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 SERVICE; (2) AN ORDER APPROVING ITS 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

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

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

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

MR. OVERSTREET: It does, Mr. Chairman.

Douglas R. Buck.

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

MR. BUCK: I do.

CHAIRMAN SCHMITT: Please be seated.

Counsel, you may ask.

MR. OVERSTREET: Thank you, Mr. Chairman.

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

DIRECT EXAMINATION

By Mr. Overstreet:

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

A. My name is Douglas R. Buck. My business address is 1 Riverside Plaza, Columbus, Ohio, AEP
Service Corp. My position is a regulatory case manager.

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

A. I did.

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

A. No, I don't.

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

A. They would be unchanged.

Q. Okay. Thank you.

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

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

MR. KURTZ: No questions, Your Honor.

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

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

MR. CHANDLER: We have no questions on cross.

CHAIRMAN SCHMITT: Mr. Gardner.

MR. GARDNER: No questions, Your Honor.
CHAIRMAN SCHMITT: Staff?

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

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Mr. Buck.

A. Good morning.

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

A. Right.

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

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

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

CHAIRMAN SCHMITT: Commissioner Cicero, questions?

VICE-CHAIRMAN CICERO: No, sir.
CHAIRMAN SCHMITT: Commissioner Mathews?

COMMISSIONER MATHEWS: No.

CHAIRMAN SCHMITT: I have no questions.

Mr. Overstreet, anything further?

MR. OVERSTREET: No, Your Honor.

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

Then may he be excused?

MR. OVERSTREET: Yes, Your Honor.

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

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

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

MR. PYLE: Yes, I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Garcia, you may ask.

MR. GARCIA: Thank you, Your Honor.

* * *

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

DIRECT EXAMINATION

By Mr. Garcia:

Q. Mr. Pyle, would you please state your name and business address for the record?
A. It's Mark A. Pyle, and the business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. And by whom are you employed and in what capacity?
A. Vice President of Tax for American Electric Power Service Corporation.

Q. Mr. Pyle, are you aware that Jeffrey Bartsch submitted direct testimony consisting of nine pages of questions and answers?
A. Yes, I am.

Q. And have you reviewed that testimony?
A. Yes, sir.

Q. Have you adopted that testimony in this case?
A. Yes, I have.

Q. Okay. And have you also caused to be submitted rebuttal testimony consisting of six pages of questions and answers?
A. Yes, sir.
Q. And did you cause to be submitted answers to discovery requests?
A. Yes.

Q. And are you familiar with discovery requests that were submitted with Mr. Bartsch as far as a witness?
A. Yes.

Q. Do you adopt -- well, let me ask you: Do you have any corrections to any of that information?
A. No, I do not.

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

Q. Do you adopt the testimony of Mr. Bartsch as your own, your own direct testimony, your rebuttal testimony, and the answers to discovery questions by both you and Mr. Bartsch in this case as your evidence in this case?
A. Yes, I do.

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

CHAIRMAN SCHMITT: Mr. Kurtz, questions.
MR. KURTZ: No questions.

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

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

MR. COOK: We do, Your Honor.

CROSS-EXAMINATION

By Mr. Cook:

Q. Good morning, Mr. Pyle.
A. Good morning.

Q. I have a few questions for you.
A. Okay.

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

Q. Thank you. And your rebuttal testimony addresses the calculation of the gross revenue conversion factor or GRCF?
A. Yes, it does.

Q. Okay. The GRCF is used to convert the net operating income deficiency into a revenue requirement amount, correct?
A. Correct.
Q. And the GRCF being used by the Company reflects a 35 percent federal income rate, correct?
A. That's correct.
Q. As the Vice President of Tax for AEP Service Corporation, have you been following developments in Congress concerning tax reform?
A. Yes, I have.
Q. Okay. And it seems -- are you aware that the U.S. Senate has advanced a tax reform bill that would -- at least as of today, would cut the corporate income tax rate from the current top rate of 35 percent to a new rate of 20 percent?
A. Yes, I'm aware of that provision.
Q. Thank you. And the House has also passed its own tax reform bill, correct?
A. Yes, it has.
Q. Thank you. The level of federal income taxes has a significant impact upon the revenue requirement being sought by the Company in the current rate case, correct?
A. Yes.
Q. If the corporate income tax rate is cut from 35 percent to 20 percent, that could result in a significant impact on the amount of income taxes going forward, would it not?
A. If the -- if the rate were cut, that would -- if that were the only thing that was in the provision, then I believe that, yes, it would have a significant impact. But I think if you look at the provisions that both the House and Senate have passed, there's more to it in the provisions than just the rate reduction. So I think you have to take the entire bill and reflect that in any changes that you would roll through.

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

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

Q. Yes.

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

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

A. There -- the way the provisions currently exist in both bills reflect what is considered a
definition of excess deferred taxes that must be flowed back to ratepayers no faster than the average book life. Those would be related to property. And then there are other deferred taxes that are on the books that have an excess component. If the rate were at 20 percent, that would be something that would be, you know, addressed in some filing or procedure. Q. Okay. Now, the settlement agreement in this case does not provide for flowing back to ratepayers the amount of federal income tax savings that could result if the income tax rate is substantially reduced from the currently applicable rate, does it? A. I believe the settlement agreement has a provision in it. If I'm remembering correctly, it's on page 9 of the settlement, that does address any rate change and says that if Congress does pass a tax bill and there is a rate change, then the agreement addresses that as something that would be for future -- in a future proceeding that is at the pleasure of the Commission. Q. And if -- would it be your understanding that only if the Commission initiates an investigation or a complaint is filed that those savings from the reduced income tax rate would flow back to
ratepayers? Is that correct?
A. I'm not sure that it would only be a
   complaint. I would have to defer to our legal
counsel as far as the interpretation of how that
   provision would get triggered by the Commission.
Q. Could you refer to a copy of the stipulation?
   I believe it is on page 9. I think your
   recollection was correct.
A. Okay.
Q. As I look to paragraph 5(c) under that, 5 is
   the rate case stay out, correct? Do you see that?
A. Yes.
Q. And under that there's a (c). Do you see
   that?
A. Yes, I do.
Q. Okay. Towards the bottom there is a sentence
   that starts up, "In the event the Commission."
   Could you read that into the record, please?
A. Sure. (Reading) In the event that the
   Commission initiates an investigation or a complaint
   is filed with the Commission regarding the Company's
   rates, the Company retains the right to defend the
   reasonableness of its rates in such proceedings.
Q. And I apologize. Could you also, under that
   (c), read that very first sentence?
A. Oh. (Reading) Nothing in this stay out provision should be interpreted as prohibiting the Commission from altering the Company's rates upon its own investigation or upon complaint, including to reflect changes in the tax code, including the federal corporate income tax rate, depreciation provisions, or upon request by the Company to seek leave to address an emergency that could adversely impact Kentucky Power or its customers.

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

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

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

A. Correct.

Q. Okay. And given that -- as we discussed earlier, that both houses of Congress have passed tax reform, would you agree that it appears that -- likely that some kind of reform is going to come out
of Congress?
A. I'm not sure that I could say it's likely. Given this Congress right now, it's looking that way, but it also looked that way earlier this year when you had a Republican House and Senate and Administration and the Affordable Care Act was a priority for them, and it was not -- they weren't able to pass any amend -- anything -- changes to that.

The Senate is very closely divided, which wouldn't take much more than two senators to vote against a provision from the Republican side that would put it in jeopardy. So the other part of it is, this bill is right now in the joint committee, a joint committee that is to resolve the differences. So it has to go back to both houses to be voted in.

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

Q. If -- let's just say if a significant reduction was to go through and become law, signed by the President, would it not be reasonable for the Commission to require that reductions to the
Company's federal income taxes be captured and returned to Kentucky Power ratepayers?
A. Well, I think that it falls within the Commission's purview to do such if they so choose. That's --
Q. Thank you.

MR. COOK: Mr. Chairman, no further questions.
CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh, questions?
MR. OSTERLOH: No additional questions.
CHAIRMAN SCHMITT: Staff.
MS. VINSEL: No questions.
CHAIRMAN SCHMITT: Commissioner Cicero?

EXAMINATION
By Vice-Chairman Cicero:
Q. I don't know that you were here earlier in the hearings when I asked Mr. Satterwhite about the accounts receivable and the bad debt. I know I'm going to be asking questions of Mr. Vaughan, but in the gross revenue conversion factor, there is a piece in there that I would think the .34 percent that addresses bad debt, that would go away if the bad debt went away, would it not?
A. That percent would go away if the bad debt were to go away, but I'm not sure how we would have
that bad debt go away. That would be --

Q. That would be more --

A. -- something that would --

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

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

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

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: None.

CHAIRMAN SCHMITT: I have none.

Mr. Garcia, any redirect?

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

Okay. No further questions, Your Honor.

MR. KURTZ: Can I just follow up --

CHAIRMAN SCHMITT: Yes.

MR. KURTZ: -- Mr. Cook's very good cross-examination?
CROSS-EXAMINATION

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
be the balance after the excess is taken off.

Q. I think it's the opposite.
A. Is it?

Q. That would be the excess.
A. Okay.

Q. Does that sound about right? Any idea?
A. I think -- I think that's really the balance. I think the excess was more like 215.

Q. Okay. Well --
A. Roughly.

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

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

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

In which case, may he be excused?

MS. VINSEL: Yes.

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

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

CHAIRMAN SCHMITT: Ms. Osborne, please raise
your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MS. OSBORNE: I do.

CHAIRMAN SCHMITT: Thank you. Please be seated.

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

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

CHAIRMAN SCHMITT: Oh, he trusted you.

MR. GISH: Just this once.

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

DIRECT EXAMINATION

By Mr. Overstreet:

Q. Good morning, Ms. Osborne.

A. Good morning.

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

A. My name is Debra Osborne. I'm Vice President for Generation Assets for Appalachian Power and Kentucky Power. My address is 500 Lee Street East, Charleston, West Virginia.
Q. And did you cause to be filed in this proceeding testimony, rebuttal testimony, and answers to data requests?
A. I did.

Q. And do you have any corrections to those?
A. I do not.

Q. Or other modifications or updates?
A. No, sir.

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

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

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: No questions.

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

If not, Mr. Cook, Mr. Chandler.

MR. COOK: No questions, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Yes, we just have a few questions.
CROSS-EXAMINATION

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 --
have been there since 1963?
A. Yes. And that's very important to note in this -- in this whole conversation that there's major pieces of equipment, the drum, two generator step-up transformers, the generator rotor, for which there's not a system spare. These are major components that are original installation.
Q. Now, in determining the useful life, in your testimony you had indicated that instead of comparising Big Sandy Unit 1 to other units that were -- that are gas-fired and were always gas-fired, you said the better comparison is to the Clinch River Units 1 and 2, which like Big Sandy were coal-fired units converted to gas?
A. Yes.
Q. I know that was a compound question, but is that correct? And I can break it apart.
A. I was going to say, I believe you're asking me if the conversion at Clinch River was the same as the conversion at Big Sandy.
Q. Yes.
A. They were very similar in nature. All of those -- Clinch River 1 and 2 and Big Sandy 1 were all previously coal-fired generation that were converted to gas.
Q. And is it correct that it is your opinion that in comparising -- or trying to determine the useful life, a better comparison for Big Sandy Unit 1 would be to compare it to Clinch River rather than to look at a unit that has always been a gas-fired unit?

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

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

A. After the conversion was 2031.

Q. And how was that determined?

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

MS. VINSEL: And those are our questions.

CHAIRMAN SCHMITT: Thank you.

Commissioner Cicero.

EXAMINATION

By Vice-Chairman Cicero:

Q. So you said 2031 was the life that -- or the end of useful life for the Clinch River units? Is that what you said?
A. No, sir. Currently we have a proposal for the end of useful life for Clinch River at 2026.
Q. 2026?
A. And as used for the depreciation study upcoming.
Q. And how -- what would that make the useful life if it was 2026? When did those go into service?
A. It would give it a service life of -- I'm going to have to check. I'm pretty sure it's 1958 when the --
Q. Well, since the conversion to gas.
A. I'm sorry. I'm not understanding your question. What would that total --
Q. What was --
A. -- lifespan be?
Q. What was the extension of the life after being converted to gas? What did you come up with useful life?
A. Ten years.
Q. Just ten years?
A. Uh-huh.
Q. And you're saying that Big Sandy 1 is 20 years?
A. It's currently set at 15 years.
Q. 15 years?
A. Uh-huh.

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

CHAIRMAN SCHMITT: Commissioner Mathews.

EXAMINATION

By Commissioner Mathews:

Q. That was 15 years from 2016?
A. Yes, ma'am.

Q. Okay.
A. Thank you for that.

CHAIRMAN SCHMITT: I have no questions.

Counsel.

REDIRECT EXAMINATION

By Mr. Overstreet:

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

Q. Just let me know when you're there.
A. Uh-huh.

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

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

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

A. I am there.

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

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

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

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

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

A. I believe that is reasonable.

MR. OVERSTREET: No further questions.

CHAIRMAN SCHMITT: Any other questions of this witness?

Mr. Chandler.

MR. CHANDLER: Can we ask just one question?

CROSS-EXAMINATION

By Mr. Chandler:

Q. Are you involved in the generation planning
process for Kentucky Power?

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

MR. CHANDLER: That's all the questions.

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

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

CHAIRMAN SCHMITT: Yes.

RECROSS-EXAMINATION

By Ms. Vinsel:

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

A. Uh-huh.

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

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

Q. Okay. And is -- you may have already just
answered it, but could you clarify again why that
difference in the 10 years versus 15 years?
A. It was the 2031 date and the 2026 date would
reflect a 68-year lifespan for those units.
Q. And we understand the concept of that 68-year
lifespan, but why is it that Clinch River is
depreciating faster than Big Sandy Unit 1?
A. I really can't speak to the depreciation
calculation. What we do is we provide the
end-of-useful-life number to the Witness Cash.

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

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

CHAIRMAN SCHMITT: Yes, you may.

MR. OVERSTREET: -- may assist Staff.

REDIRECT EXAMINATION

By Mr. Overstreet:

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

A. That's correct.
Q. And isn't it true that Clinch River went into service five years before Big Sandy?

A. Yes, that is correct.

MR. OVERSTREET: Okay.

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

In which case, may the witness be excused?

MS. VINSEL: Yes.

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

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

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

MR. CASH: I do.

CHAIRMAN SCHMITT: Please be seated.

Ms. Glass, you may ask.

MS. GLASS: Thank you.

* * *

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

DIRECT EXAMINATION

By Ms. Glass:

Q. Good morning, Mr. Cash. Can you please state your name, your position, and your business address, please?
A. My name is Jason A. Cash. I am a Staff Accountant under -- for account -- for AEP Service Corporation under Accounting Policy and Research. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

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

Q. Do you have any corrections or modifications to any of those answers?
A. I do not.

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

MS. GLASS: Your Honor, the witness is available for cross-examination.
CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: No questions.

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

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

MR. COOK: No questions, Mr. Chairman.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff.

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

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Mr. Cash.

A. Good morning.

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

A. Yes.

Q. In terms of the 10- and 15-year extension, if you will, of the service life Big Sandy Unit 1 versus Clinch River, can you explain why Clinch River has the 10-year, if you will, extension in service life and Big Sandy has the 15-year extension? And we do understand that both units,
the projected 68-year lifespan.
A. I can't attest to the -- why the useful life is different for both plants. That -- I mean, that was really a better question for Ms. Osborne, but I think you asked why it's being depreciated faster.
Q. Yes. Thank you.
A. Yeah. So in reality it is not being depreciated faster because West Virginia and Virginia have separate rates, and when the rates were both approved for Clinch River, they were -- it was actually a coal-fired generation unit. It has -- the depreciation rates have not been set since it has been converted to a gas-fired unit. The depreciation rates that are being used are the rates that were in place as a coal-fired generation unit.
Q. Thank you. Other than any -- other than the adjustments made in the settlement agreement regarding the service life of Big Sandy Unit 1 and the terminal net salvage value of Big Sandy 1 and Mitchell, are there any other changes to Kentucky Power's proposed depreciation rates?
A. Not that I'm aware of.
MS. VINSEL: Staff has no further questions.
CHAIRMAN SCHMITT: Commissioner Cicero.
EXAMINATION

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 --
A. 63, I think, was Big Sandy and 58 was Clinch.
Q. As a coal-fired unit?
A. As a coal-fired unit, that's right. And I guess 2019 is probably the best representation as a coal-fired unit. I can't do the math in my head. Sorry.
Q. No, but I'm just curious why it's continued as a coal-fired depreciation rate.
A. It's just regulatory. I mean, we would have to go in and update our depreciation rates based off of the investment that has been made with the gas-fired unit.
Q. It just sounds like 68 years is being picked as a number to keep it uniform, not really -- absent of any other engineering or design or anything else that makes it 68 years.
A. I can't attest to the engineering life of the unit. I -- you know, I calculated the depreciation rates that are associated with that, with the life that is provided from our --

VICE-CHAIRMAN CICERO: I'll let it go at that. Thank you.
CHAIRMAN SCHMITT: Commissioner Mathews.
COMMISSIONER MATHEWS: I have none.
CHAIRMAN SCHMITT: I have nothing.
Ms. Glass, any redirect?

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

REDIRECT EXAMINATION

By Ms. Glass:

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

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

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

A. Absolutely.

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

A. That is right. That is correct.

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

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

If not, may he be excused?

MS. VINSEL: Yes, he may be excused.

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

MR. CASH: Thank you.

CHAIRMAN SCHMITT: -- and you're excused.

MR. OVERSTREET: Your Honor, the Company's
next -- excuse me -- witness is Steve Sharp, and Mr. Gish will present.

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

MR. SHARP: I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Gish, you may ask.

MR. GISH: Thank you, Mr. Chairman.

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

DIRECT EXAMINATION

By Mr. Gish:

Q. Good morning, Mr. Sharp.

A. Good morning.

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

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

Q. And did you file in this case direct and rebuttal testimony and responses to data requests?
A. I did.
Q. And did you file testimony in Case Number 2017-231, which was incorporated into this case?
A. I did.
Q. Do you have any corrections or updates to your testimonies or responses to data requests?
A. I do not.

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

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: No questions.

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

If not, Attorney General.

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

CHAIRMAN SCHMITT: Okay. Thank you.

Mr. Osterloh, Mr. Gardner.

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff, questions.

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

* * *
CROSS-EXAMINATION

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
of local community action agencies or local agencies in regards to the HEAP program?
A. Their roles would be, probably the best way to word this, that once slots are determined by the community action, which is based off of the number of customers that are in each county and which community actions are participating, they'll determine through their application process and rank the people that have applied in application to determine who will fill in as far as those slots in those counties.
Q. So the local community action agencies are the -- they have the administrative function of --
A. Uh-huh.
Q. -- taking the applications, evaluating, verifying --
A. Yes.
Q. -- and so forth?
A. Yes.
Q. So once a customer --
A. Uh-huh.
Q. -- has been verified and --
A. Uh-huh.
Q. -- there's money available --
A. Uh-huh.
Q. -- does Kentucky Power retain the surcharge and then apply whatever the designated amount is to the customer's account, or is the money sent to a community action agency?
A. We designate it to a customer's account.
Q. So the money remains with Kentucky Power --
A. Yes.
Q. -- at all times?
A. And we fund it once community action advises us which accounts it would go to.
Q. And confirming: This is year-round assistance?
A. Yes. It's -- they would -- depending if it's an electric or nonelectric, they would get it four months for the winter months and then three months during the summer months.
Q. Now, is there any sort of a carveout for an administrative fee for the community action agencies?
A. Yeah, it's a ten percent.
Q. Ten percent?
A. Uh-huh.
Q. How was that number determined?
A. I'm unsure. That was what was agreed upon in 2005 between the community action and Kentucky
Power. That was approved by the Commission.

Q. And 2005, to confirm, is when the program was begun as a pilot program?
A. It began with the -- approved through the rate case at that time.

Q. And just to clarify, also subsequently the pilot designation was removed?
A. I'm sorry?
Q. And subsequently --
A. Uh-huh.

Q. -- the pilot designation was removed?
A. Oh, yes. Yes, it was.

Q. Thank you. I have some questions about the proposed revision to the tariff in regards to denial of service.
A. Okay.

Q. Do you have available to you this packet? It has -- on the cover of it, it is just that tariff sheet --
A. Tariff sheet.
Q. -- at issue.
A. I don't know if I have the packet. I do have the tariff sheet.

MR. GISH: We have it around. We'll find it for you.
MS. VINSEL: Okay.

MR. GISH: Here it is.

MR. OVERSTREET: May I approach, Your Honor?

CHAIRMAN SCHMITT: Yes, you may.

A. Okay. I have it.

Q. Is that -- I'm sorry.

A. That one?

Q. It is not that one, actually.

A. Okay.

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

CHAIRMAN SCHMITT: Yes, you may.

Q. It looks like this.

A. Thank you. Okay. Yeah.

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

MR. OVERSTREET: Does it have 17 tabs?

THE WITNESS: Just four.

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

MR. OVERSTREET: Four tabs.

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

MR. OVERSTREET: Do you have the tariff?

THE WITNESS: I have the tariff. I can look at it.
Q. Do you have the tariff?  Okay.
A. I can look at that.
Q. I might just have to walk back and forth, I apologize --
A. Okay. That's fine.
Q. -- I gave out all my exhibits yesterday.
MR. GISH: Ms. Vinsel, the Attorney General has graciously handed us one of his copies.
THE WITNESS: Thank you.
MS. VINSEL: Thank you.
MR. CHANDLER: Don't forget it.
Q. Okay. And I won't make you read into the record, I will read the --
A. Okay.
Q. -- relevant parts. Under -- I'm looking at the tariff itself.
A. Uh-huh.
Q. Number 18, Denial or Discontinuance of Service. The first part of the first sentence up to the semicolon reads --
A. Uh-huh.
Q. -- (Reading) The Company reserves the right to refuse service to any customer if the customer or any member of the customer's household is --
A. Uh-huh.
Q. — indebted to the Company for any service theretofore rendered at any location.
A. Uh-huh.
Q. Is that correct?
A. Yes.
Q. So this provides four scenarios for denial of service. Let me walk through and see if you agree.
A. Okay.
Q. Two scenarios involve a customer of record under whose — who has the account?
A. Uh-huh.
Q. Two scenarios, a member of the household of the customer of record?
A. Uh-huh.
Q. So the customer of record can be denied service for indebtedness — service at the service address where the indebtedness occurred, correct?
A. Right.
Q. And service at any address in Kentucky Power service territory?
A. If they were to have an old debt at another location and — yeah. And really I think — and I've listened to some of what Mr. Satterwhite -- when I was in the hospital with my wife, but --
Q. And congratulations.
A. Oh, thank you. Thank you.

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

And what we have found, and -- excuse me.

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

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

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

A. Okay.

Q. -- that is probably, in the end, more for information.
A. Okay.
Q. And I will explain that in this packet --
A. Okay.
Q. -- Exhibits 2, 3, and 4 have contained some
Commission precedent. I will walk you through them
very briefly --
A. Okay.
Q. -- just to -- so that you know.
A. Okay.
Q. Under tab number 2 --
A. Uh-huh.
Q. -- is PSC Exhibit 2 --
A. Uh-huh.
Q. -- this is a Commission order from 2002 --
A. Okay.
Q. -- that approved language in Louisville Gas &
Electric/Kentucky Utilities tariffs --
A. Uh-huh.
Q. -- to permit -- essentially a customer of
record could be denied service at the service
address where the debt was incurred or any location.
A. Okay.
Q. Under tab number 3 we have an administrative
case from the 1983-84 --
A. Uh-huh.
Q. -- in which the question came up in regard to a member of a household and denial of service --
A. Uh-huh.
Q. -- when the customer of record had incurred a debt.
A. Uh-huh.
Q. And in that case we said the Commission would not issue a regulation, a blanket regulation covering the situation because, for a member of household, the fact pattern, the circumstances were -- the issues were infinite --
A. Uh-huh.
Q. -- and so we said that we would not do so and we would look at it on a case-by-case basis.
A. Uh-huh.
Q. And then under tab number 4, this is the Customer Bill of Rights --
A. Uh-huh.
Q. -- as I am sure you are familiar with --
A. Uh-huh.
Q. -- which also provides that a member of a household where the customer of record has incurred debt --
A. Uh-huh.
Q. -- they can't do that name switching,
basically --
A. Uh-huh. Right.
Q. -- is what it said.

So what I'm passing out now is another
Commission order.
A. Okay.
Q. And I just wanted to make sure I called your
attention --
A. Uh-huh.
Q. -- to this particular order.
A. Okay.
Q. In this case, without going to excessive
details, you had a member of a household --
A. Uh-huh.
Q. -- she had been a member, if you will, of
two in which her estranged husband was the
customer of record --
A. Uh-huh.
Q. -- and allegedly a third where her son was
the customer of record.
A. Uh-huh.
Q. And the utility had denied her service.
A. Uh-huh.
Q. And in the end the Commission said that -- and this is at the bottom of that very first page.
It's the last sentence.
A. Uh-huh.
Q. Basically the Commission found that while benefit of service criteria has never been accepted by the Commission as a policy suitable for all utilities to follow in collecting past-due accounts, it is considered on a case-by-case basis where applicable.
A. Uh-huh.
Q. And Mr. Satterwhite had discussed the concept of benefit of service --
A. Uh-huh.
Q. -- being behind this. I thought it would be helpful, as Kentucky Power is looking at this --
A. Yeah.
Q. -- to see the various --
A. Okay.
Q. -- Commission rulings.
A. All right.
Q. And with that we'll move on.
A. Okay. Thank you.
Q. I'd like to move to the bill format --
A. Okay.
Q. -- issues. There -- one of the lines on the current bills --
A. Uh-huh.
Q. -- there is a line that says Rate Billing.
A. Uh-huh.
Q. What all is included in that?
A. Right now, as it currently stands, you have your base rate and your customer charge.
Q. And in response to some data requests --
A. Uh-huh.
Q. -- you had indicated that the customers had advised Kentucky Power that they wanted a simpler bill.
A. Uh-huh.
Q. Did the customers specify that they wanted fewer lines on their bills?
A. Through some of our meetings, yes. They appreciated our transparency in providing the information, but they wanted as far as less information on the electric bills.
Q. And did anyone quantify the number of customers that had made that request?
A. No. I mean, we've -- these have been through our meetings with the -- the CAP meetings and our public workshops. And I can attest, you know, when
I worked in customer service, that was one issue that I always addressed that customers who had called in had brought up.

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

A. No.

Q. So no, no -- okay.

A. There's no additional cost.

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

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

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

So if the Commission hadn't approved the redesign, the look of the bill, the remaining operating companies would have moved forward.
Q. Okay. Are you aware if any other AEP operating company subsidiaries --
A. Uh-huh.
Q. -- are consolidating the line items on their bills?
A. I'm not familiar if they are or not.

MS. VINSEL: Staff has no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero,

EXAMINATION

By Vice-Chairman Cicero:
Q. Just one follow-up on the --
A. Uh-huh.
Q. -- comments made by Staff regarding the line items.
A. Uh-huh.
Q. You indicated in your former position as a customer service representative or agent or --
A. Uh-huh.
Q. -- whatever the position was, that that was one of the primary complaints was the number of line items?
A. Complaints that I dealt with. When it was the line items, there was a lot of confusion of what each of the riders meant, and a lot of customers
that I spoke with, when that issue came up, was they just didn't understand the bill or what all the charges had meant. There was just a lot of confusion and they had wished that there was more of a simpler bill to look at.

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

A. It was both.

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

A. Uh-huh.

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

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

A. Uh-huh.

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

A. Yeah. And I can understand that. And a lot of the customers we talked to, they just want to
know, "How much do I need to pay on my bill?" And that's their main concern, "How much do we owe?"
And then when they see a breakdown of all the line items, there does get confusion with what all those charges are.

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

CHAIRMAN SCHMITT: Commissioner Mathews, questions.

COMMISSIONER MATHEWS: I don't have any.

EXAMINATION

By Chairman Schmitt:

Q. Mr. Sharp, on the HEAP program --
A. Uh-huh.

Q. -- does -- the HEAP program apparently has not been updated, or the amounts collected have not been updated since 2006, when the program first began as a pilot. Is that correct?
A. When you mean the -- like the --

Q. There hasn't been any additional money charged to customers and matched by shareholders?
A. It did start at 10 cents and then it went to 15 cents --

Q. 15?
Q. Does the HEAP program run short of money before winter is over?
A. I would have to look. I don't believe it has before in the past, as far as with the matching, you know, with what the customers -- as far as pay each month.

Q. Well, you're saying, then, that the program, in your opinion --
A. Uh-huh.

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

Q. Then why has the Company suggested increasing the funding of the program?
A. We just want to help more customers that we can. We've had discussions with community action, Roger McCann, and the one thing that they told us is that they do receive several applications from customers that just need that little bit more of help to just get over that little cusp. And we had worked with them ever since 2005. So those are the customers that we're trying to help just a little bit more. And while it is adequately funded, we're just trying to help more customers, that low-income
customers.

Q. I thought Mr. McCann's testimony on direct was --
A. Uh-huh.

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

Q. Is that correct?
A. I'm unfam -- I mean, it's -- we feel like it's adequate as far as to move it, you know, up from 15 to 20 cents.

Q. Insofar as this -- the language is concerned --
A. Uh-huh.

Q. -- in the proposed tariff on discontinuance of service, who drafted that?
A. The discontinuance? Legal.

Q. Legal drafted it?
A. Yes.

Q. You've read it?
A. Yes.

Q. Does it sound to you like it was intended to apply only to customers in the same location or the same household?
A. Yes, it's --
Q. It sounds like that --
A. When I read it, yes, because of the whole name-switching issue. That's --
Q. And how --
A. That's how I perceived it to be.
Q. How do you explain, then, when it refers to any location?
A. The "any location" part would be if -- kind of what I mentioned to the Staff. If you have a customer that has an old debt at another location, they call to apply for the service.
Q. Well, if A --
A. Uh-huh.
Q. -- has service at his home --
A. Uh-huh.
Q. -- and his son or his wife owns a business somewhere else and goes out of business and owes a debt, under the way this language is drafted --
A. Uh-huh.
Q. -- you could cut off service at the home; isn't that correct?
A. For their old debt at the business?
Q. Yeah. For some other member of the household's debt at another location.
A. Yeah. No. And I think that's where the confusion is on that, and that's how it wasn't intended to be. It was intended to be if somebody was trying to defraud the Company by somebody applying for the service from a debt at another location and then somebody else calling in to try to put their name in to avoid paying that old debt.

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

Q. Insofar as the bill format is concerned, and it's been a --
A. Uh-huh.

Q. -- a couple months, maybe, since I read your testimony, but --
A. Uh-huh.

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

Q. -- in terms of reducing it because people were confused.
A. Uh-huh.

Q. Was there a -- do you have evidence that in
Kentucky Power's service territory people actually would prefer a bill without the 11 separate items and charges on it?

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

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

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

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

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

A. Uh-huh.

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

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

A. Well --

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

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

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

A. Right.

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

A. Uh-huh.

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

A. Well, and they can also -- if they don't want
to call in, they can get a breakdown of those
information online through a bill calculation
spreadsheet. We can even have local customer
service representatives come visit their home and
discuss their bill.

CHAIRMAN SCHMITT: No further questions.

Mr. Gish.

MR. GISH: The Company has no redirect.

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

MR. CHANDLER: The AG has some.

CHAIRMAN SCHMITT: Yes.

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

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

MR. CHANDLER: I don't know how to take that.

Thank you.

CROSS-EXAMINATION

By Mr. Chandler:

Q. Earlier the discussion was about denials of
service.

A. Yes.

Q. Do you remember that conversation with
Commission Staff?
A. Yes.

Q. Does the Company track denials of service?
A. No.

Q. And why not?
A. It's kind of a case-by-case basis. I mean, we get several phone calls throughout the year, so, I mean, it would be hard to know -- track as far as just the number of instances this occurs.

Q. So the number of times that somebody asked you for electric service and you denied them service is not tracked by Kentucky Power?
A. No, that's not tracked.

Q. Earlier you spoke about the advisory panel. What's the name of that panel?
A. The Community Advisory Panels, CAP.

Q. Who are on those panels?
A. They're local community leaders. I know some are from, like, senior citizen groups that work in nursing homes, hospitals, things of that nature.

Q. And how do they -- how do they get -- how do they become members of those panels?
A. There was a communications consultant firm that had sent out invitations to these customers -- or these leaders in the area and invited several people to come in to discuss, you know, what the
panels were going to be about, what everyone hopes to accomplish, and they decided if that was something they were interested in doing or if that was something that really wasn't of their interest. Many of the customers -- or community leaders that come in were interested in it. There were some that did decline.

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

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

Q. When were those workshops held?

A. When were the workshops held?

Q. Yes.

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

Q. Do you know roughly when the last time when you -- that Kentucky Power had one of those workshops?
A. I want to say May, but I'm not a hundred percent sure.
Q. So is it -- do you think it's Kentucky Power's position that that was a -- and I hate to say a one-time thing, but a limited process? Or I guess you haven't had one in five or six months. Do you know that Kentucky Power plans to make that an ongoing?
A. Yeah. I mean, we still want to do ongoing. We still have customer service representatives that go and meet with communities at, like, the Moose Lodge. Our customer service representatives are large in the public area. So they do go around to other areas, it just wasn't those workshops.
Q. Do you know when the next workshop is planned for?
A. Not at this time, no.
Q. You mentioned that Kentucky Power's takeaway from some of the workshops and panels were that -- was that customers wanted fewer lines on their bills. Do you remember that?
A. Uh-huh. Yes.
Q. On the bill --
A. Uh-huh.
Q. -- the specific lines that are outside of
base rates, are those amounts that are recovered through base rates and then pulled out on the bill, or are they amounts that are recovered outside of base rates?
A. Well, they would be like your fuel adjustment charge, your environmental. Is that what you're talking about?
Q. Yeah, that's right.
A. Yeah. Yeah, those charges.
Q. And so those are recovered outside of base rates?
A. Yeah. I mean, they're some of the charges that, for instance, have a base amount that's in your base rate and then anything that's over or under.
Q. And so all of those amounts represent different costs to the Company that they're passing on through those unique, either surcharges or trackers --
A. Uh-huh.
Q. -- correct?
A. Yes.
Q. Is the DSM amount recovered through the base rate amount on the -- on the bill, or is it recovered through a separate tracker?
A. Separate rider.
Q. So, for instance, if there's a large fluctuation in the DSM amounts --
A. Uh-huh.
Q. -- if that's not explicitly noted on the bill, customers wouldn't necessarily know what that's due to, correct?
A. The fluctuation?
Q. The fluctuation.
A. Yeah. I mean, if it's -- I mean, unless a -- you know, a customer as far as wanting to know why the increase, they would have to call in, but we don't put any information on the bill stating why it's increased.
Q. Right. But -- so if, for instance, after a DSM factor may be updated --
A. Uh-huh.
Q. -- for the new year --
A. Uh-huh.
Q. -- and it's -- let's just say it's three to four times higher than it has been in the past.
A. Uh-huh.
Q. If that was recovered in a -- if that's recovered as an individual line, customers can look at the previous month and see that change, correct?
A. Yeah. I mean -- yes.

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

A. Uh-huh.

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

A. Uh-huh.

Q. -- know the reason, right?

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

Q. They could call in --

A. Call in --

Q. -- I think is what you said?

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

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

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

Q. With -- and specifically the HEAP funding --
A. Uh-huh.

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

A. Yeah. And -- and --

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

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

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

A. Uh-huh.

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

A. Yes.

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

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

Q. Are you involved in preparing the annual reports that are filed with the Commission every year?
A. Yes.

Q. And are you familiar with those annual reports?

A. Can you date one in specific for --

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

A. Witness binder?

Q. -- witness binder.

A. Yeah.

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

A. It's empty.

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

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

THE WITNESS: Uh-huh.

MR. OVERSTREET: I'm sorry?

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

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

MR. CHANDLER: That's fine.

THE WITNESS: Uh-huh.

MR. OVERSTREET: Go ahead.
MR. CHANDLER: Yeah, please. Please.

