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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 III

Transcript of December 8, 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.

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ALSO PRESENT:

Ms. Pam Hughes, Videographer

22 *

23 *

24 *

1 (Hearing commenced at 8:59 a.m.)

2 CHAIRMAN SCHMITT: We're now back on the
3 record.

4 Mr. Overstreet, does Kentucky Power have an
5 another witness to call this morning?

6 MR. OVERSTREET: It does, Mr. Chairman.
7 Douglas R. Buck.

8 CHAIRMAN SCHMITT: Mr. Buck, please stand and
9 raise your right hand. Do you solemnly swear or
10 affirm under penalty of perjury that the testimony
11 you are about to give will be the truth, the whole
12 truth, and nothing but the truth?

13 MR. BUCK: I do.

14 CHAIRMAN SCHMITT: Please be seated.
15 Counsel, you may ask.

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

17 DOUGLAS R. BUCK, called by Kentucky Power
18 Company, having been first duly sworn, testified as
19 follows:

20 DIRECT EXAMINATION

21 By Mr. Overstreet:

22 Q. Mr. Buck, please state your name, position,
23 and business address.

24 A. My name is Douglas R. Buck. My business
25 address is 1 Riverside Plaza, Columbus, Ohio, AEP

1 Service Corp. My position is a regulatory case
2 manager.

3 Q. And, Mr. Buck, did you cause to be filed in
4 this proceeding direct testimony and answers to data
5 requests?

6 A. I did.

7 Q. And do you have any corrections or
8 modifications to those?

9 A. No, I don't.

10 Q. And if you were asked those same questions
11 here today, would your answers be unchanged?

12 A. They would be unchanged.

13 Q. Okay. Thank you.

14 MR. OVERSTREET: The witness is available,
15 Your Honor.

16 CHAIRMAN SCHMITT: Mr. Kurtz, any examination
17 of this witness?

18 MR. KURTZ: No questions, Your Honor.

19 CHAIRMAN SCHMITT: Counsel for any of the
20 settling intervenors have any questions for Mr.
21 Buck?

22 If not, Mr. Chandler, Mr. Cook, questions?

23 MR. CHANDLER: We have no questions on cross.

24 CHAIRMAN SCHMITT: Mr. Gardner.

25 MR. GARDNER: No questions, Your Honor.

1 CHAIRMAN SCHMITT: Staff?

2 MS. VINSEL: Yes, we have just a few
3 questions.

4 CROSS-EXAMINATION

5 By Ms. Vinsel:

6 Q. Good morning, Mr. Buck.

7 A. Good morning.

8 Q. These questions are about the proposed
9 reduction in the interclass subsidies. As you know,
10 in the application Kentucky Power had designed the
11 rates to have a five percent reduction in interclass
12 subsidy --

13 A. Right.

14 Q. -- correct? Can you tell me what effect, if
15 any, that the proposed nonunanimous settlement
16 agreement has upon any reduction in the interclass
17 subsidy?

18 A. I think Witness Vaughan prepared the
19 allocation among classes, so I think that's a
20 question for him to address.

21 MS. VINSEL: Then I have nothing further to
22 ask.

23 CHAIRMAN SCHMITT: Commissioner Cicero,
24 questions?

25 VICE-CHAIRMAN CICERO: No, sir.

1 CHAIRMAN SCHMITT: Commissioner Mathews?

2 COMMISSIONER MATHEWS: No.

3 CHAIRMAN SCHMITT: I have no questions.

4 Mr. Overstreet, anything further?

5 MR. OVERSTREET: No, Your Honor.

6 CHAIRMAN SCHMITT: Anyone else have any other
7 questions of Mr. Buck?

8 Then may he be excused?

9 MR. OVERSTREET: Yes, Your Honor.

10 CHAIRMAN SCHMITT: Mr. Buck, you may be
11 excused. Thank you.

12 MR. OVERSTREET: Our next witness, Your
13 Honor, is Mark Pyle, and Mr. Garcia will present
14 him.

15 CHAIRMAN SCHMITT: Mr. Pyle, please raise
16 your right hand. Do you solemnly swear or affirm,
17 under penalty of perjury, that the testimony you are
18 about to give will be the truth, the whole truth,
19 and nothing but the truth?

20 MR. PYLE: Yes, I do.

21 CHAIRMAN SCHMITT: Please be seated.

22 Mr. Garcia, you may ask.

23 MR. GARCIA: Thank you, Your Honor.

24 * * *

25

1 MARK A. PYLE, called by Kentucky Power
2 Company, having been first duly sworn, testified as
3 follows:

4 DIRECT EXAMINATION

5 By Mr. Garcia:

6 Q. Mr. Pyle, would you please state your name
7 and business address for the record?

8 A. It's Mark A. Pyle, and the business address
9 is 1 Riverside Plaza, Columbus, Ohio 43215.

10 Q. And by whom are you employed and in what
11 capacity?

12 A. Vice President of Tax for American Electric
13 Power Service Corporation.

14 Q. Mr. Pyle, are you aware that Jeffrey Bartsch
15 submitted direct testimony consisting of nine pages
16 of questions and answers?

17 A. Yes, I am.

18 Q. And have you reviewed that testimony?

19 A. Yes, sir.

20 Q. Have you adopted that testimony in this case?

21 A. Yes, I have.

22 Q. Okay. And have you also caused to be
23 submitted rebuttal testimony consisting of six pages
24 of questions and answers?

25 A. Yes, sir.

1 Q. And did you cause to be submitted answers to
2 discovery requests?

3 A. Yes.

4 Q. And are you familiar with discovery requests
5 that were submitted with Mr. Bartsch as far as a
6 witness?

7 A. Yes.

8 Q. Do you adopt -- well, let me ask you: Do you
9 have any corrections to any of that information?

10 A. No, I do not.

11 Q. If I were to ask you the same questions that
12 are outlined in your rebuttal or the questions that
13 are in the direct testimony that you have adopted
14 for Mr. Bartsch, would your answers be substantially
15 the same?

16 A. Yes.

17 Q. Do you adopt the testimony of Mr. Bartsch as
18 your own, your own direct testimony, your rebuttal
19 testimony, and the answers to discovery questions by
20 both you and Mr. Bartsch in this case as your
21 evidence in this case?

22 A. Yes, I do.

23 MR. GARCIA: Your Honor, Mr. Bartsch is
24 available for cross.

25 CHAIRMAN SCHMITT: Mr. Kurtz, questions.

1 MR. KURTZ: No questions.

2 CHAIRMAN SCHMITT: Counsel for any of the
3 settling intervenors have any questions for this
4 witness?

5 If not Mr. Cook, Mr. Chandler, questions?

6 MR. COOK: We do, Your Honor.

7 CROSS-EXAMINATION

8 By Mr. Cook:

9 Q. Good morning, Mr. Pyle.

10 A. Good morning.

11 Q. I have a few questions for you.

12 A. Okay.

13 Q. The Company's filing Gross Revenue Conversion
14 Factor and the Requested Revenue Requirement are all
15 based upon applying a 35 percent federal income tax
16 rate; is that correct?

17 A. Yes, sir.

18 Q. Thank you. And your rebuttal testimony
19 addresses the calculation of the gross revenue
20 conversion factor or GRCF?

21 A. Yes, it does.

22 Q. Okay. The GRCF is used to convert the net
23 operating income deficiency into a revenue
24 requirement amount, correct?

25 A. Correct.

1 Q. And the GRCF being used by the Company
2 reflects a 35 percent federal income rate, correct?

3 A. That's correct.

4 Q. As the Vice President of Tax for AEP Service
5 Corporation, have you been following developments in
6 Congress concerning tax reform?

7 A. Yes, I have.

8 Q. Okay. And it seems -- are you aware that the
9 U.S. Senate has advanced a tax reform bill that
10 would -- at least as of today, would cut the
11 corporate income tax rate from the current top rate
12 of 35 percent to a new rate of 20 percent?

13 A. Yes, I'm aware of that provision.

14 Q. Thank you. And the House has also passed its
15 own tax reform bill, correct?

16 A. Yes, it has.

17 Q. Thank you. The level of federal income taxes
18 has a significant impact upon the revenue
19 requirement being sought by the Company in the
20 current rate case, correct?

21 A. Yes.

22 Q. If the corporate income tax rate is cut from
23 35 percent to 20 percent, that could result in a
24 significant impact on the amount of income taxes
25 going forward, would it not?

1 A. If the -- if the rate were cut, that would --
2 if that were the only thing that was in the
3 provision, then I believe that, yes, it would have a
4 significant impact. But I think if you look at the
5 provisions that both the House and Senate have
6 passed, there's more to it in the provisions than
7 just the rate reduction. So I think you have to
8 take the entire bill and reflect that in any changes
9 that you would roll through.

10 Q. Understood. If the corporate income tax rate
11 is cut from 35 percent to 20 percent, could that
12 also result in the Company having excess deferred
13 income taxes?

14 A. "Excess deferred" as defined as the amount of
15 deferred taxes that are on the books that would be
16 readjusted at 20 percent versus 35 percent?

17 Q. Yes.

18 A. Is that how you're defining it? Yes.

19 Q. Okay. Thank you. For some categories of
20 excess deferred income taxes, the Company could
21 rapidly flow those back to ratepayers and that could
22 help reduce the amount of rate increase, could it
23 not?

24 A. There -- the way the provisions currently
25 exist in both bills reflect what is considered a

1 definition of excess deferred taxes that must be
2 flowed back to ratepayers no faster than the average
3 book life. Those would be related to property.

4 And then there are other deferred taxes that
5 are on the books that have an excess component. If
6 the rate were at 20 percent, that would be something
7 that would be, you know, addressed in some filing or
8 procedure.

9 Q. Okay. Now, the settlement agreement in this
10 case does not provide for flowing back to ratepayers
11 the amount of federal income tax savings that could
12 result if the income tax rate is substantially
13 reduced from the currently applicable rate, does it?

14 A. I believe the settlement agreement has a
15 provision in it. If I'm remembering correctly, it's
16 on page 9 of the settlement, that does address any
17 rate change and says that if Congress does pass a
18 tax bill and there is a rate change, then the
19 agreement addresses that as something that would be
20 for future -- in a future proceeding that is at the
21 pleasure of the Commission.

22 Q. And if -- would it be your understanding that
23 only if the Commission initiates an investigation or
24 a complaint is filed that those savings from the
25 reduced income tax rate would flow back to

1 ratepayers? Is that correct?

2 A. I'm not sure that it would only be a
3 complaint. I would have to defer to our legal
4 counsel as far as the interpretation of how that
5 provision would get triggered by the Commission.

6 Q. Could you refer to a copy of the stipulation?
7 I believe it is on page 9. I think your
8 recollection was correct.

9 A. Okay.

10 Q. As I look to paragraph 5(c) under that, 5 is
11 the rate case stay out, correct? Do you see that?

12 A. Yes.

13 Q. And under that there's a (c). Do you see
14 that?

15 A. Yes, I do.

16 Q. Okay. Towards the bottom there is a sentence
17 that starts up, "In the event the Commission."
18 Could you read that into the record, please?

19 A. Sure. (Reading) In the event that the
20 Commission initiates an investigation or a complaint
21 is filed with the Commission regarding the Company's
22 rates, the Company retains the right to defend the
23 reasonableness of its rates in such proceedings.

24 Q. And I apologize. Could you also, under that
25 (c), read that very first sentence?

1 A. Oh. (Reading) Nothing in this stay out
2 provision should be interpreted as prohibiting the
3 Commission from altering the Company's rates upon
4 its own investigation or upon complaint, including
5 to reflect changes in the tax code, including the
6 federal corporate income tax rate, depreciation
7 provisions, or upon request by the Company to seek
8 leave to address an emergency that could adversely
9 impact Kentucky Power or its customers.

10 Q. So having read that provision, then, would
11 you agree that -- excuse me -- that only if the
12 Commission initiates an investigation or a complaint
13 is filed would the change, reduction in the income
14 tax savings, be flowed back to the ratepayers?

15 A. I think that would be the case regardless of
16 whether there is a settlement agreement or not. I
17 mean, I think that would be the purview of the
18 Commission.

19 Q. And the Company could always come in for a
20 rate case if it wasn't for the stay out, right?

21 A. Correct.

22 Q. Okay. And given that -- as we discussed
23 earlier, that both houses of Congress have passed
24 tax reform, would you agree that it appears that --
25 likely that some kind of reform is going to come out

1 of Congress?

2 A. I'm not sure that I could say it's likely.
3 Given this Congress right now, it's looking that
4 way, but it also looked that way earlier this year
5 when you had a Republican House and Senate and
6 Administration and the Affordable Care Act was a
7 priority for them, and it was not -- they weren't
8 able to pass any amend -- anything -- changes to
9 that.

10 The Senate is very closely divided, which
11 wouldn't take much more than two senators to vote
12 against a provision from the Republican side that
13 would put it in jeopardy.

14 So the other part of it is, this bill is
15 right now in the joint committee, a joint committee
16 that is to resolve the differences. So it has to go
17 back to both houses to be voted in.

18 So having -- just observing the way things
19 have worked in the last year, I'm not sure I could
20 say I would wager any probability as far as, you
21 know, likelihood.

22 Q. If -- let's just say if a significant
23 reduction was to go through and become law, signed
24 by the President, would it not be reasonable for the
25 Commission to require that reductions to the

1 Company's federal income taxes be captured and
2 returned to Kentucky Power ratepayers?

3 A. Well, I think that it falls within the
4 Commission's purview to do such if they so choose.
5 That's --

6 Q. Thank you.

7 MR. COOK: Mr. Chairman, no further questions.

8 CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh,
9 questions?

10 MR. OSTERLOH: No additional questions.

11 CHAIRMAN SCHMITT: Staff.

12 MS. VINSEL: No questions.

13 CHAIRMAN SCHMITT: Commissioner Cicero?

14 EXAMINATION

15 By Vice-Chairman Cicero:

16 Q. I don't know that you were here earlier in
17 the hearings when I asked Mr. Satterwhite about the
18 accounts receivable and the bad debt. I know I'm
19 going to be asking questions of Mr. Vaughan, but in
20 the gross revenue conversion factor, there is a
21 piece in there that I would think the .34 percent
22 that addresses bad debt, that would go away if the
23 bad debt went away, would it not?

24 A. That percent would go away if the bad debt
25 were to go away, but I'm not sure how we would have

1 that bad debt go away. That would be --

2 Q. That would be more --

3 A. -- something that would --

4 Q. I'll have questions for Mr. Vaughan. But
5 theoretically if it goes away, that percentage goes
6 away?

7 A. I mean, that percentage is purely a function
8 of what's on our books, and if bad debts are on our
9 books and it is a charge that we incur, then yes, it
10 goes into the gross revenue factor. If that -- if
11 we did not have bad debts, we would remove that from
12 the factor.

13 VICE-CHAIRMAN CICERO: I don't have any other
14 questions.

15 CHAIRMAN SCHMITT: Commissioner Mathews.

16 COMMISSIONER MATHEWS: None.

17 CHAIRMAN SCHMITT: I have none.

18 Mr. Garcia, any redirect?

19 MR. GARCIA: Just a second, Your Honor, if I
20 may.

21 Okay. No further questions, Your Honor.

22 MR. KURTZ: Can I just follow up --

23 CHAIRMAN SCHMITT: Yes.

24 MR. KURTZ: -- Mr. Cook's very good
25 cross-examination?

CROSS-EXAMINATION

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By Mr. Kurtz:

Q. Mr. Pyle?

A. Yes, sir.

Q. Did you review the testimony of Mr. Kollen in this case?

A. Yes, sir.

Q. He calculated the revenue requirement effect of going from 35 percent to 20 percent at \$12.583 million on page 49 of his testimony. Did you verify that in any way?

A. What page is that on in his testimony?

Q. 40 -- 49.

A. Yes, I see where he indicated that calculation.

Q. Did you verify that in any way?

A. I didn't recompute it, no.

Q. Okay. Question: The excess accumulated deferred income taxes, do you -- at the end of 2016, we've looked at this and our number was \$286 million. Does that sound like it's about correct?

A. What is 286 million?

Q. The excess ADIT on the Company's books at the end of 2016.

A. I think that -- the 286 million I think may

1 be the balance after the excess is taken off.

2 Q. I think it's the opposite.

3 A. Is it?

4 Q. That would be the excess.

5 A. Okay.

6 Q. Does that sound about right? Any idea?

7 A. I think -- I think that's really the balance.

8 I think the excess was more like 215.

9 Q. Okay. Well --

10 A. Roughly.

11 Q. -- obviously the Commission will get into
12 this. And that amount of money would be grossed up
13 for income taxes then flowed back over the life of
14 the property, as you indicated?

15 A. Yes.

16 MR. KURTZ: Okay. Thank you, Mr. Chairman.

17 CHAIRMAN SCHMITT: Any other questions by any
18 party for this witness?

19 In which case, may he be excused?

20 MS. VINSEL: Yes.

21 CHAIRMAN SCHMITT: Thank you. You may stand
22 down, sir, and you're excused.

23 MR. OVERSTREET: Our next witness, Your
24 Honor, is Debra Osborne.

25 CHAIRMAN SCHMITT: Ms. Osborne, please raise

1 your right hand. Do you solemnly swear or affirm,
2 under penalty of perjury, that the testimony you are
3 about to give will be the truth, the whole truth,
4 and nothing but the truth?

5 MS. OSBORNE: I do.

6 CHAIRMAN SCHMITT: Thank you. Please be
7 seated.

8 Mr. Gish, I assume you're asking questions of
9 the witness.

10 MR. OVERSTREET: No, he trusted me to do it.

11 CHAIRMAN SCHMITT: Oh, he trusted you.

12 MR. GISH: Just this once.

13 DEBRA OSBORNE, called by Kentucky Power
14 Company, having been first duly sworn, testified as
15 follows:

16 DIRECT EXAMINATION

17 By Mr. Overstreet:

18 Q. Good morning, Ms. Osborne.

19 A. Good morning.

20 Q. Would you please state your name, position,
21 and business address?

22 A. My name is Debra Osborne. I'm Vice President
23 for Generation Assets for Appalachian Power and
24 Kentucky Power. My address is 500 Lee Street East,
25 Charleston, West Virginia.

1 Q. And did you cause to be filed in this
2 proceeding testimony, rebuttal testimony, and
3 answers to data requests?

4 A. I did.

5 Q. And do you have any corrections to those?

6 A. I do not.

7 Q. Or other modifications or updates?

8 A. No, sir.

9 Q. Okay. And if you were asked those same
10 questions today, would your answers be the same?

11 A. They would.

12 MR. OVERSTREET: The witness is available for
13 cross-examination.

14 CHAIRMAN SCHMITT: Mr. Kurtz, questions.

15 MR. KURTZ: No questions.

16 CHAIRMAN SCHMITT: Counsel for any of the
17 settling intervenors have any questions for this
18 witness?

19 If not, Mr. Cook, Mr. Chandler.

20 MR. COOK: No questions, Your Honor.

21 CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

22 MR. GARDNER: No, Your Honor.

23 CHAIRMAN SCHMITT: Staff.

24 MS. VINSEL: Yes, we just have a few
25 questions.

CROSS-EXAMINATION

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By Ms. Vinsel:

Q. Good morning, Ms. Osborne.

A. Good morning.

Q. Let me start with the depreciation study, and particularly in terms of the useful life, remaining life of Big Sandy Unit 1.

A. Uh-huh.

Q. Let's just give a little bit of background. Is it correct that Big Sandy Unit 1 went into service in 1963?

A. That is correct.

Q. And as a coal-fired unit?

A. Yes, ma'am.

Q. And then it was very recently converted to a natural gas unit?

A. Yes. It went into --

Q. And it -- I'm sorry?

A. That's okay. I was just going to say it went into operation June of -- May 31st of 2016 as gas-fired.

Q. That was going to be my question. Thank you.

A. Okay.

Q. And is it also correct that there are still some parts of Big Sandy that were original to --

1 have been there since 1963?

2 A. Yes. And that's very important to note in
3 this -- in this whole conversation that there's
4 major pieces of equipment, the drum, two generator
5 step-up transformers, the generator rotor, for which
6 there's not a system spare. These are major
7 components that are original installation.

8 Q. Now, in determining the useful life, in your
9 testimony you had indicated that instead of
10 comparing Big Sandy Unit 1 to other units that
11 were -- that are gas-fired and were always
12 gas-fired, you said the better comparison is to the
13 Clinch River Units 1 and 2, which like Big Sandy
14 were coal-fired units converted to gas?

15 A. Yes.

16 Q. I know that was a compound question, but is
17 that correct? And I can break it apart.

18 A. I was going to say, I believe you're asking
19 me if the conversion at Clinch River was the same as
20 the conversion at Big Sandy.

21 Q. Yes.

22 A. They were very similar in nature. All of
23 those -- Clinch River 1 and 2 and Big Sandy 1 were
24 all previously coal-fired generation that were
25 converted to gas.

1 Q. And is it correct that it is your opinion
2 that in comparing -- or trying to determine the
3 useful life, a better comparison for Big Sandy Unit
4 1 would be to compare it to Clinch River rather than
5 to look at a unit that has always been a gas-fired
6 unit?

7 A. Yes, absolutely. I mean, as I referenced
8 earlier, that the conversion to gas did not give it
9 a new lease on life as a new installation of gas.

10 Q. Now, after the conversion to natural gas for
11 Clinch River Units 1 and 2, what was the estimated
12 service life for the units?

13 A. After the conversion was 2031.

14 Q. And how was that determined?

15 A. It's really an engineering assessment based
16 on the age of the unit and the condition of the
17 unit.

18 MS. VINSEL: And those are our questions.

19 CHAIRMAN SCHMITT: Thank you.

20 Commissioner Cicero.

21 EXAMINATION

22 By Vice-Chairman Cicero:

23 Q. So you said 2031 was the life that -- or the
24 end of useful life for the Clinch River units? Is
25 that what you said?

1 A. No, sir. Currently we have a proposal for
2 the end of useful life for Clinch River at 2026.

3 Q. 2026?

4 A. And as used for the depreciation study
5 upcoming.

6 Q. And how -- what would that make the useful
7 life if it was 2026? When did those go into
8 service?

9 A. It would give it a service life of -- I'm
10 going to have to check. I'm pretty sure it's 1958
11 when the --

12 Q. Well, since the conversion to gas.

13 A. I'm sorry. I'm not understanding your
14 question. What would that total --

15 Q. What was --

16 A. -- lifespan be?

17 Q. What was the extension of the life after
18 being converted to gas? What did you come up with
19 useful life?

20 A. Ten years.

21 Q. Just ten years?

22 A. Uh-huh.

23 Q. And you're saying that Big Sandy 1 is 20
24 years?

25 A. It's currently set at 15 years.

1 Q. 15 years?

2 A. Uh-huh.

3 VICE-CHAIRMAN CICERO: I don't have any other
4 questions.

5 CHAIRMAN SCHMITT: Commissioner Mathews.

6 EXAMINATION

7 By Commissioner Mathews:

8 Q. That was 15 years from 2016?

9 A. Yes, ma'am.

10 Q. Okay.

11 A. Thank you for that.

12 CHAIRMAN SCHMITT: I have no questions.

13 Counsel.

14 REDIRECT EXAMINATION

15 By Mr. Overstreet:

16 Q. Ms. Osborne, could you turn to page 3 of your
17 direct testimony, please? Or, excuse me, page -- to
18 page 2 of your direct testimony.

19 A. Yes.

20 Q. Just let me know when you're there.

21 A. Uh-huh.

22 Q. Okay. And then do you see the question
23 that -- at the bottom of page 2, (Reading) Do the
24 service lives of plants represent a commitment to
25 retire the units as of a date certain?

1 Do you see that question?

2 A. I think you're in my rebuttal testimony.

3 Q. Oh, I'm sorry. I'm in -- I am in your
4 rebuttal testimony. I apologize.

5 A. I am there.

6 Q. Okay. And what is the answer to that
7 question?

8 A. No, they reflect our -- Kentucky Power's best
9 current estimate.

10 Q. Okay. And then on the top of page 3 of your
11 rebuttal testimony you were asked a question,
12 (Reading) Are service lives sometimes adjusted?

13 A. Yes. My answer is yes, they may be adjusted
14 as economic conditions change.

15 Q. And is it reasonable to use a 20-year service
16 life beginning in 2016 for Big Sandy Unit 1?

17 A. I believe that is reasonable.

18 MR. OVERSTREET: No further questions.

19 CHAIRMAN SCHMITT: Any other questions of
20 this witness?

21 Mr. Chandler.

22 MR. CHANDLER: Can we ask just one question?

23 CROSS-EXAMINATION

24 By Mr. Chandler:

25 Q. Are you involved in the generation planning

1 process for Kentucky Power?

2 A. I have not yet been. I'm uncertain at this
3 point. I have not -- I've been in this position
4 since January, and I have not been a part of that
5 integrated resource planning process.

6 MR. CHANDLER: That's all the questions.

7 CHAIRMAN SCHMITT: Does any party have any
8 further questions for this witness?

9 MS. VINSEL: We just have one follow-up
10 question.

11 CHAIRMAN SCHMITT: Yes.

12 RECROSS-EXAMINATION

13 By Ms. Vinsel:

14 Q. We need to clarify. I think that we may have
15 misheard something you said about the useful life of
16 both Big Sandy Unit 1 and Clinch River Units 1 and 2
17 after the conversion.

18 A. Uh-huh.

19 Q. With the extension of service life, if you
20 will. Was it 15 years for both?

21 A. No, it was 15 years for Big Sandy 1, it was
22 10 years for Clinch River, and that would put the
23 age of both of those units at that point at 68
24 years. So it's a relative point.

25 Q. Okay. And is -- you may have already just

1 answered it, but could you clarify again why that
2 difference in the 10 years versus 15 years?

3 A. It was the 2031 date and the 2026 date would
4 reflect a 68-year lifespan for those units.

5 Q. And we understand the concept of that 68-year
6 lifespan, but why is it that Clinch River is
7 depreciating faster than Big Sandy Unit 1?

8 A. I really can't speak to the depreciation
9 calculation. What we do is we provide the
10 end-of-useful-life number to the Witness Cash.

11 MS. VINSEL: I can follow up with Witness
12 Cash with that.

13 MR. OVERSTREET: May I ask one follow-up
14 question, which I think --

15 CHAIRMAN SCHMITT: Yes, you may.

16 MR. OVERSTREET: -- may assist Staff.

17 REDIRECT EXAMINATION

18 By Mr. Overstreet:

19 Q. Ms. Osborne, and I think the Vice-Chair
20 brought this out, the reason that it's 10 years for
21 Clinch River and 15 years for Big Sandy, both
22 landing in -- well, Clinch River landing end of
23 useful life 2026, Big Sandy 2031, that's a five-year
24 delta; is that correct?

25 A. That's correct.

1 Q. And isn't it true that Clinch River went
2 into service five years before Big Sandy?

3 A. Yes, that is correct.

4 MR. OVERSTREET: Okay.

5 CHAIRMAN SCHMITT: Any other questions by any
6 party of this witness?

7 In which case, may the witness be excused?

8 MS. VINSEL: Yes.

9 CHAIRMAN SCHMITT: Okay. Please stand down
10 and you are excused.

11 MR. OVERSTREET: Our next witness, Your
12 Honor, is Mr. Cash, and Ms. Glass will present him.

13 CHAIRMAN SCHMITT: Mr. Cash, please raise
14 your right hand. Do you solemnly swear or affirm,
15 under penalty of perjury, that the testimony you are
16 about to give will be the truth, the whole truth,
17 and nothing but the truth?

18 MR. CASH: I do.

19 CHAIRMAN SCHMITT: Please be seated.

20 Ms. Glass, you may ask.

21 MS. GLASS: Thank you.

22 * * *

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1 JASON A. CASH, called by Kentucky Power
2 Company, having been first duly sworn, testified as
3 follows:

4 DIRECT EXAMINATION

5 By Ms. Glass:

6 Q. Good morning, Mr. Cash. Can you please state
7 your name, your position, and your business address,
8 please?

9 A. My name is Jason A. Cash. I am a Staff
10 Accountant under -- for account -- for AEP Service
11 Corporation under Accounting Policy and Research.
12 My business address is 1 Riverside Plaza, Columbus,
13 Ohio 43215.

14 Q. And did you cause to be filed direct
15 testimony, rebuttal testimony, and answers to data
16 requests in this case?

17 A. I did.

18 Q. Do you have any corrections or modifications
19 to any of those answers?

20 A. I do not.

21 Q. If I asked you the same questions today,
22 would you give those same answers?

23 A. Yes, I would.

24 MS. GLASS: Your Honor, the witness is
25 available for cross-examination.

1 CHAIRMAN SCHMITT: Mr. Kurtz, questions.

2 MR. KURTZ: No questions.

3 CHAIRMAN SCHMITT: Counsel for any of the
4 settling intervenors have questions for this
5 witness?

6 If not, Mr. Cook, Mr. Chandler, questions.

7 MR. COOK: No questions, Mr. Chairman.

8 CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

9 MR. GARDNER: No, Your Honor.

10 CHAIRMAN SCHMITT: Staff.

11 MS. VINSEL: Yes, we have just a few
12 questions.

13 CROSS-EXAMINATION

14 By Ms. Vinsel:

15 Q. Good morning, Mr. Cash.

16 A. Good morning.

17 Q. Can I follow up on the question that we asked
18 Ms. Osborne?

19 A. Yes.

20 Q. In terms of the 10- and 15-year extension, if
21 you will, of the service life Big Sandy Unit 1
22 versus Clinch River, can you explain why Clinch
23 River has the 10-year, if you will, extension in
24 service life and Big Sandy has the 15-year
25 extension? And we do understand that both units,

1 the projected 68-year lifespan.

2 A. I can't attest to the -- why the useful life
3 is different for both plants. That -- I mean, that
4 was really a better question for Ms. Osborne, but I
5 think you asked why it's being depreciated faster.

6 Q. Yes. Thank you.

7 A. Yeah. So in reality it is not being
8 depreciated faster because West Virginia and
9 Virginia have separate rates, and when the rates
10 were both approved for Clinch River, they were -- it
11 was actually a coal-fired generation unit. It
12 has -- the depreciation rates have not been set
13 since it has been converted to a gas-fired unit.
14 The depreciation rates that are being used are the
15 rates that were in place as a coal-fired generation
16 unit.

17 Q. Thank you. Other than any -- other than the
18 adjustments made in the settlement agreement
19 regarding the service life of Big Sandy Unit 1 and
20 the terminal net salvage value of Big Sandy 1 and
21 Mitchell, are there any other changes to Kentucky
22 Power's proposed depreciation rates?

23 A. Not that I'm aware of.

24 MS. VINSEL: Staff has no further questions.

25 CHAIRMAN SCHMITT: Commissioner Cicero.

EXAMINATION

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By Vice-Chairman Cicero:

Q. So I'm just curious. On the Clinch River, you said --

A. Sure.

Q. -- it's still being depreciated at the same rate as if it was a coal-fired plant?

A. That's right.

Q. Because of statutory guidelines in West Virginia and Virginia?

A. No, I should clarify that it was -- the rates that were approved in both cases, the last rates that were approved, it was a coal-fired generating unit, and they have not been reset after -- since the conversion to gas.

Q. And what was useful life as a coal-fired plant?

A. The only one I know for Virginia that I'm -- that comes to mind, it was actually 2019 for Virginia. I am not sure for what -- what it was at West Virginia. I think -- I actually think they set the rates at 2040 is the --

Q. Which was how many years?

A. I mean, 60 -- what was it?

Q. 68 is what --

1 A. 63, I think, was Big Sandy and 58 was Clinch.

2 Q. As a coal-fired unit?

3 A. As a coal-fired unit, that's right. And I
4 guess 2019 is probably the best representation as a
5 coal-fired unit. I can't do the math in my head.
6 Sorry.

7 Q. No, but I'm just curious why it's continued
8 as a coal-fired depreciation rate.

9 A. It's just regulatory. I mean, we would have
10 to go in and update our depreciation rates based off
11 of the investment that has been made with the
12 gas-fired unit.

13 Q. It just sounds like 68 years is being picked
14 as a number to keep it uniform, not really -- absent
15 of any other engineering or design or anything else
16 that makes it 68 years.

17 A. I can't attest to the engineering life of the
18 unit. I -- you know, I calculated the depreciation
19 rates that are associated with that, with the life
20 that is provided from our --

21 VICE-CHAIRMAN CICERO: I'll let it go at
22 that. Thank you.

23 CHAIRMAN SCHMITT: Commissioner Mathews.

24 COMMISSIONER MATHEWS: I have none.

25 CHAIRMAN SCHMITT: I have nothing.

1 Ms. Glass, any redirect?

2 MS. GLASS: I do. I just have a couple of
3 follow-up questions.

4 REDIRECT EXAMINATION

5 By Ms. Glass:

6 Q. Mr. Cash, what is the revised depreciation
7 rate in the next West Virginia case?

8 A. That has not been calculated yet at this
9 point.

10 Q. Would you request a new one in that case?

11 A. Absolutely.

12 Q. And that's similar to what we're doing here,
13 correct?

14 A. That is right. That is correct.

15 MS. GLASS: Thank you. I have no further
16 questions.

17 CHAIRMAN SCHMITT: Does anyone have any
18 additional questions for this witness?

19 If not, may he be excused?

20 MS. VINSEL: Yes, he may be excused.

21 CHAIRMAN SCHMITT: Thank you. You may stand
22 down --

23 MR. CASH: Thank you.

24 CHAIRMAN SCHMITT: -- and you're excused.

25 MR. OVERSTREET: Your Honor, the Company's

1 next -- excuse me -- witness is Steve Sharp, and Mr.
2 Gish will present.

3 CHAIRMAN SCHMITT: Mr. Sharp, please raise
4 your right hand. Do you solemnly swear or affirm,
5 under penalty of perjury, that the testimony you are
6 about to give will be the truth, the whole truth,
7 and nothing but the truth?

8 MR. SHARP: I do.

9 CHAIRMAN SCHMITT: Please be seated.

10 Mr. Gish, you may ask.

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

12 STEPHEN L. SHARP, called by Kentucky Power
13 Company, having been first duly sworn, testified as
14 follows:

15 DIRECT EXAMINATION

16 By Mr. Gish:

17 Q. Good morning, Mr. Sharp.

18 A. Good morning.

19 Q. Can you please state your full name, title,
20 and place of business for the record?

21 A. Sure. Stephen Sharp. I'm a Regulatory
22 Consultant with Kentucky Power. Address is 101 A
23 Enterprise Drive, Frankfort, Kentucky.

24 Q. And did you file in this case direct and
25 rebuttal testimony and responses to data requests?

1 A. I did.

2 Q. And did you file testimony in Case Number
3 2017-231, which was incorporated into this case?

4 A. I did.

5 Q. Do you have any corrections or updates to
6 your testimonies or responses to data requests?

7 A. I do not.

8 MR. GISH: Mr. Chairman, the witness is
9 available for cross-examination.

10 CHAIRMAN SCHMITT: Mr. Kurtz, questions.

11 MR. KURTZ: No questions.

12 CHAIRMAN SCHMITT: Counsel for any of the
13 settling intervenors have any questions of Mr.
14 Sharp?

15 If not, Attorney General.

16 MR. COOK: Your Honor, at this point I do not
17 believe we do have any questions. We're going to
18 continue looking through our notes and --

19 CHAIRMAN SCHMITT: Okay. Thank you.

20 Mr. Osterloh, Mr. Gardner.

21 MR. GARDNER: No, Your Honor.

22 CHAIRMAN SCHMITT: Staff, questions.

23 MS. VINSEL: Yes, we have a few questions.

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CROSS-EXAMINATION

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By Ms. Vinsel:

Q. Good morning, Mr. Sharp.

A. Good morning.

Q. There were a few questions we had asked Mr. Satterwhite that he suggested you might be the better --

A. Okay.

Q. -- person to answer.

A. All right.

Q. Let me start with the HEAP program.

A. Okay.

Q. It's been quite a few years since that program was started --

A. Uh-huh.

Q. -- and it would be helpful for us to have some information on the logistics of the program.

A. Okay.

Q. So we know that the surcharge is collected on the bill, the money comes to Kentucky Power?

A. Uh-huh.

Q. At that -- and we also understand that local agencies, community action agencies and so forth --

A. Uh-huh.

Q. Well, no, let me step back. What is the role

1 of local community action agencies or local agencies
2 in regards to the HEAP program?

3 A. Their roles would be, probably the best way
4 to word this, that once slots are determined by the
5 community action, which is based off of the number
6 of customers that are in each county and which
7 community actions are participating, they'll
8 determine through their application process and rank
9 the people that have applied in application to
10 determine who will fill in as far as those slots in
11 those counties.

12 Q. So the local community action agencies are
13 the -- they have the administrative function of --

14 A. Uh-huh.

15 Q. -- taking the applications, evaluating,
16 verifying --

17 A. Yes.

18 Q. -- and so forth?

19 A. Yes.

20 Q. So once a customer --

21 A. Uh-huh.

22 Q. -- has been verified and --

23 A. Uh-huh.

24 Q. -- there's money available --

25 A. Uh-huh.

1 Q. -- does Kentucky Power retain the surcharge
2 and then apply whatever the designated amount is to
3 the customer's account, or is the money sent to a
4 community action agency?

5 A. We designate it to a customer's account.

6 Q. So the money remains with Kentucky Power --

7 A. Yes.

8 Q. -- at all times?

9 A. And we fund it once community action advises
10 us which accounts it would go to.

11 Q. And confirming: This is year-round
12 assistance?

13 A. Yes. It's -- they would -- depending if it's
14 an electric or nonelectric, they would get it four
15 months for the winter months and then three months
16 during the summer months.

17 Q. Now, is there any sort of a carveout for an
18 administrative fee for the community action
19 agencies?

20 A. Yeah, it's a ten percent.

21 Q. Ten percent?

22 A. Uh-huh.

23 Q. How was that number determined?

24 A. I'm unsure. That was what was agreed upon in
25 2005 between the community action and Kentucky

1 Power. That was approved by the Commission.

2 Q. And 2005, to confirm, is when the program was
3 begun as a pilot program?

4 A. It began with the -- approved through the
5 rate case at that time.

6 Q. And just to clarify, also subsequently the
7 pilot designation was removed?

8 A. I'm sorry?

9 Q. And subsequently --

10 A. Uh-huh.

11 Q. -- the pilot designation was removed?

12 A. Oh, yes. Yes, it was.

13 Q. Thank you. I have some questions about the
14 proposed revision to the tariff in regards to denial
15 of service.

16 A. Okay.

17 Q. Do you have available to you this packet? It
18 has -- on the cover of it, it is just that tariff
19 sheet --

20 A. Tariff sheet.

21 Q. -- at issue.

22 A. I don't know if I have the packet. I do have
23 the tariff sheet.

24 MR. GISH: We have it around. We'll find it
25 for you.

1 MS. VINSEL: Okay.

2 MR. GISH: Here it is.

3 MR. OVERSTREET: May I approach, Your Honor?

4 CHAIRMAN SCHMITT: Yes, you may.

5 A. Okay. I have it.

6 Q. Is that -- I'm sorry.

7 A. That one?

8 Q. It is not that one, actually.

9 A. Okay.

10 MS. VINSEL: And may I approach the witness
11 so I can show him up close?

12 CHAIRMAN SCHMITT: Yes, you may.

13 Q. It looks like this.

14 A. Thank you. Okay. Yeah.

15 MS. VINSEL: And I don't know if you-all have
16 it.

17 MR. OVERSTREET: Does it have 17 tabs?

18 THE WITNESS: Just four.

19 MS. VINSEL: No, it's not. It's just the
20 four.

21 MR. OVERSTREET: Four tabs.

22 MS. VINSEL: It is -- I'm going to --

23 MR. OVERSTREET: Do you have the tariff?

24 THE WITNESS: I have the tariff. I can look
25 at it.

1 Q. Do you have the tariff? Okay.

2 A. I can look at that.

3 Q. I might just have to walk back and forth, I

4 apologize --

5 A. Okay. That's fine.

6 Q. -- I gave out all my exhibits yesterday.

7 MR. GISH: Ms. Vinsel, the Attorney General

8 has graciously handed us one of his copies.

9 THE WITNESS: Thank you.

10 MS. VINSEL: Thank you.

11 MR. CHANDLER: Don't forget it.

12 Q. Okay. And I won't make you read into the

13 record, I will read the --

14 A. Okay.

15 Q. -- relevant parts. Under -- I'm looking at

16 the tariff itself.

17 A. Uh-huh.

18 Q. Number 18, Denial or Discontinuance of

19 Service. The first part of the first sentence up to

20 the semicolon reads --

21 A. Uh-huh.

22 Q. -- (Reading) The Company reserves the right

23 to refuse service to any customer if the customer or

24 any member of the customer's household is --

25 A. Uh-huh.

1 Q. -- indebted to the Company for any service
2 theretofore rendered at any location.

3 A. Uh-huh.

4 Q. Is that correct?

5 A. Yes.

6 Q. So this provides four scenarios for denial of
7 service. Let me walk through and see if you agree.

8 A. Okay.

9 Q. Two scenarios involve a customer of record
10 under whose -- who has the account?

11 A. Uh-huh.

12 Q. Two scenarios, a member of the household of
13 the customer of record?

14 A. Uh-huh.

15 Q. So the customer of record can be denied
16 service for indebtedness -- service at the service
17 address where the indebtedness occurred, correct?

18 A. Right.

19 Q. And service at any address in Kentucky Power
20 service territory?

21 A. If they were to have an old debt at another
22 location and -- yeah. And really I think -- and
23 I've listened to some of what Mr. Satterwhite --
24 when I was in the hospital with my wife, but --

25 Q. And congratulations.

1 A. Oh, thank you. Thank you.

2 The whole issue with our changing, it just
3 affected name switching only, and that was our only,
4 you know, reason for doing it.

5 And what we have found, and -- excuse me.
6 Before I became a regulatory consultant, I was in
7 customer service for 12 years, and the one issue
8 that we would always find is that you would have
9 customers that would call in to apply for service,
10 they would have an old debt with the Company, and
11 they were like, "Sure, I'll make the payment." And
12 then 20, 30 minutes later a family member would call
13 in, try to apply for service to avoid paying that
14 old debt, so -- you know, basically defrauding the
15 Company. So that's why we tried to add the language
16 only to affect that name switching only.

17 And I know there's been a lot of confusion
18 with it, and the Company is willing, in post-hearing
19 data requests, to suggest new language that can
20 maybe help clarify any of the confusion.

21 Q. That would be helpful. I've got another
22 exhibit I'm going to pass out --

23 A. Okay.

24 Q. -- that is probably, in the end, more for
25 information.

1 A. Okay.

2 Q. And I will explain that in this packet --

3 A. Okay.

4 Q. -- Exhibits 2, 3, and 4 have contained some
5 Commission precedent. I will walk you through them
6 very briefly --

7 A. Okay.

8 Q. -- just to -- so that you know.

9 A. Okay.

10 Q. Under tab number 2 --

11 A. Uh-huh.

12 Q. -- is PSC Exhibit 2 --

13 A. Uh-huh.

14 Q. -- this is a Commission order from 2002 --

15 A. Okay.

16 Q. -- that approved language in Louisville Gas &
17 Electric/Kentucky Utilities tariffs --

18 A. Uh-huh.

19 Q. -- to permit -- essentially a customer of
20 record could be denied service at the service
21 address where the debt was incurred or any location.

22 A. Okay.

23 Q. Under tab number 3 we have an administrative
24 case from the 1983-84 --

25 A. Uh-huh.

1 Q. -- in which the question came up in regard to
2 a member of a household and denial of service --

3 A. Uh-huh.

4 Q. -- when the customer of record had incurred a
5 debt.

6 A. Uh-huh.

7 Q. And in that case we said the Commission would
8 not issue a regulation, a blanket regulation
9 covering the situation because, for a member of
10 household, the fact pattern, the circumstances
11 were -- the issues were infinite --

12 A. Uh-huh.

13 Q. -- and so we said that we would not do so and
14 we would look at it on a case-by-case basis.

15 A. Uh-huh.

16 Q. And then under tab number 4, this is the
17 Customer Bill of Rights --

18 A. Uh-huh.

19 Q. -- as I am sure you are familiar with --

20 A. Uh-huh.

21 Q. -- which also provides that a member of a
22 household where the customer of record has incurred
23 debt --

24 A. Uh-huh.

25 Q. -- they can't do that name switching,

1 basically --

2 A. Uh-huh. Right.

3 Q. -- is what it said.

4 So what I'm passing out now is another
5 Commission order.

6 A. Okay.

7 Q. And I just wanted to make sure I called your
8 attention --

9 A. Uh-huh.

10 Q. -- to this particular order.

11 A. Okay.

12 Q. In this case, without going to excessive
13 details, you had a member of a household --

14 A. Uh-huh.

15 Q. -- she had been a member, if you will, of
16 three households --

17 A. Uh-huh.

18 Q. -- two in which her estranged husband was the
19 customer of record --

20 A. Uh-huh.

21 Q. -- and allegedly a third where her son was
22 the customer of record.

23 A. Uh-huh.

24 Q. And the utility had denied her service.

25 A. Uh-huh.

1 Q. And in the end the Commission said that --
2 and this is at the bottom of that very first page.
3 It's the last sentence.

4 A. Uh-huh.

5 Q. Basically the Commission found that while
6 benefit of service criteria has never been accepted
7 by the Commission as a policy suitable for all
8 utilities to follow in collecting past-due accounts,
9 it is considered on a case-by-case basis where
10 applicable.

11 A. Uh-huh.

12 Q. And Mr. Satterwhite had discussed the concept
13 of benefit of service --

14 A. Uh-huh.

15 Q. -- being behind this. I thought it would be
16 helpful, as Kentucky Power is looking at this --

17 A. Yeah.

18 Q. -- to see the various --

19 A. Okay.

20 Q. -- Commission rulings.

21 A. All right.

22 Q. And with that we'll move on.

23 A. Okay. Thank you.

24 Q. I'd like to move to the bill format --

25 A. Okay.

1 Q. -- issues. There -- one of the lines on the
2 current bills --

3 A. Uh-huh.

4 Q. -- there is a line that says Rate Billing.

5 A. Uh-huh.

6 Q. What all is included in that?

7 A. Right now, as it currently stands, you have
8 your base rate and your customer charge.

9 Q. And in response to some data requests --

10 A. Uh-huh.

11 Q. -- you had indicated that the customers had
12 advised Kentucky Power that they wanted a simpler
13 bill.

14 A. Uh-huh.

15 Q. Did the customers specify that they wanted
16 fewer lines on their bills?

17 A. Through some of our meetings, yes. They
18 appreciated our transparency in providing the
19 information, but they wanted as far as less
20 information on the electric bills.

21 Q. And did anyone quantify the number of
22 customers that had made that request?

23 A. No. I mean, we've -- these have been through
24 our meetings with the -- the CAP meetings and our
25 public workshops. And I can attest, you know, when

1 I worked in customer service, that was one issue
2 that I always addressed that customers who had
3 called in had brought up.

4 Q. So if the Commission did not approve
5 consolidation of the line items on customers' bills,
6 would Kentucky Power incur additional cost to
7 continue with the number of line items that are
8 currently on the bill?

9 A. No.

10 Q. So no, no -- okay.

11 A. There's no additional cost.

12 Q. Okay. Could Kentucky Power have chosen not
13 to be included in the bill format change, or was
14 this something that was mandated by AEP?

15 A. No. All the other jurisdictions within
16 AEP -- I believe Ohio was the only one that also
17 needed Commission approval, along with Kentucky.

18 So the other jurisdictions, you know, they
19 had discussed it, showed the -- their commissions
20 what they were going to change it to, but Kentucky
21 and Ohio were the only ones that needed Commission
22 approval.

23 So if the Commission hadn't approved the
24 redesign, the look of the bill, the remaining
25 operating companies would have moved forward.

1 Q. Okay. Are you aware if any other AEP
2 operating company subsidiaries --

3 A. Uh-huh.

4 Q. -- are consolidating the line items on their
5 bills?

6 A. I'm not familiar if they are or not.

7 MS. VINSEL: Staff has no further questions.

8 CHAIRMAN SCHMITT: Commissioner Cicero,
9 questions.

10 EXAMINATION

11 By Vice-Chairman Cicero:

12 Q. Just one follow-up on the --

13 A. Uh-huh.

14 Q. -- comments made by Staff regarding the line
15 items.

16 A. Uh-huh.

17 Q. You indicated in your former position as a
18 customer service representative or agent or --

19 A. Uh-huh.

20 Q. -- whatever the position was, that that was
21 one of the primary complaints was the number of line
22 items?

23 A. Complaints that I dealt with. When it was
24 the line items, there was a lot of confusion of what
25 each of the riders meant, and a lot of customers

1 that I spoke with, when that issue came up, was they
2 just didn't understand the bill or what all the
3 charges had meant. There was just a lot of
4 confusion and they had wished that there was more of
5 a simpler bill to look at.

