

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)	CASE No.
Plan; (3) An Order Approving Its Tariffs and)	2017-00179
Riders; (4) An Order Approving Accounting)	
Practices to Establish a Regulatory Asset or)	
Liability Related to the Big Sandy 1 Operation)	
Rider; and (5) An Order Granting All Other)	
Required Approvals and Relief)	

**ATTORNEY GENERAL’S RESPONSES TO DATA REQUESTS
OF THE KENTUCKY PUBLIC SERVICE COMMISSION STAFF**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits the following responses to data requests of the Kentucky Public Service Commission Staff in the above-styled matter.

Respectfully submitted,

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ATTORNEY GENERAL



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Certificate of Service and Filing

Counsel certifies that the foregoing is a true and accurate copy of the same document being filed in paper medium with the Commission within two business days; that the electronic filing has been transmitted to the Commission on October 27, 2017; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding. Counsel further certifies that the responses set forth herein are true and accurate to the best of his knowledge, information, and belief formed after a reasonable inquiry.

This 27th day of October, 2017.

A rectangular box containing a handwritten signature in blue ink. The signature is stylized and appears to be the initials 'JL'.

Assistant Attorney General

Application of Kentucky Power Co. for a General Adjustment of its Rates, etc.
Case No. 2017-00179
Attorney General's Responses to Data Requests of the Kentucky Public Service Commission Staff

WITNESS/RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 1
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Refer to the Direct Testimony of Ralph C. Smith ("Smith Testimony"), page 8, lines 22-23.
Confirm that the overall revenue increase is \$60,397,438 rather than \$60,697,438.

RESPONSE:
Confirmed.

WITNESS/RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 2
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Refer to the Smith Testimony, page 12.

- a. Page 12, lines 4-5, State "Company has an annual base rate revenue requirement excess of approximately \$39.9 million". Explain whether the approximately \$39.9 million is an excess or a deficiency.
- b. Reconcile the Attorney General's support for a revenue increase of approximately \$40.0 million, or 8.00 percent, with the Attorney General's October 4, 2017 press release in which he proposes that Kentucky Power Company ("Kentucky Power") "forgo the requested increase on ratepayers by implementing stronger controls on spending and by decreasing the amount returned to its shareholders." A copy of the October 4, 2017 press release is attached as an Appendix.

RESPONSE:

- a. The \$39.9 million is a deficiency.
- b. The Attorney General's position is that KPCo's customers cannot afford any increase, as made clear in Mr. David Dismukes' testimony. Mr. Dismukes stated on p. 3 of his testimony that, "KPCo's customers are unable to afford any rate increase..." Indeed, even Mr. Smith directed the Commission and other intervenors to Mr. Dismukes testimony, and noted that his own testimony did not address affordability. Having made his position clear, the Attorney General also has a duty to point out to the Commission that KPCo's requested increase is unreasonable and unsubstantiated even if customers could afford it (which they cannot). As such, Mr. Smith's testimony provided evidence that the Company's request was unsupported and unreasonable.

WITNESS/RESPONDENT RESPONSIBLE:

Ralph C. Smith

QUESTION No. 3

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Refer to the Smith Testimony, page 59. Explain in detail your recommendation that the Commission require Kentucky Power to clarify the responsibility among Consolidated Coal Company, Kentucky Power, and other American Electric Power Company affiliates to pay the Mitchell Plant ash pond remediation costs, including but not limited to costs associated with the Conner Creek Impoundment and Conner Creek Dam.

RESPONSE:

The Conner Creek Impoundment and Conner Creek Dam were operated for many years before Kentucky Power assumed ownership of the 50 percent undivided interest in the Mitchell Plant. The cost associated with the remediation of those facilities could be substantial. The responsibility among Kentucky Power, Consolidated Coal Company and American Electric Power affiliates should be clarified to assure that Kentucky Power and its ratepayers will only be responsible for reasonable costs that are attributable to the limited period of Kentucky Power's ownership. Finally, Mr. Smith notes that KPCo and AEP refer to these facilities as the "Conner Run Impoundment" and the "Conner Run Dam," thus his testimony should have utilized those same terms.

WITNESS/RESPONDENT RESPONSIBLE:

Ralph C. Smith

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Refer to the Smith Testimony, pages 59-66, regarding the costs associated with the Rockport environmental surcharge and the Big Sandy retirement costs.

- a. State whether the Attorney General is aware of any case(s) in which this Commission or another state public utility regulatory agency has denied the recovery of costs that are similar to the Rockport and Big Sandy costs that the Attorney General proposes be denied in this proceeding.
- b. If the answer to a. above is affirmative, provide the authority, case law or other documentation that supports the denial.
- c. Confirm that the Attorney General's revenue requirement removes only the costs associated with Rockport environmental surcharge.

RESPONSE:

- a. – b. Yes. The Attorney General presents the following instances:
 - (1) In Case No. 2013-00199, the Kentucky PSC denied immediate recovery of depreciation costs associated with Big Rivers' Coleman and Wilson generating stations, and instead ordered that those costs be deferred in a regulatory asset (final order dated April 25, 2014, pp. 49-50).
 - (2) When AEP-owned electric generating resources were deregulated/subject to competition in Ohio, AEP recorded large tax write-offs,¹ indicating that some of the embedded historical costs associated with the previously regulated generating resources was being borne by AEP and its shareholders.
 - (3) *In Re Kentucky American Water Co.*, Case No. 8571, the Commission found that because Kentucky-American had an excess capacity of 6 MGD, shareholders should share \$903,037 of the cost of this excess capacity with the

¹ See, e.g., <https://www.bizjournals.com/columbus/news/2016/11/01/aep-takes-2-3b-write-down-of-coal-plants-to-avoid.html>

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Company's ratepayers, and thus removed that sum from rate base (Final Order dated Feb. 17, 1983, p. 8).

