

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>ELECTRONIC APPLICATION OF KENTUCKY</b>	)	
<b>POWER COMPANY FOR (1) A GENERAL</b>	)	
<b>ADJUSTMENT OF ITS RATES FOR ELECTRIC</b>	)	
<b>SERVICE; (2) AN ORDER APPROVING ITS</b>	)	
<b>2017 ENVIRONMENTAL COMPLIANCE PLAN;</b>	)	
<b>(3) AN ORDER APPROVING ITS TARIFFS AND</b>	)	<b>CASE NO.</b>
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<b>ACCOUNTING PRACTICES TO ESTABLISH</b>	)	
<b>REGULATORY ASSETS AND LIABILITIES;</b>	)	
<b>AND (5) AN ORDER GRANTING ALL OTHER</b>	)	
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**KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'S  
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1. Refer to Direct Testimony of Lane Kollen ("Kollen Testimony"), pages 7- 15.
  - a. Confirm that the revenue requirement amount for deferral of lease expense for Rockport Unit 2 will be reduced by \$20.307 million per year through 2021 and 341/365 of that amount in 2022.
  - b. Explain why the carrying charge should not be based on Kentucky Power Company's ("Kentucky Power") cost of debt.
  - c. Provide all work papers and calculations supporting the calculation of the rate reduction for Rockport Unit 2, resulting from deferral of the lease expense.

**RESPONSE:**

- a. Confirmed.
- b. Under the KIUC proposal, the Company will be required to finance nearly \$100 million over the approximately five year period until the lease is terminated. The Company is unlikely to finance a deferral of this magnitude solely through debt given its present capital structure. However, it could be appropriate to assume that the deferral is financed through debt if such deferrals are significantly less than under the KIUC proposal.
- c. Refer to Mr. Kollen's electronic workpapers filed in conjunction with his Direct Testimony.

RESPONDING WITNESS: Lane Kollen

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2. Refer to the Kollen Testimony, pages 19-23, regarding proposed adjustments to Kentucky Power's employee incentive programs. Explain the difference in the proposed adjustment to incentive compensation versus that contained in the Direct Testimony of Attorney General witness Ralph C. Smith, pages 30-39.

**RESPONSE:**

Mr. Kollen recommended a reduction of \$3.153 million in the revenue requirement based on a disallowance of \$3.136 million in incentive compensation expense. The difference in the disallowance and reduction in the revenue requirement is due to the gross-up for bad debt expense and PSC assessment fees. The calculation of Mr. Kollen's adjustment is shown in his electronic workpapers filed with his testimony. The adjustment includes the entirety of the LTIP, consisting of \$0.243 million in direct charges to KPCo and \$1.501 million in charges allocated to KPCo from AEPSC. The adjustment also includes 75% of the ICP incentive compensation expense, or \$1.409 million, which is tied to AEP earnings per share target metrics.

Mr. Smith, on behalf of the Attorney General recommended a reduction of \$3.113 million in the revenue requirement based on a disallowance in incentive compensation expense. Like Mr. Kollen, Mr. Smith recommended that 100% of the LTIP incentive compensation be disallowed. He quantified the amounts as \$0.245 million in direct charges to KPCo, \$1.501 million in charges allocated to KPCo from AEPSC, plus an additional \$0.015 million in charges billed from KPCo affiliates other than AEPSC, or a total of \$1.747 million in incentive compensation expense. This portion of the disallowance was almost identical between KIUC

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and the AG. Even though the disallowance was nearly the same for the ICP portion of the recommendations of KIUC and the AG, their calculations were based on different methodologies. Mr. Smith utilized the test year amounts of ICP expense quantified as \$5.444 million and recommended a 25% disallowance due to earnings per share performance measures, or \$1.350 million in expense.

RESPONDING WITNESS: Lane Kollen

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3. Refer to the Kollen Testimony, page 30. Provide all documentation relied upon in recommending a remaining service life for Big Sandy Unit 1 of 30 years versus the 15-year remaining service life for Big Sandy Unit 1 proposed by Kentucky Power.

**RESPONSE:**

The Company provided service lives for AEP natural gas-fired generation in response to Staff 2-21 in this proceeding. Those lives range from 35-48 years. Mr. Kollen's recommendation for a 30-year life is less than the low end of that range. Mr. Kollen believes that Big Sandy 1 can continue to operate indefinitely through continued investment and maintenance as long as it is economic compared to alternatives. The Company has no analysis in support of its proposed remaining service life, which was based on its continued operation as a coal-fired plant. The Company's remaining service life does not reflect the conversion to a gas-fired plant or the installation of new equipment or upgrades to the plant that now are included in rate base and depreciation expense.

