nice, neat plan,  
20 so that would be difficult.

21 Q. So I will not ask for a post-hearing data  
22 request for this, then.

23 A. But call me at any time, I'm happy to talk  
24 about what I'm thinking.

25 Q. You know, we need things in writing.

1 A. I understand.

2 Q. Can I flip back to page 9? We've got the  
3 total investment in economic development. Now, I  
4 will admit this may already be in the case record,  
5 but I'm not a hundred percent certain. Who can best  
6 provide a breakout from that -- that total, almost  
7 \$3.7 -- \$3.7 million investment, what the breakout  
8 is between what's shareholder funds, as we called  
9 them, and customer funds?

10 A. Sure. I can attempt to, but I believe it is  
11 within the -- Mr. Hall has like a hundred pages  
12 attached to his testimony, so if it's not in his  
13 testimony, it's attached there, but the KEAP  
14 program, I believe, is all shareholder funds.  
15 That's a result of the Mitchell settlement for the  
16 counties around that area. And the K-PEGG, if form  
17 holds, really should be half and half. That should  
18 be -- again, Mr. Hall's testimony, I'm sure that's  
19 reflected.

20 The other investments I believe are just  
21 investments made in the normal course. We gave, for  
22 instance, 100,000 -- \$120,000 recently to the City  
23 of Pikeville to make sure the geotechnical work was  
24 done and we could show that the site was ready for  
25 the type of jobs. Silver Liner announced their

1 jobs, and we're hoping something else there really  
2 soon.

3 So it was \$100,000 of the K-PEGG money, so it  
4 was 50,000 from shareholder, 50,000 from customers,  
5 and an extra \$20,000 just that we got from AEP in  
6 general for investment in the territory.

7 So the question is whether that's reflected  
8 in base rates or not, depending on the year that you  
9 invest that. Most utilities, if they invest in  
10 economic development and they do it in their test  
11 year, they'll recover that as the snapshot in time.  
12 It doesn't mean they're going to spent it on  
13 economic development in the future.

14 This was outside the test year, so I don't  
15 think it was captured, but it was 20,000 extra  
16 dollars that was spent.

17 Does that help?

18 Q. A bit. Let me do some follow-up.

19 A. Okay.

20 Q. So the other investments, are you saying that  
21 the other investments comes from customer funds?

22 A. It depends. Mr. Hall probably covers this  
23 more. A lot of the stuff I take, we work very  
24 closely together. He does all the real work and  
25 then I speak. So -- but essentially that would be

1 from -- you know, I can make decisions as the  
2 president right now. My rates are based on a  
3 snapshot in time from the last rate case. I'm not  
4 spending the hundred dollars on pencils that we  
5 spent during that test year. I have to manage the  
6 Company and what I want to do this year based on  
7 that snapshot in time.

8 So technically it could come from customers.  
9 It could come from the AEP parent corporation.  
10 We've been very successful, the whole Company sort  
11 of bought into what we're doing here. It's kind of  
12 ride the wave, people have talked about, of what  
13 we're doing in Eastern Kentucky. So we're actually  
14 getting more resources even from the overall AEP  
15 dedicated to making sure Kentucky gets stronger.

16 Q. I will follow up with Mr. Hall on those  
17 figures.

18 A. Thanks.

19 Q. What criteria is used for deciding which  
20 projects will receive a grant from K-PEGG? Is there  
21 a written-down criteria?

22 A. Yes, I believe so. Again, Mr. Hall will have  
23 that, but my understanding is, I believe in his  
24 testimony he talks about three criteria. We try to,  
25 one, look at infrastructure, to make sure that we



1 can build up the infrastructure. Some of the  
2 problems that we had in our territory is we had, for  
3 lack of a better term, a lean-to on a flat piece of  
4 ground and we thought that was an industrial park.  
5 So some of this is to going to make sure that when  
6 someone comes and they're looking all across the  
7 country, that we have the facilities in place, that  
8 we can impress them and locate.

9 Another big part in the first few years when  
10 we had this program, because I was involved, really  
11 was making sure the capacity of our local partners  
12 were there, that they could talk to prospects that  
13 might come in. I mean --

14 Q. Can I -- I don't want to interrupt you, but  
15 could you explain that a little more?

16 A. Absolutely.

17 Q. The capacity of the local partners?

18 A. Absolutely. We might have someone come in  
19 from Germany or Japan, and they really don't know  
20 the difference between Kansas and Kentucky, and --  
21 but they're talking to every state.