- (4) *In Re Kentucky Utilities*, Case No. 8624,² in which the Commission excluded \$6.425 million in jurisdictional CWIP from ratebase. Order dated March 18, 1983, p. 23.
- (5) *An Investigation of The Necessity and Usefulness of the Cost Responsibility For the Hanging Rock-Jefferson 765 Kv Transmission Line Under Construction by Kentucky Power Company*, Case No. 8904, in which the Commission excluded the cost of transmission facilities greatly in excess of jurisdictional needs, and which were constructed to meet the needs of non-jurisdictional customers. Order Denying Rehearing, dated Sept. 11, 1984, pp. 6-7.³
- (6) *Blue Grass State Telephone Co. v. Public Service Comm'n, Ky.*, 382 S.W.2d 81, 82-83 (1964), the Court adjusted the rate base to exclude facilities "not entirely usable."
- (7) *Fern Lake Co. v. Public Service Comm'n, Ky.*, 357 S.W.2d 701, 704-705 (1962), the Court of Appeals held that excess facilities were not used or useful so as to be a proper factor in establishing a rate base and that over-adequate facilities should be excluded for ratemaking purposes as a matter of law.
- (8) *In re: A Formal Review of the Current Status of Trimble County Unit No. 1*, Case No. 9934, in which the Commission disallowed 25% of Louisville Gas & Electric Co.'s interest in Trimble Unit 1. Order dated July 1, 1988, p. 33.
- (9) *In re General Adjustment of Electric Rates of Kentucky Power Co.*, Case No. 8734. KPCo tried to include into ratebase the \$6.302 million value of land located in Lewis County [the "Carrs Site"] which it was holding for future use. Attorney General witness Henkes testified that the value of the land should be excluded from ratebase due to its speculative nature. The Commission found KPCo's plans to be questionable, and given that KPCo then had a 43% reserve

² 1983 WL 913532 (Ky.P.S.C.), 52 P.U.R.4th 408.

³ Aff'd, *In Re Kentucky Power*, Case No. 9061, 64 P.U.R. 4th 56, 66 (1984).

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capacity, removed the entire value of that land from rate base (Order dated Sept. 20, 1983, pp. 8-9). In Case No. 2014-00396, KPCo attempted to recover \$103,330 in costs for preliminary engineering and site design at the Carrs Site, despite the fact that it never built any facilities at that site. The Commission denied that request, and ordered KPCo to remove the \$2.619 million deferred costs from its books and charge that sum to expense (Case No. 2014-00396, Order dated June 22, 2015, p. 20).

- (10) *In re Big Rivers Electric Corp.'s Notice of Changes in Rates and Tariffs for Wholesale Electric Service and a Financial Workout Plan*, Case No. 9613, in which the Commission excluded the costs of the Wilson plant from ratebase. Order dated March 17, 1987.
- (11) *In the Matter of the Application of Sunflower Electric Cooperative, Inc., for approval of the State Corporation Commission to make certain changes in its charges for sale of electricity to its member cooperatives*; Docket No. 143,069-U, in which the Kansas Corporation Commission disallowed 43% of the costs of the company's Holcomb generating unit from ratebase because the excess capacity was not used and required to be used, and because it would have resulted in excessive rates to residential and industrial customers. Order dated April 2, 1985, pp. 6-7, 13-14.
- (12) *Wabash Valley Power Ass'n, Inc. v. Rural Electrification Admin.*, 713 F. Supp. 1260 (S.D. Ind. 1989),⁴ affirming a ruling by the then-Indiana Public Service Commission⁵ which excluded \$480 million from the utility's ratebase, representing costs to finance the abandoned Marble Hill nuclear power plant.
- (13) *Duquesne Light Co. v. Barasch*, 109 S. Ct. 609, 615-620 (1989). In this case, two utilities sought recovery of costs associated with cancelling the construction of four nuclear power plants. The state PUC granted the recovery in rate proceedings. However, prior to the conclusion of those proceedings, a state statute was enacted barring inclusion of costs for generating facilities that are not used and useful. The Pennsylvania Office of the Consumer Advocate appealed the case to the state Supreme Court, which: (i) upheld the statute,

⁴ Aff'd, 903 F.2d 445, 7th Cir. 1990.

⁵ In Re Wabash Valley Power Ass'n, Inc., Case No. 37472 (Jan. 14, 1987).

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finding it did not constitute an unlawful taking of the utilities' property under the Takings Clause of the 5th Amendment to the U.S. Constitution; and (ii) remanded the case to the PUC with instructions to remove the relevant costs from ratebase. The U.S. Supreme Court affirmed that ruling.