A. Okay.

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

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

A. Okay.

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

A. Do you know which annual report?

Q. This would have been the year 2016.

A. But do you know which annual report?

Q. This is the --

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

Q. This is titled Annual Report on the --

A. Okay. I know which one.

Q. -- the Public Service --

A. That --

Q. -- Commission's website.

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

Q. It's a 163-page document.

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

Q. So this does look familiar to you, then?
A. Yes. Yes. Yeah, I know which one.

Q. And do you mind to turn to the last page of
the exhibit? And let me know when -- it's year
2006.
A. Is that one that says 5 of 182 at the bottom?
Q. It is.
A. Okay.

Q. Can you confirm that the line -- it's the
third from the bottom, Total Sales to Ultimate
Customers. Does that represent, across that, the
amount of retail revenues, the amount of retail
kilowatt hours sold, or I guess the amount of retail
energy and the number of retail customers?
A. By the end of the year?
Q. Yes, for that year 2006.
A. Yes.

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

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

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

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

CHAIRMAN SCHMITT: Well, I understand, but overruled.

You may continue.

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

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

He states that in his direct testimony on
page 12, line 18 to 22.

A. Uh-huh.

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

A. To reflect the shrinking of the customer base?

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

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

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

A. Okay.

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

A. Yes.

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

A. Uh-huh.

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

A. Uh-huh. Correct.

Q. And subject to check, would you agree that
that's roughly an increase of 46 percent?

A. Subject to check.

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

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

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

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

MR. GISH: Thank you, Mr. Chairman.

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

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

CHAIRMAN SCHMITT: Of the annual report?

MR. GISH: Yes.

MR. CHANDLER: Mr. Chairman --

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

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

MR. CHANDLER: I think the -- I think that Mr. Sharp has indicated he's familiar with the annual reports, is involved in compiling them. I don't think there's an issue with authentication. Whether or not the Company believes that they have been provided proper context is -- I think they are more than -- it's their right to reintroduce the AG's exhibit to bolster Mr. Wohnhas or have him provide context if they would like when he's on the stand.

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

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

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

MR. CHANDLER: I provided the -- this
individual page from 2006 to 2016, but I am only
referencing -- I believe I did reference -- I had
Mr. Satterwhite read through all 11 years, but I'm
only referring now to 2006 to 2016.

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

MR. CHANDLER: Yes, sir.

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

MS. VINSEL: Staff will do that.

CHAIRMAN SCHMITT: Okay. Thank you.

MR. GISH: Thanks, Mr. Chairman.

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

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

MS. VINSEL: I have no further question.

MR. GISH: Mr. Chairman --

CHAIRMAN SCHMITT: Direct?

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

* * *
REDIRECT EXAMINATION

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.
Q.  -- correct?
A.  That's correct. I did misspeak. That line item would be separate.
Q.  So if there was a change in the DSM charges that were passed through to customers --
A.  Yes, that's correct.
Q.  -- it would be identified there?
A.  Yes.
MR. GISH: No further questions, Mr. Chairman.
CHAIRMAN SCHMITT: Any other questions of this witness?
If not, may he be excused?
MS. VINSEL: Yes, he may be excused.
CHAIRMAN SCHMITT: Thank you, Mr. Sharp.
MR. SHARP: Thank you.
CHAIRMAN SCHMITT: You may step down and you're excused.
MR. SHARP: Thank you.
MR. OVERSTREET: Your Honor, our next witness is Amy Elliott, and Mr. Gish will present her.
CHAIRMAN SCHMITT: Ms. Elliott, please raise your right hand. Do you solemn swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth,
and nothing but the truth?

   MS. ELLIOTT: I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Gish, you may ask.

MR. GISH: Thank you, Mr. Chairman.

AMY ELLIOTT, called by Kentucky Power

Company, having been first duly sworn, testified as

follows:

   DIRECT EXAMINATION

By Mr. Gish:

Q. Good morning, Ms. Elliott.

A. Good morning.

Q. Can you please state for the record your full

name, your position, and business address?

A. Sure. It's Amy Elliott, I am a Regulatory

Consultant for Kentucky Power, and my business

address is 101 Enterprise Drive in Frankfort, 

Kentucky.

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

A. I did, yes.

Q. And did you also adopt certain portions of

the testimony and data requests of Company Witness
John Rogness?

A. Yes, I did.

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

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

Q. And what is that --

A. -- and that --

Q. Oh. What is that update?

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

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

A. Yes, I would.

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

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: No questions.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions of this witness?

If not, Mr. Cook, questions.

MR. COOK: No questions at this time.

CHAIRMAN SCHMITT: Okay. Mr. Osterloh, questions.

MR. OSTERLOH: No questions.

CHAIRMAN SCHMITT: Staff.

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

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Ms. Elliott.

A. Good morning.

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

A. Yes, this is it.

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

A. Yes.

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

A. Okay.

Q. Can I have you look to lines 11 through 13 on
that page?
A. Okay.
Q. So Kentucky Power is proposing to apply a
gross-up factor for uncontrollable -- or, excuse me, uncollectible accounts and the PSC assessment fee to
environmental-related operating, maintenance, and other expenses recovered through the environmental surcharge; is that correct?
A. That is correct, yes.
Q. What factors prompted Kentucky Power to apply a gross-up factor to those expenses?
A. So part of my job is to monitor our recovery mechanisms, and in that make sure that all of the environmental costs are properly recovered through the environmental surcharge. So if we don't apply the gross-up factor for PSC maintenance assessment fee and the uncollectible expenses, then we aren't fully recovering our costs, because we are -- we're not collecting all of the revenue associated with those costs.
Q. To your knowledge, do any other AEP operating companies have an environmental surcharge?
A. Yes. Give me just a second. I know there are a couple that do. I think it was Staff 23, maybe, that asked that question that I referred to.
Oh, it's the third set. No wonder.

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

Q. No, that's okay. So it was item 23. Do you know which of the four Staff requests that was?
A. Yes. That was two. It was the second set.

Q. 23. Okay. Are you aware if there's a gross-up to any of those expenses -- or excuse me. Are you aware if there are included gross-up expenses in there?
A. Sorry, I'm not.

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

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

Can I have you turn, then, after -- it's tab 10, and these are your responses to Staff's fourth
data request, item 7.

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

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

A. Give me just a second, please.

Q. Sure.

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

Q. Okay. Okay.

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

Q. Okay.

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

Q. Oh, okay. Thank you.

A. So with the maintenance assessment fee and the uncollectible expenses, the test year amount
being included in the cost of service study, we are trying to capture the difference in the test year amount and the amounts collected through the environmental surcharge.

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

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

Q. Okay.

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

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

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

A. Okay.
Q. And that was -- that was a concern about double recovery.
A. Okay.

Q. That if calculating the incremental roll-in amount with the gross-up factor and calculating base rates and the gross-up factor, if there would be a double recovery.
A. I understand your concern. We could address that in the cost of service in the next rate case, yes.

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

Q. So the Tariff EDS, though, will be revised to reflect the 9.75 rate?
A. Yes, it will be.

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

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

A. That's okay.

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

A. 49.9, just to clarify.

Q. 49.9. Thank you.

A. Or 48.9. Sorry.

Q. 48.9.

A. Okay.

Q. I apologize.

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

Q. Please.

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

Q. Oh, thank you.

MS. VINSEL: We have no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: No questions.

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: None.
CHAIRMAN SCHMITT: I have none.

Mr. Gish.

MR. GISH: No redirect.

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

Mr. Kurtz.

MR. KURTZ: No.

CHAIRMAN SCHMITT: Anyone else?

May she be finally excused?

MS. VINSEL: Yes, she may be excused.

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

MS. ELLIOTT: Thank you.

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

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

MR. HALL: I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Gish, you may ask.

MR. GISH: Thank you, Mr. Chairman.

* * *

McLENDON-KOGUT REPORTING SERVICE, LLC (502) 585-5634
BRAD N. HALL, called by Kentucky Power Company, having been first duly sworn testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Good morning, Mr. Hall.
A. Good morning.

Q. Can you please state your full name, title, and business address for the record, please?
A. Brad N. Hall, Manager External Affairs. My business location is 855 Central Avenue, Ashland, Kentucky.

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

Q. And do you have any updates or corrections to your testimony or responses to data requests?
A. I do not.

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

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

CHAIRMAN SCHMITT: Mr. Kurtz, questions.
MR. KURTZ: I think so.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Hall, you're head of economic development?
A. Yes, sir.

Q. Okay. What type of companies do you recruit?
A. We primarily focus on larger industrial and large commercial operations.

Q. Manufacturers?
A. Absolutely.

Q. Okay. Why? Why do you focus on those companies?
A. Our focus in economic development is to focus on what we refer to as primary jobs, which are higher wage jobs that would then stimulate the economy for the secondary jobs, which includes retail and many other jobs.

Q. Okay. Is that the same type of process that the economic development, the state economic development department goes through?
A. Yes, sir.

Q. Let me give you an example. If a town has five barbers, or hairstylists, barbers, and two more move in, would that be -- that would be a 40 percent increase in the number of barber jobs, but they
would just be -- there wouldn't be any more
haircuts, it would just be -- they would just be
dividing the pie up seven ways instead of five ways.
A. Sure. Depending upon the demand for
barbering, I think you're correct.
Q. But when you bring in a manufacturing job,
there's no cannibalism of other jobs. That's
incremental new jobs that weren't there and it
doesn't take away other jobs, correct?
A. Sure. I mean, the real focus of economic
development is to try to bring in jobs that are
going to create a product that then would be
exported that brings new money to the region and to
the economy.
Q. And that's why states compete fiercely for
new auto manufacturers and those type of things?
A. Correct.
Q. It brings in new money rather than just
shuffling around the same retail dollars?
A. Correct.
Q. Okay. There was a press release yesterday.
A. Yes, sir.
Q. What was that about?
A. The press release was in relation to a large
manufacturer that's locating into Pikeville,
Kentucky, at the Kentucky Enterprise Park. It was a very large announcement and our company, our efforts was very involved in.

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

Q. That's very significant. Congratulations.
A. Thank you.

Q. How much energy are they going to use, about?
A. The estimation is 25 megawatts.

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

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

If not, does the Attorney General?

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

CHAIRMAN SCHMITT: Mr. Osterloh, questions.

MR. OSTERLOH: Mr. Gardner.

CHAIRMAN SCHMITT: Oh, Mr. Gardner. I'm
sorry. I didn't see you.

MR. GARDNER: Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Gardner:

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

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

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

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

Q. No. No, sir.

A. Yes.

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

A. I'm sure, subject to check.

Q. Mr. Satterwhite referred a couple questions to you. Do you -- have you seen that KCUC Exhibit 3, which is the economic development plan that was
presented at the Leadership Kentucky?

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

MR. GARDNER: If I may approach him.

CHAIRMAN SCHMITT: Yes, you may.

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

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

And the idea was, was to look at the coal miner, to look at the steelworker, break out the skills that those particular individuals have, and then determine what best manufacturing opportunities and other opportunities that those skill sets would work and transition into, those particular jobs.
And so this document is a representation of those skill sets that those workers can transition into.

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

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

Q. So are you familiar with BPM Lumber?

A. Slightly familiar, yes.

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

A. Sure. It's exporting a product.

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

A. I wouldn't know, but subject to check, I would agree.
Q. Okay. Let me ask you a question about your testimony and the attachment that you -- BHN -- BH
1, which was the blue -- regional blueprint for economic development, and that was produced by Insight for you-all; is that right?
A. Correct.
Q. And were you in your current position at the time this was developed?
A. Yes, sir. I actually created the idea for the program, developed the criteria for the program, and worked directly with the consultant.
Q. And this was -- this report was produced five years ago, 2012?
A. This particular report, yeah. I think it was actually produced in 2013.
Q. Okay. And if you would turn to page 9 of that report, where you're listing assets for the area.
A. I'm there.
Q. And at the very -- and this is where you're listing the regional asset inventory, and one of those is -- the very bottom one is hospital and access to medical care; is that correct?
A. Yes, sir.
Q. And having high-quality health care is an
important asset as you try recruiting facilities; is that correct?
A. It is an important asset. If you look at national statistics that's usually provided by a site location magazine, it's usually lower on the list. Not that it's not important, but when locating an industry, you're typically going to find a hospital wherever you're going.

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

So it's important, but it's a little further down the list.
Q. Sure. So you're not saying that having high-quality health care is not important?
A. Absolutely not.
Q. Okay. So the way Kentucky Power's tariffs are, those companies that have a demand of 1,000 -- a regular demand of basically 1,000 kilowatts are considered in the Industrial Tariff IGS, correct?
A. That's my understanding.
Q. Okay. And companies under your -- well, companies between 100 kilowatts and 1,000 kilowatt are determined to be large general service, correct?
A. That's my understanding.
Q. Okay. Give me some examples of the businesses around -- you know, what would be in those low 100 kilowatt, low 100s kilowatt? You know, at the 1,000 kilowatt, we know up in that range is going to be a business like Appalachian Regional Health Care, but at the low of that large general, what kind of business? Is that a service station? Is that a convenience store? I mean, what -- that's using -- that's kilowatt is roughly low 100s, what would that be?
A. So let me ask a question, if I may. Are you asking me if it's within the MGS tariff or --
Q. Well, what you're doing -- no. Right now what you're proposing is to consolidate small general and medium general into general, but what I'm focusing on is just the -- that large general
between 100 kilowatts and 1,000 kilowatts. That
category has not changed with your rate case.

So my question -- so I'm asking in that large
general service. At the very top of that size is
something like Appalachian Regional Health Care. At
the bottom of that category -- I'm not asking about
small, I'm not asking about medium, I'm asking what
kind of business would be in that, that category?
A. Well, I think the best way I can answer your
question is to talk that we've actually announced
several jobs that fall within that, that usage
category that you're speaking of.

In fact, Wrightway Mix Solutions is a company
that's locating in Greenup County that we were very
involved in. In fact, I had a personal relationship
with the CEO. They were ready to go to Ohio, and I
gave them a phone call and said, "Hey, give us a
chance to keep you in Kentucky," and so because of
that we are locating 130 jobs in Greenup County,
Kentucky, at the Wurtland Riverport that -- and
their usage will be somewhere around 350 to 380
kilowatts.
Q. Okay.
A. But those are valuable jobs. I think the
wage is $15 per hour.
Q. Okay.
A. The minimum wage. And our grant funds were directly involved in that program through the Ashland Alliance and the Wurtland Riverport.
Q. Okay. Well, where would a gas station fit?
A. You would have to look at each individual gas station and determine what their usage is.
Q. Okay. What about mom-and-pop grocery stores, where are they?
A. It would depend on the size of the grocery store, how many freezers they have, and how much usage they have.
Q. Okay. But those -- okay. Now -- if I could have that back, please.

So did you -- Mr. Hall, were you here and did you hear all of Mr. Satterwhite's testimony?
A. Yes, sir.
Q. Okay. Did you hear him say that there was -- when asked the question from the slide, I think by Staff, that there was no master plan for economic development, that it was in his head?
A. I did hear him say that, and I would like to say that we do have a plan. There may not be an overall master plan, there is discussions about large things that we want to accomplish, like what
Mr. Satterwhite was referring to. But there is an annual plan that's composed every year. We plan this, our work, for every year.

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

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

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

We have put in over $300,000 in that site, through geotechnical work, due diligence, and other things that were not done prior to our work as being a catalyst for economic development in the region,
and now there will be well over 1,400 jobs in that
park providing great wages for people in Pikeville
and Eastern Kentucky.

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

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

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

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

And, in fact, our efforts in economic
development are what's moving the denominator. If
we were not involved, I think you can look at the
history of decades of very little movement and
diversity of industry in Eastern Kentucky, and today
we can show proof of movement in Eastern Kentucky,
with over 2,000 jobs being added in a very short
period of time, and most of those wages are over $50,000 a year.

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

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

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

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

A. We track the metrics that I spoke of.

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

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

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

Q. How much -- so how --

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

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

MR. CHANDLER: It feels very good, though.

COMMISSIONER MATHEWS: It feels great.

MR. CHANDLER: It feels great.

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

MR. OVERSTREET: Yes, Your Honor.

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

MR. OVERSTREET: Surely. May I --

CHAIRMAN SCHMITT: If there is.

MR. OVERSTREET: May I turn around and
inquire?

CHAIRMAN SCHMITT: Yes.

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

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

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

MR. CHANDLER: Thank you.

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

MR. CHANDLER: Thank you.

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

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

CHAIRMAN SCHMITT: Okay.

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

CHAIRMAN SCHMITT: Okay.

MR. OVERSTREET: -- that would be responsive.

CHAIRMAN SCHMITT: I think that would be not only helpful to Mr. Gardner but to me. And let me tell you why I ask: Because I noticed, I guess last
week, in trying to review the testimony and the proposed settlement agreement, the issue about this K-12 tariff with schools, and some -- schools would be eligible, I guess, if their requirement was 100 kW or above, and so the question I asked Staff, which we couldn't answer, was: Well, what kind of -- what size schools are we talking about? What -- how many students? What are we -- how many schools, really, are there that might fit into that category, and then where would the others go?

MR. GISH: Sure.

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

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

CHAIRMAN SCHMITT: Okay. Thank you.

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

CHAIRMAN SCHMITT: Mr. Gardner.

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

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

A. Yes.
Q. Okay. Do you file that with the Commission?
A. No. What we file with the Commission is an annual report on the two grant programs that are in existence, which is the KEAP program and the K program -- K-PEGG program. We file that in March of each year.

MR. GARDNER: Okay. So what I'd like to make, if I could, Your Honor, as a post-hearing data request is say the last five years, your economic development study -- not study, but analysis of the results that I thought I heard you say that you-all prepare that on an annual basis.
A. Let me clarify. The results of what?
Q. The results of your-all's economic development activities.
A. We --
Q. Because that's what we're talking about here is how to measure success.
A. So I think what we track and what we could provide is, is, you know, number of prospects --
Q. Do you-all --
A. -- without names.
Q. Do you-all do that on an annual basis?
A. There is data that is tracked on an annual basis, yes.
Q. Do you-all provide that to anybody on an annual basis? I mean, I'm not trying to be difficult.
A. Internally, yes.

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

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

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

CHAIRMAN SCHMITT: Sure.

MR. OVERSTREET: But we'll follow up.

CHAIRMAN SCHMITT: Okay.

Q. So does it -- does that report describe the metrics that are used to evaluate the success, or is it much more general, that if we -- you know, we talk to 35 people, we -- you know, 17 of them
expressed an interest, two relocated? Is it more like that?
A. I don't think it's that granular. It's more of just tracking a sales funnel and the results of that sales funnel.
Q. Okay. So one of the things this rate case does, or -- and particularly the settlement, is add some additional dollars for economic development, and in particular about 300,000 new dollars are being added to the commercial class with this -- on the KEDS program.

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

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

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

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

A. They're currently in my testimony, with the
exception of EnerBlu that we talked about.
Q. Now, are these -- was Blu included in --
A. No. With the exception of EnerBlu was not, because it was just announced yesterday.
Q. Okay. So -- and, you know, I don't -- I don't mean to be a spoilsport, but these -- are these jobs -- for example, let me pick one that you list. 18 jobs with Quality Metal in Lawrence County. Have they -- is there a new facility? Has that broken ground? Are there --
A. That facility is in operation.
Q. It is in operation?
A. It's located right off of U.S. 23.
Q. Okay.
A. And I think there was 18 to 20 jobs created there in Louisa, Kentucky.
Q. Okay. 15 jobs with Thoroughbred Aviation Maintenance. Is that --
A. Yes, sir. That was an $800,000 investment at the Martin County airport, Big Sandy Airport in Martin County, adjacent to that, and they're 25 to $35 an hour jobs, 20 jobs created in Martin County.
Q. And those are currently --
A. The facility has been built. I'm not sure what the job count is today, but the goal is to get
to 15 to 20 jobs.

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

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

Q. Are they operational?

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

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

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

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

A. Yes, sir. In fact, we put $100,000 in that through the program. We moved -- we saved those jobs. Those jobs were in Martin County, Kentucky. They were originally in Prestonsburg, they moved to the industrial site at Honey Branch. They outgrew themselves through a new product that they were
making to create truck beds, and those jobs were
going to Nitro, West Virginia.

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

Q. Okay. And the 800 --
A. The governor drove out the first truck.

Q. Okay. And the 830 full-time jobs in the
service territory for Braidy Corporation? Excuse
me. 550 full-time jobs for Braidy, have they --
have they built their facility yet?
A. Sir, that's a two-year construction. They
have renovated the third and they're renovating the
fourth floor of Community Trust Bank in downtown,
establishing their headquarters. That's complete.
They have hired 60 employees at their headquarters.

They're starting construction of the facility
now in EastPark, which, by the way, we all -- we
could have lost Braidy Industries if not for these
grant dollars preparing EastPark as a qualified
site. They ran into some serious construction
problems at the South Shore location, and because of
the grant programs that we have establishing a
certified site at EastPark, they were able to simply
pick up and move to EastPark and save those jobs for
the region.

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

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

CHAIRMAN SCHMITT: Thank you.

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

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

MR. OVERSTREET: Thank you.

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

MR. OVERSTREET: Okay. Thank you.

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

MR. OVERSTREET: Thank you, Mr. Chairman.

(REcess from 11:02 a.m. to 11:15 a.m.)

CHAIRMAN SCHMITT: We are now back on the record.

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

MR. ZIELKE: Yes, sir.

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

MR. ZIELKE: Yes.

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

MR. ZIELKE: Sounds like a great Christmas present.

CHAIRMAN SCHMITT: Is that okay? Thank you. All right. Mr. Chandler, cross-examination, or Mr. Cook.

MR. CHANDLER: Thank you, Mr. Chairman.

* * *
CROSS-EXAMINATION

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
economic development.

Do you know when the groundbreaking for EnerBlu will be?

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

Q. The official announcement is next Friday?

A. Yes, sir.

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

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

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

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

Q. In your opinion, and this is only as it relates to Kentucky Power, are Kentucky Power's efforts ultimately, the purpose of them, to create
jobs, or is it ultimately to lead to increased sales for the utility that ultimately benefits other customers?
A. Can you restate the question?
Q. Let me -- I'll rephrase it differently.
Do you think that the ultimate goal of Kentucky Power's economic development efforts are to just create jobs or to create jobs and do economic development for the purpose of selling more electricity?
A. I think it's all of the above. You know, we are trying to focus on high-wage jobs, which then, in turn, will create that demand for electricity through residential use, through more people buying cell phones, buying gasoline, because you're creating more wages within the region. So that obviously drives electric usage as we create jobs, and then, yes, we do look for, you know, companies that are going to use electricity. But it varies. If you look at the examples that I have mentioned just today, we've gone from anywhere from 300 kilowatts to 60 megawatts.
Q. Would you agree that Kentucky Power is in the business of providing utility service?
A. Yes.
Q. And for a customer that currently pays the KEDS surcharge, and we'll say regardless of class, a customer that currently pays the KEDS surcharge, which is -- can you confirm that that's then used as grant money in the K-PEGG program, correct?
A. I can confirm that, yes.

Q. If a customer is paying the KEDS surcharge and they currently have a job, ultimately what is the benefit to them for paying that KEDS surcharge?
A. I think there's a lot of benefit for them paying that KEDS surcharge. I'll start with the fact that by increasing industry you are increasing jobs, you're increasing wages within the region that -- depending upon where that person works, it could create more demand for whatever product or service that they're offering, which creates more revenue opportunities for that particular company, which would then create the opportunity for higher wages for that particular person.

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

So I think there's a lot of opportunities for
every customer who's paying into the program.

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

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

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

A. I can't say prior to my tenure with the Company, which began in 2012. I know that in 2013, I believe through the stipulation agreement, we created the KEAP program, our shareholders. That's a complete shareholder-funded fund started at that point. So customers were not paying for that. Then in 2016 we created the KEDS program, where customers began to pay 15 cents per meter per month, and our shareholders match that dollar for dollar. And then there are some, what I refer to as Company economic development dollars that, depending
upon whether it's in the test year or not, would be
recovered from customers.
Q. You mentioned that one of the items that
Kentucky Power tracks to use as a metric to judge
performance is an increase in the number of jobs; is
that correct?
A. That's correct.
Q. Do you track the increased load?
A. I think what I do is, I track the perceived
or, I guess, planned load of a new industry that's
locating, and then we report that planned load. But
to say that I -- that I or my department would go
back and true up how much they're actually using, I
do not do that. That would be tracked through, you
know, our revenue metrics and billing and those
things.
Q. Does -- but you do believe that the Company
tracks that?
A. I mean, I'm sure we track it through our
billing, but I don't know if we specifically track a
customer and their usage in a particular report, but
I track their planned usage for a project when
they're locating.
Q. Did you present that planned load in the rate
case?
A. You mean for the announced projects that I referred to?

Q. Yes, sir.

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

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

A. Possibly Company Witness Vaughan.

MR. GISH: Mr. Chairman.

CHAIRMAN SCHMITT: Yes.

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

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

CHAIRMAN SCHMITT: You may.

MR. CHANDLER: Thank you.

MR. GISH: And to be clear, that was with regards to sales forecasts, but the information
provided in that addressed the load.

CHAIRMAN SCHMITT: Thank you.

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

A. The witness binder is empty here for AG.

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

A. What tab, sir?

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

A. D as in dog?

Q. D as in dog.

A. I'm there.

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

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

Q. Have -- can you confirm, and I believe this was your answer earlier, that you did not provide in the record what your planned, I believe you referred
to it -- excuse me. What the planned incremental load would be for announcements for -- due to economic development?

A. No, sir; I don't believe that's what I said. I said that in my testimony I did refer to load for some of the announcements that were in my testimony, but I did not provide a complete list for every company and that planned load.

Q. Do you have a corresponding list of the planned -- for the companies that were listed in the exhibit referenced in AG -- the Company's response to AG 1-387, do you have a corresponding list with -- and I believe you had not explicitly identified the companies but had given them nonidentifying names, company A, company B. Do you have a corresponding list with those planned amounts of expansion?

A. Do you mean for companies that we have not announced?

Q. So -- excuse me. So in response to that -- I think you have it in front of you, correct?

A. If you're talking about AG 1-387, I have it.

Q. 1-387. I think, as I took your answer, that you and Mr. Vaughan got together and created KPCO -- Exhibit KPCO R AG 1-387. You gave him the companies
and he went and got the load information; is that correct?
A. Correct. And that is for the companies that have been announced.
Q. That's right. And that's for their actual usage, correct?
A. I suppose that would be what that is, yes.
Q. Do you have in your possession, or in the Company's possession, those same companies with your planned amounts? You had mentioned that you --
A. I would have to refer back to the list of the companies I provided, and then I think we can get the corresponding planned load amount for each of those companies.
Q. As a post-hearing data request, would you please provide that for those exact -- that would be in accordance with that 1-387, so that company A was also company A in the post-hearing data request?
A. I think we could do that.
Q. Thank you.
MR. CHANDLER: That's all the questions we have.
CHAIRMAN SCHMITT: Staff, questions.
MS. VINSEL: Yes, we have a few questions.
* * *
CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Mr. Hall.
A. Good morning.

Q. Were you here yesterday during Dr. Dismukes' testimony?
A. Yes, ma'am.

Q. And did you hear his testimony that there are no metrics that can be used to determine or assess the return of a private company cost associated with economic development?
A. I did hear him say that, and I disagree with his testimony.

Q. Could you -- could you explain?
A. Yes. Because I believe that, you know, if you look at my testimony, if you look at the answers that we've provided, you can look at the grants that we have participated in with the various different companies and how we have touched each of those companies and the jobs that they have provided with each of those companies.

If you look at the education opportunities that we have provided to our local economic developers, if you look at the studies that we have provided that we know the companies that we have
announced have said, "Without this information, we could not have located in Eastern Kentucky," I think that all that data together can prove that there are metrics you can look at to show that we have been involved, we have touched these companies from the beginning to the end, we've invested these grant dollars through our partners like Ashland Alliance, One East Kentucky, City of Pikeville, the Northeast Kentucky Regional Industrial Authority, their sites.

I think there's a lot of things that we can look at to show that there is a direct benefit of these investments to create over 2,000 jobs in a very short period of time.

Q. And I'm a little confused about a previous conversation with Mr. Gardner in terms of metrics, and can you clarify that Kentucky Power has specific metrics, and beyond tracking the activities, but metrics.

A. Well, I think -- I don't want to be difficult, but I have to understand what you mean by metrics, because a metric is to say that you have a goal and then that you're going to try to achieve that goal.

Q. Yes.

A. Well, we do have goals, and it's about, you
know, how much -- how many projects do you have and how many sites are available. All those things fit into a metric that we use.

And to say that it's in a grid somewhere, I don't think we have that, but what we do is we track job counts, capital investment by those announcements, we track their planned load, and we track those types of things. And then we hope that we get from the sales funnel to the finished product, and we've done that with over 2,000 jobs now.

Q. When you mentioned having goals, that was helpful to help me understand this, this question.
A. Sure.

Q. So that did that. Are you familiar with SunCoke Energy?
A. Yes, ma'am.

Q. Okay. Can you tell us what is the status of the plant that was to be constructed in South Shore?
A. I know that that project was underway when I took this job in 2012. I think it was referred to as Project Raven, if I'm not mistaken.

I know there was a lot of work done by a lot of folks to work on that project, but through -- as I understand it, through market forces, that project
is now dead.

Q. Oh, okay. Thank you.
A. Uh-huh.

Q. Do you have the KCUC Exhibit 3 in front of you?
A. I had Mr. Gardner's copy, and I think he took it back.

MS. VINSEL: If Mr. Gardner doesn't mind sharing that copy again.

MR. GISH: Thank you.

A. Thank you. I have it.

Q. Could I have you turn to page -- it's numbered page 9, and that slide is titled Total Investment Since 2012.
A. I'm there.

Q. I know in your testimony you provided similar information, particularly about the KEAP program, K-PEGG investment. The line that says Other Investments, can you tell me what that consists of and how much of that is the grants from AEP?
A. So none of that -- well, okay. Let me ask a question, if I can. "Grants from AEP," what are you referring to there?

Q. Let me -- let me bring up exactly. Well, I'm sorry, I've lost that page, but in one of your data
requests you distinguished. I believe it's AEP business and community grants.

A.  Okay. Well --

MR. GISH:  Does it look like this?

A.  -- what I can say is -- I'm sorry.

MR. GISH:  Does it look like this, Ms. Vinsel. I'm sorry.

MS. VINSEL:  It did not look like that.

MR. GISH:  Okay.

MS. VINSEL:  But that may have the answer for me.

MR. GISH:  Yes.

MS. VINSEL:  May I -- may I look?

A.  I'm sorry. I just want to make sure I'm answering the appropriate question.

Q.  And I want to make sure that I'm very clear. Thank you. Yeah, AEP Corporate Economic Development.

A.  Okay. So, yes, that's what would be under the Other Investments. And so these are dollars that are budgeted by the Company to spend in economic development over a period of time, and it also includes monies that come from AEP Service Corp that has -- or I guess it would be actually AEP Corporate that would give us money to focus on
certain projects that may be above and beyond the scope that was initially anticipated.

An example of that would be the Insight Consulting effort. You know, that program was a very long program, it was about $175,000, far beyond the budget that we had at the time for Kentucky Power, and so AEP gave us additional dollars in order to cover that effort. For the importance of the future, we needed to have that plan.

So those investments are investments that are budgeted by the Company to be used in economic development.

Q. Thank you.
A. Uh-huh.

Q. What is the criteria for deciding which project will receive a K-PEGG grant?
A. So when we developed the program, the K-PEGG program, we provided a plan to the Commission, after that was approved, in how we would handle these grants: the application, the development of the people who participated in our committee, and then the criteria that -- what we look for, the programs and the projects that we're trying to fund, which included, you know, assisting local economic development agencies or even creating them if they
didn't exist, like One East Kentucky, which didn't exist prior to this. Working on workforce solutions, to be able to train our workers to make that transition from one industry to the other. To do site preparation so that sites are ready. 

You know, you look at the Golden Triangle. You look at Bowling Green, they had sites ready, and Eastern Kentucky did not. And we have been able to help them with the Eastern [sic] to that. And so those criteria were laid out in the plan. 

And so when the committee, which is made up of eight representatives, which two of those are from outside the Company, one being the CEO of the Kentucky Association for Economic Development and the other being the sites and buildings manager at this time for the Kentucky Cabinet for Economic Development. 

We receive those applications, we review them to see if they meet with the criteria that we laid out for the Commission, and then we make sure that, number one, they filled it out appropriately, they have got a plan, they can do what they say they're going to do, that there's -- you know, it's reality-based, and then there is a vote by that committee to be able to move forward or not.
Q. Can the K-PEGG -- K-PEGG grants be used for workforce training?
A. Absolutely.
Q. And have there been K-PEGG grants for workforce training?
A. Yes, ma'am. One in particular is the KEAP program invested $50,000 into a project in Paintsville, Kentucky, called eKAMI. Kathy Walker has been heading up that effort there. That is a certified, numerically-controlled machining school that's now got their first class underway in the old -- what was going to be the pharmacy in Paintsville, pharmacy school, is now this training facility. They've already produced some workers in this, and these folks coming out making somewhere between 20 and $30 an hour right out of the school, and it's a 16-week program.

So we've been involved in that. We've been involved in the labor analysis, which helps us understand what to train. We've provided some funding to the Hazard Community and Technical College so there would be fast-track welding programs there, because you got a lot of miners in the region, and if you -- you know, we put -- I think we had a hundred of them in a room in one of
our labor analysis meetings, and we said, "How many of you are welders?" And everybody in the room raised their hand. And then we said, "How many of you are certified welders?" And it was about four.

And so what we realized was that they had the experience but they didn't have the certifications. So we helped Hazard Community College develop a fast-track welding program where they could go in in five weeks and get that paperwork that they need to be able to transition into any industry.

So we've got a lot of examples through the grants of how they're impacting workforce training, and that's very important, because that's the number one challenge in locating industry. Workforce is the challenge. And that's one thing that Eastern Kentucky has, and that's workforce. And we've documented now how we can put them to work.

Q. Thank you.

MS. VINSEL: We have no further questions.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

VICE-CHAIRMAN CICERO: I have no questions.

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: None.
CHAIRMAN SCHMITT: I have no questions.
Mr. Gish, any redirect?

MR. GISH: I have just a couple.

REDIRECT EXAMINATION

By Mr. Gish:

Q. First, earlier you mentioned test year dollars related to economic development that are included in base rates?
A. Yes.

Q. And that's just -- you know, and that's a budgeted amount that could be changed? It's not protected like the K-PEGG fund is, correct?
A. Correct. I mean, that's what I would consider a great thing about the K-PEGG program is that it's a commitment between the Company, the customer, and the Commission to dedicate these funds to economic development.

So, you know, an example of if there was a budget constraint within the Company and they needed to reallocate dollars, these dollars cannot be reallocated. They must be spent for economic development within our service territory.

Q. And you mentioned other utilities, both -- I think probably within Kentucky, and I know historically it's nationwide, have been involved in
economic development. Is that sort of funding through base rates, what you were describing?

A. Yeah, it's my understanding that they would spend these dollars and then recover them through their rates.

Q. And yesterday you were here when Mr. Satterwhite was testifying, correct?

A. Yes, sir.

Q. And you heard the discussion that he had regarding potentially transferring some money from the KEDS program to the HEAP program; is that correct?

A. I did hear that.

Q. Out of the residential charge. Do you have any thoughts on the long-term benefit of doing something like that?

A. Yes. I mean, it's certainly an option to do, but I would recommend that we not do that. And certainly I empathize with the folks that are struggling and need that help.

And, Mr. Chairman, I know you're from Eastern Kentucky, and so I am, a lifelong resident, grew up in Floyd County, and I understand the impacts of that region, it affects my family and my friends and many others, but I believe that by transferring that
we're transferring to the symptom and not the
disease.

The investments that we make with these
programs are creating long-term solutions that we
haven't seen in decades in Eastern Kentucky. I
think you know that we have funded a lot of things
that haven't created jobs or haven't created
efforts.

I know that Governor Patton's administration
worked really hard to establish these multi-county
economic development opportunities and these
industrial parks, but they never came to fruition,
and it's because they weren't finished. When he
left office, those programs changed.

And so through these programs we're creating
the solution. We're creating high-paying jobs that
are going to solve many of these problems. Not all,
but many of them. And so I would really love for us
just to stay in working on this long-term solution
to create solutions for Eastern Kentuckians so that
when we're creating jobs, we're creating
opportunity.