22 And we didn't have a regional approach  
23 before, where we were training, sending to economic  
24 development school all the different economic  
25 development directors and people that are in charge

1 in all of our different counties, and so someone  
2 would call them first, wouldn't call Kentucky Power,  
3 and they'd just be scared away and wouldn't come  
4 back because it didn't sound like we knew what we  
5 were talking about.

6 So we recognized that as one of the early  
7 problems to say, "We need to fund that." Because  
8 the funds that we give aren't to companies, the  
9 funds that we give to this are to our partners in  
10 the region, as part of the overall plan that we have  
11 and we've talked about with them. And so part of it  
12 was just simply sending people to school so they  
13 could talk the lingo to get past that. It's not  
14 even getting to first base, it's getting up to  
15 plate, and sometimes that's half the battle, and  
16 some states are behind in that. We wanted to make  
17 sure the whole region could be taught. So that was  
18 the first few years of this.

19 We have now seen benefits from that. We have  
20 partners in all our communities. Now the leads are  
21 coming in. If they talk to them first, they bring  
22 us in as well, as well as our other partners. You  
23 know, Appalachian Regional Hospital, Appalachian  
24 Wireless. There's a bunch of corporate partners on  
25 One East Kentucky that are involved, and the Ashland

1 Alliance as well. And so we're all working better  
2 together as a region to make sure we can get all the  
3 way back home, to home plate and have all those  
4 jobs.

5 Q. And I'm trying to keep an eye on the time so  
6 that we don't go over too much.

7 A. Okay.

8 Q. So I'm going to try to be as concrete as I  
9 can.

10 A. Okay. And I'll talk faster.

11 Q. Oh, that may not be -- that will not be the  
12 best solution. We've talked to -- or other  
13 witnesses today have talked about corporate  
14 aviation. How many -- back up.

15 Does AEP own or lease its corporate plane, or  
16 planes?

17 A. I'm not positive what we do now. I know in  
18 the past we owned. We -- my guess is, I think we  
19 own two, and then we probably have a contract that  
20 if we need to have access to others, we can.

21 Q. And did I hear, you've got -- there are two  
22 planes?

23 A. Yes.

24 Q. And is AEP the sole owner of both planes, or  
25 is there any shared ownership of those two planes?

1 A. I believe that's by the AEP parent  
2 corporation. Now, we're a company underneath  
3 that --

4 Q. Yes.

5 A. -- of 16 to 17,000 employees, but I believe  
6 it's an AEP asset.

7 Q. Okay.

8 A. And then our costs are, I think, five percent  
9 of that, that are represented in the case.

10 Q. I have a question about the sale of accounts  
11 receivable.

12 A. Okay.

13 Q. Can I ask you that?

14 A. You can try.

15 Q. Okay. And again, if it's not your bailiwick,  
16 please tell me, or that may not be the term to use,  
17 but --

18 A. Absolutely.

19 Q. If you need to, pass it on. From the case  
20 record we know that when Kentucky Power sells  
21 accounts receivable, the uncollectible accounts, the  
22 bad debts, tend to stay with Kentucky Power while  
23 the rest of it goes on. Why is that?

24 A. I'm looking to see who to tell you to talk to.

25 Q. Okay.

1 A. I want to say that would be Steve Sharp. So  
2 if it's not, we will follow up and tell you.

3 Q. Could Mr. Miller speak to that?

4 A. I think that's more of a Kentucky Power  
5 direct issue. He's a Service Corp employee.

6 Q. Uh-huh.

7 A. So --

8 MR. OVERSTREET: And I believe it's Mr. Ross.

9 MS. VINSEL: Mr. Ross?

10 Q. I do have a post-hearing data request, and  
11 I'm going to make sure that I say it completely.  
12 However, as I believe counsel now knows, I believe  
13 within two business days after the end of this  
14 hearing Staff will provide a written copy of all  
15 post-hearing data requests.

16 What we would like is schedules with the  
17 express cost amounts and calculations in an Excel  
18 spreadsheet for all costs charged to and allocated  
19 by Kentucky Power to the Service Corp, AEPSC.

20 VICE-CHAIRMAN CICERO: Do you want the  
21 opposite way?

22 MS. VINSEL: Oh, I was going to say, we want  
23 both.

24 VICE-CHAIRMAN CICERO: Yeah, you definitely  
25 want from the parent to the subsidiary, the

1 allocation.