- (14) *Petition of Public Service Co. of New Hampshire*, 539 A.2d 263 (N.H. 1988), the utility owning a 35% stake in the Seabrook unit 1 nuclear power plant sought emergency rate relief due to rapidly escalating costs. The state Supreme Court upheld the constitutionality of an anti-CWIP statute which precluded the construction costs from being included in ratebase, thus allocating the risk of construction not being completed to investors rather than ratepayers.
- (15) *Citizens Action Coalition v. NIPSCO*, 485 N.E.2d 610 (Ind. 1985).⁶ Northern Indiana Public Serv. Co., Inc. spent over \$205 million on the proposed Bailey 1 nuclear power generating unit before cancelling the project. The then-Public Service Commission allowed the company to amortize the sunk costs in base rates. However, the Supreme Court upheld a state Court of Appeals ruling reversing the PSC's decision, finding that the facility was not used and useful and provided no benefit to ratepayers.
- (16) *In Re Application of Kentucky Power for a General Adjustment of Rates, etc.*, Case No. 2014-00396, in which KPCo sought to recover \$28.024 million in costs incurred for engineering and design work related to potentially installing FGD systems at its retired Big Sandy Unit 2. In Case No. 2012-00578, the Commission found these costs unreasonable and struck a provision from the settlement reached in that case which would have authorized that cost recovery. In Case No. 2014-00396, the Commission once again denied recovery of these costs, and further ordered KPCo to remove the deferred asset in that amount from its books and charge that item to expense (Order dated June 22, 2015, pp. 21-22).
- (17) In 2015, the Indiana Utility Regulatory Commission approved a settlement⁷ that capped construction and financing costs for the Duke Energy,

⁶ Cert. den. 476 U.S. 1137 (1986).

⁷ Accessible at: http://www.in.gov/oucc/files/2016_IGCC_Settlement_Agreement.pdf

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Indiana Edwardsport IGCC power plant, which prevented nearly \$900 million from entering into ratebase. Cause No. 43114 IGCC 11-15.

- (18) *In re Construction Monitoring Proceeding for Georgia Power Company's Plant Vogtle Units 3 and 4; Supplemental Information, Staff Review, and Opportunity for Settlement*, Docket No. 29849, in which the Georgia Public Service Commission approved a settlement which: (i) deferred costs for these plants until after they are placed in service and thus providing benefits to ratepayers; (ii) provided significant reductions in ROE if the project is not completed by Dec. 31, 2020; and provided a total of \$325 million in projected savings to ratepayers during the construction period, \$185 million of which would be permanent savings. Order Adopting Stipulation dated Dec. 20, 2016.
- c. The Attorney General confirms that Exhibit RCS-1, Schedule A, line 10, removes only the Environmental Surcharge Related to Rockport Unit 1 SCR of \$3,903,056 that has been requested by Kentucky Power Company. Please note that in other adjustments other costs requested by Kentucky Power for other items are being removed.

WITNESS/RESPONDENT RESPONSIBLE:

Ralph C. Smith

QUESTION No. 5

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Refer to the Smith Testimony, page 61, which alleges that AEP entered into the Consent decree to, among other things, provide "lower cost solutions at other non-Kentucky" generating plants. Identify and explain the "lower cost solutions" at other non-Kentucky jurisdictional electric generating plants and the rate impacts on Kentucky Power's customers.

RESPONSE:

As stated on pp. 60-61 of Mr. Smith's testimony, the U.S. Sixth Circuit Court of Appeals has noted in a recent ruling that although Rockport 2, which provides a significant portion of KPCo's power needs, was not an initial target of EPA-initiated litigation, AEP made it a target when ". . . AEP traded away Rockport 2's long-term value in exchange for more favorable settlement of claims against other [AEP] interests" (*Wilmington Trust Co. v. AEP Generating Company*, No 16-3496, Amended Opinion dated June 8, 2017, p 8). A copy of this opinion is attached as Exhibit RCS-20 to Mr. Smith's direct testimony. The Court provided additional elaboration on this point, at pp. 3-4 of its Opinion, as follows:

"The parties to these lawsuits resolved the claims by way of a consent decree approved by the district court in 2007. Of import, the consent decree required AEP to modify both Rockport plants (notwithstanding the lack of alleged violations at these facilities). For Rockport 2, AEP agreed to install emissions-limiting devices by December 31, 2019. One of these devices, a scrubber, reduces sulfur dioxide emissions and costs approximately \$1.4 billion. Defendants later sought to alter this agreement. Initially, they requested permission to install a substantially less expensive pollution control system in place of the scrubber. Following opposition from various plaintiffs, the parties agreed to modify the consent decree in 2013. Regarding Rockport 2, AEP agreed to install the less expensive system by April 16, 2015, and "Retrofit, Retire, Re-power, or Refuel" it by December 31, 2028. "Retrofit" means installing a scrubber, "Retire" means "permanently shut down and cease to operate the Unit," "Re-power" means replacing the coal-burning technology, and "Refuel" means converting it to natural gas. The effect of the modification is substantial. By pushing the "Retrofit, Retire, Re-power, or Refuel" requirement to 2028 (six years *after* the expiration of the Facility Lease), the owners are now responsible for the costs associated with either upgrading Rockport 2 or shutting it down."

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Mr. Smith notes that neither the Attorney General nor the Commission were parties to any of the numerous cases involving environmental remediation at the various coal-fired plants owned by AEP and/or its affiliates. Therefore, there is no way to identify with certainty either the precise non-jurisdictional plants that received preferential treatment as the 6th Circuit Opinion referenced above notes, nor the precise rate impacts on KPCo ratepayers. Nonetheless, differences are apparent when comparing the original consent decree⁸ with the third modified decree.⁹ These differences are set forth in the table below:

	Original Decree	3rd Modification
Big Sandy 1	Reduce sulfur content of fuel and low No _x burners by date consent decree is entered;	
Big Sandy 2	SCR by 1-1-'09; FGD by 12-31-15	Retrofit, Retire, Re-power or Refuel by 12-31-15
Rockport 1	SCR and FGD, both by 12-31-17	Dry Sorbent Injection by 4-16-15; retrofit, ¹⁰ retire, re-power or refuel by 12-31-25
Rockport 2	SCR and FGD, both by 12-31-19	Dry Sorbent Injection by 4-16-15; retrofit, retire, re-power or refuel by 12-31-28

As indicated in the table above, the 3rd modification to the decree established harsher options on Big Sandy Unit 2, which led to its retirement before the end of its anticipated useful life. The stranded costs resulting from Big Sandy Unit 2's premature retirement led to the creation of the Big Sandy Retirement Rider (which KPCo now refers to as the "Decommissioning Rider") and thus represents a significant rate impact on KPCo customers.