And these two jobs, these -- primarily Braidy
and EnerBlu, many, many industries are going to
follow them. They're creating products that have to
be taken and done something with.

So you've got eight other industrial parks throughout our service territory that need work. And if we don't solve those problems in those industrial parks, it's going to be hard to take advantage of what's coming with EnerBlu and Braidy Industries.

And I believe we're doing that. We have developed partnerships, we've developed regional economic development agencies, and we've developed strong, strong marketing programs that's working. And if we don't continue that, I'm afraid of what would happen. We need to continue it. And this is working.

And I know that Mr. Dismukes said the legislature should do that. Well, we've doing a lot of handouts for 50 years, and what solutions have we seen in Eastern Kentucky?

We're seeing solutions from these programs. We're seeing results. When I'm going to put 875 $81,000-a-year jobs in Pikeville, Kentucky, that's impact. That's real impact.

MR. GISH: No further questions.

CHAIRMAN SCHMITT: Mr. Gardner.

MR. GARDNER: One follow-up.
RECROSS-EXAMINATION

By Mr. Gardner:

Q. Mr. Hall, there's a notion that governments or utilities should not be socializing costs to try to create business or economic development, then there's another one that goes a little bit different direction that says that, okay, that the -- that the -- that the money -- if you're going to spend money for economic development from socializing other people, that you at least ought to -- that it's more effective if you spend that money and effort on local existing jobs or businesses rather than trying to recruit new ones.

And my question for you is: Do you'all track expansions of businesses that are a result of your-all's activities?

A. Yes. In fact, expansions qualify for our programs. If expansions are in consideration by existing programs, then we get involved. I mean existing companies, we get involved. And we've done that.

Great Lakes Minerals is an example of that, in Wurtland, Kentucky. That was a local company expanding. If you look at Wrightway Mix Solutions, that's a company located in Pikeville who is
creating an expansion in Greenup County, Kentucky.
We are involved in those expansions.

And, in fact, our economic development rider
tariff includes existing industries, that if they
add another 500 kilowatts of usage, then they can
take advantage of that tariff.

So there are opportunities for existing
businesses. You're right, existing business is
important, so we do have programs that address that
as well.

MR. GARDNER: Thank you.

CHAIRMAN SCHMITT: Mr. Chandler.

MR. CHANDLER: Thank you, Mr. Chairman.

RECROSS-EXAMINATION

By Mr. Chandler:

Q. Do you still have the page 9 of that Kentucky
Power slide show? We'll call it a slide show.
A. I have it.

Q. How much of that $931,150 in the KEAP is from
customer amount, customer -- from customers and how
much of it is from Kentucky Power AEP?
A. For the KEAP program, zero percent is from
the customer and 100 percent is from the
shareholder.

Q. 100 percent from shareholders?
A. Yes.

Q. And of the other investments, of that 1.7 million, how much of it is from the Company and how much of it would be from customers?

A. That's a harder answer to give, because that is Company money that's spent for economic development, and then depending upon how -- my understanding of rates, which is very simplistic, if it's in the test year, then we would recover that; if it's not, if that base is not in the test year, then we wouldn't recover it. So if we're recovering it, then it's customer money.

Q. Okay. Are you aware of any customer money that the Company collects in base rates for economic development?

A. That would be from the K-PEGG program. Half of that program is from the customer and half from the shareholder.

Q. So it's your expectation that at least the majority or all of that 1.7 million is from the Company?

A. Again, other than the other investments, which could or could not come from the customer, I think the majority from these numbers are from the Company.
Q. Are from the Company of that 1.7?
A. No. I thought you were talking about the 3.6 total.
Q. No, no. Just the 1.7, do you know if that's all from the Company?
A. I wouldn't be able to answer that question.
Q. And of the amount in K-PEGG, the just over a million dollars, how much of that is from Company, from the Company or AEP, and how much of it is from customers?
A. That is a one-for-one equal share. One -- 50 percent from the customer, 50 percent from the Company.
Q. So roughly $525,000 of it would be from --
A. If that's the math, and subject to check, yes.
Q. So without customers, the Company is still giving millions of dollars to economic development, right?
A. I would say, possibly, yes.
Q. Well, you're at least giving 900 -- the Company's at least giving 931,000?
A. So, yeah, that would make millions, so you're --
Q. Okay. A second ago you referenced some
studies, and you noted that customers said, quote, we couldn't have moved here without this.

Were you talking about, and maybe not exclusively, but specifically the Insight study?

A. Actually, I'm talking about a number of things. I refer to the Insight study. I refer to the labor analysis project that we were involved in which quantifies the data. I refer to our AEROready certification programs that have certified, I think, 11 counties in Eastern Kentucky as AEROready, meaning they're ready for the aerospace industry, which could be anything from manufacturing a helicopter part to an airplane part to a spaceship. And we have our first aerospace company in Martin County now with the MRO company.

I'm referring to Burgess & Niple, which we did site certification programs in both Pikeville and Hazard. The McCallum Sweeney study that we did at EastPark which certified that park ready and available for business.

We're doing studies right now at the Big Sandy plant for part of the land there that we intend to turn into an industrial park, preparing that for future use of industry.

So there's a number of studies that we have
utilized these dollars for that are preparing the
region for future industry.

Q. Did you discover the needs for a lot of those
sites that you just discussed that there are studies
on out of the Insight study?

A. Yes. When we did the Insight study, the
initial part of the study was an eight-month study,
and that company came here for three to four days a
month for eight months.

We sat down with over 350 stakeholders. Each
county and municipality had the opportunity to
present their best sites to this consulting company
so that they were able to, what we call scrub each
of those sites, so that we saw if there -- what we
call -- we like to call them, you know, deal
killers. If you don't have -- if you got bad
wetlands on a site, well, then that's gotta be
mitigated before business can locate there.

So they scrubbed each of these sites. We
looked at the potential of all of these sites and
then determined where we could best get our return
on investment quicker, so that we have sites ready
fast, and then in the long term working on the
remaining sites to get rid of those due diligence --
or to take care of the due diligence items so that
they were ready for business.

So that site, that -- that study is what we utilized to help us plan where we make the best investments and work with our community partners to do that.

Q. Can you confirm that the Insight study was paid for with Company money and not customers'?

A. That would have been paid for through the other investments.

Q. And is it your understanding that that did not include any payments from customers?

A. That is not my understanding. As I said earlier, if it's part of the test year and we are recovering some of those dollars in the test year, then yes, it would be from the customer. I can't qualify whether or not or how much of that is from the customer or not.

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

CHAIRMAN SCHMITT: Mr. Kurtz.

MR. KURTZ: Yeah, I do have some questions, Mr. Chairman.

And based upon some of this discussion, I had prepared -- this is part of the record. I think it'll be helpful, though. It's the number of
customers for each rate schedule. And I didn't get
a chance to do all the math. And I want to --

MR. GISH: And, Mr. Kurtz, the yellow
highlighting here is for reference, not for --
because it's confidential, correct?

MR. KURTZ: No, it's not -- no, I put the
yellow in there. This is all public.

RECROSS-EXAMINATION

By Mr. Kurtz:

Q. Okay. So I'm going to ask you about this
10-cent-per-month-per-residential-customer charge,
the economic development versus the low income, the
discussion that you had with the Chairman a minute
ago.

Okay. You've got the number of residential
customers in three little categories at the top.
136,519 residential customers?

A. Okay.

Q. Can you just confirm? See, at the top?

A. I see.

Q. Okay.

A. Top line on the right.

Q. Do you have a calculator?

A. I do not.

Q. Okay. 136,519 times -- it's $1.20 a year,
correct, for residential?
A. Yes. In the settlement, with the proposed 10 cents, it would be $1.20 per year.

Q. That's $163,822 per year?
A. Subject to check, sounds about right.

Q. Okay. So the question is: What should that money be used for, low income versus economic development?
A. I think that was the discussion I had, yes, with the -- you know.

Q. Because I don't think it's either/or necessarily. Now, for -- the total number of customers is 168,107 at the bottom, correct?
A. Correct.

Q. Okay. That would mean there's 31,588 business customers or nonresidential customers?
A. Okay.

Q. Okay. If you wanted to put 160 -- if you wanted to put the 10-cent-per-month-per-residential to low income, just mathematically, and you wanted to still create the same dollar -- amount of dollars for economic development, my calculation is you'd have to charge the business customers an extra 43 cents per month and you would do both. Is that the way the math would work out?
A. What do you mean by "doing both"? I'm sorry, I didn't follow.
Q. You could -- you could redirect the 10 cents to low income and you could make up the difference with 43 cents per month on the businesses customers and you could do both programs. You could have full funding and you could have the low-income diversion.
A. It would not be my ability to make that decision.
Q. Okay.
A. I was simply making the argument that I believe we should focus on the cure and not the symptom. That was my discussion there.
Q. I get it. I was just walking through the math to give sort of the order of magnitude of how you --
A. Sure. I mean, it would be an option.
Q. Yeah. Okay. Now, the 2,000 new jobs, those are direct jobs, correct?
A. Those are direct jobs; that's correct.
Q. Now, in addition there'll be spin-off jobs from what is known as the job multiplier effect, correct?
A. Absolutely. According to the science, if it's a manufacturing-based job, I think it's a
one-to-one ratio for jobs that would be created outside the direct job.

Q. Now, KIUC Witness Kornstein identified the job multiplier effect. He's got it for Kentucky Power service territory on page 5 of his report. But, for example, for petroleum and coal products, the job multiplier is 6.5, so that every one job creates 5.5 spin-off jobs.

A. I have heard that. I'm not sure I know that number, but it sounds accurate.

Q. Okay. It's in the record. So that's a high job multiplier. And for -- by way of other example, primary metal manufacturing has a three-job multiplier, which means that every primary job would create two spin-off jobs.

A. That's correct.

Q. Okay. So if the job multiplier was 6.5, which is very high, probably not that high, that would mean there would be 11,000 -- be 5.5 additional jobs for every one of the 2,000, which would create 11,000 spin-off jobs?

A. Correct. And again, I said one-to-one a moment ago. It depends on what that manufacturer is. As you have stated, there's different categories, and that multiplier changes based on
that category.

Q. And if it was a three-job multiplier, the primary metal manufacturing, it would be -- your 2,000 direct jobs would create 4,000 spin-off jobs?

A. That sounds accurate.

Q. Okay. Now, they won't be as high paying as the direct jobs, they'll be more service sector jobs, but they're still jobs?

A. Yeah. And that varies depending upon whether it's a trucker versus something else.

Q. Now, also on page 5 of Mr. Kornstein's testimony, he identifies the job multiplier for a retail company is 1.1, which means that every one Walgreens or whatever creates one-tenth of a new job, because it's just -- you're just shuffling, basically, the same money around?

A. Right. Well, and it's not just about shuffling the same money, which is a good point, it's about how the industry drives the need for supporting industries.

Q. Right. Right. We've seen that with Toyota for sure. Think about how many new tire and wheel and doorknob and everybody else is located in Central Kentucky, correct?

A. Correct. I think, you know, we're now number
two, I believe, in automaking in the state of Kentucky. I think we have four OEMs in the state, but we have about 400 auto-related facilities throughout the state, so you can see how the driver works.

Q. Now, that was a pretty good investment way back in the day, right?
A. Absolutely.

Q. Right? Okay. Now, Mr. Kornstein also noted that Kentucky is the second most energy intensive manufacturing state in the country. Did you look at his testimony?
A. I did look at his testimony, but I don't have it in front of me.

Q. Okay. Now, energy intensity. This is a -- this is a fair point. There are Kohl's and McDonald's and, you know, retail in Hawaii and Alaska where the price of electricity is four or five times what the price is that Kentucky Power sells for. Is that probably fair?
A. Yes, there are many states that have much higher energy costs than we do.

Q. And that's because the service sector has to go where people are, and it's just a higher cost of doing business, but if they want to sell stuff in
Hawaii or Alaska or California, they just have to pay higher electric rates?

A. Correct.

Q. Now, but there's no steel companies or auto manufacturers in Hawaii or Alaska for obvious reasons. Among other things, the cost of energy is just too high?

A. Exactly. The cost of energy is a big driver for industries like the steel industry. And workforce. So energy prices, workforce, they have to go where that is. They can't just go where the customer is. They're worried about raw materials and many other things.

Q. Because their customers are around the globe?

A. Correct.

Q. Okay. As you grow the economy and you grow the customer base and so forth, increase the denominator -- excuse me -- that lowers the price of electricity for everybody because the fixed costs are amortized over more units?

A. It does lower the cost to serve.

Q. Okay. Okay.

MR. KURTZ: Thank you, Mr. Chairman.

CHAIRMAN SCHMITT: Any questions from any counsel for any of the other settling intervenors?
Staff, questions.

MS. VINSEL: No, no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

Commissioner Mathews.

EXAMINATION

By Commissioner Mathews:

Q. Have you done any analysis on these 2,000 jobs to see how many of them will fall under the GS, the LGS, or the IGS categories?

A. I wouldn't say I've done an analysis, but based on the planned amount of demand that each of those would have, I think we can assume what tariff they will be on, but until a contract is reached with some of those or until they sign their contract, we don't know exactly where it would fall, but I think we could make a reasonable estimation.

COMMISSIONER MATHEWS: Would you ask him to do that in writing?

MS. VINSEL: Yes. I'm sorry.

COMMISSIONER MATHEWS: In a post-hearing data request. And with the recognition that predictions are always going to be wrong.

THE WITNESS: Yes.

COMMISSIONER MATHEWS: Okay.

CHAIRMAN SCHMITT: Any other questions?
COMMISSIONER MATHEWS: No, that's all.

EXAMINATION

By Chairman Schmitt:

Q. Mr. Hall, you're from Wheelwright, Kentucky; is that correct?

Q. Weeksbury.
A. It's close enough to where we don't have to count.

Q. I'm a lot older than you are, and I can remember when I was in high school, I was a lifeguard at the Paintsville, Kentucky, swimming pool, and other than Paintsville, Wheelwright was the only community in Eastern Kentucky, outside of Ashland, that had a municipal swimming pool.
A. Yes, sir. And I painted that swimming pool every summer.

Q. And right now Wheelwright is almost a ghost town, isn't it?
A. It is, sir.

Q. And Paintsville is headed, probably, in that direction. The reason that I -- that I point that out is, is I guess in -- and yesterday you were probably here. It was pointed out that -- and I
know there's a difference of maybe 20 or 30 residential customers from Mr. Kurtz's list from the one I had, but the 136,344 residential customers in Kentucky Power's service area, 26 percent of those are at or below the poverty level, and that's 35,756 residential customers. And of those, 11,438 residential customers' service was discontinued in 2016 because of inability to pay an electric bill.

I also noted that, I think in the direct testimony of Mr. McCann, who will be here, he indicated that he thought this increase of 15 cents to 20 cents on the residential HEAP program was inadequate, which led me to suggest not only adding that 5 cents, but taking the 10 cents from the suggested economic development surcharge and adding that on to the HEAP program so that instead of a total of 30 cents with a customer match -- with a Company match, it would be 60 cents. And that, it doesn't seem to me, would hurt the Company's economic efforts at all.

I have -- we've had, I guess, I think about 150, 60, 70 comments in writing at this Commission, and I picked out two that I thought were significant, and I'm going to read them. They are more or less representative of every one that we've
received.

And here is a person, I won't -- the name is in the record, I won't name this person, but I happened to recognize the name because years ago I used to know this woman's brother and I knew her father, both of whom were in the coal business and were marginally successful in the best of times.

And here it -- here it reads: (Reading) October 28, 2017. Kentucky Public Service Commission. Dear sir: I'm writing today to respectfully ask you to deny AEP Kentucky Power the rate increase they are seeking. It would be devastating for most of us in Eastern Kentucky should the rate increase be granted. I'm retired, live alone, and live month to month on Social Security. I cannot sustain another increase on my power bill. I'm on their budget plan and pay $262 a month, which leaves me with barely enough to pay my other bills and buy groceries. I keep the thermostat on 60 degrees and wear a jacket in the house to stay warm. My family was in the coal business, and now we're out of business. Why can't AEP Kentucky Power tighten their belts and manage their expenses the way we have to on a limited income? In consideration of the people of Eastern
Kentucky, I'm requesting that you deny AEP Kentucky Power a rate increase.

And then the second one is probably one of the best to-the-point letters I've ever seen. It came to me personally. I don't know this lady. She's from Freeburn in Pike County, but it came to me as Chairman of the Public Service Commission. September 29th, 2017. (Reading) To whom it may concern: Please no more rate hikes. I get $465 a month to live on. I would be better off dead. I'm only existing, not living. My life should be better than this in a country so rich.

All I'm saying to you is, if this woman -- in one month her gross check wouldn't buy five shares of Kentucky Power Company stock, of AEP stock. If there's somebody that can pay for economic development, it ought to be the people who are going to immediately and directly benefit the most from it, and that's Kentucky Power. Kentucky Power's shareholders can give this woman 15 cents a month on her bill and that of the residential customers. That's my position.

Thank you.

A. Thank you.

CHAIRMAN SCHMITT: No further. I have
nothing further, unless you want to --

MR. GISH: That's -- no, sir.

CHAIRMAN SCHMITT: May this witness be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Thank you. You may step down.

MR. OVERSTREET: Our next witness is Mr. Ross, Your Honor.

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

MR. ROSS: I do.

CHAIRMAN SCHMITT: You may be seated.

Counsel, you may ask.

MR. GISH: Thank you, Mr. Chairman.

TYLER H. ROSS, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Mr. Ross, can you please state your full name, position, and business address?
A. Tyler H. Ross, Director Regulatory Accounting Services, AEP Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215.

Q. And, Mr. Ross, did you have -- I'm sorry. Did you file testimony and responses to data requests in this case?

A. Yes, I have.

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

A. I do not.

Q. If I were to ask you the questions that are in your testimony and your data requests again, would you give the same answers?

A. Yes, I would.

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

CHAIRMAN SCHMITT: Thank you.

Mr. Kurtz, questions.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Counsel for any of the settling intervenors, any questions of this witness? If not, Mr. Cook, Mr. Chandler.

MR. COOK: No questions, Your Honor.

CHAIRMAN SCHMITT: Mr. Osterloh.

MR. OSTERLOH: No questions, Your Honor.
CHAIRMAN SCHMITT: Mr. Gardner, none.

Staff.

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

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Ross.
A. Good afternoon.

Q. Do you have a copy of your response to Staff's fourth data request with you?
A. Yes, I do, I think.

Q. If you can turn to --
A. Just to make sure, is this the -- I want to make sure this is the sheet real quick.

Q. I think it prob --
A. This is for estimated 2017 employee medical benefit costs?

Q. Yes. It was -- it was the attachment filed in response to PSC 4, item 6.
A. Okay. Yes. Ready.

Q. Does the information contained in this schedule contain medical insurance costs allotted to Kentucky Power from AEPSC, the Service Corp?
A. Their medical costs for the AEP system. It's a blended cost for the AEP system that was used for this calculation.
Q. I want to make --
A. Of which Kentucky Power is a subsidiary or a member of the AEP system.

Q. So there would be no additional cost to this that would have been allocated from the Service Corp, that would be rolled into --
A. Not to my knowledge, no.

Q. Okay. Were you here yesterday when we discussed the blended funding column?
A. Yes, I was.

Q. As a post-hearing data request, can you revise this particular schedule to reflect, instead of the blended funding, the actual employer contribution?
A. Yes, we can do that.

Q. And Mr. Satterwhite indicated you might be the best person to answer a question about accounts receivable.
A. Okay.

Q. Kentucky Power sells its accounts receivable to the parent entity; however, the bad debts remain with Kentucky Power. Can you explain why?
A. Well, first of all, AE -- Kentucky Power sells their accounts receivable to AEP Credit, which is a subsidiary of AEP. And they do that to
accelerate their cash flows for their accounts receivable.

So they sell those accounts receivable to AEP Credit, and then AEP Credit provides cash back to Kentucky Power, but there is a discount. There is a lower dollar amount that Kentucky receives, and the difference is due to bad debt expense, administrative costs, and also financing costs. And that bad debt expense is then included in Kentucky Power's cost of service.

So even though these receivables are being factored by AEP Credit, there's still a cost of service, if you will, for bad debt expense based on Kentucky Power's bad debt history.

As an example, I'll give -- maybe give a little more color. Let's say that Kentucky Power factors a hundred dollars of receivables, they would get $97 from AEP Credit, and the difference would then be recorded on Kentucky Power's income statement for their amount of administrative expenses, cost of financing, and also bad debt expense.

Q. I'm going to follow up -- one moment. But how would that $3 difference be reflected on Kentucky Power's income statement?
A. Okay. Then that $3, we then made an adjustment in our cost of service. Yes, it is in their income statement, but then in our cost of service that we filed in this case, we then made an adjustment to only include the bad debt expense in the cost of service.

Q. The Vice-Chairman had also asked a question about indicating that short-term financing is available at a lower rate than that received for selling the accounts receivable, and the question was a two-part: Why pay the premium and what's the benefit of selling the accounts receivable over short-term debt. So let's start with why pay the premium.

A. Well, I guess there's a couple things to consider here. One, obviously AEP Credit, they're factoring not only Kentucky Power, but they're also factoring for other AEP operating companies, so they're providing an economy of scale, if you will, to accelerate the cash flows of Kentucky Power plus other AEP subsidiaries.

So you have economies of scale because of AEP Credit and how it functions, and then also, obviously, you're accelerating cash flow for Kentucky. So those are obviously the benefits.
As far as a financing strategy and is this more advantageous financially, I don't know the answer to that question. And probably Company Witness Miller would be best to answer that question.

Q. Oh, okay. Thank you.

MS. VINSEL: We have no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

EXAMINATION

By Vice-Chairman Cicero:

Q. Okay. So you were initially given, the name to be the one that would answer accounts receivable questions, so I'm going to -- I'm going to start, and then if you want to direct me to --

A. Okay.

Q. Kentucky Power's list of witnesses is narrowing quickly.

A. Yeah.

Q. It's like musical chairs, whoever is left is the one that is holding the bag, I guess.

Following up on what -- the question that Ms. Vinsel asked you regarding accounts receivable and the factoring in the bad debt.

A. Yep.
Q. Typically accounts receivable is sold or factored for two reasons: Accelerated cash flow --
A. Yep.
Q. -- as you mentioned, and to reduce the risk on bad debt.
A. Uh-huh.
Q. And you pay a premium, obviously, to reduce that exposure to bad debt. That usually flows to the factoring company because that's included in the risk, the premium that they pay to take those. Would you agree with that?
A. In this situation, that does not seem to be the case. The Company --
Q. Well, I know that, that's why --
A. -- still has bad debt expense as far as, you know, its operations. The Company also, by the way, even though they factor to AEP Credit, they are still responsible for going out and servicing the debt, the collections from ratepayers.
So any -- based on Kentucky Power's historical bad debt rate, AEP Credit then factors that into the discount or the amount billed to A -- to Kentucky Power. They factor in that history for AEP Credit of bad debt expense.
Q. Exactly. So let's go to that factor. The
factor is .34.
A. Uh-huh.
Q. 34 basis points. Okay?
A. Yep.
Q. The average interest rate for funds borrowed from the Utility Money Pool is 48 basis points. The factored receivables are 195 basis points. So if I look at the difference between the average interest rate for funds borrowed and I look at the factored rate of 195 basis points, I come up with 147 basis points as the premium over short-term debt. But the bad debt is only 34 basis points.

What is the justification that Kentucky Power can give for paying this premium? I heard administrative costs, but surely -- you've already taken the risk out of the receivables by leaving the bad debt, so there's only administrative costs. Are you saying that that administrative cost is worth 147 basis points?
A. I'll -- I'm going to have to concede to Mr. Miller here, because I do not have familiarity with some of the background, if you will, as far as what rates and what AEP Credit charges to Kentucky, how that's calculated. I'm just talking about things from an accounting standpoint.
Q. Okay. I will -- I will hold for Mr. Miller.
A. Okay.

CHAIRMAN SCHMITT: Commissioner Mathews, questions.

COMMISSIONER MATHEWS: None.

CHAIRMAN SCHMITT: I have none.

Any redirect?

MR. GISH: No, sir.

CHAIRMAN SCHMITT: Any additional cross-examination?

MR. CHANDLER: The AG does have just a couple.

CROSS-EXAMINATION

By Mr. Chandler:

Q. You mentioned that the process you described increased cash flow; is that correct?
A. To accelerate cash flow.

Q. Accelerate cash flow. For Kentucky Power?
A. Yes.

Q. And that's of benefit to Kentucky Power, right?
A. Yes.

Q. Is it your understanding, did -- to your understanding, did Kentucky Power conduct a lead-lag study as part of this application?
A. I believe the Company did not do a lead-lag study as far -- in this filing.
Q. And do you know how they determined the cash working capital as part of this application?
A. I am not familiar with how -- that determination or that review process.

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

CHAIRMAN SCHMITT: Any party have any other questions?
If not, may this witness be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Thank you. You may stand down and be excused.

MR. ROSS: Thanks.

MR. OVERSTREET: Our next witness is Mr. Miller.

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

MR. MILLER: Yes, I do.

CHAIRMAN SCHMITT: Please be seated.

Counsel, you may ask.
MR. GARCIA: Thank you, Your Honor.

ZACHARY C. MILLER, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

Q. Mr. Miller, will you please state your name and business address for the record?
A. My name is Zachary C. Miller. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. And by whom are you employed and in what capacity?
A. I'm employed by American Electric Power Service Corporation as a Principal Corporate Finance Analyst.

Q. Mr. Miller, did you cause in this case to be filed seven pages of direct of testimony consisting of question and -- question and answers, six pages of supplemental testimony consisting of questions and answers, and also discovery responses?
A. I did.

Q. And were those prepared by you or under your supervision?
A. They were.

Q. If I were to ask you the same questions
today, would you provide substantially the same
answers?
A. Yes, I would.
Q. Do you have any changes or additions to your
testimony?
A. I do not.

MR. GARCIA: Your Honor, the witness is
tendered for cross.

CHAIRMAN SCHMITT: Thank you.

Mr. Kurtz, questions.

MR. KURTZ: No questions.

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

If not, Mr. Chandler, Mr. Cook.

MR. COOK: At this time we do not have any
questions.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Yes, we have follow-up
questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Miller.
A. Good afternoon.

Q. See, we can check the clock.

A. You got it. You got it, yeah.

Q. Yes. Verify it. I appreciate that.

In follow-up to that question about the accounts receivable, can you speak to the financing strategy for pursuing -- selling accounts receivable rather than pursuing short-term debt?

A. Sure. You know, factoring receivables is very similar to securitization, right? We're selling an asset at a discounted rate. If we were to not include accounts receivable financing in the capital structure, we would have to finance that at Kentucky Power's overall cost of capital, or weighted average cost of capital of long-term debt, short-term debt, and equity. So, I mean, it's a cost savings, low cost.

Q. Why would you not just finance it with short-term debt?

A. Financing with short-term debt, there's liquidity risks involved that are -- financing everything with short-term debt. I understand short-term debt is a low-cost alternative as well, but Kentucky Power does have limits in the amount of short-term debt it can borrow as limited by the
FERC.

Q. What are those limits?
A. It's currently $180 million.

Q. And is there 100 -- are there $180 million in short-term debt right now?
A. Kentucky Power's current borrowing level I think is approximately $10 million borrowed. That fluctuates on a daily basis, obviously. Kentucky Power utilizes its short-term debt capacity to meet its working capital needs, and that could -- you know, it could be invested on one day or borrowed the next day, just depending how cash flows shake out.

Q. Do you know how many times in the last 12 months that Kentucky Power has hit that limit of $100 million in short-term debt? 180. Excuse me.
A. Kentucky Power has never hit its limit of $180 million in the last 12 months.

MS. VINSEL: No further questions.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

EXAMINATION

By Vice-Chairman Cicero:

Q. Had they not used accounts receivable, how
many times would they have hit that $180 million limit?
A. They would -- to my -- to the best of my knowledge, they would have never exceeded the $180 million limit.
Q. I don't believe they would have either, but thank you for confirming that.

So we're back to the original statement. I understand all the philosophy about utilizing receivables, you're selling an asset, it's being discounted. The question is: The discount, is that premium valuable enough to say that AEP should be able to utilize a premium rate selling -- or buying receivables from a subsidiary that exceeds what the risk factor is? If you're going to leave the bad debt at the subsidiary and not take it up with the receivables, what's -- what is the premium being paid for?
A. Okay. I didn't -- fair question. I'd like to address -- first, I think you indicated something like Kentucky Power's borrowing cost is .48 percent.
Q. .3 for the -- you have a pool, I'm just --
A. Yeah.
Q. -- using your pool as an example because it's part of the exhibit, that says that the average
borrowing cost out of the pool of money available to Kentucky Power and other members of that pool is .48. There is a range that exists in that pool. I took the average.

A. Okay. Okay. Yeah, I was going -- I just -- their current short-term debt borrowing rate is approximately 1.5 percent as compared to point -- .48 is that average.

Q. Going to the outside?

A. In the pool. In the pool their current borrowing rate is 1.5 percent.

Q. So why does your exhibit --

A. Approximately.

Q. This is Exhibit RP 60 of 138. It says, (Reading) The maximum interest rate for funds borrowed from the utility in 2015 was 87 basis points, the minimum was 37 basis points, and the average was 48 basis points.

So where does the 150 basis points come from?

A. First of all, I think you said that was 2015, so quite a bit -- a long time ago, and the rise in short-term rates. That -- I believe what you're reading from comes from the Utility Money Pool disclosure, which gives the absolute bottom range of the borrowing rate and the maximum range, so that's
where you're your average. The current borrowing
cost --
Q. Well, I'm getting my average from you. I'm
not calculating anything.
A. Sure. Sorry. From the disclosure, the
average borrowing rate. The current borrowing cost
is approximately 1.5 percent.
Q. "The current borrowing cost" meaning what?
2017?
A. As of today, correct.
Q. So what is the factor or discount rate that
the receivables are being charged down from AEP?
Because I'm using a 2015 rate of 195 basis points.
What is it?
A. I don't know the current factoring rate.
Q. Well, see, I can only compare apples to
apples. I can't compare --
A. I understand.
Q. -- apples to oranges, and you're giving me a
2017 rate and saying it's not applicable to my
comparison here that's 2015. So absent of that I've
gotta go with the data you've given me.
A. I understand. And --
Q. Right now there's a premium that's being paid
that I don't understand.
A. Okay. Let me try to help --

Q. Sure.

A. -- at least. So Kentucky Power's only available option for short-term debt is the Utility Money Pool as part of the corporate borrowing program, which we have listed as short-term debt in the capital structure. The borrowing -- current borrowing cost for that capacity is approximately 1.5 percent.

In Kentucky Power's capital structure we also have the line item for accounts receivable financing or factoring, and that is -- the cost on that is just the interest costs or the carrying charge that Kentucky Power pays to factor its receivables.

Q. Yes. There's a premium being paid, and my concern is, is that premium goes as a profit center for AEP, because whatever that interest earned is, is -- unless that -- those funds are coming from some other source, it's a profit center for AEP.

A. The funds -- so Kentucky Power gets its money, its purchase, from AEP Credit. AEP Credit works through conduit banks to purchase those receivables. So that interest charge is the bank's finance charge to AEP Credit and then passed directly through to Kentucky Power.
Q. And is there a premium being paid over what those consortium of banks are charging AEP Credit that AEP is charging Kentucky Power?
A. Not to my knowledge. It's direct -- direct charge.
Q. So post-hearing data request, I would like that confirmed, that --
A. Sure.
Q. -- it's a straight pass-through on the accounts receivable. Okay?
A. Sure.

VICE-CHAIRMAN CICERO: I don't have any other questions at this time.
CHAIRMAN SCHMITT: Commissioner Mathews, questions.
COMMISSIONER MATHEWS: None.
CHAIRMAN SCHMITT: I have no questions. Any redirect, Mr. Garcia?
MR. GARCIA: Thank you, Your Honor. That's it.
CHAIRMAN SCHMITT: Questions from anyone else?
MR. CHANDLER: Just one question.
CHAIRMAN SCHMITT: May this witness be excused?
MR. CHANDLER: Your Honor, I do have one.

CHAIRMAN SCHMITT: Oh, I'm sorry, you do have one.

MR. CHANDLER: I'm sorry. One question.

CROSS-EXAMINATION

By Mr. Chandler:

Q. What are bad debts -- what causes bad debts? At Kentucky Power, what causes the amount of bad debts? What leads to them?

A. I'm not an accountant. Bad debt is just the portion of our receivables that we expect not to collect from our customers.

Q. And do you know any reasons why those amounts go uncollected?

A. I'm -- once again, I'm not an accountant that deals with -- deals with our receivables. I apologize not being able to answer the question.

MR. CHANDLER: That's all we have, Chairman.

CHAIRMAN SCHMITT: May this witness be excused?

MS. VINSEL: Oh.

CHAIRMAN SCHMITT: You have questions?

RECROSS-EXAMINATION

By Ms. Vinsel:

Q. Why can't Kentucky Power go to the short-term
debt market itself?

A. Multiple reasons. One of the benefits of being part of AEP is that we do have access to the corporate borrowing program and its low-cost financing capabilities.

For Kentucky Power to go out on its own to issue short-term debt, first of all, it would have to obtain and maintain a short-term credit rating from S&P and Moody's, who we have discussed about at length at this hearing. There's quite a bit of cost to that.

To issue short-term debt you also have to have some sort of credit facility to backstop those borrowings, another additional cost that would be included.

I think that there's also charges that are involved with intercompany back-and-forth wire transfers. If we weren't part of the pool, Kentucky Power would have to incur wire transfers in and out of banks, which would come at a cost as well.

So I think the overall economies of scale and the benefits of the AEP corporate borrowing program are very, very evident as the low-cost alternative for short-term financing.

MS. VINSEL: Nothing further.
CHAIRMAN SCHMITT: Any other questions?

VICE-CHAIRMAN CICERO: Just one comment.

REEXAMINATION

By Vice-Chairman Cicero:

Q. The securitization would be the receivables, so if they weren't selling to AEP, they would be utilizing that on their own short-term facility, whatever that may be.

I'm not going to argue the point that they may have to establish themselves through Moody's and Standard & Poor's, but they could establish themselves.

And wire transfers, that's a minimum charge. That -- those fees aren't anything that would influence a decision on whether to have your own short-term borrowings or not.

It would all come down to whatever the interest rate is that the -- that is being charged or whatever the premium is. That should be the decision.

A. Absolutely. I was trying to identify as many costs as I -- that I could that be would be inclusive of the all-in rate.

There's also benefits on the investment side as well to where, a company has excess funds, it's
able to invest those in the corporate borrowing program and earn a return on that.

So I understand your point and I think it's valid.

Q. And as I said, the concern -- the only concern the Commission has is that AEP Credit is actually acting as a profit center for AEP and benefitting to the expense of Kentucky Power by paying a premium over what it could borrow at a short-term rate.

A. Understood.

CHAIRMAN SCHMITT: Anyone else have any other questions?

Any redirect, Mr. Garcia?

MR. GARCIA: None, Your Honor. Thank you.

CHAIRMAN SCHMITT: May this witness be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Okay. You may step down.

MR. MILLER: Thanks.

CHAIRMAN SCHMITT: And you are excused.

Thank you.

Another witness.

MR. OVERSTREET: The next witness is Mr. Wohnhas. Do you want to put him on or break for
lunch?

CHAIRMAN SCHMITT: How long do you think Mr. Wohnhas might take? It'll be a while.

MR. OVERSTREET: I'm not the determiner of that.

CHAIRMAN SCHMITT: Well, let's get -- we can get a -- we can get a half hour --


CHAIRMAN SCHMITT: -- with Mr. Wohnhas, so that's --

VICE-CHAIRMAN CICERO: I agree.

CHAIRMAN SCHMITT: Mr. Wohnhas, you've been greatly anticipated, your testimony.

MR. WOHNHAS: Yeah, I know. I hope I can live up to it.

CHAIRMAN SCHMITT: Please raise your right hand. Do you solemnly swear or affirm the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. WOHNHAS: I do.

CHAIRMAN SCHMITT: Please be seated.

Before we start and get into this on -- is there any issue remaining about the authentication of the Attorney General's Exhibit, what, 4 as being part of the Kentucky Power annual report for either
2006 or 2016 or both?