6 Q. Was it because of the description of the line
7 items or the number of line items?

8 A. It was both.

9 Q. The only concern I think the Commission would
10 have is that --

11 A. Uh-huh.

12 Q. -- it's a -- it's a very subjective kind of
13 survey that Kentucky Power has done in that they
14 have your past experience, but it doesn't sound like
15 there's any real survey to see what customers would
16 like.

17 In other words, you're not going to receive
18 complaints from people that are happy that there's
19 that number of line items on there or receive --

20 A. Uh-huh.

21 Q. -- praise and say, "I'm glad you have this
22 number of line items on there." So it's a one-sided
23 survey.

24 A. Yeah. And I can understand that. And a lot
25 of the customers we talked to, they just want to

1 know, "How much do I need to pay on my bill?" And
2 that's their main concern, "How much do we owe?"
3 And then when they see a breakdown of all the line
4 items, there does get confusion with what all those
5 charges are.

6 VICE-CHAIRMAN CICERO: Okay. We'll leave it
7 at that.

8 CHAIRMAN SCHMITT: Commissioner Mathews,
9 questions.

10 COMMISSIONER MATHEWS: I don't have any.

11 EXAMINATION

12 By Chairman Schmitt:

13 Q. Mr. Sharp, on the HEAP program --

14 A. Uh-huh.

15 Q. -- does -- the HEAP program apparently has
16 not been updated, or the amounts collected have not
17 been updated since 2006, when the program first
18 began as a pilot. Is that correct?

19 A. When you mean the -- like the --

20 Q. There hasn't been any additional money
21 charged to customers and matched by shareholders?

22 A. It did start at 10 cents and then it went to
23 15 cents --

24 Q. 15?

25 A. -- in 2009, I believe.

1 Q. Does the HEAP program run short of money
2 before winter is over?

3 A. I would have to look. I don't believe it has
4 before in the past, as far as with the matching, you
5 know, with what the customers -- as far as pay each
6 month.

7 Q. Well, you're saying, then, that the program,
8 in your opinion --

9 A. Uh-huh.

10 Q. -- is adequately funded so that people who
11 are eligible receive the full benefit of the program
12 during the winter months?

13 A. Yes.

14 Q. Then why has the Company suggested increasing
15 the funding of the program?

16 A. We just want to help more customers that we
17 can. We've had discussions with community action,
18 Roger McCann, and the one thing that they told us is
19 that they do receive several applications from
20 customers that just need that little bit more of
21 help to just get over that little cusp. And we had
22 worked with them ever since 2005. So those are the
23 customers that we're trying to help just a little
24 bit more. And while it is adequately funded, we're
25 just trying to help more customers, that low-income

1 customers.

2 Q. I thought Mr. McCann's testimony on direct
3 was --

4 A. Uh-huh.

5 Q. -- that the increase in funding suggested by
6 the Company wasn't adequate, wasn't adequate to even
7 cover the proposed rate increase.

8 A. Yeah.

9 Q. Is that correct?

10 A. I'm unfam -- I mean, it's -- we feel like
11 it's adequate as far as to move it, you know, up
12 from 15 to 20 cents.

13 Q. Insofar as this -- the language is
14 concerned --

15 A. Uh-huh.

16 Q. -- in the proposed tariff on discontinuance
17 of service, who drafted that?

18 A. The discontinuance? Legal.

19 Q. Legal drafted it?

20 A. Yes.

21 Q. You've read it?

22 A. Yes.

23 Q. Does it sound to you like it was intended to
24 apply only to customers in the same location or the
25 same household?

1 A. Yes, it's --

2 Q. It sounds like that --

3 A. When I read it, yes, because of the whole
4 name-switching issue. That's --

5 Q. And how --

6 A. That's how I perceived it to be.

7 Q. How do you explain, then, when it refers to
8 any location?

9 A. The "any location" part would be if -- kind
10 of what I mentioned to the Staff. If you have a
11 customer that has an old debt at another location,
12 they call to apply for the service.

13 Q. Well, if A --

14 A. Uh-huh.

15 Q. -- has service at his home --

16 A. Uh-huh.

17 Q. -- and his son or his wife owns a business
18 somewhere else and goes out of business and owes a
19 debt, under the way this language is drafted --

20 A. Uh-huh.

21 Q. -- you could cut off service at the home;
22 isn't that correct?

23 A. For their old debt at the business?

24 Q. Yeah. For some other member of the
25 household's debt at another location.

1 A. Yeah. No. And I think that's where the
2 confusion is on that, and that's how it wasn't
3 intended to be. It was intended to be if somebody
4 was trying to defraud the Company by somebody
5 applying for the service from a debt at another
6 location and then somebody else calling in to try to
7 put their name in to avoid paying that old debt.

8 So that's -- and I see where the confusion
9 came in that with the language, and that's why the
10 Company can provide a post-hearing data request and
11 update it.

12 Q. Insofar as the bill format is concerned, and
13 it's been a --

14 A. Uh-huh.

15 Q. -- a couple months, maybe, since I read your
16 testimony, but --

17 A. Uh-huh.

18 Q. -- I didn't recall seeing any evidence or
19 results of surveys in Kentucky Power's service
20 testimony about the line items on the bill --

21 A. Uh-huh.

22 Q. -- in terms of reducing it because people
23 were confused.

24 A. Uh-huh.

25 Q. Was there a -- do you have evidence that in

1 Kentucky Power's service territory people actually
2 would prefer a bill without the 11 separate items
3 and charges on it?

4 A. Those were through our Community Advisory
5 Panels and our workshops, which the Community
6 Advisory Panel members did speak for their
7 constituents in their communities, and the workshops
8 are when the customers did come in and spoken to the
9 Company.

10 Q. Okay. And where were these? Where in
11 Eastern Kentucky was that -- these surveys taken?

12 A. The workshops were held all over. I know --
13 and subject to check, I think they were in Hazard,
14 Pikeville, Ashland, Grayson.

15 And our Community Advisory Panels are held
16 monthly, and they're held in Ashland, Pikeville, and
17 Hazard.

18 Q. Well, we had forums, I guess, or --

19 A. Uh-huh.

20 Q. -- hearings or sessions in Ashland, Hazard,
21 and Prestonsburg for public comment, and there
22 weren't many, but whatever comments there were did
23 not suggest that anyone was confused or wanted the
24 bills -- wanted the items on the bills to be
25 consolidated.

1 A. Uh-huh.

2 Q. As a matter of fact, I could understand the
3 Company's position of why you would want to have the
4 charges consolidated, because if you did, then
5 everyone wouldn't see all of the -- all of the
6 attachments or all of the riders for the various
7 charges that were incurred with closing Big Sandy --

8 A. Well --

9 Q. -- which has basically subjected the Company,
10 rightfully or wrongfully, to a lot of criticism.

11 A. Well, but I think it's also important too
12 that we're not trying to hide that information by
13 rolling up the line items. I mean, the customers
14 can always call in to our call centers and have a
15 breakdown of the bill or their -

16 Q. Well, I don't think that's -- that doesn't
17 make any sense, not to me. Nobody's going to call
18 in --

19 A. Right.

20 Q. -- say, "Please, you know, I want -- we all
21 wanted a simpler bill" --

22 A. Uh-huh.

23 Q. -- "but I'd like for you to explain what
24 items are a part of this bill."

25 A. Well, and they can also -- if they don't want

1 to call in, they can get a breakdown of those
2 information online through a bill calculation
3 spreadsheet. We can even have local customer
4 service representatives come visit their home and
5 discuss their bill.

6 CHAIRMAN SCHMITT: No further questions.

7 Mr. Gish.

8 MR. GISH: The Company has no redirect.

9 CHAIRMAN SCHMITT: Okay. Anyone else? Any
10 additional questions?

11 MR. CHANDLER: The AG has some.

12 CHAIRMAN SCHMITT: Yes.

13 MR. CHANDLER: Thank you. I know we're not
14 friendly, but I do have some.

15 CHAIRMAN SCHMITT: Well, I'd be shocked if it
16 was friendly.

17 MR. CHANDLER: I don't know how to take that.
18 Thank you.

19 CROSS-EXAMINATION

20 By Mr. Chandler:

21 Q. Earlier the discussion was about denials of
22 service.

23 A. Yes.

24 Q. Do you remember that conversation with
25 Commission Staff?

1 A. Yes.

2 Q. Does the Company track denials of service?

3 A. No.

4 Q. And why not?

5 A. It's kind of a case-by-case basis. I mean,
6 we get several phone calls throughout the year, so,
7 I mean, it would be hard to know -- track as far as
8 just the number of instances this occurs.

9 Q. So the number of times that somebody asked
10 you for electric service and you denied them service
11 is not tracked by Kentucky Power?

12 A. No, that's not tracked.

13 Q. Earlier you spoke about the advisory panel.
14 What's the name of that panel?

15 A. The Community Advisory Panels, CAP.

16 Q. Who are on those panels?

17 A. They're local community leaders. I know some
18 are from, like, senior citizen groups that work in
19 nursing homes, hospitals, things of that nature.

20 Q. And how do they -- how do they get -- how do
21 they become members of those panels?

22 A. There was a communications consultant firm
23 that had sent out invitations to these customers --
24 or these leaders in the area and invited several
25 people to come in to discuss, you know, what the

1 panels were going to be about, what everyone hopes
2 to accomplish, and they decided if that was
3 something they were interested in doing or if that
4 was something that really wasn't of their interest.
5 Many of the customers -- or community leaders that
6 come in were interested in it. There were some that
7 did decline.

8 Q. And those are the groups that Kentucky Power
9 depends on in making certain policy decisions moving
10 forward?

11 A. Not just those groups. I mean, we, you know,
12 do take them into consideration, but we also go by,
13 like, customer workshops, where customers could come
14 in, listen as far as their concerns, and come up as
15 far as if there's any policies that we think need
16 addressed, you know, by --

17 Q. When were those workshops held?

18 A. When were the workshops held?

19 Q. Yes.

20 A. I know we had some earlier in the year. I
21 want to say we may have had some late last year, but
22 subject to check, I would have to --

23 Q. Do you know roughly when the last time when
24 you -- that Kentucky Power had one of those
25 workshops?

1 A. I want to say May, but I'm not a hundred
2 percent sure.

3 Q. So is it -- do you think it's Kentucky
4 Power's position that that was a -- and I hate to
5 say a one-time thing, but a limited process? Or I
6 guess you haven't had one in five or six months. Do
7 you know that Kentucky Power plans to make that an
8 ongoing?

9 A. Yeah. I mean, we still want to do ongoing.
10 We still have customer service representatives that
11 go and meet with communities at, like, the Moose
12 Lodge. Our customer service representatives are
13 large in the public area. So they do go around to
14 other areas, it just wasn't those workshops.

15 Q. Do you know when the next workshop is planned
16 for?

17 A. Not at this time, no.

18 Q. You mentioned that Kentucky Power's takeaway
19 from some of the workshops and panels were that --
20 was that customers wanted fewer lines on their
21 bills. Do you remember that?

22 A. Uh-huh. Yes.

23 Q. On the bill --

24 A. Uh-huh.

25 Q. -- the specific lines that are outside of

1 base rates, are those amounts that are recovered
2 through base rates and then pulled out on the bill,
3 or are they amounts that are recovered outside of
4 base rates?

5 A. Well, they would be like your fuel adjustment
6 charge, your environmental. Is that what you're
7 talking about?

8 Q. Yeah, that's right.

9 A. Yeah. Yeah, those charges.

10 Q. And so those are recovered outside of base
11 rates?

12 A. Yeah. I mean, they're some of the charges
13 that, for instance, have a base amount that's in
14 your base rate and then anything that's over or
15 under.

16 Q. And so all of those amounts represent
17 different costs to the Company that they're passing
18 on through those unique, either surcharges or
19 trackers --

20 A. Uh-huh.

21 Q. -- correct?

22 A. Yes.

23 Q. Is the DSM amount recovered through the base
24 rate amount on the -- on the bill, or is it
25 recovered through a separate tracker?

1 A. Separate rider.

2 Q. So, for instance, if there's a large
3 fluctuation in the DSM amounts --

4 A. Uh-huh.

5 Q. -- if that's not explicitly noted on the
6 bill, customers wouldn't necessarily know what
7 that's due to, correct?

8 A. The fluctuation?

9 Q. The fluctuation.

10 A. Yeah. I mean, if it's -- I mean, unless a --
11 you know, a customer as far as wanting to know why
12 the increase, they would have to call in, but we
13 don't put any information on the bill stating why
14 it's increased.

15 Q. Right. But -- so if, for instance, after a
16 DSM factor may be updated --

17 A. Uh-huh.

18 Q. -- for the new year --

19 A. Uh-huh.

20 Q. -- and it's -- let's just say it's three to
21 four times higher than it has been in the past.

22 A. Uh-huh.

23 Q. If that was recovered in a -- if that's
24 recovered as an individual line, customers can look
25 at the previous month and see that change, correct?

1 A. Yeah. I mean -- yes.

2 Q. But if it's grouped together with other
3 items --

4 A. Uh-huh.

5 Q. -- they can look month to month, and if
6 they're grouped, they know that that amount has gone
7 up, but they don't necessarily --

8 A. Uh-huh.

9 Q. -- know the reason, right?

10 A. They wouldn't see it. But as I have stated
11 earlier, that customers would have, you know,
12 several ways of looking to see what charges, what
13 riders, you know.

14 Q. They could call in --

15 A. Call in --

16 Q. -- I think is what you said?

17 A. -- customer service representative could come
18 out, or they could go online and look at the bill
19 calc spreadsheet.

20 Q. Is there any plan to use the new format to
21 educate customers about the availability of
22 assistance -- of assistance?

23 A. Are you talking about -- can you be more
24 specific?

25 Q. With -- and specifically the HEAP funding --

1 A. Uh-huh.

2 Q. -- or with assistance that community action
3 may provide, is there any --

4 A. Yeah. And -- and --

5 Q. -- anticipation with the -- sorry. Excuse
6 me. Go ahead.

7 A. No. Sorry. We do put notes on the sides of
8 our bills from Kentucky Power, and information is
9 there that if a customer needs assistance, or also,
10 too, when they call in, that information is also
11 provided too, if they ask.

12 Q. If the -- if the bill format --

13 A. Uh-huh.

14 Q. -- is approved, you'll have more -- I don't
15 want to -- more space on the bill, right?

16 A. Yes.

17 Q. And do you plan on using that space to
18 highlight that assistance?

19 A. That's information that probably would be put
20 on there. There's going to be probably several
21 things that can be put on there, but that's
22 something the Company would consider.

23 Q. Are you involved in preparing the annual
24 reports that are filed with the Commission every
25 year?

1 A. Yes.

2 Q. And are you familiar with those annual
3 reports?

4 A. Can you date one in specific for --

5 Q. I sure can. There may be a binder up there
6 that is labeled AG --

7 A. Witness binder?

8 Q. -- witness binder.

9 A. Yeah.

10 Q. Well, that one doesn't have anything in it.

11 A. It's empty.

12 Q. I'm going to refer you to AG proposed Exhibit
13 Number 4.

14 MR. CHANDLER: And I'll, I guess, provide the
15 Company with a copy.

16 THE WITNESS: Uh-huh.

17 MR. OVERSTREET: I'm sorry?

18 MR. CHANDLER: It's in section one, and it --
19 I believe it's tab I.

20 MR. OVERSTREET: Okay. Certainly. And, Mr.
21 Chandler, you can ask whatever you want, but
22 Mr. Wohnhas is going to address this issue.

23 MR. CHANDLER: That's fine.

24 THE WITNESS: Uh-huh.

25 MR. OVERSTREET: Go ahead.

1 MR. CHANDLER: Yeah, please. Please.

2 A. Okay.

3 Q. Now it's taking me a little bit. Sorry about
4 that.

5 So do you mind to look at the first page
6 there in Exhibit 4?

7 A. Okay.

8 Q. Is this familiar to you? This looks like the
9 annual report that's filed with the Commission each
10 year, or a page from that annual report.

11 A. Do you know which annual report?

12 Q. This would have been the year 2016.

13 A. But do you know which annual report?

14 Q. This is the --

15 A. We have several of them that we file, so I'm
16 just wanting to make sure.

17 Q. This is titled Annual Report on the --

18 A. Okay. I know which one.

19 Q. -- the Public Service --

20 A. That --

21 Q. -- Commission's website.

22 A. Okay. Yeah, I know which one you're
23 talking --

24 Q. It's a 163-page document.

25 A. Yeah. I know which one you're talking about,

1 yes.

2 Q. So this does look familiar to you, then?

3 A. Yes. Yes. Yeah, I know which one.

4 Q. And do you mind to turn to the last page of
5 the exhibit? And let me know when -- it's year
6 2006.

7 A. Is that one that says 5 of 182 at the bottom?

8 Q. It is.

9 A. Okay.

10 Q. Can you confirm that the line -- it's the
11 third from the bottom, Total Sales to Ultimate
12 Customers. Does that represent, across that, the
13 amount of retail revenues, the amount of retail
14 kilowatt hours sold, or I guess the amount of retail
15 energy and the number of retail customers?

16 A. By the end of the year?

17 Q. Yes, for that year 2006.

18 A. Yes.

19 Q. And on the first page, does that line also
20 represent retail revenues, retail energy sold, and
21 retail customers?

22 A. Yes.

23 Q. Can you confirm that in kilowatts hours sold,
24 on the last page, that it is over 7 billion kilowatt
25 hours sold by the Company in 2006 --

1 A. Yes.

2 Q. -- at the retail level? And can you confirm
3 that in 2016 that amount is 5.8 billion?

4 A. Yes.

5 MR. GISH: Mr. Chairman, I think the Company
6 will stipulate the numbers in this document are what
7 the numbers are and that the ordinal math shows that
8 7 billion is greater than 5 billion, and Mr. Wohnhas
9 can answer questions about what those numbers
10 represent.

11 CHAIRMAN SCHMITT: Well, I understand, but
12 overruled.

13 You may continue.

14 Q. And subject to check, would you agree that
15 that is a 7 -- over a 17 percent decrease?

16 A. Subject to check.

17 Q. Now, in Mr. Satterwhite's testimony he
18 states, (Reading) The Company's customer base
19 continues to shrink, and that decline in usage
20 requires the Company to spread the costs of
21 operations over the smaller number of remaining
22 customers. The effect of a decreasing customer base
23 is the single largest driver of this -- of the rate
24 request.

25 He states that in his direct testimony on

1 page 12, line 18 to 22.

2 A. Uh-huh.

3 Q. So would you say that the evidence -- that
4 this is just additional evidence of that, of
5 additional loading -- additional shrinking load?

6 A. To reflect the shrinking of the customer
7 base?

8 Q. To reflect the shrinking amount of energy the
9 Company has sold.

10 A. I mean, yes. I mean, this reflects that,
11 yes.

12 Q. Okay. Now, do you mind to look at the
13 revenues on the last page?

14 A. Okay.

15 Q. Will you -- would you agree that the total
16 retail revenues in 2006 were \$391 million -- 300 --
17 I'm not very -- \$391,934,420?

18 A. Yes.

19 Q. Okay. And would you go to the first page in
20 2016?

21 A. Uh-huh.

22 Q. Would you agree that the total retail
23 revenues are \$572,810,770 -- \$777?

24 A. Uh-huh. Correct.

25 Q. And subject to check, would you agree that

1 that's roughly an increase of 46 percent?

2 A. Subject to check.

3 MR. CHANDLER: That's all the questions we
4 have, Mr. Chairman.

5 And we'd also like to move to introduce AG
6 Exhibit Number 4.

7 MR. GISH: Mr. Chairman, we would again renew
8 our objection to having this witness -- this exhibit
9 entered before Mr. Wohnhas is on the stand and
10 explain the context of it.

11 CHAIRMAN SCHMITT: We'll do that when Mr.
12 Wohnhas testifies. Okay?

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

14 CHAIRMAN SCHMITT: Now, let me understand,
15 though, what the objection is. That it hasn't been
16 authenticated, is that --

17 MR. GISH: That's correct. It has not been
18 authenticated by someone who can describe the
19 context of these numbers in the full 160-page
20 document that is --

21 CHAIRMAN SCHMITT: Of the annual report?

22 MR. GISH: Yes.

23 MR. CHANDLER: Mr. Chairman --

24 CHAIRMAN SCHMITT: I mean, we can all just
25 bring it. I've got a copy in my office.

1 MR. GISH: Sure. Sure.

2 CHAIRMAN SCHMITT: We can bring it down here,
3 if necessary.

4 MR. CHANDLER: I think the -- I think that
5 Mr. Sharp has indicated he's familiar with the
6 annual reports, is involved in compiling them. I
7 don't think there's an issue with authentication.

8 Whether or not the Company believes that they
9 have been provided proper context is -- I think they
10 are more than -- it's their right to reintroduce the
11 AG's exhibit to bolster Mr. Wohnhas or have him
12 provide context if they would like when he's on the
13 stand.

14 CHAIRMAN SCHMITT: Well, I think in reality,
15 when you get down to just the bottom line of it, the
16 annual report is a document that's filed with this
17 Commission and as such is a public record.

18 I guess the difference is, is that -- the
19 objection is that only part of the report is here
20 and those parts haven't been authenticated.

21 So let's wait till Mr. Wohnhas testifies, and
22 in the meantime I'm going to ask Staff if we can get
23 a copy, an official copy of the, what, 2016 annual
24 report?

25 MR. CHANDLER: I provided the -- this

1 individual page from 2006 to 2016, but I am only
2 referencing -- I believe I did reference -- I had
3 Mr. Satterwhite read through all 11 years, but I'm
4 only referring now to 2006 to 2016.

5 CHAIRMAN SCHMITT: Okay. The two, '6 and
6 '16?

7 MR. CHANDLER: Yes, sir.

8 CHAIRMAN SCHMITT: Okay. Well, let's see if
9 we can get a copy, a complete copy of 2006 and 2016
10 reports and have them down here by the time Mr.
11 Wohnhas testifies, presumably after our 11:00
12 o'clock recess. Okay?

13 MS. VINSEL: Staff will do that.

14 CHAIRMAN SCHMITT: Okay. Thank you.

15 MR. GISH: Thanks, Mr. Chairman.

16 MR. CHANDLER: That's all the questions we
17 have.

18 CHAIRMAN SCHMITT: Anyone else have any
19 questions of Mr. Sharp?

20 MS. VINSEL: I have no further question.

21 MR. GISH: Mr. Chairman --

22 CHAIRMAN SCHMITT: Direct?

23 MR. GISH: -- I have one follow-up question.

24 * * *

25

REDIRECT EXAMINATION

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By Mr. Gish:

Q. Mr. Sharp, Mr. Chandler asked you some questions about the billing line -- the proposed billing item -- billing line item rollup.

A. Yes.

Q. Do you remember those questions?

A. Yes, I do.

Q. Can you turn to your -- page 6 of your testimony in case -- I always forget the number of this one.

A. 231?

Q. Yeah, 230 -- 2017-231.

A. Uh-huh. Which page?

Q. Six.

A. Six. Okay.

Q. And on the top of page 6 there's a table that shows the proposed billing format; is that correct?

A. Yes.

Q. And the DSM adjustment charge, the DSM charge --

A. Yeah.

Q. -- is separated from the proposed rate billing line item --

A. Yeah.

1 Q. -- correct?

2 A. That's correct. I did misspeak. That line
3 item would be separate.

4 Q. So if there was a change in the DSM charges
5 that were passed through to customers --

6 A. Yes, that's correct.

7 Q. -- it would be identified there?

8 A. Yes.

9 MR. GISH: No further questions, Mr.
10 Chairman.

11 CHAIRMAN SCHMITT: Any other questions of
12 this witness?

13 If not, may he be excused?

14 MS. VINSEL: Yes, he may be excused.

15 CHAIRMAN SCHMITT: Thank you, Mr. Sharp.

16 MR. SHARP: Thank you.

17 CHAIRMAN SCHMITT: You may step down and
18 you're excused.

19 MR. SHARP: Thank you.

20 MR. OVERSTREET: Your Honor, our next witness
21 is Amy Elliott, and Mr. Gish will present her.

22 CHAIRMAN SCHMITT: Ms. Elliott, please raise
23 your right hand. Do you solemn swear or affirm,
24 under penalty of perjury, that the testimony you are
25 about to give will be the truth, the whole truth,

1 and nothing but the truth?

2 MS. ELLIOTT: I do.

3 CHAIRMAN SCHMITT: Please be seated.

4 Mr. Gish, you may ask.

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

6 AMY ELLIOTT, called by Kentucky Power
7 Company, having been first duly sworn, testified as
8 follows:

9 DIRECT EXAMINATION

10 By Mr. Gish:

11 Q. Good morning, Ms. Elliott.

12 A. Good morning.

13 Q. Can you please state for the record your full
14 name, your position, and business address?

15 A. Sure. It's Amy Elliott, I am a Regulatory
16 Consultant for Kentucky Power, and my business
17 address is 101 Enterprise Drive in Frankfort,
18 Kentucky.

19 Q. Thank you. And, Ms. Elliott, do you have --
20 did you file testimony, supplemental testimony,
21 responses -- and responses to data requests in this
22 case?

23 A. I did, yes.

24 Q. And did you also adopt certain portions of
25 the testimony and data requests of Company Witness

1 John Rogness?

2 A. Yes, I did.

3 Q. And do you have any corrections or updates to
4 your testimony or responses to data requests?

5 A. Not to my testimony or data requests, but I
6 do have one update to the tariffs that were filed
7 with the settlement agreement --

8 Q. And what is that --

9 A. -- and that --

10 Q. Oh. What is that update?

11 A. The environmental surcharge tariff that I
12 originally sponsored as an exhibit to my testimony
13 was updated for the settlement agreement, but it
14 needs to reflect the 9.75 ROE that was agreed to in
15 the settlement agreement rather than the proposed
16 rate in this case.

17 Q. And with that correction, if I were to ask
18 you the same questions that are included in your
19 testimony and responses to data requests, would you
20 give the same answers?

21 A. Yes, I would.

22 MR. GISH: Mr. Chairman, the witness is
23 available for cross-examination.

24 CHAIRMAN SCHMITT: Mr. Kurtz, questions.

25 MR. KURTZ: No questions.

1 CHAIRMAN SCHMITT: Counsel for any of the
2 settling intervenors have any questions of this
3 witness?

4 If not, Mr. Cook, questions.

5 MR. COOK: No questions at this time.

6 CHAIRMAN SCHMITT: Okay. Mr. Osterloh,
7 questions.

8 MR. OSTERLOH: No questions.

9 CHAIRMAN SCHMITT: Staff.

10 MS. VINSEL: Yes, we have a few questions.

11 CROSS-EXAMINATION

12 By Ms. Vinsel:

13 Q. Good morning, Ms. Elliott.

14 A. Good morning.

15 Q. Do you have a copy of this up there? It has
16 17 tabs in it. It says Case Number 2017-00179.

17 A. Yes, this is it.

18 Q. The gray cover. Okay. Thank you. Can I
19 have you first turn to after tab 9?

20 A. Yes.

21 Q. And this is your direct testimony. If you
22 turn to the second page after tab 9, this is an
23 excerpt from your direct testimony. It is page 14.

24 A. Okay.

25 Q. Can I have you look to lines 11 through 13 on

1 that page?

2 A. Okay.

3 Q. So Kentucky Power is proposing to apply a
4 gross-up factor for uncontrollable -- or, excuse me,
5 uncollectible accounts and the PSC assessment fee to
6 environmental-related operating, maintenance, and
7 other expenses recovered through the environmental
8 surcharge; is that correct?

9 A. That is correct, yes.

10 Q. What factors prompted Kentucky Power to apply
11 a gross-up factor to those expenses?

12 A. So part of my job is to monitor our recovery
13 mechanisms, and in that make sure that all of the
14 environmental costs are properly recovered through
15 the environmental surcharge. So if we don't apply
16 the gross-up factor for PSC maintenance assessment
17 fee and the uncollectible expenses, then we aren't
18 fully recovering our costs, because we are -- we're
19 not collecting all of the revenue associated with
20 those costs.

21 Q. To your knowledge, do any other AEP operating
22 companies have an environmental surcharge?

23 A. Yes. Give me just a second. I know there
24 are a couple that do. I think it was Staff 23,
25 maybe, that asked that question that I referred to.

1 Oh, it's the third set. No wonder.

2 So Staff 23 asked about other AEP operating
3 companies that recover consumable costs through a
4 rider, and I answered that Indiana Michigan Power,
5 SWEPCO, and PSO recover costs of consumables through
6 a rider, but I'm not sure if that's an environmental
7 rider. Sorry, I don't know.

8 Q. No, that's okay. So it was item 23. Do you
9 know which of the four Staff requests that was?

10 A. Yes. That was two. It was the second set.

11 Q. 23. Okay. Are you aware if there's a
12 gross-up to any of those expenses -- or excuse me.
13 Are you aware if there are included gross-up
14 expenses in there?

15 A. Sorry, I'm not.

16 Q. Okay. And turning again to your direct
17 testimony on lines 10 and 11. And I'm just going to
18 read it to you to make it a little bit easier.

19 A. Okay.

20 Q. And here it says, (Reading) The Company is
21 proposing to apply a gross-up factor to the costs
22 incurred by the Company to operate approved
23 environmental projects.

24 Can I have you turn, then, after -- it's tab
25 10, and these are your responses to Staff's fourth

1 data request, item 7.

2 And in your response to 7 and 7C, you
3 indicate that the gross-up will be applied only to
4 the difference in the O&M, operating and
5 maintenance, from the base level.

6 It appeared to Staff that there was perhaps a
7 change, that in the direct testimony it seemed to be
8 to all of the expenses as opposed to this, the
9 reference in PSC 4-7, and we wanted to clarify if
10 there was a change.

11 A. Give me just a second, please.

12 Q. Sure.

13 A. I think it was more of a clarification than a
14 change.

15 Q. Okay. Okay.

16 A. I think there's another Staff data request
17 from the fourth set that would be helpful, and
18 that's the one that asked how those costs are
19 currently included in the cost of service.

20 Q. Okay.

21 A. Let's see. Yes, the fourth set, number 8,
22 that explains where the costs currently are.

23 Q. Oh, okay. Thank you.

24 A. So with the maintenance assessment fee and
25 the uncollectible expenses, the test year amount

1 being included in the cost of service study, we are
2 trying to capture the difference in the test year
3 amount and the amounts collected through the
4 environmental surcharge.

5 Q. Thank you. If the Commission were to approve
6 the proposal to apply a gross-up factor to the --
7 only to O&M expenses incremental to base rate
8 amounts, will Kentucky Power remove this gross-up
9 factor when calculating the incremental amounts
10 rolled into base rates in its next base rate case?

11 A. Let me think about that. I think we need to
12 make one clarification and then maybe ask you to
13 repeat the question.

14 Q. Okay.

15 A. Because of the way that the FGD costs are
16 only recovered through the environmental surcharge,
17 we have to be careful when we talk about base level
18 or test year in this case.

19 So if you could just rephrase your question
20 and say considering that it -- we have to only -- or
21 we have to include the test year amount rather than
22 the base level amount.

23 Q. Okay. Let me move beyond that question and
24 get to the Staff's concern.

25 A. Okay.

1 Q. And that was -- that was a concern about
2 double recovery.

3 A. Okay.

4 Q. That if calculating the incremental roll-in
5 amount with the gross-up factor and calculating base
6 rates and the gross-up factor, if there would be a
7 double recovery.

8 A. I understand your concern. We could address
9 that in the cost of service in the next rate case,
10 yes.

11 Q. Okay. I think you've already answered one of
12 these questions. I apologize. I'm going to take a
13 minute to look through.

14 A. Okay.

15 Q. So the Tariff EDS, though, will be revised to
16 reflect the 9.75 rate?

17 A. Yes, it will be.

18 Q. I do have a question about tariff sheet 29-2,
19 and this is in tab -- after tab 11, if that's
20 helpful. And let me know when you're there.

21 A. I'm there.

22 Q. Okay. And at -- the environmental base
23 period revenue requirement monthly amounts, the
24 requirement is shown as \$47,811,215, but -- and I'm
25 going to have you turn -- we're going to flip back

1 and forth. I apologize for that.

2 A. That's okay.

3 Q. Under tab 12. And this is your Exhibit
4 AJE-1S, as in Sam. Here the amount is listed at
5 4.9 million.

6 A. 49.9, just to clarify.

7 Q. 49.9. Thank you.

8 A. Or 48.9. Sorry.

9 Q. 48.9.

10 A. Okay.

11 Q. I apologize.

12 A. Yes, and I can tell you what the difference
13 is.

14 Q. Please.

15 A. And the difference is that the base level
16 amounts in the tariff that we filed with the
17 settlement were updated to reflect the change in the
18 weighted average cost of capital with the settlement
19 agreement. I will happily provide that calculation.

20 Q. Oh, thank you.

21 MS. VINSEL: We have no further questions.

22 CHAIRMAN SCHMITT: Commissioner Cicero.

23 VICE-CHAIRMAN CICERO: No questions.

24 CHAIRMAN SCHMITT: Commissioner Mathews.

25 COMMISSIONER MATHEWS: None.

1 CHAIRMAN SCHMITT: I have none.

2 Mr. Gish.

3 MR. GISH: No redirect.

4 CHAIRMAN SCHMITT: Does any other party have
5 any questions of this witness?

6 Mr. Kurtz.

7 MR. KURTZ: No.

8 CHAIRMAN SCHMITT: Anyone else?

9 May she be finally excused?

10 MS. VINSEL: Yes, she may be excused.

11 CHAIRMAN SCHMITT: Thank you. You may step
12 down and you may be excused.

13 MS. ELLIOTT: Thank you.

14 MR. OVERSTREET: Your Honor, our next witness
15 is Brad Hall, and Mr. Gish will present him too.

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

21 MR. HALL: I do.

22 CHAIRMAN SCHMITT: Please be seated.

23 Mr. Gish, you may ask.

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

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1 BRAD N. HALL, called by Kentucky Power
2 Company, having been first duly sworn testified as
3 follows:

4 DIRECT EXAMINATION

5 By Mr. Gish:

6 Q. Good morning, Mr. Hall.

7 A. Good morning.

8 Q. Can you please state your full name, title,
9 and business address for the record, please?

10 A. Brad N. Hall, Manager External Affairs. My
11 business location is 855 Central Avenue, Ashland,
12 Kentucky.

13 Q. And did you file direct and rebuttal
14 testimony and responses to data requests in this
15 case?

16 A. I did.

17 Q. And do you have any updates or corrections to
18 your testimony or responses to data requests?

19 A. I do not.

20 Q. If I were to ask you the same questions
21 today, would you give the same answers?

22 A. I would.

23 MR. GISH: Mr. Chairman, the witness is
24 available for cross-examination.

25 CHAIRMAN SCHMITT: Mr. Kurtz, questions.

1 MR. KURTZ: I think so.

2 CROSS-EXAMINATION

3 By Mr. Kurtz:

4 Q. Mr. Hall, you're head of economic development?

5 A. Yes, sir.

6 Q. Okay. What type of companies do you recruit?

7 A. We primarily focus on larger industrial and
8 large commercial operations.

9 Q. Manufacturers?

10 A. Absolutely.

11 Q. Okay. Why? Why do you focus on those
12 companies?

13 A. Our focus in economic development is to focus
14 on what we refer to as primary jobs, which are
15 higher wage jobs that would then stimulate the
16 economy for the secondary jobs, which includes
17 retail and many other jobs.

18 Q. Okay. Is that the same type of process that
19 the economic development, the state economic
20 development department goes through?

21 A. Yes, sir.

22 Q. Let me give you an example. If a town has
23 five barbers, or hairstylists, barbers, and two more
24 move in, would that be -- that would be a 40 percent
25 increase in the number of barber jobs, but they

1 would just be -- there wouldn't be any more
2 haircuts, it would just be -- they would just be
3 dividing the pie up seven ways instead of five ways.

4 A. Sure. Depending upon the demand for
5 barbering, I think you're correct.

6 Q. But when you bring in a manufacturing job,
7 there's no cannibalism of other jobs. That's
8 incremental new jobs that weren't there and it
9 doesn't take away other jobs, correct?

10 A. Sure. I mean, the real focus of economic
11 development is to try to bring in jobs that are
12 going to create a product that then would be
13 exported that brings new money to the region and to
14 the economy.

15 Q. And that's why states compete fiercely for
16 new auto manufacturers and those type of things?

17 A. Correct.

18 Q. It brings in new money rather than just
19 shuffling around the same retail dollars?

20 A. Correct.

21 Q. Okay. There was a press release yesterday.

22 A. Yes, sir.

23 Q. What was that about?

24 A. The press release was in relation to a large
25 manufacturer that's locating into Pikeville,

1 Kentucky, at the Kentucky Enterprise Park. It was a
2 very large announcement and our company, our efforts
3 was very involved in.

4 I believe the company name is now public. As
5 of yesterday the state provided incentive
6 announcement. The company is EnerBlu, based out of
7 Riverside, California. They are going to create 875
8 full-time jobs paying \$81,000 a year to manufacture
9 energy solutions such as batteries within the
10 region. It's a \$372 million investment.

11 Q. That's very significant. Congratulations.

12 A. Thank you.

13 Q. How much energy are they going to use, about?

14 A. The estimation is 25 megawatts.

15 MR. KURTZ: Thank you, Mr. Chairman. No more
16 questions.

17 CHAIRMAN SCHMITT: Do counsel for any of the
18 other settling intervenors have any questions of Mr.
19 Hall?

20 If not, does the Attorney General?

21 MR. COOK: At this time we do not, Your
22 Honor.

23 CHAIRMAN SCHMITT: Mr. Osterloh, questions.

24 MR. OSTERLOH: Mr. Gardner.

25 CHAIRMAN SCHMITT: Oh, Mr. Gardner. I'm

1 sorry. I didn't see you.

2 MR. GARDNER: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 By Mr. Gardner:

5 Q. Mr. Hall, how many of the -- how many jobs
6 are associated, do you believe, with the 30,000
7 commercial customers that are currently in your
8 territory?

9 A. I didn't -- I have not done the math on that,
10 but I know there is some that fall within the
11 commercial tariffs, but I don't know the allocation.

12 Q. I mean, there would be tens of thousands of
13 jobs associated with those 30,000 commercial
14 customers, right?

15 A. Oh, I'm sorry. I thought you were asking in
16 the jobs that we have created.

17 Q. No. No, sir.

18 A. Yes.

19 Q. Within the 30,000 commercial customers that
20 are currently in your territory, that represents
21 tens of thousands of jobs, right?

22 A. I'm sure, subject to check.

23 Q. Mr. Satterwhite referred a couple questions
24 to you. Do you -- have you seen that KCUC Exhibit
25 3, which is the economic development plan that was

1 presented at the Leadership Kentucky?

2 A. I don't have that up here with me. I have
3 seen it. If someone could provide me a copy of
4 that.

5 MR. GARDNER: If I may approach him.

6 CHAIRMAN SCHMITT: Yes, you may.

7 Q. And I'm showing you unnumbered page 7. At
8 the bottom of that you're listing wood products as
9 one of the areas that are jobs that you would like
10 to create.

11 A. Yeah. Let me clarify something on this
12 document, if I can. This document is actually a
13 production of Dale Boyett & Associates, which is a
14 consulting firm that we played a part in with --
15 through our grant funds that we have, with multiple
16 groups within the region, such as One East Kentucky,
17 Ashland Alliance, the wood board within the region,
18 to do a massive labor analysis of actually multiple
19 counties, all of our counties in Eastern Kentucky.

20 And the idea was, was to look at the coal
21 miner, to look at the steelworker, break out the
22 skills that those particular individuals have, and
23 then determine what best manufacturing opportunities
24 and other opportunities that those skill sets would
25 work and transition into, those particular jobs.

1 And so this document is a representation of
2 those skill sets that those workers can transition
3 into.

4 Q. So -- and sawmills or wood products is one of
5 those areas?

6 A. Sure. And, in fact, this study is
7 actually -- if you were to ask Braidy Industries or
8 if you were to ask EnerBlu, this study is one of the
9 primary reasons that they determined that they could
10 locate in Eastern Kentucky, because we were able to
11 prove the value of the workforce and not just say,
12 "Oh, we have a lot of great people," which we do,
13 but we were actually able to prove the skill sets
14 with data.

15 Q. So are you familiar with BPM Lumber?

16 A. Slightly familiar, yes.

17 Q. Okay. So they current -- so they are
18 currently providing wood products, which is the type
19 of business that you like because it adds value and
20 can be exported, right?

21 A. Sure. It's exporting a product.

22 Q. Sure. And subject to check, they have
23 hundreds of employees in your territory?

24 A. I wouldn't know, but subject to check, I
25 would agree.

1 Q. Okay. Let me ask you a question about your
2 testimony and the attachment that you -- BHN -- BNH
3 1, which was the blue -- regional blueprint for
4 economic development, and that was produced by
5 Insight for you-all; is that right?

6 A. Correct.

7 Q. And were you in your current position at the
8 time this was developed?

9 A. Yes, sir. I actually created the idea for
10 the program, developed the criteria for the program,
11 and worked directly with the consultant.

12 Q. And this was -- this report was produced five
13 years ago, 2012?

14 A. This particular report, yeah. I think it was
15 actually produced in 2013.

16 Q. Okay. And if you would turn to page 9 of
17 that report, where you're listing assets for the
18 area.

19 A. I'm there.

20 Q. And at the very -- and this is where you're
21 listing the regional asset inventory, and one of
22 those is -- the very bottom one is hospital and
23 access to medical care; is that correct?

24 A. Yes, sir.

25 Q. And having high-quality health care is an

1 important asset as you try recruiting facilities; is
2 that correct?

3 A. It is an important asset. If you look at
4 national statistics that's usually provided by a
5 site location magazine, it's usually lower on the
6 list. Not that it's not important, but when
7 locating an industry, you're typically going to find
8 a hospital wherever you're going.

9 They're really focused on site quality,
10 they're really focused on workforce skill sets, and
11 they're really focused on the availability of assets
12 like land and buildings. And once you get through
13 that hurdle, then you start looking at
14 quality-of-life issues, which are a little further
15 down the list. And hospitals are in those lists,
16 but typically a large employer, much like EnerBlu,
17 they're going to bring in some management, but
18 they're going to hire the local folks to work there,
19 and so the majority of those employees already live
20 there and love to live there.

21 So it's important, but it's a little further
22 down the list.

23 Q. Sure. So you're not saying that having
24 high-quality health care is not important?

25 A. Absolutely not.

1 Q. Okay. So the way Kentucky Power's tariffs
2 are, those companies that have a demand of 1,000 --
3 a regular demand of basically 1,000 kilowatts are
4 considered in the Industrial Tariff IGS, correct?

5 A. That's my understanding.

6 Q. Okay. And companies under your -- well,
7 companies between 100 kilowatts and 1,000 kilowatt
8 are determined to be large general service, correct?

9 A. That's my understanding.

10 Q. Okay. Give me some examples of the
11 businesses around -- you know, what would be in
12 those low 100 kilowatt, low 100s kilowatt? You
13 know, at the 1,000 kilowatt, we know up in that
14 range is going to be a business like Appalachian
15 Regional Health Care, but at the low of that large
16 general, what kind of business? Is that a service
17 station? Is that a convenience store? I mean,
18 what -- that's using -- that's kilowatt is roughly
19 low 100s, what would that be?

20 A. So let me ask a question, if I may. Are you
21 asking me if it's within the MGS tariff or --

22 Q. Well, what you're doing -- no. Right now
23 what you're proposing is to consolidate small
24 general and medium general into general, but what
25 I'm focusing on is just the -- that large general

1 between 100 kilowatts and 1,000 kilowatts. That
2 category has not changed with your rate case.

3 So my question -- so I'm asking in that large
4 general service. At the very top of that size is
5 something like Appalachian Regional Health Care. At
6 the bottom of that category -- I'm not asking about
7 small, I'm not asking about medium, I'm asking what
8 kind of business would be in that, that category?

9 A. Well, I think the best way I can answer your
10 question is to talk that we've actually announced
11 several jobs that fall within that, that usage
12 category that you're speaking of.

13 In fact, Wrightway Mix Solutions is a company
14 that's locating in Greenup County that we were very
15 involved in. In fact, I had a personal relationship
16 with the CEO. They were ready to go to Ohio, and I
17 gave them a phone call and said, "Hey, give us a
18 chance to keep you in Kentucky," and so because of
19 that we are locating 130 jobs in Greenup County,
20 Kentucky, at the Wurtland Riverport that -- and
21 their usage will be somewhere around 350 to 380
22 kilowatts.

23 Q. Okay.

24 A. But those are valuable jobs. I think the
25 wage is \$15 per hour.

1 Q. Okay.

2 A. The minimum wage. And our grant funds were
3 directly involved in that program through the
4 Ashland Alliance and the Wurtland Riverport.

5 Q. Okay. Well, where would a gas station fit?

6 A. You would have to look at each individual gas
7 station and determine what their usage is.

8 Q. Okay. What about mom-and-pop grocery stores,
9 where are they?

10 A. It would depend on the size of the grocery
11 store, how many freezers they have, and how much
12 usage they have.

13 Q. Okay. But those -- okay. Now -- if I could
14 have that back, please.

15 So did you -- Mr. Hall, were you here and did
16 you hear all of Mr. Satterwhite's testimony?

17 A. Yes, sir.

18 Q. Okay. Did you hear him say that there was --
19 when asked the question from the slide, I think by
20 Staff, that there was no master plan for economic
21 development, that it was in his head?

22 A. I did hear him say that, and I would like to
23 say that we do have a plan. There may not be an
24 overall master plan, there is discussions about
25 large things that we want to accomplish, like what

1 Mr. Satterwhite was referring to. But there is an
2 annual plan that's composed every year. We plan
3 this, our work, for every year.

4 The Insight Consulting study that you
5 referred to as my Exhibit 1 has been our driving
6 plan of work, if you will, almost a master plan, in
7 that we are working to fill the gaps that were
8 identified in that, that study, and we've been doing
9 that since 2013. And I think we've had a lot of
10 successes.

11 In fact, we talked about EnerBlu just a
12 moment ago, and EnerBlu is there because of the work
13 that we have done through Insight Consulting. In
14 fact, the site that they're locating on four years
15 ago was master planned to be a golf course and
16 subdivision, and the mayor would not waver on that.

17 And through this study and the work that we
18 did in this study, the city saw the opportunity,
19 rezoned it to industrial, and as of yesterday that
20 park will now be full with three projects that our
21 grant funds have been directly involved in.

22 We have put in over \$300,000 in that site,
23 through geotechnical work, due diligence, and other
24 things that were not done prior to our work as being
25 a catalyst for economic development in the region,

1 and now there will be well over 1,400 jobs in that
2 park providing great wages for people in Pikeville
3 and Eastern Kentucky.

4 Q. Okay. I mean, I appreciate all the economic
5 development that you-all are doing, but this --
6 we're in front of the Public -- the PSC, the Public
7 Service Commission, not the Economic Development
8 Cabinet, right?

9 A. Yes, sir; I'm aware of where I am.

10 Q. Okay. And you-all are not an economic
11 development agency, you are a public utility, right?

12 A. We are a public utility, but I think if you
13 look at the history of the electrical companies
14 throughout -- we actually -- if you look at the
15 history of economic development, power companies and
16 utility companies actually created the practice of
17 economic development, and historically our industry
18 has always been involved in economic development.

19 And, in fact, our efforts in economic
20 development are what's moving the denominator. If
21 we were not involved, I think you can look at the
22 history of decades of very little movement and
23 diversity of industry in Eastern Kentucky, and today
24 we can show proof of movement in Eastern Kentucky,
25 with over 2,000 jobs being added in a very short

1 period of time, and most of those wages are over
2 \$50,000 a year.

3 Q. Let me ask this: Are there any -- and you
4 obviously understand economic development. How do
5 you -- are there metrics in the -- in the economic
6 development business to measure the success -- how
7 you are successful or not?

8 A. Yeah, there are metrics. You look at, you
9 know, how many prospects are in your sales funnel.
10 You look at how many site visits that you've had.
11 You look at how many jobs are you creating. You
12 look at all of those factors.

13 And if you look at those factors, I think you
14 can prove that these grant programs, these economic
15 development programs are being successful, because
16 we are creating high-quality jobs.

17 Q. Do you have -- do you-all measure that on an
18 annual basis?

19 A. We track the metrics that I spoke of.

20 Q. Do you measure those on an annual basis to
21 know how successful you've been in a particular year
22 or not?

23 A. Sure. I mean, we track the job counts. We
24 track the investments that are made. We track each
25 of the grants that have been awarded through

1 reporting mechanisms.

2 I have a spreadsheet of prospects and jobs,
3 which many of those are confidential. As you
4 understand in economic development, when you're
5 working with a company, prior to it being announced,
6 you can't talk about that company. In fact, until
7 yesterday I couldn't have even talked about EnerBlu,
8 because if that had come out before the
9 announcement, then the state would not award them
10 the incentives, and that is the practice of every
11 state in economic development.