⁸ Accessible at: https://www.epa.gov/sites/production/files/documents/americanelectricpower-cd_1.pdf

⁹ Accessible at: <https://www.epa.gov/sites/production/files/2015-01/documents/aep-cdmod3.pdf>

¹⁰ As specified in the 3rd Decree, the term "retrofit" as used in application to the Rockport units means installing and continuously operating a wet or dry FGD unit.

WITNESS/RESPONDENT RESPONSIBLE:

Ralph C. Smith

QUESTION No. 6

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Refer to the Smith Testimony at page 70. Explain in detail why the cost-of service items should not be tracked and recovered through Tariff PPA, but instead continue to be collected through base rates.

RESPONSE:

Flowing these items through the PPA mechanism will lead to costly automatic rate increases without any meaningful review. Given AEP's publicly-stated desire to exit the competitive generation business¹¹ and focus more on transmission,¹² these expenses are likely to increase very significantly, and should be subject to the closer scrutiny afforded in a base rate case.

¹¹ See, e.g., <https://finance.yahoo.com/news/aep-reports-2017-first-quarter-105700144.html>

¹² See, e.g., <https://www.rtoinsider.com/aep-3rd-quarter-earnings-33771/>

WITNESS/RESPONDENT RESPONSIBLE:

Ralph C. Smith

QUESTION No. 7

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Refer to the Smith Testimony, Exhibit RCS-1, page 3 of 32.

- a. Refer to line 10, Theft Recovery Revenue. If the Commission were to deny Kentucky Power's proposal to add five employees, explain whether the Attorney General would still recommend the proposed adjustment.
- b. Refer to line 18, Affiliate Charges for Corporate Aviation Expense, Schedule C-9. Also refer to Kentucky Power's response to Commission Staff's Second Request for Information, Item 55; Kentucky Power's response to Commission Staff's Third Request for Information, Item 19; and Kentucky Power's response to the Attorney General's First Request for Information, Item 153. Explain the basis for rendering all aviation expense unallowable for ratemaking purposes.
- c. Refer to line 24, Rate Case Expense and the Smith Testimony, page 51.
 - (1) Explain why the Attorney General has not raised this issue with the Federal Energy Regulatory Commission ("FERC").
 - (2) Provide the most recent returns on equity ("ROE") that have been granted by FERC.
 - (3) Confirm that the Attorney General is recommending that all rate case expense be denied due to the ROE that is being applied to the Rockport Unit Power Sale.

RESPONSE:

- a. No.
- b. The aviation expense recommended for disallowance consists of the affiliated charges to Kentucky Power Company from AEP Service Company for AEP corporate aviation costs, as explained in the testimony. The test year may contain other aviation expense that has not been removed.
- c. (1) Primarily due to budgetary and resource constraints. Since this issue was raised in KPCO's last rate case (2014-00396), the Attorney General has been waiting for KPCo to attempt to protect its jurisdictional ratepayers by addressing the 12.16% ROE and resolving the matter among its AEP affiliates prior to KPCo's filing of the current rate case, which would have made moot the need for another outside

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party to expend scarce resources. It is now apparent KPCo does not intend to address this issue. It should also be noted that given the statutory and regulatory framework of the FERC, it is easier for both KPCo and the Commission to initiate and maintain an action of this type than it is for the Attorney General or another intervenor in this matter. Further, the Commission and KPCo both seemingly have the authority and ability to incur charges in furtherance of reducing long-term costs to customers, and subsequently charge that cost to ratepayers, pursuant to Commission approval.

(2) In an article dated July 18, 2016, appearing in RTO Insider,¹³ it was noted that FERC approved a settlement between Transource Kansas and the Kansas Corporation Commission which set a 9.8% ROE. The Attorney General's search for FERC approved ROEs results in the following approvals from 2006 to 2015¹⁴ [continued on next page]:

¹³ Accessible at: <https://www.rtoinsider.com/ferc-transource-kansas-settlement-28935/>

¹⁴ Source: FERC Docket No. ER16-2320, PG&E Witness Adrien McKenzie, EXHIBIT PGE-14.