MR. GISH: No, Mr. Chairman.

CHAIRMAN SCHMITT: Okay.

MR. GISH: Thank you.

CHAIRMAN SCHMITT: Then I'm going to admit Mr. Chandler's Exhibit 4, is that correct, into evidence?

MR. CHANDLER: Yes, sir; it's Exhibit Number 4.

CHAIRMAN SCHMITT: Okay. Thank you.

MR. CHANDLER: Thank you.

(AG Exhibit 4 admitted.)

MR. OVERSTREET: Oh, I'm sorry. I'm sorry.

CHAIRMAN SCHMITT: You may ask.

RANIE K. WOHNHAS, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Wohnhas, please state your name, position, and business address.

A. My name is Ranie K. Wohnhas. I'm the Managing Director of Regulatory and Finance. My address is -- business address is 855 Central Avenue, Ashland, Kentucky.
Q. And, Mr. Wohnhas, did you cause to be filed in this proceeding direct testimony, rebuttal testimony, and responses to data requests?
A. And supplemental testimony, yes.
Q. And -- I'm sorry. And supplemental testimony?
A. Yes.
Q. And do you have any changes or additions to those?
A. I do not.
Q. And if you were asked those same questions here today, would your answers be the same?
A. They would.

MR. OVERSTREET: Your Honor, the witness is available.

CHAIRMAN SCHMITT: Thank you.

Mr. Kurtz, questions.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have questions for Mr. Wohnhas?

If not, does the Attorney General have questions?

MR. CHANDLER: I think Mr. Gardner is going to go before the Attorney General.

CHAIRMAN SCHMITT: Okay. Mr. Gardner,
proceed.

MR. GARDNER: Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Gardner:

Q. Mr. Wohnhas, how long have you been in your -- working for Kentucky Power?
A. Well, I've got 38 years total with AEP/APCO/Columbus/Kentucky Power.

Q. And have you been in finance and ratemaking the entire time?
A. No, I'm an accounting -- accountant by trade, so I started -- but I actually started customer service in the call center.

Q. Okay.

A. Then a lot of time in accounting. But since about 1987 I have been -- most of my time has been in regulatory.

Q. Okay. And in that -- in that position, I assume you've gone to many schools or classes on ratemaking and principles of ratemaking?
A. I have attended those, yes.

Q. When I was asking -- were you in the room when -- the many times that Mr. Satterwhite testified in this hearing?
A. Yes.
Q. Okay. Were you in the room when I was asking him questions about the thousand-kilowatt border and about, you know, the large differences at that border, and he said basically, you know, "If they come talk to me, you know, we can see if we can work something out. We'd have to come to the Commission to do it." Were -- did you hear --
A. I was here for those discussions, yes.
Q. Okay. And were you also here when he talked about, you know, "Just bet on us"? Did you hear that phrase that he used to describe?
A. I did.
Q. Okay. Now, that notion seems awful subjective. Is that -- that these decisions would be made personally by him. Is there any ratemaking principle that would support that analysis?
A. Well, let me start by, I think what Mr. Satterwhite -- and if I remember, the discussion was around the idea of the coal, CS-Coal versus -- and the CS-IRP.

And I think what Mr. Satterwhite was saying is that, you know, we are following the tariffs. And in this particular case CS-IRP has said, as we got it in the current tariffs, greater than a thousand kW.
And then all he was saying is that we would follow that, but that if a customer had reason to want to come in and discuss something differently, you know, we would be willing and we want to talk to that customer and see what and if something could be done, realizing that it would have to go before the Commission, because we're going to follow our tariffs, but that we'd at least like to have that opportunity to have that discussion.

It may be something that, from a regulatory standpoint, we could do right away, or it may be something, as we had the discussions, that we could think about in the future of maybe developing some type of difference in our -- in our tariffs.

Q. Okay. Since the -- well, let me ask this: In the prior case, did you participate on behalf of Kentucky Power in the prior 2014 case?
A. I was a witness there, yes.

Q. Okay. And was KCUC in existence at that time? Did they even participate in that case?
A. They did not intervene in that case. I don't even know if they were in existence at that time.

Q. Okay. The -- and in that prior case there was an agree -- there was a settlement, correct?
A. Yes, a nonunanimous settlement.
Q. Right. And the rates were raised in that case, correct?
A. Yes. The final order, rates were increased, yes.

Q. Okay. And since that rate case there's been a large reduction in the number of customers in your base. And, in fact, isn't that one of the reasons why you—all are filing this case is the loss of customers?
A. Yes. We said about half of what this -- the original requested amount had to do with the load reduction, which a lot of that goes to the loss of customers.

Q. Okay. And do I recall that there's some exhibit that would have said that number of loss of customers is in excess of a thousand?
A. Yes. Since the last rate case, yes.

Q. Okay. Now, are you -- are you familiar with the term "price elasticity of demand"?
A. I am.

Q. Okay. Would you like to explain your understanding as to what that is?
A. Wow, you're really testing me on that terminology. You know, it has to do with the supply and demand. And, you know, as, you know, price --
like anything else, the price goes up, it's very possible the demand would go down. There's some point where you try to meet that, my term, equilibrium of where that -- where that is.

Q. Okay.

A. That's a very high-level general description.

Q. And are you aware that there are such things as studies of price elasticity of demand?

A. Yes, there are.

Q. Okay. And are you aware that those occur in the utility industry?

A. Yeah, they do.

Q. Okay. Did Kentucky Power prepare a price elasticity of demand study before they filed this case?

A. No, we did not.

Q. Okay. Did AEP prepare a price elasticity of demand study for Kentucky Power -- on Kentucky Power's behalf?

A. No.

Q. Okay. Do you have the ability to have in front of you page -- the settlement agreement, Exhibit 1 to this case?

A. Yes.

Q. And that is -- and that's -- it's Exhibit --
it's also an exhibit, KCUC Exhibit 4, but whichever's easiest, that's what I'm going to be asking about.

A. And Exhibit 1 is the settlement revenue allocation; is that correct?

Q. Yes, sir.

A. I have that.

Q. Yeah. So that -- yes. And at the top it says Base Rate Case Settlement Increase?

A. Yes.

Q. Okay. So I'm going to ask you about some of the changes that occurred in the settlement from your original filing. Okay? And I'm going to use this to help me. And I'm going to ask you first a couple things. There was an increase -- well, I know that -- to just make it clear, we've got RS as a category, then we've got SGS and MGS, but those two numbers are combined into the new class GS, correct?

A. That is correct.

Q. So that's -- so the cumulative number at the bottom -- and I'll look at the HEAP KEDS number, for example. That 326,687 only includes GS, or the sum of SGS and MGS?

A. That is correct.
Q. Okay. So there was an increase to the GS class of about $316,000 when the KEDS -- when the settlement moved the KEDS number from residential to the commercial classes; is that right?
A. Well, that 360,000 is both HEAP and KEDS.
Q. Okay. Do you know how much is KEDS? If there are 30,000 -- if there are 30,000 commercial customers, then, you know, the vast majority would be --
A. Well, you know, if you took a -- you know, it is a -- it's a dollar a month, so if you took a $1.20 times 30,000 --
Q. Right.
A. -- you would come up with that amount.
Q. So just the vast majority is that -- is that additional money that went to the commercial classes that was not there before in your -- in your --
A. That was moved from the residential, yes.
Q. Correct. And was there a ratemaking principle that allowed that -- I mean, I understand what settlement discussions and -- was there a ratemaking principle that supported that?
A. I don't believe so. Again, I think to what you just said, it was part of settlement discussions.
Q. Okay.

A. And there's give and take, and so to say there's an official ratemaking principle, no.

Q. Okay. And, I mean, one could imagine that it happened just like Mr. Kurtz was suggesting a minute ago with, "Well, let's put 43 more cents on the business class, the commercial class. They can afford it." So that's -- there was no ratemaking principle for that, right?

A. No. I mean, I wouldn't say they said that they could afford it. I wouldn't use those words, but as -- you know, in -- as we talked about all the different issues, and there's quite a few that are listed in settlement document, you know, there was give and take on each one of those issues. And, you know, I don't think to any one of those issues can you say there's a ratemaking principle --

Q. Okay.

A. -- that was followed. It's about the give and take. I think the biggest, that it was fair, just, and reasonable for all the parties.

Q. Okay.

A. That would be the only -- and that's not a regulatory principle, that's based under statute with the Kentucky regulation that the rates be fair,
just, and reasonable.

Q. Okay. And in this settlement agreement one, the next line lumps together LGS/PS, but those are really separate classes, right?
A. No. They are -- they are one class. I mean, we -- okay. Let me back up. Mr. Vaughan combined these two in this line item.

Q. Okay.
A. All right? And he can -- he can explain, and much better, the reasons for putting them into one line item, but we -- you know, there is -- because they're all under the 500,000 discount that's given to the schools. All right? It's all part of that, that combination.

Q. Okay. So let me -- let me be specific, since we're talking about the settlement. In the prior case -- well, so one of the things that happened in the settlement that was not in the case that you-all filed here was that $500,000 was taken from -- or an additional obligation was put on LGS to fund the public schools class with an additional $500,000 that came from them; is that correct?
A. In our original application. In the settle -- let me just back up a little bit. In the settlement agreement in the 2014-396 case, a part of
that was a $500,000 credit to the public schools.

Q. Okay. Which came --
A. When we filed --
Q. Go ahead. I'm sorry.
A. So when we filed this case -- because part of the reason at that settlement is that we were going to go back, put some more meters on more schools to get a better sample of the schools to say does it make sense to continue this.

And when we gathered that information, got ready to file this case, Alex and his team -- or Witness Vaughan and his team determined that the $500,000 credit was not supported by the facts. So we, when filing this case, took that $5,000 credit out.

Q. Okay. And the settlement took it from GS class back to public schools, right?
A. I don't know that it -- I can't answer that it came out of the GS class. I know that we put it, that credit, back against LGS. I don't have a recollection that it came out of the GS class.

Q. Were you here when KCUC Witness Higgins was here yesterday?
A. I was.
Q. And he testified that that 500,000 was put on
the LGS class. And his point was: Well, if it's an important policy that we want to promote -- not a ratemaking principle again, but if it's an important policy to support the public schools, it should be borne by all the classes and not just LGS.

Did you hear him say that yesterday?

A. I remember the discussion. I don't -- I don't remember specifically.

Q. Okay.

A. And I guess what I would ask, just so that --

Q. We'll ask --

A. -- the record is straight, you know --

Q. We'll ask --

A. -- Mr. Vaughan can tell you exactly how that --

Q. Sure.

A. -- that was moved.

Q. And we'll ask him that question.

A. Okay.

Q. Fair enough. So the process of the settlement -- and let me just go through the classes that are here. So did the settlement -- did the settlement give residential customers as a class a special benefit?

A. What was that? The spec --
Q. Did it give them a special benefit, the settlement?
A. I guess what do you --
Q. Well, I mean --
A. What do you mean by "special benefit"?
Q. Well, let's -- okay. So did they get anything of value to them in the settlement that other classes didn't get, or were they harmed more?
A. I mean, all I can say, I still don't know about -- you know, I can tell you that through the settlement that the residential class received a reduced customer charge from 17.50 to 14. The -- as part of the settlement, the KEDS funding reduced to the residential class. Overall allocation of -- due to the revenues that we agreed to in total moved their percent increase on the average, as you see here, down below 10 percent to 9.36 percent, and with the surcharge is 9 percent, there in the other column.
Q. The -- that when you went to 9.3 -- 36 percent, there were some -- as part of the settlement, there were some reductions across the board, right, to all classes?
A. Yes.
Q. Okay. The SGS, MGS, combined GS, there was
an additional 300 plus thousand that went to them
that wasn't in the rate case, right, as part of the
settlement?
A. You'd have to ask Mr. Vaughan. I don't -- I
don't remember that amount specifically, and -- that
went from the GS -- or that increased to the GS.
You know, there was -- there was a lot of movements.
Q. Okay.
A. You know, you're asking for specifics of
300,000 for the GS. I just don't have that data.
Q. So is it -- do you know if GS had any of the
KEDS funds assigned to it before the settlement?
A. Yes.
Q. They did?
A. Yes. The KEDS was across all classes. I
mean, so when you say GS, remember, that's SGS and
MGS as it's currently filed.
Q. Sure.
A. So, yes, they had funds that --
Q. And was that the --
A. -- were assigned to them.
Q. And that was the 15 cent, or how much was
that per meter?
A. That was that -- well, no, that would have
been filed at the 25 cent. We had asked to be
increased from 15 cents to 25 cents.

Q. Okay. So that was a 10-cent increase that you were proposing?
A. Yes.

Q. Okay.
A. And they would have -- they would have had that in the original filing.

Q. Okay. And they ended up having a dollar per meter in the --
A. Yes.

Q. Okay.
A. As of the settlement day, they went to a dollar.

Q. Okay. So the settlement increased -- I mean, when you said they went to it, it was -- they were told --
A. Yeah, so in the KEDS, it increased from the --

Q. Okay.
A. -- 25 cents to a dollar.

Q. And likewise, LGS and PS. And did the -- did the industrial customers get a ben -- well, let me -- let me -- so did the LGS class -- well, okay. I'm going to have to ask these questions, then, of Mr. Vaughan because you don't know that the 500,000
that was assigned to them -- okay.

And do you know that the smaller customers, their rates were reduced as part of the settlement?
A. Again, I think that's Mr. Vaughan.
Q. Okay.
A. And the total amount, to -- let's get it accurate on the record. He was the one that prepared all the papers and all the allocations.
Q. I'll do that.

CHAIRMAN SCHMITT: Mr. Cook, Mr. Chandler, cross.

MR. COOK: Yes, we do have some questions, Your Honor. I believe we'll have over a half hour's worth of questioning.

CHAIRMAN SCHMITT: Well, let's see -- let's do ten minutes and then we'll go to lunch, otherwise we may be here till 8:00 o'clock tonight, and I don't think anybody wants to do that.

MR. COOK: Thank you, Mr. Chairman.

CROSS-EXAMINATION

By Mr. Cook:
Q. Good afternoon Mr. Wohnhas.
A. Good afternoon.
Q. What is bad debt a function of?
A. Bad debt is, you know, a function of a
customer not paying their costs. You know, it's for an electric bill.
Q. Okay. Did the Company conduct a lead-lag study in this case?
A. We did not.
Q. Okay. How was cash working capital determined?
A. One-eighth O&M.
Q. One-eighth O&M?
A. Yeah, as we --
Q. Can we get a little background on what that is, the one-eighth study?
A. It's a common practice of -- you know, outside of using a lead-lag study, to, you know, look at your -- your total O&M and take one-eighth of it for cash working capital.
Q. Thank you.
A. It's a straightforward calculation.
Q. Are you familiar with Case 2017-0009 where -- this is the coal plus tariff case.
A. I am.
Q. Okay. Thank you. Was there a deferral accounting treatment requested in that case?
A. There was -- we did request, if there was at a time where we -- there was any incurred losses
that, yes, we could defer some of those costs.

Q. Okay. Did the order allow those deferrals?
A. It -- you know, we would have -- we could have set it up, but then it would be requested in another proceeding to get recovery.

Q. Okay. Does the continuation of those tariffs in the stipulation discuss that current accounting treatment?
A. In the settlement we don't expressly talk about that. To date, we are not -- we have not. There's three -- as was mentioned earlier, there is three coal companies that have taken advantage of the CS-IRP, but they're -- you know, because they have taken just the IRP and no other issues, there's been no accounting set up of any deferrals because of -- there's no need for it because the IRP is just a function of helping them with the credit and them being able to, at a point in time, when asked, to interrupt their service. So there's been nothing accounting-wise at this point in time under CS-IRP -- or the CS-Coal. I'm sorry.

Q. Okay. Are you requesting it?
A. Yeah. We're asking for it to continue, yes.

Q. Okay. And so you're expecting it?
A. Yes.
Q. Okay. Now, in the stipulation, the residential customer charge is proposed to be increased, correct, from the current amount?
A. From the current, yes. From $11 to $14. The settlement has it at 14, a reduction from the 17.50 as was submitted.
Q. Okay. In your rebuttal testimony you state that if the Rockport deferral is accepted, it would negatively affect the Company's credit ratings; isn't that correct?
A. Can you report -- can you -- where exactly you have --
Q. Yeah. Your rebuttal testimony, page 8, starting at line 11.
A. Yes.
Q. Okay. So you confirm that?
A. Yes.
Q. Okay.
A. That's what I state --
Q. And --
A. -- and describe later on.
Q. Thank you. And did you request any opinions from any credit rating agencies to that effect?
A. An opinion?
Q. Yes.
A. No.

Q. Okay.

A. It's a -- it's a -- just a function of -- you know, when we talk about, as I explained, that, you know, when you look at the idea of these metrics, the -- specifically on page 10 of my testimony, we talk about the cash to debt and so forth, and if those are going to be decreased, then you take the risk of those credit ratings being decreased. You know, it's -- so it's an additional risk.

Q. All right. Given that, then, why did you agree to the propose -- the stipulation proposal for the deferral, then, which, according to your testimony, will lower the Company's credit ratings?

A. Sure. And, you know, at the bottom of page 10 of my rebuttal testimony, you know, it says this means any deferral is not a good idea, and I say no, it's about how much.

And as everyone knows, you know, what KIUC initially requested was much higher than what we ended up settling at. And, again, as we look at everything that was in the settlement, the OATT costs, the Rockport, all those things we, being Kentucky Power, was also looking at our -- what we thought that it would reduce our credit ratings to,
what our earnings would go to.

And so in that picture of everything that gets affected by coming to this agreement, the whole package as a whole felt that -- though I say it's additional risk, there is. There is still additional risk of these credit ratings, but we felt it was risk that we could overcome if we are able to achieve some of the things that we expect, including the rate stay-out, economic development, that it was something we could overcome.

Q. Your rebuttal testimony at page 12, you state that well-recognized regulatory principles allow recovery of reasonable costs.

In light of the severe economic decline the service territory has experienced over the past several years, is it reasonable for Kentucky Power to continue to recover the full weighted average cost of capital on the carrying charges applicable to the Big Sandy Retirement Rider, now being called the decommissioning rider?

A. Absolutely. You know, again, these are costs -- first of all, you know, the cost of running Big Sandy Unit 1, Big Sandy Unit 2, those coal-fired units started in 1963, 1969, 50 plus years of service to the customers of Eastern Kentucky, and so
those costs should be recovered, including with that cost should be the current value of -- again, in the last settlement, 2014-0396, agreed to take that, the decommissioning rider, and to spread that out over 25 years, again as a way to try to keep the costs down as much as possible for our customers.

But, you know, it's investment that the Company incurred and should get recovery, and it should be at whatever the current level of working capital -- of the WACC is set at. So, yes, I truly believe it's correct.

Q. What return on equity is applicable to the Big Sandy Retirement Rider?
A. Currently it's at 10.25, as was agreed to in the last settlement in 2014-00396. If -- is where it is today.

MR. COOK: Just one moment, Your Honor.

Q. If the Company was willing to agree to the Rockport deferral, which, according to your testimony, places credit ratings at risk, why is the Company not willing to reduce its --

MR. OVERSTREET: Your Honor, I'm going to object. He's misstating. The Rockport deferral was a $100 million deferral amortized over ten years. The settlement is something completely different.
If you want to distinguish them, then you can ask him the question, but it's misleading to conflate the two.

MR. COOK: I'm not sure I understand the nature of the objection. I was asking a question about the Rockport deferral, which is in the stipulation.

MR. OVERSTREET: Right. And my point is, Mr. Wohnhas' rebuttal testimony addressed Mr. Kollen's proposal, which is not in the settlement agreement --

MR. COOK: Well, I wasn't going to ask --

MR. OVERSTREET: -- and you're conflating the two.

MR. COOK: Well, I wasn't going to ask any questions about, you know, his rebuttal testimony. I'm now asking about the stipulation.

MR. OVERSTREET: That's right.

MR. COOK: And that's before the Commission.

MR. OVERSTREET: But you're conflating the two, Mr. Cook.

Your Honor, he's conflating the two. The issue --

MR. COOK: I'm sorry, I'm not.

MR. OVERSTREET: You are.
MR. COOK: It's relevant because it's before this Commission.

CHAIRMAN SCHMITT: I'll tell you what --

MR. OVERSTREET: I'm not objecting to whether it's relevant or not.

CHAIRMAN SCHMITT: We'll defer this for an hour and give Mr. Cook the opportunity to think about rephrasing the question.

MR. OVERSTREET: Thank you, Your Honor.

CHAIRMAN SCHMITT: And if there's some issue between the two, maybe you can discuss it then.

But before we leave, however, I would like counsel and the parties that are here who entered into the proposed settlement agreement to stay and step forward so that we can do our sworn testimony concerning the proposed settlement. All right?

And that would be -- I see that we have everybody here. I know Mr. Overstreet and Kentucky Power are here. Mr. Kurtz, Mr. Malone, Mr. Dutton.

MR. DUTTON: Mr. Dutton reporting for duty.

CHAIRMAN SCHMITT: I know Mr. Zielke is here, somewhere back there.

MR. ZIELKE: I'm here, Your Honor.

CHAIRMAN SCHMITT: Ms. Harris.

MS. HARRIS: I'm here.
CHAIRMAN SCHMITT: Mr. Malone. Okay. Are we here?

All right. Do you swear or affirm that the representations you are about to make are true and accurate to the best of your knowledge and belief?

ALL: Yes.

CHAIRMAN SCHMITT: Were you aware of and did you have an opportunity to participate in all of the negotiations that resulted in the settlement agreement?

ALL: Yes.

CHAIRMAN SCHMITT: Did you voluntarily sign the settlement agreement and do you fully support each and every provision contained therein?

ALL: Yes.

CHAIRMAN SCHMITT: Are there any provisions in the settlement agreement that you do not understand, object to, or take issue with?

ALL: No.

CHAIRMAN SCHMITT: Was any consideration of any kind offered or were any promises made other than what is expressly set forth in the settlement agreement to induce you to negotiate and sign the settlement agreement?

ALL: No.
CHAIRMAN SCHMITT: Are you aware of any reason why the Commission should not adopt and approve the settlement agreement in its entirety?

ALL: No.

CHAIRMAN SCHMITT: Thank you very much. Have a good lunch. See you in an hour.

(Recess from 1:01 p.m. to 1:58 p.m.)

CHAIRMAN SCHMITT: We are back on the record. Ms. Harris, did you have something to bring to our attention?

MS. HARRIS: I do, Your Honor. At this point Wal-Mart --

COMMISSIONER MATHEWS: Microphone.

MS. HARRIS: At this point Wal-Mart would request that it be released from the reminder of the hearing. We would accept the record as it is.

CHAIRMAN SCHMITT: Certainly. You may have permission to leave.

Anyone else who represents a settling intervenor who would like to leave, please feel free to do so, if not now, at any time through the end of the proceeding.

Thank you very much.

MS. HARRIS: Thank you very much, Your Honor. I understand there is bad weather throughout the
South, so I am attempting to fly home this evening, so I appreciate --

CHAIRMAN SCHMITT: I appreciate you being here.

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

CHAIRMAN SCHMITT: Okay. Mr. Wohnhas.

And I guess I better talk to Mr. Overstreet and Mr. Cook. Have you resolved this question issue?

MR. OVERSTREET: We have, Your Honor. We have.

MR. COOK: Yes, I believe so.

CHAIRMAN SCHMITT: Okay. Thank you.

MR. COOK: As a matter of fact, Mr. Chairman and Mr. Overstreet, I think we are going to skip that area of questioning and move on to something else.

Q. So with that, good afternoon again, Mr. Wohnhas.

A. Good afternoon, sir.

Q. And my question for you is: Did the Company request or receive any opinions from S&P or Moody's or any other credit rating agency regarding the proposed deferral found in the stipulation?

A. No.
Q. Okay. Thank you. And, yeah, if you'll hold on a second, my co-counsel will pass out some --

MR. CHANDLER: Mr. Chairman, may I approach?

CHAIRMAN SCHMITT: You may.

MR. CHANDLER: No, I don't think you can. I think we messed up hole, so --

THE WITNESS: Okay. That's all right.

MR. CHANDLER: -- the bottom hole is too small.

This is -- one of them will be -- I believe one of them will be.

CHAIRMAN SCHMITT: Thank you.

VICE-CHAIRMAN CICERO: Thank you.

Q. All right. And, sir, before I get to the -- those exhibits, just one question: Did Kentucky Power conduct any studies to determine if ratepayers can afford to continue paying the Big Sandy Retirement Rider reg asset based on the current level of carrying charges?

A. Well, as I think we have stated a number of times -- a number of times, you know, there was no formal study that's bindered that stated the recovery of that. It was presented before the Commission as being fair, just, and reasonable and approved.
Q. Okay. Thank you, sir. Now, you've been handed some exhibits, and if you could turn to tab 1 there, please. And I believe that should be a page from your rebuttal testimony at page 18; is that correct?
A. That is correct.
Q. All right. And lines 1 through 12 there, you take issue with disallowing some of the AEP corporate aviation costs that were charged or allocated to Kentucky Power during the test year, correct?
A. That is correct.
Q. All right. And the Company's response to Public Service Commission Staff's second data request, item 55, included a list of AEP corporate aviation costs which were charged or allocated to Kentucky Power, did it not?
A. It did.
Q. Thank you. And the attachment to that response, it was provided in a very small print, correct? Are you familiar with that one?
A. I am familiar. I have a copy of that --
Q. Okay.
A. -- response, and it is fairly small, yes.
Q. Thank you. Because of that, we're going to
put it up on the screen.

MR. COOK: And if my understanding is correct, Mr. Chairman, I believe when that is done that the witness will also have it on his screen, if that's correct.

CHAIRMAN SCHMITT: I think that's correct.

MR. COOK: Okay.

CHAIRMAN SCHMITT: Do you need assistance?

MR. CHANDLER: I'm -- Nancy has just gone back to speak to Mr. Rhodes, I believe.

MR. COOK: So we might need to take a moment here.

THE WITNESS: If I may ask, am I supposed to have a screen?

MR. CHANDLER: You will in a second. And -- oh, do you not have a screen?

THE WITNESS: No, sir.

MR. CHANDLER: Oh, I thought there was one up there. It'll be behind you.

THE WITNESS: Okay. I do have a copy of it if that -- you know, of that.

MR. CHANDLER: Okay.

Q. Do you have a magnifying glass?

CHAIRMAN SCHMITT: Pam, you have a screen.

A. No, but I got my glasses, so we'll work it
between that somehow.

CHAIRMAN SCHMITT: I'm asking if Mr. Wohnhas could see your screen.

COMMISSIONER MATHEWS: Supposed to just turn the red button and it should work.

MS. HUGHES: I don't think it'll be on the screen.

CHAIRMAN SCHMITT: Okay.

MR. CHANDLER: Turn off some lights. Pam, thank you.

MS. HUGHES: Is that not dark enough?

MR. CHANDLER: I think it was the third one down was the one we had talked about.

MS. HUGHES: That's the third one.

MR. CHANDLER: Okay. Perfect. I think it -- give it a second. Mr. Rhodes -- there we are.

MR. COOK: So we are pulling the document up. It should be accessible in just a few --

MR. KURTZ: Can I make a statement on the record? I'm very impressed by the AG's technical skills here.

MR. CHANDLER: I hope you -- we will zoom in on it, that's the purpose of it. It was too small to print and too small to show. Okay. I'm zooming in as best I can.
MR. COOK: And we are zooming in. As my co-counsel said, he is zooming in there. Okay. And then let's go to the very end where it shows the total.

COMMISSIONER MATHEWS: You can turn it back around toward you.

CHAIRMAN SCHMITT: That's okay.

COMMISSIONER MATHEWS: I actually can see up there better than I can see yours, so you can have yours back.

CHAIRMAN SCHMITT: Thank you.

Q. Okay. And, Mr. Wohnhas, are you able to see that behind you?

A. I am.

Q. Thank you, sir. And would you agree that the total amount there for the corporate aviation cost is roughly 6.613 million?

A. Yes, and that's -- I have the exact, but that's shows that amount there.

Q. Thank you. And of that total, the Company is requesting $400,750 of AEP corporate aviation expense to be charged to Kentucky Power ratepayers, correct?

A. Actually, I believe the amount is 388,355, as far as the O&M piece. There was --
Q. Okay.
A. -- 400,000, you're correct, we answered it in --
Q. All right.
A. -- number 153, but part of that went to account 107, which is CWIP and some other accounts, but the O&M piece was 388,355. So approximately six percent of that total 6.6 million was allocated to Kentucky Power.
Q. So what is the amount that you're requesting to be recovered from Kentucky Power ratepayers?
A. The 388,355.
Q. Okay. Thank you. Now, the listing in the attachment to PSC 255 lists the costs and the people that were on each flight as well as the date of the costs that were recorded; is that correct?
A. That is correct.
Q. Okay. The AEP corporate aviation is used extensively by the top AEP executives and the AEP board members; isn't that correct?
A. It is used by quite a few people. Clearly the executives use it probably the higher percentage of time, but it is used across quite a few different employees with AEP as well as the operating companies on occasion.
Q. Okay. And could you turn to the third tab of the handouts that were given to you? Let me know when you're there.
A. I'm just trying to keep all the papers in order. I am there.
Q. Thank you. Now, this is a listing including pictures and names of AEP officers and directors. It was obtained from AEP's website. Could you just review that and let us know if those are, in fact, the AEP officers and directors who have used the AEP corporate aviation?
A. All of these that you have listed here have used the corporate plane at some point in time, but it is not a complete list of those who have used the plane.
Q. Okay. Thank you. I understand. And so only a minimal amount of AEP corporate aviation cost is for flights directly involving Kentucky Power; isn't that correct?
A. Yes. And, you know -- and when -- for instance, if there would be those who would come down from Columbus to Kentucky Power to have a meeting specifically on an issue with Kentucky Power, all of those costs, based on allocation, would get directly assigned to Kentucky Power.
When -- and I think Mr. Satterwhite yesterday gave an example of going to Washington, D.C. with the CEO, Nick Akins. You know, those costs would get -- in talking to the EEI, would get allocated to -- the share, to Kentucky Power.

Q. If you can turn and look behind you, I think you'll see that we have bolded the references to Kentucky Power. And this one -- this one page is -- I believe that's page 8; isn't that correct? It's page 8. And then if we could -- I think the other ones identifying Kentucky Power are on page 6. We're going to scroll up to there, if you'll bear with us. Okay. There we go.

So subject to check, would you agree that the costs relating to Kentucky Power total approximately $53,502?

A. I assume what you're saying is, if you go through this list and pick up where it was specifically to Kentucky Power, that's where you came up with your 53,000?

Q. Correct.

A. I don't have -- you know, I have no way of checking those numbers. I would say this meeting here, the IRC meetings, these are meetings that we have once a year where we -- this group of folks
that's listed there come down and we talk about what we're doing for the coming year from our -- it's a planning session. You know, that there would have been split between APCO and Kentucky Power, because they went to two locations at the same time, you know, so there would have been a split of those costs, but -- you know, so your 53,000, outside of possibly this here, could be altered some. Q. So it could be even less than that $53,000 figure? A. Yes. Q. Okay. A. And that's what I say, those are directly allocated or, in other words, 100 percent of that trip would go to Kentucky Power.

MR. COOK: Okay. Mr. Chairman, I believe at this time that's all we have for this witness.

VICE-CHAIRMAN CICERO: Okay. Before you're done, can you scroll across that page so that we can see all the people that attended, for example, the APCO and Kentucky Power, that were on that plane?

(Document displayed.)

VICE-CHAIRMAN CICERO: Thank you.

MR. COOK: You want to go to the next page that has the next grouping?
VICE-CHAIRMAN CICERO: No, that was a good --
good example.

MR. COOK: Good example?

VICE-CHAIRMAN CICERO: Thank you.

CHAIRMAN SCHMITT: Mr. Gardner, do you have
any questions?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff?

Anybody else have any questions other than
Staff?

Staff, do you have questions?

MS. VINSEL: Yes, I have some questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Wohnhas.

A. Good afternoon.

Q. How are you?

A. I am doing good. Thanks.

Q. What I'd like to start with is the Vegetation
Management Plan, the balancing account that was
approved in the last rate case in --

A. Yes.

Q. -- 2014-396. Mr. Phillips had some testimony
on it, but it's been quite a while since that, so if
you don't mind, I'd like to go through just a brief
bit of background on it.

A. Sure.

Q. In the last rate case the Commission approved Kentucky Power to spend a little over $110 million on -- in the aggregate on a vegetation management plan that was between July 1st, 2015, and June 30th, 2019.

A. That is correct.

Q. That's correct?

A. Uh-huh.

Q. If -- and I'm going to read a bit from the order here to make sure that I'm saying this correctly. If the annual shortfall or excess will be balance -- was balance -- is being balanced against the cumulative four-year amount, that $110 million, correct? If there is a shortfall, Kentucky Power was to record it as a regulatory liability?

A. Yes.

Q. And that that money would either be refunded to customers or used to reduce the revenue requirement in the next -- the then next base rate case, correct?

A. That's correct.

Q. And then if Kentucky Power had overspent that
cumulative amount, the 110 million, in that four-year period, it would not seek recovery?
A. That's the way it was written up, yes.
Q. Okay. So now here we are in this case. Does Kentucky Power believe that the requirement to spend that cumulative sum between 2015-2019 should continue?
A. No, I think it should be reset with when rates become effective for this case, based on what we presented as changes to that. I will tell you, just for informational purposes, so it was a four-year program through June 30th of 2016 -- I'm sorry. '17.
Q. Uh-huh.
A. 2017. We, on a cumulative two-year basis, were overspent a hundred and -- roughly $131,000. To date, through November, just keeping track of it, we're overspent $61,000. So -- and part of our -- you know, what we do in those, that report to Everett Phillips, you know, is we monitor this monthly. We are looking at how we're doing.
And, you know, we have up and downs based on the seasons, based on sending crews, vegetation crews to Texas, Florida, Maine, you know, wherever it needs to be, so -- but we monitor it monthly, and
we really do try to keep it very close to the
required amount, with the idea if it -- if we had
gone for four years under this program that that
amount would have been very small either way. But
we currently are -- have spent more than the
required amount.

Q. What is Kentucky Power's recommendation about
that?

A. Our recommendation is that there is -- going
forward, there is no balancing true-up in this
current case. The only thing that, you know, we're
asking for, as Mr. Phillips testified to yesterday
or the day before, was the deviation, the request
for a deviation be done on a total company ten
percent basis so that we're able to shift crews, for
efficiency and other reasons, versus ten percent at
each district level.

Q. As you prepared for this, to testify, did you
review the direct testimony of Witness Alex Vaughan
before it was filed here?

A. Yes.

Q. Or did --

A. Yes.

Q. Have you reviewed Mr. Vaughan's testimony?

A. I have.
Q. Mr. -- in his direct testimony in regard to
the Tariff NUG, Mr. Vaughan stated that there were
no customers on that tariff. To the best of your
knowledge, is that correct or incorrect?
A. That's still correct.
Q. That's still correct? There's no one who's
currently on the Tariff NUG?
A. We have a -- just for transparency, we have a
customer, Riverside, and I kind of forget what the
rest of their -- but they're the gas facility that's
just down from Big Sandy plant, that they, number
one, requested to intervene in this case and was
denied, and we've had subsequent conversations with
them trying to resolve the issues around the use of
the NUG and being -- and to this date we really have
not come to an agreement.
Q. And in terms of the proposed changes to the
tariff, do you know who recommended those, that
language?
A. The changes to the -- to the NUG?
Q. Yes.
A. You know, I don't know who specifically. It
was something we vetted, though, as a team when we
went through all the tariffs. So I can't tell you
who exactly came up with the wording to change, but
at the end of the day, you know, the whole regulatory team, and including up through Mr. Satterwhite, reviewed all the tariff changes and signed off as a group.

Q. And are you able to explain why the clarifying language was insert -- was made into the tariff?

A. Probably the best person -- and I'm not -- don't want to pass off, but he's right behind me, is Mr. Vaughan is very into that, into the NUG, and would give you a much better discussion on that.

Q. Okay. Can you explain -- or if you want to defer to Mr. Vaughan, I understand. Can you explain why start-up and station power to a non-utility generator is provided under your tariff at Kentucky Power's open access transmission rate as filed with FERC rather than being provided at a rate set by the Commission? Do you need me to repeat that?