2 MS. VINSEL: That was my next one.

3 Q. So the cost charged to and allocated by  
4 Service Corp, AEPSC, to Kentucky Power.

5 A. So schedules with express --

6 Q. Costs.

7 A. -- costs and calculations for all costs  
8 charged to and allocated by the Service Corp to  
9 Kentucky Power?

10 Q. Yes.

11 MR. GISH: Do you want that during the test  
12 year?

13 MS. VINSEL: Yes.

14 MR. GISH: Test?

15 MS. VINSEL: Yes.

16 MR. GISH: Test year?

17 MS. VINSEL: Test year.

18 THE WITNESS: Thank you.

19 MS. VINSEL: I'm sorry for not clarifying.

20 Yes.

21 Q. In regard to Tariff K-12, can you explain  
22 exactly what customers are eligible to take service  
23 under Tariff K-12? And we know we've got this big  
24 expanse of K-12. Is it in elementary schools, high  
25 schools, in between? Can you talk about that?

1 A. I believe it's all schools, the school  
2 accounts, and it's public and private. And I  
3 believe that's a change. I believe before it was  
4 just public, but now we've made sure private was  
5 included.

6 Q. Now, I suspect you're going to have to direct  
7 me to someone else on this one, but are there  
8 schools currently on Tariff LGS and not on Tariff  
9 K-12, recognizing it was a pilot?

10 A. Witness Vaughan did a lot of that assessment  
11 for me, so I think he'd probably be the person to  
12 talk to.

13 Q. And the Attorney General asked you -- the  
14 Assistant Attorney General, excuse me, asked you  
15 some questions about the Rockport deferral  
16 mechanism, and I just have a few follow-ups.

17 A. Okay.

18 Q. Has Kentucky Power considered the impact of  
19 the deferral if the lease is renewed?

20 A. What I personally have thought about -- I  
21 think about stuff like that every day. If we renew  
22 the lease, that's a decision I think we filed with  
23 the Commission in the past to say there's a 2019  
24 integrated resource plan. While we monitor that  
25 every day, we think that'll be the time we really

1 make that overall decision.

2 So if we are -- if we are -- if we are  
3 renewing that, I guess to get to the point, to be  
4 more concrete, it's because we've been so successful  
5 with economic development and it's the least-cost  
6 resource for customers.

7 Q. What will happen with the deferral mechanism?

8 A. That still stays in place, yeah.

9 Q. And can you confirm that no decision has been  
10 made yet whether to renew the Rockport lease or  
11 whether not to renew the Rockport lease?

12 A. There was a -- the owners are, you know,  
13 working with the consent decree, and they filed -- I  
14 guess that doesn't even apply. Let me say it this  
15 way: It's a unit power agreement. I make that  
16 decision based on where we are, with where we're  
17 going to be when that expires in 2022, and that  
18 decision hasn't formally been made because I want to  
19 see where we are and how economic development moves  
20 forward and what the options are at the time. It's  
21 probably too early to say emphatically we're not  
22 going to do that, but that would be something we'd,  
23 you know, discuss with the Commission as we move  
24 forward.

25 Q. I've got another question about Rockport UPA.



1 A. Okay.

2 Q. Is there a window for making that decision?

3 A. Off the top of my head, I can't think in the  
4 UPA if we have -- how much notice we have to give.  
5 I imagine there is something in there. I know 2019,  
6 because that's sort of what we've targeted as to  
7 make the decision, would be before any of that.

8 Q. And if no decision is made, what does the  
9 agreement say? Does it continue? Is there an  
10 evergreen provision?

11 A. Not knowing, my belief is that it's an  
12 agreement that ends on December 8th of 2022. It's  
13 certainly going to be on my radar to make sure  
14 nothing just happens to us. That's something that  
15 we'll definitely be watching, but my assumption is  
16 it does end.

17 Q. As opposed to in a data request, could we get  
18 specific information about what happens with this  
19 agreement if no decision is made?

20 A. Absolutely.

21 Q. I'm writing that down also to make sure I get  
22 it.

23 MS. VINSEL: This will be PSC Exhibit 1.

24 (PSC Exhibit 1 marked for identification.)