RESPONDING WITNESS: Lane Kollen

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4. Refer to the Direct Testimony of Stephan J. Baron ("Baron Testimony"), page 9, regarding Kentucky Power's economic development efforts. Provide KIUC's position on the Attorney General's proposal to eliminate the Kentucky Economic Development Surcharge and Kentucky Power Economic Growth Grants programs.

**RESPONSE:**

KIUC does not agree with the Attorney General's position on this issue. Economic development should be a critical objective of the Company and of the Commission. KIUC's position to eliminate the Rate IGS subsidy is consistent with our view that the Company and the Commission should consider the impact on potential job loss and the potential for enhancing the economy of the Company's service area in its ratemaking policies. As discussed by KIUC witness Lane Kollen beginning at page 9 of his testimony, the Company currently has substantial excess capacity and will see that increasing over time as load continues to decline in the Company's service area. This continuing decline in load supports a policy initiative to encourage economic development, not discourage it by eliminating or reducing the Company's economic development efforts.

RESPONDING WITNESS: Stephen J. Baron

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5. State whether KIUC performed its own cost-of-service study ("COSS"). If KIUC did perform its own COSS, provide a copy in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

**RESPONSE:**

KIUC did not perform its own COSS in this case.

RESPONDING WITNESS: Stephen J. Baron

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6. Refer to the Baron Testimony, Exhibit SJB-3. Provide the exhibit in Excel spreadsheet format with all formulas intact and unprotected and with all rows and column accessible

**RESPONSE:**

See attached workpapers of Mr. Baron.

RESPONDING WITNESS: Stephen J. Baron

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7. Refer to the Direct Testimony of Richard A. Baudino ("Baudino Testimony"), page 11, which states that utility stocks and bonds have not been adversely affected by the Federal Reserve Bank's raising of the federal funds rate and includes information from the Value Line Investment Survey ("Value Line") for the Central Electric Utility Industry. Explain whether the Value Line summary reports from the East and West Electric Utility Industry note a similar view.

**RESPONSE:**

In its report on the Electric Utility (East) Industry, August 18, 2017 Value Line noted that: "This year has been good for most electric utility stocks, despite a rise in interest rates and an expectation of further increases." In its report on the Electric Utility (West) Industry dated July 28, 2017 Value Line noted: "Most equities in the Electric Utility Industry have performed well so far in 2017. Almost every issue has risen in price, and a few (including Black Hills and Sempra Energy) have advanced more than 10%. (Hawaiian Electric Industries is one of the few companies to see a decline in the price of its stock.) This has occurred despite the raising of interest rates by the Federal Reserve, and the expectation of further increases."

RESPONDING WITNESS: Richard A. Baudino



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8. Refer to the Baudino Testimony, page 14. Explain whether KIUC believes Kentucky Power has a higher business and financial risk than the proxy group, given the current economic conditions in Kentucky Power's service territory.

**RESPONSE:**

It is Mr. Baudino's opinion that, based on the credit ratings for Kentucky Power and the proxy group shown on Table 2, page 19, that KPC has roughly comparable business and financial risk to the proxy group.

RESPONDING WITNESS: Richard A. Baudino

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9. Refer to the Baudino Testimony, page 16, which states that "k" must reflect the investors' expected return. Explain whether this expected return, or "k", reflects the minimum return that investors must receive, or another value.

**RESPONSE:**

"k" represents the investor required return given the discounted expected cash flows from the investment.

RESPONDING WITNESS: Richard A. Baudino

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10. Refer to the Baudino Testimony, page 22. Explain why the expected dividend yield is multiplied by "one plus one-half" of the expected growth rate.

**RESPONSE:**

The constant growth DCF model required that the current dividend be moved forward in time to reflect the value of the dividend in the next period, or  $D_1$ . Adding one-half the expected growth rate essentially moves the current dividend forward to the middle of the next period. This reflects the assumption that the investor will not receive the full value of next year's dividend throughout the entire year.

RESPONDING WITNESS: Richard A. Baudino

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11. Refer to the Baudino Testimony, page 37, which recommends that the median, as opposed to the average or mean, be used as an alternative measure of central tendency. Mr. Baudino has often used averages in his analysis filed in previous cases. Explain why medians were used instead of the averages.

**RESPONSE:**

Mr. Baudino has consistently used both the median and average, or mean, growth rate values to inform his ROE recommendations in previous cases.

RESPONDING WITNESS: Richard A. Baudino

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12. Refer to the Baudino Testimony, page 41, line 6, which refers to "page 52 of [KU's witness Adrien McKenzie's] KU's Direct Testimony." Explain whether this is referring to Mr. McKenzie's Direct Testimony in Case No. 2014-00731 or Mr. McKenzie's direct testimony filed in this proceeding. If this proceeding, provide an update to Mr. Baudino's testimony to reflect that correction.