A. I need you to ask that again, just --

Q. Okay. The start-up and station power to a non-utility generator, the rate is Kentucky Power's open access transmission rate as filed with FERC, correct?

A. I believe that's correct, yes.

Q. And can you explain why it is that rate
rather than a rate set by the Commission?

A. I'm going to ask you to ask Mr. Vaughan.

Q. Okay. I can do that.

MS. VINSEL: We have nothing further.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

EXAMINATION

By Vice-Chairman Cicero:

Q. Hi, Mr. Wohnhas. How are you today?

A. I'm fine, sir. How are you?

Q. Good. I think Ms. Vinsel asked you a question about bad debt and defining what it is.

A. Yes, sir.

Q. What is the process that Kentucky Power goes through to collect a receivable before it becomes defined as bad debt?

A. We have a group -- and we outsource some of it, but we have a credit group, and what happens when -- you know, we try with our local folks first to collect the debt, and when it gets to a certain point, then we deliver that to this -- to our credit department, who then, for the most part, outsources most of that for them to go out and try to collect that, that bad debt. And so they're successful to some degree and, of course, if that -- if they're
successful, we reduce those costs as they come in. And then, you know, if they're not, after a period of time, then those amounts are written off.

At a high level, that's the process.

Q. So what is that time frame between when it's determined to be a doubtful account to when it's written off?

A. So at each step, as I described -- so we normally spend up to six months locally trying to get those collected, through our -- you know, sometimes that's done through a disconnect on a home, to try to encourage them -- you know, after going out with other tries, we may have to disconnect that. They may pay part of it, we may agree to a payment plan or such.

But, you know, there's normally about a six-month period of time that we're trying to collect, even after it's been finaled out due to disconnect or whatever, to try to collect it.

Then when it goes to the credit department and they outsource that, I believe the time frame is somewhere between six months to a year that we continue to try. We allow, I think it's six months, another six months that the group tries to use their persuasive ways to collect that debt.
Q. And is it written off prior to going to the outside collection or is it written off after the outside collection service has had six months?
A. I'd have to check for certain. I believe it's when we send it to them, because then when it's collected, we offset it.
Q. That was going to be my next question. If it's written off prior to going to an outside service, then I am presuming they're receiving 30 or 40 percent of the collected amount and the balance comes back to the Company?
A. Yes. I don't know what the percentage is, but in general that is correct, and then we would offset whatever was collected against the total bad debt; yes, sir.
Q. Let's go to the aviation allocation, because that seems to be a popular question with everybody.
A. Okay.
Q. Is there a process that AEP or a subsidiary must go through in order to be able to use a corporate jet? In other words, is there a cost justification or a comparison to commercial cost flights, or what -- what's the process?
A. I don't know for sure. I know that for someone to use the corporate jet that they do have
to go to the group in Columbus, the aviation group,
and say, you know, "I need to request this to do --
to fly X," or whatever.

What I can't answer right now is whether or
not, as part of that approval to use it, has any
cost comparison or cost justification against
commercial airlines. I don't know that.
Q. So who within Kentucky Power would answer
that, or is that a post-hearing request?
A. Yeah, it would have to be. It would
definitely have to be a post-hearing. To know if
there is, we'd have to check with aviation.
Q. Okay. You indicated that there's three
planes that are leased; is that correct?
A. Yes, sir.
Q. Are they leased on a committed 100 percent
basis to AEP or if they are shared with other
companies or how does the program work?
A. These three are leased 100 percent to AEP.
We have access, if there was ever some reason, if --
let's say, as you noticed on that report -- or,
well, it's pretty small, but there's times that it's
taken out for maintenance, and you'll see there's a
cost for the maintenance and it comes back on.

You know, if, you know, one was down for
maintenance or whatever and we needed to use a jet, we do have access to some other type of jet service that would not be part of, you know, our leased fleet.

Q. And so how many crews are assigned to those three planes?
A. I don't know the number of crews. There are some, but I don't know what the number is.

Q. Are they AEP employees or are they part of the lease?
A. No, they're AEP employees.

Q. They are AEP employees. All right. I'd like to know as a post-hearing how many crews are assigned to those and the associated employment costs.

Lastly, on the crews that, whatever utility, usually travel around to help with storm damage, how are those charged to affiliates? Is that on a cost-plus basis or is there some standard rate within AEP that --

A. Could you ask -- I missed the first part of your question. I'm sorry.

Q. You talked about crews going to Florida, Maine, Texas.
A. Yes. I'm sorry.
Q. Typical crews that assist when there's heavy storm damage and they -- they travel to assist in the repairs. How are those costs charged through the AEP system?
A. Pardon me. So -- lunch came back. I'm sorry.
Q. I hope it was good.
A. It was. Better the first time.

So when -- so just for example, when we went down to Florida, all right, that's -- you know, that's off our system. We don't -- have no affiliate or whatever with -- in Florida, so those costs as part of going down there would -- we would bill, just for example, Florida Power & Light, and then they would reimburse us for all of our costs of going down there and coming back.

When we went to Texas, all right, we went down and we were with one of our affiliate companies, and so that was where all of our work was done. We will also -- we have intercompany billings, and we would, same thing, just bill them at cost for our -- for the services, and then the Texas affiliate would reimburse Kentucky Power.
Q. So it's at cost-plus or some --
A. Just --
Q. Or just cost?
A. It's at cost for -- for our affiliates, it's just at cost.
Q. And for a nonaffiliate?
A. I could -- I could check, but I think it's just at -- you know, at cost as well. You know, it's a service that -- you know, as you know, sometimes we need that help when we have storm damage, and so I believe it's just at cost.

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

CHAIRMAN SCHMITT: Commissioner Mathews, questions.

COMMISSIONER MATHEWS: I have none.

CHAIRMAN SCHMITT: Any redirect?

MR. OVERSTREET: Just very briefly, Your Honor.

REDIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Wohnhas, I think it was Mr. Cook who was asking you about the use of the one-eighth O&M calculation for working capital.
A. Yes.
Q. Is that a new proposal in this rate case?
A. No, we've used the one-eighth O&M at least
back through the rate cases since 2005.
Q. Okay. And the Commission has always accepted
that?
A. Yes.
Q. Okay. And then I want you to turn, please,
to your rebuttal testimony. And it starts on R 7,
it's V, Deferral of Rockport UPA Expenses, and then
continues over to the bottom of R 10. And just let
me know when you have that in front of you.
A. I have that.
Q. Okay. And is what Mr. Kollen proposed in his
testimony, is that the same Rockport deferral that's
embodied in the settlement agreement?
A. It is not.
Q. And how does it differ from what's in the
settlement agreement?
A. It differs basically by the amount of the
deferral.
Q. And what is that --
A. And --
Q. I'm sorry.
A. Okay. The amount in the -- excuse me -- in
the settlement agreement is $50 million.
Q. Uh-huh.
A. And the other, probably, noticeable
difference is in Mr. Kollen's testimony he was referring strictly to Rockport Unit 2, and so the -- the request for deferral as in the settlement agreement talks about Rockport UA -- UPA costs in total.

Q. Okay. Well, let me -- let me ask you a couple other questions, then. So what was the amount that Mr. Kollen recommended for deferral?
A. I believe it was roughly $100 million.

Q. Okay. So -- and then the settlement is --
A. 50 million.

Q. So that would be one half?
A. One half, yes.

Q. And do you remember how Mr. Kollen's deferral was structured in terms of yearly amounts that were -- that would be deferred?
A. I believe it was, over five years, 20 million each year.

Q. Okay. And in the settlement agreement what are the annual amounts?
A. The amounts are -- make sure I get it right. We've had a lot of numbers. In the first year it would be $15 million, second year 15 million, then it would go to 10 million in the third year, and then the fourth and fifth year it would go to 5
million.

Q. Okay.
A. And so those -- for the first we have 15 million in base rates, and then the -- when we drop to 10 million deferral in 2020, then the difference between the 15 to 10, or 5 million, would be recovered through Tariff PPA.

Q. So in the first year of Mr. Kollen's deferral, the difference between the amount he recommended be deferred, the 20 million, and then the amount that the settlement agreement provides for is what?
A. 5 million.

Q. And is that the same in the second year?
A. Yes.

Q. What is the difference in the third year?
A. It would be 10 million. It's -- 'cause his was a flat 20 and we dropped to 10 million.

Q. Okay. And then in the fourth year?
A. It would be 20 million. Or 15 million.

Q. Okay.
A. I'm sorry.

Q. And would that be the same in the fifth year?
A. Yes.

Q. Okay. Now, do you remember what period of
time Mr. Kollen recommended that that deferral be amortized over?
A. I believe it was ten years.
Q. Okay. And then what does the settlement agreement provide for in terms of the amortization period?
A. Five years.
Q. Okay. And then so from -- under Mr. Kollen's deferral, from the beginning of the deferral until the amortization was complete, what would -- what period of time would that be?
A. Approximately 2032.
Q. No. I'm sorry. I wasn't asking for the dates.
A. I'm sorry.
Q. Just what period of time, how many years?
A. Ten years.
Q. No.
A. Okay.
Q. So Mr. --
A. I'm sorry.
Q. Mr. Kollen would have the -- have the Company defer for what -- how many years?
A. Five years.
Q. And then the amortization period under Mr.
Kollen's?
A. Would be ten years.
Q. And what's the --
A. I'm sorry. Five plus 10 is 15.
Q. Okay.
A. Sorry.
Q. And then in terms of the settlement agreement, what is that like period?
A. It's ten years. Five years and five years.
Q. Okay. And then in your rebuttal testimony you expressed some concerns about the effect Mr. Kollen's deferral could have on the Company's credit metrics. Do you remember that?
A. I do.
Q. Okay. Do you have those same concerns about the settlement deferral?
A. No, because, you know, again, you look at it in total, and if you look at this total package, all right, the Company is able to recover 80 percent of the OATT cost, so that's a very -- that's a positive when we talk about this whole package. So it definitely reduces the risk, so I don't have the same concerns.
Q. Okay. Let's put aside the OATT, but that is an important point. Does the fact that the total
deferral amount is a lesser amount, does the fact that there's a step-down over the five-year deferral period of the amount that's being deferred, and does the fact that the regulatory asset would be amortized over one half of the time provided for by Mr. Kollen's deferral, does that, standing alone, address your credit metrics concerns?
A. Yes, it does.
Q. Okay. Now, would you look at the last Q and A at the bottom of page 10 of your -- I'm sorry. Of your rebuttal testimony.
A. All right. Let me get back there.
Q. Sure.
A. I'm there.
Q. Okay. And I'm not going to ask you to read the question and answer, but what the question asked you is, is a deferral always without merit, right?
A. Yes.
Q. And do the types of changes that were made in Mr. Kollen's proposal concerning the Rockport deferral, are those the types of things that you were talking about in those responses?
A. Yes.
MR. OVERSTREET: Okay. That's all I have, Your Honor.
CHAIRMAN SCHMITT: Any other questions of this witness? If not --

MS. VINSEL: I have -- oh.

CHAIRMAN SCHMITT: You have some?

MR. CHANDLER: I think Mr. Cook does as well.

CHAIRMAN SCHMITT: Mr. Cook.

MR. COOK: We do have a little bit, just a few questions, Your Honor.

RE CROSS-EXAMINATION

By Mr. Cook:

Q. Mr. Wohnhas, your earlier -- your rebuttal pages 7, I believe through 10, correct? Oh, okay. I'm sorry. It's not a reference to your rebuttal. I beg your pardon.

Let me just ask you: Did Mr. Kollen propose for the Company to earn its authorized ROE for the year after the Rockport UPA expires?

A. In Mr. Kollen's original testimony? Is that your question?

Q. Yes.

A. No, he did not.

Q. Okay. Does the stipulation provide for that by means of the credit and offset?

A. Yes, there is a provision in there that was proposed as part of the total package for that first
year only, after the -- assuming the Rockport does not continue, that there be a provision for that year, due to the uncertainty of where -- how the costs are affected, to have -- to earn at whatever return is approved by the Commission.

Q. Does the deescalating amount of the deferral amounts increase retail rates in years three and four of the deferral?

A. Yes. I mean, it's through the -- because you have a -- as I said, a $15 million in base rates, and then as that reduces, in order to earn where we were at, those numbers get recovered through the PPA.

MR. COOK: That's all the questions, Mr. Chairman.

CHAIRMAN SCHMITT: Ms. Vinsel, questions.

MS. VINSEL: Yes, thank you.

RECROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon again.

A. Again.

Q. Let's go back to Riverside. And it's Riverside Generating Company, LLC.

A. I knew the name, but it went blank.

Q. I can understand. As you have indicated,
Riverside filed a motion to intervene in this case, which was denied, and at that time Riverside referenced being served by Tariff NUG or having a dispute with Kentucky Power. We don't need to go down that road. But on December 6th Riverside filed a public comment into the case record. Have you read that public comment?
A. I have.
Q. So I'm going to read to you just one sentence from this. (Reading) Riverside is also a customer of Kentucky Power historically and presently receiving station power service under the utility's, Kentucky Power's, Retail Tariff NUG, Non-Utility Generator.
A. So --
Q. So is it your testimony that Riverside is not receiving station power service?
A. No. No, I misspoke. I believe they are a --
Q. Okay.
A. -- current, but they -- and Mr. Vaughan can clarify what some of the issues are with it, and I apologize for that.
Q. No, that's what -- I just wanted to make sure we got it clear.
A. Yeah.
Q. Okay. Thank you.

MS. VINSEL: I have no further --

CHAIRMAN SCHMITT: Anything further?

MS. VINSEL: Nothing further.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: Nothing.

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: No.

CHAIRMAN SCHMITT: Anyone else?

MR. OVERSTREET: Your Honor, I apologize, I overlooked a question on my list.

CHAIRMAN SCHMITT: Oh, that's fine. No problem.

REDIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Wohnhas, through the good efforts of Staff and the Commissioners, we now have the complete -- or the annual reports have been admitted into evidence, and I think that was AG 4. Do you remember that?

A. Yes, definitely.

Q. Okay. And on those reports you were asked about the number of customers, the amount of the Company's sales, kWh sold, that type of thing. Do you remember that? Or it was you or another Company
witness was asked.

A. I do remember discussions, yes.

Q. Okay. So let's take the year 2016. What was the Company's ROE that year?

A. It was -- I don't have it. Six -- six point something, I believe. I don't have it exactly.

Q. And do you remember what the Company's ROE was in 2015?

A. Yeah, 4.21.

Q. Okay. And what about 2014?

A. 5.13.

MR. OVERSTREET: Okay. That's all I have, Your Honor.

CHAIRMAN SCHMITT: Any other questions of this witness?

MS. VINSEL: No, nothing further.

CHAIRMAN SCHMITT: May Mr. Wohnhas be excused?

MS. VINSEL: Yes, he may be.

MR. COOK: Mr. Chairman.

CHAIRMAN SCHMITT: Oh, I'm sorry. I keep missing you, Mr. Cook.

MR. COOK: That's quite all right, Your Honor.

If I can just move to admit, I believe tab 3
I'd like to move into evidence as the Attorney General's next in order.

MR. OVERSTREET: That was the aviation?
MR. CHANDLER: That was actually the --
MR. OVERSTREET: Oh, yeah.
MR. CHANDLER: -- from the website. I think everything else that was referred to was in the record.

MR. OVERSTREET: Okay. No objection.
CHAIRMAN SCHMITT: Any objection?
MR. OVERSTREET: No objection.
CHAIRMAN SCHMITT: Let it be admitted.
MR. CHANDLER: Do you know what number?
MS. HUGHES: Six.
MR. CHANDLER: Six?
MS. HUGHES: Six, I think.
MR. CHANDLER: Oh, I think we're on 11 or 12.
MS. GLASS: I think it's 11.
MR. CHANDLER: I think it's 11.

(AG Exhibit 11 admitted.)
CHAIRMAN SCHMITT: Any other questions?

Until somebody says something, run.
MR. WOHNHAS: Thank you, sir.
CHAIRMAN SCHMITT: You're excused, Mr. Wohnhas.
MR. WOHNHAS: Thank you.


MR. OVERSTREET: Your Honor, Kentucky Power now presents its -- what I think is its last witness, Alex Vaughan.

CHAIRMAN SCHMITT: Thank you.

MR. OVERSTREET: And Mr. Gish will present him.

COMMISSIONER MATHEWS: He's going to answer all the questions, right? All the questions.

MR. OVERSTREET: He is the answer man.

COMMISSIONER MATHEWS: He's the last one.

MR. OVERSTREET: He is the answer man.

COMMISSIONER MATHEWS: He has no one to punt to.

MR. OVERSTREET: Is he here?

MR. GISH: Yes.

CHAIRMAN SCHMITT: Mr. Vaughan is supposed to know everything everybody else doesn't.

MR. VAUGHAN: I escaped during redirect.

MR. OVERSTREET: And he does.

CHAIRMAN SCHMITT: Mr. Vaughan also has some information about what size customers would be using kW 100 or above?
MR. VAUGHN: I do.

CHAIRMAN SCHMITT: Just generally.

MR. VAUGHN: Yes, I've got it.

CHAIRMAN SCHMITT: All right. Please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. VAUGHAN: Yes, sir.

CHAIRMAN SCHMITT: Please be seated.

MR. VAUGHAN: Thank you.

CHAIRMAN SCHMITT: Counsel, you may ask.

MR. GISH: Thank you, Mr. Chairman.

ALEX E. VAUGHAN, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Mr. Vaughan, good afternoon.

A. Good afternoon.

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

A. It is Alex E. Vaughan. I am the Manager of Regulated Pricing and Analysis. I'm employed by American Electric Power Service Corporation at 1
Riverside Plaza in Columbus, Ohio.

Q. And did you file in this case direct testimony, supplemental testimony, rebuttal testimony, testimony in support of the settlement agreement --

A. Uh-huh.

Q. -- did you adopt certain portions of the testimony and data response requests of Mr. Rogness, and did you provide responses to data requests?

A. Yes, sir.

Q. And do you have any updates or corrections to those, any of those?

A. Yes. Let's start with my direct testimony. I have two, two numbers to correct that were actually corrected in KIUC 1-67 discovery response. I would just like to make sure my testimony is clear of that. So the two references to the test year PJM OATT amounts, the first being on page 29 at line 11. The 74,377,364 should read 74,038,517.

And then there is -- the same change needs to be made on page 45 at line 19.

Q. Thank you, Mr. Vaughan.

A. I have one more. Then my settlement testimony, Exhibit 3 to that, the summary page to that exhibit was correct; however, there was a
commercial -- commercial weather normalization
adjustment that was agreed to in the settlement that
didn't flow through to the individual tariff pages,
so I have -- I have 20 copies of that here to have
someone hand around.

But essentially what that does is the -- on
the summary page, the first page of AEV-3S, the
Total Adjusted Current Base Revenue column, the
amounts for SGS metered, MGS secondary, MGS primary,
and MGS sub, they were all correct on the summary
page, but the individual tariff sheets for them
within AEV-3S did not have their portion of the
commercial weather adjustment that was agreed to in
the settlement. This version now shows that.
Q. So with those corrections, if I were to ask
you the same questions that are included in your
various testimonies and data request responses
today, would you give the same responses?
A. Yes, sir.

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

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: Mr. Chairman, do you want to get
your questions answered about the hundred-kW-size
customers?
CHAIRMAN SCHMITT: Well, yeah, sure.

EXAMINATION

By Chairman Schmitt:

Q. What about -- Mr. Gardner and I have --
A. Yeah.

Q. -- have asked about the size, the relative size or economic activity one would expect to see from a customer who used 100 kW, 100, 200, 300 kW. What size businesses or schools --
A. Yes.

Q. -- would we be talking about?
A. So within that total LGS family, that tariff, that -- you know, we have the separate schools tariff, but I kind of -- I still consider them within that class because they are between 100 and 1,000 kWs. You have a hundred and, I believe, sixty-one school accounts, then we had -- just generally speaking, the largest -- those making up the largest -- the largest amount of customers in that class, we had eating and drinking establishments were 64; health services were 58; educational services, we mentioned those; coal mining, 51 accounts; food source, 50; local government, 41; electric, general service, sanitary services, 39; real estate, 28; general merchandise
stores, 22. Things like that. Banks, depository
institutions, 17. Various retail organizations, 17.
And communications, 12. And there's a litany of
much smaller --
Q. How many -- how many schools? I'm sorry, I
missed that.
A. There's 161 school accounts.
Q. But I noticed in the -- in the proposed
settlement agreement, it applied to schools with a
demand of 100 kilowatts or above, so I --
A. Yes.
Q. -- assume that there are schools that would
not fall within that category, and I was just trying
to come to some understanding about what size
schools that would be that would -- might not --
A. Yeah.
Q. -- quite make the cutoff.
A. So speaking with KSB Witness Willhite --
Q. Yeah.
A. -- you can ask him about this as well, we
discussed that all of the schools are on the
K-through-12 tariff. However, they have a lot of
ancillary accounts: rec lighting, you know, for
fields, athletic fields; barns; modular classrooms
that aren't connected to the main account, that may
have a separate hookup that fall into the general
service. There's quite -- there are several hundred
accounts in the general service, because --
Q. Would they have --
A. -- they have separate meters.
Q. Would you expect a school that was in the
K-12 class to also have an account that was in LGS?
A. So the K-12 is essentially the same thing as
LGS.
Q. Well, I'm -- here, the --
A. No, they're --
Q. -- all the --
A. -- they're not also in LGS.
Q. The reason for these questions is, is that --
A. Yeah.
Q. -- I thought that there was some sort of
subsidy, that LGS customers to some extent, maybe to
the extent of $500,000 or something, were
subsidizing the schools in the K-12 class.
A. So you can call it a subsidy, but it's harder
to describe than that, because the way -- the way I
made the rates are -- to follow the settlement
agreement is we combined the total revenue
requirement for public school -- the K-through-12
class. Well, it's all one class. K through 12 and the LGS, put that together, made what the average rate was for all of the customers, and then I made another rate that would produce $500,000 less revenue for the schools.

And because the schools have an average lower load factor than the rest of the LGS population, their average -- even with that $500,000 discount from the normal LGS rate, their average increase is a little higher just because of the way the rates shake out with the load profiles.

So, like, I think Mr. Satterwhite indicated earlier the average -- the average LGS impact is, all-in, 5.17 percent, and the average school in that same LGS size category is -- their all-in impact is 6.45 percent, even with the $500,000 rate difference.

Q. Why did -- was it that Kentucky Power in its application recommended eliminating the K-12 rate class?

A. In the last settlement agreement we had committed to -- in the last case, the 2014-0396 case, we only had, I think, two school accounts in our load research sample where we actually had full interval meters on them where we could get a look at
their actual load shape through the peaks, and which is what we rely on for cost allocation in the class cost-of-service study.

So KSBA made the argument in the last rate case that the schools have better load profile, they should -- they're actually cheaper to serve than the rest of the LGS population, and in the settlement we ended up including a -- the $500,000 rate differential for them.

Also, part of that settlement was that we would -- Kentucky Power would put interval meters on more of the school accounts, and -- but when we came back in for our next rate case, we would evaluate schools separately and see if that discount was justified.

So my proposal was simply following the settlement agreement in the last rate case. We evaluated them as if they were a separate class, and it turned out that the class, on average, had a little lower load profile. And the way Kentucky Power's costs are allocated in our class cost-of-service study, they actually got a little more cost allocated to them than the -- than they would have if they were within the LGS class.

And there are some nuances there because
their load -- their load isn't as high in the summertime, obviously. Their -- they may -- they may still have some services going on, you know, and they have the rec fields going and whatnot, but they're very coincident to our winter peaks, right?

The kids are in school January-February mornings. All our schools are basically electric heating. So they have their highest -- their highest peaks during the Company's winter peak. So they are very, very coincident to those, and that was reflected in the cost study.

So basically what I presented in my direct testimony was: Here is the way it shakes out in the cost study. And I believe I can say this, that, you know, if the Commission -- here's how it is, here's how we're going to propose it. It's not wrong if the Commission continues it, it's just, on a cost causation standpoint, we're going -- we're going to argue that they should be folded back in and just pay the normal LGS rate.

Q. Well, and your position is, if they get the benefit of the K-12 rate that they want, there's a revenue shortfall that has to be made up by somebody else, by other ratepayers?

A. No, sir; there's -- we did this in rate
design, so there was no -- there was no revenue shortfall. We just moved money between nonschool LGS customers and the L -- and the school LGS customers. There -- it didn't create a shortfall to other customers outside that rate class or picking up.

And like I said, even with that, that nuance, that $500,000 rate credit for the schools, the rest of the LGS customers are still getting almost one and a half percent less of an increase.

Q. Okay. Thank you.

A. Yeah.

CHAIRMAN SCHMITT: Mr. Kurtz.

MR. KURTZ: Oh, thank you. Thank you.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Okay. Good afternoon, Mr. Vaughan.

A. Good afternoon.

Q. You are aware that Mr. Baron, the KIUC witness, argued in his testimony that IGS, rate IGS, industrial general service, should be served at full cost of service, correct?

A. Yes, sir. Yeah.

Q. Okay. And Mr. Gardner's witness, Mr. Higgins, made the exact same argument in his direct
testimony, correct?
A. Yes, sir.
Q. Okay. And the settlement agreement incorporated the proposal of both experts that the subsidy from IGS be eliminated?
A. That's correct.
Q. Okay. And Mr. Satterwhite supports that based upon economic development principles? Is that your understanding?
A. Yes, sir.
Q. Okay. The subsidy in the test year was approximately $6 million?
A. That's correct.
Q. And IGS had 158 million of test year revenue?
A. Yes, sir.
Q. So the subsidy was about 3.8 percent?
A. Sounds correct.
Q. Okay. And so that was incorporated into the settlement and into the rates that you've designed and so forth?
A. Yes, sir; we've eliminated that subsidy.
Q. Okay. Are you aware of any other states that are implementing a policy of eliminating industrial subsidies?
A. Yes. I do work for the Company's affiliates
in Virginia and West Virginia, and right now they're -- this is the big topic of discussion in West Virginia, in front of the legislature, the -- you know, they are looking around at their job-creation opportunities, and they want to eliminate all subsidies.

One proposal is to eliminate all subsidies for industrial customers in the electric rates to help their economic development interests and bring new industrial loads to the -- to their service territory, to their state, so --

Q. And, of course, Kentucky competes for jobs with those other states, correct?
A. It's right across the river; yes, sir.

Q. The settlement agreement also reduces subsidies for the municipal water works and the outdoor lighting and street lighting classes?
A. It reduces subsidies for all the classes, but yes.

Q. Do they get -- do they get more than five percent subsidy reduction?
A. Yeah. The way -- the way the revenue allocation shook out is the municipal water works and the lighting, the two lighting classes, received over ten percent subsidy reduction. Like municipal
water works was closer to 15.

Q. Okay. What about subsidy reduction for rate general service?
A. General service was about three percent.

Q. What about LGS/public schools?
A. Five percent.

Q. Okay. I'd like to just hand you what's in the record. This is the Settlement Exhibit Number 1 that everybody's used to seeing. I just marked it up a little bit for ease of reference.
A. Thank you.

Q. Okay. So at the bottom, at the bottom in the left, I just drew a box around GS is the combination of Small General Service and MGS. Do you see that?
A. Yes.

Q. So really what I did is I scratched out SGS and MGS because you've got them on a combined basis in GS?
A. That's right.

Q. Okay. So it makes it a little bit easier. Will you look at the box on the left under the Total Bill Percent Rate Increases. Do you see that?
A. Total bill. Okay.

Q. Okay. So GS, general service, the combination of SGS and MGS, gets basically the
system average increase, 6.22 percent?
A. That's correct.
Q. Okay. Versus 6.16 percent. Okay. And the LGS/public schools gets a below-average increase, correct? They get 5.4 versus 6.16?
A. That's correct.
Q. And you've testified a couple times that within that group the LGS does better than the public schools?
A. That's correct.
Q. Okay. What was the LGS increase that you had?
A. 5.17.
Q. Is that on the total bill or is that just --
A. That's the total bill.
Q. Okay.
A. Yes.
Q. 5.17. And the public schools, even with the 500,000 issue, get what percentage increase?
A. 6.45.
Q. Okay. A little bit over system average?
A. Yes.
Q. Then if you look in the bottom four rate schedules, IGS, Municipal Water Works, Outdoor Lighting, Street Lighting, they are all grouped
around 2.5 to 2.7 percent increase?

A. That's right.

Q. Okay. So let's go to the far right-hand side, the Non-Fuel Base Revenue Increase. Do you see that?

A. Yes.

Q. Fuel -- we haven't used the word "fuel" in this hearing, I don't even think once, really. Fuel is not an issue in this base rate case, is it?

A. Not to my knowledge.

Q. You don't make any profit off of fuel?

A. No, sir. Dollar for dollar.

Q. And fuel is chewed up in the fuel adjustment clause every month?

A. Yes.

Q. Okay. So if you look at the rate increase on the non-fuel, take out fuel basis, the GS and the LGS/public schools are basically about the same, 8.68, 8.61?

A. Yep.

Q. Is that right?

A. That's correct.

Q. Okay. And when you look at it without fuel, IGS actually does a lot worse than the other -- than municipal water works, outdoor lighting, street
lighting?
A. Yes.
Q. Okay.
A. They pay a lot of fixed costs due to the high load factor of the class.
Q. So if you look at it on a non-fuel basis, the IGS -- you know, it's the settlement increase and it's what everybody agreed to and so forth, but it isn't quite as -- it isn't as good as sort of advertised when you look at it without fuel?
A. Yeah, the increase gets watered down in that total bill because of they're a high load factor. They have a lot of kilowatt -- billing units and kilowatt hours, they pay a lot of fuel, absolutely.
Q. Okay. Let's go to the middle. Proposed ROR, rate of return.
A. Yes.
Q. Okay. The system average rate of return under the settlement rates is 6.48 percent?
A. That's correct.
Q. Okay. The IGS, under the new rates, is going to be paying above average rate of return. It's going to be 7.71?
A. Yes.
Q. So even with the hundred percent subsidy
reduction up front, there's still a subsidy, there
still will be a subsidy built into the IGS rates?
A. Essentially the way -- that's the way the
class study works, yes, it still pays.
Q. I was surprised. I would have thought it was
system average.
A. Yeah.
Q. But -- so IGS still will be subsidizing the
residential customers under the settlement
agreement?
A. That's correct when you use the class
cost-of-service study as the measure, because as you
change -- as you change things to the settlement, it
recalculates, you get changes to rate-based
allocations and all that. But yes, that's -- that
is what the settlement shows.
Q. Okay.
A. You're correct.
Q. And when I looked at this and I calculated
it, IGS is still going to be paying 19 percent above
the average return, so that's the amount of subsidy?
A. Yeah.
Q. Okay. And under the settlement the
residential class is still going to be heavily
subsidized, because their return is only 3.77
percent versus the average of 6.48, correct?
A. That's correct. We only -- we only reduced
their subsidy by five percent, even in the -- even
in the settlement.
Q. Is that what it was?
A. Yes.
Q. Five percent --
A. Five percent.
Q. -- subsidy reduction?
A. Uh-huh. From the current -- from what we had
originally filed, yes.
Q. So it's five percent more than what you --
A. No. It was -- we originally filed five
percent, that's what the settlement achieved as
well.
Q. So the residential subsidy is only reduced by
five percent?
A. Yes.
Q. Okay. There was testimony in this case early
on that the residential subsidy, I think it was Mr.
Gardner's witness, should be reduced by 50 percent.
A. I think there was a 50. I think there was a
22. I've got if summarized in my rebuttal testimony
somewhere, yeah.
Q. I think somebody proposed a residential rate
increase of 22 percent.
A. Yeah, that sounds right.
Q. So the settlement is a lot better than that proposal?
A. Correct. All in -- all in total bill, it's a nine percent increase for the residential class.
Q. Okay. Did reducing the KEDS charge on residential help them, in terms of subsidy-reduction-type questions?
A. I don't -- I don't believe so. Those -- I know so, because those revenues were removed from our cost-of-service study. It's outside of base rates, that surcharge, as well as the HEAP --
Q. Okay. So it helped --
A. -- don't factor in.
Q. It helped them pay a lower bill, but it didn't affect the subsidy?
A. That's correct.

MR. KURTZ: Okay. Mr. Chairman, that's it.
CHAIRMAN SCHMITT: Counsel for any other settling intervenor would like to cross-examine the witness.

MR. DUTTON: I would, Your Honor, if I may.
CHAIRMAN SCHMITT: All right.

* * *
CROSS-EXAMINATION

By Mr. Dutton:

Q. Just a couple of quick questions. Looking at the same sheet. So if you look at the column here that says Current Rate of Return, am I correct that municipal water, outside lighting, and street lighting are currently the three highest rates of return for Kentucky Power?

A. That's correct.

Q. Okay. And after this settlement, isn't it accurate to state that those three classes, despite the fact that they are getting lower than average revenue -- excuse me, rate increases, that after the rate increases they will still remain the three highest rates of return for Kentucky Power?

A. That's correct. That's a product of the 12 CP cost allocation in the class study, yes.

Q. Okay. And so essentially they will be subsidizing the other classes, both currently and under the settlement; is that correct?

A. That's correct.

MR. DUTTON: That's all I have. Thank you.

CHAIRMAN SCHMITT: Mr. Cook, Mr. Chandler, questions.

MR. COOK: We do have some questions, but
we've agreed to let KCUC --

CHAIRMAN SCHMITT: You're deferring to Mr. Osterloh. All right. Then you -- Mr. Osterloh.

MR. OSTERLOH: Thanks to the Attorney General. Thank you, Mr. Chairman.

CROSS-EXAMINATION

By Mr. Osterloh:

Q. Good afternoon, Mr. Vaughan. I just --

A. Good afternoon.

Q. -- wanted to clear up some of the testimony, just so that maybe I understand it. I know you've addressed a lot of this information already, but I just want to make sure I understand.

A. Okay.

Q. And this also tracks your testimony, I think, starting on page 22. What was --

A. Which one?

Q. The initial testimony.

A. Okay.

Q. What was the final position of the Company with respect to whether the public school tariff would be continued in the future?

A. Our initial position was that they should just be rolled back into the LGS.

Q. Okay.
A. So the normal LGS rate schedule.

Q. So it would be discontinued?

A. Yeah. They never left the class, it was just a matter of what rate they paid.

Q. And I think under the old -- under the last rate case it was called a pilot program; is that fair?

A. That's correct.

Q. And you'd agree that part of the reason that pilot program was established in that last rate case was because the public school load research data was not available or there was insufficient data at that time?

A. Yeah. We had two examples. We had -- we had the two schools where we had interval data on them, and, you know, we thought -- we thought their arguments had some merit, and then we had the settlement, and we ended up with the $500,000 discount.

Q. But to be clear, I think in your testimony you specifically say that that was one of the reasons, that up didn't have enough data, and that's why you created the public -- the pilot program?

A. Yeah. We called it a pilot because we -- in that settlement we committed to put more meter --
more interval meters on school accounts and have a more robust study in the next rate case, and that's what we did.

Q. Okay. And then on page 24 of your testimony, lines 2 and 3, you indicate that the class cost-of-service study did not justify the discounted rate for the public school tariff customer in comparison to the LGS customers; is that fair?

A. That's somewhat fair. You have to have some caveats too because we're talking cost allocation here and there's a lot of nuances to it. Honestly, it's never that great to be cost allocated in a study standing alone. The same homogeneous group of customers often have the same load profile, and if you can be in a more diverse group, you're going to do better on a unit-cost basis than if you're standing by yourself.

The schools, what hurt them is how coincident they are to our winter peaks because they're electric heating. Think of it like a very large residential account, you know, they have high peaks in the -- you know, when our load is peaking in the winter mornings.

However, they do provide a benefit being rolled back into the other LGS customers because
they're lower load factor. So they have --
per-kilowatt-hour usage, they have more kW of
billing demand, and it waters down that total rate
that gets paid by LGS customers.

So there's give and take here.

Q. Do you have your testimony in front of you?
A. I do.

Q. Can you turn to page 24 of that, please?
A. I'm there.

Q. On line 2 there's a sentence that begins,
"Said another way." Can you read that sentence out
loud, please?
A. (Reading) Said another way, rather than
justifying a discount rate for the public school
tariff customers, the class cost-of -- class
cost-of-service study shows that the public school
tariff customers actually benefit from the load
diversity and higher average load factor of the
standard LGS customers when they were on the LGS
rate schedules.