12 Q. How much -- so how --

13 CHAIRMAN SCHMITT: Stop just a second. I
14 don't know about the -- we have a -- can you turn
15 that down or turn the fan off?

16 Wait just a second, Mr. Gardner, we can
17 reduce the noise level.

18 MR. CHANDLER: It feels very good, though.

19 COMMISSIONER MATHEWS: It feels great.

20 MR. CHANDLER: It feels great.

21 CHAIRMAN SCHMITT: While we're waiting, I'd
22 like to ask a question, I guess of Mr. Gish or Mr.
23 Overstreet.

24 MR. OVERSTREET: Yes, Your Honor.

25 CHAIRMAN SCHMITT: Mr. Gardner asked

1 questions, I think he wanted to know about what
2 types of businesses one would expect to find in the
3 LGS rate class, I guess, between -- the lower end,
4 100, 200, 300, 400 kilowatts. Is there a witness
5 available from Kentucky Power who could address that
6 issue, because I'd like to know myself.

7 MR. OVERSTREET: Surely. May I --

8 CHAIRMAN SCHMITT: If there is.

9 MR. OVERSTREET: May I turn around and
10 inquire?

11 CHAIRMAN SCHMITT: Yes.

12 MR. CHANDLER: While we're taking a break, I
13 know that Mr. Cook had passed on cross, but as it's
14 not moved to Staff yet, I was wondering if opposing
15 counsel would object or would they insist on us
16 waiting for recross?

17 MR. GISH: Our answer would be whatever's
18 most efficient.

19 CHAIRMAN SCHMITT: Well, we'll take that up,
20 and we'll wait till Mr. Gardner is finished --

21 MR. CHANDLER: Thank you.

22 CHAIRMAN SCHMITT: -- and then see. I think
23 probably the best way to do it would be to allow you
24 to go ahead and cross, and then counsel could then
25 redirect, if necessary, rather than go through

1 another layer. All right.

2 MR. CHANDLER: Thank you.

3 CHAIRMAN SCHMITT: Now, Staff has -- we have
4 the 2006 and 2016 annual reports. Why don't we
5 distribute those now to those who need them so that
6 Mr. Wohnhas and Mr. Gish and Mr. Chandler and Mr.
7 Cook can all be on the same page as to whether or
8 not the -- these excerpts are authentic, and if so,
9 if we need to introduce the entire 2006 and 2016
10 Kentucky Power annual reports, then we'll go ahead
11 and just do it now.

12 MR. OVERSTREET: I have an answer to your
13 inquiry.

14 CHAIRMAN SCHMITT: Okay.

15 MR. OVERSTREET: Mr. Hall, I think, properly
16 characterized the dilemma in that there is no
17 one-size-fits-all lower-level LGS service station,
18 but I think we can do a little research over the
19 lunch break and we would be able to provide the
20 Chair and the parties with some examples --

21 CHAIRMAN SCHMITT: Okay.

22 MR. OVERSTREET: -- that would be responsive.

23 CHAIRMAN SCHMITT: I think that would be not
24 only helpful to Mr. Gardner but to me. And let me
25 tell you why I ask: Because I noticed, I guess last

1 week, in trying to review the testimony and the
2 proposed settlement agreement, the issue about this
3 K-12 tariff with schools, and some -- schools would
4 be eligible, I guess, if their requirement was 100
5 kW or above, and so the question I asked Staff,
6 which we couldn't answer, was: Well, what kind
7 of -- what size schools are we talking about?
8 What -- how many students? What are we -- how many
9 schools, really, are there that might fit into that
10 category, and then where would the others go?

11 MR. GISH: Sure.

12 CHAIRMAN SCHMITT: So that was my question.
13 So if you could -- somebody at Kentucky Power could
14 think about that.

15 MR. OVERSTREET: We'll bone up and --

16 CHAIRMAN SCHMITT: Okay. Thank you.

17 MR. OVERSTREET: -- and try to get you an
18 answer.

19 CHAIRMAN SCHMITT: Mr. Gardner.

20 MR. GARDNER: Yes, sir. Thank you, Your
21 Honor.

22 Q. So, Mr. Hall, so the -- you-all do this on an
23 annual basis, reporting the results of your economic
24 development activities?

25 A. Yes.

1 Q. Okay. Do you file that with the Commission?

2 A. No. What we file with the Commission is an
3 annual report on the two grant programs that are in
4 existence, which is the KEAP program and the K
5 program -- K-PEGG program. We file that in March of
6 each year.

7 MR. GARDNER: Okay. So what I'd like to
8 make, if I could, Your Honor, as a post-hearing data
9 request is say the last five years, your economic
10 development study -- not study, but analysis of the
11 results that I thought I heard you say that you-all
12 prepare that on an annual basis.

13 A. Let me clarify. The results of what?

14 Q. The results of your-all's economic
15 development activities.

16 A. We --

17 Q. Because that's what we're talking about here
18 is how to measure success.

19 A. So I think what we track and what we could
20 provide is, is, you know, number of prospects --

21 Q. Do you-all --

22 A. -- without names.

23 Q. Do you-all do that on an annual basis?

24 A. There is data that is tracked on an annual
25 basis, yes.

1 Q. Do you-all provide that to anybody on an
2 annual basis? I mean, I'm not trying to be
3 difficult.

4 A. Internally, yes.

5 MR. GARDNER: Okay. So I would like -- so,
6 if I could, to make a post-hearing data request for
7 the five years, '13, '14, '15, '16.

8 CHAIRMAN SCHMITT: Sure. But we'd ask
9 that -- at the end, that counsel for the parties
10 agree -- or we don't agree, we're going to order, if
11 you have a post-hearing data request, it must be in
12 writing, and you need to be thinking about how much
13 time you need to draft it so that then I guess Mr.
14 Overstreet will be thinking about how much time his
15 client needs to respond.

16 MR. OVERSTREET: And I think that's
17 reasonable, and I would note that, you know, Mr.
18 Gardner could have asked for this in discovery.

19 CHAIRMAN SCHMITT: Sure.

20 MR. OVERSTREET: But we'll follow up.

21 CHAIRMAN SCHMITT: Okay.

22 Q. So does it -- does that report describe the
23 metrics that are used to evaluate the success, or is
24 it much more general, that if we -- you know, we
25 talk to 35 people, we -- you know, 17 of them

1 expressed an interest, two relocated? Is it more
2 like that?

3 A. I don't think it's that granular. It's more
4 of just tracking a sales funnel and the results of
5 that sales funnel.

6 Q. Okay. So one of the things this rate case
7 does, or -- and particularly the settlement, is add
8 some additional dollars for economic development,
9 and in particular about 300,000 new dollars are
10 being added to the commercial class with this -- on
11 the KEDS program.

12 So how do we measure the success of the
13 different ratepayer-funded programs that you're
14 asking small -- you know, small business customers
15 to provide dollars? How do we measure the success
16 of their efforts, and versus, say, shareholder
17 efforts? Because shareholders can invest in
18 economic development, that's great, you know, but
19 I'm interested in how to measure the success of the
20 share -- of the ratepayer-funded economic
21 development programs as opposed to, for example,
22 well, you know, what -- how would you quantify? Or
23 maybe you're saying -- maybe you'll say that you
24 just can't quantify it. Like Paul Patton was
25 involved in this. How much of the success is from

1 Paul Patton, how much is it the -- you know, is
2 there a way of measuring that?

3 A. Well, I would qualify one of your statements
4 in the 300,000 is it's \$12 a year for the commercial
5 customers and -- in the settlement, and in the
6 settlement it's 10 cents, or \$1.20 a year, for the
7 customer, and those dollars come together to make a
8 nice pool of money that we match, and then those
9 dollars are invested.

10 And I think one thing that we're doing to
11 measure success is job creation. And I just
12 mentioned we have created over 2,000 jobs in a very
13 short period of time. Those jobs, as I said, many
14 of them are over \$50,000 a year in places like
15 Pikeville, Martin County, Boyd County, Greenup
16 County, all of these counties that we talked about
17 yesterday that have poverty issues, and we're
18 creating high-paying jobs. And we can show how we
19 touched each one of those projects with these grant
20 dollars, so I believe that measures success.

21 Q. Okay. So what I'd like, in a post-hearing
22 data request -- you have mentioned the 2,000 jobs.
23 If you could list the 2,000 jobs that you-all have
24 created.

25 A. They're currently in my testimony, with the

1 exception of EnerBlu that we talked about.

2 Q. Now, are these -- was Blu included in --

3 A. No. With the exception of EnerBlu was not,
4 because it was just announced yesterday.

5 Q. Okay. So -- and, you know, I don't -- I
6 don't mean to be a spoilsport, but these -- are
7 these jobs -- for example, let me pick one that you
8 list. 18 jobs with Quality Metal in Lawrence
9 County. Have they -- is there a new facility? Has
10 that broken ground? Are there --

11 A. That facility is in operation.

12 Q. It is in operation?

13 A. It's located right off of U.S. 23.

14 Q. Okay.

15 A. And I think there was 18 to 20 jobs created
16 there in Louisa, Kentucky.

17 Q. Okay. 15 jobs with Thoroughbred Aviation
18 Maintenance. Is that --

19 A. Yes, sir. That was an \$800,000 investment at
20 the Martin County airport, Big Sandy Airport in
21 Martin County, adjacent to that, and they're 25 to
22 \$35 an hour jobs, 20 jobs created in Martin County.

23 Q. And those are currently --

24 A. The facility has been built. I'm not sure
25 what the job count is today, but the goal is to get

1 to 15 to 20 jobs.

2 Q. Okay. 65 jobs with Steel Ventures in
3 Greenup?

4 A. Yes, sir. That facility is built. It's at
5 the entrance of the Wurtland Riverport in Greenup
6 County, Kentucky, and those are jobs, I believe, are
7 \$65,000 a job.

8 Q. Are they operational?

9 A. They are in operation. I'm not sure what
10 level they're at.

11 Q. Okay. 75 jobs with RCL Chemical in Floyd and
12 Pike County, are those in --

13 A. They are finishing up site prep in Floyd
14 County. It's adjacent to the MarkWest facility near
15 Allen, Kentucky. They are not operational at this
16 time, but they are building. It's a long
17 construction period.

18 Q. Okay. 115 jobs with Logan Corporation. Is
19 that built yet?

20 A. Yes, sir. In fact, we put \$100,000 in that
21 through the program. We moved -- we saved those
22 jobs. Those jobs were in Martin County, Kentucky.
23 They were originally in Prestonsburg, they moved to
24 the industrial site at Honey Branch. They outgrew
25 themselves through a new product that they were

1 making to create truck beds, and those jobs were
2 going to Nitro, West Virginia.

3 We were able to help them through our grant
4 programs, took those jobs to Magoffin County, which
5 has the highest unemployment in the state of
6 Kentucky, put them in the old Joy Global facility,
7 and they're now adding another 80 jobs there. And I
8 think those jobs are somewhere around 20 to \$25 an
9 hour, if I'm not mistaken.

10 Q. Okay. And the 800 --

11 A. The governor drove out the first truck.

12 Q. Okay. And the 830 full-time jobs in the
13 service territory for Braidy Corporation? Excuse
14 me. 550 full-time jobs for Braidy, have they --
15 have they built their facility yet?

16 A. Sir, that's a two-year construction. They
17 have renovated the third and they're renovating the
18 fourth floor of Community Trust Bank in downtown,
19 establishing their headquarters. That's complete.
20 They have hired 60 employees at their headquarters.

21 They're starting construction of the facility
22 now in EastPark, which, by the way, we all -- we
23 could have lost Braidy Industries if not for these
24 grant dollars preparing EastPark as a qualified
25 site. They ran into some serious construction

1 problems at the South Shore location, and because of
2 the grant programs that we have establishing a
3 certified site at EastPark, they were able to simply
4 pick up and move to EastPark and save those jobs for
5 the region.

6 They are beginning construction. They will
7 not begin until spring of next year, but they will
8 have a thousand construction jobs over the next 12
9 months.

10 MR. GARDNER: Okay. That's all I have, Your
11 Honor.

12 CHAIRMAN SCHMITT: Thank you.

13 MR. OVERSTREET: So, Mr. Chairman, just so I
14 understand, and I think I do, I just want to
15 clarify, Mr. Gardner or -- is going to put his
16 data --

17 CHAIRMAN SCHMITT: These data requests are
18 going to have to be in writing --

19 MR. OVERSTREET: Thank you.

20 CHAIRMAN SCHMITT: -- or you don't have to
21 honor them.

22 MR. OVERSTREET: Okay. Thank you.

23 CHAIRMAN SCHMITT: All right. It's 11:00
24 o'clock, and before Mr. Chandler starts -- begins
25 his cross-examination of Mr. Hall, let's take a

1 15-minute break.

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

3 (Recess from 11:02 a.m. to 11:15 a.m.)

4 CHAIRMAN SCHMITT: We are now back on the
5 record.

6 Let me say before Mr. Chandler begins his
7 cross-examination of Mr. Hall, Mr. Zielke --

8 MR. ZIELKE: Yes, sir.

9 CHAIRMAN SCHMITT: -- thank you for being
10 here today. What we'll do, I guess when -- we'll
11 break for lunch at 1:00 o'clock, and when we do,
12 we'll have the sworn testimony or representations
13 about the settlement agreement for those who are
14 here --

15 MR. ZIELKE: Yes.

16 CHAIRMAN SCHMITT: -- so that those counsel
17 who will need to leave, we'll get that over with and
18 then you can go.

19 MR. ZIELKE: Sounds like a great Christmas
20 present.

21 CHAIRMAN SCHMITT: Is that okay? Thank you.

22 All right. Mr. Chandler, cross-examination,
23 or Mr. Cook.

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

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CROSS-EXAMINATION

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By Mr. Chandler:

Q. Good morning, Mr. Hall.

A. Good morning.

Q. I think you noted earlier that historically -- and this is a paraphrase, but historically utilities have always been involved in economic development; is that correct?

A. Yes.

Q. Is it your understanding that historically utilities have always charged customers for economic development?

A. I mean, I'm not aware of every company and how they operate, but I think there is some historical reference there that shows that they do.

Q. That they do charge customers for that?

A. Yes.

Q. Can you provide support for that?

A. I cannot --

Q. In a post-hearing --

A. -- other than just my general knowledge.

Q. In a post-hearing data request I would like your -- I would like for any studies or historical representa -- historical citations that provide support that utilities have charged customers for

1 economic development.

2 Do you know when the groundbreaking for
3 EnerBlu will be?

4 A. I know that the official announcement is next
5 Friday.

6 Q. The official announcement is next Friday?

7 A. Yes, sir.

8 Q. Do you know if there has been a
9 groundbreaking date set?

10 A. No, there has not been a ground -- I mean,
11 when you say "groundbreaking," are you referring to
12 going and putting a shovel or are you saying
13 construction?

14 Q. Yeah, I guess that's a -- that's a very
15 important distinction. Let's say instead of a
16 golden shovel, a backhoe. Do you know if that date
17 has been set?

18 A. The date, the official date of construction,
19 to my knowledge, has not been set. However, the
20 engineering is being done as we speak, the planning
21 is being done as we speak, and I think they hope to
22 be in operation by 2020.

23 Q. In your opinion, and this is only as it
24 relates to Kentucky Power, are Kentucky Power's
25 efforts ultimately, the purpose of them, to create

1 jobs, or is it ultimately to lead to increased sales
2 for the utility that ultimately benefits other
3 customers?

4 A. Can you restate the question?

5 Q. Let me -- I'll rephrase it differently.

6 Do you think that the ultimate goal of
7 Kentucky Power's economic development efforts are to
8 just create jobs or to create jobs and do economic
9 development for the purpose of selling more
10 electricity?

11 A. I think it's all of the above. You know, we
12 are trying to focus on high-wage jobs, which then,
13 in turn, will create that demand for electricity
14 through residential use, through more people buying
15 cell phones, buying gasoline, because you're
16 creating more wages within the region. So that
17 obviously drives electric usage as we create jobs,
18 and then, yes, we do look for, you know, companies
19 that are going to use electricity. But it varies.
20 If you look at the examples that I have mentioned
21 just today, we've gone from anywhere from 300
22 kilowatts to 60 megawatts.

23 Q. Would you agree that Kentucky Power is in the
24 business of providing utility service?

25 A. Yes.

1 Q. And for a customer that currently pays the
2 KEDS surcharge, and we'll say regardless of class, a
3 customer that currently pays the KEDS surcharge,
4 which is -- can you confirm that that's then used as
5 grant money in the K-PEGG program, correct?

6 A. I can confirm that, yes.

7 Q. If a customer is paying the KEDS surcharge
8 and they currently have a job, ultimately what is
9 the benefit to them for paying that KEDS surcharge?

10 A. I think there's a lot of benefit for them
11 paying that KEDS surcharge. I'll start with the
12 fact that by increasing industry you are increasing
13 jobs, you're increasing wages within the region
14 that -- depending upon where that person works, it
15 could create more demand for whatever product or
16 service that they're offering, which creates more
17 revenue opportunities for that particular company,
18 which would then create the opportunity for higher
19 wages for that particular person.

20 If you look at the increased demand for our
21 product, it's going to change the denominator, as
22 we've talked about, which is going to help spread
23 the cost of providing our service to more people,
24 which will then help that customer.

25 So I think there's a lot of opportunities for

1 every customer who's paying into the program.

2 Q. I'm going to ask a question, and I know it's
3 a bit beyond the scope of what you do, but is it
4 your understanding that if economic development,
5 quote, changes the denominator, that that would lead
6 to -- all things equal, that's all costs staying
7 equal, that that would lead to lower rates for
8 energy and not necessarily lower rates for a
9 customer charge?

10 A. I'm not sure I'm able to answer that
11 question. Might be a better question for Repre --
12 or Witness Vaughan.

13 Q. When did Kentucky Power begin charging
14 customers for economic development?

15 A. I can't say prior to my tenure with the
16 Company, which began in 2012. I know that in 2013,
17 I believe through the stipulation agreement, we
18 created the KEAP program, our shareholders. That's
19 a complete shareholder-funded fund started at that
20 point. So customers were not paying for that.

21 Then in 2016 we created the KEDS program,
22 where customers began to pay 15 cents per meter per
23 month, and our shareholders match that dollar for
24 dollar. And then there are some, what I refer to as
25 Company economic development dollars that, depending

1 upon whether it's in the test year or not, would be
2 recovered from customers.

3 Q. You mentioned that one of the items that
4 Kentucky Power tracks to use as a metric to judge
5 performance is an increase in the number of jobs; is
6 that correct?

7 A. That's correct.

8 Q. Do you track the increased load?

9 A. I think what I do is, I track the perceived
10 or, I guess, planned load of a new industry that's
11 locating, and then we report that planned load. But
12 to say that I -- that I or my department would go
13 back and true up how much they're actually using, I
14 do not do that. That would be tracked through, you
15 know, our revenue metrics and billing and those
16 things.

17 Q. Does -- but you do believe that the Company
18 tracks that?

19 A. I mean, I'm sure we track it through our
20 billing, but I don't know if we specifically track a
21 customer and their usage in a particular report, but
22 I track their planned usage for a project when
23 they're locating.

24 Q. Did you present that planned load in the rate
25 case?

1 A. You mean for the announced projects that I
2 referred to?

3 Q. Yes, sir.

4 A. I don't believe I did. I think throughout my
5 testimony I may have referred to it once or twice
6 for a particular company, but I don't think I gave a
7 list of companies and said this number of load for
8 each company. I don't think I did that.

9 Q. Do you know who -- which Company witness
10 would be best prepared to answer the question as to
11 the actual load due to economic development
12 expansions?

13 A. Possibly Company Witness Vaughan.

14 MR. GISH: Mr. Chairman.

15 CHAIRMAN SCHMITT: Yes.

16 MR. GISH: The Company, in response to
17 Attorney General Data Request 1-387, filed --
18 answered this question and provided information to
19 the extent it had it at that time, so it's in the
20 record already.

21 MR. CHANDLER: If I may have just one minute.

22 CHAIRMAN SCHMITT: You may.

23 MR. CHANDLER: Thank you.

24 MR. GISH: And to be clear, that was with
25 regards to sales forecasts, but the information

1 provided in that addressed the load.

2 CHAIRMAN SCHMITT: Thank you.

3 Q. So do you mind to turn to tab D in the -- and
4 I believe it's in the big binder. It's under
5 section 1.

6 A. The witness binder is empty here for AG.

7 Q. I think they have put it in a different
8 binder for you there.

9 A. What tab, sir?

10 Q. Just big tab 1 and then little tab D.

11 A. D as in dog?

12 Q. D as in dog.

13 A. I'm there.

14 Q. Do you know of response A or response B-C --
15 I believe you and Mr. Vaughan are both witnesses for
16 those. Do you know which one of those responses you
17 were the witness for and which one Mr. Vaughan was
18 the witness for?

19 A. So in this response, my role was to provide
20 the announced companies that were in question, and
21 then I handed that off to Mr. Vaughan, who prepared
22 the -- I guess the dollar or number data.

23 Q. Have -- can you confirm, and I believe this
24 was your answer earlier, that you did not provide in
25 the record what your planned, I believe you referred

1 to it -- excuse me. What the planned incremental
2 load would be for announcements for -- due to
3 economic development?

4 A. No, sir; I don't believe that's what I said.
5 I said that in my testimony I did refer to load for
6 some of the announcements that were in my testimony,
7 but I did not provide a complete list for every
8 company and that planned load.

9 Q. Do you have a corresponding list of the
10 planned -- for the companies that were listed in the
11 exhibit referenced in AG -- the Company's response
12 to AG 1-387, do you have a corresponding list
13 with -- and I believe you had not explicitly
14 identified the companies but had given them
15 nonidentifying names, company A, company B. Do you
16 have a corresponding list with those planned amounts
17 of expansion?

18 A. Do you mean for companies that we have not
19 announced?

20 Q. So -- excuse me. So in response to that -- I
21 think you have it in front of you, correct?

22 A. If you're talking about AG 1-387, I have it.

23 Q. 1-387. I think, as I took your answer, that
24 you and Mr. Vaughan got together and created KPCO --
25 Exhibit KPCO R AG 1-387. You gave him the companies

1 and he went and got the load information; is that
2 correct?

3 A. Correct. And that is for the companies that
4 have been announced.

5 Q. That's right. And that's for their actual
6 usage, correct?

7 A. I suppose that would be what that is, yes.

8 Q. Do you have in your possession, or in the
9 Company's possession, those same companies with your
10 planned amounts? You had mentioned that you --

11 A. I would have to refer back to the list of the
12 companies I provided, and then I think we can get
13 the corresponding planned load amount for each of
14 those companies.

15 Q. As a post-hearing data request, would you
16 please provide that for those exact -- that would be
17 in accordance with that 1-387, so that company A was
18 also company A in the post-hearing data request?

19 A. I think we could do that.

20 Q. Thank you.

21 MR. CHANDLER: That's all the questions we
22 have.

23 CHAIRMAN SCHMITT: Staff, questions.

24 MS. VINSEL: Yes, we have a few questions.

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CROSS-EXAMINATION

1
2 By Ms. Vinsel:

3 Q. Good morning, Mr. Hall.

4 A. Good morning.

5 Q. Were you here yesterday during Dr. Dismukes'
6 testimony?

7 A. Yes, ma'am.

8 Q. And did you hear his testimony that there are
9 no metrics that can be used to determine or assess
10 the return of a private company cost associated with
11 economic development?

12 A. I did hear him say that, and I disagree with
13 his testimony.

14 Q. Could you -- could you explain?

15 A. Yes. Because I believe that, you know, if
16 you look at my testimony, if you look at the answers
17 that we've provided, you can look at the grants that
18 we have participated in with the various different
19 companies and how we have touched each of those
20 companies and the jobs that they have provided with
21 each of those companies.

22 If you look at the education opportunities
23 that we have provided to our local economic
24 developers, if you look at the studies that we have
25 provided that we know the companies that we have

1 announced have said, "Without this information, we
2 could not have located in Eastern Kentucky," I think
3 that all that data together can prove that there are
4 metrics you can look at to show that we have been
5 involved, we have touched these companies from the
6 beginning to the end, we've invested these grant
7 dollars through our partners like Ashland Alliance,
8 One East Kentucky, City of Pikeville, the Northeast
9 Kentucky Regional Industrial Authority, their sites.

10 I think there's a lot of things that we can
11 look at to show that there is a direct benefit of
12 these investments to create over 2,000 jobs in a
13 very short period of time.

14 Q. And I'm a little confused about a previous
15 conversation with Mr. Gardner in terms of metrics,
16 and can you clarify that Kentucky Power has specific
17 metrics, and beyond tracking the activities, but
18 metrics.

19 A. Well, I think -- I don't want to be
20 difficult, but I have to understand what you mean by
21 metrics, because a metric is to say that you have a
22 goal and then that you're going to try to achieve
23 that goal.

24 Q. Yes.

25 A. Well, we do have goals, and it's about, you

1 know, how much -- how many projects do you have and
2 how many sites are available. All those things fit
3 into a metric that we use.

4 And to say that it's in a grid somewhere, I
5 don't think we have that, but what we do is we track
6 job counts, capital investment by those
7 announcements, we track their planned load, and we
8 track those types of things. And then we hope that
9 we get from the sales funnel to the finished
10 product, and we've done that with over 2,000 jobs
11 now.

12 Q. When you mentioned having goals, that was
13 helpful to help me understand this, this question.

14 A. Sure.

15 Q. So that did that. Are you familiar with
16 SunCoke Energy?

17 A. Yes, ma'am.

18 Q. Okay. Can you tell us what is the status of
19 the plant that was to be constructed in South Shore?

20 A. I know that that project was underway when I
21 took this job in 2012. I think it was referred to
22 as Project Raven, if I'm not mistaken.

23 I know there was a lot of work done by a lot
24 of folks to work on that project, but through -- as
25 I understand it, through market forces, that project

1 is now dead.

2 Q. Oh, okay. Thank you.

3 A. Uh-huh.

4 Q. Do you have the KCUC Exhibit 3 in front of
5 you?

6 A. I had Mr. Gardner's copy, and I think he took
7 it back.

8 MS. VINSEL: If Mr. Gardner doesn't mind
9 sharing that copy again.

10 MR. GISH: Thank you.

11 A. Thank you. I have it.

12 Q. Could I have you turn to page -- it's
13 numbered page 9, and that slide is titled Total
14 Investment Since 2012.

15 A. I'm there.

16 Q. I know in your testimony you provided similar
17 information, particularly about the KEAP program,
18 K-PEGG investment. The line that says Other
19 Investments, can you tell me what that consists of
20 and how much of that is the grants from AEP?

21 A. So none of that -- well, okay. Let me ask a
22 question, if I can. "Grants from AEP," what are you
23 referring to there?

24 Q. Let me -- let me bring up exactly. Well, I'm
25 sorry, I've lost that page, but in one of your data

1 requests you distinguished. I believe it's AEP
2 business and community grants.

3 A. Okay. Well --

4 MR. GISH: Does it look like this?

5 A. -- what I can say is -- I'm sorry.

6 MR. GISH: Does it look like this, Ms.

7 Vinsel. I'm sorry.

8 MS. VINSEL: It did not look like that.

9 MR. GISH: Okay.

10 MS. VINSEL: But that may have the answer for
11 me.

12 MR. GISH: Yes.

13 MS. VINSEL: May I -- may I look?

14 A. I'm sorry. I just want to make sure I'm
15 answering the appropriate question.

16 Q. And I want to make sure that I'm very clear.
17 Thank you. Yeah, AEP Corporate Economic
18 Development.

19 A. Okay. So, yes, that's what would be under
20 the Other Investments. And so these are dollars
21 that are budgeted by the Company to spend in
22 economic development over a period of time, and it
23 also includes monies that come from AEP Service Corp
24 that has -- or I guess it would be actually AEP
25 Corporate that would give us money to focus on

1 certain projects that may be above and beyond the
2 scope that was initially anticipated.

3 An example of that would be the Insight
4 Consulting effort. You know, that program was a
5 very long program, it was about \$175,000, far beyond
6 the budget that we had at the time for Kentucky
7 Power, and so AEP gave us additional dollars in
8 order to cover that effort. For the importance of
9 the future, we needed to have that plan.

10 So those investments are investments that are
11 budgeted by the Company to be used in economic
12 development.

13 Q. Thank you.

14 A. Uh-huh.

15 Q. What is the criteria for deciding which
16 project will receive a K-PEGG grant?

17 A. So when we developed the program, the K-PEGG
18 program, we provided a plan to the Commission, after
19 that was approved, in how we would handle these
20 grants: the application, the development of the
21 people who participated in our committee, and then
22 the criteria that -- what we look for, the programs
23 and the projects that we're trying to fund, which
24 included, you know, assisting local economic
25 development agencies or even creating them if they

1 didn't exist, like One East Kentucky, which didn't
2 exist prior to this. Working on workforce
3 solutions, to be able to train our workers to make
4 that transition from one industry to the other. To
5 do site preparation so that sites are ready.

6 You know, you look at the Golden Triangle.
7 You look at Bowling Green, they had sites ready, and
8 Eastern Kentucky did not. And we have been able to
9 help them with the Eastern [sic] to that. And so
10 those criteria were laid out in the plan.

11 And so when the committee, which is made up
12 of eight representatives, which two of those are
13 from outside the Company, one being the CEO of the
14 Kentucky Association for Economic Development and
15 the other being the sites and buildings manager at
16 this time for the Kentucky Cabinet for Economic
17 Development.

18 We receive those applications, we review them
19 to see if they meet with the criteria that we laid
20 out for the Commission, and then we make sure that,
21 number one, they filled it out appropriately, they
22 have got a plan, they can do what they say they're
23 going to do, that there's -- you know, it's
24 reality-based, and then there is a vote by that
25 committee to be able to move forward or not.

1 Q. Can the K-PEGG -- K-PEGG grants be used for
2 workforce training?

3 A. Absolutely.

4 Q. And have there been K-PEGG grants for
5 workforce training?

6 A. Yes, ma'am. One in particular is the KEAP
7 program invested \$50,000 into a project in
8 Paintsville, Kentucky, called eKAMI. Kathy Walker
9 has been heading up that effort there. That is a
10 certified, numerically-controlled machining school
11 that's now got their first class underway in the
12 old -- what was going to be the pharmacy in
13 Paintsville, pharmacy school, is now this training
14 facility. They've already produced some workers in
15 this, and these folks coming out making somewhere
16 between 20 and \$30 an hour right out of the school,
17 and it's a 16-week program.

18 So we've been involved in that. We've been
19 involved in the labor analysis, which helps us
20 understand what to train. We've provided some
21 funding to the Hazard Community and Technical
22 College so there would be fast-track welding
23 programs there, because you got a lot of miners in
24 the region, and if you -- you know, we put -- I
25 think we had a hundred of them in a room in one of

1 our labor analysis meetings, and we said, "How many
2 of you are welders?" And everybody in the room
3 raised their hand. And then we said, "How many of
4 you are certified welders?" And it was about four.

5 And so what we realized was that they had the
6 experience but they didn't have the certifications.
7 So we helped Hazard Community College develop a
8 fast-track welding program where they could go in in
9 five weeks and get that paperwork that they need to
10 be able to transition into any industry.

11 So we've got a lot of examples through the
12 grants of how they're impacting workforce training,
13 and that's very important, because that's the number
14 one challenge in locating industry. Workforce is
15 the challenge. And that's one thing that Eastern
16 Kentucky has, and that's workforce. And we've
17 documented now how we can put them to work.

18 Q. Thank you.

19 MS. VINSEL: We have no further questions.

20 THE WITNESS: Thank you.

21 CHAIRMAN SCHMITT: Commissioner Cicero,
22 questions.

23 VICE-CHAIRMAN CICERO: I have no questions.

24 CHAIRMAN SCHMITT: Commissioner Mathews.

25 COMMISSIONER MATHEWS: None.

1 CHAIRMAN SCHMITT: I have no questions.

2 Mr. Gish, any redirect?

3 MR. GISH: I have just a couple.

4 REDIRECT EXAMINATION

5 By Mr. Gish:

6 Q. First, earlier you mentioned test year
7 dollars related to economic development that are
8 included in base rates?

9 A. Yes.

10 Q. And that's just -- you know, and that's a
11 budgeted amount that could be changed? It's not
12 protected like the K-PEGG fund is, correct?

13 A. Correct. I mean, that's what I would
14 consider a great thing about the K-PEGG program is
15 that it's a commitment between the Company, the
16 customer, and the Commission to dedicate these funds
17 to economic development.

18 So, you know, an example of if there was a
19 budget constraint within the Company and they needed
20 to reallocate dollars, these dollars cannot be
21 reallocated. They must be spent for economic
22 development within our service territory.

23 Q. And you mentioned other utilities, both -- I
24 think probably within Kentucky, and I know
25 historically it's nationwide, have been involved in

1 economic development. Is that sort of funding
2 through base rates, what you were describing?

3 A. Yeah, it's my understanding that they would
4 spend these dollars and then recover them through
5 their rates.

6 Q. And yesterday you were here when Mr.
7 Satterwhite was testifying, correct?

8 A. Yes, sir.

9 Q. And you heard the discussion that he had
10 regarding potentially transferring some money from
11 the KEDS program to the HEAP program; is that
12 correct?

13 A. I did hear that.

14 Q. Out of the residential charge. Do you have
15 any thoughts on the long-term benefit of doing
16 something like that?

17 A. Yes. I mean, it's certainly an option to do,
18 but I would recommend that we not do that. And
19 certainly I empathize with the folks that are
20 struggling and need that help.

21 And, Mr. Chairman, I know you're from Eastern
22 Kentucky, and so I am, a lifelong resident, grew up
23 in Floyd County, and I understand the impacts of
24 that region, it affects my family and my friends and
25 many others, but I believe that by transferring that

1 we're transferring to the symptom and not the
2 disease.

3 The investments that we make with these
4 programs are creating long-term solutions that we
5 haven't seen in decades in Eastern Kentucky. I
6 think you know that we have funded a lot of things
7 that haven't created jobs or haven't created
8 efforts.

9 I know that Governor Patton's administration
10 worked really hard to establish these multi-county
11 economic development opportunities and these
12 industrial parks, but they never came to fruition,
13 and it's because they weren't finished. When he
14 left office, those programs changed.

15 And so through these programs we're creating
16 the solution. We're creating high-paying jobs that
17 are going to solve many of these problems. Not all,
18 but many of them. And so I would really love for us
19 just to stay in working on this long-term solution
20 to create solutions for Eastern Kentuckians so that
21 when we're creating jobs, we're creating
22 opportunity.

23 And these two jobs, these -- primarily Braidy
24 and EnerBlu, many, many industries are going to
25 follow them. They're creating products that have to

1 be taken and done something with.

2 So you've got eight other industrial parks
3 throughout our service territory that need work.
4 And if we don't solve those problems in those
5 industrial parks, it's going to be hard to take
6 advantage of what's coming with EnerBlu and Braidy
7 Industries.

8 And I believe we're doing that. We have
9 developed partnerships, we've developed regional
10 economic development agencies, and we've developed
11 strong, strong marketing programs that's working.
12 And if we don't continue that, I'm afraid of what
13 would happen. We need to continue it. And this is
14 working.

15 And I know that Mr. Dismukes said the
16 legislature should do that. Well, we've doing a lot
17 of handouts for 50 years, and what solutions have we
18 seen in Eastern Kentucky?

19 We're seeing solutions from these programs.
20 We're seeing results. When I'm going to put 875
21 \$81,000-a-year jobs in Pikeville, Kentucky, that's
22 impact. That's real impact.

23 MR. GISH: No further questions.

24 CHAIRMAN SCHMITT: Mr. Gardner.

25 MR. GARDNER: One follow-up.

1 RE CROSS-EXAMINATION

2 By Mr. Gardner:

3 Q. Mr. Hall, there's a notion that governments
4 or utilities should not be socializing costs to try
5 to create business or economic development, then
6 there's another one that goes a little bit different
7 direction that says that, okay, that the -- that
8 the -- that the money -- if you're going to spend
9 money for economic development from socializing
10 other people, that you at least ought to -- that
11 it's more effective if you spend that money and
12 effort on local existing jobs or businesses rather
13 than trying to recruit new ones.

14 And my question for you is: Do you-all track
15 expansions of businesses that are a result of
16 your-all's activities?

17 A. Yes. In fact, expansions qualify for our
18 programs. If expansions are in consideration by
19 existing programs, then we get involved. I mean
20 existing companies, we get involved. And we've done
21 that.

22 Great Lakes Minerals is an example of that,
23 in Wurtland, Kentucky. That was a local company
24 expanding. If you look at Wrightway Mix Solutions,
25 that's a company located in Pikeville who is

1 creating an expansion in Greenup County, Kentucky.
2 We are involved in those expansions.

3 And, in fact, our economic development rider
4 tariff includes existing industries, that if they
5 add another 500 kilowatts of usage, then they can
6 take advantage of that tariff.

7 So there are opportunities for existing
8 businesses. You're right, existing business is
9 important, so we do have programs that address that
10 as well.

11 MR. GARDNER: Thank you.

12 CHAIRMAN SCHMITT: Mr. Chandler.

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

14 RE-CROSS-EXAMINATION

15 By Mr. Chandler:

16 Q. Do you still have the page 9 of that Kentucky
17 Power slide show? We'll call it a slide show.

18 A. I have it.

19 Q. How much of that \$931,150 in the KEAP is from
20 customer amount, customer -- from customers and how
21 much of it is from Kentucky Power AEP?

22 A. For the KEAP program, zero percent is from
23 the customer and 100 percent is from the
24 shareholder.

25 Q. 100 percent from shareholders?

1 A. Yes.

2 Q. And of the other investments, of that
3 1.7 million, how much of it is from the Company and
4 how much of it would be from customers?

5 A. That's a harder answer to give, because that
6 is Company money that's spent for economic
7 development, and then depending upon how -- my
8 understanding of rates, which is very simplistic, if
9 it's in the test year, then we would recover that;
10 if it's not, if that base is not in the test year,
11 then we wouldn't recover it. So if we're recovering
12 it, then it's customer money.

13 Q. Okay. Are you aware of any customer money
14 that the Company collects in base rates for economic
15 development?

16 A. That would be from the K-PEGG program. Half
17 of that program is from the customer and half from
18 the shareholder.

19 Q. So it's your expectation that at least the
20 majority or all of that 1.7 million is from the
21 Company?

22 A. Again, other than the other investments,
23 which could or could not come from the customer, I
24 think the majority from these numbers are from the
25 Company.

1 Q. Are from the Company of that 1.7?

2 A. No. I thought you were talking about the 3.6
3 total.

4 Q. No, no. Just the 1.7, do you know if that's
5 all from the Company?

6 A. I wouldn't be able to answer that question.

7 Q. And of the amount in K-PEGG, the just over a
8 million dollars, how much of that is from Company,
9 from the Company or AEP, and how much of it is from
10 customers?

11 A. That is a one-for-one equal share. One -- 50
12 percent from the customer, 50 percent from the
13 Company.

14 Q. So roughly \$525,000 of it would be from --

15 A. If that's the math, and subject to check,
16 yes.

17 Q. So without customers, the Company is still
18 giving millions of dollars to economic development,
19 right?

20 A. I would say, possibly, yes.

21 Q. Well, you're at least giving 900 -- the
22 Company's at least giving 931,000?

23 A. So, yeah, that would make millions, so
24 you're --

25 Q. Okay. A second ago you referenced some

1 studies, and you noted that customers said, quote,
2 we couldn't have moved here without this.

3 Were you talking about, and maybe not
4 exclusively, but specifically the Insight study?

5 A. Actually, I'm talking about a number of
6 things. I refer to the Insight study. I refer to
7 the labor analysis project that we were involved in
8 which quantifies the data. I refer to our AEROready
9 certification programs that have certified, I think,
10 11 counties in Eastern Kentucky as AEROready,
11 meaning they're ready for the aerospace industry,
12 which could be anything from manufacturing a
13 helicopter part to an airplane part to a spaceship.
14 And we have our first aerospace company in Martin
15 County now with the MRO company.

16 I'm referring to Burgess & Niple, which we
17 did site certification programs in both Pikeville
18 and Hazard. The McCallum Sweeney study that we did
19 at EastPark which certified that park ready and
20 available for business.

21 We're doing studies right now at the Big
22 Sandy plant for part of the land there that we
23 intend to turn into an industrial park, preparing
24 that for future use of industry.

25 So there's a number of studies that we have

1 utilized these dollars for that are preparing the
2 region for future industry.

3 Q. Did you discover the needs for a lot of those
4 sites that you just discussed that there are studies
5 on out of the Insight study?

6 A. Yes. When we did the Insight study, the
7 initial part of the study was an eight-month study,
8 and that company came here for three to four days a
9 month for eight months.

10 We sat down with over 350 stakeholders. Each
11 county and municipality had the opportunity to
12 present their best sites to this consulting company
13 so that they were able to, what we call scrub each
14 of those sites, so that we saw if there -- what we
15 call -- we like to call them, you know, deal
16 killers. If you don't have -- if you got bad
17 wetlands on a site, well, then that's gotta be
18 mitigated before business can locate there.

19 So they scrubbed each of these sites. We
20 looked at the potential of all of these sites and
21 then determined where we could best get our return
22 on investment quicker, so that we have sites ready
23 fast, and then in the long term working on the
24 remaining sites to get rid of those due diligence --
25 or to take care of the due diligence items so that

1 they were ready for business.

2 So that site, that -- that study is what we
3 utilized to help us plan where we make the best
4 investments and work with our community partners to
5 do that.

6 Q. Can you confirm that the Insight study was
7 paid for with Company money and not customers'?

8 A. That would have been paid for through the
9 other investments.

10 Q. And is it your understanding that that did
11 not include any payments from customers?

12 A. That is not my understanding. As I said
13 earlier, if it's part of the test year and we are
14 recovering some of those dollars in the test year,
15 then yes, it would be from the customer. I can't
16 qualify whether or not or how much of that is from
17 the customer or not.

18 MR. CHANDLER: That's all the questions we
19 have.

20 CHAIRMAN SCHMITT: Mr. Kurtz.

21 MR. KURTZ: Yeah, I do have some questions,
22 Mr. Chairman.

23 And based upon some of this discussion, I had
24 prepared -- this is part of the record. I think
25 it'll be helpful, though. It's the number of

1 customers for each rate schedule. And I didn't get
2 a chance to do all the math. And I want to --

3 MR. GISH: And, Mr. Kurtz, the yellow
4 highlighting here is for reference, not for --
5 because it's confidential, correct?

6 MR. KURTZ: No, it's not -- no, I put the
7 yellow in there. This is all public.

8 RE-CROSS-EXAMINATION

9 By Mr. Kurtz:

10 Q. Okay. So I'm going to ask you about this
11 10-cent-per-month-per-residential-customer charge,
12 the economic development versus the low income, the
13 discussion that you had with the Chairman a minute
14 ago.

15 Okay. You've got the number of residential
16 customers in three little categories at the top.
17 136,519 residential customers?

18 A. Okay.

19 Q. Can you just confirm? See, at the top?

20 A. I see.

21 Q. Okay.

22 A. Top line on the right.

23 Q. Do you have a calculator?

24 A. I do not.

25 Q. Okay. 136,519 times -- it's \$1.20 a year,

1 correct, for residential?

2 A. Yes. In the settlement, with the proposed 10
3 cents, it would be \$1.20 per year.

4 Q. That's \$163,822 per year?

5 A. Subject to check, sounds about right.

6 Q. Okay. So the question is: What should that
7 money be used for, low income versus economic
8 development?

9 A. I think that was the discussion I had, yes,
10 with the -- you know.

11 Q. Because I don't think it's either/or
12 necessarily. Now, for -- the total number of
13 customers is 168,107 at the bottom, correct?

14 A. Correct.

15 Q. Okay. That would mean there's 31,588
16 business customers or nonresidential customers?

17 A. Okay.

18 Q. Okay. If you wanted to put 160 -- if you
19 wanted to put the 10-cent-per-month-per-residential
20 to low income, just mathematically, and you wanted
21 to still create the same dollar -- amount of dollars
22 for economic development, my calculation is you'd
23 have to charge the business customers an extra 43
24 cents per month and you would do both. Is that the
25 way the math would work out?

1 A. What do you mean by "doing both"? I'm sorry,
2 I didn't follow.

3 Q. You could -- you could redirect the 10 cents
4 to low income and you could make up the difference
5 with 43 cents per month on the businesses customers
6 and you could do both programs. You could have full
7 funding and you could have the low-income diversion.

8 A. It would not be my ability to make that
9 decision.

10 Q. Okay.

11 A. I was simply making the argument that I
12 believe we should focus on the cure and not the
13 symptom. That was my discussion there.

14 Q. I get it. I was just walking through the
15 math to give sort of the order of magnitude of how
16 you --

17 A. Sure. I mean, it would be an option.

18 Q. Yeah. Okay. Now, the 2,000 new jobs, those
19 are direct jobs, correct?

20 A. Those are direct jobs; that's correct.

21 Q. Now, in addition there'll be spin-off jobs
22 from what is known as the job multiplier effect,
23 correct?

24 A. Absolutely. According to the science, if
25 it's a manufacturing-based job, I think it's a

1 one-to-one ratio for jobs that would be created
2 outside the direct job.

3 Q. Now, KIUC Witness Kornstein identified the
4 job multiplier effect. He's got it for Kentucky
5 Power service territory on page 5 of his report.
6 But, for example, for petroleum and coal products,
7 the job multiplier is 6.5, so that every one job
8 creates 5.5 spin-off jobs.

9 A. I have heard that. I'm not sure I know that
10 number, but it sounds accurate.

11 Q. Okay. It's in the record. So that's a high
12 job multiplier. And for -- by way of other example,
13 primary metal manufacturing has a three-job
14 multiplier, which means that every primary job would
15 create two spin-off jobs.

16 A. That's correct.

17 Q. Okay. So if the job multiplier was 6.5,
18 which is very high, probably not that high, that
19 would mean there would be 11,000 -- be 5.5
20 additional jobs for every one of the 2,000, which
21 would create 11,000 spin-off jobs?

22 A. Correct. And again, I said one-to-one a
23 moment ago. It depends on what that manufacturer
24 is. As you have stated, there's different
25 categories, and that multiplier changes based on

1 that category.

2 Q. And if it was a three-job multiplier, the
3 primary metal manufacturing, it would be -- your
4 2,000 direct jobs would create 4,000 spin-off jobs?

5 A. That sounds accurate.

6 Q. Okay. Now, they won't be as high paying as
7 the direct jobs, they'll be more service sector
8 jobs, but they're still jobs?

9 A. Yeah. And that varies depending upon whether
10 it's a trucker versus something else.

11 Q. Now, also on page 5 of Mr. Kornstein's
12 testimony, he identifies the job multiplier for a
13 retail company is 1.1, which means that every one
14 Walgreens or whatever creates one-tenth of a new
15 job, because it's just -- you're just shuffling,
16 basically, the same money around?

17 A. Right. Well, and it's not just about
18 shuffling the same money, which is a good point,
19 it's about how the industry drives the need for
20 supporting industries.

21 Q. Right. Right. We've seen that with Toyota
22 for sure. Think about how many new tire and wheel
23 and doorknob and everybody else is located in
24 Central Kentucky, correct?

25 A. Correct. I think, you know, we're now number

1 two, I believe, in automaking in the state of
2 Kentucky. I think we have four OEMs in the state,
3 but we have about 400 auto-related facilities
4 throughout the state, so you can see how the driver
5 works.

6 Q. Now, that was a pretty good investment way
7 back in the day, right?

8 A. Absolutely.

9 Q. Right? Okay. Now, Mr. Kornstein also noted
10 that Kentucky is the second most energy intensive
11 manufacturing state in the country.

12 Did you look at his testimony?

13 A. I did look at his testimony, but I don't have
14 it in front of me.

15 Q. Okay. Now, energy intensity. This is a --
16 this is a fair point. There are Kohl's and
17 McDonald's and, you know, retail in Hawaii and
18 Alaska where the price of electricity is four or
19 five times what the price is that Kentucky Power
20 sells for. Is that probably fair?

21 A. Yes, there are many states that have much
22 higher energy costs than we do.

23 Q. And that's because the service sector has to
24 go where people are, and it's just a higher cost of
25 doing business, but if they want to sell stuff in

1 Hawaii or Alaska or California, they just have to
2 pay higher electric rates?

3 A. Correct.

4 Q. Now, but there's no steel companies or auto
5 manufacturers in Hawaii or Alaska for obvious
6 reasons. Among other things, the cost of energy is
7 just too high?

8 A. Exactly. The cost of energy is a big driver
9 for industries like the steel industry. And
10 workforce. So energy prices, workforce, they have
11 to go where that is. They can't just go where the
12 customer is. They're worried about raw materials
13 and many other things.

14 Q. Because their customers are around the globe?

15 A. Correct.

16 Q. Okay. As you grow the economy and you grow
17 the customer base and so forth, increase the
18 denominator -- excuse me -- that lowers the price of
19 electricity for everybody because the fixed costs
20 are amortized over more units?