**RESPONSE:**

KU should be stricken from line 6, page 41 of Mr. Baudino's Direct Testimony. Mr. Baudino will make this correction when he takes the witness stand at the hearing.

RESPONDING WITNESS: Richard A. Baudino

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13. Refer to the Baudino Testimony, page 43, lines 13 and 15, which reference whether it is "appropriate to use a group of unregulated companies to estimate a fair return on equity for LGE and KU." State whether that testimony refers to Kentucky Power or to "LGE and KU." If it refers to Kentucky Power, provide an update to Mr. Baudino's testimony.

**RESPONSE:**

On lines 13 and 15 of page 43, "LGE and KU" should be stricken and replaced with KPC. Mr. Baudino will make this correction when he takes the witness stand at the hearing.

RESPONDING WITNESS: Richard A. Baudino

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14. Refer to the Baudino Testimony. Provide all exhibits in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

**RESPONSE:**

Please refer to the attached spreadsheet.

RESPONDING WITNESS: Richard A. Baudino

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15. Refer to the Direct Testimony of Bard Levi ("Levi Testimony"), page 3, lines 13-16, which state that, in 2018, Catlettsburg Refining, LLC, will have the highest energy rate among the seven Marathon Petroleum Company LP ("Marathon") refineries. Provide the current rates for the seven Marathon refineries and the average monthly bills for each refinery for 2016 and to date for 2017.

**RESPONSE:**

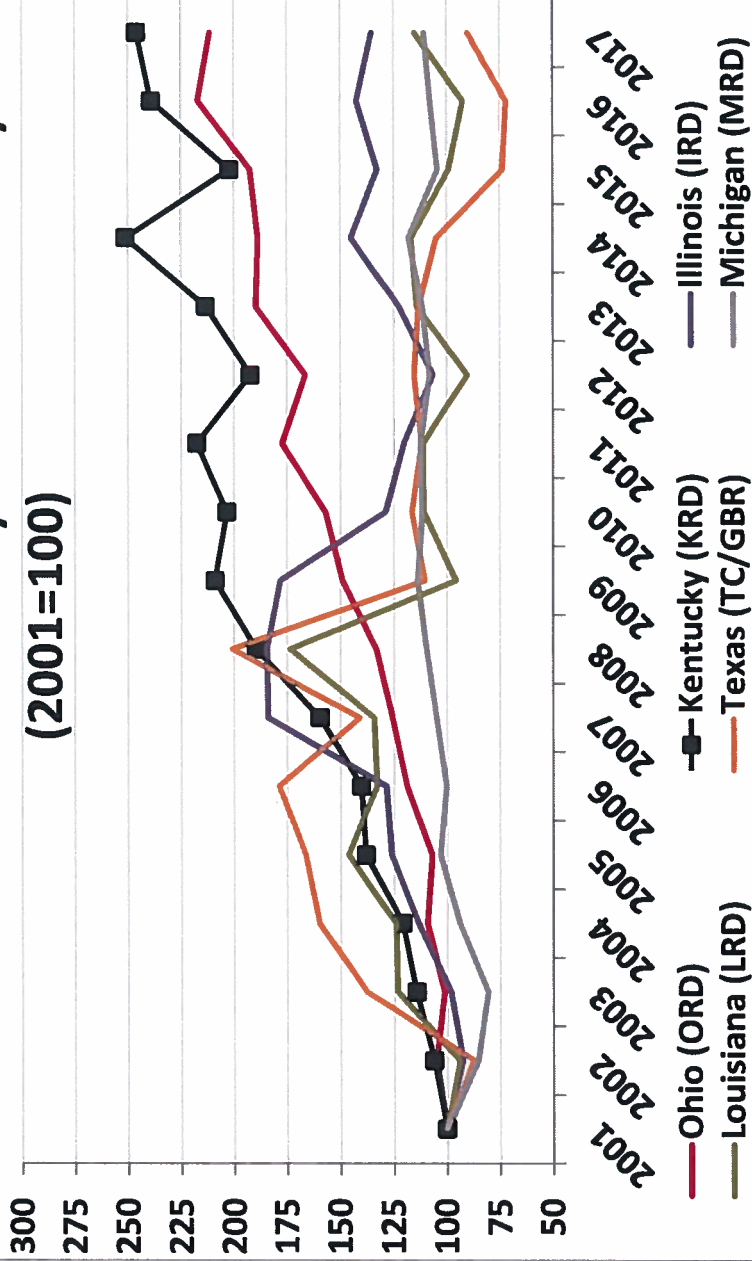
The attached chart shows the average monthly bills for each of the seven Marathon refineries (the two Texas refineries are combined) for the period 2001 through 2017 on an indexed basis. The index starts at 100 for all of the refineries and shows the relative change for each over time.