25 MS. VINSEL: May I approach the witness?

1 CHAIRMAN SCHMITT: Yes, you may.

2 Q. Just last Sunday the Lexington Herald-Leader  
3 published this article, and this is a printout taken  
4 from the website. This information came from the  
5 U.S. Census Bureau, and it's a discussion about  
6 poverty rates, particularly in Eastern Kentucky.

7 As you can see from the headline, 9 of the 30  
8 poorest counties in the entire U.S. are in Eastern  
9 Kentucky, and the article then goes on to name them  
10 as Owsley, Clay, Martin, McCreary, Knox, Lee, Bell,  
11 Knot, and Harlan County.

12 Can you confirm that five of those nine  
13 counties are in Kentucky Power's service territory?

14 A. I believe that's correct. There's a  
15 similar -- in KCUC 3 there's a similar map from the  
16 ARC as well, if that helps you.

17 Q. Thank you. I was going to -- I was going to  
18 point that out, because it gets to my next piece.

19 A. Yes.

20 Q. This insert map which looks at poverty by  
21 color, poverty rates by county, would you agree that  
22 this map depicts a poverty rate of at least 24.5  
23 percent in the counties served by Kentucky Power?

24 A. Yes. I believe that's what that represents,  
25 that color.

1 Q. Now, the Commission held three public  
2 meetings for public -- to receive public comment in  
3 this case. Did you attend all three public  
4 meetings?

5 A. The first one I was unable to attend, but I  
6 did the second two.

7 Q. The second two?

8 A. Yes. In Ashland and in Hazard.

9 Q. And at those two you attended, would you  
10 agree that the overwhelming majority of customers in  
11 attendance were opposed to any increase in electric  
12 rates?

13 A. "Overwhelming" is such a strong word. I  
14 think especially in Hazard, a lot of the comments  
15 were more of, "We understand that the utility needs  
16 these costs, but can we push these off somehow," and  
17 pleading to the Commission what can we do in the  
18 short term. So that's what we tried to do with the  
19 settlement.

20 And then in Ashland there were a number of  
21 commenters that are the Red Cross, the Ashland  
22 Alliance, the unions, a number of speakers that  
23 really talked about support for Kentucky Power  
24 overall and didn't really comment on the rate  
25 increase.

1 Q. Would you say of the comments at these  
2 public -- the two public hearings, there were more  
3 comments in opposition to raising the electric  
4 rates?

5 A. When it came to should the Commission  
6 increase rates or not, I would say the comments were  
7 definitely, "Please, we don't want to have a rate  
8 increase."

9 Q. And subject to check, will you agree that the  
10 Commission's docket for this case, that we've  
11 received over 100 public comments in this case?

12 A. Absolutely. And my staff and I have --  
13 someone's read every single one that's come in.

14 Q. That was going to be my next question. Have  
15 you read all of them?

16 A. Absolutely.

17 Q. You or a staff member?

18 A. Correct.

19 Q. Do you have any reason to doubt the sincerity  
20 of the comments, particularly from those who said  
21 they can't afford to pay an increase in rates?

22 A. Absolutely not. I think no one wants to pay  
23 a rate increase for anything that they're doing, and  
24 so that's why we're out there trying to do other  
25 programs. Like I talked about tomorrow, \$50,000

1 we're hoping we can get for low-income  
2 weatherization for seniors, and we have the HEAP  
3 addition in here.

4 We know it's tough. We want to make sure  
5 we're doing our part to help solve the problem.  
6 That's why you hear me so passionate about economic  
7 development, because I want to take map and flip it.

8 You know, the top of the article is "Not  
9 enough jobs." That's exactly what I live with every  
10 day of trying to bring those jobs. I don't think  
11 you can say, "So you should basically nationalize  
12 the utility and not have them recover their costs  
13 and not follow the regulatory compact," you know,  
14 because of that. I think that's the bad sign. You  
15 don't want to send that signal that you're not  
16 taking care of the companies that are there.

17 So do I doubt the sincerity? Absolutely not.  
18 And that's why I try to work every day to bring  
19 those jobs.

20 Q. And I really don't -- I don't want to cut you  
21 off, please understand that --

22 A. Okay.

23 Q. -- but I'm keeping an eye on --

24 A. Okay.

25 Q. -- on the time and the need so that --

1 A. I'm passionate about this, so I apologize.

2 Q. I can understand.

3 A number of the comments filed into the  
4 record made reference to AEP's financial position,  
5 particularly a strong financial position.