21 A. It does lower the cost to serve.

22 Q. Okay. Okay.

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

24 CHAIRMAN SCHMITT: Any questions from any
25 counsel for any of the other settling intervenors?

1 Staff, questions.

2 MS. VINSEL: No, no further questions.

3 CHAIRMAN SCHMITT: Commissioner Cicero.

4 Commissioner Mathews.

5 EXAMINATION

6 By Commissioner Mathews:

7 Q. Have you done any analysis on these 2,000
8 jobs to see how many of them will fall under the GS,
9 the LGS, or the IGS categories?

10 A. I wouldn't say I've done an analysis, but
11 based on the planned amount of demand that each of
12 those would have, I think we can assume what tariff
13 they will be on, but until a contract is reached
14 with some of those or until they sign their
15 contract, we don't know exactly where it would fall,
16 but I think we could make a reasonable estimation.

17 COMMISSIONER MATHEWS: Would you ask him to
18 do that in writing?

19 MS. VINSEL: Yes. I'm sorry.

20 COMMISSIONER MATHEWS: In a post-hearing data
21 request. And with the recognition that predictions
22 are always going to be wrong.

23 THE WITNESS: Yes.

24 COMMISSIONER MATHEWS: Okay.

25 CHAIRMAN SCHMITT: Any other questions?

1 COMMISSIONER MATHEWS: No, that's all.

2 EXAMINATION

3 By Chairman Schmitt:

4 Q. Mr. Hall, you're from Wheelwright, Kentucky;
5 is that correct?

6 A. Yeah. Yes, sir. Actually, specifically
7 Weeksbury.

8 Q. Weeksbury.

9 A. It's close enough to where we don't have to
10 count.

11 Q. I'm a lot older than you are, and I can
12 remember when I was in high school, I was a
13 lifeguard at the Paintsville, Kentucky, swimming
14 pool, and other than Paintsville, Wheelwright was
15 the only community in Eastern Kentucky, outside of
16 Ashland, that had a municipal swimming pool.

17 A. Yes, sir. And I painted that swimming pool
18 every summer.

19 Q. And right now Wheelwright is almost a ghost
20 town, isn't it?

21 A. It is, sir.

22 Q. And Paintsville is headed, probably, in that
23 direction. The reason that I -- that I point that
24 out is, is I guess in -- and yesterday you were
25 probably here. It was pointed out that -- and I

1 know there's a difference of maybe 20 or 30
2 residential customers from Mr. Kurtz's list from the
3 one I had, but the 136,344 residential customers in
4 Kentucky Power's service area, 26 percent of those
5 are at or below the poverty level, and that's 35,756
6 residential customers. And of those, 11,438
7 residential customers' service was discontinued in
8 2016 because of inability to pay an electric bill.

9 I also noted that, I think in the direct
10 testimony of Mr. McCann, who will be here, he
11 indicated that he thought this increase of 15 cents
12 to 20 cents on the residential HEAP program was
13 inadequate, which led me to suggest not only adding
14 that 5 cents, but taking the 10 cents from the
15 suggested economic development surcharge and adding
16 that on to the HEAP program so that instead of a
17 total of 30 cents with a customer match -- with a
18 Company match, it would be 60 cents. And that, it
19 doesn't seem to me, would hurt the Company's
20 economic efforts at all.

21 I have -- we've had, I guess, I think about
22 150, 60, 70 comments in writing at this Commission,
23 and I picked out two that I thought were
24 significant, and I'm going to read them. They are
25 more or less representative of every one that we've

1 received.

2 And here is a person, I won't -- the name is
3 in the record, I won't name this person, but I
4 happened to recognize the name because years ago I
5 used to know this woman's brother and I knew her
6 father, both of whom were in the coal business and
7 were marginally successful in the best of times.

8 And here it -- here it reads: (Reading)
9 October 28, 2017. Kentucky Public Service
10 Commission. Dear sir: I'm writing today to
11 respectfully ask you to deny AEP Kentucky Power the
12 rate increase they are seeking. It would be
13 devastating for most of us in Eastern Kentucky
14 should the rate increase be granted. I'm retired,
15 live alone, and live month to month on Social
16 Security. I cannot sustain another increase on my
17 power bill. I'm on their budget plan and pay \$262 a
18 month, which leaves me with barely enough to pay my
19 other bills and buy groceries. I keep the
20 thermostat on 60 degrees and wear a jacket in the
21 house to stay warm. My family was in the coal
22 business, and now we're out of business. Why can't
23 AEP Kentucky Power tighten their belts and manage
24 their expenses the way we have to on a limited
25 income? In consideration of the people of Eastern

1 Kentucky, I'm requesting that you deny AEP Kentucky
2 Power a rate increase.

3 And then the second one is probably one of
4 the best to-the-point letters I've ever seen. It
5 came to me personally. I don't know this lady.
6 She's from Freeburn in Pike County, but it came to
7 me as Chairman of the Public Service Commission.
8 September 29th, 2017. (Reading) To whom it may
9 concern: Please no more rate hikes. I get \$465 a
10 month to live on. I would be better off dead. I'm
11 only existing, not living. My life should be better
12 than this in a country so rich.

13 All I'm saying to you is, if this woman -- in
14 one month her gross check wouldn't buy five shares
15 of Kentucky Power Company stock, of AEP stock. If
16 there's somebody that can pay for economic
17 development, it ought to be the people who are going
18 to immediately and directly benefit the most from
19 it, and that's Kentucky Power. Kentucky Power's
20 shareholders can give this woman 15 cents a month on
21 her bill and that of the residential customers.
22 That's my position.

23 Thank you.

24 A. Thank you.

25 CHAIRMAN SCHMITT: No further. I have

1 nothing further, unless you want to --

2 MR. GISH: That's -- no, sir.

3 CHAIRMAN SCHMITT: May this witness be
4 excused?

5 MS. VINSEL: Yes.

6 CHAIRMAN SCHMITT: Thank you. You may step
7 down.

8 MR. OVERSTREET: Our next witness is Mr.
9 Ross, Your Honor.

10 CHAIRMAN SCHMITT: Mr. Ross, please raise
11 your right hand. Do you solemnly swear or affirm,
12 under penalty of perjury, that the testimony you are
13 about to give will be the truth, the whole truth,
14 and nothing but the truth?

15 MR. ROSS: I do.

16 CHAIRMAN SCHMITT: You may be seated.
17 Counsel, you may ask.

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

19 TYLER H. ROSS, called by Kentucky Power
20 Company, having been first duly sworn, testified as
21 follows:

22 DIRECT EXAMINATION

23 By Mr. Gish:

24 Q. Mr. Ross, can you please state your full
25 name, position, and business address?

1 A. Tyler H. Ross, Director Regulatory Accounting
2 Services, AEP Service Corporation, 1 Riverside
3 Plaza, Columbus, Ohio 43215.

4 Q. And, Mr. Ross, did you have -- I'm sorry.
5 Did you file testimony and responses to data
6 requests in this case?

7 A. Yes, I have.

8 Q. And do you have any corrections or updates to
9 the testimony or responses to data requests?

10 A. I do not.

11 Q. If I were to ask you the questions that are
12 in your testimony and your data requests again,
13 would you give the same answers?

14 A. Yes, I would.

15 MR. GISH: Mr. Chairman, the witness is
16 available for cross-examination.

17 CHAIRMAN SCHMITT: Thank you.

18 Mr. Kurtz, questions.

19 MR. KURTZ: No questions.

20 CHAIRMAN SCHMITT: Counsel for any of the
21 settling intervenors, any questions of this witness?

22 If not, Mr. Cook, Mr. Chandler.

23 MR. COOK: No questions, Your Honor.

24 CHAIRMAN SCHMITT: Mr. Osterloh.

25 MR. OSTERLOH: No questions, Your Honor.

1 CHAIRMAN SCHMITT: Mr. Gardner, none.
2 Staff.

3 MS. VINSEL: Yes, we have a few questions.

4 CROSS-EXAMINATION

5 By Ms. Vinsel:

6 Q. Good afternoon, Mr. Ross.

7 A. Good afternoon.

8 Q. Do you have a copy of your response to
9 Staff's fourth data request with you?

10 A. Yes, I do, I think.

11 Q. If you can turn to --

12 A. Just to make sure, is this the -- I want to
13 make sure this is the sheet real quick.

14 Q. I think it prob --

15 A. This is for estimated 2017 employee medical
16 benefit costs?

17 Q. Yes. It was -- it was the attachment filed
18 in response to PSC 4, item 6.

19 A. Okay. Yes. Ready.

20 Q. Does the information contained in this
21 schedule contain medical insurance costs allotted to
22 Kentucky Power from AEPSC, the Service Corp?

23 A. Their medical costs for the AEP system. It's
24 a blended cost for the AEP system that was used for
25 this calculation.

1 Q. I want to make --

2 A. Of which Kentucky Power is a subsidiary or a
3 member of the AEP system.

4 Q. So there would be no additional cost to this
5 that would have been allocated from the Service
6 Corp, that would be rolled into --

7 A. Not to my knowledge, no.

8 Q. Okay. Were you here yesterday when we
9 discussed the blended funding column?

10 A. Yes, I was.

11 Q. As a post-hearing data request, can you
12 revise this particular schedule to reflect, instead
13 of the blended funding, the actual employer
14 contribution?

15 A. Yes, we can do that.

16 Q. And Mr. Satterwhite indicated you might be
17 the best person to answer a question about accounts
18 receivable.

19 A. Okay.

20 Q. Kentucky Power sells its accounts receivable
21 to the parent entity; however, the bad debts remain
22 with Kentucky Power. Can you explain why?

23 A. Well, first of all, AE -- Kentucky Power
24 sells their accounts receivable to AEP Credit, which
25 is a subsidiary of AEP. And they do that to

1 accelerate their cash flows for their accounts
2 receivable.

3 So they sell those accounts receivable to AEP
4 Credit, and then AEP Credit provides cash back to
5 Kentucky Power, but there is a discount. There is a
6 lower dollar amount that Kentucky receives, and the
7 difference is due to bad debt expense,
8 administrative costs, and also financing costs. And
9 that bad debt expense is then included in Kentucky
10 Power's cost of service.

11 So even though these receivables are being
12 factored by AEP Credit, there's still a cost of
13 service, if you will, for bad debt expense based on
14 Kentucky Power's bad debt history.

15 As an example, I'll give -- maybe give a
16 little more color. Let's say that Kentucky Power
17 factors a hundred dollars of receivables, they would
18 get \$97 from AEP Credit, and the difference would
19 then be recorded on Kentucky Power's income
20 statement for their amount of administrative
21 expenses, cost of financing, and also bad debt
22 expense.

23 Q. I'm going to follow up -- one moment. But
24 how would that \$3 difference be reflected on
25 Kentucky Power's income statement?

1 A. Okay. Then that \$3, we then made an
2 adjustment in our cost of service. Yes, it is in
3 their income statement, but then in our cost of
4 service that we filed in this case, we then made an
5 adjustment to only include the bad debt expense in
6 the cost of service.

7 Q. The Vice-Chairman had also asked a question
8 about indicating that short-term financing is
9 available at a lower rate than that received for
10 selling the accounts receivable, and the question
11 was a two-part: Why pay the premium and what's the
12 benefit of selling the accounts receivable over
13 short-term debt. So let's start with why pay the
14 premium.

15 A. Well, I guess there's a couple things to
16 consider here. One, obviously AEP Credit, they're
17 factoring not only Kentucky Power, but they're also
18 factoring for other AEP operating companies, so
19 they're providing an economy of scale, if you will,
20 to accelerate the cash flows of Kentucky Power plus
21 other AEP subsidiaries.

22 So you have economies of scale because of AEP
23 Credit and how it functions, and then also,
24 obviously, you're accelerating cash flow for
25 Kentucky. So those are obviously the benefits.

1 As far as a financing strategy and is this
2 more advantageous financially, I don't know the
3 answer to that question. And probably Company
4 Witness Miller would be best to answer that
5 question.

6 Q. Oh, okay. Thank you.

7 MS. VINSEL: We have no further questions.

8 CHAIRMAN SCHMITT: Commissioner Cicero,
9 questions.

10 EXAMINATION

11 By Vice-Chairman Cicero:

12 Q. Okay. So you were initially given, the name
13 to be the one that would answer accounts receivable
14 questions, so I'm going to -- I'm going to start,
15 and then if you want to direct me to --

16 A. Okay.

17 Q. Kentucky Power's list of witnesses is
18 narrowing quickly.

19 A. Yeah.

20 Q. It's like musical chairs, whoever is left is
21 the one that is holding the bag, I guess.

22 Following up on what -- the question that Ms.
23 Vinsel asked you regarding accounts receivable and
24 the factoring in the bad debt.

25 A. Yep.

1 Q. Typically accounts receivable is sold or
2 factored for two reasons: Accelerated cash flow --

3 A. Yep.

4 Q. -- as you mentioned, and to reduce the risk
5 on bad debt.

6 A. Uh-huh.

7 Q. And you pay a premium, obviously, to reduce
8 that exposure to bad debt. That usually flows to
9 the factoring company because that's included in the
10 risk, the premium that they pay to take those.

11 Would you agree with that?

12 A. In this situation, that does not seem to be
13 the case. The Company --

14 Q. Well, I know that, that's why --

15 A. -- still has bad debt expense as far as, you
16 know, its operations. The Company also, by the way,
17 even though they factor to AEP Credit, they are
18 still responsible for going out and servicing the
19 debt, the collections from ratepayers.

20 So any -- based on Kentucky Power's
21 historical bad debt rate, AEP Credit then factors
22 that into the discount or the amount billed to A --
23 to Kentucky Power. They factor in that history for
24 AEP Credit of bad debt expense.

25 Q. Exactly. So let's go to that factor. The

1 factor is .34.

2 A. Uh-huh.

3 Q. 34 basis points. Okay?

4 A. Yep.

5 Q. The average interest rate for funds borrowed
6 from the Utility Money Pool is 48 basis points. The
7 factored receivables are 195 basis points. So if I
8 look at the difference between the average interest
9 rate for funds borrowed and I look at the factored
10 rate of 195 basis points, I come up with 147 basis
11 points as the premium over short-term debt. But the
12 bad debt is only 34 basis points.

13 What is the justification that Kentucky Power
14 can give for paying this premium? I heard
15 administrative costs, but surely -- you've already
16 taken the risk out of the receivables by leaving the
17 bad debt, so there's only administrative costs. Are
18 you saying that that administrative cost is worth
19 147 basis points?

20 A. I'll -- I'm going to have to concede to Mr.
21 Miller here, because I do not have familiarity with
22 some of the background, if you will, as far as what
23 rates and what AEP Credit charges to Kentucky, how
24 that's calculated. I'm just talking about things
25 from an accounting standpoint.

1 Q. Okay. I will -- I will hold for Mr. Miller.

2 A. Okay.

3 CHAIRMAN SCHMITT: Commissioner Mathews,
4 questions.

5 COMMISSIONER MATHEWS: None.

6 CHAIRMAN SCHMITT: I have none.

7 Any redirect?

8 MR. GISH: No, sir.

9 CHAIRMAN SCHMITT: Any additional
10 cross-examination?

11 MR. CHANDLER: The AG does have just a
12 couple.

13 CROSS-EXAMINATION

14 By Mr. Chandler:

15 Q. You mentioned that the process you described
16 increased cash flow; is that correct?

17 A. To accelerate cash flow.

18 Q. Accelerate cash flow. For Kentucky Power?

19 A. Yes.

20 Q. And that's of benefit to Kentucky Power,
21 right?

22 A. Yes.

23 Q. Is it your understanding, did -- to your
24 understanding, did Kentucky Power conduct a lead-lag
25 study as part of this application?

1 A. I believe the Company did not do a lead-lag
2 study as far -- in this filing.

3 Q. And do you know how they determined the cash
4 working capital as part of this application?

5 A. I am not familiar with how -- that
6 determination or that review process.

7 MR. CHANDLER: That's all the questions we
8 have, Mr. Chairman.

9 CHAIRMAN SCHMITT: Any party have any other
10 questions?

11 If not, may this witness be excused?

12 MS. VINSEL: Yes.

13 CHAIRMAN SCHMITT: Thank you. You may stand
14 down and be excused.

15 MR. ROSS: Thanks.

16 MR. OVERSTREET: Our next witness is Mr.
17 Miller.

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

23 MR. MILLER: Yes, I do.

24 CHAIRMAN SCHMITT: Please be seated.

25 Counsel, you may ask.

1 MR. GARCIA: Thank you, Your Honor.

2 ZACHARY C. MILLER, called by Kentucky Power
3 Company, having been first duly sworn, testified as
4 follows:

5 DIRECT EXAMINATION

6 By Mr. Garcia:

7 Q. Mr. Miller, will you please state your name
8 and business address for the record?

9 A. My name is Zachary C. Miller. My business
10 address is 1 Riverside Plaza, Columbus, Ohio 43215.

11 Q. And by whom are you employed and in what
12 capacity?

13 A. I'm employed by American Electric Power
14 Service Corporation as a Principal Corporate Finance
15 Analyst.

16 Q. Mr. Miller, did you cause in this case to be
17 filed seven pages of direct of testimony consisting
18 of question and -- question and answers, six pages
19 of supplemental testimony consisting of questions
20 and answers, and also discovery responses?

21 A. I did.

22 Q. And were those prepared by you or under your
23 supervision?

24 A. They were.

25 Q. If I were to ask you the same questions

1 today, would you provide substantially the same
2 answers?

3 A. Yes, I would.

4 Q. Do you have any changes or additions to your
5 testimony?

6 A. I do not.

7 MR. GARCIA: Your Honor, the witness is
8 tendered for cross.

9 CHAIRMAN SCHMITT: Thank you.

10 Mr. Kurtz, questions.

11 MR. KURTZ: No questions.

12 CHAIRMAN SCHMITT: Counsel for any of the
13 settling intervenors have any questions for this
14 witness?

15 If not, Mr. Chandler, Mr. Cook.

16 MR. COOK: At this time we do not have any
17 questions.

18 CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

19 MR. GARDNER: No, Your Honor.

20 CHAIRMAN SCHMITT: Staff.

21 MS. VINSEL: Yes, we have follow-up
22 questions.

23 CROSS-EXAMINATION

24 By Ms. Vinsel:

25 Q. Good afternoon, Mr. Miller.

1 A. Good afternoon.

2 Q. See, we can check the clock.

3 A. You got it. You got it, yeah.

4 Q. Yes. Verify it. I appreciate that.

5 In follow-up to that question about the
6 accounts receivable, can you speak to the financing
7 strategy for pursuing -- selling accounts receivable
8 rather than pursuing short-term debt?

9 A. Sure. You know, factoring receivables is
10 very similar to securitization, right? We're
11 selling an asset at a discounted rate. If we were
12 to not include accounts receivable financing in the
13 capital structure, we would have to finance that at
14 Kentucky Power's overall cost of capital, or
15 weighted average cost of capital of long-term debt,
16 short-term debt, and equity. So, I mean, it's a
17 cost savings, low cost.

18 Q. Why would you not just finance it with
19 short-term debt?

20 A. Financing with short-term debt, there's
21 liquidity risks involved that are -- financing
22 everything with short-term debt. I understand
23 short-term debt is a low-cost alternative as well,
24 but Kentucky Power does have limits in the amount of
25 short-term debt it can borrow as limited by the

1 FERC.

2 Q. What are those limits?

3 A. It's currently \$180 million.

4 Q. And is there 100 -- are there \$180 million in
5 short-term debt right now?

6 A. Kentucky Power's current borrowing level I
7 think is approximately \$10 million borrowed. That
8 fluctuates on a daily basis, obviously. Kentucky
9 Power utilizes its short-term debt capacity to meet
10 its working capital needs, and that could -- you
11 know, it could be invested on one day or borrowed
12 the next day, just depending how cash flows shake
13 out.

14 Q. Do you know how many times in the last 12
15 months that Kentucky Power has hit that limit of
16 \$100 million in short-term debt? 180. Excuse me.

17 A. Kentucky Power has never hit its limit of
18 \$180 million in the last 12 months.

19 MS. VINSEL: No further questions.

20 THE WITNESS: Thank you.

21 CHAIRMAN SCHMITT: Commissioner Cicero,
22 questions.

23 EXAMINATION

24 By Vice-Chairman Cicero:

25 Q. Had they not used accounts receivable, how

1 many times would they have hit that \$180 million
2 limit?

3 A. They would -- to my -- to the best of my
4 knowledge, they would have never exceeded the
5 \$180 million limit.

6 Q. I don't believe they would have either, but
7 thank you for confirming that.

8 So we're back to the original statement. I
9 understand all the philosophy about utilizing
10 receivables, you're selling an asset, it's being
11 discounted. The question is: The discount, is that
12 premium valuable enough to say that AEP should be
13 able to utilize a premium rate selling -- or buying
14 receivables from a subsidiary that exceeds what the
15 risk factor is? If you're going to leave the bad
16 debt at the subsidiary and not take it up with the
17 receivables, what's -- what is the premium being
18 paid for?

19 A. Okay. I didn't -- fair question. I'd like
20 to address -- first, I think you indicated something
21 like Kentucky Power's borrowing cost is .48 percent.

22 Q. .3 for the -- you have a pool, I'm just --

23 A. Yeah.

24 Q. -- using your pool as an example because it's
25 part of the exhibit, that says that the average

1 borrowing cost out of the pool of money available to
2 Kentucky Power and other members of that pool is
3 .48. There is a range that exists in that pool. I
4 took the average.

5 A. Okay. Okay. Yeah, I was going -- I just --
6 their current short-term debt borrowing rate is
7 approximately 1.5 percent as compared to point --
8 .48 is that average.

9 Q. Going to the outside?

10 A. In the pool. In the pool their current
11 borrowing rate is 1.5 percent.

12 Q. So why does your exhibit --

13 A. Approximately.

14 Q. This is Exhibit RP 60 of 138. It says,
15 (Reading) The maximum interest rate for funds
16 borrowed from the utility in 2015 was 87 basis
17 points, the minimum was 37 basis points, and the
18 average was 48 basis points.

19 So where does the 150 basis points come from?

20 A. First of all, I think you said that was 2015,
21 so quite a bit -- a long time ago, and the rise in
22 short-term rates. That -- I believe what you're
23 reading from comes from the Utility Money Pool
24 disclosure, which gives the absolute bottom range of
25 the borrowing rate and the maximum range, so that's

1 where you're your average. The current borrowing
2 cost --

3 Q. Well, I'm getting my average from you. I'm
4 not calculating anything.

5 A. Sure. Sorry. From the disclosure, the
6 average borrowing rate. The current borrowing cost
7 is approximately 1.5 percent.

8 Q. "The current borrowing cost" meaning what?
9 2017?

10 A. As of today, correct.

11 Q. So what is the factor or discount rate that
12 the receivables are being charged down from AEP?
13 Because I'm using a 2015 rate of 195 basis points.
14 What is it?

15 A. I don't know the current factoring rate.

16 Q. Well, see, I can only compare apples to
17 apples. I can't compare --

18 A. I understand.

19 Q. -- apples to oranges, and you're giving me a
20 2017 rate and saying it's not applicable to my
21 comparison here that's 2015. So absent of that I've
22 gotta go with the data you've given me.

23 A. I understand. And --

24 Q. Right now there's a premium that's being paid
25 that I don't understand.

1 A. Okay. Let me try to help --

2 Q. Sure.

3 A. -- at least. So Kentucky Power's only
4 available option for short-term debt is the Utility
5 Money Pool as part of the corporate borrowing
6 program, which we have listed as short-term debt in
7 the capital structure. The borrowing -- current
8 borrowing cost for that capacity is approximately
9 1.5 percent.

10 In Kentucky Power's capital structure we also
11 have the line item for accounts receivable financing
12 or factoring, and that is -- the cost on that is
13 just the interest costs or the carrying charge that
14 Kentucky Power pays to factor its receivables.

15 Q. Yes. There's a premium being paid, and my
16 concern is, is that premium goes as a profit center
17 for AEP, because whatever that interest earned is,
18 is -- unless that -- those funds are coming from
19 some other source, it's a profit center for AEP.

20 A. The funds -- so Kentucky Power gets its
21 money, its purchase, from AEP Credit. AEP Credit
22 works through conduit banks to purchase those
23 receivables. So that interest charge is the bank's
24 finance charge to AEP Credit and then passed
25 directly through to Kentucky Power.

1 Q. And is there a premium being paid over what
2 those consortium of banks are charging AEP Credit
3 that AEP is charging Kentucky Power?

4 A. Not to my knowledge. It's direct -- direct
5 charge.

6 Q. So post-hearing data request, I would like
7 that confirmed, that --

8 A. Sure.

9 Q. -- it's a straight pass-through on the
10 accounts receivable. Okay?

11 A. Sure.

12 VICE-CHAIRMAN CICERO: I don't have any other
13 questions at this time.

14 CHAIRMAN SCHMITT: Commissioner Mathews,
15 questions.

16 COMMISSIONER MATHEWS: None.

17 CHAIRMAN SCHMITT: I have no questions.
18 Any redirect, Mr. Garcia?

19 MR. GARCIA: Thank you, Your Honor. That's
20 it.

21 CHAIRMAN SCHMITT: Questions from anyone
22 else?

23 MR. CHANDLER: Just one question.

24 CHAIRMAN SCHMITT: May this witness be
25 excused?

1 MR. CHANDLER: Your Honor, I do have one.

2 CHAIRMAN SCHMITT: Oh, I'm sorry, you do have
3 one.

4 MR. CHANDLER: I'm sorry. One question.

5 CROSS-EXAMINATION

6 By Mr. Chandler:

7 Q. What are bad debts -- what causes bad debts?
8 At Kentucky Power, what causes the amount of bad
9 debts? What leads to them?

10 A. I'm not an accountant. Bad debt is just the
11 portion of our receivables that we expect not to
12 collect from our customers.

13 Q. And do you know any reasons why those amounts
14 go uncollected?

15 A. I'm -- once again, I'm not an accountant that
16 deals with -- deals with our receivables. I
17 apologize not being able to answer the question.

18 MR. CHANDLER: That's all we have, Chairman.

19 CHAIRMAN SCHMITT: May this witness be
20 excused?

21 MS. VINSEL: Oh.

22 CHAIRMAN SCHMITT: You have questions?

23 RECROSS-EXAMINATION

24 By Ms. Vinsel:

25 Q. Why can't Kentucky Power go to the short-term

1 debt market itself?

2 A. Multiple reasons. One of the benefits of
3 being part of AEP is that we do have access to the
4 corporate borrowing program and its low-cost
5 financing capabilities.

6 For Kentucky Power to go out on its own to
7 issue short-term debt, first of all, it would have
8 to obtain and maintain a short-term credit rating
9 from S&P and Moody's, who we have discussed about at
10 length at this hearing. There's quite a bit of cost
11 to that.

12 To issue short-term debt you also have to
13 have some sort of credit facility to backstop those
14 borrowings, another additional cost that would be
15 included.

16 I think that there's also charges that are
17 involved with intercompany back-and-forth wire
18 transfers. If we weren't part of the pool, Kentucky
19 Power would have to incur wire transfers in and out
20 of banks, which would come at a cost as well.

21 So I think the overall economies of scale and
22 the benefits of the AEP corporate borrowing program
23 are very, very evident as the low-cost alternative
24 for short-term financing.

25 MS. VINSEL: Nothing further.

1 CHAIRMAN SCHMITT: Any other questions?

2 VICE-CHAIRMAN CICERO: Just one comment.

3 REEXAMINATION

4 By Vice-Chairman Cicero:

5 Q. The securitization would be the receivables,
6 so if they weren't selling to AEP, they would be
7 utilizing that on their own short-term facility,
8 whatever that may be.

9 I'm not going to argue the point that they
10 may have to establish themselves through Moody's and
11 Standard & Poor's, but they could establish
12 themselves.

13 And wire transfers, that's a minimum charge.
14 That -- those fees aren't anything that would
15 influence a decision on whether to have your own
16 short-term borrowings or not.

17 It would all come down to whatever the
18 interest rate is that the -- that is being charged
19 or whatever the premium is. That should be the
20 decision.

21 A. Absolutely. I was trying to identify as many
22 costs as I -- that I could that be would be
23 inclusive of the all-in rate.

24 There's also benefits on the investment side
25 as well to where, a company has excess funds, it's

1 able to invest those in the corporate borrowing
2 program and earn a return on that.

3 So I understand your point and I think it's
4 valid.

5 Q. And as I said, the concern -- the only
6 concern the Commission has is that AEP Credit is
7 actually acting as a profit center for AEP and
8 benefitting to the expense of Kentucky Power by
9 paying a premium over what it could borrow at a
10 short-term rate.

11 A. Understood.

12 CHAIRMAN SCHMITT: Anyone else have any other
13 questions?

14 Any redirect, Mr. Garcia?

15 MR. GARCIA: None, Your Honor. Thank you.

16 CHAIRMAN SCHMITT: May this witness be
17 excused?

18 MS. VINSEL: Yes.

19 CHAIRMAN SCHMITT: Okay. You may step down.

20 MR. MILLER: Thanks.

21 CHAIRMAN SCHMITT: And you are excused.

22 Thank you.

23 Another witness.

24 MR. OVERSTREET: The next witness is Mr.

25 Wohnhas. Do you want to put him on or break for

1 lunch?

2 CHAIRMAN SCHMITT: How long do you think
3 Mr. Wohnhas might take? It'll be a while.

4 MR. OVERSTREET: I'm not the determiner of
5 that.

6 CHAIRMAN SCHMITT: Well, let's get -- we can
7 get a -- we can get a half hour --

8 MR. OVERSTREET: Absolutely. Absolutely.

9 CHAIRMAN SCHMITT: -- with Mr. Wohnhas, so
10 that's --

11 VICE-CHAIRMAN CICERO: I agree.

12 CHAIRMAN SCHMITT: Mr. Wohnhas, you've been
13 greatly anticipated, your testimony.

14 MR. WOHNHAS: Yeah, I know. I hope I can
15 live up to it.

16 CHAIRMAN SCHMITT: Please raise your right
17 hand. Do you solemnly swear or affirm the testimony
18 you are about to give will be the truth, the whole
19 truth, and nothing but the truth?

20 MR. WOHNHAS: I do.

21 CHAIRMAN SCHMITT: Please be seated.

22 Before we start and get into this on -- is
23 there any issue remaining about the authentication
24 of the Attorney General's Exhibit, what, 4 as being
25 part of the Kentucky Power annual report for either

1 2006 or 2016 or both?

2 MR. GISH: No, Mr. Chairman.

3 CHAIRMAN SCHMITT: Okay.

4 MR. GISH: Thank you.

5 CHAIRMAN SCHMITT: Then I'm going to admit
6 Mr. Chandler's Exhibit 4, is that correct, into
7 evidence?

8 MR. CHANDLER: Yes, sir; it's Exhibit Number
9 4.

10 CHAIRMAN SCHMITT: Okay. Thank you.

11 MR. CHANDLER: Thank you.

12 (AG Exhibit 4 admitted.)

13 MR. OVERSTREET: Oh, I'm sorry. I'm sorry.

14 CHAIRMAN SCHMITT: You may ask.

15 RANIE K. WOHNHAS, called by Kentucky Power
16 Company, having been first duly sworn, testified as
17 follows:

18 DIRECT EXAMINATION

19 By Mr. Overstreet:

20 Q. Mr. Wohnhas, please state your name,
21 position, and business address.

22 A. My name is Ranie K. Wohnhas. I'm the
23 Managing Director of Regulatory and Finance. My
24 address is -- business address is 855 Central
25 Avenue, Ashland, Kentucky.

1 Q. And, Mr. Wohnhas, did you cause to be filed
2 in this proceeding direct testimony, rebuttal
3 testimony, and responses to data requests?

4 A. And supplemental testimony, yes.

5 Q. And -- I'm sorry. And supplemental
6 testimony?

7 A. Yes.

8 Q. And do you have any changes or additions to
9 those?

10 A. I do not.

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

13 A. They would.

14 MR. OVERSTREET: Your Honor, the witness is
15 available.

16 CHAIRMAN SCHMITT: Thank you.

17 Mr. Kurtz, questions.

18 MR. KURTZ: No questions.

19 CHAIRMAN SCHMITT: Counsel for any of the
20 settling intervenors have questions for Mr. Wohnhas?

21 If not, does the Attorney General have
22 questions?

23 MR. CHANDLER: I think Mr. Gardner is going
24 to go before the Attorney General.

25 CHAIRMAN SCHMITT: Okay. Mr. Gardner,

1 proceed.

2 MR. GARDNER: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 By Mr. Gardner:

5 Q. Mr. Wohnhas, how long have you been in
6 your -- working for Kentucky Power?

7 A. Well, I've got 38 years total with
8 AEP/APCO/Columbus/Kentucky Power.

9 Q. And have you been in finance and ratemaking
10 the entire time?

11 A. No, I'm an accounting -- accountant by trade,
12 so I started -- but I actually started customer
13 service in the call center.

14 Q. Okay.

15 A. Then a lot of time in accounting. But since
16 about 1987 I have been -- most of my time has been
17 in regulatory.

18 Q. Okay. And in that -- in that position, I
19 assume you've gone to many schools or classes on
20 ratemaking and principles of ratemaking?

21 A. I have attended those, yes.

22 Q. When I was asking -- were you in the room
23 when -- the many times that Mr. Satterwhite
24 testified in this hearing?

25 A. Yes.

1 Q. Okay. Were you in the room when I was asking
2 him questions about the thousand-kilowatt border and
3 about, you know, the large differences at that
4 border, and he said basically, you know, "If they
5 come talk to me, you know, we can see if we can work
6 something out. We'd have to come to the Commission
7 to do it." Were -- did you hear --

8 A. I was here for those discussions, yes.

9 Q. Okay. And were you also here when he talked
10 about, you know, "Just bet on us"? Did you hear
11 that phrase that he used to describe?

12 A. I did.

13 Q. Okay. Now, that notion seems awful
14 subjective. Is that -- that these decisions would
15 be made personally by him. Is there any ratemaking
16 principle that would support that analysis?

17 A. Well, let me start by, I think what Mr.
18 Satterwhite -- and if I remember, the discussion was
19 around the idea of the coal, CS-Coal versus -- and
20 the CS-IRP.

21 And I think what Mr. Satterwhite was saying
22 is that, you know, we are following the tariffs.
23 And in this particular case CS-IRP has said, as we
24 got it in the current tariffs, greater than a
25 thousand kW.

1 And then all he was saying is that we would
2 follow that, but that if a customer had reason to
3 want to come in and discuss something differently,
4 you know, we would be willing and we want to talk to
5 that customer and see what and if something could be
6 done, realizing that it would have to go before the
7 Commission, because we're going to follow our
8 tariffs, but that we'd at least like to have that
9 opportunity to have that discussion.

10 It may be something that, from a regulatory
11 standpoint, we could do right away, or it may be
12 something, as we had the discussions, that we could
13 think about in the future of maybe developing some
14 type of difference in our -- in our tariffs.

15 Q. Okay. Since the -- well, let me ask this:
16 In the prior case, did you participate on behalf of
17 Kentucky Power in the prior 2014 case?

18 A. I was a witness there, yes.

19 Q. Okay. And was KCUC in existence at that
20 time? Did they even participate in that case?

21 A. They did not intervene in that case. I don't
22 even know if they were in existence at that time.

23 Q. Okay. The -- and in that prior case there
24 was an agree -- there was a settlement, correct?

25 A. Yes, a nonunanimous settlement.

1 Q. Right. And the rates were raised in that
2 case, correct?

3 A. Yes. The final order, rates were increased,
4 yes.

5 Q. Okay. And since that rate case there's been
6 a large reduction in the number of customers in your
7 base. And, in fact, isn't that one of the reasons
8 why you-all are filing this case is the loss of
9 customers?

10 A. Yes. We said about half of what this -- the
11 original requested amount had to do with the load
12 reduction, which a lot of that goes to the loss of
13 customers.

14 Q. Okay. And do I recall that there's some
15 exhibit that would have said that number of loss of
16 customers is in excess of a thousand?

17 A. Yes. Since the last rate case, yes.

18 Q. Okay. Now, are you -- are you familiar with
19 the term "price elasticity of demand"?

20 A. I am.

21 Q. Okay. Would you like to explain your
22 understanding as to what that is?

23 A. Wow, you're really testing me on that
24 terminology. You know, it has to do with the supply
25 and demand. And, you know, as, you know, price --

1 like anything else, the price goes up, it's very
2 possible the demand would go down. There's some
3 point where you try to meet that, my term,
4 equilibrium of where that -- where that is.

5 Q. Okay.

6 A. That's a very high-level general description.

7 Q. And are you aware that there are such things
8 as studies of price elasticity of demand?

9 A. Yes, there are.

10 Q. Okay. And are you aware that those occur in
11 the utility industry?

12 A. Yeah, they do.

13 Q. Okay. Did Kentucky Power prepare a price
14 elasticity of demand study before they filed this
15 case?

16 A. No, we did not.

17 Q. Okay. Did AEP prepare a price elasticity of
18 demand study for Kentucky Power -- on Kentucky
19 Power's behalf?

20 A. No.

21 Q. Okay. Do you have the ability to have in
22 front of you page -- the settlement agreement,
23 Exhibit 1 to this case?

24 A. Yes.

25 Q. And that is -- and that's -- it's Exhibit --

1 it's also an exhibit, KCUC Exhibit 4, but
2 whichever's easiest, that's what I'm going to be
3 asking about.

4 A. And Exhibit 1 is the settlement revenue
5 allocation; is that correct?

6 Q. Yes, sir.

7 A. I have that.

8 Q. Yeah. So that -- yes. And at the top it
9 says Base Rate Case Settlement Increase?

10 A. Yes.

11 Q. Okay. So I'm going to ask you about some of
12 the changes that occurred in the settlement from
13 your original filing. Okay? And I'm going to use
14 this to help me. And I'm going to ask you first a
15 couple things. There was an increase -- well, I
16 know that -- to just make it clear, we've got RS as
17 a category, then we've got SGS and MGS, but those
18 two numbers are combined into the new class GS,
19 correct?

20 A. That is correct.

21 Q. So that's -- so the cumulative number at the
22 bottom -- and I'll look at the HEAP KEDS number, for
23 example. That 326,687 only includes GS, or the sum
24 of SGS and MGS?

25 A. That is correct.

1 Q. Okay. So there was an increase to the GS
2 class of about \$316,000 when the KEDS -- when the
3 settlement moved the KEDS number from residential to
4 the commercial classes; is that right?

5 A. Well, that 360,000 is both HEAP and KEDS.

6 Q. Okay. Do you know how much is KEDS? If
7 there are 30,000 -- if there are 30,000 commercial
8 customers, then, you know, the vast majority would
9 be --

10 A. Well, you know, if you took a -- you know, it
11 is a -- it's a dollar a month, so if you took a
12 \$1.20 times 30,000 --

13 Q. Right.

14 A. -- you would come up with that amount.

15 Q. So just the vast majority is that -- is that
16 additional money that went to the commercial classes
17 that was not there before in your -- in your --

18 A. That was moved from the residential, yes.

19 Q. Correct. And was there a ratemaking
20 principle that allowed that -- I mean, I understand
21 what settlement discussions and -- was there a
22 ratemaking principle that supported that?

23 A. I don't believe so. Again, I think to what
24 you just said, it was part of settlement
25 discussions.

1 Q. Okay.

2 A. And there's give and take, and so to say
3 there's an official ratemaking principle, no.

4 Q. Okay. And, I mean, one could imagine that it
5 happened just like Mr. Kurtz was suggesting a minute
6 ago with, "Well, let's put 43 more cents on the
7 business class, the commercial class. They can
8 afford it." So that's -- there was no ratemaking
9 principle for that, right?

10 A. No. I mean, I wouldn't say they said that
11 they could afford it. I wouldn't use those words,
12 but as -- you know, in -- as we talked about all the
13 different issues, and there's quite a few that are
14 listed in settlement document, you know, there was
15 give and take on each one of those issues. And, you
16 know, I don't think to any one of those issues can
17 you say there's a ratemaking principle --

18 Q. Okay.

19 A. -- that was followed. It's about the give
20 and take. I think the biggest, that it was fair,
21 just, and reasonable for all the parties.

22 Q. Okay.

23 A. That would be the only -- and that's not a
24 regulatory principle, that's based under statute
25 with the Kentucky regulation that the rates be fair,

1 just, and reasonable.

2 Q. Okay. And in this settlement agreement one,
3 the next line lumps together LGS/PS, but those are
4 really separate classes, right?

5 A. No. They are -- they are one class. I mean,
6 we -- okay. Let me back up. Mr. Vaughan combined
7 these two in this line item.

8 Q. Okay.

9 A. All right? And he can -- he can explain, and
10 much better, the reasons for putting them into one
11 line item, but we -- you know, there is -- because
12 they're all under the 500,000 discount that's given
13 to the schools. All right? It's all part of that,
14 that combination.

15 Q. Okay. So let me -- let me be specific, since
16 we're talking about the settlement. In the prior
17 case -- well, so one of the things that happened in
18 the settlement that was not in the case that you-all
19 filed here was that \$500,000 was taken from -- or an
20 additional obligation was put on LGS to fund the
21 public schools class with an additional \$500,000
22 that came from them; is that correct?

23 A. In our original application. In the
24 settle -- let me just back up a little bit. In the
25 settlement agreement in the 2014-396 case, a part of

1 that was a \$500,000 credit to the public schools.

2 Q. Okay. Which came --

3 A. When we filed --

4 Q. Go ahead. I'm sorry.

5 A. So when we filed this case -- because part of
6 the reason at that settlement is that we were going
7 to go back, put some more meters on more schools to
8 get a better sample of the schools to say does it
9 make sense to continue this.

10 And when we gathered that information, got
11 ready to file this case, Alex and his team -- or
12 Witness Vaughan and his team determined that the
13 \$500,000 credit was not supported by the facts. So
14 we, when filing this case, took that \$5,000 credit
15 out.

16 Q. Okay. And the settlement took it from GS
17 class back to public schools, right?

18 A. I don't know that it -- I can't answer that
19 it came out of the GS class. I know that we put it,
20 that credit, back against LGS. I don't have a
21 recollection that it came out of the GS class.

22 Q. Were you here when KCUC Witness Higgins was
23 here yesterday?

24 A. I was.

25 Q. And he testified that that 500,000 was put on

1 the LGS class. And his point was: Well, if it's an
2 important policy that we want to promote -- not a
3 ratemaking principle again, but if it's an important
4 policy to support the public schools, it should be
5 borne by all the classes and not just LGS.

6 Did you hear him say that yesterday?

7 A. I remember the discussion. I don't -- I
8 don't remember specifically.

9 Q. Okay.

10 A. And I guess what I would ask, just so that --

11 Q. We'll ask --

12 A. -- the record is straight, you know -- -

13 Q. We'll ask --

14 A. -- Mr. Vaughan can tell you exactly how
15 that --

16 Q. Sure.

17 A. -- that was moved.

18 Q. And we'll ask him that question.

19 A. Okay.

20 Q. Fair enough. So the process of the
21 settlement -- and let me just go through the classes
22 that are here. So did the settlement -- did the
23 settlement give residential customers as a class a
24 special benefit?

25 A. What was that? The spec --

1 Q. Did it give them a special benefit, the
2 settlement?

3 A. I guess what do you --

4 Q. Well, I mean --

5 A. What do you mean by "special benefit"?

6 Q. Well, let's -- okay. So did they get
7 anything of value to them in the settlement that
8 other classes didn't get, or were they harmed more?

9 A. I mean, all I can say, I still don't know
10 about -- you know, I can tell you that through the
11 settlement that the residential class received a
12 reduced customer charge from 17.50 to 14. The -- as
13 part of the settlement, the KEDS funding reduced to
14 the residential class. Overall allocation of -- due
15 to the revenues that we agreed to in total moved
16 their percent increase on the average, as you see
17 here, down below 10 percent to 9.36 percent, and
18 with the surcharge is 9 percent, there in the other
19 column.

20 Q. The -- that when you went to 9.3 -- 36
21 percent, there were some -- as part of the
22 settlement, there were some reductions across the
23 board, right, to all classes?

24 A. Yes.

25 Q. Okay. The SGS, MGS, combined GS, there was

1 an additional 300 plus thousand that went to them
2 that wasn't in the rate case, right, as part of the
3 settlement?

4 A. You'd have to ask Mr. Vaughan. I don't -- I
5 don't remember that amount specifically, and -- that
6 went from the GS -- or that increased to the GS.
7 You know, there was -- there was a lot of movements.

8 Q. Okay.

9 A. You know, you're asking for specifics of
10 300,000 for the GS. I just don't have that data.

11 Q. So is it -- do you know if GS had any of the
12 KEDS funds assigned to it before the settlement?

13 A. Yes.

14 Q. They did?

15 A. Yes. The KEDS was across all classes. I
16 mean, so when you say GS, remember, that's SGS and
17 MGS as it's currently filed.

18 Q. Sure.

19 A. So, yes, they had funds that --

20 Q. And was that the --

21 A. -- were assigned to them.

22 Q. And that was the 15 cent, or how much was
23 that per meter?

24 A. That was that -- well, no, that would have
25 been filed at the 25 cent. We had asked to be

1 increased from 15 cents to 25 cents.

2 Q. Okay. So that was a 10-cent increase that
3 you were proposing?

4 A. Yes.

5 Q. Okay.

6 A. And they would have -- they would have had
7 that in the original filing.

8 Q. Okay. And they ended up having a dollar per
9 meter in the --

10 A. Yes.

11 Q. Okay.

12 A. As of the settlement day, they went to a
13 dollar.

14 Q. Okay. So the settlement increased -- I mean,
15 when you said they went to it, it was -- they were
16 told --

17 A. Yeah, so in the KEDS, it increased from
18 the --

19 Q. Okay.

20 A. -- 25 cents to a dollar.

21 Q. And likewise, LGS and PS. And did the -- did
22 the industrial customers get a ben -- well, let
23 me -- let me -- so did the LGS class -- well, okay.
24 I'm going to have to ask these questions, then, of
25 Mr. Vaughan because you don't know that the 500,000

1 that was assigned to them -- okay.

2 And do you know that the smaller customers,
3 their rates were reduced as part of the settlement?

4 A. Again, I think that's Mr. Vaughan.

5 Q. Okay.

6 A. And the total amount, to -- let's get it
7 accurate on the record. He was the one that
8 prepared all the papers and all the allocations.

9 Q. I'll do that.

10 CHAIRMAN SCHMITT: Mr. Cook, Mr. Chandler,
11 cross.

12 MR. COOK: Yes, we do have some questions,
13 Your Honor. I believe we'll have over a half hour's
14 worth of questioning.

15 CHAIRMAN SCHMITT: Well, let's see -- let's
16 do ten minutes and then we'll go to lunch, otherwise
17 we may be here till 8:00 o'clock tonight, and I
18 don't think anybody wants to do that.

19 MR. COOK: Thank you, Mr. Chairman.

20 CROSS-EXAMINATION

21 By Mr. Cook:

22 Q. Good afternoon Mr. Wohnhas.

23 A. Good afternoon.

24 Q. What is bad debt a function of?

25 A. Bad debt is, you know, a function of a

1 customer not paying their costs. You know, it's for
2 an electric bill.

3 Q. Okay. Did the Company conduct a lead-lag
4 study in this case?

5 A. We did not.

6 Q. Okay. How was cash working capital
7 determined?

8 A. One-eighth O&M.

9 Q. One-eighth O&M?

10 A. Yeah, as we --

11 Q. Can we get a little background on what that
12 is, the one-eighth study?

13 A. It's a common practice of -- you know,
14 outside of using a lead-lag study, to, you know,
15 look at your -- your total O&M and take one-eighth
16 of it for cash working capital.

17 Q. Thank you.

18 A. It's a straightforward calculation.

19 Q. Are you familiar with Case 2017-00099
20 where -- this is the coal plus tariff case.

21 A. I am.

22 Q. Okay. Thank you. Was there a deferral
23 accounting treatment requested in that case?

24 A. There was -- we did request, if there was at
25 a time where we -- there was any incurred losses

1 that, yes, we could defer some of those costs.

2 Q. Okay. Did the order allow those deferrals?

3 A. It -- you know, we would have -- we could
4 have set it up, but then it would be requested in
5 another proceeding to get recovery.

6 Q. Okay. Does the continuation of those tariffs
7 in the stipulation discuss that current accounting
8 treatment?

9 A. In the settlement we don't expressly talk
10 about that. To date, we are not -- we have not.
11 There's three -- as was mentioned earlier, there is
12 three coal companies that have taken advantage of
13 the CS-IRP, but they're -- you know, because they
14 have taken just the IRP and no other issues, there's
15 been no accounting set up of any deferrals because
16 of -- there's no need for it because the IRP is just
17 a function of helping them with the credit and them
18 being able to, at a point in time, when asked, to
19 interrupt their service. So there's been nothing
20 accounting-wise at this point in time under
21 CS-IRP -- or the CS-Coal. I'm sorry.