RESPONDING WITNESS: Brad Levi



# Indexed Marathon Refinery Cost of Electricity

(2001=100)



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<b>RIDERS; (4) AN ORDER APPROVING</b>	)	<b>2017-00179</b>
<b>ACCOUNTING PRACTICES TO ESTABLISH</b>	)	
<b>REGULATORY ASSETS AND LIABILITIES;</b>	)	
<b>AND (5) AN ORDER GRANTING ALL OTHER</b>	)	
<b>REQUIRED APPROVALS AND RELIEF</b>	)	

**KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'S  
RESPONSE TO COMMISSION STAFF'S  
FIRST REQUEST FOR INFORMATION**

16. Refer to the Levi Testimony, page 5.

- a. Provide the average cost per kWh for the 1,055 MW cogeneration facility at Marathon's Galveston Bay refinery.
- b. Explain whether this cogeneration facility is a backup facility or whether it is used as a daily source of power.

**RESPONSE:**

- a. The average cost per kwh from Marathon's Galveston Bay cogeneration facility varies over time with the cost of natural gas, plant capacity factor and other inputs. The Galveston cogeneration facility provides the lowest rate and most stable source of electricity for Marathon's refineries as shown on the index electric cost chart (Texas) provided in response to Item 15. The Galveston Bay refinery was purchased by Marathon February 1, 2013, at which point the rate on the graph is a blended rate of Texas City and Galveston Bay refineries.
- b. It is used as a daily source of power.

RESPONDING WITNESS: Brad Levi

**AFFIDAVIT**

STATE OF GEORGIA        )

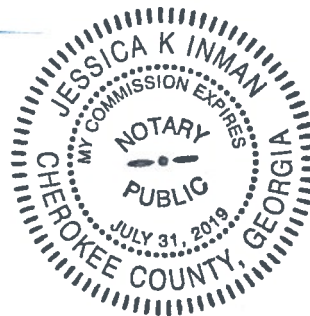
COUNTY OF FULTON       )

LANE KOLLEN, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

  
Lane Kollen

Sworn to and subscribed before me on this  
27th day of October 2017.

  
Notary Public



**AFFIDAVIT**

STATE OF GEORGIA        )

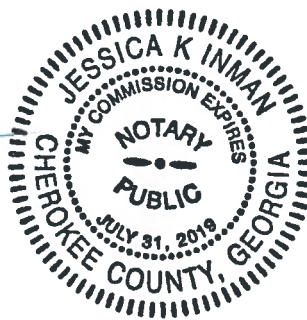
COUNTY OF FULTON        )

STEPHEN J. BARON, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

*Stephen J. Baron*  
\_\_\_\_\_  
Stephen J. Baron

Sworn to and subscribed before me on this  
27th day of October 2017.

*Jessica K. Inman*  
\_\_\_\_\_  
Notary Public

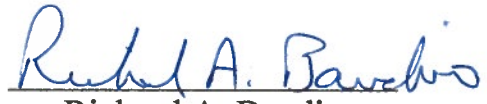


**AFFIDAVIT**

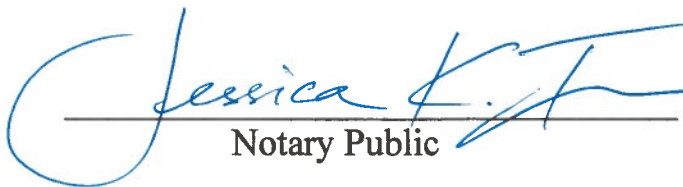
STATE OF GEORGIA        )

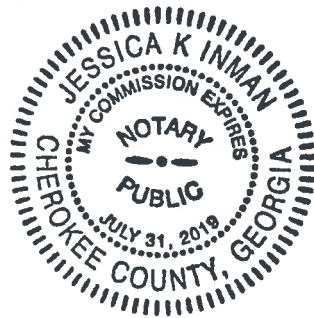
COUNTY OF FULTON        )

RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

  
Richard A. Baudino

Sworn to and subscribed before me on this  
27th day of October 2017.

  
Notary Public



COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION


In the Matter of the 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. :

Case No 2017-00179

AFFIDAVIT OF BARRY KORNSTEIN

STATE OF Kentucky )  
COUNTY OF Jefferson )

Barry Kornstein, being duly sworn, deposes and states that the attached responses are true and correct to the best of his knowledge, information and belief.

  
Barry Kornstein

Subscribed and sworn to or affirmed before me  
this 26 day of October, 2017.

  
Notary Public

**DARRELL GARRETT, JR.**  
Notary Public  
State at Large  
Kentucky  
My Commission Expires Feb. 22, 2020