6 Do you have an opinion as to whether the  
7 Commission can legally set rates for Kentucky Power  
8 based on the financial condition of AEP?

9 A. I absolutely do have an opinion.

10 Q. Please share it.

11 A. The Commission regulates Kentucky Power  
12 Company, and the books and records and expenses that  
13 we file with the Commission are based on Kentucky  
14 Power Company. I think people see AEP, again, 16,  
15 17,000 employees, regulated and unregulated  
16 business, and they think, "Oh, they should just take  
17 care of us because their stock is doing well,"  
18 potentially from unregulated business.

19 But this Commission is charged with  
20 regulating just what happens to Kentucky Power in  
21 the state. And the benefit of that really is,  
22 something could happen in Oklahoma next year, and  
23 this Commission wouldn't want suddenly me to put  
24 something on my bills to pay for a problem that's  
25 happened in Oklahoma or somewhere else. That's why

1       you have the jurisdiction that has control of the  
2       state utilities, and that's exclusively Kentucky  
3       Power with this Commission.

4       Q.       And you answered my second question about  
5       could the Commission set rates -- if AEP had a worse  
6       condition, could Kentucky Power's rates be reflected  
7       to improve AEP's? And you've already answered that  
8       one, so --

9               Given Kentucky -- given Kentucky Power's  
10       excess capacity, has Kentucky Power undertaken any  
11       evaluation regarding its participation in PJM as an  
12       FRR, a fixed resource requirement, versus the RPM,  
13       reliability pricing model?

14       A.       It's something we -- I think we look at every  
15       year. We currently are selling excess capacity that  
16       we have. That flows through the off-system sales  
17       clause.

18               There's also a baseline in rates under  
19       current rates. I think it's about \$15 million now,  
20       the assumption that we're going to have that amount  
21       of off-system sales to benefit customers on the  
22       energy side. And that comes down to, I think, about  
23       \$7 million in this case, assuming we're going to  
24       sell that.

25               But we participate in forward auctions for

1 the capacity. We want to make sure we have enough  
2 of our length to protect us from penalties that  
3 might come, because if you say you're going to  
4 provide something and you don't, it's a huge  
5 penalty, so we want to have that protection, but  
6 we're doing everything we can to maximize those  
7 assets for the benefit of customers.

8 Q. When you make this evaluation on an annual  
9 basis, who all is involved in that discussion or  
10 decision?

11 A. We have some experts, part of the Service  
12 Corp, that know this stuff, that they're involved  
13 with PJM very closely, and so they advise me. They  
14 bring the facts to me and my team and talk about  
15 things to consider.

16 One thing is, if you go to RPM and you leave  
17 FRR, you can never go back. So if you leave that,  
18 you lose the benefit of that, and so so far FRR has  
19 made more sense for us.

20 Q. What time -- roughly what time of year do you  
21 make that decision? Is it in the spring?

22 A. I'm not sure, to tell you the truth.

23 Q. Okay.

24 A. It feels like that, but I'm not --

25 Q. When was the last time a detailed review took



1 place?

2 A. I'm not sure.

3 Q. Has it been since you took this job at  
4 Kentucky Power?

5 A. I believe -- I want to make sure I'm not  
6 mixing up the how much we're going to sell in the  
7 forward auctions with FRR and RPM. In my previous  
8 job I represented Indiana Michigan, and I am  
9 familiar with some analysis we did there, so I want  
10 to make sure I'm not misspeaking.

11 So I believe this year we did do this, did  
12 talk about this in my role here, but I don't know if  
13 it was the how much are we going -- how much are we  
14 going to make available in the forward auctions or  
15 FRR and RPM.

16 So I don't know I guess is the short --

17 Q. Without having to recall you to the stand,  
18 could you look into that and provide us an answer?

19 A. Sure. When we look at that, yes.

20 Q. And it can be in a post-hearing data request.

21 A. Okay.

22 Q. I should be clear. Now, the Assistant  
23 Attorney General spoke to you about the PJM OATT.  
24 We're just going to call it OATT.

25 Given that Kentucky Power's load has

1 decreased, can you explain why Kentucky Power will  
2 be incurring additional transmission expense?

3 A. Yeah. That transmission expense is to -- the  
4 wires or the transmission grid overall. As I said,  
5 you have to keep investing in that system, and we're  
6 part of the overall grid and the eastern footprint  
7 in PJM. So we have six percent cost associated with  
8 that.