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ALLOWED ROE

<u>Date</u>	<u>Docket No.</u>	<u>Utility</u>	<u>Base ROE</u>
Apr-06	ER05-515	Baltimore Gas & Elec.	10.80%
Apr-06	ER05-515	Baltimore Gas & Elec.	11.30%
Oct-06	ER04-157	Bangor Hydro-Elec. Co.	11.14%
Nov-06	ER05-925	Westar Energy Inc.	10.80%
May-07	ER07-284	San Diego Gas & Elec.	11.35%
Aug-07	ER06-787	Idaho Power Co.	10.70%
Sep-07	ER06-1320	Wisconsin Elec. Pwr. Co.	11.00%
Nov-07	ER08-10	Pepco Holdings, Inc.	10.80%
Jan-08	ER07-583	Commonwealth Edison Co.	11.00%
Feb-08	ER08-374	Atlantic Path 15	10.65%
Mar-08	ER08-396	Westar Energy Inc.	10.80%
Mar-08	ER08-413	Startrans IO, LLC	10.65%
Apr-08	EL05-19	Southwestern Public Service	9.33%
Apr-08	ER08-92	Virginia Elec. & Power Co.	10.90%
May-08	EL06-109	Duquesne Light Co.	10.90%
Jun-08	ER07-549	NSTAR Elec. Co.	10.90%
Jul-08	ER08-375	So. Cal Edison (a)	9.54%
Jul-08	ER07-562	Trans-Allegheny	11.20%
Jul-08	ER07-1142	Arizona Public Service Co.	10.75%
Aug-08	ER08-1207	Virginia Elec. & Power Co.	10.90%
Aug-08	ER08-686	Pepco Holdings, Inc.	11.30%
Sep-08	ER08-1233	Public Service Elec. & Gas	11.18%
Oct-08	ER08-1423	Pepco Holdings, Inc.	10.80%
Oct-08	EL08-74	Central Maine Power Co.	11.14%
Oct-08	ER08-1402	Duquesne Light Co.	10.90%
Nov-08	ER08-1548	Northeast Utils Service Co.	11.14%
Nov-08	EL08-77	Central Maine Power Co.	11.14%
Dec-08	ER09-14	NSTAR Elec. Co.	11.14%
Dec-08	ER09-35/36	Tallgrass / Prairie Wind	10.80%
Dec-08	ER07-694	New England Pwr. Co.	11.14%
Feb-09	ER08-1584	Black Hills Power Co.	10.80%
Mar-09	ER09-75	Pioneer Transmission	10.54%
Mar-09	ER09-548	ITC Great Plains	10.66%
Mar-09	ER09-249	Public Service Elec. & Gas	11.18%
Apr-09	ER09-681	Green Power Express	10.78%
May-09	ER09-745	Baltimore Gas & Elec.	11.30%
Jun-09	ER08-552	Niagara Mohawk Pwr. Co.	11.00%
Jun-09	ER07-1069	AEP - SPP Zone	10.70%
Jun-09	ER08-281	Oklahoma Gas & Elec.	10.60%
Aug-09	ER08-1457	PPL Elec. Utilities Corp.	11.10%
Aug-09	ER08-1457	PPL Elec. Utilities Corp.	11.14%
Aug-09	ER08-1457	PPL Elec. Utilities Corp.	11.18%
Aug-09	ER09-187	So. Cal Edison (b)	10.04%
Aug-09	ER07-1344	Westar Energy Inc.	10.80%
Nov-09	ER08-1588	Kentucky Utilities Co.	11.00%
Nov-09	ER09-1762	Westar Energy Inc.	10.80%
Dec-09	ER08-313	Southwestern Public Service Co.	10.77%

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ALLOWED ROE

<u>Date</u>	<u>Docket No.</u>	<u>Utility</u>	<u>ROE</u>
Jan-10	ER09-628	National Grid Generation LLC	10.75%
Sep-10	ER10-160	So. Cal Edison (c)	10.33%
Oct-10	ER08-1329	AEP - PJM Zone	10.99%
Dec-10	ER10-230	Kansas City Power & Light Co.	10.60%
Dec-10	ER11-1952	So. Cal Edison	10.30%
Feb-11	ER11-2377	Northern Pass Transmission	10.40%
Apr-11	ER10-355	AEP Transcos - PJM	10.99%
Apr-11	ER10-355	AEP Transcos - SPP	10.70%
May-11	EL10-80	Ameren	12.38%
May-11	EL11-13	Atlantic Grid Operations	10.09%
Jun-11	ER11-3352	PJM & PSE&G	11.18%
Aug-11	ER10-992	Northern States Power Co.	10.20%
Oct-11	ER10-1377	Northern States Power Co. (MN)	10.40%
Oct-11	ER11-2895	Duke Energy Carolinas	10.20%
Oct-11	ER11-4069	RITELine	9.93%
Oct-11	ER10-516	South Carolina Elec. & Gas	10.55%
Dec-11	ER12-296	PJM & PSE&G	11.18%
Feb-12	ER08-386	PATH	10.40%
Jun-12	ER11-2853	Public Service Co. of Colorado	10.10%
Jun-12	ER11-2853	Public Service Co. of Colorado	10.40%
Jun-12	ER12-1593	DATC Midwest Holdings	12.38%
May-13	ER12-778	Puget Sound Energy	9.80%
May-13	ER12-778	Puget Sound Energy - PSANI	10.30%
May-13	ER11-3643	PacifiCorp	9.80%
May-13	ER11-2560	Entergy Arkansas	10.20%
May-13	ER12-2554	Transource Missouri	9.80%
Jun-13	ER12-2681	ITC Holdings	12.38%
Aug-13	ER12-1650	Maine Public Service Co.	9.75%
Nov-13	ER11-3697	So. Cal Edison	9.30%
May-14	ER13-941	San Diego Gas & Electric	9.55%
May-14	ER14-1608	Public Service Electric & Gas	11.18%
Jun-14	EL11-66	Bangor Hydro-Elec. Co.	10.57%
Oct-14	ER12-1589	Public Service Co. of Colorado	9.72%
Oct-14	EL13-86	Public Service Co. of Colorado	9.72%
Apr-15	ER12-91	Duke Energy Ohio	10.88%
May-15	EL12-101	Niagara Mohawk Power Corp.	9.80%
Jun-15	ER14-1661	MidAmerican Central Calif. Transco	9.80%
Sep-15	ER13-2428	Kentucky Utilities Co.	10.25%
Oct-15	ER14-192	Southwestern Public Service Co.	10.00%
Oct-15	ER15-303	American Transmission Systems, Inc.	9.88%
Nov-15	EL12-39	Duke Energy Florida	10.00%

(a) Order issued April 15, 2010, with ROE applied for March 1, 2008 through December 31, 2008.