Q. Thank you.
A. And that's exactly what I just said with the
other caveat that the LGS customers receive a
benefit when I make the rates due to the lower load
factor and the billing units of the school
customers.

Q. Do you have your rebuttal testimony in front of you?
A. I do.

Q. Can you turn to page R 15?
A. I am there.

Q. I think you reiterate this point, starting on -- well, concluding on line 8, starting with the sentence, "Based upon the actual load." Can you read that sentence out loud, please?

A. (Reading) Based upon the actual load research data for the schools, there is nothing about the schools from a cost-of-service standpoint that they would -- standpoint that they should be separated from and given a discount relative to the other 100 kW through 1,000 kW general service customers.

Q. Thank you. Are you -- I mean, you've testified that the proposed settlement in this case would design rates for the Tariff K Through 12 that would be $500,000 less than what would otherwise be designed -- than if it were consolidated with LGS, correct?

A. With a clarification. It's consolidated with LGS, that's why I showed it in one line on that Settlement Exhibit 1. So the class is all the same.
I'm designing two rate schedules within that class. And if you billed the K-12 customers on the LGS rates in this settlement, it would be $500,000 higher than if you billed those billing units on the K-through-12 rate.

Q. And so it's only the LGS rate or LGS class that is paying higher rates because of that $500,000 amount, correct?

A. No. They are paying exactly what is allocated to them in the class study. It's just a matter within that rate class. So the L -- the other LGS customers, if the schools weren't receiving this rate, in aggregate, their rates would be $500,000 lower, but there's no -- there's nothing interclass, it's all intra class.

Q. Intraclass within LGS?

A. Yes, sir.

Q. So if the public schools' rates were not $500,000 lower, the remaining LGS customers would not have to pay that extra $500,000?

A. That's correct.

Q. And so when you were mentioning that the total billing increase for LGS stand-alone was 5.17 percent --

A. That's correct.
Q. -- that includes an extra $500,000 that the LGS class stand-alone would be paying?
A. Yeah. If you remove that $500,000, they would be down around 4.6 percent, it would be -- it would be even lower, and you would push the schools up over seven percent.
Q. And those are based on the cost-of-service study that the Company performed, correct?
A. And the settlement agreement, yes.
Q. And just to be clear, the cost-of-service study, as you have stated in your testimony, indicates that the public schools should pay higher rates than LGS?
A. It says there's no justification to separate them out.
Q. Thank you. According to the settlement agreement -- are you familiar with the settlement agreement from the last rate case?
A. Yes, sir. I was in both.
Q. Okay.
A. Both settlements, yes.
Q. Do you know what rate class or rate classes had a -- had higher rates because of that same $500,000 amount?
A. The LGS class.
MR. OSTERLOH: Mr. Chairman, may I approach?
CHAIRMAN SCHMITT: Yes, you may.
MR. OSTERLOH: And I'd like to mark this as what I believe is going to be KCUC Exhibit 7.
A. Okay. I believe the MGS class was included the last time as well, if that's where you're going, yes.
Q. That is precisely where I'm going.
A. There we go.
Q. I'll go ahead and mark this and we'll get that in.
A. Yeah. All right.
MR. COOK: Seven?
MR. OSTERLOH: This is 7, yes.
(KCUC Exhibit 7 marked for identification.)
Q. And, Mr. Vaughan, after you've had a chance to review this, can you confirm that this is the settlement agreement from Case Number 2014 --
A. It looks --
Q. -- 396?
A. It looks very familiar, yes.
Q. Okay. And if you'll turn to page 19, you'll see a section, I believe, that relates to the Tariff K Through 12 School. Do you see that?
A. That's correct. I see that.
Q. And in (a), what I'm going to direct you to is the last sentence there, and it indicates the aggregate total revenues to be produced by Tariff K Through 12 School, Tariff MGS, Tariff LGS -- and Tariff LGS shall be equal to the revenues that would be produced in the aggregate by the new rates in the absence of Tariff K Through 12 School?
A. That's correct.
Q. And so you were -- as we were passing this out --
A. Yes.
Q. -- you were acknowledging that the settlement in the last rate case also included the MGS in that provision, correct?
A. Yeah, this -- the last settlement had interclass subsidy in it.
Q. Unlike the current settlement -- proposed settlement agreement that does not have interclass subsidy?
A. Related to this item, yes.
Q. Thank you. And you'll agree that KCUC was not a party to that case, correct?
A. Yes. Not to my knowledge, they were not.
Q. And in earlier responses to Mr. Kurtz's questions, you referred to interclass subsidies, and
you mentioned that the combined LGS/PS subsidy is
five percent; is that accurate?
A. The subsidy reduction?
Q. Yeah.
A. Yes.
Q. Yes.
A. Yes. Yes. We removed five percent of the
LGS/PS.
Q. If you were to break those two out and
include the $500,000 amount that we've been talking
about, and used just stand-alone LGS, what would its
subsidy reduction be?
A. Still five percent. It -- you design -- like
I described earlier, you allocate all the revenue to
that class as a whole and then you make the rate.
If you want me to move money out of that into the GS
category, I would have to recalculate that.
Q. How can the LGS stand-alone be paying
$500,000 more and have the same subsidy reduction?
A. You're confusing rates and cost allocation,
that's -- that's the problem.
Q. Okay. I think -- I understand your point
now. Thank you.
A. Okay.
Q. Switching gears a bit, am I correct that the
Company proposed and the settlement would permit consolidation of the SGS and MGS classes?

A. Yeah, that was our original proposal, and I believe the settlement is silent to it, so, yeah, it continues what we proposed.

Q. Distinguishing -- can you identify what distinguishing factors there are for eligibility between those MGS and SGS classes?

A. Yeah. So an SGS customer is one that is under 10 kW, and an MGS customer is 10 kW demand up through 100 kW. 100 kW they transition to LGS.

Q. And that's based on average monthly demands, correct?


Q. I think the tariff says average monthly demands.

A. I would agree with that.

Q. Do you know whether or not SGS customers currently have a demand charge applied to them?

A. They do not.

Q. Do you know whether MGS customers currently have a demand charge applied to them?

A. They do.

Q. Okay.
A. SGS customers will still not have a demand charge applied to them under GS.

Q. Okay. Let me ask you a few questions about that. If the two classes are consolidated as proposed --

A. Uh-huh.

Q. -- there is a demand charge potentially, correct?

A. There is over 10 kW of demand.

Q. Okay. So it's just in excess of 10 k --

A. That's correct.

Q. -- W?

A. The first 10 do not count. You have to have billing demand in excess of 10 kW to -- we did that so that you could include both of them and you have a natural transition then. So a customer that wasn't paying a demand charge on SGS will not be paying a demand charge on GS unless their load grows.

Q. So that in excess of 10 kW based on average monthly demand through a 12-month period?

A. It's based on -- in the tariff there is a kilowatt-hour block, a threshold. If you go over -- if you currently don't have a demand meter and you're an SGS customer, or really any -- well, I
guess you would only have SGS customers on demand meters. If you go over 44 -- 4,450 kilowatt hours, it would then alert our customer service representatives to place a demand meter on that account, and then it would monitor.

You know, that 4,450 is based on the class load factor and 10 kW. So if someone goes over that, we would install a demand meter. We would then monitor, and if they do, in fact, go over the 10 kW demand -- well, they don't have to transition. They would be billed for it if they go over.

Q. So in any given month if they go over the 10 kW, that customer would be billed in excess -- for a demand charge in excess of 10 kW, correct?
A. That's correct.

Q. And currently that SGS customer doesn't have a demand meter and wouldn't be charged a demand charge, correct?
A. If the Company had perfect vision, that customer would be moved to MGS, and that -- hence the reason for the consolidation. You have -- you have tariff -- you have customers around the edge of both tariffs that are SGS customers for five months and MGS customers for seven months and vice versa. And rather than them paying the wrong rate -- and
you have to stay on the same rate schedule for 12
months per our tariffs.

So rather than them paying the wrong rate for
some portion of the year, GS provides a smooth
transition back and forth. So if they are really an
SGS customer for five months, they're paying the SGS
rate, just that first block energy charge; and if
they're an MGS customer, they're paying some demand
charge and both blocks of energy.

Q. But you'll agree with me that a current SGS
customer that would be transitioned to the new GS
consolidated rate could be play -- could be paying
demand charges in the future even though they
wouldn't be paying charges and wouldn't be eligible
for the MGS class?

A. They're still eligible. If they go over 10
kW, we would just -- you know, if we had all of the
money and all the time in the world, they'd all have
demand meters on them and we would know when they go
over and they would be moved to MGS.

So, yes, there are customers that may be SGS
customers now that may go over 10 kW. Now that
would be -- and again, if they don't have a demand
meter on them and their load is such that they go
over 10 kW but they don't break 4,450 kilowatt
hours, we still don't know to go put a demand meter on them. So they have to have that demand at a certain load factor to still push their load over the threshold.

Q. And the point being is that under the current tariff it says average monthly demand for the breaking point between SGS and MGS, correct?
A. Yes.

Q. Okay. You mentioned that the Company will put a demand meter when it recognizes that a customer has -- a GS customer has 4,450 kilowatt hours or -- or kilowatts or greater. There's also a provision in the proposed tariff that the Company reserves the right to install a demand meter on any customers receiving service under this tariff, "this tariff" being the GS tariff.
A. All right.

Q. Does the Company have any specific written policies on when it will choose to have that right to install a meter, other than the baseline 4,450 kilowatts?
A. No, we don't, and that is in there in case -- in case you have an instance where customer service believes that you have -- in fact you have an account that's over 10 kW but they're a very low
load factor, say. So they have high peaks. Like you're having transformer issues there, so you know their peak is fairly high but they're not producing a lot of kilowatt hours on their bill. It can be common with some of these general service customers.

Q. And I believe the Company stated in a data response that you sponsored that it did not attempt or even have the ability to determine any additional revenue that it would be receiving for demand charges that current SGS customers will be paying under the new GS classification; is that correct?

A. That's correct, but you have to -- you have to take what is the difference between an extra kW of demand being billed versus the kilowatt-hour rate that would have been higher if you didn't have a demand charge. So it's not that -- you're just moving money between buckets, whether it would be kilowatt-hour revenue or kW revenue.

Q. In response to Chairman Schmitt's question earlier about types of customers in the LGS family, in that 100-to-1,000-kilowatt grouping, you mentioned several types of customers. Was that within the whole LGS class or is that just near the bottom that I believe Mr. Gardner was asking a previous witness?
A. That was within the whole class. I do not have average loads for them. We just pulled what their service codes were.

Q. Okay.

A. So within those groupings you could have -- you could have a food and beverage establishment that's 900 kW and one that's -- that's 105.

MR. OSTERLOH: Thank you, sir. That's all the questions I have at this time.

CHAIRMAN SCHMITT: Attorney General.

MR. COOK: Thank you, Mr. Chairman.

CROSS-EXAMINATION

By Mr. Cook:

Q. Good afternoon, Mr. Vaughan.

A. Good afternoon.

Q. I have a few questions for you. What was the relative revenue increase to the residential class in the final order of the last rate case, 2014-396?

A. The percent increase?

Q. The relative revenue increase.

A. I'm not familiar with that term, this being percent -- percent bill increase?

Q. The percentage of the increase compared to the system increase. For example, in the current case, the -- in the application the relative
increase was 1.32, or 132 percent of the system average. So what was the end result in the last rate case?

A. I do not have that in front of me.

Q. Okay. Then --

A. It was something greater than system average because we reduced again, I believe, in that case five percent of the residential subsidy.

Q. And what was the relative revenue increase to the residential class in the stipulation in this case?

A. Relative? I mean, are you looking at the RORs? Because those are return-on-rate based, not relative --

MR. GISH: Clarify just what you mean by "relative increase."

THE WITNESS: Yeah.

MR. GISH: The percent revenue increase assigned to that class, or do you want rate of return --

MR. CHANDLER: May I? I don't want to team up, but I believe Mr. Cook is asking -- the relative increase I think can be calculated by taking the percentage increase allocated to the -- the percentage increase to the RS class divided by the
system percentage increase.

THE WITNESS: Oh, okay.

MR. CHANDLER: I believe it's the -- it's referred to that way in at least Mr. Pollock's testimony.

THE WITNESS: Okay. I did not do things that way. They're receiving 20 million -- just a second.

MR. CHANDLER: Can I clarify? On a percentage basis.

MR. GISH: If I might help to clarify. Are you just looking for the nine percent divided by 6.16?

MR. CHANDLER: That would be --

THE WITNESS: I mean, I'm not sure what that number means. It doesn't mean anything to me. They're receiving 60 percent of the rate increase, the 21 -- on the Settlement Exhibit 1, it's the 21.8 million divided by the 36 million there in column D. And that's --

Q. All right. Then I have some other questions for you about the settlement stipulation, and we have some tabs that we'd like to pass out to you.

A. Okay.

MR. CHANDLER: May I approach, Chairman?

CHAIRMAN SCHMITT: Yes, you may.
MR. OSTERLOH: And, Mr. Chairman, while that's being done, I forgot to request for admission for KCUC Exhibit 7.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Is there any objection?

MR. GISH: No objection.

CHAIRMAN SCHMITT: Then let it be admitted as KCUC Exhibit 7.

(KCUC Exhibit 7 admitted.)

MR. KURTZ: Oh, Mr. Chairman, could I have this marked and admitted as KIUC Exhibit 1?

CHAIRMAN SCHMITT: Is that the settlement exhibit?

MR. KURTZ: Yes. Yes.

CHAIRMAN SCHMITT: Do you have that?

MR. OVERSTREET: No objection.

CHAIRMAN SCHMITT: Need to get a copy to -- you don't have any objection, do you, Mr. Overstreet?

MR. OVERSTREET: No. No, we don't.

CHAIRMAN SCHMITT: We need to get a copy, mark it for the reporter, of the -- I guess that would be Settlement Exhibit 1, which would be KIUC Exhibit --

MR. KURTZ: One.
CHAIRMAN SCHMITT: -- 1.

MR. KURTZ: Thank you.

(KIUC Exhibit 1 marked for identification and admitted.)

Q. Okay. Do you have those tabs in front of you now?
A. I do.

Q. Okay. And can you turn to tab 1? And I believe you should have, then, what is -- I think you'll recognize as Exhibit AEV-1S; is that correct?
A. That's correct.

Q. And the stipulation calls for a total increase in the residential class allocation of 21.812 million; is that correct?
A. That is correct.

Q. And looking at the column Increase Incorporating Surcharge Changes, we see a subcolumn called Carrying Charge Savings in ES; is that correct?
A. Yes, sir.

Q. Were these savings the result of a long-term debt refinancing that was carried out after the application was filed?
A. Yes, sir. You can also see these numbers in my supplemental testimony in AEV Exhibit 1 there.
Q. Okay.
A. Those are calculations done there.
Q. And the net total increase in the residential allocation is 21.977 million, correct?
A. 20.97 million.
Q. 20.977?
A. Yes, which equals the nine percent flat there.
Q. Okay. So the settlement's effect on what you have here as the non-fuel base rate increase to the residential class is an increase of 14.15 percent, correct?
A. Yeah. When you're looking at just non-fuel revenues. If you're looking at total bill, it's the nine percent.
Q. Right. So has the Company prepared any figures regarding the all-in rate increase to the residential class? And by that I mean the effect of the ECR increase, the impacts to the BSRR, and any other riders?
A. Yes, sir. You're looking at it. It's nine percent.
Q. Nine percent?
A. Yes. That is the total bill impact of this settlement.
Q. So this exhibit that you're looking at, tab 1 is the only analysis of the all-in rate increase, correct?
A. Yes. It's -- it is the all-in rate increase.
Q. Okay. Did the -- did the Company conduct any studies to determine whether ratepayers could afford the new revenue set forth in the stipulation?
A. I think this goes back to your -- I have no specific economic or other studies done about the affordability of the rates. I have produced the rates.
Q. Okay. Were you in the room when we questioned Mr. Satterwhite?
A. I was, yes.
Q. Can you point to anyplace in the application, if there were any studies done regarding the ability of ratepayers to afford the tracking mechanism?
MR. GISH: Mr. --
Q. That's Tariff PPA.
A. I mean, so Tariff PPA is set at zero, so that's --
Q. Okay. And under the --
A. -- fairly affordable.
Q. -- stipulation, if approved, then more monies from the PJM OATT costs would flow through there,
correct?
A. On a delayed basis, yes.
Q. Yes.
A. 20 percent of which will be absorbed by the Company.
Q. So if I understand -- am I to understand correctly that the Company has not conducted any studies about the ability of ratepayers to afford those funds being flowed through that mechanism?
A. No, my answer is the same.
Q. Okay.
A. We -- I have conducted no studies.
Q. All right. Thank you. Isn't it true that Kentucky Power and other AEP affiliates engage in numerous supplemental transmission projects?
A. You -- sure, you can call them supplemental. There are transmission projects, yes.
Q. Can you discuss the difference between supplemental and baseline projects?
A. Yeah. I can. There is a -- attached to one of my testimonies there's a presentation we gave, I believe to your office and the Commission, some of the folks in this room back earlier this year. But it talks about some of those items. A baseline project is just simply something -- a project that
PJM itself identified in its planning process rather than the transmission owner in whatever zone identifying it and bringing it to PJM. Those projects also called transmission owner subject -- selected projects. Supplemental is generally what they're classified as.

Supplemental isn't a derogatory term or otherwise meant that they're unneeded, it's just simply that --

Q. I understand.
A. -- it was not selected by PJM's model in their plan -- in their specific criteria.

Q. And so isn't it true that costs of supplemental projects are allocated solely to the transmission zone in which the project is located, and in this case is that -- is it correct that Kentucky Power is in the AEP East zone?
A. Kentucky Power is in the AEP transmission zone. It's the east companies of AEP.

Q. Okay.
A. But baseline projects can be allocated 100 percent to the zone they're within as well. It just depends on who benefits from them. And basically the -- a project that isn't identified by PJM is most likely going to benefit the transmission zone.
within which --

Q. So --
A. -- it's being built.

Q. I'm sorry?
A. Just within the zone it's being built.

Q. Okay.
A. Yes.

Q. And so -- then with regards to supplemental projects, the rest of the PJM footprint outside of that zone does not pay any of those costs; is that correct?
A. That's correct. And vice versa is true as well. If PSEG is building a supplemental project in its New Jersey zone or its Eastern Philadelphia zone, they're -- AEP is not paying a piece of that. It's when it goes through the PJM cost allocation process that those costs can be allocated across the various transmission zones in PJM.

Q. And so you indicated earlier that PJM refers to them as supplemental projects, and you said that they don't come up to PJM for review, so --
A. No, I didn't say that. They are reviewed at PJM.

Q. Oh, they are reviewed?
A. I said PJM does not initiate that project.
Q. All right.
A. It is not identified by PJM. They still go through the stakeholder process at PJM.
Q. Isn't it true that PJM does not evaluate those supplemental projects to the same degree as a baseline project?
A. I would not say that. Both go through the stakeholder process. Merely PJM's planning model identified a baseline project, whereas the specific planning criteria of the transmission owner, in whatever zone it's in, identified a supplemental project.

    Both go through the stakeholder process. All the dollars are reviewed at FERC when the formula rates for whatever the transmission owner -- the regular transmission owner is flowing those dollars through to the transmission zone or to PJM. The dollars are reviewed there for prudence at the formula rate update filings each year.
Q. Is there an agreement among the AEP East Companies called the AEP East Operating Companies Transmission Agreement?
A. Yes, sir.
Q. Okay. Do you know whether that's been produced in the record of this case?
A. I believe it has. I think it's in one of my
discovery requests.
Q. Okay. Do you know where that is? And if you
can't -- if you want to, we can do it in a
post-hearing data request, if you can identify that.
A. Yeah, we'll identify it, and if --
Q. If not --
A. -- if I'm misremembering and it's not already
in there -- I believe it's in one of the AG's data
requests, but if it isn't, we'll provide it. It's a
public --
Q. Okay.
A. It's a publicly available document on the AEP
website.
Q. All right. And is that also approved by FERC
using formula rate filings?
A. It's not a formula rate, it is an agreement,
a cost allocation agreement.

And just to note that we've had a cost
allocation agreement of some sort for the AEP East
Companies a lot longer than we have been in PJM.
There's always been a sharing of transmission costs
in the AEP zone. Just like prior to 2014 there was
a generation pool, we've also had a transmission
pool. I don't know if it was all the way back to
the '50s like the generation pool did, but it definitely predates PJM.

But it is not a formula rate, it's a cost allocation schedule that states how -- the current transmission agreement states how the PJM OATT costs will be allocated amongst the AEP East Companies.

Q. Okay. So basically under that agreement, Kentucky Power -- as it filters down through the retail rates, Kentucky Power ratepayers can be required to pay for a portion of, say, for example, an I&M supplemental transmission project?

A. Yeah. Let's take that a little deeper. So Kentucky Power retail ratepayers would be allocated a piece of the -- of a supplemental project like -- for instance, right now I know I&M in Indiana is trying to -- they're -- I think they're in the process of rebuilding a 90-year-old transmission line. It's going to be almost $84 million. But 90-year-old structure up along the lake, somewhat rickety. It's past its accounting life by 20 years at this point.

Now, if not for the AEP transmission agreement -- agreement where there is a 12 CP allocation of costs among the Company, the Kentucky Power would simply receive its one CP share from
PJM, which is how everyone else receives their costs. It's a one coincident peak. So if that -- if that happens in the wintertime, the winter peaking companies really get hit, versus if it happens in the summertime, the summer peaking utilities get hit more. So it just depends on when that peak is.

What the transmission agreement, the AEP transmission agreement, that cost allocation schedule does is it takes all the costs that get allocated either within the zone or to our zone, and it kind of levelizes it out using a 12 CP allocation. So everyone pays a more predictable amount each year, it's your 12 CP rather than saying -- which makes a lot more sense to me personally. You don't use the transmission system based on one peak, you use it every month of the year, so a 12 CP allocation of cost makes sense.

But it's reducing volatility between what PJM could have allocated to Kentucky Power on those PJM bill versus what actually is recorded on Kentucky Power's books via the transmission agreement.

Q. So if I understand correctly, then, under the terms of the AEP East transmission agreement, sums that Kentucky Power pays which become due under PJM
invoices --

A. Yeah.

Q. -- are determined in part by these AEP supplemental projects over which the AEP affiliates are in control?

A. Yes. Each transmission owner within the zone is responsible to -- for the upkeep and reliable service of its transmission system. And those supplemental projects are the transmission owners identifying rebuilds and other projects that they need for reliability. And, you know, there is an allocation of those costs within the zone, and per the transmission agreement, you know, we file our -- every transmission owner in our zone, we file our revenue requirement at PJM every year. PJM then does the cost allocation, because some of those -- some of those dollars get allocated across PJM, some stay within the -- within our transmission zone.

Within our transmission zone, there's about 15 percent of it that are non-AEP munis and co-ops. They get their allocation. The remainder goes to our -- the AEP LSE in total, and then through the transmission agreement there's that 12 CP allocation down to the individual LSE. So like Kentucky Power is an LSE.
Q. Okay. I understand. Thank you. And isn't it true that in the last case the Commission denied the -- can I call it the OATT tracker? Is that --
A. I believe it was the PJM tracker last time --
Q. Well, I thought --
A. -- because it had a bunch of other --
Q. Okay.
A. -- PJM costs in it as well.
Q. And in this case you're not calling it the PJM tracker, is that right, or --
A. It's -- it's a --
Q. -- do you want to call it that or --
A. It's included within the Tariff PPA.
Q. Tariff PPA?
A. It's specifically the OATT LSE costs, yes.
Q. So -- but in the last case the Commission denied the PJM tracker?
A. They did, yes.
Q. Okay. And --
A. After the settling parties had agreed to it.
Q. Can you describe what AEP and Kentucky Power are doing to control transmission costs?
A. I can give you one example. AEP did not initiate the complaint, but we have advocated for it, for those -- some of those projects. The docket
number is in my direct testimony. Some of those large baseline projects get allocated across our -- PJM's footprint.

I believe it was ComEd who initiated the complaint, then the AEP companies joined them, and we've actually gotten the cost allocation methodology changed so that less -- less cost is allocated to western PJM, you know, our LSEs and ComEd, versus what the old allocation used to be.

So we're -- there's -- we're awaiting a -- it was a nonunanimous settlement in that case, and, you know, FERC -- FERC has just recently reached a quorum again, so we're waiting for that to make it through FERC, and hopefully there will be a refund of some sort of -- some of those costs back to Kentucky ratepayers, and, you know, through the Tariff PPA tracking mechanism, mind you.

And there was also a change of a specific date going forward how those costs are being allocated currently across PJM. So, yeah, there's -- there is advocacy for lower costs.

Q. Okay. And under that AEP East transmission agreement, what kind of -- do you know the ROE percentage that is being charged to Kentucky Power?

A. So another distinction in the transmission
agreement, again, is simply a cost allocation schedule. The AEP OATT formula rates, those formularies contain the formula for producing the annual transmission revenue requirement. Within that there's an ROE. That ROE is currently 11.49.

Again, in my direct testimony I reference a FERC docket where the -- several -- several complainants have filed a 206 complaint at FERC, and that case is currently ongoing as well.

Q. All right. Thank you. So in that case that you just described too, am I correct that Kentucky Power and basically all the east operating companies, as well as some of the AEP nonregulated transmission companies are listed as defendants; is that correct?

A. It's against all of the --

Q. Respondents?

A. -- all of the transmission owners, yes. Everyone who is filing a transmission revenue requirement with that ROE in it.

Q. Okay. Has Kentucky Power ever gone to FERC to contest the ROE that it's required to pay under that AEP East operating agreement?

A. We have not contested our own ROE; no, sir.

Q. All right.
A. That would be Kentucky Power -- so that 11.49 ends up --

Q. Well, let me ask you a question. When you say ROE --

MR. OVERSTREET: Wait a minute. Let him finish his question.

A. So that 11.49 ends up back in our base rates as a credit to customers in the cost of service. Essentially those TO revenues during the test year that include that 11.49 ROE and our natural transmission costs of service, you know, our -- with our retail return on our rate base and our O&M, those are both included in base rates and essentially offset one another, whereas the cost you have left for transmission service is the LSE OATT charges. So to the extent we go reduce that, we reduce the base rate credit.

Q. I understand. Thank you very much. And I apologize for --

A. No worries.

Q. -- interrupting you.

Let me ask you a question. So if I understand you correctly, do you make -- I need you to help me understand. Does Kentucky Power make more or pay more on OATT charges?
A. Kentucky Power pay -- has a greater OATT charge as an LSE than as a trans -- than as the revenues they receive as a transmission owner.

And let me explain that. The -- under the cost allocation schedule we've been talking about, the AEP transmission agreement, everyone -- every transmission owner -- so Kentucky Power is a transmission owner. We have our own transmission system and we are an LSE. They're two separate entities. Okay?

And Kentucky Power, the transmission owner, files a revenue requirement every year at FERC, or at PJM under the FERC-approved formula rate schedule. And let's say it's $50 million. So Kentucky Power files for $50 million from PJM. Kentucky Power gets $50 million back from PJM. That's one settlement, direct assignment, through the transmission agreement. Excuse me.

Then as an LSE, those costs are allocated to the AEP zone, and then through the transmission agreement we receive -- "we" being Kentucky Power, receive our 12-CP share, which is that roughly six percent number that you've heard repeated a few times. It's -- I think this year it's 5.78, but roughly six.
And currently the LSE charge is greater than the transmission -- transmission owner revenues that are coming in.

Q. Okay. So isn't it true that the -- I keep calling it a tracking mechanism. I'm sorry. Will you understand what I mean?

A. Tariff PPA?

Q. Tariff PPA, yeah.

A. Yes, sir.

Q. Isn't it true that that mechanism would preclude any intervenors from posing discovery questions about the costs that are carried through that mechanism?

A. That's untrue. You can -- any intervenor in this case can go to the PJM regional transmission -- transmission meetings. They're every month. They can ask questions there. They can go to the formula rate update every year and ask questions.

There's several consultants for munis and co-ops within the AEP zone that pose a lot of discovery about those costs in the formulary true-up every year.

Q. Okay. And let me clarify that. If that mechanism is approved by this Commission, once it comes time to collect those costs at the retail
level, would -- isn't it true that the tracking mechanism would preclude any intervenors from posing discovery questions about those costs?
A. Notwithstanding my last answer, I'll also add that I can't remember a currently approved tracking mechanism where I've filed the rate update and Staff hasn't asked at least one or two questions regarding what's involved in that true-up or how those rates were calculated.

Q. Okay. Can you turn to tab 2? And that's your rebuttal testimony at page 3, correct?
A. Yes, sir.

Q. Looking at lines 3 through 4, you state there (Reading) The tracker would allow the Company the opportunity to earn its ROE.

But isn't it true that if the tracker is approved, it would guarantee that Kentucky Power would earn its authorized ROE rather than an opportunity to earn it?
A. Absolutely not. We have an opportunity --

Q. Really?
A. -- if that is included. If it's approved, Kentucky Power has a legitimate opportunity. If it's not approved, we have no opportunity. That's one and a half percent ROE off the top, we know it's
happening. And it's no guarantee, because we're still absorbing 20 percent of those incremental costs in the settlement deal.

Q. Isn't it true that despite the fact that Kentucky Power is losing customers and is experiencing declining usage, nonetheless revenues continue to grow?

A. I missed Mr. Wohnhas' discussion of this, so I assume you're referring to the ten-year period in question where revenues were going up; however, the load has been shrinking?

Q. Yes. As a matter of fact, there is an exhibit to the testimony of Dr. Dismukes, Exhibit 9 --

A. Yeah.

Q. -- that -- it's based on the Company's FERC Form 1. That's where the data comes from.

A. That's fair. And there are some caveats. There's some color around that. There's many things happening. Over that same time period all the coal plants that are still being operated in the AEP system, they were scrubbed during that time period, so during -- that's a lot of capital investment. And in 2006 through 2014 Kentucky Power was still a member of the AEP's pool. So as those plants were scrubbed and those capital investments
were made, Kentucky Power's costs were going up, because they're allocated their portion of the AEP system. So you had that going on.

You also have during that time period the decline in off-system sales margins, because after a peak in 2008, you had lower -- you had the economic recession, which really hurt -- hurt off-system sales. Prices went down. Gas prices began to come down it with fracking. You also had the retire -- the generation retirements, where the AEP's pool became a lot shorter.

And those off-system sales revenues that used to get allocated, those hundreds of million of dollars that used to get allocated to Kentucky Power through the old East pool, those were rate credits. Those were shared back with customers through the system sales clause. So as those off-system sales margins were reduced, our retail revenues grew, because we had less of a cost offset.

So, yeah, I agree with you that revenues have gone up and sales have gone down, but it's -- there's a lot of color within those, a lot of -- there's a lot of nuance to it. It's not just -- it's not just a picture that Kentucky Power 's revenues keep going up and sales keep going down
and -- there's a lot to it.

Q. All right, sir. Of the amounts Kentucky Power pays each year in OATT charges, how much are to affiliates and how much are to nonaffiliates?
A. Huh. I don't have that number on me.

Q. If I -- I'd like to request that in a post-hearing data request.
A. We could. We could certainly -- certainly provide that.

Q. Thank you. Of the amounts Kentucky Power pays each year in OATT charges to affiliates --
A. Yeah.

Q. -- how much was paid for projects designated as baseline upgrades, network upgrades, or supplemental projects as defined by PJM?
A. So I'm not sure we track it at that level. However, a couple -- a couple of distinctions there. Network upgrades are like when a generator wants to connect within the system, and network upgrades are paid for by whomever is requesting that.

So if there's an IPP entering the AEP system and they require a $10 million transmission investment to be connected to our system to deliver power to PJM, they're paying that, not our customers. You know, or vice versa. A new wind
farm, if they want -- they need a substation, that's paid for by the developer of that specific project, that's not our customers.

And again, supplemental projects are projects needed to replace the very age -- very old, aging, deteriorating transmission infrastructure in our system. We have a very high percentage of it that's over its accounting life. There's a significant portion of these -- these facilities -- like just look at the Hazard-Wooton line here that is before the Commission. It's 70-plus years old, and I believe it has wooden structures. You have 70-year-old wooden structures holding up your transmission system.

So, yeah, you can continue to draw ire with the supplemental projects, but just because they're supplemental doesn't mean they're not needed.

Q. All right. With regards to that question I asked, if you -- you said you weren't sure whether it's tracked that way that I asked it. If it can be provided, we'd like to ask for that in a post-hearing data request.

A. Okay. Yeah, I'm just not sure the -- I'm not sure the dollars are that granular where you can -- where we can divide it between the baseline project
or whatever, but we will try, and if we can, we will provide that.

Q. Then would they be identified under RTEP dollars or with an RTEP ID also? Is that one way to look at them?

A. So RTEP is the Regional Transmission --

Q. Expansion --

A. -- Expansion Plan. That's a process.

Transmission enhancement are the charges. So we can -- we can definitely tell you what our -- what our NITS charge is versus what our transmission enhancement charge is. That's -- that is identifiable. We account for it that way. We can provide that.

Q. Okay. Thank you very much. Do you recall filing responses to data requests from the PSC Staff about the typical bill impact from the Big Sandy Retirement Rider, the BSRR annual update?

A. I filed a lot of discovery.

MR. GISH: Do you have a -- do you have a --

A. Do you have an example?

MR. GISH: -- specific number?

A. Yeah.

Q. Yes. They were filed on August 14.

A. Oh, in the rider update?
Q. Yes. Yeah. The BSRR.
A. Are we going to the wall? Do you --
Q. We're about to.
A. Okay.
Q. We gotta wait for some assistance. So what we're going to do, we'd like show you on the screen an Excel spreadsheet the Company filed in response to the Staff's several data requests from that update. And --
A. It has my name on it, how about that?
Q. Okay. So we're in luck then.
A. It's spelled incorrectly, but it's my name.
MR. CHANDLER: That's my fault. Sorry about that.
MR. GISH: His attorney doesn't make that spelling error.
Q. So have you seen that Excel sheet before?
A. Yeah, I believe I produced it.
Q. Okay. And so you supported the response to the Staff data request there?
A. Yes.
Q. Okay. What we'd like to do, then, is to update this Excel sheet with figures the Company provided in the stipulation in order to calculate the typical bill impact of the rates in this case.
A. Oh, actually --
Q. So the stipulation provides for an increase in the residential customer charge to $14; isn't that correct?
A. That's correct.
Q. All right.
A. As a compromise from 17.
Q. So my co-counsel here is making the changes, as you can see, in the Excel sheet. And I believe he just inputted $14. All right.

And then next it provides for an increase in the energy charge to 10.265 cents per kWh; isn't that correct?
A. That's correct.
Q. And then it provides for a decrease in the KEDS charge to residential customers from the current 15 cents per meter to 10 cents per meter, correct?
A. That's correct.
Q. And we're just talking about the stipulation here. And it provides for an increase --

MR. CHANDLER: Slow down. Slow down.
MR. COOK: Oh, I'm sorry. I'm going faster than my -- than our ability to input.
MR. GISH: Ten. It should be 10, not 20.
THE WITNESS: .10.

MR. CHANDLER: What is it?

MR. OVERSTREET: Ten cents.

MR. CHANDLER: Oh, excuse me. I got ahead of myself.

MR. OVERSTREET: Now it's 12.

MR. GISH: Now it's a dollar.

MR. OVERSTREET: Now it's a dollar.

MR. CHANDLER: Residential customer.

MR. COOK: And the HEAP.

THE WITNESS: HEAP's 20 cents. I can help you.

Q. Yeah, the HEAP will go from 15 to 20 cents, correct?

A. Yeah.

Q. And so we went through there, we made those changes. So are we -- what are we missing here?

A. You need to go up to the Big Sandy Operations Rider and put it to zero. Four up. There you go. Just make the rate zero. There you go. Right there. No, no, back two cells.

MR. CHANDLER: I got it. Hold on a second.

A. Just make the rate zero.

MR. GISH: The witness said to make the rate zero because the Big Sandy Operations Rider is going
away in this case.