22 Q. Okay. Are you requesting it?

23 A. Yeah. We're asking for it to continue, yes.

24 Q. Okay. And so you're expecting it?

25 A. Yes.

1 Q. Okay. Now, in the stipulation, the
2 residential customer charge is proposed to be
3 increased, correct, from the current amount?

4 A. From the current, yes. From \$11 to \$14. The
5 settlement has it at 14, a reduction from the 17.50
6 as was submitted.

7 Q. Okay. In your rebuttal testimony you state
8 that if the Rockport deferral is accepted, it would
9 negatively affect the Company's credit ratings;
10 isn't that correct?

11 A. Can you report -- can you -- where exactly
12 you have --

13 Q. Yeah. Your rebuttal testimony, page 8,
14 starting at line 11.

15 A. Yes.

16 Q. Okay. So you confirm that?

17 A. Yes.

18 Q. Okay.

19 A. That's what I state --

20 Q. And --

21 A. -- and describe later on.

22 Q. Thank you. And did you request any opinions
23 from any credit rating agencies to that effect?

24 A. An opinion?

25 Q. Yes.

1 A. No.

2 Q. Okay.

3 A. It's a -- it's a -- just a function of -- you
4 know, when we talk about, as I explained, that, you
5 know, when you look at the idea of these metrics,
6 the -- specifically on page 10 of my testimony, we
7 talk about the cash to debt and so forth, and if
8 those are going to be decreased, then you take the
9 risk of those credit ratings being decreased. You
10 know, it's -- so it's an additional risk.

11 Q. All right. Given that, then, why did you
12 agree to the propose -- the stipulation proposal for
13 the deferral, then, which, according to your
14 testimony, will lower the Company's credit ratings?

15 A. Sure. And, you know, at the bottom of page
16 10 of my rebuttal testimony, you know, it says this
17 means any deferral is not a good idea, and I say no,
18 it's about how much.

19 And as everyone knows, you know, what KIUC
20 initially requested was much higher than what we
21 ended up settling at. And, again, as we look at
22 everything that was in the settlement, the OATT
23 costs, the Rockport, all those things we, being
24 Kentucky Power, was also looking at our -- what we
25 thought that it would reduce our credit ratings to,

1 what our earnings would go to.

2 And so in that picture of everything that
3 gets affected by coming to this agreement, the whole
4 package as a whole felt that -- though I say it's
5 additional risk, there is. There is still
6 additional risk of these credit ratings, but we felt
7 it was risk that we could overcome if we are able to
8 achieve some of the things that we expect, including
9 the rate stay-out, economic development, that it was
10 something we could overcome.

11 Q. Your rebuttal testimony at page 12, you state
12 that well-recognized regulatory principles allow
13 recovery of reasonable costs.

14 In light of the severe economic decline the
15 service territory has experienced over the past
16 several years, is it reasonable for Kentucky Power
17 to continue to recover the full weighted average
18 cost of capital on the carrying charges applicable
19 to the Big Sandy Retirement Rider, now being called
20 the decommissioning rider?

21 A. Absolutely. You know, again, these are
22 costs -- first of all, you know, the cost of running
23 Big Sandy Unit 1, Big Sandy Unit 2, those coal-fired
24 units started in 1963, 1969, 50 plus years of
25 service to the customers of Eastern Kentucky, and so

1 those costs should be recovered, including with that
2 cost should be the current value of -- again, in the
3 last settlement, 2014-0396, agreed to take that, the
4 decommissioning rider, and to spread that out over
5 25 years, again as a way to try to keep the costs
6 down as much as possible for our customers.

7 But, you know, it's investment that the
8 Company incurred and should get recovery, and it
9 should be at whatever the current level of working
10 capital -- of the WACC is set at. So, yes, I truly
11 believe it's correct.

12 Q. What return on equity is applicable to the
13 Big Sandy Retirement Rider?

14 A. Currently it's at 10.25, as was agreed to in
15 the last settlement in 2014-00396. If -- is where
16 it is today.

17 MR. COOK: Just one moment, Your Honor.

18 Q. If the Company was willing to agree to the
19 Rockport deferral, which, according to your
20 testimony, places credit ratings at risk, why is the
21 Company not willing to reduce its --

22 MR. OVERSTREET: Your Honor, I'm going to
23 object. He's misstating. The Rockport deferral was
24 a \$100 million deferral amortized over ten years.
25 The settlement is something completely different.

1 If you want to distinguish them, then you can ask
2 him the question, but it's misleading to conflate
3 the two.

4 MR. COOK: I'm not sure I understand the
5 nature of the objection. I was asking a question
6 about the Rockport deferral, which is in the
7 stipulation.

8 MR. OVERSTREET: Right. And my point is,
9 Mr. Wohnhas' rebuttal testimony addressed Mr.
10 Kollen's proposal, which is not in the settlement
11 agreement --

12 MR. COOK: Well, I wasn't going to ask --

13 MR. OVERSTREET: -- and you're conflating the
14 two.

15 MR. COOK: Well, I wasn't going to ask any
16 questions about, you know, his rebuttal testimony.
17 I'm now asking about the stipulation.

18 MR. OVERSTREET: That's right.

19 MR. COOK: And that's before the Commission.

20 MR. OVERSTREET: But you're conflating the
21 two, Mr. Cook.

22 Your Honor, he's conflating the two. The
23 issue --

24 MR. COOK: I'm sorry, I'm not.

25 MR. OVERSTREET: You are.

1 MR. COOK: It's relevant because it's before
2 this Commission.

3 CHAIRMAN SCHMITT: I'll tell you what --

4 MR. OVERSTREET: I'm not objecting to whether
5 it's relevant or not.

6 CHAIRMAN SCHMITT: We'll defer this for an
7 hour and give Mr. Cook the opportunity to think
8 about rephrasing the question.

9 MR. OVERSTREET: Thank you, Your Honor.

10 CHAIRMAN SCHMITT: And if there's some issue
11 between the two, maybe you can discuss it then.

12 But before we leave, however, I would like
13 counsel and the parties that are here who entered
14 into the proposed settlement agreement to stay and
15 step forward so that we can do our sworn testimony
16 concerning the proposed settlement. All right?

17 And that would be -- I see that we have
18 everybody here. I know Mr. Overstreet and Kentucky
19 Power are here. Mr. Kurtz, Mr. Malone, Mr. Dutton.

20 MR. DUTTON: Mr. Dutton reporting for duty.

21 CHAIRMAN SCHMITT: I know Mr. Zielke is here,
22 somewhere back there.

23 MR. ZIELKE: I'm here, Your Honor.

24 CHAIRMAN SCHMITT: Ms. Harris.

25 MS. HARRIS: I'm here.

1 CHAIRMAN SCHMITT: Mr. Malone. Okay. Are we
2 here?

3 All right. Do you swear or affirm that the
4 representations you are about to make are true and
5 accurate to the best of your knowledge and belief?

6 ALL: Yes.

7 CHAIRMAN SCHMITT: Were you aware of and did
8 you have an opportunity to participate in all of the
9 negotiations that resulted in the settlement
10 agreement?

11 ALL: Yes.

12 CHAIRMAN SCHMITT: Did you voluntarily sign
13 the settlement agreement and do you fully support
14 each and every provision contained therein?

15 ALL: Yes.

16 CHAIRMAN SCHMITT: Are there any provisions
17 in the settlement agreement that you do not
18 understand, object to, or take issue with?

19 ALL: No.

20 CHAIRMAN SCHMITT: Was any consideration of
21 any kind offered or were any promises made other
22 than what is expressly set forth in the settlement
23 agreement to induce you to negotiate and sign the
24 settlement agreement?

25 ALL: No.

1 CHAIRMAN SCHMITT: Are you aware of any
2 reason why the Commission should not adopt and
3 approve the settlement agreement in its entirety?

4 ALL: No.

5 CHAIRMAN SCHMITT: Thank you very much. Have
6 a good lunch. See you in an hour.

7 (Recess from 1:01 p.m. to 1:58 p.m.)

8 CHAIRMAN SCHMITT: We are back on the record.
9 Ms. Harris, did you have something to bring
10 to our attention?

11 MS. HARRIS: I do, Your Honor. At this point
12 Wal-Mart --

13 COMMISSIONER MATHEWS: Microphone.

14 MS. HARRIS: At this point Wal-Mart would
15 request that it be released from the remainder of the
16 hearing. We would accept the record as it is.

17 CHAIRMAN SCHMITT: Certainly. You may have
18 permission to leave.

19 Anyone else who represents a settling
20 intervenor who would like to leave, please feel free
21 to do so, if not now, at any time through the end of
22 the proceeding.

23 Thank you very much.

24 MS. HARRIS: Thank you very much, Your Honor.
25 I understand there is bad weather throughout the

1 South, so I am attempting to fly home this evening,
2 so I appreciate --

3 CHAIRMAN SCHMITT: I appreciate you being
4 here.

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

6 CHAIRMAN SCHMITT: Okay. Mr. Wohnhas.

7 And I guess I better talk to Mr. Overstreet
8 and Mr. Cook. Have you resolved this question
9 issue?

10 MR. OVERSTREET: We have, Your Honor. We
11 have.

12 MR. COOK: Yes, I believe so.

13 CHAIRMAN SCHMITT: Okay. Thank you.

14 MR. COOK: As a matter of fact, Mr. Chairman
15 and Mr. Overstreet, I think we are going to skip
16 that area of questioning and move on to something
17 else.

18 Q. So with that, good afternoon again,
19 Mr. Wohnhas.

20 A. Good afternoon, sir.

21 Q. And my question for you is: Did the Company
22 request or receive any opinions from S&P or Moody's
23 or any other credit rating agency regarding the
24 proposed deferral found in the stipulation?

25 A. No.

1 Q. Okay. Thank you. And, yeah, if you'll hold
2 on a second, my co-counsel will pass out some --

3 MR. CHANDLER: Mr. Chairman, may I approach?

4 CHAIRMAN SCHMITT: You may.

5 MR. CHANDLER: No, I don't think you can. I
6 think we messed up hole, so --

7 THE WITNESS: Okay. That's all right.

8 MR. CHANDLER: -- the bottom hole is too
9 small.

10 This is -- one of them will be -- I believe
11 one of them will be.

12 CHAIRMAN SCHMITT: Thank you.

13 VICE-CHAIRMAN CICERO: Thank you.

14 Q. All right. And, sir, before I get to the --
15 those exhibits, just one question: Did Kentucky
16 Power conduct any studies to determine if ratepayers
17 can afford to continue paying the Big Sandy
18 Retirement Rider reg asset based on the current
19 level of carrying charges?

20 A. Well, as I think we have stated a number of
21 times -- a number of times, you know, there was no
22 formal study that's bindered that stated the
23 recovery of that. It was presented before the
24 Commission as being fair, just, and reasonable and
25 approved.

1 Q. Okay. Thank you, sir. Now, you've been
2 handed some exhibits, and if you could turn to tab 1
3 there, please. And I believe that should be a page
4 from your rebuttal testimony at page 18; is that
5 correct?

6 A. That is correct.

7 Q. All right. And lines 1 through 12 there, you
8 take issue with disallowing some of the AEP
9 corporate aviation costs that were charged or
10 allocated to Kentucky Power during the test year,
11 correct?

12 A. That is correct.

13 Q. All right. And the Company's response to
14 Public Service Commission Staff's second data
15 request, item 55, included a list of AEP corporate
16 aviation costs which were charged or allocated to
17 Kentucky Power, did it not?

18 A. It did.

19 Q. Thank you. And the attachment to that
20 response, it was provided in a very small print,
21 correct? Are you familiar with that one?

22 A. I am familiar. I have a copy of that --

23 Q. Okay.

24 A. -- response, and it is fairly small, yes.

25 Q. Thank you. Because of that, we're going to

1 put it up on the screen.

2 MR. COOK: And if my understanding is
3 correct, Mr. Chairman, I believe when that is done
4 that the witness will also have it on his screen, if
5 that's correct.

6 CHAIRMAN SCHMITT: I think that's correct.

7 MR. COOK: Okay.

8 CHAIRMAN SCHMITT: Do you need assistance?

9 MR. CHANDLER: I'm -- Nancy has just gone
10 back to speak to Mr. Rhodes, I believe.

11 MR. COOK: So we might need to take a moment
12 here.

13 THE WITNESS: If I may ask, am I supposed to
14 have a screen?

15 MR. CHANDLER: You will in a second. And --
16 oh, do you not have a screen?

17 THE WITNESS: No, sir.

18 MR. CHANDLER: Oh, I thought there was one up
19 there. It'll be behind you.

20 THE WITNESS: Okay. I do have a copy of it
21 if that -- you know, of that.

22 MR. CHANDLER: Okay.

23 Q. Do you have a magnifying glass?

24 CHAIRMAN SCHMITT: Pam, you have a screen.

25 A. No, but I got my glasses, so we'll work it

1 between that somehow.

2 CHAIRMAN SCHMITT: I'm asking if Mr. Wohnhas
3 could see your screen.

4 COMMISSIONER MATHEWS: Supposed to just turn
5 the red button and it should work.

6 MS. HUGHES: I don't think it'll be on the
7 screen.

8 CHAIRMAN SCHMITT: Okay.

9 MR. CHANDLER: Turn off some lights. Pam,
10 thank you.

11 MS. HUGHES: Is that not dark enough?

12 MR. CHANDLER: I think it was the third one
13 down was the one we had talked about.

14 MS. HUGHES: That's the third one.

15 MR. CHANDLER: Okay. Perfect. I think it --
16 give it a second. Mr. Rhodes -- there we are.

17 MR. COOK: So we are pulling the document up.
18 It should be accessible in just a few --

19 MR. KURTZ: Can I make a statement on the
20 record? I'm very impressed by the AG's technical
21 skills here.

22 MR. CHANDLER: I hope you -- we will zoom in
23 on it, that's the purpose of it. It was too small
24 to print and too small to show. Okay. I'm zooming
25 in as best I can.

1 MR. COOK: And we are zooming in. As my
2 co-counsel said, he is zooming in there. Okay. And
3 then let's go to the very end where it shows the
4 total.

5 COMMISSIONER MATHEWS: You can turn it back
6 around toward you.

7 CHAIRMAN SCHMITT: That's okay.

8 COMMISSIONER MATHEWS: I actually can see up
9 there better than I can see yours, so you can have
10 yours back.

11 CHAIRMAN SCHMITT: Thank you.

12 Q. Okay. And, Mr. Wohnhas, are you able to see
13 that behind you?

14 A. I am.

15 Q. Thank you, sir. And would you agree that the
16 total amount there for the corporate aviation cost
17 is roughly 6.613 million?

18 A. Yes, and that's -- I have the exact, but
19 that's shows that amount there.

20 Q. Thank you. And of that total, the Company is
21 requesting \$400,750 of AEP corporate aviation
22 expense to be charged to Kentucky Power ratepayers,
23 correct?

24 A. Actually, I believe the amount is 388,355, as
25 far as the O&M piece. There was --

1 Q. Okay.

2 A. -- 400,000, you're correct, we answered it
3 in --

4 Q. All right.

5 A. -- number 153, but part of that went to
6 account 107, which is CWIP and some other accounts,
7 but the O&M piece was 388,355. So approximately six
8 percent of that total 6.6 million was allocated to
9 Kentucky Power.

10 Q. So what is the amount that you're requesting
11 to be recovered from Kentucky Power ratepayers?

12 A. The 388,355.

13 Q. Okay. Thank you. Now, the listing in the
14 attachment to PSC 255 lists the costs and the people
15 that were on each flight as well as the date of the
16 costs that were recorded; is that correct?

17 A. That is correct.

18 Q. Okay. The AEP corporate aviation is used
19 extensively by the top AEP executives and the AEP
20 board members; isn't that correct?

21 A. It is used by quite a few people. Clearly
22 the executives use it probably the higher percentage
23 of time, but it is used across quite a few different
24 employees with AEP as well as the operating
25 companies on occasion.

1 Q. Okay. And could you turn to the third tab of
2 the handouts that were given to you? Let me know
3 when you're there.

4 A. I'm just trying to keep all the papers in
5 order. I am there.

6 Q. Thank you. Now, this is a listing including
7 pictures and names of AEP officers and directors.
8 It was obtained from AEP's website. Could you just
9 review that and let us know if those are, in fact,
10 the AEP officers and directors who have used the AEP
11 corporate aviation?

12 A. All of these that you have listed here have
13 used the corporate plane at some point in time, but
14 it is not a complete list of those who have used the
15 plane.

16 Q. Okay. Thank you. I understand. And so only
17 a minimal amount of AEP corporate aviation cost is
18 for flights directly involving Kentucky Power; isn't
19 that correct?

20 A. Yes. And, you know -- and when -- for
21 instance, if there would be those who would come
22 down from Columbus to Kentucky Power to have a
23 meeting specifically on an issue with Kentucky
24 Power, all of those costs, based on allocation,
25 would get directly assigned to Kentucky Power.

1 When -- and I think Mr. Satterwhite yesterday
2 gave an example of going to Washington, D.C. with
3 the CEO, Nick Akins. You know, those costs would
4 get -- in talking to the EEI, would get allocated
5 to -- the share, to Kentucky Power.

6 Q. If you can turn and look behind you, I think
7 you'll see that we have bolded the references to
8 Kentucky Power. And this one -- this one page is --
9 I believe that's page 8; isn't that correct? It's
10 page 8. And then if we could -- I think the other
11 ones identifying Kentucky Power are on page 6.
12 We're going to scroll up to there, if you'll bear
13 with us. Okay. There we go.

14 So subject to check, would you agree that the
15 costs relating to Kentucky Power total approximately
16 \$53,502?

17 A. I assume what you're saying is, if you go
18 through this list and pick up where it was
19 specifically to Kentucky Power, that's where you
20 came up with your 53,000?

21 Q. Correct.

22 A. I don't have -- you know, I have no way of
23 checking those numbers. I would say this meeting
24 here, the IRC meetings, these are meetings that we
25 have once a year where we -- this group of folks

1 that's listed there come down and we talk about what
2 we're doing for the coming year from our -- it's a
3 planning session. You know, that there would have
4 been split between APCO and Kentucky Power, because
5 they went to two locations at the same time, you
6 know, so there would have been a split of those
7 costs, but -- you know, so your 53,000, outside of
8 possibly this here, could be altered some.

9 Q. So it could be even less than that \$53,000
10 figure?

11 A. Yes.

12 Q. Okay.

13 A. And that's what I say, those are directly
14 allocated or, in other words, 100 percent of that
15 trip would go to Kentucky Power.

16 MR. COOK: Okay. Mr. Chairman, I believe at
17 this time that's all we have for this witness.

18 VICE-CHAIRMAN CICERO: Okay. Before you're
19 done, can you scroll across that page so that we can
20 see all the people that attended, for example, the
21 APCO and Kentucky Power, that were on that plane?

22 (Document displayed.)

23 VICE-CHAIRMAN CICERO: Thank you.

24 MR. COOK: You want to go to the next page
25 that has the next grouping?

1 VICE-CHAIRMAN CICERO: No, that was a good --
2 good example.

3 MR. COOK: Good example?

4 VICE-CHAIRMAN CICERO: Thank you.

5 CHAIRMAN SCHMITT: Mr. Gardner, do you have
6 any questions?

7 MR. GARDNER: No, Your Honor.

8 CHAIRMAN SCHMITT: Staff?

9 Anybody else have any questions other than
10 Staff?

11 Staff, do you have questions?

12 MS. VINSEL: Yes, I have some questions.

13 CROSS-EXAMINATION

14 By Ms. Vinsel:

15 Q. Good afternoon, Mr. Wohnhas.

16 A. Good afternoon.

17 Q. How are you?

18 A. I am doing good. Thanks.

19 Q. What I'd like to start with is the Vegetation
20 Management Plan, the balancing account that was
21 approved in the last rate case in --

22 A. Yes.

23 Q. -- 2014-396. Mr. Phillips had some testimony
24 on it, but it's been quite a while since that, so if
25 you don't mind, I'd like to go through just a brief

1 bit of background on it.

2 A. Sure.

3 Q. In the last rate case the Commission approved
4 Kentucky Power to spend a little over \$110 million
5 on -- in the aggregate on a vegetation management
6 plan that was between July 1st, 2015, and June 30th,
7 2019.

8 A. That is correct.

9 Q. That's correct?

10 A. Uh-huh.

11 Q. If -- and I'm going to read a bit from the
12 order here to make sure that I'm saying this
13 correctly. If the annual shortfall or excess will
14 be balance -- was balance -- is being balanced
15 against the cumulative four-year amount, that
16 \$110 million, correct? If there is a shortfall,
17 Kentucky Power was to record it as a regulatory
18 liability?

19 A. Yes.

20 Q. And that that money would either be refunded
21 to customers or used to reduce the revenue
22 requirement in the next -- the then next base rate
23 case, correct?

24 A. That's correct.

25 Q. And then if Kentucky Power had overspent that

1 cumulative amount, the 110 million, in that
2 four-year period, it would not seek recovery?

3 A. That's the way it was written up, yes.

4 Q. Okay. So now here we are in this case. Does
5 Kentucky Power believe that the requirement to spend
6 that cumulative sum between 2015-2019 should
7 continue?

8 A. No, I think it should be reset with when
9 rates become effective for this case, based on what
10 we presented as changes to that. I will tell you,
11 just for informational purposes, so it was a
12 four-year program through June 30th of 2016 -- I'm
13 sorry. '17.

14 Q. Uh-huh.

15 A. 2017. We, on a cumulative two-year basis,
16 were overspent a hundred and -- roughly \$131,000.
17 To date, through November, just keeping track of it,
18 we're overspent \$61,000. So -- and part of our --
19 you know, what we do in those, that report to
20 Everett Phillips, you know, is we monitor this
21 monthly. We are looking at how we're doing.

22 And, you know, we have up and downs based on
23 the seasons, based on sending crews, vegetation
24 crews to Texas, Florida, Maine, you know, wherever
25 it needs to be, so -- but we monitor it monthly, and

1 we really do try to keep it very close to the
2 required amount, with the idea if it -- if we had
3 gone for four years under this program that that
4 amount would have been very small either way. But
5 we currently are -- have spent more than the
6 required amount.

7 Q. What is Kentucky Power's recommendation about
8 that?

9 A. Our recommendation is that there is -- going
10 forward, there is no balancing true-up in this
11 current case. The only thing that, you know, we're
12 asking for, as Mr. Phillips testified to yesterday
13 or the day before, was the deviation, the request
14 for a deviation be done on a total company ten
15 percent basis so that we're able to shift crews, for
16 efficiency and other reasons, versus ten percent at
17 each district level.

18 Q. As you prepared for this, to testify, did you
19 review the direct testimony of Witness Alex Vaughan
20 before it was filed here?

21 A. Yes.

22 Q. Or did --

23 A. Yes.

24 Q. Have you reviewed Mr. Vaughan's testimony?

25 A. I have.

1 Q. Mr. -- in his direct testimony in regard to
2 the Tariff NUG, Mr. Vaughan stated that there were
3 no customers on that tariff. To the best of your
4 knowledge, is that correct or incorrect?

5 A. That's still correct.

6 Q. That's still correct? There's no one who's
7 currently on the Tariff NUG?

8 A. We have a -- just for transparency, we have a
9 customer, Riverside, and I kind of forget what the
10 rest of their -- but they're the gas facility that's
11 just down from Big Sandy plant, that they, number
12 one, requested to intervene in this case and was
13 denied, and we've had subsequent conversations with
14 them trying to resolve the issues around the use of
15 the NUG and being -- and to this date we really have
16 not come to an agreement.

17 Q. And in terms of the proposed changes to the
18 tariff, do you know who recommended those, that
19 language?

20 A. The changes to the -- to the NUG?

21 Q. Yes.

22 A. You know, I don't know who specifically. It
23 was something we vetted, though, as a team when we
24 went through all the tariffs. So I can't tell you
25 who exactly came up with the wording to change, but

1 at the end of the day, you know, the whole
2 regulatory team, and including up through Mr.
3 Satterwhite, reviewed all the tariff changes and
4 signed off as a group.

5 Q. And are you able to explain why the
6 clarifying language was insert -- was made into the
7 tariff?

8 A. Probably the best person -- and I'm not --
9 don't want to pass off, but he's right behind me, is
10 Mr. Vaughan is very into that, into the NUG, and
11 would give you a much better discussion on that.

12 Q. Okay. Can you explain -- or if you want to
13 defer to Mr. Vaughan, I understand. Can you explain
14 why start-up and station power to a non-utility
15 generator is provided under your tariff at Kentucky
16 Power's open access transmission rate as filed with
17 FERC rather than being provided at a rate set by the
18 Commission? Do you need me to repeat that?

19 A. I need you to ask that again, just --

20 Q. Okay. The start-up and station power to a
21 non-utility generator, the rate is Kentucky Power's
22 open access transmission rate as filed with FERC,
23 correct?

24 A. I believe that's correct, yes.

25 Q. And can you explain why it is that rate

1 successful, we reduce those costs as they come in.
2 And then, you know, if they're not, after a period
3 of time, then those amounts are written off.

4 At a high level, that's the process.

5 Q. So what is that time frame between when it's
6 determined to be a doubtful account to when it's
7 written off?

8 A. So at each step, as I described -- so we
9 normally spend up to six months locally trying to
10 get those collected, through our -- you know,
11 sometimes that's done through a disconnect on a
12 home, to try to encourage them -- you know, after
13 going out with other tries, we may have to
14 disconnect that. They may pay part of it, we may
15 agree to a payment plan or such.

16 But, you know, there's normally about a
17 six-month period of time that we're trying to
18 collect, even after it's been finalized out due to
19 disconnect or whatever, to try to collect it.

20 Then when it goes to the credit department
21 and they outsource that, I believe the time frame is
22 somewhere between six months to a year that we
23 continue to try. We allow, I think it's six months,
24 another six months that the group tries to use their
25 persuasive ways to collect that debt.

1 Q. And is it written off prior to going to the
2 outside collection or is it written off after the
3 outside collection service has had six months?

4 A. I'd have to check for certain. I believe
5 it's when we send it to them, because then when it's
6 collected, we offset it.

7 Q. That was going to be my next question. If
8 it's written off prior to going to an outside
9 service, then I am presuming they're receiving 30 or
10 40 percent of the collected amount and the balance
11 comes back to the Company?

12 A. Yes. I don't know what the percentage is,
13 but in general that is correct, and then we would
14 offset whatever was collected against the total bad
15 debt; yes, sir.

16 Q. Let's go to the aviation allocation, because
17 that seems to be a popular question with everybody.

18 A. Okay.

19 Q. Is there a process that AEP or a subsidiary
20 must go through in order to be able to use a
21 corporate jet? In other words, is there a cost
22 justification or a comparison to commercial cost
23 flights, or what -- what's the process?

24 A. I don't know for sure. I know that for
25 someone to use the corporate jet that they do have

1 to go to the group in Columbus, the aviation group,
2 and say, you know, "I need to request this to do --
3 to fly X," or whatever.

4 What I can't answer right now is whether or
5 not, as part of that approval to use it, has any
6 cost comparison or cost justification against
7 commercial airlines. I don't know that.

8 Q. So who within Kentucky Power would answer
9 that, or is that a post-hearing request?

10 A. Yeah, it would have to be. It would
11 definitely have to be a post-hearing. To know if
12 there is, we'd have to check with aviation.

13 Q. Okay. You indicated that there's three
14 planes that are leased; is that correct?

15 A. Yes, sir.

16 Q. Are they leased on a committed 100 percent
17 basis to AEP or if they are shared with other
18 companies or how does the program work?

19 A. These three are leased 100 percent to AEP.
20 We have access, if there was ever some reason, if --
21 let's say, as you noticed on that report -- or,
22 well, it's pretty small, but there's times that it's
23 taken out for maintenance, and you'll see there's a
24 cost for the maintenance and it comes back on.

25 You know, if, you know, one was down for

1 maintenance or whatever and we needed to use a jet,
2 we do have access to some other type of jet service
3 that would not be part of, you know, our leased
4 fleet.

5 Q. And so how many crews are assigned to those
6 three planes?

7 A. I don't know the number of crews. There are
8 some, but I don't know what the number is.

9 Q. Are they AEP employees or are they part of
10 the lease?

11 A. No, they're AEP employees.

12 Q. They are AEP employees. All right. I'd like
13 to know as a post-hearing how many crews are
14 assigned to those and the associated employment
15 costs.

16 Lastly, on the crews that, whatever utility,
17 usually travel around to help with storm damage, how
18 are those charged to affiliates? Is that on a
19 cost-plus basis or is there some standard rate
20 within AEP that --

21 A. Could you ask -- I missed the first part of
22 your question. I'm sorry.

23 Q. You talked about crews going to Florida,
24 Maine, Texas.

25 A. Yes. I'm sorry.

1 Q. Typical crews that assist when there's heavy
2 storm damage and they -- they travel to assist in
3 the repairs. How are those costs charged through
4 the AEP system?

5 A. Pardon me. So -- lunch came back. I'm
6 sorry.

7 Q. I hope it was good.

8 A. It was. Better the first time.

9 So when -- so just for example, when we went
10 down to Florida, all right, that's -- you know,
11 that's off our system. We don't -- have no
12 affiliate or whatever with -- in Florida, so those
13 costs as part of going down there would -- we would
14 bill, just for example, Florida Power & Light, and
15 then they would reimburse us for all of our costs of
16 going down there and coming back.

17 When we went to Texas, all right, we went
18 down and we were with one of our affiliate
19 companies, and so that was where all of our work was
20 done. We will also -- we have intercompany
21 billings, and we would, same thing, just bill them
22 at cost for our -- for the services, and then the
23 Texas affiliate would reimburse Kentucky Power.

24 Q. So it's at cost-plus or some --

25 A. Just --

1 Q. Or just cost?

2 A. It's at cost for -- for our affiliates, it's
3 just at cost.

4 Q. And for a nonaffiliate?

5 A. I could -- I could check, but I think it's
6 just at -- you know, at cost as well. You know,
7 it's a service that -- you know, as you know,
8 sometimes we need that help when we have storm
9 damage, and so I believe it's just at cost.

10 VICE-CHAIRMAN CICERO: I don't have any other
11 questions.

12 CHAIRMAN SCHMITT: Commissioner Mathews,
13 questions.

14 COMMISSIONER MATHEWS: I have none.

15 CHAIRMAN SCHMITT: Any redirect?

16 MR. OVERSTREET: Just very briefly, Your
17 Honor.

18 REDIRECT EXAMINATION

19 By Mr. Overstreet:

20 Q. Mr. Wohnhas, I think it was Mr. Cook who was
21 asking you about the use of the one-eighth O&M
22 calculation for working capital.

23 A. Yes.

24 Q. Is that a new proposal in this rate case?

25 A. No, we've used the one-eighth O&M at least

1 back through the rate cases since 2005.

2 Q. Okay. And the Commission has always accepted
3 that?

4 A. Yes.

5 Q. Okay. And then I want you to turn, please,
6 to your rebuttal testimony. And it starts on R 7,
7 it's V, Deferral of Rockport UPA Expenses, and then
8 continues over to the bottom of R 10. And just let
9 me know when you have that in front of you.

10 A. I have that.

11 Q. Okay. And is what Mr. Kollen proposed in his
12 testimony, is that the same Rockport deferral that's
13 embodied in the settlement agreement?

14 A. It is not.

15 Q. And how does it differ from what's in the
16 settlement agreement?

17 A. It differs basically by the amount of the
18 deferral.

19 Q. And what is that --

20 A. And --

21 Q. I'm sorry.

22 A. Okay. The amount in the -- excuse me -- in
23 the settlement agreement is \$50 million.

24 Q. Uh-huh.

25 A. And the other, probably, noticeable

1 difference is in Mr. Kollen's testimony he was
2 referring strictly to Rockport Unit 2, and so the --
3 the request for deferral as in the settlement
4 agreement talks about Rockport UA -- UPA costs in
5 total.

6 Q. Okay. Well, let me -- let me ask you a
7 couple other questions, then. So what was the
8 amount that Mr. Kollen recommended for deferral?

9 A. I believe it was roughly \$100 million.

10 Q. Okay. So -- and then the settlement is --

11 A. 50 million.

12 Q. So that would be one half?

13 A. One half, yes.

14 Q. And do you remember how Mr. Kollen's deferral
15 was structured in terms of yearly amounts that
16 were -- that would be deferred?

17 A. I believe it was, over five years, 20 million
18 each year.

19 Q. Okay. And in the settlement agreement what
20 are the annual amounts?

21 A. The amounts are -- make sure I get it right.
22 We've had a lot of numbers. In the first year it
23 would be \$15 million, second year 15 million, then
24 it would go to 10 million in the third year, and
25 then the fourth and fifth year it would go to 5

1 million.

2 Q. Okay.

3 A. And so those -- for the first we have 15
4 million in base rates, and then the -- when we drop
5 to 10 million deferral in 2020, then the difference
6 between the 15 to 10, or 5 million, would be
7 recovered through Tariff PPA.

8 Q. So in the first year of Mr. Kollen's
9 deferral, the difference between the amount he
10 recommended be deferred, the 20 million, and then
11 the amount that the settlement agreement provides
12 for is what?

13 A. 5 million.

14 Q. And is that the same in the second year?

15 A. Yes.

16 Q. What is the difference in the third year?

17 A. It would be 10 million. It's -- 'cause his
18 was a flat 20 and we dropped to 10 million.

19 Q. Okay. And then in the fourth year?

20 A. It would be 20 million. Or 15 million.

21 Q. Okay.

22 A. I'm sorry.

23 Q. And would that be the same in the fifth year?

24 A. Yes.

25 Q. Okay. Now, do you remember what period of

1 time Mr. Kollen recommended that that deferral be
2 amortized over?

3 A. I believe it was ten years.

4 Q. Okay. And then what does the settlement
5 agreement provide for in terms of the amortization
6 period?

7 A. Five years.

8 Q. Okay. And then so from -- under Mr. Kollen's
9 deferral, from the beginning of the deferral until
10 the amortization was complete, what would -- what
11 period of time would that be?

12 A. Approximately 2032.

13 Q. No. I'm sorry. I wasn't asking for the
14 dates.

15 A. I'm sorry.

16 Q. Just what period of time, how many years?

17 A. Ten years.

18 Q. No.

19 A. Okay.

20 Q. So Mr. --

21 A. I'm sorry.

22 Q. Mr. Kollen would have the -- have the Company
23 defer for what -- how many years?

24 A. Five years.

25 Q. And then the amortization period under Mr.

1 Kollen's?

2 A. Would be ten years.

3 Q. And what's the --

4 A. I'm sorry. Five plus 10 is 15.

5 Q. Okay.

6 A. Sorry.

7 Q. And then in terms of the settlement
8 agreement, what is that like period?

9 A. It's ten years. Five years and five years.

10 Q. Okay. And then in your rebuttal testimony
11 you expressed some concerns about the effect Mr.
12 Kollen's deferral could have on the Company's credit
13 metrics. Do you remember that?

14 A. I do.

15 Q. Okay. Do you have those same concerns about
16 the settlement deferral?

17 A. No, because, you know, again, you look at it
18 in total, and if you look at this total package, all
19 right, the Company is able to recover 80 percent of
20 the OATT cost, so that's a very -- that's a positive
21 when we talk about this whole package. So it
22 definitely reduces the risk, so I don't have the
23 same concerns.

24 Q. Okay. Let's put aside the OATT, but that is
25 an important point. Does the fact that the total

1 deferral amount is a lesser amount, does the fact
2 that there's a step-down over the five-year deferral
3 period of the amount that's being deferred, and does
4 the fact that the regulatory asset would be
5 amortized over one half of the time provided for by
6 Mr. Kollen's deferral, does that, standing alone,
7 address your credit metrics concerns?

8 A. Yes, it does.

9 Q. Okay. Now, would you look at the last Q and
10 A at the bottom of page 10 of your -- I'm sorry. Of
11 your rebuttal testimony.

12 A. All right. Let me get back there.

13 Q. Sure.

14 A. I'm there.

15 Q. Okay. And I'm not going to ask you to read
16 the question and answer, but what the question asked
17 you is, is a deferral always without merit, right?

18 A. Yes.

19 Q. And do the types of changes that were made in
20 Mr. Kollen's proposal concerning the Rockport
21 deferral, are those the types of things that you
22 were talking about in those responses?

23 A. Yes.

24 MR. OVERSTREET: Okay. That's all I have,
25 Your Honor.

1 CHAIRMAN SCHMITT: Any other questions of
2 this witness? If not --

3 MS. VINSEL: I have -- oh.

4 CHAIRMAN SCHMITT: You have some?

5 MR. CHANDLER: I think Mr. Cook does as well.

6 CHAIRMAN SCHMITT: Mr. Cook.

7 MR. COOK: We do have a little bit, just a
8 few questions, Your Honor.

9 REXCROSS-EXAMINATION

10 By Mr. Cook:

11 Q. Mr. Wohnhas, your earlier -- your rebuttal
12 pages 7, I believe through 10, correct? Oh, okay.
13 I'm sorry. It's not a reference to your rebuttal.
14 I beg your pardon.

15 Let me just ask you: Did Mr. Kollen propose
16 for the Company to earn its authorized ROE for the
17 year after the Rockport UPA expires?

18 A. In Mr. Kollen's original testimony? Is that
19 your question?

20 Q. Yes.

21 A. No, he did not.

22 Q. Okay. Does the stipulation provide for that
23 by means of the credit and offset?

24 A. Yes, there is a provision in there that was
25 proposed as part of the total package for that first

1 year only, after the -- assuming the Rockport does
2 not continue, that there be a provision for that
3 year, due to the uncertainty of where -- how the
4 costs are affected, to have -- to earn at whatever
5 return is approved by the Commission.

6 Q. Does the deescalating amount of the deferral
7 amounts increase retail rates in years three and
8 four of the deferral?

9 A. Yes. I mean, it's through the -- because you
10 have a -- as I said, a \$15 million in base rates,
11 and then as that reduces, in order to earn where we
12 were at, those numbers get recovered through the
13 PPA.

14 MR. COOK: That's all the questions, Mr.
15 Chairman.

16 CHAIRMAN SCHMITT: Ms. Vinsel, questions.

17 MS. VINSEL: Yes, thank you.

18 RECROSS-EXAMINATION

19 By Ms. Vinsel:

20 Q. Good afternoon again.

21 A. Again.

22 Q. Let's go back to Riverside. And it's
23 Riverside Generating Company, LLC.

24 A. I knew the name, but it went blank.

25 Q. I can understand. As you have indicated,

1 Riverside filed a motion to intervene in this case,
2 which was denied, and at that time Riverside
3 referenced being served by Tariff NUG or having a
4 dispute with Kentucky Power. We don't need to go
5 down that road. But on December 6th Riverside filed
6 a public comment into the case record. Have you
7 read that public comment?

8 A. I have.

9 Q. So I'm going to read to you just one sentence
10 from this. (Reading) Riverside is also a customer
11 of Kentucky Power historically and presently
12 receiving station power service under the utility's,
13 Kentucky Power's, Retail Tariff NUG, Non-Utility
14 Generator.

15 A. So --

16 Q. So is it your testimony that Riverside is not
17 receiving station power service?

18 A. No. No, I misspoke. I believe they are a --

19 Q. Okay.

20 A. -- current, but they -- and Mr. Vaughan can
21 clarify what some of the issues are with it, and I
22 apologize for that.

23 Q. No, that's what -- I just wanted to make sure
24 we got it clear.

25 A. Yeah.

1 Q. Okay. Thank you.

2 MS. VINSEL: I have no further --

3 CHAIRMAN SCHMITT: Anything further?

4 MS. VINSEL: Nothing further.

5 CHAIRMAN SCHMITT: Commissioner Cicero.

6 VICE-CHAIRMAN CICERO: Nothing.

7 CHAIRMAN SCHMITT: Commissioner Mathews.

8 COMMISSIONER MATHEWS: No.

9 CHAIRMAN SCHMITT: Anyone else?

10 MR. OVERSTREET: Your Honor, I apologize, I
11 overlooked a question on my list.

12 CHAIRMAN SCHMITT: Oh, that's fine. No
13 problem.

14 REDIRECT EXAMINATION

15 By Mr. Overstreet:

16 Q. Mr. Wohnhas, through the good efforts of
17 Staff and the Commissioners, we now have the
18 complete -- or the annual reports have been admitted
19 into evidence, and I think that was AG 4. Do you
20 remember that?

21 A. Yes, definitely.

22 Q. Okay. And on those reports you were asked
23 about the number of customers, the amount of the
24 Company's sales, kWh sold, that type of thing. Do
25 you remember that? Or it was you or another Company

1 witness was asked.

2 A. I do remember discussions, yes.

3 Q. Okay. So let's take the year 2016. What was
4 the Company's ROE that year?

5 A. It was -- I don't have it. Six -- six point
6 something, I believe. I don't have it exactly.

7 Q. And do you remember what the Company's ROE
8 was in 2015?

9 A. Yeah, 4.21.

10 Q. Okay. And what about 2014?

11 A. 5.13.

12 MR. OVERSTREET: Okay. That's all I have,
13 Your Honor.

14 CHAIRMAN SCHMITT: Any other questions of
15 this witness?

16 MS. VINSEL: No, nothing further.

17 CHAIRMAN SCHMITT: May Mr. Wohnhas be
18 excused?

19 MS. VINSEL: Yes, he may be.

20 MR. COOK: Mr. Chairman.

21 CHAIRMAN SCHMITT: Oh, I'm sorry. I keep
22 missing you, Mr. Cook.

23 MR. COOK: That's quite all right, Your
24 Honor.

25 If I can just move to admit, I believe tab 3

1 I'd like to move into evidence as the Attorney
2 General's next in order.

3 MR. OVERSTREET: That was the aviation?

4 MR. CHANDLER: That was actually the --

5 MR. OVERSTREET: Oh, yeah.

6 MR. CHANDLER: -- from the website. I think
7 everything else that was referred to was in the
8 record.

9 MR. OVERSTREET: Okay. No objection.

10 CHAIRMAN SCHMITT: Any objection?

11 MR. OVERSTREET: No objection.

12 CHAIRMAN SCHMITT: Let it be admitted.

13 MR. CHANDLER: Do you know what number?

14 MS. HUGHES: Six.

15 MR. CHANDLER: Six?

16 MS. HUGHES: Six, I think.

17 MR. CHANDLER: Oh, I think we're on 11 or 12.

18 MS. GLASS: I think it's 11.

19 MR. CHANDLER: I think it's 11.

20 (AG Exhibit 11 admitted.)

21 CHAIRMAN SCHMITT: Any other questions?

22 Until somebody says something, run.

23 MR. WOHNHAS: Thank you, sir.

24 CHAIRMAN SCHMITT: You're excused, Mr.

25 Wohnhas.

1 MR. WOHNHAS: Thank you.

2 MS. HUGHES: 11. It's 11.

3 MR. CHANDLER: 11? Okay. Thank you.

4 MR. OVERSTREET: Your Honor, Kentucky Power
5 now presents its -- what I think is its last
6 witness, Alex Vaughan.

7 CHAIRMAN SCHMITT: Thank you.

8 MR. OVERSTREET: And Mr. Gish will present
9 him.

10 COMMISSIONER MATHEWS: He's going to answer
11 all the questions, right? All the questions.

12 MR. OVERSTREET: He is the answer man.

13 COMMISSIONER MATHEWS: He's the last one.

14 MR. OVERSTREET: He is the answer man.

15 COMMISSIONER MATHEWS: He has no one to punt
16 to.

17 MR. OVERSTREET: Is he here?

18 MR. GISH: Yes.

19 CHAIRMAN SCHMITT: Mr. Vaughan is supposed to
20 know everything everybody else doesn't.

21 MR. VAUGHAN: I escaped during redirect.

22 MR. OVERSTREET: And he does.

23 CHAIRMAN SCHMITT: Mr. Vaughan also has some
24 information about what size customers would be using
25 kW 100 or above?

1 MR. VAUGHN: I do.

2 CHAIRMAN SCHMITT: Just generally.

3 MR. VAUGHN: Yes, I've got it.

4 CHAIRMAN SCHMITT: All right. Please raise
5 your right hand. Do you solemnly swear or affirm,
6 under penalty of perjury, that the testimony you are
7 about to give will be the truth, the whole truth,
8 and nothing but the truth?

9 MR. VAUGHAN: Yes, sir.

10 CHAIRMAN SCHMITT: Please be seated.

11 MR. VAUGHAN: Thank you.

12 CHAIRMAN SCHMITT: Counsel, you may ask.

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

14 ALEX E. VAUGHAN, called by Kentucky Power
15 Company, having been first duly sworn, testified as
16 follows:

17 DIRECT EXAMINATION

18 By Mr. Gish:

19 Q. Mr. Vaughan, good afternoon.

20 A. Good afternoon.

21 Q. Can you please state your full name, title,
22 and business address for the record, please?

23 A. It is Alex E. Vaughan. I am the Manager of
24 Regulated Pricing and Analysis. I'm employed by
25 American Electric Power Service Corporation at 1

1 Riverside Plaza in Columbus, Ohio.

2 Q. And did you file in this case direct
3 testimony, supplemental testimony, rebuttal
4 testimony, testimony in support of the settlement
5 agreement --

6 A. Uh-huh.

7 Q. -- did you adopt certain portions of the
8 testimony and data response requests of Mr. Rogness,
9 and did you provide responses to data requests?

10 A. Yes, sir.

11 Q. And do you have any updates or corrections to
12 those, any of those?

13 A. Yes. Let's start with my direct testimony.
14 I have two, two numbers to correct that were
15 actually corrected in KIUC 1-67 discovery response.
16 I would just like to make sure my testimony is clear
17 of that. So the two references to the test year PJM
18 OATT amounts, the first being on page 29 at line 11.
19 The 74,377,364 should read 74,038,517.

20 And then there is -- the same change needs to
21 be made on page 45 at line 19.

22 Q. Thank you, Mr. Vaughan.

23 A. I have one more. Then my settlement
24 testimony, Exhibit 3 to that, the summary page to
25 that exhibit was correct; however, there was a

1 commercial -- commercial weather normalization
2 adjustment that was agreed to in the settlement that
3 didn't flow through to the individual tariff pages,
4 so I have -- I have 20 copies of that here to have
5 someone hand around.

6 But essentially what that does is the -- on
7 the summary page, the first page of AEV-3S, the
8 Total Adjusted Current Base Revenue column, the
9 amounts for SGS metered, MGS secondary, MGS primary,
10 and MGS sub, they were all correct on the summary
11 page, but the individual tariff sheets for them
12 within AEV-3S did not have their portion of the
13 commercial weather adjustment that was agreed to in
14 the settlement. This version now shows that.

15 Q. So with those corrections, if I were to ask
16 you the same questions that are included in your
17 various testimonies and data request responses
18 today, would you give the same responses?

19 A. Yes, sir.

20 MR. GISH: Mr. Chairman, the witness is
21 available for cross-examination.

22 CHAIRMAN SCHMITT: Mr. Kurtz, questions.

23 MR. KURTZ: Mr. Chairman, do you want to get
24 your questions answered about the hundred-kW-size
25 customers?

1 CHAIRMAN SCHMITT: Well, yeah, sure.

2 EXAMINATION

3 By Chairman Schmitt:

4 Q. What about -- Mr. Gardner and I have --

5 A. Yeah.

6 Q. -- have asked about the size, the relative
7 size or economic activity one would expect to see
8 from a customer who used 100 kW, 100, 200, 300 kW.
9 What size businesses or schools --

10 A. Yes.

11 Q. -- would we be talking about?

12 A. So within that total LGS family, that tariff,
13 that -- you know, we have the separate schools
14 tariff, but I kind of -- I still consider them
15 within that class because they are between 100 and
16 1,000 kW. You have a hundred and, I believe,
17 sixty-one school accounts, then we had -- just
18 generally speaking, the largest -- those making up
19 the largest -- the largest amount of customers in
20 that class, we had eating and drinking
21 establishments were 64; health services were 58;
22 educational services, we mentioned those; coal
23 mining, 51 accounts; food source, 50; local
24 government, 41; electric, general service, sanitary
25 services, 39; real estate, 28; general merchandise

1 stores, 22. Things like that. Banks, depository
2 institutions, 17. Various retail organizations, 17.
3 Lumber and wood products at 14. Gas stations, 13.
4 And communications, 12. And there's a litany of
5 much smaller --

6 Q. How many -- how many schools? I'm sorry, I
7 missed that.

8 A. There's 161 school accounts.

9 Q. But I noticed in the -- in the proposed
10 settlement agreement, it applied to schools with a
11 demand of 100 kilowatts or above, so I --

12 A. Yes.

13 Q. -- assume that there are schools that would
14 not fall within that category, and I was just trying
15 to come to some understanding about what size
16 schools that would be that would -- might not --

17 A. Yeah.

18 Q. -- quite make the cutoff.

19 A. So speaking with KSB Witness Willhite --

20 Q. Yeah.

21 A. -- you can ask him about this as well, we
22 discussed that all of the schools are on the
23 K-through-12 tariff. However, they have a lot of
24 ancillary accounts: rec lighting, you know, for
25 fields, athletic fields; barns; modular classrooms

1 that aren't connected to the main account, that may
2 have a separate hookup that fall into the general
3 service. There's quite -- there are several hundred
4 accounts in the general service, because --

5 Q. Would they have --

6 A. -- they have separate meters.

7 Q. Would you expect a school that was in the
8 K-12 class to also have an account that was in LGS?

9 A. So the K-12 is essentially the same thing as
10 LGS.

11 Q. Well, I'm -- here, the --

12 A. No, they're --

13 Q. -- all the --

14 A. -- they're not also in LGS.

15 Q. The reason for these questions is, is that --

16 A. Yeah.

17 Q. -- I thought that there was some sort of
18 subsidy, that LGS customers to some extent, maybe to
19 the extent of \$500,000 or something, were
20 subsidizing the schools in the K-12 class.