(b) Order issued April 19, 2012, with ROE applied for January 1, 2009 through May 31, 2010.

(c) Order issued April 19, 2012, with ROE applied for June 1, 2010 through December 31, 2010.

3) As shown on Exhibit RCS-1, Schedule C-15, and explained at pages 49-52 of Mr. Smith's testimony, the Attorney General is recommending that a portion of the rate case expense KPCo is requesting, approximately \$11,000 for the Communication Counsel of America, Inc., be removed for the reasons explained in the testimony, and that all of the remaining claimed rate case expense be removed as an incentive for KPCo to address at FERC the ROE that is being applied to the Rockport Unit Power Sale.

WITNESS/RESPONDENT RESPONSIBLE:

Ralph C. Smith

QUESTION No. 8

Page 1 of 1

Refer to the Smith Testimony. Provide Exhibit RCS-1 in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

RESPONSE:

See attachment to this response.

WITNESS/RESPONDENT RESPONSIBLE:

Dr. J. Randall Woolridge

QUESTION No. 9

Page 1 of 1

Refer to the Direct Testimony of J. Randall Woolridge, Ph.D. ('Woolridge Testimony'), Exhibit JRW-4, page 1 of 3.

- a. Explain why the Attorney General's proposed ROE of 8.6 percent for Kentucky Power is representative of investor's expectations, given that the median earned ROE for electric utilities, as shown in Panel A, is 9.3 percent.
- b. Provide an update to Panels A and B using the most recent Value Line investment Survey reported ROEs.

RESPONSE:

- a. As explained on page 33 of Dr. Woolridge's testimony, he has used the DCF and CAPM approaches to estimate the expected return of investors on the stocks of the utilities in the proxy groups. The 9.3%, which is shown in Panel A of Exhibit JRW-4, was the median earned return (not expected return) for calendar year 2016 for the utilities in the Electric Proxy Group.
- b. Dr. Woolridge did not use Value Line reported ROEs in Exhibit JRW-4. Dr. Woolridge used the ROEs as calculated from the utilities SEC form 10-k for the calendar year 2016.

WITNESS/RESPONDENT RESPONSIBLE:

Dr. J. Randall Woolridge

QUESTION No. 10

Page 1 of 1

Refer to the Woolridge Testimony, page 30, line 9. Provide the current yield on long-term A-rated public utility bonds.

RESPONSE:

3.87%. Source: Mergent Bond Record, October 2017.

WITNESS/RESPONDENT RESPONSIBLE:

Dr. J. Randall Woolridge

QUESTION No. 11

Page 1 of 1

Refer to the Woolridge Testimony, page 47, Table 1. Explain why the growth rate was adjusted by one-half.

RESPONSE:

See discussion on pages 37-38 of Dr. Woolridge's testimony.

WITNESS/RESPONDENT RESPONSIBLE:

Dr. J. Randall Woolridge

QUESTION No. 12

Page 1 of 1

Refer to the Woolridge Testimony, Exhibit JRW-10.

a. Refer to page 2 of 6.

- (1) Provide a copy of the source documents for the annual dividends and 30-day, 90-day, and 180-day dividend yields.
- (2) If any of the above is calculated, provide the calculations.

RESPONSE:

- (1) The source document is provided in the file named "Electric Utility Dividend Yields - 10-6-17.xls," which is being uploaded as an attachment to the AG's responses to KPCo's data requests.
- (2) Calculations are provided in the file named "Electric Utility Dividend Yields - 10-6-17.xls," which is being uploaded as an attachment to the AG's responses to KPCo's data requests.

b. Refer to pages 3-6 of 6.

- (1) Explain how negative growth rates were included in the calculation of mean values on pages 3 and 5.
- (2) Explain why averaging median values produces meaningful estimates.

RESPONSE:

- (1) Dr. Woolridge does not believe it is appropriate to selectively eliminate low and high growth rates. The historical and projected growth rates represent a distribution of outcomes, and Dr. Woolridge uses the median of the growth rate outcomes to minimize the impact of extremely high or low results, which includes the negative growth rates.
- (2) As discussed in response to (1), Dr. Woolridge uses the median of the individual company growth rate outcomes to minimize the impact of extremely high or low results. Given that the impact of outliers individual company outliers has been minimized, Dr. Woolridge used the mean as a measure of central tendency.

WITNESS/RESPONDENT RESPONSIBLE:

Dr. J. Randall Woolridge

QUESTION No. 13

Page 1 of 1

Provide the most recently authorized ROE awards for the Attorney General's proxy groups, and the dates they were awarded.

RESPONSE:

Dr. Woolridge has not used the requested data in developing his testimony or in developing his ROE recommendation for KPC. Notwithstanding, Dr. Woolridge is providing in attachments to this response the authorized ROEs for the utilities in the two proxy groups as published in the *Value Line Investment Survey*. Many of these authorized ROEs are dated and therefore are not reflective of current market conditions.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 14

Page 1 of 1

Refer to the Direct Testimony of David E. Dismukes, Ph.D., ("Dismukes Testimony"), page 7. Provide the average amount of accounts receiving multiple disconnects for the state of Kentucky.