MR. CHANDLER: Yeah, but it's multiplied, it's still zero.
A. Certainly. You need to also go down to the environmental surcharge, and the annualized test year number needs to be the rate. Go over. Down. Down. No, no. That's the fuel charges. Leave that one. Leave that one. Down. Turn -- actually, while you're in system sales, make it zero. That guy to zero. All right. Down to -- that should be 7.4926 percent.

Q. Where does that number come from?
A. The piece of paper I'm holding.

Q. Okay. Well, what is that?
A. I calculated these rates with the settlement, yeah. The next one down.

MR. CHANDLER: I need to --
A. Yeah, you're good then.

MR. CHANDLER: I need to know --
A. Oh, seven -- 7.4926.

Q. So it looks like we're still miss -- are we still missing something here?

MR. GISH: Purchase power should be zero.
A. Yeah, the purchase power adjustment clause, that's zero.
MR. CHANDLER: The rate?
A. Yes. Go up to the capacity charge. Looks like the current. That might be the current. No, it should be 14.82, I believe.

MR. CHANDLER: Say that again.
A. 14.82 is what I have in mine. $14. And --

Q. So it's still above nine percent, correct?
A. No. Go up to the -- can you expand the energy charge there? No, just the decimals. Okay. Yeah. Okay. 14. What are we doing?

How about I submit mine as a post-hearing data request, because I feel more comfortable with the one that's in my hand.

Q. Would you go ahead and provide one, then, in a post-hearing data request?
A. Yeah. Yes. Absolutely.

Q. Okay. All right.

CHAIRMAN SCHMITT: And let's take a -- let's take a ten-minute break at this time.

(Recess from 4:01 p.m. to 4:12 p.m.)

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

Mr. Cook, I assume you intend to resume your cross-examination of Mr. Vaughan.

MR. COOK: Thank you very much, Your Honor.
I appreciate it kindly.

Q. Mr. Vaughan, there are three items on this sheet that's been put up behind you calculated with a factor that is multiplied by the subtotal of the bill. Would you agree that one of those factors is the BSRR factor?

A. That's correct. It's a percentage of revenue rider.

Q. Thank you. And is it about four percent?

A. Currently, yes.

Q. Okay. Will applying that factor to the new bills overcollect the BSRR revenue requirement?

A. No, it will not. It will just pay down the regulatory asset a little faster than it would otherwise, saving carrying charges for customers.

Q. Just one moment. Isn't it true that just one week after the Company submitted the supplemental filing in this case about the refinance that it filed this annual BSRR true-up on August 14?

A. Yes, per the tariff.

Q. Okay. Were the changes to the WACC, the weighted average cost of capital, also reflected in the 2017 BSRR true-up?

A. No, sir; they were not. The calculated carrying charges should change when there is an
order in this base rate case and we receive a new weighted average cost of capital.

Q. So the order has to address that; is that correct?
A. I believe so. I would have to go back to the orders approving the Big Sandy Retirement Rider to be a hundred percent sure, but yes.

Q. So could you turn to tab 6, then?
A. Tab 6. I am there.

Q. Okay. And are you familiar with this Kentucky Power response to the Commission's data requests in the BSRR true-up filing?
A. Is this from this year? Yep, I am.

Q. And could you read the last sentence of the first paragraph into the record?
A. (Reading) BSRR adjustment rate will not be modified -- adjustment rate will not be modified coincident with the effective date of the rates approved in the Commission's final order in Case Number 2017-00179.

That's true, it will be -- the rates will be modified next August when we file our next true-up. However, the carrying charges used to calculate the interest on the regulatory asset will change for the new WACC that gets approved in this proceeding,
Q. Couldn't the Company have requested to update the long-term debt when it filed its annual BSRR update?
A. I'm not certain. Again, I have to go back to the order approving -- I believe the order approving the BSRR states that the carrying charges are calculated based on the current approved WACC in the -- from the last base rate case.
Q. But the Company could always move to do so, could it not?
A. I'm not certain. I'm not a lawyer. I'm not going to answer that one, sorry.
Q. Moving on to a different subject here, what factors did Kentucky Power consider in making the changes to the two cogen tariffs? That's Tariff COGEN/SPP I and Tariff COGEN/SPP II.
A. We simply updated the cost rates in it.
Q. Okay. Has Kentucky Power been engaged in any discussions or negotiations with any customers who may potentially take service under one or both of those tariffs?
A. Not any more so than what's in the settlement agreement with, you know, the provision for Marathon and discussing their unique situation.
Q. If a customer was to develop cogen, would any backup tariff they take under ensure they pay the same portion of fixed costs as they would if they did not generate any power?
A. Probably not, no. I mean, it depends on the scenario.
Q. Okay. I want to move on to residential rate design, and you addressed the residential service charge in your direct and rebuttal testimony; isn't that correct?
A. Yes, sir.
Q. Now, the partial stipulation calls for an increase in the monthly residential charge to 14, correct, $14?
A. That is correct.
Q. And --
A. From -- reduced from our proposed 17.50.
Q. And did any of the stipulating parties provide testimony on the residential customer charge?
A. Yes, I believe your witness, Dr. Dismukes, did, who --
Q. The AG was not one of the stipulating parties; isn't that correct?
A. No, they were not.
Q. Okay. Did the Company conduct a study to determine whether residential customers could afford the proposed increase in the customer charge?
A. So you can't look at the residential customer -- you have to look at bill, at the total bill. And again, I will -- I will say I did no studies on the affordability of my rates. I did my job, I produced the rates.

However, you can't -- you can't pick at one rate component and say whether that rate component is affordable or not. You have to look at the end result. And the end result in our proposed residential rate design is more equitable for our low-income and our heating customers, and that's why we proposed to do it that way.

Q. All right. And could you refer to tab 3, please?
A. I am there.

Q. This is your rebuttal at page 13. Do you see that?
A. I see that.

Q. At lines 14 through 15, you state there, (Reading) However, a more relevant comparison is to the IOUs and the electric cooperatives that operate within Kentucky; isn't that correct?
A. Yes.

Q. And then you provided as an exhibit --
A. And I do know I inadvertently left out the IOUs.

Q. Oh, okay. All right. So --
A. Save you a question.

Q. Well, thank you so much. Then that means that we can move you then to tab 5.
A. Tab 5.

Q. Oh, okay. And -- well, first let me backtrack --
A. Do you want to go to tab 4?

Q. -- just a little bit.
A. Okay.

Q. Back to your study that left out the IOUs. It was dated in effect as of October 12, 2017, correct?
A. That's right.

Q. Okay. Then tab 5, we prepared an exhibit with the same date that -- so you see here in that exhibit that when Kentucky's electric IOUs are compared together, the average of service charges applicable to residential customers of those companies is $10, correct?
A. It is, but I testify in my rebuttal and my
direct, that is irrelevant, that we do not look like the other three IOUs in the state. We look like a very large rural electric cooperative when you look at our service territory that's in my direct testimony when I discuss the number of residential customers per mile, per line mile of circuit, the relative density of our service territory, the mountainous terrain of our service territory.

So while I apologize that those lines 14 through 15 may mischaracterize my AEV-R2 because I only included rural electric co-ops, the other cooperatives and municipals, I think it's a very relevant comparison.

Q. And AEV-R2 did not -- also listed several nonjurisdictional utilities, correct? They were not jurisdictional to this Commission?
A. I don't know whether this Commission has jurisdiction over all of the co-ops or --
Q. Okay.
A. I do not know that.
Q. All right.
A. But if you folded in the three IOUs, the average is -- you know, the high is still going to be $23.40. The new low will be 4.50 for Duke Energy, which is a very dense service territory
there south of Cincinnati. And you're still going
to have something in the mid teens as the average,
which is where the settlement agreement lands.
Q. What calculations did you use in developing
the proposed residential customer charge?
A. I go into great detail in my direct testimony
where we -- I did a couple benchmarking studies.
The one was what I call a fixed distribution study,
which your witness, Mr. -- or Dr. Dismukes takes
great issue with, calling it a minimum system study.

And then I also did a marginal connection
study where I took the actual work orders from the
test year when we were installing new residential
service and took an average of that cost. I got
those from our distribution group. And it said the
next connection cost us $39 per month during the
test year. That was very close to the fixed
distribution study I did, which was 38 something.

So I used those as kind of a benchmark, as
here, that's the ceiling. Like if you could do it,
that would be as high as you'd want to go in the
fixed, just looking at distribution of the customer
charge.

So that was like step one. We said here's
the ceiling or the bogie. We're at $11. And then
we looked at how much we could raise it without
disproportionally impacting customers of various
usage levels, looking at what our average heating
customers used each month, looking at what our
average low-income customers used each month, and
then set the rate.

And also looked at how much of the bill would
still be on a usage basis versus a fixed basis. I
know you guys -- your witness takes issue with that,
but there's still 90 percent of the bill that's
billed on a kilowatt-hour basis, even with our
proposed $17.50 increase, which we have brought back
to $14 in the settlement.

So I looked at a great many things when I was
coming up with that proposal.

MR. COOK: That's all the questions we have
at this time, Mr. Chairman.

CHAIRMAN SCHMITT: Thank you.

Mr. Osterloh, questions.

MR. OSTERLOH: No further. Nothing at this
time.

CHAIRMAN SCHMITT: Mr. Malone.

MR. MALONE: Just one quick question for Mr.
Vaughan.

* * *
CROSS-EXAMINATION

By Mr. Malone:

Q. You got a lot of questions from KCUC about the $500,000 difference between LGS and the rate PS, the K through 12?
A. Yes, sir.

Q. Were you here yesterday for Witness Higgins?
A. Yes.

Q. Did you read his testimony as well?
A. The -- excuse me. The latest? The December --

Q. Well, you were here and you heard him testify yesterday?
A. Yes.

Q. Okay. Would you agree with me that Witness Higgins testified that he didn't want to -- or he didn't recommend anything happening with respect to the $500,000 difference? In other words, that it remain intact?
A. That's my recollection, yes.

MR. MALONE: Okay. Thank you. No further questions.

MS. VINSEL: One moment, sir.

THE WITNESS: Oh, and, sir, Mr. Cook, your one question about the transmission agreement, it
was provided in response to KIUC 1-18.

MR. COOK: 1-18?

THE WITNESS: Yes.

MR. COOK: Thank you, sir.

THE WITNESS: You're very welcome.

MR. COOK: One less post-hearing data request.

THE WITNESS: One less. One less, yes.

CHAIRMAN SCHMITT: Ready?

MS. VINSEL: We're ready.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Vaughan.
A. Good afternoon.

Q. Can I have -- refer you back to -- I'm sorry, I'm not sure. This was one of the Attorney General's exhibits. It's from the last filing in 2014-396 filed by Amy Elliott in regards to the WACC for Tariff BSRR.
A. Okay.

Q. Thank you. 2017 BSRR annual report.
A. The KPSC 1-02?
Q. Yes.
A. Got it.
Q. Let me have you go to the last sentence in
the second paragraph. That reads, (Reading) The October 2018 modified BSRR adjustment rate will reflect, as of the effective date of the rates approved by the Commission's final order in Case Number 2017-179, any changes to the Company's WACC as a result of the Commission's final order in that case.

If you were to remove the words "as of the effective date of the rates approved by the Commission's final order in Case Number 2017-179," how does that change the meaning of that sentence?
A. Which word would you like me to remove? I'm sorry.
Q. One moment. One moment.
A. Okay.
Q. Okay. Mr. Vaughan, I think -- I think I can rephrase this.
A. Okay.
Q. The October 2018 modified BSRR adjustment rate will reflect any changes to the Company's WACC as a result of the final order in this case, correct?
A. The rate or the regulatory asset?
Q. Adjustment rate.
A. The adjustment rate?
Q. Yes.
A. Okay. So is that a question or a statement?
Q. Yes, is that -- would you say that's correct?
A. I'm not certain. I think my --
Q. Okay.
A. My -- whatever we said here is what we'll go
with, but I thought we were going to just adjust --
adjust the amount of carrying charges we were
recording on the reg asset when we received an order
in this case with a new WACC. I thought we would
leave the rate the same until this -- the file --
our normal filing update.

Obviously we can change the rate according to
this case. The result of that would be that you
would -- you would accrue more carrying charges than
you would otherwise, because if you low -- if you
keep the rate the same and you were to lower the
amount of carrying charges to the new WACC that are
being recorded on the reg asset, you would pay off
more principal balance over the next eight months
until we updated the rate.

We can do either. There is no over/under on
this thing, there's just an under. We're paying
into that reg asset of the retirement over the 25
years, and we just re-levelize that every year in
our -- in our update. So we can do either. Okay.

Q. I think we're set.

A. Okay.

Q. Thank you. I've got something a little more straightforward now.

A. Okay.

Q. I've got -- as a post-hearing data request --

A. Yes.

Q. -- can you provide a copy of what I'm going to call the revised Exhibit AEV-3S in an Excel format --

A. Yes. Yes, ma'am.

Q. -- with the formulas intact?

A. Absolutely. Yeah. And was I clear enough on what changed in that?

Q. Yes, I believe so.

A. Okay. Okay. Because it was basically that commercial weather adjustment, and it just didn't get flowed through to the revenue proof tabs on the current -- because it changed current revenues.

Q. Yes.

A. Okay.

Q. No. I double-checked with my coworkers, and yes.

Q. And if you'd give me one second, I think I'm a little bit out of order here. Can I go back to Tariff NUG, non-utility generator?
A. Yes.

Q. One of the questions that Mr. Wohnhas passed on to you is the question about the rate for the start-up and station power.
A. Yes.

Q. So -- and the tariff rate is the FERC-approved OA -- no?
A. No. No, ma'am.

Q. Okay. Tell me.
A. So -- okay. So the -- and again, I think Riverside has taken some contention with how I've characterized this, but -- so our one customer, Riverside Generating, they are on IGS rates. To me they are an IGS customer. They are there pursuant to Tariff NUG.

Q. Okay.
A. Okay? So what Tariff NUG does -- and it's been this way prior to myself working on Kentucky Power regulatory matters. I don't know the exact date of when this came about. But it gives non-utility generators the opportunity, if they meet
the right conditions, to bypass the rates set by this Commission and go straight to wholesale level, net meter their load in PJM, and avoid all the retail charges. So what they're currently paying under IGS will get put back on to other ratepayers.

Our contention is they do not meet that clause. And I don't know why the clause is there. The clause could be taken out by this Commission. That's -- it's their tariff, they can do what they want with it.

But that is where the OATT language comes in. It would be under PJM's OATT they would pay wholesale energy prices and just bypass the retail regime here.

It's our contention that they don't qualify for that. I think we'll be talking about it more here in another proceeding, but to me they are IGS customers.

Q. Okay. And I do recall in Kentucky Power's reply to Riverside's motion to intervene that's what was said was that they are actually on Tariff IGS.
A. Yes. Those are the rates they're paying currently, yes.

Q. I've got two items that I need some help passing out. My coworkers, I'm sure, will assist
MR. COOK: Mr. Chairman, if I could, while they're passing these out, I'd like to move to admit under the AG's tabs 5 and 6 for this witness, those two items, if there's no objection.

MR. GISH: There's no objection from Kentucky Power.

CHAIRMAN SCHMITT: Okay. Let them be admitted as Exhibits 5 and 6.

MR. COOK: And then -- actually I think tab 5 would be Exhibit 12.

MS. HUGHES: 12.

CHAIRMAN SCHMITT: 12?

MS. HUGHES: 12 and 13.

CHAIRMAN SCHMITT: 12 and 13.

MR. COOK: Thank you.

(AG Exhibits 12 and 13 admitted.)

Q. And what Mr. Raff is passing out are two exhibits that you filed into this rate case, and I will say one of these is mismarked as PSC Exhibit 7. Because these are in the record, I'm not asking to introduce them --

A. Okay.

Q. -- as an exhibit. Do you have -- do you have a copy, Mr. Vaughan? I don't want to start talking
about them until you have a copy.
A. I do not.
Q. Okay. I'll wait.

MR. RAFF: If I can approach the witness, Your Honor.

CHAIRMAN SCHMITT: You may.

THE WITNESS: Oh, thank you, sir. Thank you.

A. I now have a copy.

Q. Okay. I'm going to go ahead and start while everybody else is getting their copy. This first piece that's named -- the title on it is AEP Allocation Process.

A. Yes.

Q. This is from Exhibit AEV-R1, page 21 of 32. So this is just an excerpt. And I believe earlier you referenced a handout that was provided from a presentation given --

A. Yes.

Q. -- some time ago?

A. Yes.

Q. So this walks through the AEP allocation process.

A. Yeah, it's a summary table of the AEP transmission agreement, that cost allocation schedule I was discussing earlier.
Q. And just for reference, the second larger document is from your response to the Commission Staff's second data request, item 74.

A. Yep.

Q. And this provides the test year PJM LSE OATT charges and credits by month?

A. Yes.

Q. We're going to start with the AEP allocation process.

A. Okay.

Q. And in your direct testimony you stated that Kentucky Power is proposing to include an adjusted test year level of the net OATT charges and credits, correct?

A. That's correct. I adjusted up for the currently approved FERC rates at the time, because they had -- they had -- our test year went through February.

Q. Uh-huh.

A. We had rates approved in January, new transmission rates for the AEP zone in January, so I adjusted this 70 million up to the -- what the new rates were going to produce.

Q. Okay. I'm sorry, I need to take a minute. Since you've just given me some information, I want
to make sure I don't ask the same --

A. Okay.

Q. -- same information. I think you did answer this. I'm going to go ahead and ask it anyway. Was the adjusted test year level of the net OATT charges and credits proposed to be included in base rates equal to the anticipated net amount of PJM transmission revenues and credits to be allocated by AEP to Kentucky Power?

A. Yes. Yes. We updated for the new zonal transmission revenue requirements, the new 12 CPs and the new NSPL that affects the allocation between the AEP LSE and the munis and co-ops within the zone.

So you take that total revenue requirement, split it within the zone -- the zonal revenue requirement, split it within the zone between the AEP LSE, the non-AEP LSEs, and then you 12 CP it to the AEP LSEs via this document right here.

Q. Okay.

A. So, yeah, I updated all of those inputs that were known at the time and then took the delta between that new number and this test year amount, and that's in one of my -- one of the -- it's in one of the work papers that's filed in the case, that
calculation is.

Q. Okay. Are all PJM transmission revenues and expenses allocated by AEP to Kentucky Power, or are there any PJM revenues or expenses directly paid to or billed to Kentucky Power?

A. Nothing is simple. So all of these -- all of these -- the transmission -- and when you say "transmission," I'm going to qualify and say that -- I'm going to talk about the OATT.

Q. Okay.

A. Specifically the transmission -- transmission costs of service items, not congestion and losses and other things --

Q. Okay.

A. -- that we deal with in fuel or otherwise. So those are billed to AEP, or to Kentucky Power.

Q. Uh-huh.

A. Kentucky Power gets a bill from PJM just like all the other AEP LSEs. What's billed to them is billed on -- is based on PJM's -- PJM's tariff, which says, "I am going to bill you based on your 1 CP, your NSPL."

Q. Okay.

A. So we get that in. Each company gets a bill from PJM with that amount. We then take that total
amount and we apply the FERC-approved transmission agreement to it. That was that smoothing process I talked about earlier where that one -- one peak allocation gets put in an entire pot and then it gets 12 CP back.

So the big -- the big difference there being that if it's a winter peak that year versus summer peak, you know, the amount of transmission costs that can be allocated to you is -- could be drastically different.

Q. Okay.

A. So, yeah, it comes in -- it comes in on the PJM bill, then through the accounting process of the transmission agreement, the amount that's recorded on Kentucky Power's books is the 12 CP share of the AEP LSE amount.

Q. Okay.

A. Which is what's reflected in this large sheet here.

Q. All right. So there are no PJM revenue or expenses that are not reallocated by AEP?

A. Relating to the LSE, no. The transmission owner revenue requirements are directly assigned to the transmission owners, like I discussed earlier.

Q. Yes.
A. So Kentucky Power submits $50 million, they get $50 million directly assigned. There's no allocation of that.

Q. And now referring to the test year PJM LSE OATT charges and credits by month.

A. Okay.

Q. Does this schedule include all of the transmission revenues and expenses allocated by AEP to Kentucky Power?

A. Again, I believe if we're talking just the LSE charges --

Q. LSE.

A. -- related to the transmission cost of service --

Q. Yes.

A. -- I believe so. I don't -- I don't qualify -- I don't count the administrative fees. I don't -- those aren't in here. The, like -- again, like generation -- congestion and loss type trans -- some people can refer to those as transmission charges. I'm not referring to those. Just the LSE OATT charges are in the schedule.

Q. Okay.

A. And it says -- and we refer to it sometimes as a net credit because you have that 4561005
account there, the point-to-point credits.

Q. Uh-huh.

A. That's for when -- you know, the network customers, our LSE, we pay the -- the network customers pay the entire revenue requirement, then as third parties use that on a spot basis throughout the year, they pay a fee to PJM. That fee that they collect from the third parties, the point-to-point, the non-network customers, that gets allocated back. You know, because the network customers paid the whole -- the whole revenue requirement, so then that comes back as a revenue credit. So that's why there's that net in there, and that's what that 1005 account is.

Q. Okay. And thank you for the explanation. Can you walk briefly through each of these accounts and give us a sense of what is in each account?

A. Okay. So the largest -- so your largest -- largest LSE costs are going to be your network integration transmission service, NITS for short, and your transmission enhancement costs. Those are -- those are the larger projects. Transmission enhancement are things that are identified by PJM in that planning process, some of the -- some of which get allocated. Some of that is project costs get
allocated to the AEP zone from outside. Some of those get allocated -- are AEP projects that get allocated to other zones as well.

But there's the revenue requirement, we file them at FERC -- at PJM, is split between network -- network integration transmission service and transmission enhancement, and that's why you see the breakdown in the accounts here.

That first -- that first RTO, the 4561002, the RTO formation cost recovery, that is just an amortization of the initial RTO expense. I believe when we were -- I cannot remember if that was when we were forming our RTO. I guess when we joined PJM. But that's part of the transmission agreement there, so that's included.

Then you have the point-to-point transmission service credit that I just talked about that varies based on the third-party usage of the system.

Then you have -- the NITS expense gets broken up. It's confusing the way we account for it. There's affiliated and nonaffiliated accounts there. So you have affiliated transmission NITS costs. That's going to be your -- that's going to be your operating company affiliates right there. That's the costs coming from them.
Transmission, the trans TO cost, that's the Schedule 1-A cost, if you're looking at the -- if you're looking in the operating agreement, PJM OATT. It's the -- essentially like the -- I think like transmission-control-center-type stuff, the revenue requirement related with that. That's the share of that that's -- it's broken out separately. It's a much lower -- as you can see, a much lower cost than the NITS or transmission enhancement.

Then you have PJM -- affiliated PJM transmission enhancement costs. Again, transmission enhancement costs from affiliates.

And then you have other transmission enhancement and NITS expense, whether it be from a transmission company, an AEP transmission company or a nonaffiliate. Like Buckeye Power in our zone built some transmission, or PSEG built a backbone line and it got allocated to our zone. That's where those costs fall.

So the two largest, again, the big drivers there being transmission enhancement and the NITS charges.

Q. And this schedule does -- or does this schedule reflect the adjusted test year amounts of the OATT transmission charges and credits proposed
to be included in Kentucky Power's base rates?
A. It does not. I would point you to KIUC 1-67. It had -- because I have that -- that's where I identified an update, and it's included in there, and that's the same change I made in my direct testimony.
Q. Okay. If we assume a 9.75 ROE and a 9.11 WACC, can you tell us what the amount of Kentucky Power's adjusted test year revenue requirement for its transmission assets included in rate base will be?
A. Ooh. That's a word problem.
Q. Would --
A. Let me specify that. So you're saying if we assume -- if we assume this, the 9 -- the currently filed WACC and the currently filed ROE --
Q. Yes.
A. -- what our transmission costs of service and retail rates is?
Q. Yes.
A. I do not have that number available, but I could -- I could produce it.
Q. I will put that in a post-hearing data request then.
A. Okay. I had a feeling.
Q. Do you have a copy of the settlement agreement?
A. I do.

Q. Can I have you turn to page 11, paragraph 8(c)?
A. Paragraph 11?
Q. I'm sorry. Page 11.
A. Page 11.
Q. Paragraph 8(c). And on page 11, it just looks -- it just has the (c). It's at the top of the page. There's (b), paragraph (b) and then paragraph (c).
A. Yes, I'm there.

Q. Okay. Is the current federal income tax rate an input into the calculation of Kentucky Power's WACC and gross revenue conversion factor?
A. It's not included in the WACC. It's included in the gross revenue conversion factor. So if you're using a pretax WACC, then yes, it is included in there, the 35 percent marginal rate, yes.

Q. And if the federal income tax is reduced, would it be appropriate for the Commission to revise -- and you said it was the -- in the gross revenue conversion factor?
A. It's in the gross revenue conversion factor,
yes.
Q. So would it be appropriate for the Commission
to revise that if there is a reduction in the income
tax rate?
A. Not on a single-item basis, it would not.
You would have to take into effect what the other
tax implications are of that. So it would not be
appropriate to simply knock the GRCF down to a 20
percent marginal rate if there's some other -- some
other new tax expense we're going to incur because
we lost deductibility somewhere that would offset
that.
Q. So if there are multiple changes in the tax
code, then would you say it's correct for the
Commission to consider all of those changes?
A. Yes. As a whole, yeah, I think that would be
appropriate.
Q. Okay. We're going to look at both that
paragraph 8(c), but also, on page 9, paragraph 5(c).
And paragraph 5(c) is a reference to the rate case
stay out.
A. I'm there.
Q. Okay. So I'm going to have you flip back to
8(c).
A. Okay.
Q. And the sentence that says, (Reading) The weighted average cost of capital and gross revenue conversion factors shall remain constant until such time as the Commission sets base rates in the Company's next base rate case proceeding.

But that is not intended to limit the Commission's authority under paragraph 5(c) on page 9?
A. I am not a lawyer, but my lay interpretation of that is no, it's not meant to handcuff the Commission and we reap some sort of tax benefit that can't be flowed back to customers. That's not the intention.
Q. Okay. Thank you. Going back to the tariff. And do you pronounce it just Tariff NUG?
A. Sure.
Q. All right. That works for me.
A. Not many people look at it, so --
Q. What can I say?
A. However you want, yeah.
Q. And in your direct testimony you had referenced that there were no customers on Tariff NUG, correct?
A. That's correct.
Q. And can you explain the basis for that
statement?
A. I kind of did earlier. You know, to me
Riverside is an IGS customer. They are there based
on -- I guess they're there based on -- pursuant to
Tariff NUG, but if Tariff NUG wasn't there, they
would still be an IGS customer. That's -- there's
no rates in Tariff NUG is kind of my -- the way I
interpreted it.
Q. Okay.
A. Riverside did not appreciate that, I
understand. It was not a slight.
Q. And we just needed to make sure that we clear
it up --
A. Okay. Yeah.
Q. -- so that we don't leave it out there. And
without going too deep into the discussions, we know
that there were some discussions --
A. Absolutely.
Q. -- with Riverside --
A. Yes.
Q. -- to resolve certain objections. Can you
tell us the status of those discussions, if you can?
A. There was a somewhat angry letter filed in
this docket on the 7th or --
Q. December 6th?
A. Yeah. I think that's the current status of those discussions right there. We sent them a reply, and that's all we've -- that's all I've personally heard is what's in that, that letter.

MS. VINSEL: And on -- and this one I want to make sure that I'm not duplicating the Attorney General's post-hearing data request, so if anyone thinks I am, please speak up.

Q. On the first or second day --

A. Okay.

Q. -- of this hearing the Commission Staff introduced Exhibit PSC 5, which was a news release from AEP dated --

A. Okay.

Q. -- November 2016, which it referenced a $9 billion --

A. Yes.

Q. -- transmission investment over the next three years.

A. Yes.

Q. And all of this is as a post-hearing data request.

A. Okay.

Q. What we'd like to see is a list of the proposed investments, the projects.
A. That make up the 9 billion?
Q. That make up the 9 billion. To have it broken out between those that are in the AEP zone and those that are outside the AEP zone, but also further designated which of the projects are baseline projects and which are supplemental.
A. Okay.
Q. Is that doable?
A. We'll do our best.
Q. Thank you. I appreciate it.
A. I believe you also asked for NITS expense forecasts in that same conversation, and those are also KIUC 1-67, our response to that already in this case.
Q. Okay.
MR. COOK: And I don't believe there was anything in an AG data request to that effect.
Q. Turning to aviation expense.
A. Okay.
Q. We -- of course, we know it was provided for the test year.
A. It was.
Q. As a post-hearing data request, can we obtain the total aviation expense and amount allocated to Kentucky Power for the two years preceding the test
year?
A. I believe so.
Q. And also, do you -- is there a budget two years out for that amount?
A. I do not know.
Q. If there is --
A. If there is.
Q. -- we would like to get that also.
A. Okay.
Q. And I have a similar request, post-hearing data request for relocation expenses, getting the expenses that were incurred two years preceding the test year and, if budgeted out two years, budgeted out. Can you tell us what period was utilized as a basis for the amount of the off-system sales margins that were included in the test year?
A. The test year. The 12 months ended February 2017.
Q. And is it correct that Big Sandy Unit 1 operated only nine months of the test year?
A. That's fair. It came on in -- it came on in May.
Q. And thus would be only -- Big Sandy Unit 1 only operated 70 months in the calendar year 2017?
A. Yeah. Seven months; that's correct.

Q. And were those off-system sales -- off-system sales margins for Big Sandy Unit 1 annualized in the test year?

A. No. There's not a lot of margin there. That's a fairly high -- you know, higher cost unit. It has a lower dispatch rate. It's more -- I'm not going to call it a peaker even though Witness Osborne has left, but it's -- you know, it's a -- it's a gas-fired coal plant. It doesn't -- it doesn't shoot up and down like a CT would to respond to prices, so there has to be a little more lead time and a little more sustained market price to turn that thing on.

And I'm not certain, but it has a fairly -- it's a capacity resource. It has a fairly low utilization rate. I don't know what the -- you know, what its capacity factor has been since it's come up. It's all dependent upon LMPs in the -- you know, in the footprint, which have been very low due to the very low gas prices.

So the gas price -- the low gas prices help the economics of the plant and at the same time harm it, because there's a marginal -- you know, it has -- it's there to meet marginal load.
I do not think it would have materially changed the base credit. To the extent that it does change that, that will be picked up in the deferral for the system sales clause, if it produces some more amount of margin than what's in the test year, the base credit.

Q. And Kentucky Power recorded a gain on the sale of its property from selling land in Lewis County, Kentucky, correct?

A. Is that the Carrs site?

Q. Yes, the Carrs site.

A. Yes, that was -- that was in the test year.

Q. And can you explain what Kentucky Power did with the proceeds of the gain?

A. I believe we removed it from the cost of service, because we have been removing the Carrs site expenses. I believe the gain followed the -- you know, it's not in -- the property hasn't been rebased. We -- the property taxes have been removed from the cost of service over the years, and it was -- you know, I think the gain followed where the costs have been.

Q. Okay. Okay. We -- I'm going to defer this one for a few minutes.

A. Okay.
Q. We talked earlier about the new Tariff GS.
A. Yes.

Q. How did -- we have a larger question of how Kentucky Power arrived at the 400 -- excuse me, 4,450 kilowatt hours --
A. Yeah.

Q. -- as a threshold to have a demand charge for proposed GS tariff.
A. Yes.

Q. And in your testimony you referenced the load factor --
A. Yes.

Q. -- for SGS. What was that load factor?
A. It's 40 some percent. I don't -- offhand, whatever times 10 kW equals the 4,450 at the -- it would be in the load research work papers that have been included in the record.

Q. Okay.
A. We can point it out specifically if you need us to in a post-hearing data request. Okay. Yeah. And the intention behind that was that you would capture -- you would capture basically all of the test year SGS billing units in the new -- the first block of the new GS rate, which is the average rate of the SGS class, right, because you took -- SGS was
a blocked kilowatt-hour rate and MGS was a blocked hours-use rate, and we put them together to avoid these seams issues, you know, at the -- and again, this was -- this was -- Mr. Satterwhite talked a lot about listening to our customers and listening to our employees that deal with the customers, and this came from our customer service reps telling us that they have headaches with these smaller general service accounts that go back and forth and it leads to -- it leads to confusion and it leads to bill -- bill volatility, where you're on a kilowatt-hour rate one month, then you get hit with a demand charge one month, you know, for 12 months, then you go back to a kilowatt hour, and so this was a way to deal with that, that seams issue.

But that's the thought in that, the way that tariff is designed, that if you were an SGS customer during the test year, you should essentially be paying the average SGS kilowatt-hour rate from the test year in that first block, and then if you grow, if you transition off, there's that break point, we will put a demand meter on you, if you don't already have one, then you'll migrate through the MGS tariff, essentially, the old MGS tariff. That's how the GS was put together.
Q. The demand rate --
A. Yes.
Q. -- under GS, and it increased from $1.91 under Tariff MGS --
A. Yes.
Q. -- to the 7.97, $7.97 --
A. Correct.
Q. -- under Tariff GS --
A. Yes.
Q. -- can you explain the basis of the four --
A. Yeah. So --
Q. -- of the size of the increase?
A. So what happens, it's twofold. We rolled in the demand charge from the Big Sandy Operations Rider that -- you got some demand charge there that got rolled in, and you have less billing units, because we made the first 10 -- the first 10, to transition -- to make that transition through that rate more stable for smaller customers that are on that seam, the first 10 kW of billing demand aren't billed.
Q. Uh-huh.
A. So when you -- essentially you cut the denominator down in the rate-setting equation. So if you put those -- if you put those billing units
back in, the demand charge would be much lower than the seven, so --

Q.  Okay.  Okay.

A.  So, you know, you're -- you used to be at 20 -- you used to be billed on 20 kW as an MGS customer, now you're being billed on 10 under the new GS rate.  Those first 10 have no demand charge.  So it's just a -- you know, it's just math.

Q.  And I'm going to try to make this as seamless as possible.

A.  Okay.

Q.  And you may have read one of the public comments received on November 20th, 2017, in this case from a minister from a Presbyterian church.

A.  I have read that one.

Q.  And that raised the question about the customers that are high demand but low usage.

A.  Very low load factor, yes.

Q.  Load factor.

A.  Yes.

Q.  Did Kentucky Power calculate how the Tariff GS would affect that type of customer?

A.  I actually calculated how it would affect that particular customer seeing that complaint.  I do not get a 71 percent bill impact that is in
there. I cannot speak to their consultant or whoever calculated that. I got 26 -- or 26 percent under our original filed case and 23 percent, roughly, under the settlement.

But, yes, they -- that was a very peaky, very low load factor customer. That's the kind of --

kind of customer you would hope if they -- you know, if they have a complaint, they talk to our customer service folks, that we would meet with them and give them some ideas for managing that peak.

Like I don't know why they go from -- from 4 kW to 80 kW. I don't know what their facility is, but that is -- that is definitely something we should be -- we should be talking with those kinds of customers if they have these issues.

Q. And I will also note that Staff -- Staff looked at that letter and calculated a different amount too, that there was --

A. You did not get 71 percent either?

Q. Well, there was --

A. Okay.

Q. -- a particular issue that the first 10 kilowatts should not be charged.

A. Super.

Q. Well, and speaking of that, so it sounds like
it's more a reactive situation, where these customers that will be in that position have to reach out to Kentucky Power. Has Kentucky Power attempted to identify any of the customers that are impacted that have that exact situation?

A. I myself have not. I can't say if the customer service representatives have. And you're always going to have outliers in rate design, because rates are always done on an average for the class. So the closer you are to the average, the flatter your rate change is always going to be, the closer you are to the class average, obviously.

So when you -- when you have extreme cases like the car shredder that initially tried to -- tried to intervene in this case, or you have this specific GS account that are on demand metered tariffs of a certain size, or they should be on a demand meter tariff because there are a certain amount of facilities that need to be installed to support those peak loads. But they use a lot of peak demand, very little energy. There's always going to be outliers. And maybe there's a good reason for it, and maybe there's a way they can shift usage and change how they're billed.