21 A. So you can call it a subsidy, but it's harder
22 to describe than that, because the way -- the way I
23 made the rates are -- to follow the settlement
24 agreement is we combined the total revenue
25 requirement for public school -- the K-through-12

1 class. Well, it's all one class. K through 12 and
2 the LGS, put that together, made what the average
3 rate was for all of the customers, and then I made
4 another rate that would produce \$500,000 less
5 revenue for the schools.

6 And because the schools have an average lower
7 load factor than the rest of the LGS population,
8 their average -- even with that \$500,000 discount
9 from the normal LGS rate, their average increase is
10 a little higher just because of the way the rates
11 shake out with the load profiles.

12 So, like, I think Mr. Satterwhite indicated
13 earlier the average -- the average LGS impact is,
14 all-in, 5.17 percent, and the average school in that
15 same LGS size category is -- their all-in impact is
16 6.45 percent, even with the \$500,000 rate
17 difference.

18 Q. Why did -- was it that Kentucky Power in its
19 application recommended eliminating the K-12 rate
20 class?

21 A. In the last settlement agreement we had
22 committed to -- in the last case, the 2014-0396
23 case, we only had, I think, two school accounts in
24 our load research sample where we actually had full
25 interval meters on them where we could get a look at

1 their actual load shape through the peaks, and which
2 is what we rely on for cost allocation in the class
3 cost-of-service study.

4 So KSBA made the argument in the last rate
5 case that the schools have better load profile, they
6 should -- they're actually cheaper to serve than the
7 rest of the LGS population, and in the settlement we
8 ended up including a -- the \$500,000 rate
9 differential for them.

10 Also, part of that settlement was that we
11 would -- Kentucky Power would put interval meters on
12 more of the school accounts, and -- but when we came
13 back in for our next rate case, we would evaluate
14 schools separately and see if that discount was
15 justified.

16 So my proposal was simply following the
17 settlement agreement in the last rate case. We
18 evaluated them as if they were a separate class, and
19 it turned out that the class, on average, had a
20 little lower load profile. And the way Kentucky
21 Power's costs are allocated in our class
22 cost-of-service study, they actually got a little
23 more cost allocated to them than the -- than they
24 would have if they were within the LGS class.

25 And there are some nuances there because

1 their load -- their load isn't as high in the
2 summertime, obviously. Their -- they may -- they
3 may still have some services going on, you know, and
4 they have the rec fields going and whatnot, but
5 they're very coincident to our winter peaks, right?

6 The kids are in school January-February
7 mornings. All our schools are basically electric
8 heating. So they have their highest -- their
9 highest peaks during the Company's winter peak. So
10 they are very, very coincident to those, and that
11 was reflected in the cost study.

12 So basically what I presented in my direct
13 testimony was: Here is the way it shakes out in the
14 cost study. And I believe I can say this, that, you
15 know, if the Commission -- here's how it is, here's
16 how we're going to propose it. It's not wrong if
17 the Commission continues it, it's just, on a cost
18 causation standpoint, we're going -- we're going to
19 argue that they should be folded back in and just
20 pay the normal LGS rate.

21 Q. Well, and your position is, if they get the
22 benefit of the K-12 rate that they want, there's a
23 revenue shortfall that has to be made up by somebody
24 else, by other ratepayers?

25 A. No, sir; there's -- we did this in rate

1 design, so there was no -- there was no revenue
2 shortfall. We just moved money between nonschool
3 LGS customers and the L -- and the school LGS
4 customers. There -- it didn't create a shortfall to
5 other customers outside that rate class or picking
6 up.

7 And like I said, even with that, that nuance,
8 that \$500,000 rate credit for the schools, the rest
9 of the LGS customers are still getting almost one
10 and a half percent less of an increase.

11 Q. Okay. Thank you.

12 A. Yeah.

13 CHAIRMAN SCHMITT: Mr. Kurtz.

14 MR. KURTZ: Oh, thank you. Thank you.

15 CROSS-EXAMINATION

16 By Mr. Kurtz:

17 Q. Okay. Good afternoon, Mr. Vaughan.

18 A. Good afternoon.

19 Q. You are aware that Mr. Baron, the KIUC
20 witness, argued in his testimony that IGS, rate IGS,
21 industrial general service, should be served at full
22 cost of service, correct?

23 A. Yes, sir. Yeah.

24 Q. Okay. And Mr. Gardner's witness, Mr.
25 Higgins, made the exact same argument in his direct

1 testimony, correct?

2 A. Yes, sir.

3 Q. Okay. And the settlement agreement
4 incorporated the proposal of both experts that the
5 subsidy from IGS be eliminated?

6 A. That's correct.

7 Q. Okay. And Mr. Satterwhite supports that
8 based upon economic development principles? Is that
9 your understanding?

10 A. Yes, sir.

11 Q. Okay. The subsidy in the test year was
12 approximately \$6 million?

13 A. That's correct.

14 Q. And IGS had 158 million of test year revenue?

15 A. Yes, sir.

16 Q. So the subsidy was about 3.8 percent?

17 A. Sounds correct.

18 Q. Okay. And so that was incorporated into the
19 settlement and into the rates that you've designed
20 and so forth?

21 A. Yes, sir; we've eliminated that subsidy.

22 Q. Okay. Are you aware of any other states that
23 are implementing a policy of eliminating industrial
24 subsidies?

25 A. Yes. I do work for the Company's affiliates

1 in Virginia and West Virginia, and right now
2 they're -- this is the big topic of discussion in
3 West Virginia, in front of the legislature, the --
4 you know, they are looking around at their
5 job-creation opportunities, and they want to
6 eliminate all subsidies.

7 One proposal is to eliminate all subsidies
8 for industrial customers in the electric rates to
9 help their economic development interests and bring
10 new industrial loads to the -- to their service
11 territory, to their state, so --

12 Q. And, of course, Kentucky competes for jobs
13 with those other states, correct?

14 A. It's right across the river; yes, sir.

15 Q. The settlement agreement also reduces
16 subsidies for the municipal water works and the
17 outdoor lighting and street lighting classes?

18 A. It reduces subsidies for all the classes, but
19 yes.

20 Q. Do they get -- do they get more than five
21 percent subsidy reduction?

22 A. Yeah. The way -- the way the revenue
23 allocation shook out is the municipal water works
24 and the lighting, the two lighting classes, received
25 over ten percent subsidy reduction. Like municipal

1 water works was closer to 15.

2 Q. Okay. What about subsidy reduction for rate
3 general service?

4 A. General service was about three percent.

5 Q. What about LGS/public schools?

6 A. Five percent.

7 Q. Okay. I'd like to just hand you what's in
8 the record. This is the Settlement Exhibit Number 1
9 that everybody's used to seeing. I just marked it
10 up a little bit for ease of reference.

11 A. Thank you.

12 Q. Okay. So at the bottom, at the bottom in the
13 left, I just drew a box around GS is the combination
14 of Small General Service and MGS. Do you see that?

15 A. Yes.

16 Q. So really what I did is I scratched out SGS
17 and MGS because you've got them on a combined basis
18 in GS?

19 A. That's right.

20 Q. Okay. So it makes it a little bit easier.
21 Will you look at the box on the left under the Total
22 Bill Percent Rate Increases. Do you see that?

23 A. Total bill. Okay.

24 Q. Okay. So GS, general service, the
25 combination of SGS and MGS, gets basically the

1 system average increase, 6.22 percent?

2 A. That's correct.

3 Q. Okay. Versus 6.16 percent. Okay. And the
4 LGS/public schools gets a below-average increase,
5 correct? They get 5.4 versus 6.16?

6 A. That's correct.

7 Q. And you've testified a couple times that
8 within that group the LGS does better than the
9 public schools?

10 A. That's correct.

11 Q. Okay. What was the LGS increase that you
12 had?

13 A. 5.17.

14 Q. Is that on the total bill or is that just --

15 A. That's the total bill.

16 Q. Okay.

17 A. Yes.

18 Q. 5.17. And the public schools, even with the
19 500,000 issue, get what percentage increase?

20 A. 6.45.

21 Q. Okay. A little bit over system average?

22 A. Yes.

23 Q. Then if you look in the bottom four rate
24 schedules, IGS, Municipal Water Works, Outdoor
25 Lighting, Street Lighting, they are all grouped

1 around 2.5 to 2.7 percent increase?

2 A. That's right.

3 Q. Okay. So let's go to the far right-hand
4 side, the Non-Fuel Base Revenue Increase. Do you
5 see that?

6 A. Yes.

7 Q. Fuel -- we haven't used the word "fuel" in
8 this hearing, I don't even think once, really. Fuel
9 is not an issue in this base rate case, is it?

10 A. Not to my knowledge.

11 Q. You don't make any profit off of fuel?

12 A. No, sir. Dollar for dollar.

13 Q. And fuel is chewed up in the fuel adjustment
14 clause every month?

15 A. Yes.

16 Q. Okay. So if you look at the rate increase on
17 the non-fuel, take out fuel basis, the GS and the
18 IGS/public schools are basically about the same,
19 8.68, 8.61?

20 A. Yep.

21 Q. Is that right?

22 A. That's correct.

23 Q. Okay. And when you look at it without fuel,
24 IGS actually does a lot worse than the other -- than
25 municipal water works, outdoor lighting, street

1 lighting?

2 A. Yes.

3 Q. Okay.

4 A. They pay a lot of fixed costs due to the high
5 load factor of the class.

6 Q. So if you look at it on a non-fuel basis, the
7 IGS -- you know, it's the settlement increase and
8 it's what everybody agreed to and so forth, but it
9 isn't quite as -- it isn't as good as sort of
10 advertised when you look at it without fuel?

11 A. Yeah, the increase gets watered down in that
12 total bill because of they're a high load factor.
13 They have a lot of kilowatt -- billing units and
14 kilowatt hours, they pay a lot of fuel, absolutely.

15 Q. Okay. Let's go to the middle. Proposed ROR,
16 rate of return.

17 A. Yes.

18 Q. Okay. The system average rate of return
19 under the settlement rates is 6.48 percent?

20 A. That's correct.

21 Q. Okay. The IGS, under the new rates, is going
22 to be paying above average rate of return. It's
23 going to be 7.71?

24 A. Yes.

25 Q. So even with the hundred percent subsidy

1 reduction up front, there's still a subsidy, there
2 still will be a subsidy built into the IGS rates?

3 A. Essentially the way -- that's the way the
4 class study works, yes, it still pays.

5 Q. I was surprised. I would have thought it was
6 system average.

7 A. Yeah.

8 Q. But -- so IGS still will be subsidizing the
9 residential customers under the settlement
10 agreement?

11 A. That's correct when you use the class
12 cost-of-service study as the measure, because as you
13 change -- as you change things to the settlement, it
14 recalculates, you get changes to rate-based
15 allocations and all that. But yes, that's -- that
16 is what the settlement shows.

17 Q. Okay.

18 A. You're correct.

19 Q. And when I looked at this and I calculated
20 it, IGS is still going to be paying 19 percent above
21 the average return, so that's the amount of subsidy?

22 A. Yeah.

23 Q. Okay. And under the settlement the
24 residential class is still going to be heavily
25 subsidized, because their return is only 3.77

1 percent versus the average of 6.48, correct?

2 A. That's correct. We only -- we only reduced
3 their subsidy by five percent, even in the -- even
4 in the settlement.

5 Q. Is that what it was?

6 A. Yes.

7 Q. Five percent --

8 A. Five percent.

9 Q. -- subsidy reduction?

10 A. Uh-huh. From the current -- from what we had
11 originally filed, yes.

12 Q. So it's five percent more than what you --

13 A. No. It was -- we originally filed five
14 percent, that's what the settlement achieved as
15 well.

16 Q. So the residential subsidy is only reduced by
17 five percent?

18 A. Yes.

19 Q. Okay. There was testimony in this case early
20 on that the residential subsidy, I think it was Mr.
21 Gardner's witness, should be reduced by 50 percent.

22 A. I think there was a 50. I think there was a
23 22. I've got it summarized in my rebuttal testimony
24 somewhere, yeah.

25 Q. I think somebody proposed a residential rate

1 increase of 22 percent.

2 A. Yeah, that sounds right.

3 Q. So the settlement is a lot better than that
4 proposal?

5 A. Correct. All in -- all in total bill, it's a
6 nine percent increase for the residential class.

7 Q. Okay. Did reducing the KEDS charge on
8 residential help them, in terms of subsidy-
9 reduction-type questions?

10 A. I don't -- I don't believe so. Those -- I
11 know so, because those revenues were removed from
12 our class cost-of-service study. It's outside of
13 base rates, that surcharge, as well as the HEAP --

14 Q. Okay. So it helped --

15 A. -- don't factor in.

16 Q. It helped them pay a lower bill, but it
17 didn't affect the subsidy?

18 A. That's correct.

19 MR. KURTZ: Okay. Mr. Chairman, that's it.

20 CHAIRMAN SCHMITT: Counsel for any other
21 settling intervenor would like to cross-examine the
22 witness.

23 MR. DUTTON: I would, Your Honor, if I may.

24 CHAIRMAN SCHMITT: All right.

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CROSS-EXAMINATION

1
2 By Mr. Dutton:

3 Q. Just a couple of quick questions. Looking at
4 the same sheet. So if you look at the column here
5 that says Current Rate of Return, am I correct that
6 municipal water, outside lighting, and street
7 lighting are currently the three highest rates of
8 return for Kentucky Power?

9 A. That's correct.

10 Q. Okay. And after this settlement, isn't it
11 accurate to state that those three classes, despite
12 the fact that they are getting lower than average
13 revenue -- excuse me, rate increases, that after the
14 rate increases they will still remain the three
15 highest rates of return for Kentucky Power?

16 A. That's correct. That's a product of the 12
17 CP cost allocation in the class study, yes.

18 Q. Okay. And so essentially they will be
19 subsidizing the other classes, both currently and
20 under the settlement; is that correct?

21 A. That's correct.

22 MR. DUTTON: That's all I have. Thank you.

23 CHAIRMAN SCHMITT: Mr. Cook, Mr. Chandler,
24 questions.

25 MR. COOK: We do have some questions, but

1 we've agreed to let KCUC --

2 CHAIRMAN SCHMITT: You're deferring to Mr.
3 Osterloh. All right. Then you -- Mr. Osterloh.

4 MR. OSTERLOH: Thanks to the Attorney
5 General. Thank you, Mr. Chairman.

6 CROSS-EXAMINATION

7 By Mr. Osterloh:

8 Q. Good afternoon, Mr. Vaughan. I just --

9 A. Good afternoon.

10 Q. -- wanted to clear up some of the testimony,
11 just so that maybe I understand it. I know you've
12 addressed a lot of this information already, but I
13 just want to make sure I understand.

14 A. Okay.

15 Q. And this also tracks your testimony, I think,
16 starting on page 22. What was --

17 A. Which one?

18 Q. The initial testimony.

19 A. Okay.

20 Q. What was the final position of the Company
21 with respect to whether the public school tariff
22 would be continued in the future?

23 A. Our initial position was that they should
24 just be rolled back into the LGS.

25 Q. Okay.

1 A. So the normal LGS rate schedule.

2 Q. So it would be discontinued?

3 A. Yeah. They never left the class, it was just
4 a matter of what rate they paid.

5 Q. And I think under the old -- under the last
6 rate case it was called a pilot program; is that
7 fair?

8 A. That's correct.

9 Q. And you'd agree that part of the reason that
10 pilot program was established in that last rate case
11 was because the public school load research data was
12 not available or there was insufficient data at that
13 time?

14 A. Yeah. We had two examples. We had -- we had
15 the two schools where we had interval data on them,
16 and, you know, we thought -- we thought their
17 arguments had some merit, and then we had the
18 settlement, and we ended up with the \$500,000
19 discount.

20 Q. But to be clear, I think in your testimony
21 you specifically say that that was one of the
22 reasons, that up didn't have enough data, and that's
23 why you created the public -- the pilot program?

24 A. Yeah. We called it a pilot because we -- in
25 that settlement we committed to put more meter --

1 more interval meters on school accounts and have a
2 more robust study in the next rate case, and that's
3 what we did.

4 Q. Okay. And then on page 24 of your testimony,
5 lines 2 and 3, you indicate that the class
6 cost-of-service study did not justify the discounted
7 rate for the public school tariff customer in
8 comparison to the LGS customers; is that fair?

9 A. That's somewhat fair. You have to have some
10 caveats too because we're talking cost allocation
11 here and there's a lot of nuances to it. Honestly,
12 it's never that great to be cost allocated in a
13 study standing alone. The same homogeneous group of
14 customers often have the same load profile, and if
15 you can be in a more diverse group, you're going to
16 do better on a unit-cost basis than if you're
17 standing by yourself.

18 The schools, what hurt them is how coincident
19 they are to our winter peaks because they're
20 electric heating. Think of it like a very large
21 residential account, you know, they have high peaks
22 in the -- you know, when our load is peaking in the
23 winter mornings.

24 However, they do provide a benefit being
25 rolled back into the other LGS customers because

1 they're lower load factor. So they have --
2 per-kilowatt-hour usage, they have more kW of
3 billing demand, and it waters down that total rate
4 that gets paid by LGS customers.

5 So there's give and take here.

6 Q. Do you have your testimony in front of you?

7 A. I do.

8 Q. Can you turn to page 24 of that, please?

9 A. I'm there.

10 Q. On line 2 there's a sentence that begins,
11 "Said another way." Can you read that sentence out
12 loud, please?

13 A. (Reading) Said another way, rather than
14 justifying a discount rate for the public school
15 tariff customers, the class cost-of -- class
16 cost-of-service study shows that the public school
17 tariff customers actually benefit from the load
18 diversity and higher average load factor of the
19 standard LGS customers when they were on the LGS
20 rate schedules.

21 Q. Thank you.

22 A. And that's exactly what I just said with the
23 other caveat that the LGS customers receive a
24 benefit when I make the rates due to the lower load
25 factor and the billing units of the school

1 customers.

2 Q. Do you have your rebuttal testimony in front
3 of you?

4 A. I do.

5 Q. Can you turn to page R 15?

6 A. I am there.

7 Q. I think you reiterate this point, starting
8 on -- well, concluding on line 8, starting with the
9 sentence, "Based upon the actual load." Can you
10 read that sentence out loud, please?

11 A. (Reading) Based upon the actual load research
12 data for the schools, there is nothing about the
13 schools from a cost-of-service standpoint that they
14 would -- standpoint that they should be separated
15 from and given a discount relative to the other 100
16 kW through 1,000 kW general service customers.

17 Q. Thank you. Are you -- I mean, you've
18 testified that the proposed settlement in this case
19 would design rates for the Tariff K Through 12 that
20 would be \$500,000 less than what would otherwise be
21 designed -- than if it were consolidated with LGS,
22 correct?

23 A. With a clarification. It's consolidated with
24 LGS, that's why I showed it in one line on that
25 Settlement Exhibit 1. So the class is all the same.

1 I'm designing two rate schedules within that class.
2 And if you billed the K-12 customers on the LGS
3 rates in this settlement, it would be \$500,000
4 higher than if you billed those billing units on the
5 K-through-12 rate.

6 Q. And so it's only the LGS rate or LGS class
7 that is paying higher rates because of that \$500,000
8 amount, correct?

9 A. No. They are paying exactly what is
10 allocated to them in the class study. It's just a
11 matter within that rate class. So the L -- the
12 other LGS customers, if the schools weren't
13 receiving this rate, in aggregate, their rates would
14 be \$500,000 lower, but there's no -- there's nothing
15 interclass, it's all intraclass.

16 Q. Intraclass within LGS?

17 A. Yes, sir.

18 Q. So if the public schools' rates were not
19 \$500,000 lower, the remaining LGS customers would
20 not have to pay that extra \$500,000?

21 A. That's correct.

22 Q. And so when you were mentioning that the
23 total billing increase for LGS stand-alone was
24 5.17 percent --

25 A. That's correct.

1 Q. -- that includes an extra \$500,000 that the
2 LGS class stand-alone would be paying?

3 A. Yeah. If you remove that \$500,000, they
4 would be down around 4.6 percent, it would be -- it
5 would be even lower, and you would push the schools
6 up over seven percent.

7 Q. And those are based on the cost-of-service
8 study that the Company performed, correct?

9 A. And the settlement agreement, yes.

10 Q. And just to be clear, the cost-of-service
11 study, as you have stated in your testimony,
12 indicates that the public schools should pay higher
13 rates than LGS?

14 A. It says there's no justification to separate
15 them out.

16 Q. Thank you. According to the settlement
17 agreement -- are you familiar with the settlement
18 agreement from the last rate case?

19 A. Yes, sir. I was in both.

20 Q. Okay.

21 A. Both settlements, yes.

22 Q. Do you know what rate class or rate classes
23 had a -- had higher rates because of that same
24 \$500,000 amount?

25 A. The LGS class.

1 MR. OSTERLOH: Mr. Chairman, may I approach?

2 CHAIRMAN SCHMITT: Yes, you may.

3 MR. OSTERLOH: And I'd like to mark this as
4 what I believe is going to be KCUC Exhibit 7.

5 A. Okay. I believe the MGS class was included
6 the last time as well, if that's where you're going,
7 yes.

8 Q. That is precisely where I'm going.

9 A. There we go.

10 Q. I'll go ahead and mark this and we'll get
11 that in.

12 A. Yeah. All right.

13 MR. COOK: Seven?

14 MR. OSTERLOH: This is 7, yes.

15 (KCUC Exhibit 7 marked for identification.)

16 Q. And, Mr. Vaughan, after you've had a chance
17 to review this, can you confirm that this is the
18 settlement agreement from Case Number 2014 --

19 A. It looks --

20 Q. -- 396?

21 A. It looks very familiar, yes.

22 Q. Okay. And if you'll turn to page 19, you'll
23 see a section, I believe, that relates to the Tariff
24 K Through 12 School. Do you see that?

25 A. That's correct. I see that.

1 Q. And in (a), what I'm going to direct you to
2 is the last sentence there, and it indicates the
3 aggregate total revenues to be produced by Tariff K
4 Through 12 School, Tariff MGS, Tariff LGS -- and
5 Tariff LGS shall be equal to the revenues that would
6 be produced in the aggregate by the new rates in the
7 absence of Tariff K Through 12 School?

8 A. That's correct.

9 Q. And so you were -- as we were passing this
10 out --

11 A. Yes.

12 Q. -- you were you acknowledging that the
13 settlement in the last rate case also included the
14 MGS in that provision, correct?

15 A. Yeah, this -- the last settlement had
16 interclass subsidy in it.

17 Q. Unlike the current settlement -- proposed
18 settlement agreement that does not have interclass
19 subsidy?

20 A. Related to this item, yes.

21 Q. Thank you. And you'll agree that KCUC was
22 not a party to that case, correct?

23 A. Yes. Not to my knowledge, they were not.

24 Q. And in earlier responses to Mr. Kurtz's
25 questions, you referred to interclass subsidies, and

1 you mentioned that the combined LGS/PS subsidy is
2 five percent; is that accurate?

3 A. The subsidy reduction?

4 Q. Yeah.

5 A. Yes.

6 Q. Yes.

7 A. Yes. Yes. We removed five percent of the
8 LGS/PS.

9 Q. If you were to break those two out and
10 include the \$500,000 amount that we've been talking
11 about, and used just stand-alone LGS, what would its
12 subsidy reduction be?

13 A. Still five percent. It -- you design -- like
14 I described earlier, you allocate all the revenue to
15 that class as a whole and then you make the rate.
16 If you want me to move money out of that into the GS
17 category, I would have to recalculate that.

18 Q. How can the LGS stand-alone be paying
19 \$500,000 more and have the same subsidy reduction?

20 A. You're confusing rates and cost allocation,
21 that's -- that's the problem.

22 Q. Okay. I think -- I understand your point
23 now. Thank you.

24 A. Okay.

25 Q. Switching gears a bit, am I correct that the

1 Company proposed and the settlement would permit
2 consolidation of the SGS and MGS classes?

3 A. Yeah, that was our original proposal, and I
4 believe the settlement is silent to it, so, yeah, it
5 continues what we proposed.

6 Q. Distinguishing -- can you identify what
7 distinguishing factors there are for eligibility
8 between those MGS and SGS classes?

9 A. Yeah. So an SGS customer is one that is
10 under 10 kW, and an MGS customer is 10 kW demand up
11 through 100 kW. 100 kW they transition to LGS.

12 Q. And that's based on average monthly demands,
13 correct?

14 A. Yes. Some measure of peak demand. Normal,
15 average. Whatever's in the tariff.

16 Q. I think the tariff says average monthly
17 demands.

18 A. I would agree with that.

19 Q. Do you know whether or not SGS customers
20 currently have a demand charge applied to them?

21 A. They do not.

22 Q. Do you know whether MGS customers currently
23 have a demand charge applied to them?

24 A. They do.

25 Q. Okay.

1 A. SGS customers will still not have a demand
2 charge applied to them under GS.

3 Q. Okay. Let me ask you a few questions about
4 that. If the two classes are consolidated as
5 proposed --

6 A. Uh-huh.

7 Q. -- there is a demand charge potentially,
8 correct?

9 A. There is over 10 kW of demand.

10 Q. Okay. So it's just in excess of 10 k --

11 A. That's correct.

12 Q. -- W?

13 A. The first 10 do not count. You have to have
14 billing demand in excess of 10 kW to -- we did that
15 so that you could include both of them and you have
16 a natural transition then. So a customer that
17 wasn't paying a demand charge on SGS will not be
18 paying a demand charge on GS unless their load
19 grows.

20 Q. So that in excess of 10 kW based on average
21 monthly demand through a 12-month period?

22 A. It's based on -- in the tariff there is a
23 kilowatt-hour block, a threshold. If you go over --
24 if you currently don't have a demand meter and
25 you're an SGS customer, or really any -- well, I

1 guess you would only have SGS customers on demand
2 meters. If you go over 44 -- 4,450 kilowatt hours,
3 it would then alert our customer service
4 representatives to place a demand meter on that
5 account, and then it would monitor.

6 You know, that 4,450 is based on the class
7 load factor and 10 kW. So if someone goes over
8 that, we would install a demand meter. We would
9 then monitor, and if they do, in fact, go over the
10 10 kW demand -- well, they don't have to transition.
11 They would be billed for it if they go over.

12 Q. So in any given month if they go over the 10
13 kW, that customer would be billed in excess -- for a
14 demand charge in excess of 10 kW, correct?

15 A. That's correct.

16 Q. And currently that SGS customer doesn't have
17 a demand meter and wouldn't be charged a demand
18 charge, correct?

19 A. If the Company had perfect vision, that
20 customer would be moved to MGS, and that -- hence
21 the reason for the consolidation. You have -- you
22 have tariff -- you have customers around the edge of
23 both tariffs that are SGS customers for five months
24 and MGS customers for seven months and vice versa.
25 And rather than them paying the wrong rate -- and

1 you have to stay on the same rate schedule for 12
2 months per our tariffs.

3 So rather than them paying the wrong rate for
4 some portion of the year, GS provides a smooth
5 transition back and forth. So if they are really an
6 SGS customer for five months, they're paying the SGS
7 rate, just that first block energy charge; and if
8 they're an MGS customer, they're paying some demand
9 charge and both blocks of energy.

10 Q. But you'll agree with me that a current SGS
11 customer that would be transitioned to the new GS
12 consolidated rate could be play -- could be paying
13 demand charges in the future even though they
14 wouldn't be paying charges and wouldn't be eligible
15 for the MGS class?

16 A. They're still eligible. If they go over 10
17 kW, we would just -- you know, if we had all of the
18 money and all the time in the world, they'd all have
19 demand meters on them and we would know when they go
20 over and they would be moved to MGS.

21 So, yes, there are customers that may be SGS
22 customers now that may go over 10 kW. Now that
23 would be -- and again, if they don't have a demand
24 meter on them and their load is such that they go
25 over 10 kW but they don't break 4,450 kilowatt

1 hours, we still don't know to go put a demand meter
2 on them. So they have to have that demand at a
3 certain load factor to still push their load over
4 the threshold.

5 Q. And the point being is that under the current
6 tariff it says average monthly demand for the
7 breaking point between SGS and MGS, correct?

8 A. Yes.

9 Q. Okay. You mentioned that the Company will
10 put a demand meter when it recognizes that a
11 customer has -- a GS customer has 4,450 kilowatt
12 hours or -- or kilowatts or greater. There's also a
13 provision in the proposed tariff that the Company
14 reserves the right to install a demand meter on any
15 customers receiving service under this tariff, "this
16 tariff" being the GS tariff.

17 A. All right.

18 Q. Does the Company have any specific written
19 policies on when it will choose to have that right
20 to install a meter, other than the baseline 4,450
21 kilowatts?

22 A. No, we don't, and that is in there in case --
23 in case you have an instance where customer service
24 believes that you have -- in fact you have an
25 account that's over 10 kW but they're a very low

1 load factor, say. So they have high peaks. Like
2 you're having transformer issues there, so you know
3 their peak is fairly high but they're not producing
4 a lot of kilowatt hours on their bill. It can be
5 common with some of these general service customers.

6 Q. And I believe the Company stated in a data
7 response that you sponsored that it did not attempt
8 or even have the ability to determine any additional
9 revenue that it would be receiving for demand
10 charges that current SGS customers will be paying
11 under the new GS classification; is that correct?

12 A. That's correct, but you have to -- you have
13 to take what is the difference between an extra kW
14 of demand being billed versus the kilowatt-hour rate
15 that would have been higher if you didn't have a
16 demand charge. So it's not that -- you're just
17 moving money between buckets, whether it would be
18 kilowatt-hour revenue or kW revenue.

19 Q. In response to Chairman Schmitt's question
20 earlier about types of customers in the LGS family,
21 in that 100-to-1,000-kilowatt grouping, you
22 mentioned several types of customers. Was that
23 within the whole LGS class or is that just near the
24 bottom that I believe Mr. Gardner was asking a
25 previous witness?

1 A. That was within the whole class. I do not
2 have average loads for them. We just pulled what
3 their service codes were.

4 Q. Okay.

5 A. So within those groupings you could have --
6 you could have a food and beverage establishment
7 that's 900 kW and one that's -- that's 105.

8 MR. OSTERLOH: Thank you, sir. That's all
9 the questions I have at this time.

10 CHAIRMAN SCHMITT: Attorney General.

11 MR. COOK: Thank you, Mr. Chairman.

12 CROSS-EXAMINATION

13 By Mr. Cook:

14 Q. Good afternoon, Mr. Vaughan.

15 A. Good afternoon.

16 Q. I have a few questions for you. What was the
17 relative revenue increase to the residential class
18 in the final order of the last rate case, 2014-396?

19 A. The percent increase?

20 Q. The relative revenue increase.

21 A. I'm not familiar with that term, this being
22 percent -- percent bill increase?

23 Q. The percentage of the increase compared to
24 the system increase. For example, in the current
25 case, the -- in the application the relative

1 increase was 1.32, or 132 percent of the system
2 average. So what was the end result in the last
3 rate case?

4 A. I do not have that in front of me.

5 Q. Okay. Then --

6 A. It was something greater than system average
7 because we reduced again, I believe, in that case
8 five percent of the residential subsidy.

9 Q. And what was the relative revenue increase to
10 the residential class in the stipulation in this
11 case?

12 A. Relative? I mean, are you looking at the
13 RORs? Because those are return-on-rate based, not
14 relative --

15 MR. GISH: Clarify just what you mean by
16 "relative increase."

17 THE WITNESS: Yeah.

18 MR. GISH: The percent revenue increase
19 assigned to that class, or do you want rate of
20 return --

21 MR. CHANDLER: May I? I don't want to team
22 up, but I believe Mr. Cook is asking -- the relative
23 increase I think can be calculated by taking the
24 percentage increase allocated to the -- the
25 percentage increase to the RS class divided by the

1 system percentage increase.

2 THE WITNESS: Oh, okay.

3 MR. CHANDLER: I believe it's the -- it's
4 referred to that way in at least Mr. Pollock's
5 testimony.

6 THE WITNESS: Okay. I did not do things that
7 way. They're receiving 20 million -- just a second.

8 MR. CHANDLER: Can I clarify? On a
9 percentage basis.

10 MR. GISH: If I might help to clarify. Are
11 you just looking for the nine percent divided by
12 6.16?

13 MR. CHANDLER: That would be --

14 THE WITNESS: I mean, I'm not sure what that
15 number means. It doesn't mean anything to me.
16 They're receiving 60 percent of the rate increase,
17 the 21 -- on the Settlement Exhibit 1, it's the
18 21.8 million divided by the 36 million there in
19 column D. And that's --

20 Q. All right. Then I have some other questions
21 for you about the settlement stipulation, and we
22 have some tabs that we'd like to pass out to you.

23 A. Okay.

24 MR. CHANDLER: May I approach, Chairman?

25 CHAIRMAN SCHMITT: Yes, you may.

1 MR. OSTERLOH: And, Mr. Chairman, while
2 that's being done, I forgot to request for admission
3 for KCUC Exhibit 7.

4 THE WITNESS: Thank you.

5 CHAIRMAN SCHMITT: Is there any objection?

6 MR. GISH: No objection.

7 CHAIRMAN SCHMITT: Then let it be admitted as
8 KCUC Exhibit 7.

9 (KCUC Exhibit 7 admitted.)

10 MR. KURTZ: Oh, Mr. Chairman, could I have
11 this marked and admitted as KIUC Exhibit 1?

12 CHAIRMAN SCHMITT: Is that the settlement
13 exhibit?

14 MR. KURTZ: Yes. Yes.

15 CHAIRMAN SCHMITT: Do you have that?

16 MR. OVERSTREET: No objection.

17 CHAIRMAN SCHMITT: Need to get a copy to --
18 you don't have any objection, do you, Mr.
19 Overstreet?

20 MR. OVERSTREET: No. No, we don't.

21 CHAIRMAN SCHMITT: We need to get a copy,
22 mark it for the reporter, of the -- I guess that
23 would be Settlement Exhibit 1, which would be KIUC
24 Exhibit --

25 MR. KURTZ: One.

1 CHAIRMAN SCHMITT: -- 1.

2 MR. KURTZ: Thank you.

3 (KIUC Exhibit 1 marked for identification and
4 admitted.)

5 Q. Okay. Do you have those tabs in front of you
6 now?

7 A. I do.

8 Q. Okay. And can you turn to tab 1? And I
9 believe you should have, then, what is -- I think
10 you'll recognize as Exhibit AEV-1S; is that correct?

11 A. That's correct.

12 Q. And the stipulation calls for a total
13 increase in the residential class allocation of
14 21.812 million; is that correct?

15 A. That is correct.

16 Q. And looking at the column Increase
17 Incorporating Surcharge Changes, we see a subcolumn
18 called Carrying Charge Savings in ES; is that
19 correct?

20 A. Yes, sir.

21 Q. Were these savings the result of a long-term
22 debt refinancing that was carried out after the
23 application was filed?

24 A. Yes, sir. You can also see these numbers in
25 my supplemental testimony in AEV Exhibit 1 there.

1 Q. Okay.

2 A. Those are calculations done there.

3 Q. And the net total increase in the residential
4 allocation is 21.977 million, correct?

5 A. 20.97 million.

6 Q. 20.977?

7 A. Yes, which equals the nine percent flat
8 there.

9 Q. Okay. So the settlement's effect on what you
10 have here as the non-fuel base rate increase to the
11 residential class is an increase of 14.15 percent,
12 correct?

13 A. Yeah. When you're looking at just non-fuel
14 revenues. If you're looking at total bill, it's the
15 nine percent.

16 Q. Right. So has the Company prepared any
17 figures regarding the all-in rate increase to the
18 residential class? And by that I mean the effect of
19 the ECR increase, the impacts to the BSRR, and any
20 other riders?

21 A. Yes, sir. You're looking at it. It's nine
22 percent.

23 Q. Nine percent?

24 A. Yes. That is the total bill impact of this
25 settlement.

1 Q. So this exhibit that you're looking at, tab 1
2 is the only analysis of the all-in rate increase,
3 correct?

4 A. Yes. It's -- it is the all-in rate increase.

5 Q. Okay. Did the -- did the Company conduct any
6 studies to determine whether ratepayers could afford
7 the new revenue set forth in the stipulation?

8 A. I think this goes back to your -- I have no
9 specific economic or other studies done about the
10 affordability of the rates. I have produced the
11 rates.

12 Q. Okay. Were you in the room when we
13 questioned Mr. Satterwhite?

14 A. I was, yes.

15 Q. Can you point to anyplace in the application,
16 if there were any studies done regarding the ability
17 of ratepayers to afford the tracking mechanism?

18 MR. GISH: Mr. --

19 Q. That's Tariff PPA.

20 A. I mean, so Tariff PPA is set at zero, so
21 that's --

22 Q. Okay. And under the --

23 A. -- fairly affordable.

24 Q. -- stipulation, if approved, then more monies
25 from the PJM OATT costs would flow through there,

1 correct?

2 A. On a delayed basis, yes.

3 Q. Yes.

4 A. 20 percent of which will be absorbed by the
5 Company.

6 Q. So if I understand -- am I to understand
7 correctly that the Company has not conducted any
8 studies about the ability of ratepayers to afford
9 those funds being flowed through that mechanism?

10 A. No, my answer is the same.

11 Q. Okay.

12 A. We -- I have conducted no studies.

13 Q. All right. Thank you. Isn't it true that
14 Kentucky Power and other AEP affiliates engage in
15 numerous supplemental transmission projects?

16 A. You -- sure, you can call them supplemental.
17 There are transmission projects, yes.

18 Q. Can you discuss the difference between
19 supplemental and baseline projects?

20 A. Yeah. I can. There is a -- attached to one
21 of my testimonies there's a presentation we gave, I
22 believe to your office and the Commission, some of
23 the folks in this room back earlier this year. But
24 it talks about some of those items. A baseline
25 project is just simply something -- a project that

1 PJM itself identified in its planning process rather
2 than the transmission owner in whatever zone
3 identifying it and bringing it to PJM. Those
4 projects also called transmission owner subject --
5 selected projects. Supplemental is generally what
6 they're classified as.

7 Supplemental isn't a derogatory term or
8 otherwise meant that they're unneeded, it's just
9 simply that --

10 Q. I understand.

11 A. -- it was not selected by PJM's model in
12 their plan -- in their specific criteria.

13 Q. And so isn't it true that costs of
14 supplemental projects are allocated solely to the
15 transmission zone in which the project is located,
16 and in this case is that -- is it correct that
17 Kentucky Power is in the AEP East zone?

18 A. Kentucky Power is in the AEP transmission
19 zone. It's the east companies of AEP.

20 Q. Okay.

21 A. But baseline projects can be allocated 100
22 percent to the zone they're within as well. It just
23 depends on who benefits from them. And basically
24 the -- a project that isn't identified by PJM is
25 most likely going to benefit the transmission zone

1 within which --

2 Q. So --

3 A. -- it's being built.

4 Q. I'm sorry?

5 A. Just within the zone it's being built.

6 Q. Okay.

7 A. Yes.

8 Q. And so -- then with regards to supplemental
9 projects, the rest of the PJM footprint outside of
10 that zone does not pay any of those costs; is that
11 correct?

12 A. That's correct. And vice versa is true as
13 well. If PSEG is building a supplemental project in
14 its New Jersey zone or its Eastern Philadelphia
15 zone, they're -- AEP is not paying a piece of that.
16 It's when it goes through the PJM cost allocation
17 process that those costs can be allocated across the
18 various transmission zones in PJM.

19 Q. And so you indicated earlier that PJM refers
20 to them as supplemental projects, and you said
21 that they don't come up to PJM for review, so --

22 A. No, I didn't say that. They are reviewed at
23 PJM.

24 Q. Oh, they are reviewed?

25 A. I said PJM does not initiate that project.

1 Q. All right.

2 A. It is not identified by PJM. They still go
3 through the stakeholder process at PJM.

4 Q. Isn't it true that PJM does not evaluate
5 those supplemental projects to the same degree as a
6 baseline project?

7 A. I would not say that. Both go through the
8 stakeholder process. Merely PJM's planning model
9 identified a baseline project, whereas the specific
10 planning criteria of the transmission owner, in
11 whatever zone it's in, identified a supplemental
12 project.

13 Both go through the stakeholder process. All
14 the dollars are reviewed at FERC when the formula
15 rates for whatever the transmission owner -- the
16 regular transmission owner is flowing those dollars
17 through to the transmission zone or to PJM. The
18 dollars are reviewed there for prudence at the
19 formula rate update filings each year.

20 Q. Is there an agreement among the AEP East
21 Companies called the AEP East Operating Companies
22 Transmission Agreement?

23 A. Yes, sir.

24 Q. Okay. Do you know whether that's been
25 produced in the record of this case?

1 A. I believe it has. I think it's in one of my
2 discovery requests.

3 Q. Okay. Do you know where that is? And if you
4 can't -- if you want to, we can do it in a
5 post-hearing data request, if you can identify that.

6 A. Yeah, we'll identify it, and if --

7 Q. If not --

8 A. -- if I'm misremembering and it's not already
9 in there -- I believe it's in one of the AG's data
10 requests, but if it isn't, we'll provide it. It's a
11 public --

12 Q. Okay.

13 A. It's a publicly available document on the AEP
14 website.

15 Q. All right. And is that also approved by FERC
16 using formula rate filings?

17 A. It's not a formula rate, it is an agreement,
18 a cost allocation agreement.

19 And just to note that we've had a cost
20 allocation agreement of some sort for the AEP East
21 Companies a lot longer than we have been in PJM.
22 There's always been a sharing of transmission costs
23 in the AEP zone. Just like prior to 2014 there was
24 a generation pool, we've also had a transmission
25 pool. I don't know if it was all the way back to

1 the '50s like the generation pool did, but it
2 definitely predates PJM.

3 But it is not a formula rate, it's a cost
4 allocation schedule that states how -- the current
5 transmission agreement states how the PJM OATT costs
6 will be allocated amongst the AEP East Companies.

7 Q. Okay. So basically under that agreement,
8 Kentucky Power -- as it filters down through the
9 retail rates, Kentucky Power ratepayers can be
10 required to pay for a portion of, say, for example,
11 an I&M supplemental transmission project?

12 A. Yeah. Let's take that a little deeper. So
13 Kentucky Power retail ratepayers would be allocated
14 a piece of the -- of a supplemental project like --
15 for instance, right now I know I&M in Indiana is
16 trying to -- they're -- I think they're in the
17 process of rebuilding a 90-year-old transmission
18 line. It's going to be almost \$84 million. But
19 90-year-old structure up along the lake, somewhat
20 rickety. It's past its accounting life by 20 years
21 at this point.

22 Now, if not for the AEP transmission
23 agreement -- agreement where there is a 12 CP
24 allocation of costs among the Company, the Kentucky
25 Power would simply receive its one CP share from

1 PJM, which is how everyone else receives their
2 costs. It's a one coincident peak. So if that --
3 if that happens in the wintertime, the winter
4 peaking companies really get hit, versus if it
5 happens in the summertime, the summer peaking
6 utilities get hit more. So it just depends on when
7 that peak is.

8 What the transmission agreement, the AEP
9 transmission agreement, that cost allocation
10 schedule does is it takes all the costs that get
11 allocated either within the zone or to our zone, and
12 it kind of levelizes it out using a 12 CP
13 allocation. So everyone pays a more predictable
14 amount each year, it's your 12 CP rather than
15 saying -- which makes a lot more sense to me
16 personally. You don't use the transmission system
17 based on one peak, you use it every month of the
18 year, so a 12 CP allocation of cost makes sense.

19 But it's reducing volatility between what PJM
20 could have allocated to Kentucky Power on those PJM
21 bill versus what actually is recorded on Kentucky
22 Power's books via the transmission agreement.

23 Q. So if I understand correctly, then, under the
24 terms of the AEP East transmission agreement, sums
25 that Kentucky Power pays which become due under PJM

1 invoices --

2 A. Yeah.

3 Q. -- are determined in part by these AEP
4 supplemental projects over which the AEP affiliates
5 are in control?

6 A. Yes. Each transmission owner within the zone
7 is responsible to -- for the upkeep and reliable
8 service of its transmission system. And those
9 supplemental projects are the transmission owners
10 identifying rebuilds and other projects that they
11 need for reliability. And, you know, there is an
12 allocation of those costs within the zone, and per
13 the transmission agreement, you know, we file our --
14 every transmission owner in our zone, we file our
15 revenue requirement at PJM every year. PJM then
16 does the cost allocation, because some of those --
17 some of those dollars get allocated across PJM, some
18 stay within the -- within our transmission zone.

19 Within our transmission zone, there's about
20 15 percent of it that are non-AEP munis and co-ops.
21 They get their allocation. The remainder goes to
22 our -- the AEP LSE in total, and then through the
23 transmission agreement there's that 12 CP allocation
24 down to the individual LSE. So like Kentucky Power
25 is an LSE.

1 Q. Okay. I understand. Thank you. And isn't
2 it true that in the last case the Commission denied
3 the -- can I call it the OATT tracker? Is that --

4 A. I believe it was the PJM tracker last time --

5 Q. Well, I thought --

6 A. -- because it had a bunch of other --

7 Q. Okay.

8 A. -- PJM costs in it as well.

9 Q. And in this case you're not calling it the
10 PJM tracker, is that right, or --

11 A. It's -- it's a --

12 Q. -- do you want to call it that or --

13 A. It's included within the Tariff PPA.

14 Q. Tariff PPA?

15 A. It's specifically the OATT LSE costs, yes.

16 Q. So -- but in the last case the Commission
17 denied the PJM tracker?

18 A. They did, yes.

19 Q. Okay. And --

20 A. After the settling parties had agreed to it.

21 Q. Can you describe what AEP and Kentucky Power
22 are doing to control transmission costs?

23 A. I can give you one example. AEP did not
24 initiate the complaint, but we have advocated for
25 it, for those -- some of those projects. The docket

1 number is in my direct testimony. Some of those
2 large baseline projects get allocated across our --
3 PJM's footprint.

4 I believe it was ComEd who initiated the
5 complaint, then the AEP companies joined them, and
6 we've actually gotten the cost allocation
7 methodology changed so that less -- less cost is
8 allocated to western PJM, you know, our LSEs and
9 ComEd, versus what the old allocation used to be.

10 So we're -- there's -- we're awaiting a -- it
11 was a nonunanimous settlement in that case, and, you
12 know, FERC -- FERC has just recently reached a
13 quorum again, so we're waiting for that to make it
14 through FERC, and hopefully there will be a refund
15 of some sort of -- some of those costs back to
16 Kentucky ratepayers, and, you know, through the
17 Tariff PPA tracking mechanism, mind you.

18 And there was also a change of a specific
19 date going forward how those costs are being
20 allocated currently across PJM. So, yeah,
21 there's -- there is advocacy for lower costs.

22 Q. Okay. And under that AEP East transmission
23 agreement, what kind of -- do you know the ROE
24 percentage that is being charged to Kentucky Power?

25 A. So another distinction in the transmission

1 agreement, again, is simply a cost allocation
2 schedule. The AEP OATT formula rates, those
3 formularies contain the formula for producing the
4 annual transmission revenue requirement. Within
5 that there's an ROE. That ROE is currently 11.49.

6 Again, in my direct testimony I reference a
7 FERC docket where the -- several -- several
8 complainants have filed a 206 complaint at FERC, and
9 that case is currently ongoing as well.

10 Q. All right. Thank you. So in that case that
11 you just described too, am I correct that Kentucky
12 Power and basically all the east operating
13 companies, as well as some of the AEP nonregulated
14 transmission companies are listed as defendants; is
15 that correct?

16 A. It's against all of the --

17 Q. Respondents?

18 A. -- all of the transmission owners, yes.
19 Everyone who is filing a transmission revenue
20 requirement with that ROE in it.

21 Q. Okay. Has Kentucky Power ever gone to FERC
22 to contest the ROE that it's required to pay under
23 that AEP East operating agreement?