RESPONSE:

Dr. Dismukes did not conduct any analysis of the number of accounts receiving multiple disconnects for the entire state of Kentucky. Dr. Dismukes testimony on page 7 only addresses the number of disconnects that the Company has conducted per the Company's response to AG_2_004.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 15

Page 1 of 1

Refer to the Dismukes Testimony, pages 15-16. Confirm that the Attorney General supports Kentucky Power's proposal to reduce the residential class subsidy by 5 percent. If the Attorney General cannot confirm, provide the amount of residential class subsidy the Attorney General supports.

RESPONSE:

As stated in Dr. Dismukes's direct testimony on page 3 lines 15 – 22, he is recommending that the Commission limit any revenue increase in this matter. This recommendation is based on a number of considerations including: (a) a finding by other Attorney General witnesses that the merits and cost information upon which this rate request are based are questionable; (b) KPCo's customers are unable to afford any rate increase, and (c) a large rate increase to the extent the Company proposes at this time would set the entire economy of Eastern Kentucky back, counteracting any economic expansion that is on the horizon. The Attorney General supports the reduction of the residential class subsidy to the extent that such a reduction is not overly burdensome to the residential customers.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 16

Page 1 of 3

Refer to the Dismukes Testimony, pages 20-22. Confirm that, aside from Kentucky Power's analysis of fixed costs as applied to the demand-related costs, the Attorney General finds no other major issues with the methodology applied to Kentucky Power's cost-of-service study ("COSS"). If this cannot be confirmed, explain the issues the Attorney General finds with the COSS.

RESPONSE:

Dr. Dismukes did not perform an alternative COSS analysis in this proceeding and did not testify to the various cost allocation methods associated with Kentucky Power's COSS. Other than Dr. Dismukes' analysis and disagreement with the Company's proposed allocation of fixed costs in this proceeding, he takes no formal position on the Company's cost of service study in this proceeding. However, Dr. Dismukes recommends the Commission reject alternative revenue allocations proposed by KLC, KCUC, and Wal-Mart, as these proposals will detrimentally impact residential customers.

In particular, KLC witness Pollock's proposed revenue allocation allocates over 7 percent more of the revenue increase to the Residential class than the Company's recommended allocation of 57 percent. Mr. Pollock (as well as the KCUC and Wal-Mart witnesses) point to the residential class as being the only customer class having a relative rate of return (RROR) at present rates that is less than the system average, or a RROR that is less than 1.0.

It is not necessarily problematic or inequitable if a class RROR is less than 1.0. As noted in Dr. Dismukes' testimony, regulators often temper the revenue responsibilities assigned to various customer classes through five broad ratemaking policy goals.¹⁵ Allocating overall system-wide revenue deficiencies entirely on a full cost of service basis could result in very significant and adverse rate impacts. Indeed, the Kentucky Commission has noted, ". . . cost-of-service studies . . . provide a starting point in rate design. However, they are only one factor that the Commission will consider in designing rates. The Commission believes that other principles such as adequacy, efficiency, equity, and rate stability are equally important in designing rate structures."¹⁶ In the context of the current rate case, the fact that the residential class' RROR is less than 1.0 may simply be a function of short-term economic fluctuations, and not necessarily the result of some arbitrary or intentionally-designed

¹⁵ Dismukes direct testimony, p. 14.

¹⁶ Admin. Case 297, Order dated May 29, 1987, p. 42.

QUESTION No. 16

Page 2 of 3

inequity. Many of KPCo's residential customers are struggling financially,¹⁷ thus further increases at this time could detrimentally impact these working and low-income customers. Att. PSC 1-16a examines the revenue increases that KPCo's customer classes have experienced in recent years. As shown in this exhibit, the residential class has shouldered the burden of these rate increases having been allocated over 50% of the revenue increases awarded over the Company's last three rate cases. The remaining rate classes have experienced much lower increases ranging from less than one percent for the Municipal Waterworks and Street Lighting classes, to 16.8% for the Industrial General Service class. Additionally, the company's application states that one of the drivers behind its requested revenue increase is declining sales throughout its service territory. Att. PSC 1-16b shows that the residential class is responsible for only 23.3% of these lost sales (294 GWh), as opposed to the industrial class which is responsible for 70.5% of lost sales (892 GWh). Intervenors providing testimony regarding revenue allocation have thus failed to address the company's revenue shortfalls in any meaningful way.

KCUC witness Higgins has suggested changes to the allocation of production plant costs using either the Winter 3CP method or a Summer/Winter CP. However, these suggestions appear to only illustrate Mr. Higgins' proposed revenue distribution,¹⁸ which would allocate: (i) over 79% of KPCo's proposed revenue increase to the residential class; and (ii) reduce KPCo's proposed 8.54% allocation to the IGS class, to just 4.38%. In light of the substantial revenue increases that residential customer have experienced in recent years, as well as their economic hardships, the Commission should reject KCUC's recommended revenue allocation.

Wal-Mart witness Tillman proposes that if the Commission awards a revenue requirement less than the Company's full proposal, 50% of the reduction in the revenue increase should be applied to proportionately reduce the class rate of return on those classes with a RROR greater than 1.0 percent, with the remaining 50 percent of the reduction being used to proportionately reduce the increase to all classes.¹⁹ Wal-Mart's proposed allocation shifts a larger proportion of the revenue requirement to residential customers, and does not give any consideration to the substantial increases residential customers have experienced recently or the current financial struggles that some KPCo residential customers are experiencing. The Commission should reject Wal-Mart's revenue allocation proposal as it will detrimentally impact residential customers during an inopportune time.