Q. And you probably -- I'm just going to ask
this anyway, but I don't think you can answer it.
A. Okay.
Q. Do you know if Kentucky Power would reach out to this particular customer to discuss --
A. I'm --
Q. -- that concern and help them to figure out a way they could manage?
A. I'm fairly certain we will reach out to them, yes.
Q. Okay. And it's --
A. I'm getting nods to my left here.
Q. I was going to say, without having people who are not on the stand answer the question --
A. Yes.
Q. -- it appears that --
A. Yes, we will reach out to this customer.
Q. Okay. Thank you. The -- what's called the coal plus tariffs, I have a question about those. The Tariff CS-Coal, CS-IRP --
A. Yes.
Q. -- and EDR.
A. Okay.
Q. And as I believe you probably know that when the Commission approved those tariffs, it granted Kentucky Power's request to defer any financial loss
from the tariff into the next rate case?

A. Yes.

Q. So our question is: Has there been any financial losses incurred in connection with these tariffs?

A. So we have -- we have three that are approved, three approved contracts under those, and they're all on the IRP version. So that is all -- that is where those customers have signed up to be an interruptible load for the Company, and now they're a capacity resource for us, so they are included in our capacity plan at PJM and they're being paid that demand credit per Tariff CS-IRP and CS-Coal. You know, it's the same demand credit. So that -- again, the way that is set up, those credits then are recovered through Tariff PPA, the current Tariff PPA and our proposed continuation of it. So, no, there's no financial loss to the Company based on these three contracts that are approved currently.

Q. Thank you. Okay. Do you have this gray-covered packet?

A. There are several books up here. Yes. Many tabs?

Q. Yes.
A. Yes.

Q. Now, let me -- and again, this is -- these are not exhibits. These are already in the case record.

A. Okay.

Q. Can I have you turn to tab 2? And this is your Exhibit AEV-4S filed with the settlement agreement.

A. Okay.

Q. Okay. On -- yes, it's just that one page. Can I have you refer to line 10?

A. Okay.

Q. And in the parentheses, the equation.

A. Yeah.

Q. Can you -- can you confirm that the equation should read nine times 5.8742 and not four times eight -- 5.7348?

A. That's correct. Confirmed.

Q. And can you refer to line 12?

A. Yes.

Q. And again confirm that the equation in the parentheses should read 11 multiplied by 35 percent?

A. That's correct. Yes. This was obviously a cut and paste underneath this in an incorrect fashion.
Q. And then on line 14 with the gross-up factor, can you confirm --
A. Yeah.
Q. -- that the equity gross-up factor in the parentheses is not that equation?
A. That's correct.
Q. Okay.
A. It's wrong. Wrong reference.
MS. VINSEL: That's all our questions.
THE WITNESS: Wonderful.
CHAIRMAN SCHMITT: Commissioner Cicero, questions.

VICE-CHAIRMAN CICERO: Just a couple.

EXAMINATION
By Vice-Chairman Cicero:
Q. Mr. Kurtz asked you a question in regard to Virginia and West Virginia making an effort to reduce subsidies that were paid by the industrial companies or customers in order to stimulate industrial activity in those areas, right?
A. Yes.
Q. And you said that it was a -- it was in an effort to reduce their rates to make them more competitive. Do you know where those rates fall compared to Kentucky?
Q. I know you may not know this, but I'm just curious --
A. Well, I do the rates in --
Q. -- you seem to know a lot, so --
A. I do the rates in both these states, unfortunately. So the tariff rate is a little higher than Kentucky Power's. Our West Virginia industrial tariff rate, we have two. I believe they're both, depending on load factor, are going to be just a little higher than Kentucky Power's current rates, or even the rates out of the settlement. However, the largest industrial customers in West Virginia -- West Virginia does more special contracts for its larger ones, so there's -- a large chunk of the industrial load is not on tariff, they're on discounted --
Q. Discounted contract?
A. -- other special contract rates, which I can't really talk about.
Q. Oh, that's okay.
A. Okay.
Q. I was just curious where Kentucky fell. My understanding is Kentucky's rates are about seventh in the country? Not Kentucky Power --
A. Depending on what source you look --
Q. -- the average of Kentucky electric rates.
A. We have fairly competitive industrial rates; yes, sir.
Q. So are you the gentleman that can answer
questions about allocations, or have we gone kind of
through that?
A. Yeah. Yeah. Which kinds?
Q. Well, for example, I'm looking at how
allocations are made from AEP down to Kentucky
Power, and --
A. Oh, boy.
Q. -- picking one would be executive
compensation, for example, at AEP. There's a total
of $26.8 million that has to be allocated somewhere.
A. Yes.
Q. So what is the piece that Kentucky Power
receives of that $26.8 million and how is it
determined?
A. So I can't tell you the dollar amount of that
or what period that's from, but the way it happens
is, the executive Service Corp -- so all Service
Corp expenses are allocated to the operating
companies via the cost -- Service Company Cost
Allocation Manual, and there is a litany of
allocation factors and methods in there. Things get allocated on company revenues, capacity, like --

Q. Number of employees?
A. No. Yeah. Right. You're going to -- you're going to allocate the --

Q. There's all kinds of --
A. Yeah.

Q. -- methods. I saw --
A. There's a lot of them. Absolutely.

Q. -- GNB or VNW, whatever they are --
A. So there's a --- there's a monthly service company bill, runs through accounting, you know, so that is going to be allocated down to Kentucky Power, it's going to end up on their income statement, and Kentucky Power -- so like in this rate case, the way it gets to our retail ratepayers is you have the test year amounts as allocated down from the service company to the operating companies, then that amount winds up in our test year. It's either -- some amount is either -- is included, whether it's adjusted or removed, there's an amount of the test year expenses, then it's allocated to Kentucky retail from Kentucky's financial statements.

And we do not have a large nonjurisdictional
jurisdiction here when we're doing our cost study, it's just our two wholesale customers, Olive Hill and Vanceburg, so Kentucky retail ends up being roughly 98 and a half percent of total books. So you get the costs from service company to our books, allocate it to Kentucky retail.

Q. It's whatever the piece is for Kentucky Power, 98 point whatever percent you just mentioned?
A. 98 and a half generally, yeah.

Q. 98 and a half. So that piece is what's allocated out to the customers, but --
A. Yes.

Q. -- I'm interested in the percentage that is umbrellaed down to all the subsidiaries, to find out what the piece is that comes from AEP to Kentucky Power. And I know there are several different allocation methods. You've already described those.
A. Yeah. Are you looking for like the test year Service Corp bill amounts?

Q. Well, I have -- it's the test year. That was the $26.8 million --
A. Okay.

Q. -- was the total compensation. And what I'm trying to do, and it's not -- I am just using this as an example. I know we already have a
post-hearing data request --

A. Okay.

Q. -- that takes the allocated amounts and shows --

A. Oh, yes.

Q. -- the specific calculations. I didn't know whether you were familiar with, for example, a -- and if you can take any piece and give it to me, I'd be happy with that as part of the hearing, but if not, that's fine, I'll wait till I receive it in the post-hearing --

A. Yeah. I'm more familiar with the process and how, you know, there's -- there's the allocation process and the monthly accounting that ends up on Kentucky's books, and I'm more familiar with how I'm taking -- we're taking those financial statement amounts and determining whether they're retail jurisdictional applicable or not and how it gets allocated.

Q. Well, I think we did a wonderful job of leaving you till last, because you seem to know what you're talking about, and I'm surprised your title is only manager.

A. Thank you.

Q. So that's the compliment.
A. I believe my boss is listening, so, Dave, yeah.
Q. I wanted to make sure I mentioned that where he could hear it. Okay?
A. Thank you, sir.

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

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: It's amazing how many of my questions have disappeared in the last hour.

EXAMINATION

By Commissioner Mathews:
Q. I just have one question, and I need to understand this, the network integration transmission service.
A. Yes.
Q. There's a statement in the presentation that was attached to your testimony that six percent of NITS costs are associated with its facilities and six percent associated with APCO costs. Explain that to me.
A. Let me grab --
Q. Let me find what page that is. If you -- you seem to know your exhibits better than we do and we're looking at them.
A. Is it -- is it this one with the box that has the six percent?

Q. I think it's actually the description. It's on page 16 of 32 --

A. Okay.

Q. -- of Exhibit AEV-R1.

A. Oh, yeah. So that -- that's just saying that -- so under the cost allocation in the zone, so if we billed -- that statement is basically saying that if -- let's take the Hazard-Wooton line, for example. You know, Kentucky Power is going to build that -- if it's approved, Kentucky Power will build that. There will be a revenue requirement associated with that, and it will get -- some portion -- it's going to go to PJM, it's going to come back to the zone. The zone -- zonal amount, because there's that piece that gets allocated to the non-AEP LSEs within our zone. The AEP LSE amount. Of that amount, Kentucky Power is going to pay the roughly six percent of that, their 12-CP share.

Q. Right.

A. And the same is true --

Q. The six percent we've used for everything else?
A. Yes. Yes.
Q. Okay.
A. And the same -- the same is true, then, for an APCO line, you know, where -- again, same deal, APCO builds a line in the zone, it goes to PJM, the LSE, you know, and it comes back to our transmission zone. The AEP LSE chunk of that we're going to get --
Q. It could have been anything -- anyone other than APCO and it would have still been true?
A. Anything within our transmission zone, yes. Yeah.
Q. Okay. And that was what had me confused is that --
A. Yeah, it's just -- it's because we're operating as a zone.
Q. Do you participate in the stakeholder process at PJM?
A. I do not. We have -- we have experts that sit right next to me, actually, that do participate in it.
Q. Well, I feel sorry for them.
A. Yeah. They travel to Philadelphia a lot, yes. No, I'm more focused on retail matters, but we do employ people that advocate and participate in
that stakeholder process, both from the -- you know, just from the overarching as a load-serving entity and as a generator, and then specifically as a transmission entity. So we participate in all those.

Q. So do you participate in three of the groups, the generation owners, the LSE, and the transmission?

A. We are all of those things, yes.

Q. On behalf of --

A. All the AEP operating companies.

Q. -- all the AEP --

A. Yes.

Q. -- operating companies?

A. Yes.

Q. Even though not all of the AEP operating companies are transmission owners or generation owners anymore?

A. Yeah. Ohio Power would be the one that's not a generation owner anymore, but everyone owns transmission still. Oh, I guess Kingsport Power doesn't own generation either.

COMMISSIONER MATHEWS: Okay. I have no further questions.

CHAIRMAN SCHMITT: Redirect.
MR. GISH: I have -- excuse me -- just one clarification.

REDIRECT EXAMINATION

By Mr. Gish:

Q. Earlier in the testimony you talked about the Settlement Exhibit 80 -- Settlement Exhibit 1, which was also attached as AEV-1S to your testimony.

A. Yes.

Q. And both you and Mr. Satterwhite talked about the split-out of the -- the percent revenue increase for the LGS customers as their own -- as their own and the public schools customer, the schools customers on their own.

A. Yeah, unaggregating that.

Q. Unaggregating that LGS/PS class. Do you have a document that demonstrates that?

A. I do. I have 20 copies of it.

Q. And can you explain for the Commission where you got the information to do this disaggregation of the --

A. Yes.

Q. -- LGS and public schools --

A. Yeah, it came from --

Q. -- class?

A. It comes directly from AEV-3S, the proof of
You're just -- you're just adding up the proposed revenues from that schedule, because it is breaking down -- AEV-3S is broken into the various rate schedules, so you have a PS secondary, a PS primary, an LGS primary, secondary. So it's all in there.

Q. And once this document has a chance to be circulated, I would like to move for it to be admitted to the record. But I'll give people a chance to look at that. And I have another question for you.

A. Okay.

Q. Ms. Vinsel asked you a question about the status of the dispute with Riverside regarding the applicability of Tariff NUG.

A. Yes.

Q. And you mentioned that there had been a reply to Riverside's letter. You were referring to an earlier letter of Riverside, not the comment letter that was --

A. Yes, sir. Yes.

Q. -- published in the case?

A. Yeah, we had -- back when Riverside was petitioning to be included in the rate case, they had sent us a letter, we were -- through our
customer service representative, and we had replied to that. We have not replied to the most recent letter that was filed in the docket here.

MR. GISH: I'd like to move to admit this exhibit as --

CHAIRMAN SCHMITT: Is this the same exhibit that Mr. Kurtz --

MR. GISH: It is not, Your Honor. This exhibit has the -- at the very bottom, the split-out of the --

CHAIRMAN SCHMITT: Okay.

MR. GISH: -- LGS customers and the schools customers within the LGS/PS class.

CHAIRMAN SCHMITT: Is there any objection?

MR. KURTZ: No, it's exactly the same except for the bottom.

CHAIRMAN SCHMITT: Except for the bottom.

Let it be filed as Kentucky Power --


MR. GISH: I think it's 13.

CHAIRMAN SCHMITT: -- Exhibit -- which?


MR. GISH: 13.


(KPCO Exhibit 13 admitted.)
MR. GISH: And I have no further questions, Mr. Chairman.

CHAIRMAN SCHMITT: Okay. Mr. Kurtz, any questions?

MR. KURTZ: No.

CHAIRMAN SCHMITT: Any --

MR. KURTZ: What time are we leaving?

CHAIRMAN SCHMITT: Any of the other settling intervenors, any further questions of Mr. Vaughan?

If not, Mr. Osterloh.

MR. OSTERLOH: I believe I have a few more, but I'll keep them brief.

RECROSS-EXAMINATION

By Mr. Osterloh:

Q. Mr. Vaughan, just on the document that was --

A. Yes.

Q. -- handed out, so that I understand it, on -- let me step back. We've discussed how the settlement proposes rates for Tariff K Through 12 that would be $5,000 less than that -- than what would otherwise be designed --

A. 500,000, yes.

Q. Sorry.

A. All right.

Q. Thank you. Than if it were consolidated with
LGS, correct?
A. They are consolidated -- if they were on the LGS rate, yes.
Q. Right. So in -- on the bottom of the document that was just handed out --
A. Yes.
Q. -- there in the left column where it shows approximately $2.7 million in settlement base rate increase for LGS --
A. Yes.
Q. -- and approximately $800,000 for the PS class, if we were to eliminate that $500,000 amount, the result of that would be LGS would come down to approximately 2.2 million and the PS would go up to approximately 1.3 million, correct?
A. Yeah. You would drive the LGS rate down -- the impact down to about 4.6 percent, and you would drive the public -- the K through 12 over seven.
Q. And that would result in what you-all -- the Company -- it would be consistent with what the Company had in its cost-of-service study?
A. I don't know if I can make that statement, because this is -- this is -- this isn't consistent with what would be in the cost of service. This is part of a settlement package altogether. But it
would be somewhat consistent with my initial proposal, which obviously included a much higher rate increase than what was provided for in the settlement with all of its other terms.

Q. Okay. And then earlier, in response to Vice-Chairman Cicero's statement that Kentucky has approximately -- or ranks approximately seventh lowest for industrial rates, would you be surprised to know that rates for commercial customers in Kentucky aren't nearly as favorable and Kentucky ranks approximately 20th for commercial customers?

A. I can't confirm that. I don't know, though.

MR. OSTERLOH: Okay. Thank you. No further questions.

CHAIRMAN SCHMITT: Mr. Cook.

MR. COOK: Your Honor, we have no further questions.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Staff has no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: No further questions.

CHAIRMAN SCHMITT: May Mr. Vaughan be finally excused?

MR. GISH: Yes, please.

CHAIRMAN SCHMITT: You may step down.
MR. VAUGHAN: Thank you.

CHAIRMAN SCHMITT: Do you have another witness?

MR. OVERSTREET: We don't, Your Honor, but I wanted to note that I think at the lunch break you had asked for us to provide to you the -- sort of a listing of the types of customers that were taking at the 100 to 125 kW level. Would this be an appropriate time to give you that?

CHAIRMAN SCHMITT: Yes, it would.

MR. OVERSTREET: Okay. There are approximately 140 of those customers, and interestingly enough, Mr. Vaughan gave a listing, and -- of those types of customers across the entire --

MR. GISH: Spectrum.

MR. OVERSTREET: -- spectrum, and at the 100 to 125 kW level they're the same. There are -- there are some board of education buildings. There are some gas marts. There's a shoe -- at least one shoe store. There is a medical-type center. There are some school accounts. Those would be -- there are some cities. There are some restaurants, furniture stores, churches, and car stores.

CHAIRMAN SCHMITT: Thank you. Thank you.
MR. OVERSTREET: Okay.

CHAIRMAN SCHMITT: Okay. Mr. Cook.

MR. COOK: I just wanted to mention that the Attorney General does have Roger McCann here.

CHAIRMAN SCHMITT: Why don't we go ahead, then, and put Mr. McCann on, and then Mr. Willhite has been here religiously for the entire time. Unfortunately, I guess he'll be the last witness, but -- unfortunate for you, Mr. Willhite, had to stay here the entire time.

Okay. Would you raise your right hand, please? Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. MCCANN: I do, yes, sir.

CHAIRMAN SCHMITT: Please be seated.

And, Counsel, you may ask.

ROGER MCCANN, called by the Attorney General, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Chandler:

Q. Can you please state your name for the record?

A. Roger McCann.
Q. And with who are you employed and what is your position there?
A. I'm employed with Community Action Kentucky. I am the executive director.
Q. Are you the same Roger McCann who caused to be filed prefiled direct testimony and certain data requests in this matter?
A. Yes, I am.
Q. Do you have any additions or corrections to make to your testimony?
A. None that I know of.
Q. And if we were to ask you today the same questions, would your responses be the same?
A. To my knowledge, yes.

MR. CHANDLER: The witness is available for cross.

CHAIRMAN SCHMITT: Okay. Thank you. Counsel, any questions?
MR. OVERSTREET: We have no questions, Your Honor.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: No questions? Counsel for any of the settling intervenors, any questions of Mr. McCann?

MR. MALONE: No questions.
CHAIRMAN SCHMITT: Okay. Mr. Osterloh, questions.
MR. OSTERLOH: No questions.
CHAIRMAN SCHMITT: Staff.
MS. VINSEL: No questions.
CHAIRMAN SCHMITT: Commissioner Cicero.
VICE-CHAIRMAN CICERO: No questions.
CHAIRMAN SCHMITT: Well, I have -- oh, go ahead. Commissioner Mathews.
COMMISSIONER MATHEWS: I don't have any.

EXAMINATION

By Chairman Schmitt:
Q. Mr. McCann, I know you prefilled testimony, and, in fact, your organization attempted to intervene in this case but was denied because of an untimely filing; is that correct?
A. That is correct, sir.
Q. Can you tell us the present state of the HEA fund or the HEAP program?
A. Yes, sir. The HEAP program is one by which on an annual basis Kentucky Power assigns slots to counties. So a slot is a -- is an opportunity for enrollment, for a household to enroll in their HEA program.

And then what happens is, is that typically
during the LIHEAP program process, households will -- we will ask households if they would be able to -- or would like to apply to that program as well, and so we'll take their application.

What happens is, and I can go into further detail, but there's a data passthrough back and forth, and there is an eligibility determination of that. And if they're eligible, they -- and the slot is available, that household will be placed in that slot. And so what happens then is that household begins receiving a credit on their bill.

Now, Kentucky Power handles that credit. That is either $65 or $33, depending upon the type of customer that they are. And that is handled through -- I believe it's four months during the winter, December, January, February, March, and three months, to my recollection it's August, September, October, I believe. And it may be in my notes. I may be incorrect about that.

And so it basically helps subsidize that household's electricity for those months. All right.

Q. Well, how are the -- how are the slots allocated? Is it based upon available money, or how does that -- how does that work?
A. The slots are allocated by the power company and are provided to us, and then we distribute those slots to those community action agencies that are operating the program. So there's a chart of last year's slots in here. And you would know I was well rehearsed --

Q. Is that page 15?

A. -- on finding -- on page 15, figure 7 shows last year's slots. So there were AEP nonheating, the allocated slots. So that was the number of slots per county, for a total of, by my calculation, 336 allocated slots for the nonheating customer.

MR. CHANDLER: Your Honor, may I -- are you referring to your testimony?

THE WITNESS: Yes, sir.

MR. CHANDLER: May I -- would you like a copy of his testimony?

CHAIRMAN SCHMITT: I have it in front of me.

MR. CHANDLER: Okay. Thank you.

A. And 972 allocated for the AEP heating customers. That figure, I would like to point out, shows a wait list. The wait list is really erroneous, because -- or it is -- it is accurate in my presentation because that's the number of customers that were on the wait list who were not
able to enroll because the slots were taken.
However, what we observe in the field is that once
the social worker or the staffer who is capable of
helping this person apply or enrolling this person
into the wait list knows that there are no more
slots available and, for example, with Boyd County
there, that there were 114 people on the wait list,
they stop taking applications. So the wait list
would have been higher, they just simply tell people
there's no use to bother or they'll stop offering
the enrollment altogether.

So it's difficult to determine from this how
much -- how many -- what the actual true need was,
but that is correct, to my knowledge, the number of
people who are on the wait list.

Q. In your testimony at page 15 it says,
(Reading) As of September 20th, 2017 --
A. Yes, sir; that's correct.

Q. -- over 1,475 eligible people were on the HEA
subsidy wait list for Kentucky Power service
territory; is that correct?
A. That's what that says; yes, sir.

Q. And the reason that there were 1,475 people
on the wait list, is that because there weren't
enough slots or weren't enough -- was not enough
money thought to be available to provide assistance to these people?
A. That's correct.
Q. So I think in your testimony it said, and I wanted to ask you because there may or may not be a difference of opinion about it, that the program, the HEAP program was instituted in the settlement of a case in 2006, but I think you said there had not been an increase in that funding in the 11 years the program has been in effect?
A. That is -- I recall that in my testimony; yes, sir.
Q. Okay. And that at this time Kentucky Power proposed increasing the meter charge by a nickel, and it's matched by a nickel, which would bring it to 20 cents?
A. Yes, sir.
Q. Is that correct?
A. That's my understanding, yes.
Q. And in your opinion, that wasn't sufficient to basically provide the needs of the customers who would otherwise be eligible for this relief; is that correct?
A. That is correct.
Q. Why is that not sufficient, in your opinion?
A. Well, sir, because we have 336 on the AEP nonheating, we have 972 slots on the heating side. We estimate 35,756 households in poverty in the AEP service area. So it does not come near to helping the people who are in poverty in that area.

Q. If the -- if the increase were made from, instead of 20 cents per meter charge with a 20-cent Company match, if the meter charge were increased to 30 cents with a Company match, so that it would be 60 cents instead of what is now 30, doubling the charge, what effect would that be on the -- basically the -- those in Kentucky Power's service area at and below poverty level?

A. Well, I'm speaking off the top of my head, but if the funding was doubled, then you could do one of two different things: You could either increase the benefit amount, which, by the way, I think, according to the data request, was $148 average bill per month per customer, whereas this HEA program is paying $65 or $33 based upon the customer. So it is not paying their full bill. So you could double that and still not meet the average.

On the other hand, you could leave the benefit amount the same and you could double the
number of slots that were available, so -- and I'm doing rough math here, but let's say 13, 1,200 -- 1,200 slots total to 2,400 slots. So that would be 2,400 families served instead of -- instead of the 1,200 or so. You still have 35,000 people living in poverty in that area. So it still isn't helping everyone.

Q. But it's better than it has been --
A. It would be better than what it is.

Q. -- and what is presently proposed, correct?
A. It would be better than what it is.

Q. Do you have any other -- any other testimony or any other comment on the -- on the HEAP program or the proposed rate increase?
A. My position is -- our position is, and this is the position of my board members who are in this area and our organization is that we're opposed to both the rate increase and also the service charge increase.

We oppose it on several levels. First of all, we try to -- our mission is to reduce barriers to poverty. We can't reduce all poverty, poverty is always there, but we try to reduce those barriers. When someone can't afford medicine, they can't get better. When they can't afford electricity, which
is essential to life in our -- you know, in our modern society, it makes it difficult to cook and clean and, you know, all these things.

We oppose it because, as I have sat here I've heard people talk about the effect on industry, the effect on schools, and those things are necessary for the people of Eastern Kentucky and the people of -- all the people of Kentucky to ever have a chance of getting out of poverty. They have to have education. They have to -- they have to have a job. We want them to have a job. We want them to get out of poverty, off of government assistance. That is our mission. And so it concerns me greatly to hear that a school will have to pay more for electricity or an industry will have to pay more for electricity. How does that impact wages? How does that impact their ability to educate, for example? So it puts friction on their ability to have success.

Another way to look at it is, is that -- and I believe we were three point -- during the past year, I wanted to say it was 3.1 million, $3.16 million in LIHEAP that was paid on behalf of the clients that had applied. So 3.1 million paid to Kentucky Power in the LIHEAP program.
So LIHEAP is a federal program. It comes through CHFS, they subcontract it to CAK, and then we manage and disburse that across the state. That makes -- one way to look -- one way that I look at it is, is that we are a customer. We are buying electricity on behalf of those -- of the people there that are applying. To apply for that they have to be below 130 percent of poverty. So that makes us a customer buying electricity on their behalf. If there is a rate increase, if the price goes up, originally 16 percent, that means I can help 16 percent less people.

And so if our mission, if our job is to be a caretaker of the taxpayer dollar and to purchase electricity on behalf of the taxpayer for low-income people, that negatively impacts our ability to do our job.

So that's an -- so there's multiple levels that we oppose this on, and that's another level to look at it.

Q. Thank you. You understand that the Kentucky Public Service Commission's authority with respect to implementation of rates is basically governed by statute?

A. Yes.
Q. And that the affordability on the part of ratepayers isn't necessarily something that we, you know, can consider, but really consider the status of the utility and the -- and its need in order to provide safe, reliable service.

But it is clear that -- in my opinion, in this program, that basically Kentucky Power and the ratepayer -- other ratepayers ought to consider those in poverty in terms of fixing rates, especially when some don't have enough money to basically provide food and medicine for their families.

A. That's right. Oftentimes they're required to make a choice between those things, especially people on fixed income. We see seniors. We also see children.

These programs -- the HEAP program, the LIHEAP program, these programs are not individual -- geared for individuals, they're geared for the household, and so we're affecting that household. So that that parent may be unemployed or may be, you know, whatever, they still have children, and we're heating those children at the same time. Or a senior who is on a fixed income, their income has not risen, yet their cost on this is going up, and
the cost may be going up on other things. What -- how do they -- how do they adjust? What thing in their life do they have to adjust to still be able to pay their bill?

Q. Well, I think the fact is, is that to some extent, I mean, coming from here, the utility can pass costs along to ratepayers, and businesses, to some extent, can pass costs along, or try to, but a person on a fixed income, a Social Security recipient, an SSI recipient, a food stamp recipient can't pass costs on to anybody.

A. That's correct.

Q. Essentially isn't that correct?

A. That's correct. That's correct.

CHAIRMAN SCHMITT: I have no further questions.

Counsel, you may ask, anyone.

MR. CHANDLER: May I ask one on redirect?

CHAIRMAN SCHMITT: Yes, you may.

MR. CHANDLER: Maybe to the ire of Mr. Willhite.

REDIRECT EXAMINATION

By Mr. Chandler:

Q. Can you remind me what the amount for electric heating, the amount that one of those
recipients in the slot can be provided per month?
A. So if a person is in a slot, it's either $65
   a month, and it's not all 12 months, or $33 a month.
Q. So for those four months in the winter, if,
   for instance, the customer charge is $11 in Kentucky
   Power's territory, as it is now, that provides only
   $54 of subsidy -- of subsidy for energy usage,
   correct?
A. That seems correct, yes.
Q. And as the customer charge is increased,
   that's less available to help cover the energy
   charge, correct?
A. Yes, that's correct.

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

CHAIRMAN SCHMITT: Anyone else have questions
of this witness?

COMMISSIONER MATHEWS: I have one.

CHAIRMAN SCHMITT: Yes.

EXAMINATION

By Commissioner Mathews:
Q. With the LIHEAP funding that was, I guess,
   3.16 million last year?
A. That was what was --
Q. Or that's allocated for this coming year?
This coming heating season?
A. I'm sorry, I didn't allow you to finish your question.
Q. How many households did that help?
A. So that dollar amount was last year's subsidy, LIHEAP subsidy and LIHEAP crisis combined, and that was just what was paid to Kentucky Power on behalf of the customers. That was not statewide, for example.
Q. Right.
A. So I have, I believe, a chart.
Q. And I'm lost in the paperwork. I couldn't find it.
A. I know. It's in here. It's one of those things that I'm going to sit here and scramble on and I know it's here.
Q. If it's in the record, I can find it. How's that?
A. Let's see. I'm looking at page 8. Between October 1st, 2016, and 9-30-2017, community action completed 49,743 LIHEAP and energy assistance applications originating from within the counties comprising Kentucky Power service territory.
Q. And how many of those were funded?
A. I'm sorry?
Q. How many of those were helped? That was the number of applications.
A. Oh, that was approved applications.
Q. Okay. It was approved? Okay.

MR. CHANDLER: Can I -- do you mind to keep reading that?

THE WITNESS: (Reading) Paying a total of 35.2 million for all energy assistance. That was -- that was statewide. Of that figure, CAK paid Kentucky Power $3.16 million during the LIHEAP benefit period to help its low-income customers.

Q. Keep -- ?
A. MR. CHANDLER: I don't think the amount was -- I don't think that --

CHAIRMAN SCHMITT: Didn't really answer her question.

COMMISSIONER MATHEWS: Okay.

MR. CHANDLER: I think the original, the 43,000 number may have been a larger -- I think for every county that's --

THE WITNESS: Oh, I see what you're saying.

COMMISSIONER MATHEWS: Okay. That's fine.

THE WITNESS: I can provide that information in follow-up if you'd like.

COMMISSIONER MATHEWS: I think I would.
THE WITNESS: Okay.

CHAIRMAN SCHMITT: That's a data request that the Attorney General's Office --

COMMISSIONER MATHEWS: I know.

CHAIRMAN SCHMITT: -- would like to provide, for a change.

MR. CHANDLER: If Ms. Vinsel will send that along, we'll provide the answer.

CHAIRMAN SCHMITT: Any other questions of Mr. McCann?

May he be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Thank you.

Mr. McCann, you may step down.

MR. MCCANN: Thank you.

CHAIRMAN SCHMITT: And you may be excused.

Mr. Willhite, I'm sorry you had to wait so long. Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. WILLHITE: I do.

CHAIRMAN SCHMITT: Thank you. Please be seated.

Counsel, you may ask.

MR. MALONE: Thank you, Your Honor.
RONALD L. WILLHITE, called by the Kentucky School Boards Association, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Malone:

Q. Mr. Willhite, can you please state your name and your business address?
A. Ronald L. Willhite, 260 Democrat Drive, Frankfort, Kentucky.

Q. Thank you. And what's your position for KSBA?
A. I am the Director of the School Energy Management Project.

Q. Okay. Did you cause to be filed in this proceeding data requests and testimony?
A. I did.

Q. Okay. If I asked you the questions that were presented in those data requests and/or the testimony, would your answers be the same today?
A. They would.

Q. So you have no alterations or corrections?
A. No.

MR. MALONE: Okay. Pass the witness, Your Honor.

CHAIRMAN SCHMITT: Counsel, any questions?
MR. OVERSTREET: No questions.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Mr. Kurtz, none.

Mr. Osterloh.

MR. OSTERLOH: No questions, Your Honor.


Staff.

MS. VINSEL: No questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: No questions.

COMMISSIONER MATHEWS: I'm trying to make one up.

CHAIRMAN SCHMITT: This is awful. He's been here three days.

MR. WILLHITE: That's fine with me. The worst part, my wife has been burning up Amazon while I've been sitting here.

COMMISSIONER MATHEWS: It is the Christmas season.

EXAMINATION

By Chairman Schmitt:

Q. Obviously the Kentucky School Board Association is in favor of this K-12 or PS tariff; is that correct?
A. Yes.

Q. Now, as I understand it, Kentucky Power performed a cost-of-service study or some kind of study and concluded, I think Mr. Vaughan may have said, subject to correction, that the schools would be better off in the LGS class than they would having their own classification, their own tariff, to which you disagree. You think that school districts ought to have their own -- their own tariff applicable to them, correct?

A. Yes, I do. It's hard for me to --

Q. And why? Why?

A. It's hard for -- first of all, it's hard for me to see how you would be better off on a tariff where you pay more, and that certainly would be the case under the LGS tariff as compared to the pilot -- pilot tariff that's in place now.

The second thing is that the cost-of-service study that was submitted in the case shows that the pilot school rate is a cost-based rate. It's producing a rate of return of one and a half times what -- the average rate of return.

The question, then, for me becomes is, is that rate of return representative of what the rate should be for those schools or should it be a higher
rate of return that's produced by the LGS tariff?

And I see a significant difference between schools and the other customers that are on the LGS tariff. Schools are in the business of schools. Businesses are businesses.

I know we've been passing around this afternoon who's on -- the types of businesses that are on rates, but on page -- on page 6 of my -- of my testimony is a list by ZIP code of the type of customers that are -- that are served on the LGS tariff. This information was provided to me in a data request by the -- by the Company. There's very few of those -- of those customers there that aren't businesses.

Public schools have an obligation to serve. Even though schools are in some difficult financial situations in Eastern Kentucky, they are not going away. Businesses -- and schools, the only way schools can raise revenues are through their property -- basically their property taxes, and they can only do that, without it being subject to recall, in setting their compensating tax rate. Businesses, on the other hand, can raise prices or they can -- or they can go out -- go out of business.
So I see a significant difference in the risk to the utility of serving a school versus serving a business. And so I think that it's -- that it's reasonable, a reasonable recognition of that difference in risk to serve schools represented by that $500,000 billing difference on the -- provided by the K-through-12 tariff.

Q. So you think that the schools -- the cumulative effect of the settlement is a $500,000 advantage to schools in Kentucky Power's service area, and that basically that whatever -- the $500,000 could be more easily borne by the others in the LGS class?

A. Certainly.

Q. Is that what you're saying?

A. Yes.

CHAIRMAN SCHMITT: I have no further questions.

Anyone else have questions? Other than one. How did the -- I know, settlement negotiations are privileged and not subject to testimony, but I could ask Mr. Gardner, except that he doesn't have to answer.

How is it that you guys cut this deal and Mr. Gardner's clients got stiffed here? How did they
end up in -- how did they end up with the additional money? I'm just -- it's kind of a joke.

Somebody -- Commissioner Cicero suggested once in private, says it was like -- like four or five men out drinking or something and one goes to use the restroom, when he comes back, everybody else has left and he's stuck with the tab.

I just wondered how that -- how that works out. But you don't have to answer.

If there's nothing further of this witness, Mr. Willhite, you may -- you may step down.

MR. WILLHITE: Thank you.

CHAIRMAN SCHMITT: Okay. Is that all of the testimony that's -- I don't think there is any other testimony to be presented in this proceeding; is that correct?

All right. We've had -- counsel for various parties have stated they'd like to send data requests, so let me -- pursuant to a previous discussion with counsel, all data requests will be filed and served upon opposing counsel by no later than December 13th, which I think is next Wednesday. Kentucky Power and the Attorney General will be the subject of these requests, will respond by no later than December 22nd, and parties that would like to
file briefs, briefs will be due by the end of the
day on January 5th, 2018. Is that satisfactory?

MR. OVERSTREET: Yes, Your Honor.

And Mr. Dutton, who had to leave early,
wanted me to let the Commission know that he does
not anticipate filing a brief.

CHAIRMAN SCHMITT: Filing a brief? Well,
anybody that wants to file a brief can file one, and
if you don't, that's okay too.

MR. OVERSTREET: Understood, but he asked me
to pass that along.

CHAIRMAN SCHMITT: All right. Thank you.

Is there anything else to bring before the
Commission at this time?

If not, this hearing is hereby adjourned.

Thank you.

MR. KURTZ: Thank you, Your Honor.

MR. GISH: Thank you, sir.

(Hearing concluded at 5:51 p.m.)

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STATE OF KENTUCKY    )
)                           ) SS.
)                           )
COUNTY OF JEFFERSON     )

I, Laura J. Kogut, a Notary Public within and for the State at Large, my commission as such expiring 25 July 2019, do hereby certify that the foregoing hearing was taken before me at the time and place stated and for the purpose in the caption stated; that witnesses were first duly sworn to tell the truth, the whole truth, and nothing but the truth; that the hearing was reduced by me to shorthand writing in the presence of the witnesses; that the foregoing is a full, true, and correct transcript of said hearing; that the appearances were as stated in the caption.

WITNESS my hand this 14th day of December 2017.

Registered Merit Reporter
Certified Realtime Reporter
Notary Public, State at Large

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