24 A. We have not contested our own ROE; no, sir.

25 Q. All right.

1 A. That would be Kentucky Power -- so that 11.49
2 ends up --

3 Q. Well, let me ask you a question. When you
4 say ROE --

5 MR. OVERSTREET: Wait a minute. Let him
6 finish his question.

7 A. So that 11.49 ends up back in our base rates
8 as a credit to customers in the cost of service.
9 Essentially those TO revenues during the test year
10 that include that 11.49 ROE and our natural
11 transmission costs of service, you know, our -- with
12 our retail return on our rate base and our O&M,
13 those are both included in base rates and
14 essentially offset one another, whereas the cost you
15 have left for transmission service is the LSE OATT
16 charges. So to the extent we go reduce that, we
17 reduce the base rate credit.

18 Q. I understand. Thank you very much. And I
19 apologize for --

20 A. No worries.

21 Q. -- interrupting you.

22 Let me ask you a question. So if I
23 understand you correctly, do you make -- I need you
24 to help me understand. Does Kentucky Power make
25 more or pay more on OATT charges?

1 A. Kentucky Power pay -- has a greater OATT
2 charge as an LSE than as a trans -- than as the
3 revenues they receive as a transmission owner.

4 And let me explain that. The -- under the
5 cost allocation schedule we've been talking about,
6 the AEP transmission agreement, everyone -- every
7 transmission owner -- so Kentucky Power is a
8 transmission owner. We have our own transmission
9 system and we are an LSE. They're two separate
10 entities. Okay?

11 And Kentucky Power, the transmission owner,
12 files a revenue requirement every year at FERC, or
13 at PJM under the FERC-approved formula rate
14 schedule. And let's say it's \$50 million. So
15 Kentucky Power files for \$50 million from PJM.
16 Kentucky Power gets \$50 million back from PJM.
17 That's one settlement, direct assignment, through
18 the transmission agreement. Excuse me.

19 Then as an LSE, those costs are allocated to
20 the AEP zone, and then through the transmission
21 agreement we receive -- "we" being Kentucky Power,
22 receive our 12-CP share, which is that roughly six
23 percent number that you've heard repeated a few
24 times. It's -- I think this year it's 5.78, but
25 roughly six.

1 And currently the LSE charge is greater than
2 the transmission -- transmission owner revenues that
3 are coming in.

4 Q. Okay. So isn't it true that the -- I keep
5 calling it a tracking mechanism. I'm sorry. Will
6 you understand what I mean?

7 A. Tariff PPA?

8 Q. Tariff PPA, yeah.

9 A. Yes, sir.

10 Q. Isn't it true that that mechanism would
11 preclude any intervenors from posing discovery
12 questions about the costs that are carried through
13 that mechanism?

14 A. That's untrue. You can -- any intervenor in
15 this case can go to the PJM regional transmission --
16 transmission meetings. They're every month. They
17 can ask questions there. They can go to the formula
18 rate update every year and ask questions.

19 There's several consultants for munis and
20 co-ops within the AEP zone that pose a lot of
21 discovery about those costs in the formulary true-up
22 every year.

23 Q. Okay. And let me clarify that. If that
24 mechanism is approved by this Commission, once it
25 comes time to collect those costs at the retail

1 level, would -- isn't it true that the tracking
2 mechanism would preclude any intervenors from posing
3 discovery questions about those costs?

4 A. Notwithstanding my last answer, I'll also add
5 that I can't remember a currently approved tracking
6 mechanism where I've filed the rate update and Staff
7 hasn't asked at least one or two questions regarding
8 what's involved in that true-up or how those rates
9 were calculated.

10 Q. Okay. Can you turn to tab 2? And that's
11 your rebuttal testimony at page 3, correct?

12 A. Yes, sir.

13 Q. Looking at lines 3 through 4, you state there
14 (Reading) The tracker would allow the Company the
15 opportunity to earn its ROE.

16 But isn't it true that if the tracker is
17 approved, it would guarantee that Kentucky Power
18 would earn its authorized ROE rather than an
19 opportunity to earn it?

20 A. Absolutely not. We have an opportunity --

21 Q. Really?

22 A. -- if that is included. If it's approved,
23 Kentucky Power has a legitimate opportunity. If
24 it's not approved, we have no opportunity. That's
25 one and a half percent ROE off the top, we know it's

1 happening. And it's no guarantee, because we're
2 still absorbing 20 percent of those incremental
3 costs in the settlement deal.

4 Q. Isn't it true that despite the fact that
5 Kentucky Power is losing customers and is
6 experiencing declining usage, nonetheless revenues
7 continue to grow?

8 A. I missed Mr. Wohnhas' discussion of this, so
9 I assume you're referring to the ten-year period in
10 question where revenues were going up; however, the
11 load has been shrinking?

12 Q. Yes. As a matter of fact, there is an exhibit
13 to the testimony of Dr. Dismukes, Exhibit 9 --

14 A. Yeah.

15 Q. -- that -- it's based on the Company's FERC
16 Form 1. That's where the data comes from.

17 A. That's fair. And there are some caveats.
18 There's some color around that. There's many things
19 happening. Over that same time period all the coal
20 plants that are still being operated in the AEP
21 system, they were scrubbed during that time period,
22 so during -- that's a lot of capital investment.

23 And in 2006 through 2014 Kentucky Power was
24 still a member of the AEP's pool. So as those
25 plants were scrubbed and those capital investments

1 were made, Kentucky Power's costs were going up,
2 because they're allocated their portion of the AEP
3 system. So you had that going on.

4 You also have during that time period the
5 decline in off-system sales margins, because after a
6 peak in 2008, you had lower -- you had the economic
7 recession, which really hurt -- hurt off-system
8 sales. Prices went down. Gas prices began to come
9 down it with fracking. You also had the retire --
10 the generation retirements, where the AEP's pool
11 became a lot shorter.

12 And those off-system sales revenues that used
13 to get allocated, those hundreds of million of
14 dollars that used to get allocated to Kentucky Power
15 through the old East pool, those were rate credits.
16 Those were shared back with customers through the
17 system sales clause. So as those off-system sales
18 margins were reduced, our retail revenues grew,
19 because we had less of a cost offset.

20 So, yeah, I agree with you that revenues have
21 gone up and sales have gone down, but it's --
22 there's a lot of color within those, a lot of --
23 there's a lot of nuance to it. It's not just --
24 it's not just a picture that Kentucky Power 's
25 revenues keep going up and sales keep going down

1 and -- there's a lot to it.

2 Q. All right, sir. Of the amounts Kentucky
3 Power pays each year in OATT charges, how much are
4 to affiliates and how much are to nonaffiliates?

5 A. Huh. I don't have that number on me.

6 Q. If I -- I'd like to request that in a
7 post-hearing data request.

8 A. We could. We could certainly -- certainly
9 provide that.

10 Q. Thank you. Of the amounts Kentucky Power
11 pays each year in OATT charges to affiliates --

12 A. Yeah.

13 Q. -- how much was paid for projects designated
14 as baseline upgrades, network upgrades, or
15 supplemental projects as defined by PJM?

16 A. So I'm not sure we track it at that level.
17 However, a couple -- a couple of distinctions there.
18 Network upgrades are like when a generator wants to
19 connect within the system, and network upgrades are
20 paid for by whomever is requesting that.

21 So if there's an IPP entering the AEP system
22 and they require a \$10 million transmission
23 investment to be connected to our system to deliver
24 power to PJM, they're paying that, not our
25 customers. You know, or vice versa. A new wind

1 farm, if they want -- they need a substation, that's
2 paid for by the developer of that specific project,
3 that's not our customers.

4 And again, supplemental projects are projects
5 needed to replace the very age -- very old, aging,
6 deteriorating transmission infrastructure in our
7 system. We have a very high percentage of it that's
8 over its accounting life. There's a significant
9 portion of these -- these facilities -- like just
10 look at the Hazard-Wooton line here that is before
11 the Commission. It's 70-plus years old, and I
12 believe it has wooden structures. You have
13 70-year-old wooden structures holding up your
14 transmission system.

15 So, yeah, you can continue to draw ire with
16 the supplemental projects, but just because they're
17 supplemental doesn't mean they're not needed.

18 Q. All right. With regards to that question I
19 asked, if you -- you said you weren't sure whether
20 it's tracked that way that I asked it. If it can be
21 provided, we'd like to ask for that in a
22 post-hearing data request.

23 A. Okay. Yeah, I'm just not sure the -- I'm not
24 sure the dollars are that granular where you can --
25 where we can divide it between the baseline project

1 or whatever, but we will try, and if we can, we will
2 provide that.

3 Q. Then would they be identified under RTEP
4 dollars or with an RTEP ID also? Is that one way to
5 look at them?

6 A. So RTEP is the Regional Transmission --

7 Q. Expansion --

8 A. -- Expansion Plan. That's a process.
9 Transmission enhancement are the charges. So we
10 can -- we can definitely tell you what our -- what
11 our NITS charge is versus what our transmission
12 enhancement charge is. That's -- that is
13 identifiable. We account for it that way. We can
14 provide that.

15 Q. Okay. Thank you very much. Do you recall
16 filing responses to data requests from the PSC Staff
17 about the typical bill impact from the Big Sandy
18 Retirement Rider, the BSRR annual update?

19 A. I filed a lot of discovery.

20 MR. GISH: Do you have a -- do you have a --

21 A. Do you have an example?

22 MR. GISH: -- specific number?

23 A. Yeah.

24 Q. Yes. They were filed on August 14.

25 A. Oh, in the rider update?

1 Q. Yes. Yeah. The BSRR.

2 A. Are we going to the wall? Do you --

3 Q. We're about to.

4 A. Okay.

5 Q. We gotta wait for some assistance. So what
6 we're going to do, we'd like show you on the screen
7 an Excel spreadsheet the Company filed in response
8 to the Staff's several data requests from that
9 update. And --

10 A. It has my name on it, how about that?

11 Q. Okay. So we're in luck then.

12 A. It's spelled incorrectly, but it's my name.

13 MR. CHANDLER: That's my fault. Sorry about
14 that.

15 MR. GISH: His attorney doesn't make that
16 spelling error.

17 Q. So have you seen that Excel sheet before?

18 A. Yeah, I believe I produced it.

19 Q. Okay. And so you supported the response to
20 the Staff data request there?

21 A. Yes.

22 Q. Okay. What we'd like to do, then, is to
23 update this Excel sheet with figures the Company
24 provided in the stipulation in order to calculate
25 the typical bill impact of the rates in this case.

1 A. Oh, actually --

2 Q. So the stipulation provides for an increase
3 in the residential customer charge to \$14; isn't
4 that correct?

5 A. That's correct.

6 Q. All right.

7 A. As a compromise from 17.

8 Q. So my co-counsel here is making the changes,
9 as you can see, in the Excel sheet. And I believe
10 he just inputted \$14. All right.

11 And then next it provides for an increase in
12 the energy charge to 10.265 cents per kWh; isn't
13 that correct?

14 A. That's correct.

15 Q. And then it provides for a decrease in the
16 KEDS charge to residential customers from the
17 current 15 cents per meter to 10 cents per meter,
18 correct?

19 A. That's correct.

20 Q. And we're just talking about the stipulation
21 here. And it provides for an increase --

22 MR. CHANDLER: Slow down. Slow down.

23 MR. COOK: Oh, I'm sorry. I'm going faster
24 than my -- than our ability to input.

25 MR. GISH: Ten. It should be 10, not 20.

1 THE WITNESS: .10.

2 MR. CHANDLER: What is it?

3 MR. OVERSTREET: Ten cents.

4 MR. CHANDLER: Oh, excuse me. I got ahead of
5 myself.

6 MR. OVERSTREET: Now it's 12.

7 MR. GISH: Now it's a dollar.

8 MR. OVERSTREET: Now it's a dollar.

9 MR. CHANDLER: Residential customer.

10 MR. COOK: And the HEAP.

11 THE WITNESS: HEAP's 20 cents. I can help
12 you.

13 Q. Yeah, the HEAP will go from 15 to 20 cents,
14 correct?

15 A. Yeah.

16 Q. And so we went through there, we made those
17 changes. So are we -- what are we missing here?

18 A. You need to go up to the Big Sandy Operations
19 Rider and put it to zero. Four up. There you go.
20 Just make the rate zero. There you go. Right
21 there. No, no, back two cells.

22 MR. CHANDLER: I got it. Hold on a second.

23 A. Just make the rate zero.

24 MR. GISH: The witness said to make the rate
25 zero because the Big Sandy Operations Rider is going

1 away in this case.

2 MR. CHANDLER: Yeah, but it's multiplied,
3 it's still zero.

4 A. Certainly. You need to also go down to the
5 environmental surcharge, and the annualized test
6 year number needs to be the rate. Go over. Down.
7 Down. No, no. That's the fuel charges. Leave that
8 one. Leave that one. Down. Turn -- actually,
9 while you're in system sales, make it zero. That
10 guy to zero. All right. Down to -- that should be
11 7.4926 percent.

12 Q. Where does that number come from?

13 A. The piece of paper I'm holding.

14 Q. Okay. Well, what is that?

15 A. I calculated these rates with the settlement,
16 yeah. The next one down.

17 MR. CHANDLER: I need to --

18 A. Yeah, you're good then.

19 MR. CHANDLER: I need to know --

20 A. Oh, seven -- 7.4926.

21 Q. So it looks like we're still miss -- are we
22 still missing something here?

23 MR. GISH: Purchase power should be zero.

24 A. Yeah, the purchase power adjustment clause,
25 that's zero.

1 MR. CHANDLER: The rate?

2 A. Yes. Go up to the capacity charge. Looks
3 like the current. That might be the current. No,
4 it should be 14.82, I believe.

5 MR. CHANDLER: Say that again.

6 A. 14.82 is what I have in mine. \$14. And --

7 Q. So it's still above nine percent, correct?

8 A. No. Go up to the -- can you expand the
9 energy charge there? No, just the decimals. Okay.
10 Yeah. Okay. 14. What are we doing?

11 How about I submit mine as a post-hearing
12 data request, because I feel more comfortable with
13 the one that's in my hand.

14 Q. Would you go ahead and provide one, then, in
15 a post-hearing data request?

16 A. Yeah. Yes. Absolutely.

17 Q. Okay. All right.

18 CHAIRMAN SCHMITT: And let's take a -- let's
19 take a ten-minute break at this time.

20 (Recess from 4:01 p.m. to 4:12 p.m.)

21 CHAIRMAN SCHMITT: Okay. We're now back on
22 the record.

23 Mr. Cook, I assume you intend to resume your
24 cross-examination of Mr. Vaughan.

25 MR. COOK: Thank you very much, Your Honor.

1 I appreciate it kindly.

2 Q. Mr. Vaughan, there are three items on this
3 sheet that's been put up behind you calculated with
4 a factor that is multiplied by the subtotal of the
5 bill. Would you agree that one of those factors is
6 the BSRR factor?

7 A. That's correct. It's a percentage of revenue
8 rider.

9 Q. Thank you. And is it about four percent?

10 A. Currently, yes.

11 Q. Okay. Will applying that factor to the new
12 bills overcollect the BSRR revenue requirement?

13 A. No, it will not. It will just pay down the
14 regulatory asset a little faster than it would
15 otherwise, saving carrying charges for customers.

16 Q. Just one moment. Isn't it true that just
17 one week after the Company submitted the
18 supplemental filing in this case about the refinance
19 that it filed this annual BSRR true-up on August 14?

20 A. Yes, per the tariff.

21 Q. Okay. Were the changes to the WACC, the
22 weighted average cost of capital, also reflected in
23 the 2017 BSRR true-up?

24 A. No, sir; they were not. The calculated
25 carrying charges should change when there is an

1 order in this base rate case and we receive a new
2 weighted average cost of capital.

3 Q. So the order has to address that; is that
4 correct?

5 A. I believe so. I would have to go back to the
6 orders approving the Big Sandy Retirement Rider to
7 be a hundred percent sure, but yes.

8 Q. So could you turn to tab 6, then?

9 A. Tab 6. I am there.

10 Q. Okay. And are you familiar with this
11 Kentucky Power response to the Commission's data
12 requests in the BSRR true-up filing?

13 A. Is this from this year? Yep, I am.

14 Q. And could you read the last sentence of the
15 first paragraph into the record?

16 A. (Reading) BSRR adjustment rate will not be
17 modified -- adjustment rate will not be modified
18 coincident with the effective date of the rates
19 approved in the Commission's final order in Case
20 Number 2017-00179.

21 That's true, it will be -- the rates will be
22 modified next August when we file our next true-up.
23 However, the carrying charges used to calculate the
24 interest on the regulatory asset will change for the
25 new WACC that gets approved in this proceeding,

1 2017-00179.

2 Q. Couldn't the Company have requested to update
3 the long-term debt when it filed its annual BSRR
4 update?

5 A. I'm not certain. Again, I have to go back to
6 the order approving -- I believe the order approving
7 the BSRR states that the carrying charges are
8 calculated based on the current approved WACC in
9 the -- from the last base rate case.

10 Q. But the Company could always move to do so,
11 could it not?

12 A. I'm not certain. I'm not a lawyer. I'm not
13 going to answer that one, sorry.

14 Q. Moving on to a different subject here, what
15 factors did Kentucky Power consider in making the
16 changes to the two cogen tariffs? That's Tariff
17 COGEN/SPP I and Tariff COGEN/SPP II.

18 A. We simply updated the cost rates in it.

19 Q. Okay. Has Kentucky Power been engaged in any
20 discussions or negotiations with any customers who
21 may potentially take service under one or both of
22 those tariffs?

23 A. Not any more so than what's in the settlement
24 agreement with, you know, the provision for Marathon
25 and discussing their unique situation.

1 Q. If a customer was to develop cogen, would any
2 backup tariff they take under ensure they pay the
3 same portion of fixed costs as they would if they
4 did not generate any power?

5 A. Probably not, no. I mean, it depends on the
6 scenario.

7 Q. Okay. I want to move on to residential rate
8 design, and you addressed the residential service
9 charge in your direct and rebuttal testimony; isn't
10 that correct?

11 A. Yes, sir.

12 Q. Now, the partial stipulation calls for an
13 increase in the monthly residential charge to 14,
14 correct, \$14?

15 A. That is correct.

16 Q. And --

17 A. From -- reduced from our proposed 17.50.

18 Q. And did any of the stipulating parties
19 provide testimony on the residential customer
20 charge?

21 A. Yes, I believe your witness, Dr. Dismukes,
22 did, who --

23 Q. The AG was not one of the stipulating
24 parties; isn't that correct?

25 A. No, they were not.

1 Q. Okay. Did the Company conduct a study to
2 determine whether residential customers could afford
3 the proposed increase in the customer charge?

4 A. So you can't look at the residential
5 customer -- you have to look at bill, at the total
6 bill. And again, I will -- I will say I did no
7 studies on the affordability of my rates. I did my
8 job, I produced the rates.

9 However, you can't -- you can't pick at one
10 rate component and say whether that rate component
11 is affordable or not. You have to look at the end
12 result. And the end result in our proposed
13 residential rate design is more equitable for our
14 low-income and our heating customers, and that's why
15 we proposed to do it that way.

16 Q. All right. And could you refer to tab 3,
17 please?

18 A. I am there.

19 Q. This is your rebuttal at page 13. Do you see
20 that?

21 A. I see that.

22 Q. At lines 14 through 15, you state there,
23 (Reading) However, a more relevant comparison is to
24 the IOUs and the electric cooperatives that operate
25 within Kentucky; isn't that correct?

1 A. Yes.

2 Q. And then you provided as an exhibit --

3 A. And I do know I inadvertently left out the
4 IOUs.

5 Q. Oh, okay. All right. So --

6 A. Save you a question.

7 Q. Well, thank you so much. Then that means
8 that we can move you then to tab 5.

9 A. Tab 5.

10 Q. Oh, okay. And -- well, first let me
11 backtrack --

12 A. Do you want to go to tab 4?

13 Q. -- just a little bit.

14 A. Okay.

15 Q. Back to your study that left out the IOUs.
16 It was dated in effect as of October 12, 2017,
17 correct?

18 A. That's right.

19 Q. Okay. Then tab 5, we prepared an exhibit
20 with the same date that -- so you see here in that
21 exhibit that when Kentucky's electric IOUs are
22 compared together, the average of service charges
23 applicable to residential customers of those
24 companies is \$10, correct?

25 A. It is, but I testify in my rebuttal and my

1 direct, that is irrelevant, that we do not look like
2 the other three IOUs in the state. We look like a
3 very large rural electric cooperative when you look
4 at our service territory that's in my direct
5 testimony when I discuss the number of residential
6 customers per mile, per line mile of circuit, the
7 relative density of our service territory, the
8 mountainous terrain of our service territory.

9 So while I apologize that those lines 14
10 through 15 may mischaracterize my AEV-R2 because I
11 only included rural electric co-ops, the other
12 cooperatives and municipals, I think it's a very
13 relevant comparison.

14 Q. And AEV-R2 did not -- also listed several
15 nonjurisdictional utilities, correct? They were not
16 jurisdictional to this Commission?

17 A. I don't know whether this Commission has
18 jurisdiction over all of the co-ops or --

19 Q. Okay.

20 A. I do not know that.

21 Q. All right.

22 A. But if you folded in the three IOUs, the
23 average is -- you know, the high is still going to
24 be \$23.40. The new low will be 4.50 for Duke
25 Energy, which is a very dense service territory

1 there south of Cincinnati. And you're still going
2 to have something in the mid teens as the average,
3 which is where the settlement agreement lands.

4 Q. What calculations did you use in developing
5 the proposed residential customer charge?

6 A. I go into great detail in my direct testimony
7 where we -- I did a couple benchmarking studies.
8 The one was what I call a fixed distribution study,
9 which your witness, Mr. -- or Dr. Dismukes takes
10 great issue with, calling it a minimum system study.

11 And then I also did a marginal connection
12 study where I took the actual work orders from the
13 test year when we were installing new residential
14 service and took an average of that cost. I got
15 those from our distribution group. And it said the
16 next connection cost us \$39 per month during the
17 test year. That was very close to the fixed
18 distribution study I did, which was 38 something.

19 So I used those as kind of a benchmark, as
20 here, that's the ceiling. Like if you could do it,
21 that would be as high as you'd want to go in the
22 fixed, just looking at distribution of the customer
23 charge.

24 So that was like step one. We said here's
25 the ceiling or the bogie. We're at \$11. And then

1 we looked at how much we could raise it without
2 disproportionately impacting customers of various
3 usage levels, looking at what our average heating
4 customers used each month, looking at what our
5 average low-income customers used each month, and
6 then set the rate.

7 And also looked at how much of the bill would
8 still be on a usage basis versus a fixed basis. I
9 know you guys -- your witness takes issue with that,
10 but there's still 90 percent of the bill that's
11 billed on a kilowatt-hour basis, even with our
12 proposed \$17.50 increase, which we have brought back
13 to \$14 in the settlement.

14 So I looked at a great many things when I was
15 coming up with that proposal.

16 MR. COOK: That's all the questions we have
17 at this time, Mr. Chairman.

18 CHAIRMAN SCHMITT: Thank you.

19 Mr. Osterloh, questions.

20 MR. OSTERLOH: No further. Nothing at this
21 time.

22 CHAIRMAN SCHMITT: Mr. Malone.

23 MR. MALONE: Just one quick question for Mr.
24 Vaughan.

25 *

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1 CROSS-EXAMINATION

2 By Mr. Malone:

3 Q. You got a lot of questions from KCUC about
4 the \$500,000 difference between LGS and the rate PS,
5 the K through 12?

6 A. Yes, sir.

7 Q. Were you here yesterday for Witness Higgins?

8 A. Yes.

9 Q. Did you read his testimony as well?

10 A. The -- excuse me. The latest? The
11 December --12 Q. Well, you were here and you heard him testify
13 yesterday?

14 A. Yes.

15 Q. Okay. Would you agree with me that Witness
16 Higgins testified that he didn't want to -- or he
17 didn't recommend anything happening with respect to
18 the \$500,000 difference? In other words, that it
19 remain intact?

20 A. That's my recollection, yes.

21 MR. MALONE: Okay. Thank you. No further
22 questions.

23 MS. VINSEL: One moment, sir.

24 THE WITNESS: Oh, and, sir, Mr. Cook, your
25 one question about the transmission agreement, it

1 was provided in response to KIUC 1-18.

2 MR. COOK: 1-18?

3 THE WITNESS: Yes.

4 MR. COOK: Thank you, sir.

5 THE WITNESS: You're very welcome.

6 MR. COOK: One less post-hearing data
7 request.

8 THE WITNESS: One less. One less, yes.

9 CHAIRMAN SCHMITT: Ready?

10 MS. VINSEL: We're ready.

11 CROSS-EXAMINATION

12 By Ms. Vinsel:

13 Q. Good afternoon, Mr. Vaughan.

14 A. Good afternoon.

15 Q. Can I have -- refer you back to -- I'm sorry,
16 I'm not sure. This was one of the Attorney
17 General's exhibits. It's from the last filing in
18 2014-396 filed by Amy Elliott in regards to the WACC
19 for Tariff BSRR.

20 A. Okay.

21 Q. Thank you. 2017 BSRR annual report.

22 A. The KPSC 1-02?

23 Q. Yes.

24 A. Got it.

25 Q. Let me have you go to the last sentence in

1 the second paragraph. That reads, (Reading) The
2 October 2018 modified BSRR adjustment rate will
3 reflect, as of the effective date of the rates
4 approved by the Commission's final order in Case
5 Number 2017-179, any changes to the Company's WACC
6 as a result of the Commission's final order in that
7 case.

8 If you were to remove the words "as of the
9 effective date of the rates approved by the
10 Commission's final order in Case Number 2017-179,"
11 how does that change the meaning of that sentence?

12 A. Which word would you like me to remove? I'm
13 sorry.

14 Q. One moment. One moment.

15 A. Okay.

16 Q. Okay. Mr. Vaughan, I think -- I think I can
17 rephrase this.

18 A. Okay.

19 Q. The October 2018 modified BSRR adjustment
20 rate will reflect any changes to the Company's WACC
21 as a result of the final order in this case,
22 correct?

23 A. The rate or the regulatory asset?

24 Q. Adjustment rate.

25 A. The adjustment rate?

1 Q. Yes.

2 A. Okay. So is that a question or a statement?

3 Q. Yes, is that -- would you say that's correct?

4 A. I'm not certain. I think my --

5 Q. Okay.

6 A. My -- whatever we said here is what we'll go
7 with, but I thought we were going to just adjust --
8 adjust the amount of carrying charges we were
9 recording on the reg asset when we received an order
10 in this case with a new WACC. I thought we would
11 leave the rate the same until this -- the file --
12 our normal filing update.

13 Obviously we can change the rate according to
14 this case. The result of that would be that you
15 would -- you would accrue more carrying charges than
16 you would otherwise, because if you low -- if you
17 keep the rate the same and you were to lower the
18 amount of carrying charges to the new WACC that are
19 being recorded on the reg asset, you would pay off
20 more principal balance over the next eight months
21 until we updated the rate.

22 We can do either. There is no over/under on
23 this thing, there's just an under. We're paying
24 into that reg asset of the retirement over the 25
25 years, and we just re-levelize that every year in

1 our -- in our update. So we can do either. Okay.

2 Q. I think we're set.

3 A. Okay.

4 Q. Thank you. I've got something a little more
5 straightforward now.

6 A. Okay.

7 Q. I've got -- as a post-hearing data request --

8 A. Yes.

9 Q. -- can you provide a copy of what I'm going
10 to call the revised Exhibit AEV-3S in an Excel
11 format --

12 A. Yes. Yes, ma'am.

13 Q. -- with the formulas intact?

14 A. Absolutely. Yeah. And was I clear enough on
15 what changed in that?

16 Q. Yes, I believe so.

17 A. Okay. Okay. Because it was basically that
18 commercial weather adjustment, and it just didn't
19 get flowed through to the revenue proof tabs on the
20 current -- because it changed current revenues.

21 Q. Yes.

22 A. Okay.

23 Q. No. I double-checked with my coworkers, and
24 yes.

25 A. Okay. Good. Good.

1 Q. And if you'd give me one second, I think I'm
2 a little bit out of order here.

3 Can I go back to Tariff NUG, non-utility
4 generator?

5 A. Yes.

6 Q. One of the questions that Mr. Wohnhas passed
7 on to you is the question about the rate for the
8 start-up and station power.

9 A. Yes.

10 Q. So -- and the tariff rate is the FERC-
11 approved OA -- no?

12 A. No. No, ma'am.

13 Q. Okay. Tell me.

14 A. So -- okay. So the -- and again, I think
15 Riverside has taken some contention with how I've
16 characterized this, but -- so our one customer,
17 Riverside Generating, they are on IGS rates. To me
18 they are an IGS customer. They are there pursuant
19 to Tariff NUG.

20 Q. Okay.

21 A. Okay? So what Tariff NUG does -- and it's
22 been this way prior to myself working on Kentucky
23 Power regulatory matters. I don't know the exact
24 date of when this came about. But it gives
25 non-utility generators the opportunity, if they meet

1 the right conditions, to bypass the rates set by
2 this Commission and go straight to wholesale level,
3 net meter their load in PJM, and avoid all the
4 retail charges. So what they're currently paying
5 under IGS will get put back on to other ratepayers.

6 Our contention is they do not meet that
7 clause. And I don't know why the clause is there.
8 The clause could be taken out by this Commission.
9 That's -- it's their tariff, they can do what they
10 want with it.

11 But that is where the OATT language comes in.
12 It would be under PJM's OATT they would pay
13 wholesale energy prices and just bypass the retail
14 regime here.

15 It's our contention that they don't qualify
16 for that. I think we'll be talking about it more
17 here in another proceeding, but to me they are IGS
18 customers.

19 Q. Okay. And I do recall in Kentucky Power's
20 reply to Riverside's motion to intervene that's what
21 was said was that they are actually on Tariff IGS.

22 A. Yes. Those are the rates they're paying
23 currently, yes.

24 Q. I've got two items that I need some help
25 passing out. My coworkers, I'm sure, will assist

1 me.

2 MR. COOK: Mr. Chairman, if I could, while
3 they're passing these out, I'd like to move to admit
4 under the AG's tabs 5 and 6 for this witness, those
5 two items, if there's no objection.

6 MR. GISH: There's no objection from Kentucky
7 Power.

8 CHAIRMAN SCHMITT: Okay. Let them be
9 admitted as Exhibits 5 and 6.

10 MR. COOK: And then -- actually I think tab 5
11 would be Exhibit 12.

12 MS. HUGHES: 12.

13 CHAIRMAN SCHMITT: 12?

14 MS. HUGHES: 12 and 13.

15 CHAIRMAN SCHMITT: 12 and 13.

16 MR. COOK: Thank you.

17 (AG Exhibits 12 and 13 admitted.)

18 Q. And what Mr. Raff is passing out are two
19 exhibits that you filed into this rate case, and I
20 will say one of these is mismarked as PSC Exhibit 7.
21 Because these are in the record, I'm not asking to
22 introduce them --

23 A. Okay.

24 Q. -- as an exhibit. Do you have -- do you have
25 a copy, Mr. Vaughan? I don't want to start talking

1 about them until you have a copy.

2 A. I do not.

3 Q. Okay. I'll wait.

4 MR. RAFF: If I can approach the witness,
5 Your Honor.

6 CHAIRMAN SCHMITT: You may.

7 THE WITNESS: Oh, thank you, sir. Thank you.

8 A. I now have a copy.

9 Q. Okay. I'm going to go ahead and start while
10 everybody else is getting their copy. This first
11 piece that's named -- the title on it is AEP
12 Allocation Process.

13 A. Yes.

14 Q. This is from Exhibit AEV-R1, page 21 of 32.
15 So this is just an excerpt. And I believe earlier
16 you referenced a handout that was provided from a
17 presentation given --

18 A. Yes.

19 Q. -- some time ago?

20 A. Yes.

21 Q. So this walks through the AEP allocation
22 process.

23 A. Yeah, it's a summary table of the AEP
24 transmission agreement, that cost allocation
25 schedule I was discussing earlier.

1 Q. And just for reference, the second larger
2 document is from your response to the Commission
3 Staff's second data request, item 74.

4 A. Yep.

5 Q. And this provides the test year PJM LSE OATT
6 charges and credits by month?

7 A. Yes.

8 Q. We're going to start with the AEP allocation
9 process.

10 A. Okay.

11 Q. And in your direct testimony you stated that
12 Kentucky Power is proposing to include an adjusted
13 test year level of the net OATT charges and credits,
14 correct?

15 A. That's correct. I adjusted up for the
16 currently approved FERC rates at the time, because
17 they had -- they had -- our test year went through
18 February.

19 Q. Uh-huh.

20 A. We had rates approved in January, new
21 transmission rates for the AEP zone in January, so I
22 adjusted this 70 million up to the -- what the new
23 rates were going to produce.

24 Q. Okay. I'm sorry, I need to take a minute.
25 Since you've just given me some information, I want

1 to make sure I don't ask the same --

2 A. Okay.

3 Q. -- same information. I think you did answer
4 this. I'm going to go ahead and ask it anyway. Was
5 the adjusted test year level of the net OATT charges
6 and credits proposed to be included in base rates
7 equal to the anticipated net amount of PJM
8 transmission revenues and credits to be allocated by
9 AEP to Kentucky Power?

10 A. Yes. Yes. We updated for the new zonal
11 transmission revenue requirements, the new 12 CPs
12 and the new NSPL that affects the allocation between
13 the AEP LSE and the munis and co-ops within the
14 zone.

15 So you take that total revenue requirement,
16 split it within the zone -- the zonal revenue
17 requirement, split it within the zone between the
18 AEP LSE, the non-AEP LSEs, and then you 12 CP it to
19 the AEP LSEs via this document right here.

20 Q. Okay.

21 A. So, yeah, I updated all of those inputs that
22 were known at the time and then took the delta
23 between that new number and this test year amount,
24 and that's in one of my -- one of the -- it's in one
25 of the work papers that's filed in the case, that

1 calculation is.

2 Q. Okay. Are all PJM transmission revenues and
3 expenses allocated by AEP to Kentucky Power, or are
4 there any PJM revenues or expenses directly paid to
5 or billed to Kentucky Power?

6 A. Nothing is simple. So all of these -- all of
7 these -- the transmission -- and when you say
8 "transmission," I'm going to qualify and say that --
9 I'm going to talk about the OATT.

10 Q. Okay.

11 A. Specifically the transmission -- transmission
12 costs of service items, not congestion and losses
13 and other things --

14 Q. Okay.

15 A. -- that we deal with in fuel or otherwise.
16 So those are billed to AEP, or to Kentucky Power.

17 Q. Uh-huh.

18 A. Kentucky Power gets a bill from PJM just like
19 all the other AEP LSEs. What's billed to them is
20 billed on -- is based on PJM's -- PJM's tariff,
21 which says, "I am going to bill you based on your
22 CP, your NSPL."

23 Q. Okay.

24 A. So we get that in. Each company gets a bill
25 from PJM with that amount. We then take that total

1 amount and we apply the FERC-approved transmission
2 agreement to it. That was that smoothing process I
3 talked about earlier where that one -- one peak
4 allocation gets put in an entire pot and then it
5 gets 12 CP back.

6 So the big -- the big difference there being
7 that if it's a winter peak that year versus summer
8 peak, you know, the amount of transmission costs
9 that can be allocated to you is -- could be
10 drastically different.

11 Q. Okay.

12 A. So, yeah, it comes in -- it comes in on the
13 PJM bill, then through the accounting process of the
14 transmission agreement, the amount that's recorded
15 on Kentucky Power's books is the 12 CP share of the
16 AEP LSE amount.

17 Q. Okay.

18 A. Which is what's reflected in this large sheet
19 here.

20 Q. All right. So there are no PJM revenue or
21 expenses that are not reallocated by AEP?

22 A. Relating to the LSE, no. The transmission
23 owner revenue requirements are directly assigned to
24 the transmission owners, like I discussed earlier.

25 Q. Yes.

1 A. So Kentucky Power submits \$50 million, they
2 get \$50 million directly assigned. There's no
3 allocation of that.

4 Q. And now referring to the test year PJM LSE
5 OATT charges and credits by month.

6 A. Okay.

7 Q. Does this schedule include all of the
8 transmission revenues and expenses allocated by AEP
9 to Kentucky Power?

10 A. Again, I believe if we're talking just the
11 LSE charges --

12 Q. LSE.

13 A. -- related to the transmission cost of
14 service --

15 Q. Yes.

16 A. -- I believe so. I don't -- I don't
17 qualify -- I don't count the administrative fees. I
18 don't -- those aren't in here. The, like -- again,
19 like generation -- congestion and loss type trans --
20 some people can refer to those as transmission
21 charges. I'm not referring to those. Just the LSE
22 OATT charges are in the schedule.

23 Q. Okay.

24 A. And it says -- and we refer to it sometimes
25 as a net credit because you have that 4561005

1 account there, the point-to-point credits.

2 Q. Uh-huh.

3 A. That's for when -- you know, the network
4 customers, our LSE, we pay the -- the network
5 customers pay the entire revenue requirement, then
6 as third parties use that on a spot basis throughout
7 the year, they pay a fee to PJM. That fee that they
8 collect from the third parties, the point-to-point,
9 the nonnetwork customers, that gets allocated back.
10 You know, because the network customers paid the
11 whole -- the whole revenue requirement, so then that
12 comes back as a revenue credit. So that's why
13 there's that net in there, and that's what that 1005
14 account is.

15 Q. Okay. And thank you for the explanation.
16 Can you walk briefly through each of these accounts
17 and give us a sense of what is in each account?

18 A. Okay. So the largest -- so your largest --
19 largest LSE costs are going to be your network
20 integration transmission service, NITS for short,
21 and your transmission enhancement costs. Those
22 are -- those are the larger projects. Transmission
23 enhancement are things that are identified by PJM in
24 that planning process, some of the -- some of which
25 get allocated. Some of that is project costs get

1 allocated to the AEP zone from outside. Some of
2 those get allocated -- are AEP projects that get
3 allocated to other zones as well.

4 But there's the revenue requirement, we file
5 them at FERC -- at PJM, is split between network --
6 network integration transmission service and
7 transmission enhancement, and that's why you see the
8 breakdown in the accounts here.

9 That first -- that first RTO, the 4561002,
10 the RTO formation cost recovery, that is just an
11 amortization of the initial RTO expense. I believe
12 when we were -- I cannot remember if that was when
13 we were forming our RTO. I guess when we joined
14 PJM. But that's part of the transmission agreement
15 there, so that's included.

16 Then you have the point-to-point transmission
17 service credit that I just talked about that varies
18 based on the third-party usage of the system.

19 Then you have -- the NITS expense gets broken
20 up. It's confusing the way we account for it.
21 There's affiliated and nonaffiliated accounts there.
22 So you have affiliated transmission NITS costs.
23 That's going to be your -- that's going to be your
24 operating company affiliates right there. That's
25 the costs coming from them.

1 Transmission, the trans TO cost, that's the
2 Schedule 1-A cost, if you're looking at the -- if
3 you're looking in the operating agreement, PJM OATT.
4 It's the -- essentially like the -- I think like
5 transmission-control-center-type stuff, the revenue
6 requirement related with that. That's the share of
7 that that's -- it's broken out separately. It's a
8 much lower -- as you can see, a much lower cost than
9 the NITS or transmission enhancement.

10 Then you have PJM -- affiliated PJM
11 transmission enhancement costs. Again, transmission
12 enhancement costs from affiliates.

13 And then you have other transmission
14 enhancement and NITS expense, whether it be from a
15 transmission company, an AEP transmission company or
16 a nonaffiliate. Like Buckeye Power in our zone
17 built some transmission, or PSEG built a backbone
18 line and it got allocated to our zone. That's where
19 those costs fall.

20 So the two largest, again, the big drivers
21 there being transmission enhancement and the NITS
22 charges.

23 Q. And this schedule does -- or does this
24 schedule reflect the adjusted test year amounts of
25 the OATT transmission charges and credits proposed

1 to be included in Kentucky Power's base rates?

2 A. It does not. I would point you to KIUC 1-67.
3 It had -- because I have that -- that's where I
4 identified an update, and it's included in there,
5 and that's the same change I made in my direct
6 testimony.

7 Q. Okay. If we assume a 9.75 ROE and a 9.11
8 WACC, can you tell us what the amount of Kentucky
9 Power's adjusted test year revenue requirement for
10 its transmission assets included in rate base will
11 be?

12 A. Ooh. That's a word problem.

13 Q. Would --

14 A. Let me specify that. So you're saying if we
15 assume -- if we assume this, the 9 -- the currently
16 filed WACC and the currently filed ROE --

17 Q. Yes.

18 A. -- what our transmission costs of service and
19 retail rates is?

20 Q. Yes.

21 A. I do not have that number available, but I
22 could -- I could produce it.

23 Q. I will put that in a post-hearing data
24 request then.

25 A. Okay. I had a feeling.

1 Q. Do you have a copy of the settlement
2 agreement?

3 A. I do.

4 Q. Can I have you turn to page 11, paragraph
5 8(c)?

6 A. Paragraph 11?

7 Q. I'm sorry. Page 11.

8 A. Page 11.

9 Q. Paragraph 8(c). And on page 11, it just
10 looks -- it just has the (c). It's at the top of
11 the page. There's (b), paragraph (b) and then
12 paragraph (c).

13 A. Yes, I'm there.

14 Q. Okay. Is the current federal income tax rate
15 an input into the calculation of Kentucky Power's
16 WACC and gross revenue conversion factor?

17 A. It's not included in the WACC. It's included
18 in the gross revenue conversion factor. So if
19 you're using a pretax WACC, then yes, it is included
20 in there, the 35 percent marginal rate, yes.

21 Q. And if the federal income tax is reduced,
22 would it be appropriate for the Commission to
23 revise -- and you said it was the -- in the gross
24 revenue conversion factor?

25 A. It's in the gross revenue conversion factor,

1 yes.

2 Q. So would it be appropriate for the Commission
3 to revise that if there is a reduction in the income
4 tax rate?

5 A. Not on a single-item basis, it would not.
6 You would have to take into effect what the other
7 tax implications are of that. So it would not be
8 appropriate to simply knock the GRCF down to a 20
9 percent marginal rate if there's some other -- some
10 other new tax expense we're going to incur because
11 we lost deductibility somewhere that would offset
12 that.

13 Q. So if there are multiple changes in the tax
14 code, then would you say it's correct for the
15 Commission to consider all of those changes?

16 A. Yes. As a whole, yeah, I think that would be
17 appropriate.

18 Q. Okay. We're going to look at both that
19 paragraph 8(c), but also, on page 9, paragraph 5(c).
20 And paragraph 5(c) is a reference to the rate case
21 stay out.

22 A. I'm there.

23 Q. Okay. So I'm going to have you flip back to
24 8(c).

25 A. Okay.

1 Q. And the sentence that says, (Reading) The
2 weighted average cost of capital and gross revenue
3 conversion factors shall remain constant until such
4 time as the Commission sets base rates in the
5 Company's next base rate case proceeding.

6 But that is not intended to limit the
7 Commission's authority under paragraph 5(c) on page
8 9?

9 A. I am not a lawyer, but my lay interpretation
10 of that is no, it's not meant to handcuff the
11 Commission and we reap some sort of tax benefit that
12 can't be flowed back to customers. That's not the
13 intention.

14 Q. Okay. Thank you. Going back to the tariff.
15 And do you pronounce it just Tariff NUG?

16 A. Sure.

17 Q. All right. That works for me.

18 A. Not many people look at it, so --

19 Q. What can I say?

20 A. However you want, yeah.

21 Q. And in your direct testimony you had
22 referenced that there were no customers on Tariff
23 NUG, correct?

24 A. That's correct.

25 Q. And can you explain the basis for that

1 statement?

2 A. I kind of did earlier. You know, to me
3 Riverside is an IGS customer. They are there based
4 on -- I guess they're there based on -- pursuant to
5 Tariff NUG, but if Tariff NUG wasn't there, they
6 would still be an IGS customer. That's -- there's
7 no rates in Tariff NUG is kind of my -- the way I
8 interpreted it.

9 Q. Okay.

10 A. Riverside did not appreciate that, I
11 understand. It was not a slight.

12 Q. And we just needed to make sure that we clear
13 it up --

14 A. Okay. Yeah.

15 Q. -- so that we don't leave it out there. And
16 without going too deep into the discussions, we know
17 that there were some discussions --

18 A. Absolutely.

19 Q. -- with Riverside --

20 A. Yes.

21 Q. -- to resolve certain objections. Can you
22 tell us the status of those discussions, if you can?

23 A. There was a somewhat angry letter filed in
24 this docket on the 7th or --

25 Q. December 6th?

1 A. Yeah. I think that's the current status of
2 those discussions right there. We sent them a
3 reply, and that's all we've -- that's all I've
4 personally heard is what's in that, that letter.

5 MS. VINSEL: And on -- and this one I want to
6 make sure that I'm not duplicating the Attorney
7 General's post-hearing data request, so if anyone
8 thinks I am, please speak up.

9 Q. On the first or second day --

10 A. Okay.

11 Q. -- of this hearing the Commission Staff
12 introduced Exhibit PSC 5, which was a news release
13 from AEP dated --

14 A. Okay.

15 Q. -- November 2016, which it referenced a
16 \$9 billion --

17 A. Yes.

18 Q. -- transmission investment over the next
19 three years.

20 A. Yes.

21 Q. And all of this is as a post-hearing data
22 request.

23 A. Okay.

24 Q. What we'd like to see is a list of the
25 proposed investments, the projects.

1 A. That make up the 9 billion?

2 Q. That make up the 9 billion. To have it
3 broken out between those that are in the AEP zone
4 and those that are outside the AEP zone, but also
5 further designated which of the projects are
6 baseline projects and which are supplemental.

7 A. Okay.

8 Q. Is that doable?

9 A. We'll do our best.

10 Q. Thank you. I appreciate it.

11 A. I believe you also asked for NITS expense
12 forecasts in that same conversation, and those are
13 also KIUC 1-67, our response to that already in this
14 case.

15 Q. Okay.

16 MR. COOK: And I don't believe there was
17 anything in an AG data request to that effect.

18 Q. Turning to aviation expense.

19 A. Okay.

20 Q. We -- of course, we know it was provided for
21 the test year.

22 A. It was.

23 Q. As a post-hearing data request, can we obtain
24 the total aviation expense and amount allocated to
25 Kentucky Power for the two years preceding the test

1 year?

2 A. I believe so.

3 Q. And also, do you -- is there a budget two
4 years out for that amount?

5 A. I do not know.

6 Q. If there is --

7 A. If there is.

8 Q. -- we would like to get that also.

9 A. Okay.

10 Q. And I have a similar request, post-hearing
11 data request for relocation expenses, getting the
12 expenses that were incurred two years preceding the
13 test year and, if budgeted out two years, budgeted
14 out.

15 Can you tell us what period was utilized as a
16 basis for the amount of the off-system sales margins
17 that were included in the test year?

18 A. The test year. The 12 months ended February
19 2017.

20 Q. And is it correct that Big Sandy Unit 1
21 operated only nine months of the test year?

22 A. That's fair. It came on in -- it came on in
23 May.

24 Q. And thus would be only -- Big Sandy Unit 1
25 only operated 70 months in the calendar year 2017?

1 A. Yeah. Seven months; that's correct.

2 Q. And were those off-system sales -- off-system
3 sales margins for Big Sandy Unit 1 annualized in the
4 test year?

5 A. No. There's not a lot of margin there.
6 That's a fairly high -- you know, higher cost unit.
7 It has a lower dispatch rate. It's more -- I'm not
8 going to call it a peaker even those Witness Osborne
9 has left, but it's -- you know, it's a -- it's a
10 gas-fired coal plant. It doesn't -- it doesn't
11 shoot up and down like a CT would to respond to
12 prices, so there has to be a little more lead time
13 and a little more sustained market price to turn
14 that thing on.

15 And I'm not certain, but it has a fairly --
16 it's a capacity resource. It has a fairly low
17 utilization rate. I don't know what the -- you
18 know, what its capacity factor has been since it's
19 come up. It's all dependent upon LMPs in the -- you
20 know, in the footprint, which have been very low due
21 to the very low gas prices.

22 So the gas price -- the low gas prices help
23 the economics of the plant and at the same time harm
24 it, because there's a marginal -- you know, it
25 has -- it's there to meet marginal load.

1 I do not think it would have materially
2 changed the base credit. To the extent that it does
3 change that, that will be picked up in the deferral
4 for the system sales clause, if it produces some
5 more amount of margin than what's in the test year,
6 the base credit.

7 Q. And Kentucky Power recorded a gain on the
8 sale of its property from selling land in Lewis
9 County, Kentucky, correct?

10 A. Is that the Carrs site?

11 Q. Yes, the Carrs site.

12 A. Yes, that was -- that was in the test year.

13 Q. And can you explain what Kentucky Power did
14 with the proceeds of the gain?

15 A. I believe we removed it from the cost of
16 service, because we have been removing the Carrs
17 site expenses. I believe the gain followed the --
18 you know, it's not in -- the property hasn't been
19 rebased. We -- the property taxes have been removed
20 from the cost of service over the years, and it
21 was -- you know, I think the gain followed where the
22 costs have been.