9 But as I mentioned earlier, we have such  
10 vintage lines, over 70, 60, 50 years old, that you  
11 want to make sure you continue to invest in that to  
12 make sure the transmission system is robust.

13 There's also, you know, as we saw -- you  
14 know, a long time ago a branch fell on something in  
15 First Energy's territory in Akron and New York City  
16 was without power. So you want to make sure you're  
17 investing in the overall grid.

18 And so as those investments continue to  
19 happen, to make sure we have a robust and safe, free  
20 from cyber security system, costs will be added.

21 Q. Can you estimate how much additional  
22 transmission expense Kentucky Power will incur over  
23 the next five years?

24 A. I'm not sure if that's in Witness Vaughan's  
25 testimony. I know it's the \$14 million, what we

1 think for next year, but he might have more of an  
2 estimate of what's coming up in the future.

3 Q. How much of the additional transmission  
4 expense will be for projects located in Kentucky  
5 Power's service territory?

6 A. That I'm not positive about. I know we have  
7 a Hazard-Wooton project that we've filed with the  
8 Commission right now. There'll probably be some  
9 projects that we file soon for the big job creators  
10 that have come into Eastern Kentucky. Again,  
11 hopefully another one here next week we can -- we  
12 can talk about. So there could be some transmission  
13 associated with that.

14 But to me, that's sort of a -- that's a good  
15 problem to have, because they're bringing a bunch of  
16 jobs in and increasing the transmission system.

17 Q. Within the AEP system, who's the  
18 decision-maker for additional transmission, or these  
19 transmission projects?

20 A. If it's in Kentucky, it's -- well, we have a  
21 transmission group overall that's independent that  
22 runs, really, the transmission for AEP.

23 But as I said earlier, I didn't like the  
24 level of investment that was happening in Kentucky,  
25 so I went to AEP parent company and demanded more

1 investment in the -- in the Commonwealth of  
2 Kentucky. So I, as the president, advocated and got  
3 more investment here.

4 So each of the different operating companies  
5 will advocate if they're putting it under their name  
6 in their particular state. But overall our  
7 transmission company doesn't just limit themselves  
8 to our territories. They can go in other  
9 territories as well, help co-ops out and go off our  
10 system. Because they're so good at what they do,  
11 they're investing in and building transmission  
12 everywhere.

13 Q. Can you tell me how much the AEP parent  
14 company is projected to spend on transmission  
15 projects in the next five years?

16 A. That I don't have off the top of my head.

17 Q. Is there someone who might know that? Mr.  
18 Vaughan?

19 A. He might.

20 Q. Okay.

21 CHAIRMAN SCHMITT: This might be a good place  
22 to just break for this evening and come back and try  
23 to finish up in the morning, because I'm sure there  
24 will be other questions that counsel will have.

25 So we'll recess for this evening and come

1 back at 9:00 a.m. and try to finish with Mr.  
2 Satterwhite.

3 And Mr. Cook and Mr. Chandler, your witnesses  
4 will be here, so if we need to put -- we can put  
5 them on in the morning when Mr. Satterwhite is  
6 finished, if that's the preference.

7 MR. CHANDLER: I think we can -- counsel can  
8 discuss that.

9 CHAIRMAN SCHMITT: You can work it out among  
10 yourselves.

11 Mr. Kurtz, your witnesses will be here  
12 tomorrow too?

13 MR. KURTZ: Yes, sir. All day.

14 CHAIRMAN SCHMITT: All right. Then we'll  
15 recess until 9:00 in the morning. Thank you.

16 MR. OVERSTREET: Thank you.

17 (Hearing concluded at 6:09 p.m.)

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STATE OF KENTUCKY            )  
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I, Laura J. Kogut, a Notary Public within and for the State at Large, my commission as such expiring 25 July 2019, do hereby certify that the foregoing hearing was taken before me at the time and place stated and for the purpose in the caption stated; that witnesses were first duly sworn to tell the truth, the whole truth, and nothing but the truth; that the hearing was reduced by me to shorthand writing in the presence of the witnesses; that the foregoing is a full, true, and correct transcript of said hearing; that the appearances were as stated in the caption.

WITNESS my hand this 13th day of December 2017.

\_\_\_\_\_  
Registered Merit Reporter  
Certified Realtime Reporter  
Notary Public, State at Large