¹⁷ Dismukes direct testimony, pp. 6:20 – 7:4; 10:4 – 11:5.

¹⁸ Direct Testimony of Kevin C. Higgins, 10:8-13.

¹⁹ Direct Testimony of Gregory W. Tillman, 18:8-12.

QUESTION No. 16
Page 3 of 3

The allocations that KLC, KCUC, and Wal-Mart propose would yield a major rate increase to residential customers over and above the increase KPCo proposes, particularly for working and lower-income families who are still feeling the effects of the economic downturn.²⁰

²⁰ See Direct Testimony of David E. Dismukes, pp 52 – 58.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 17 ²¹

Page 1 of 1

Refer to the Dismukes Testimony, pages 22-23. Confirm that although Dr. Bonbright questions the assignment of demand-related costs as fixed relative to the number of customers taking electrical service, he also states that most utilities use some form of minimum system to classify costs, and such practice is in line with the FERC accounts.

RESPONSE:

Dr. Dismukes agrees that a number of utilities have used a minimum system approach in order to support their arguments for increased fixed cost recovery through higher customer charges. Although the use of a minimum system approach is not an uncommon argument made by utilities, this does not mean that it is a common practice. Further, the simple fact that various utilities have utilized a minimum system approach does not mean that it is correct or the most appropriate method to allocate costs.

²¹ Note: Due to a formatting error in the Commission's data requests, the last clause of this data request was mistakenly numbered as question no. 18. The Attorney General has verified this error with Commission Staff.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 18 ²²

Page 1 of 1

Refer to the Dismukes Testimony, Exhibit DED-6.

- a. Explain why the study did not include any utilities from Indiana or Ohio in the comparison.
- b. Provide an update to this exhibit showing the date each of the companies listed were authorized to begin charging the rates shown.
- c. State whether any of the utilities shown in the comparison have formula rate cases.

RESPONSE:

- a. The customer charge study reflected in Exhibit DED-6 in Dr. Dismukes's direct testimony was to be representative of the customer charges of investor owned utilities operating in the Appalachian region with a primary focus on neighboring states in the South Atlantic and East South Central Regions.
- b. See attached, Attachment PSC 18(b).
- c. Yes, Dr. Dismukes is aware that Entergy Arkansas, Entergy Mississippi, and Alabama Power Company operate under formula rate plans.

²² Note: Due to a formatting error in the Commission's data requests, this question was mistakenly numbered as question no. 19.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 19²³

Page 1 of 1

Refer to the Dismukes Testimony, Exhibit DED-7.

- a. Provide a copy of the source document, the 2009 Residential Electricity Consumption Survey ("RECS").
- b. Given that the survey was performed eight years ago, explain whether the usages on this table would increase or decrease if the study were performed today.

RESPONSE:

- a. In an errata filing, the AG will note that exhibits DED-7, DED-8, and DED-9 include data from both the 2005 and 2009 RECS surveys. Survey text, codebooks, and microdata files for these surveys can be downloaded from the EIA website at <https://www.eia.gov/consumption/residential/data>.
- b. The EIA has yet to release consumption and expenditure data from the 2015 RECS. Electricity usage is dependent on a wide range of variables, and the AG is not aware of any other data sources responsive to this question.

²³ Note: Due to a formatting error in the Commission's data requests, this question was mistakenly numbered as question no. 20.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 20²⁴

Page 1 of 1

Refer to the Dismukes Testimony, Exhibit DED-8. Provide the percentage of income for incomes greater than \$120,000.

RESPONSE:

The percentages in DED-8 are calculated using the midpoint of each income interval as the denominator. Because the interval "> \$120,000" is unbounded, there is no midpoint, and a percentage of income spent on electricity cannot be calculated. However, the median electricity expenditure in the survey data used for this income level is \$1,729.50.

²⁴ Note: Due to a formatting error in the Commission's data requests, this question was mistakenly numbered as question no. 21.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 21 ²⁵

Page 1 of

Explain whether Mr. Dismukes believes that regardless of income, many customers in Kentucky Power's service territory rely on electricity as a primary means for heating, and thus, are above-average electric users.

RESPONSE:

The RECS survey data used to create exhibits DED-7, DED-8, and DED-9 show that of the respondents in the census division including Kentucky (Division 6 – East South Central), who do not run a business out of their home, and for whom an answer to the question was recorded, 480 of 902 observations record electricity as the primary space heating fuel, constituting a majority. Whether this fact makes those respondents “above-average electric users” is speculative.

²⁵ Note: Due to a formatting error in the Commission's data requests, this question was mistakenly numbered as question no. 22.

WITNESS/RESPONDENT RESPONSIBLE:

David E. Dismukes, Ph.D.

QUESTION No. 22 ²⁶

Page 1 of

Confirm whether the Attorney General performed its own COSS. If the Attorney General did perform his own COSS, provide a copy in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

RESPONSE:

The Attorney General assumes this question is directed to Dr. Dismukes. The Attorney General did not perform his own COSS. Dr. Dismukes did not perform an alternative CCOSS analysis in this proceeding.

²⁶ Note: Due to a formatting error in the Commission's data requests, this question was mistakenly numbered as question no. 23. The Attorney General has verified with Commission Staff that Staff has posed a total of 22 questions to the Attorney General.