23 Q. Okay. Okay. We -- I'm going to defer this
24 one for a few minutes.

25 A. Okay.

1 Q. We talked earlier about the new Tariff GS.

2 A. Yes.

3 Q. How did -- we have a larger question of how
4 Kentucky Power arrived at the 400 -- excuse me,
5 4,450 kilowatt hours --

6 A. Yeah.

7 Q. -- as a threshold to have a demand charge for
8 proposed GS tariff.

9 A. Yes.

10 Q. And in your testimony you referenced the load
11 factor --

12 A. Yes.

13 Q. -- for SGS. What was that load factor?

14 A. It's 40 some percent. I don't -- offhand,
15 whatever times 10 kW equals the 4,450 at the -- it
16 would be in the load research work papers that have
17 been included in the record.

18 Q. Okay.

19 A. We can point it out specifically if you need
20 us to in a post-hearing data request. Okay. Yeah.
21 And the intention behind that was that you would
22 capture -- you would capture basically all of the
23 test year SGS billing units in the new -- the first
24 block of the new GS rate, which is the average rate
25 of the SGS class, right, because you took -- SGS was

1 a blocked kilowatt-hour rate and MGS was a blocked
2 hours-use rate, and we put them together to avoid
3 these seams issues, you know, at the -- and again,
4 this was -- this was -- Mr. Satterwhite talked a lot
5 about listening to our customers and listening to
6 our employees that deal with the customers, and this
7 came from our customer service reps telling us that
8 they have headaches with these smaller general
9 service accounts that go back and forth and it leads
10 to -- it leads to confusion and it leads to bill --
11 bill volatility, where you're on a kilowatt-hour
12 rate one month, then you get hit with a demand
13 charge one month, you know, for 12 months, then you
14 go back to a kilowatt hour, and so this was a way to
15 deal with that, that seams issue.

16 But that's the thought in that, the way that
17 tariff is designed, that if you were an SGS customer
18 during the test year, you should essentially be
19 paying the average SGS kilowatt-hour rate from the
20 test year in that first block, and then if you grow,
21 if you transition off, there's that break point, we
22 will put a demand meter on you, if you don't already
23 have one, then you'll migrate through the MGS
24 tariff, essentially, the old MGS tariff. That's how
25 the GS was put together.

1 Q. The demand rate --

2 A. Yes.

3 Q. -- under GS, and it increased from \$1.91
4 under Tariff MGS --

5 A. Yes.

6 Q. -- to the 7.97, \$7.97 --

7 A. Correct.

8 Q. -- under Tariff GS --

9 A. Yes.

10 Q. -- can you explain the basis of the four --

11 A. Yeah. So --

12 Q. -- of the size of the increase?

13 A. So what happens, it's twofold. We rolled in
14 the demand charge from the Big Sandy Operations
15 Rider that -- you got some demand charge there that
16 got rolled in, and you have less billing units,
17 because we made the first 10 -- the first 10, to
18 transition -- to make that transition through that
19 rate more stable for smaller customers that are on
20 that seam, the first 10 kW of billing demand aren't
21 billed.

22 Q. Uh-huh.

23 A. So when you -- essentially you cut the
24 denominator down in the rate-setting equation. So
25 if you put those -- if you put those billing units

1 back in, the demand charge would be much lower than
2 the seven, so --

3 Q. Okay. Okay.

4 A. So, you know, you're -- you used to be at
5 20 -- you used to be billed on 20 kW as an MGS
6 customer, now you're being billed on 10 under the
7 new GS rate. Those first 10 have no demand charge.
8 So it's just a -- you know, it's just math.

9 Q. And I'm going to try to make this as seamless
10 as possible.

11 A. Okay.

12 Q. And you may have read one of the public
13 comments received on November 20th, 2017, in this
14 case from a minister from a Presbyterian church.

15 A. I have read that one.

16 Q. And that raised the question about the
17 customers that are high demand but low usage.

18 A. Very low load factor, yes.

19 Q. Load factor.

20 A. Yes.

21 Q. Did Kentucky Power calculate how the Tariff
22 GS would affect that type of customer?

23 A. I actually calculated how it would affect
24 that particular customer seeing that complaint. I
25 do not get a 71 percent bill impact that is in

1 there. I cannot speak to their consultant or
2 whoever calculated that. I got 26 -- or 26 percent
3 under our original filed case and 23 percent,
4 roughly, under the settlement.

5 But, yes, they -- that was a very peaky, very
6 low load factor customer. That's the kind of --
7 kind of customer you would hope if they -- you know,
8 if they have a complaint, they talk to our customer
9 service folks, that we would meet with them and give
10 them some ideas for managing that peak.

11 Like I don't know why they go from -- from 4
12 kW to 80 kW. I don't know what their facility is,
13 but that is -- that is definitely something we
14 should be -- we should be talking with those kinds
15 of customers if they have these issues.

16 Q. And I will also note that Staff -- Staff
17 looked at that letter and calculated a different
18 amount too, that there was --

19 A. You did not get 71 percent either?

20 Q. Well, there was --

21 A. Okay.

22 Q. -- a particular issue that the first 10
23 kilowatts should not be charged.

24 A. Super.

25 Q. Well, and speaking of that, so it sounds like

1 it's more a reactive situation, where these
2 customers that will be in that position have to
3 reach out to Kentucky Power. Has Kentucky Power
4 attempted to identify any of the customers that are
5 impacted that have that exact situation?

6 A. I myself have not. I can't say if the
7 customer service representatives have. And you're
8 always going to have outliers in rate design,
9 because rates are always done on an average for the
10 class. So the closer you are to the average, the
11 flatter your rate change is always going to be, the
12 closer you are to the class average, obviously.

13 So when you -- when you have extreme cases
14 like the car shredder that initially tried to --
15 tried to intervene in this case, or you have this
16 specific GS account that are on demand metered
17 tariffs of a certain size, or they should be on a
18 demand meter tariff because there are a certain
19 amount of facilities that need to be installed to
20 support those peak loads. But they use a lot of
21 peak demand, very little energy. There's always
22 going to be outliers. And maybe there's a good
23 reason for it, and maybe there's a way they can
24 shift usage and change how they're billed.

25 Q. And you probably -- I'm just going to ask

1 this anyway, but I don't think you can answer it.

2 A. Okay.

3 Q. Do you know if Kentucky Power would reach out
4 to this particular customer to discuss --

5 A. I'm --

6 Q. -- that concern and help them to figure out a
7 way they could manage?

8 A. I'm fairly certain we will reach out to them,
9 yes.

10 Q. Okay. And it's --

11 A. I'm getting nods to my left here.

12 Q. I was going to say, without having people who
13 are not on the stand answer the question --

14 A. Yes.

15 Q. -- it appears that --

16 A. Yes, we will reach out to this customer.

17 Q. Okay. Thank you. The -- what's called the
18 coal plus tariffs, I have a question about those.
19 The Tariff CS-Coal, CS-IRP --

20 A. Yes.

21 Q. -- and EDR.

22 A. Okay.

23 Q. And as I believe you probably know that when
24 the Commission approved those tariffs, it granted
25 Kentucky Power's request to defer any financial loss

1 from the tariff into the next rate case?

2 A. Yes.

3 Q. So our question is: Has there been any
4 financial losses incurred in connection with these
5 tariffs?

6 A. So we have -- we have three that are
7 approved, three approved contracts under those, and
8 they're all on the IRP version. So that is all --
9 that is where those customers have signed up to be
10 an interruptible load for the Company, and now
11 they're a capacity resource for us, so they are
12 included in our capacity plan at PJM and they're
13 being paid that demand credit per Tariff CS-IRP and
14 CS-Coal. You know, it's the same demand credit. So
15 that -- again, the way that is set up, those credits
16 then are recovered through Tariff PPA, the current
17 Tariff PPA and our proposed continuation of it. So,
18 no, there's no financial loss to the Company based
19 on these three contracts that are approved
20 currently.

21 Q. Thank you. Okay. Do you have this
22 gray-covered packet?

23 A. There are several books up here. Yes. Many
24 tabs?

25 Q. Yes.

1 A. Yes.

2 Q. Now, let me -- and again, this is -- these
3 are not exhibits. These are already in the case
4 record.

5 A. Okay.

6 Q. Can I have you turn to tab 2? And this is
7 your Exhibit AEV-4S filed with the settlement
8 agreement.

9 A. Okay.

10 Q. Okay. On -- yes, it's just that one page.
11 Can I have you refer to line 10?

12 A. Okay.

13 Q. And in the parentheses, the equation.

14 A. Yeah.

15 Q. Can you -- can you confirm that the equation
16 should read nine times 5.8742 and not four times
17 eight -- 5.7348?

18 A. That's correct. Confirmed.

19 Q. And can you refer to line 12?

20 A. Yes.

21 Q. And again confirm that the equation in the
22 parentheses should read 11 multiplied by 35 percent?

23 A. That's correct. Yes. This was obviously a
24 cut and paste underneath this in an incorrect
25 fashion.

1 Q. And then on line 14 with the gross-up factor,
2 can you confirm --

3 A. Yeah.

4 Q. -- that the equity gross-up factor in the
5 parentheses is not that equation?

6 A. That's correct.

7 Q. Okay.

8 A. It's wrong. Wrong reference.

9 MS. VINSEL: That's all our questions.

10 THE WITNESS: Wonderful.

11 CHAIRMAN SCHMITT: Commissioner Cicero,
12 questions.

13 VICE-CHAIRMAN CICERO: Just a couple.

14 EXAMINATION

15 By Vice-Chairman Cicero:

16 Q. Mr. Kurtz asked you a question in regard to
17 Virginia and West Virginia making an effort to
18 reduce subsidies that were paid by the industrial
19 companies or customers in order to stimulate
20 industrial activity in those areas, right?

21 A. Yes.

22 Q. And you said that it was a -- it was in an
23 effort to reduce their rates to make them more
24 competitive. Do you know where those rates fall
25 compared to Kentucky?

1 A. They're --

2 Q. I know you may not know this, but I'm just
3 curious --

4 A. Well, I do the rates in --

5 Q. -- you seem to know a lot, so --

6 A. I do the rates in both these states,
7 unfortunately. So the tariff rate is a little
8 higher than Kentucky Power's. Our West Virginia
9 industrial tariff rate, we have two. I believe
10 they're both, depending on load factor, are going to
11 be just a little higher than Kentucky Power's
12 current rates, or even the rates out of the
13 settlement. However, the largest industrial
14 customers in West Virginia -- West Virginia does
15 more special contracts for its larger ones, so
16 there's -- a large chunk of the industrial load is
17 not on tariff, they're on discounted --

18 Q. Discounted contract?

19 A. -- other special contract rates, which I
20 can't really talk about.

21 Q. Oh, that's okay.

22 A. Okay.

23 Q. I was just curious where Kentucky fell. My
24 understanding is Kentucky's rates are about seventh
25 in the country? Not Kentucky Power --

1 A. Depending on what source you look --

2 Q. -- the average of Kentucky electric rates.

3 A. We have fairly competitive industrial rates;
4 yes, sir.

5 Q. So are you the gentleman that can answer
6 questions about allocations, or have we gone kind of
7 through that?

8 A. Yeah. Yeah. Which kinds?

9 Q. Well, for example, I'm looking at how
10 allocations are made from AEP down to Kentucky
11 Power, and --

12 A. Oh, boy.

13 Q. -- picking one would be executive
14 compensation, for example, at AEP. There's a total
15 of \$26.8 million that has to be allocated somewhere.

16 A. Yes.

17 Q. So what is the piece that Kentucky Power
18 receives of that \$26.8 million and how is it
19 determined?

20 A. So I can't tell you the dollar amount of that
21 or what period that's from, but the way it happens
22 is, the executive Service Corp -- so all Service
23 Corp expenses are allocated to the operating
24 companies via the cost -- Service Company Cost
25 Allocation Manual, and there is a litany of

1 allocation factors and methods in there. Things get
2 allocated on company revenues, capacity, like --

3 Q. Number of employees?

4 A. No. Yeah. Right. You're going to -- you're
5 going to allocate the --

6 Q. There's all kinds of --

7 A. Yeah.

8 Q. -- methods. I saw --

9 A. There's a lot of them. Absolutely.

10 Q. -- GNB or VNW, whatever they are --

11 A. So there's a --- there's a monthly service
12 company bill, runs through accounting, you know, so
13 that is going to be allocated down to Kentucky
14 Power, it's going to end up on their income
15 statement, and Kentucky Power -- so like in this
16 rate case, the way it gets to our retail ratepayers
17 is you have the test year amounts as allocated down
18 from the service company to the operating companies,
19 then that amount winds up in our test year. It's
20 either -- some amount is either -- is included,
21 whether it's adjusted or removed, there's an amount
22 of the test year expenses, then it's allocated to
23 Kentucky retail from Kentucky's financial
24 statements.

25 And we do not have a large nonjurisdictional

1 jurisdiction here when we're doing our cost study,
2 it's just our two wholesale customers, Olive Hill
3 and Vanceburg, so Kentucky retail ends up being
4 roughly 98 and a half percent of total books. So
5 you get the costs from service company to our books,
6 allocate it to Kentucky retail.

7 Q. It's whatever the piece is for Kentucky
8 Power, 98 point whatever percent you just mentioned?

9 A. 98 and a half generally, yeah.

10 Q. 98 and a half. So that piece is what's
11 allocated out to the customers, but --

12 A. Yes.

13 Q. -- I'm interested in the percentage that is
14 umbrellaed down to all the subsidiaries, to find out
15 what the piece is that comes from AEP to Kentucky
16 Power. And I know there are several different
17 allocation methods. You've already described those.

18 A. Yeah. Are you looking for like the test year
19 Service Corp bill amounts?

20 Q. Well, I have -- it's the test year. That was
21 the \$26.8 million --

22 A. Okay.

23 Q. -- was the total compensation. And what I'm
24 trying to do, and it's not -- I am just using this
25 as an example. I know we already have a

1 post-hearing data request --

2 A. Okay.

3 Q. -- that takes the allocated amounts and
4 shows --

5 A. Oh, yes.

6 Q. -- the specific calculations. I didn't know
7 whether you were familiar with, for example, a --
8 and if you can take any piece and give it to me, I'd
9 be happy with that as part of the hearing, but if
10 not, that's fine, I'll wait till I receive it in the
11 post-hearing --

12 A. Yeah. I'm more familiar with the process and
13 how, you know, there's -- there's the allocation
14 process and the monthly accounting that ends up on
15 Kentucky's books, and I'm more familiar with how I'm
16 taking -- we're taking those financial statement
17 amounts and determining whether they're retail
18 jurisdictional applicable or not and how it gets
19 allocated.

20 Q. Well, I think we did a wonderful job of
21 leaving you till last, because you seem to know what
22 you're talking about, and I'm surprised your title
23 is only manager.

24 A. Thank you.

25 Q. So that's the compliment.

1 A. I believe my boss is listening, so, Dave,
2 yeah.

3 Q. I wanted to make sure I mentioned that where
4 he could hear it. Okay?

5 A. Thank you, sir.

6 VICE-CHAIRMAN CICERO: I don't have any other
7 questions.

8 CHAIRMAN SCHMITT: Commissioner Mathews.

9 COMMISSIONER MATHEWS: It's amazing how many
10 of my questions have disappeared in the last hour.

11 EXAMINATION

12 By Commissioner Mathews:

13 Q. I just have one question, and I need to
14 understand this, the network integration
15 transmission service.

16 A. Yes.

17 Q. There's a statement in the presentation that
18 was attached to your testimony that six percent of
19 NITS costs are associated with its facilities and
20 six percent associated with APCO costs. Explain
21 that to me.

22 A. Let me grab --

23 Q. Let me find what page that is. If you -- you
24 seem to know your exhibits better than we do and
25 we're looking at them.

1 A. Is it -- is it this one with the box that has
2 the six percent?

3 Q. I think it's actually the description. It's
4 on page 16 of 32 --

5 A. Okay.

6 Q. -- of Exhibit AEV-R1.

7 A. Oh, yeah. So that -- that's just saying
8 that -- so under the cost allocation in the zone, so
9 if we billed -- that statement is basically saying
10 that if -- let's take the Hazard-Wooton line, for
11 example. You know, Kentucky Power is going to build
12 that -- if it's approved, Kentucky Power will build
13 that. There will be a revenue requirement
14 associated with that, and it will get -- some
15 portion -- it's going to go to PJM, it's going to
16 come back to the zone. The zone -- zonal amount,
17 because there's that piece that gets allocated to
18 the non-AEP LSEs within our zone. The AEP LSE
19 amount. Of that amount, Kentucky Power is going to
20 pay the roughly six percent of that, their 12-CP
21 share.

22 Q. Right.

23 A. And the same is true --

24 Q. The six percent we've used for everything
25 else?

1 A. Yes. Yes.

2 Q. Okay.

3 A. And the same -- the same is true, then, for
4 an APCO line, you know, where -- again, same deal,
5 APCO builds a line in the zone, it goes to PJM, the
6 LSE, you know, and it comes back to our transmission
7 zone. The AEP LSE chunk of that we're going to
8 get --

9 Q. It could have been anything -- anyone other
10 than APCO and it would have still been true?

11 A. Anything within our transmission zone, yes.
12 Yeah.

13 Q. Okay. And that was what had me confused is
14 that --

15 A. Yeah, it's just -- it's because we're
16 operating as a zone.

17 Q. Do you participate in the stakeholder process
18 at PJM?

19 A. I do not. We have -- we have experts that
20 sit right next to me, actually, that do participate
21 in it.

22 Q. Well, I feel sorry for them.

23 A. Yeah. They travel to Philadelphia a lot,
24 yes. No, I'm more focused on retail matters, but we
25 do employ people that advocate and participate in

1 that stakeholder process, both from the -- you know,
2 just from the overarching as a load-serving entity
3 and as a generator, and then specifically as a
4 transmission entity. So we participate in all
5 those.

6 Q. So do you participate in three of the groups,
7 the generation owners, the LSE, and the
8 transmission?

9 A. We are all of those things, yes.

10 Q. On behalf of --

11 A. All the AEP operating companies.

12 Q. -- all the AEP --

13 A. Yes.

14 Q. -- operating companies?

15 A. Yes.

16 Q. Even though not all of the AEP operating
17 companies are transmission owners or generation
18 owners anymore?

19 A. Yeah. Ohio Power would be the one that's not
20 a generation owner anymore, but everyone owns
21 transmission still. Oh, I guess Kingsport Power
22 doesn't own generation either.

23 COMMISSIONER MATHEWS: Okay. I have no
24 further questions.

25 CHAIRMAN SCHMITT: Redirect.

1 MR. GISH: I have -- excuse me -- just one
2 clarification.

3 REDIRECT EXAMINATION

4 By Mr. Gish:

5 Q. Earlier in the testimony you talked about the
6 Settlement Exhibit 80 -- Settlement Exhibit 1, which
7 was also attached as AEV-1S to your testimony.

8 A. Yes.

9 Q. And both you and Mr. Satterwhite talked about
10 the split-out of the -- the percent revenue increase
11 for the LGS customers as their own -- as their own
12 and the public schools customer, the schools
13 customers on their own.

14 A. Yeah, unaggregating that.

15 Q. Unaggregating that LGS/PS class. Do you have
16 a document that demonstrates that?

17 A. I do. I have 20 copies of it.

18 Q. And can you explain for the Commission where
19 you got the information to do this disaggregation of
20 the --

21 A. Yes.

22 Q. -- LGS and public schools --

23 A. Yeah, it came from --

24 Q. -- class?

25 A. It comes directly from AEV-3S, the proof of

1 revenue. You're just -- you're just adding up the
2 proposed revenues from that schedule, because it is
3 breaking down -- AEV-3S is broken into the various
4 rate schedules, so you have a PS secondary, a PS
5 primary, an LGS primary, secondary. So it's all in
6 there.

7 Q. And once this document has a chance to be
8 circulated, I would like to move for it to be
9 admitted to the record. But I'll give people a
10 chance to look at that. And I have another question
11 for you.

12 A. Okay.

13 Q. Ms. Vinsel asked you a question about the
14 status of the dispute with Riverside regarding the
15 applicability of Tariff NUG.

16 A. Yes.

17 Q. And you mentioned that there had been a reply
18 to Riverside's letter. You were referring to an
19 earlier letter of Riverside, not the comment letter
20 that was --

21 A. Yes, sir. Yes.

22 Q. -- published in the case?

23 A. Yeah, we had -- back when Riverside was
24 petitioning to be included in the rate case, they
25 had sent us a letter, we were -- through our

1 customer service representative, and we had replied
2 to that. We have not replied to the most recent
3 letter that was filed in the docket here.

4 MR. GISH: I'd like to move to admit this
5 exhibit as --

6 CHAIRMAN SCHMITT: Is this the same exhibit
7 that Mr. Kurtz --

8 MR. GISH: It is not, Your Honor. This
9 exhibit has the -- at the very bottom, the split-out
10 of the --

11 CHAIRMAN SCHMITT: Okay.

12 MR. GISH: -- LGS customers and the schools
13 customers within the LGS/PS class.

14 CHAIRMAN SCHMITT: Is there any objection?

15 MR. KURTZ: No, it's exactly the same except
16 for the bottom.

17 CHAIRMAN SCHMITT: Except for the bottom.
18 Let it be filed as Kentucky Power --

19 MS. HUGHES: 13.

20 MR. GISH: I think it's 13.

21 CHAIRMAN SCHMITT: -- Exhibit -- which?

22 MS. HUGHES: 13.

23 MR. GISH: 13.

24 CHAIRMAN SCHMITT: 13. Okay.

25 (KPCO Exhibit 13 admitted.)

1 MR. GISH: And I have no further questions,
2 Mr. Chairman.

3 CHAIRMAN SCHMITT: Okay. Mr. Kurtz, any
4 questions?

5 MR. KURTZ: No.

6 CHAIRMAN SCHMITT: Any --

7 MR. KURTZ: What time are we leaving?

8 CHAIRMAN SCHMITT: Any of the other settling
9 intervenors, any further questions of Mr. Vaughan?
10 If not, Mr. Osterloh.

11 MR. OSTERLOH: I believe I have a few more,
12 but I'll keep them brief.

13 RE CROSS-EXAMINATION

14 By Mr. Osterloh:

15 Q. Mr. Vaughan, just on the document that was --

16 A. Yes.

17 Q. -- handed out, so that I understand it, on --
18 let me step back. We've discussed how the
19 settlement proposes rates for Tariff K Through 12
20 that would be \$5,000 less than that -- than what
21 would otherwise be designed --

22 A. 500,000, yes.

23 Q. Sorry.

24 A. All right.

25 Q. Thank you. Than if it were consolidated with

1 LGS, correct?

2 A. They are consolidated -- if they were on the
3 LGS rate, yes.

4 Q. Right. So in -- on the bottom of the
5 document that was just handed out --

6 A. Yes.

7 Q. -- there in the left column where it shows
8 approximately \$2.7 million in settlement base rate
9 increase for LGS --

10 A. Yes.

11 Q. -- and approximately \$800,000 for the PS
12 class, if we were to eliminate that \$500,000 amount,
13 the result of that would be LGS would come down to
14 approximately 2.2 million and the PS would go up to
15 approximately 1.3 million, correct?

16 A. Yeah. You would drive the LGS rate down --
17 the impact down to about 4.6 percent, and you would
18 drive the public -- the K through 12 over seven.

19 Q. And that would result in what you-all -- the
20 Company -- it would be consistent with what the
21 Company had in its cost-of-service study?

22 A. I don't know if I can make that statement,
23 because this is -- this is -- this isn't consistent
24 with what would be in the cost of service. This is
25 part of a settlement package altogether. But it

1 would be somewhat consistent with my initial
2 proposal, which obviously included a much higher
3 rate increase than what was provided for in the
4 settlement with all of its other terms.

5 Q. Okay. And then earlier, in response to
6 Vice-Chairman Cicero's statement that Kentucky has
7 approximately -- or ranks approximately seventh
8 lowest for industrial rates, would you be surprised
9 to know that rates for commercial customers in
10 Kentucky aren't nearly as favorable and Kentucky
11 ranks approximately 20th for commercial customers?

12 A. I can't confirm that. I don't know, though.

13 MR. OSTERLOH: Okay. Thank you. No further
14 questions.

15 CHAIRMAN SCHMITT: Mr. Cook.

16 MR. COOK: Your Honor, we have no further
17 questions.

18 CHAIRMAN SCHMITT: Staff.

19 MS. VINSEL: Staff has no further questions.

20 CHAIRMAN SCHMITT: Commissioner Cicero.

21 VICE-CHAIRMAN CICERO: No further questions.

22 CHAIRMAN SCHMITT: May Mr. Vaughan be finally
23 excused?

24 MR. GISH: Yes, please.

25 CHAIRMAN SCHMITT: You may step down.

1 MR. VAUGHAN: Thank you.

2 CHAIRMAN SCHMITT: Do you have another
3 witness?

4 MR. OVERSTREET: We don't, Your Honor, but I
5 wanted to note that I think at the lunch break you
6 had asked for us to provide to you the -- sort of a
7 listing of the types of customers that were taking
8 at the 100 to 125 kW level. Would this be an
9 appropriate time to give you that?

10 CHAIRMAN SCHMITT: Yes, it would.

11 MR. OVERSTREET: Okay. There are
12 approximately 140 of those customers, and
13 interestingly enough, Mr. Vaughan gave a listing,
14 and -- of those types of customers across the
15 entire --

16 MR. GISH: Spectrum.

17 MR. OVERSTREET: -- spectrum, and at the 100
18 to 125 kW level they're the same. There are --
19 there are some board of education buildings. There
20 are some gas marts. There's a shoe -- at least one
21 shoe store. There is a medical-type center. There
22 are some school accounts. Those would be -- there
23 are some cities. There are some restaurants,
24 furniture stores, churches, and car stores.

25 CHAIRMAN SCHMITT: Thank you. Thank you.

1 MR. OVERSTREET: Okay.

2 CHAIRMAN SCHMITT: Okay. Mr. Cook.

3 MR. COOK: I just wanted to mention that the
4 Attorney General does have Roger McCann here.

5 CHAIRMAN SCHMITT: Why don't we go ahead,
6 then, and put Mr. McCann on, and then Mr. Willhite
7 has been here religiously for the entire time.
8 Unfortunately, I guess he'll be the last witness,
9 but -- unfortunate for you, Mr. Willhite, had to
10 stay here the entire time.

11 Okay. Would you raise your right hand,
12 please? Do you solemnly swear or affirm, under
13 penalty of perjury, that the testimony you are about
14 to give will be the truth, the whole truth, and
15 nothing but the truth?

16 MR. MCCANN: I do, yes, sir.

17 CHAIRMAN SCHMITT: Please be seated.

18 And, Counsel, you may ask.

19 ROGER MCCANN, called by the Attorney General,
20 having been first duly sworn, testified as follows:

21 DIRECT EXAMINATION

22 By Mr. Chandler:

23 Q. Can you please state your name for the
24 record?

25 A. Roger McCann.

1 Q. And with who are you employed and what is
2 your position there?

3 A. I'm employed with Community Action Kentucky.
4 I am the executive director.

5 Q. Are you the same Roger McCann who caused to
6 be filed prefiled direct testimony and certain data
7 requests in this matter?

8 A. Yes, I am.

9 Q. Do you have any additions or corrections to
10 make to your testimony?

11 A. None that I know of.

12 Q. And if we were to ask you today the same
13 questions, would your responses be the same?

14 A. To my knowledge, yes.

15 MR. CHANDLER: The witness is available for
16 cross.

17 CHAIRMAN SCHMITT: Okay. Thank you.
18 Counsel, any questions?

19 MR. OVERSTREET: We have no questions, Your
20 Honor.

21 MR. KURTZ: No questions.

22 CHAIRMAN SCHMITT: No questions?
23 Counsel for any of the settling intervenors,
24 any questions of Mr. McCann?

25 MR. MALONE: No questions.

1 CHAIRMAN SCHMITT: Okay. Mr. Osterloh,
2 questions.

3 MR. OSTERLOH: No questions.

4 CHAIRMAN SCHMITT: Staff.

5 MS. VINSEL: No questions.

6 CHAIRMAN SCHMITT: Commissioner Cicero.

7 VICE-CHAIRMAN CICERO: No questions.

8 CHAIRMAN SCHMITT: Well, I have -- oh, go
9 ahead. Commissioner Mathews.

10 COMMISSIONER MATHEWS: I don't have any.

11 EXAMINATION

12 By Chairman Schmitt:

13 Q. Mr. McCann, I know you prefiled testimony,
14 and, in fact, your organization attempted to
15 intervene in this case but was denied because of an
16 untimely filing; is that correct?

17 A. That is correct, sir.

18 Q. Can you tell us the present state of the HEA
19 fund or the HEAP program?

20 A. Yes, sir. The HEAP program is one by which
21 on an annual basis Kentucky Power assigns slots to
22 counties. So a slot is a -- is an opportunity for
23 enrollment, for a household to enroll in their HEA
24 program.

25 And then what happens is, is that typically

1 during the LIHEAP program process, households
2 will -- we will ask households if they would be able
3 to -- or would like to apply to that program as
4 well, and so we'll take their application.

5 What happens is, and I can go into further
6 detail, but there's a data passthrough back and
7 forth, and there is an eligibility determination of
8 that. And if they're eligible, they -- and the slot
9 is available, that household will be placed in that
10 slot. And so what happens then is that household
11 begins receiving a credit on their bill.

12 Now, Kentucky Power handles that credit.
13 That is either \$65 or \$33, depending upon the type
14 of customer that they are. And that is handled
15 through -- I believe it's four months during the
16 winter, December, January, February, March, and
17 three months, to my recollection it's August,
18 September, October, I believe. And it may be in my
19 notes. I may be incorrect about that.

20 And so it basically helps subsidize that
21 household's electricity for those months. All
22 right.

23 Q. Well, how are the -- how are the slots
24 allocated? Is it based upon available money, or how
25 does that -- how does that work?

1 A. The slots are allocated by the power company
2 and are provided to us, and then we distribute those
3 slots to those community action agencies that are
4 operating the program. So there's a chart of last
5 year's slots in here. And you would know I was well
6 rehearsed --

7 Q. Is that page 15?

8 A. -- on finding -- on page 15, figure 7 shows
9 last year's slots. So there were AEP nonheating,
10 the allocated slots. So that was the number of
11 slots per county, for a total of, by my calculation,
12 336 allocated slots for the nonheating customer.

13 MR. CHANDLER: Your Honor, may I -- are you
14 referring to your testimony?

15 THE WITNESS: Yes, sir.

16 MR. CHANDLER: May I -- would you like a copy
17 of his testimony?

18 CHAIRMAN SCHMITT: I have it in front of me.

19 MR. CHANDLER: Okay. Thank you.

20 A. And 972 allocated for the AEP heating
21 customers. That figure, I would like to point out,
22 shows a wait list. The wait list is really
23 erroneous, because -- or it is -- it is accurate in
24 my presentation because that's the number of
25 customers that were on the wait list who were not

1 able to enroll because the slots were taken.
2 However, what we observe in the field is that once
3 the social worker or the staffer who is capable of
4 helping this person apply or enrolling this person
5 into the wait list knows that there are no more
6 slots available and, for example, with Boyd County
7 there, that there were 114 people on the wait list,
8 they stop taking applications. So the wait list
9 would have been higher, they just simply tell people
10 there's no use to bother or they'll stop offering
11 the enrollment altogether.

12 So it's difficult to determine from this how
13 much -- how many -- what the actual true need was,
14 but that is correct, to my knowledge, the number of
15 people who are on the wait list.

16 Q. In your testimony at page 15 it says,
17 (Reading) As of September 20th, 2017 --

18 A. Yes, sir; that's correct.

19 Q. -- over 1,475 eligible people were on the HEA
20 subsidy wait list for Kentucky Power service
21 territory; is that correct?

22 A. That's what that says; yes, sir.

23 Q. And the reason that there were 1,475 people
24 on the wait list, is that because there weren't
25 enough slots or weren't enough -- was not enough

1 money thought to be available to provide assistance
2 to these people?

3 A. That's correct.

4 Q. So I think in your testimony it said, and I
5 wanted to ask you because there may or may not be a
6 difference of opinion about it, that the program,
7 the HEAP program was instituted in the settlement of
8 a case in 2006, but I think you said there had not
9 been an increase in that funding in the 11 years the
10 program has been in effect?

11 A. That is -- I recall that in my testimony;
12 yes, sir.

13 Q. Okay. And that at this time Kentucky Power
14 proposed increasing the meter charge by a nickel,
15 and it's matched by a nickel, which would bring it
16 to 20 cents?

17 A. Yes, sir.

18 Q. Is that correct?

19 A. That's my understanding, yes.

20 Q. And in your opinion, that wasn't sufficient
21 to basically provide the needs of the customers who
22 would otherwise be eligible for this relief; is that
23 correct?

24 A. That is correct.

25 Q. Why is that not sufficient, in your opinion?

1 A. Well, sir, because we have 336 on the AEP
2 nonheating, we have 972 slots on the heating side.
3 We estimate 35,756 households in poverty in the AEP
4 service area. So it does not come near to helping
5 the people who are in poverty in that area.

6 Q. If the -- if the increase were made from,
7 instead of 20 cents per meter charge with a 20-cent
8 Company match, if the meter charge were increased to
9 30 cents with a Company match, so that it would be
10 60 cents instead of what is now 30, doubling the
11 charge, what effect would that be on the --
12 basically the -- those in Kentucky Power's service
13 area at and below poverty level?

14 A. Well, I'm speaking off the top of my head,
15 but if the funding was doubled, then you could do
16 one of two different things: You could either
17 increase the benefit amount, which, by the way, I
18 think, according to the data request, was \$148
19 average bill per month per customer, whereas this
20 HEA program is paying \$65 or \$33 based upon the
21 customer. So it is not paying their full bill. So
22 you could double that and still not meet the
23 average.

24 On the other hand, you could leave the
25 benefit amount the same and you could double the

1 number of slots that were available, so -- and I'm
2 doing rough math here, but let's say 13, 1,200 --
3 1,200 slots total to 2,400 slots. So that would be
4 2,400 families served instead of -- instead of the
5 1,200 or so. You still have 35,000 people living in
6 poverty in that area. So it still isn't helping
7 everyone.

8 Q. But it's better than it has been --

9 A. It would be better than what it is.

10 Q. -- and what is presently proposed, correct?

11 A. It would be better than what it is.

12 Q. Do you have any other -- any other testimony
13 or any other comment on the -- on the HEAP program
14 or the proposed rate increase?

15 A. My position is -- our position is, and this
16 is the position of my board members who are in this
17 area and our organization is that we're opposed to
18 both the rate increase and also the service charge
19 increase.

20 We oppose it on several levels. First of
21 all, we try to -- our mission is to reduce barriers
22 to poverty. We can't reduce all poverty, poverty is
23 always there, but we try to reduce those barriers.
24 When someone can't afford medicine, they can't get
25 better. When they can't afford electricity, which

1 is essential to life in our -- you know, in our
2 modern society, it makes it difficult to cook and
3 clean and, you know, all these things.

4 We oppose it because, as I have sat here I've
5 heard people talk about the effect on industry, the
6 effect on schools, and those things are necessary
7 for the people of Eastern Kentucky and the people
8 of -- all the people of Kentucky to ever have a
9 chance of getting out of poverty. They have to have
10 education. They have to -- they have to have a job.
11 We want them to have a job. We want them to get out
12 of poverty, off of government assistance. That is
13 our mission. And so it concerns me greatly to hear
14 that a school will have to pay more for electricity
15 or an industry will have to pay more for
16 electricity. How does that impact wages? How does
17 that impact their ability to educate, for example?
18 So it puts friction on their ability to have
19 success.

20 Another way to look at it is, is that -- and
21 I believe we were three point -- during the past
22 year, I wanted to say it was 3.1 million,
23 \$3.16 million in LIHEAP that was paid on behalf of
24 the clients that had applied. So 3.1 million paid
25 to Kentucky Power in the LIHEAP program.

1 So LIHEAP is a federal program. It comes
2 through CHFS, they subcontract it to CAK, and then
3 we manage and disburse that across the state. That
4 makes -- one way to look -- one way that I look at
5 it is, is that we are a customer. We are buying
6 electricity on behalf of those -- of the people
7 there that are applying. To apply for that they
8 have to be below 130 percent of poverty. So that
9 makes us a customer buying electricity on their
10 behalf. If there is a rate increase, if the price
11 goes up, originally 16 percent, that means I can
12 help 16 percent less people.

13 And so if our mission, if our job is to be a
14 caretaker of the taxpayer dollar and to purchase
15 electricity on behalf of the taxpayer for low-income
16 people, that negatively impacts our ability to do
17 our job.

18 So that's an -- so there's multiple levels
19 that we oppose this on, and that's another level to
20 look at it.

21 Q. Thank you. You understand that the Kentucky
22 Public Service Commission's authority with respect
23 to implementation of rates is basically governed by
24 statute?

25 A. Yes.

1 Q. And that the affordability on the part of
2 ratepayers isn't necessarily something that we, you
3 know, can consider, but really consider the status
4 of the utility and the -- and its need in order to
5 provide safe, reliable service.

6 But it is clear that -- in my opinion, in
7 this program, that basically Kentucky Power and the
8 ratepayer -- other ratepayers ought to consider
9 those in poverty in terms of fixing rates,
10 especially when some don't have enough money to
11 basically provide food and medicine for their
12 families.

13 A. That's right. Oftentimes they're required to
14 make a choice between those things, especially
15 people on fixed income. We see seniors. We also
16 see children.

17 These programs -- the HEAP program, the
18 LIHEAP program, these programs are not individual --
19 geared for individuals, they're geared for the
20 household, and so we're affecting that household.
21 So that that parent may be unemployed or may be, you
22 know, whatever, they still have children, and we're
23 heating those children at the same time. Or a
24 senior who is on a fixed income, their income has
25 not risen, yet their cost on this is going up, and

1 the cost may be going up on other things. What --
2 how do they -- how do they adjust? What thing in
3 their life do they have to adjust to still be able
4 to pay their bill?

5 Q. Well, I think the fact is, is that to some
6 extent, I mean, coming from here, the utility can
7 pass costs along to ratepayers, and businesses, to
8 some extent, can pass costs along, or try to, but a
9 person on a fixed income, a Social Security
10 recipient, an SSI recipient, a food stamp recipient
11 can't pass costs on to anybody.

12 A. That's correct.

13 Q. Essentially isn't that correct?

14 A. That's correct. That's correct.

15 CHAIRMAN SCHMITT: I have no further
16 questions.

17 Counsel, you may ask, anyone.

18 MR. CHANDLER: May I ask one on redirect?

19 CHAIRMAN SCHMITT: Yes, you may.

20 MR. CHANDLER: Maybe to the ire of Mr.
21 Willhite.

22 REDIRECT EXAMINATION

23 By Mr. Chandler:

24 Q. Can you remind me what the amount for
25 electric heating, the amount that one of those

1 recipients in the slot can be provided per month?

2 A. So if a person is in a slot, it's either \$65
3 a month, and it's not all 12 months, or \$33 a month.

4 Q. So for those four months in the winter, if,
5 for instance, the customer charge is \$11 in Kentucky
6 Power's territory, as it is now, that provides only
7 \$54 of subsidy -- of subsidy for energy usage,
8 correct?

9 A. That seems correct, yes.

10 Q. And as the customer charge is increased,
11 that's less available to help cover the energy
12 charge, correct?

13 A. Yes, that's correct.

14 MR. CHANDLER: That's all the questions we
15 have.

16 CHAIRMAN SCHMITT: Anyone else have questions
17 of this witness?

18 COMMISSIONER MATHEWS: I have one.

19 CHAIRMAN SCHMITT: Yes.

20 EXAMINATION

21 By Commissioner Mathews:

22 Q. With the LIHEAP funding that was, I guess,
23 3.16 million last year?

24 A. That was what was --

25 Q. Or that's allocated for this coming year?

1 This coming heating season?

2 A. I'm sorry, I didn't allow you to finish your
3 question.

4 Q. How many households did that help?

5 A. So that dollar amount was last year's
6 subsidy, LIHEAP subsidy and LIHEAP crisis combined,
7 and that was just what was paid to Kentucky Power on
8 behalf of the customers. That was not statewide,
9 for example.

10 Q. Right.

11 A. So I have, I believe, a chart.

12 Q. And I'm lost in the paperwork. I couldn't
13 find it.

14 A. I know. It's in here. It's one of those
15 things that I'm going to sit here and scramble on
16 and I know it's here.

17 Q. If it's in the record, I can find it. How's
18 that?

19 A. Let's see. I'm looking at page 8. Between
20 October 1st, 2016, and 9-30-2017, community action
21 completed 49,743 LIHEAP and energy assistance
22 applications originating from within the counties
23 comprising Kentucky Power service territory.

24 Q. And how many of those were funded?

25 A. I'm sorry?

1 Q. How many of those were helped? That was the
2 number of applications.

3 A. Oh, that was approved applications.

4 Q. Okay. It was approved? Okay.

5 MR. CHANDLER: Can I -- do you mind to keep
6 reading that?

7 THE WITNESS: (Reading) Paying a total of
8 35.2 million for all energy assistance. That was --
9 that was statewide. Of that figure, CAK paid
10 Kentucky Power \$3.16 million during the LIHEAP
11 benefit period to help its low-income customers.

12 Keep -- ?

13 MR. CHANDLER: I don't think the amount
14 was -- I don't think that --

15 CHAIRMAN SCHMITT: Didn't really answer her
16 question.

17 COMMISSIONER MATHEWS: Okay.

18 MR. CHANDLER: I think the original, the
19 43,000 number may have been a larger -- I think for
20 every county that's --

21 THE WITNESS: Oh, I see what you're saying.

22 COMMISSIONER MATHEWS: Okay. That's fine.

23 THE WITNESS: I can provide that information
24 in follow-up if you'd like.

25 COMMISSIONER MATHEWS: I think I would.

1 THE WITNESS: Okay.

2 CHAIRMAN SCHMITT: That's a data request that
3 the Attorney General's Office --

4 COMMISSIONER MATHEWS: I know.

5 CHAIRMAN SCHMITT: -- would like to provide,
6 for a change.

7 MR. CHANDLER: If Ms. Vinsel will send that
8 along, we'll provide the answer.

9 CHAIRMAN SCHMITT: Any other questions of Mr.
10 McCann?

11 May he be excused?

12 MS. VINSEL: Yes.

13 CHAIRMAN SCHMITT: Thank you.

14 Mr. McCann, you may step down.

15 MR. MCCANN: Thank you.

16 CHAIRMAN SCHMITT: And you may be excused.

17 Mr. Willhite, I'm sorry you had to wait so
18 long. Do you solemnly swear or affirm that the
19 testimony you are about to give will be the truth,
20 the whole truth, and nothing but the truth?

21 MR. WILLHITE: I do.

22 CHAIRMAN SCHMITT: Thank you. Please be
23 seated.

24 Counsel, you may ask.

25 MR. MALONE: Thank you, Your Honor.

1 MR. OVERSTREET: No questions.

2 MR. KURTZ: No questions.

3 CHAIRMAN SCHMITT: Mr. Kurtz, none.

4 Mr. Osterloh.

5 MR. OSTERLOH: No questions, Your Honor.

6 CHAIRMAN SCHMITT: Questions? Attorney

7 General's Office, no questions.

8 Staff.

9 MS. VINSEL: No questions.

10 CHAIRMAN SCHMITT: Commissioner Cicero.

11 VICE-CHAIRMAN CICERO: No questions.

12 COMMISSIONER MATHEWS: I'm trying to make one

13 up.

14 CHAIRMAN SCHMITT: This is awful. He's been
15 here three days.

16 MR. WILLHITE: That's fine with me. The
17 worst part, my wife has been burning up Amazon while
18 I've been sitting here.

19 COMMISSIONER MATHEWS: It is the Christmas
20 season.

21 EXAMINATION

22 By Chairman Schmitt:

23 Q. Obviously the Kentucky School Board

24 Association is in favor of this K-12 or PS tariff;

25 is that correct?

1 A. Yes.

2 Q. Now, as I understand it, Kentucky Power
3 performed a cost-of-service study or some kind of
4 study and concluded, I think Mr. Vaughan may have
5 said, subject to correction, that the schools would
6 be better off in the LGS class than they would
7 having their own classification, their own tariff,
8 to which you disagree. You think that school
9 districts ought to have their own -- their own
10 tariff applicable to them, correct?

11 A. Yes, I do. It's hard for me to --

12 Q. And why? Why?

13 A. It's hard for -- first of all, it's hard for
14 me to see how you would be better off on a tariff
15 where you pay more, and that certainly would be the
16 case under the LGS tariff as compared to the
17 pilot -- pilot tariff that's in place now.

18 The second thing is that the cost-of-service
19 study that was submitted in the case shows that the
20 pilot school rate is a cost-based rate. It's
21 producing a rate of return of one and a half times
22 what -- the average rate of return.

23 The question, then, for me becomes is, is
24 that rate of return representative of what the rate
25 should be for those schools or should it be a higher

1 rate of return that's produced by the LGS tariff?

2 And I see a significant difference between
3 schools and the other customers that are on the LGS
4 tariff. Schools are in the business of schools.
5 Businesses are businesses.

6 I know we've been passing around this
7 afternoon who's on -- the types of businesses that
8 are on rates, but on page -- on page 6 of my -- of
9 my testimony is a list by ZIP code of the type of
10 customers that are -- that are served on the LGS
11 tariff. This information was provided to me in a
12 data request by the -- by the Company. There's very
13 few of those -- of those customers there that aren't
14 businesses.

15 Public schools have an obligation to serve.
16 Even though schools are in some difficult financial
17 situations in Eastern Kentucky, they are not going
18 away. Businesses -- and schools, the only way
19 schools can raise revenues are through their
20 property -- basically their property taxes, and they
21 can only do that, without it being subject to
22 recall, in setting their compensating tax rate.
23 Businesses, on the other hand, can raise prices or
24 they can -- or they can go out -- go out of
25 business.

1 So I see a significant difference in the risk
2 to the utility of serving a school versus serving a
3 business. And so I think that it's -- that it's
4 reasonable, a reasonable recognition of that
5 difference in risk to serve schools represented by
6 that \$500,000 billing difference on the -- provided
7 by the K-through-12 tariff.

8 Q. So you think that the schools -- the
9 cumulative effect of the settlement is a \$500,000
10 advantage to schools in Kentucky Power's service
11 area, and that basically that whatever -- the
12 \$500,000 could be more easily borne by the others in
13 the LGS class?

14 A. Certainly.

15 Q. Is that what you're saying?

16 A. Yes.

17 CHAIRMAN SCHMITT: I have no further
18 questions.

19 Anyone else have questions? Other than one.
20 How did the -- I know, settlement negotiations are
21 privileged and not subject to testimony, but I could
22 ask Mr. Gardner, except that he doesn't have to
23 answer.

24 How is it that you guys cut this deal and Mr.
25 Gardner's clients got stiffed here? How did they

1 end up in -- how did they end up with the additional
2 money? I'm just -- it's kind of a joke.

3 Somebody -- Commissioner Cicero suggested
4 once in private, says it was like -- like four or
5 five men out drinking or something and one goes to
6 use the restroom, when he comes back, everybody else
7 has left and he's stuck with the tab.

8 I just wondered how that -- how that works
9 out. But you don't have to answer.

10 If there's nothing further of this witness,
11 Mr. Willhite, you may -- you may step down.

12 MR. WILLHITE: Thank you.

13 CHAIRMAN SCHMITT: Okay. Is that all of the
14 testimony that's -- I don't think there is any other
15 testimony to be presented in this proceeding; is
16 that correct?

17 All right. We've had -- counsel for various
18 parties have stated they'd like to send data
19 requests, so let me -- pursuant to a previous
20 discussion with counsel, all data requests will be
21 filed and served upon opposing counsel by no later
22 than December 13th, which I think is next Wednesday.
23 Kentucky Power and the Attorney General will be the
24 subject of these requests, will respond by no later
25 than December 22nd, and parties that would like to

1 file briefs, briefs will be due by the end of the
2 day on January 5th, 2018. Is that satisfactory?

3 MR. OVERSTREET: Yes, Your Honor.

4 And Mr. Dutton, who had to leave early,
5 wanted me to let the Commission know that he does
6 not anticipate filing a brief.

7 CHAIRMAN SCHMITT: Filing a brief? Well,
8 anybody that wants to file a brief can file one, and
9 if you don't, that's okay too.

10 MR. OVERSTREET: Understood, but he asked me
11 to pass that along.

12 CHAIRMAN SCHMITT: All right. Thank you.

13 Is there anything else to bring before the
14 Commission at this time?

15 If not, this hearing is hereby adjourned.
16 Thank you.

17 MR. KURTZ: Thank you, Your Honor.

18 MR. GISH: Thank you, sir.

19 (Hearing concluded at 5:51 p.m.)

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