

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

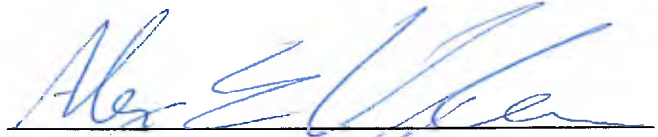
In the Matter of:

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)	Case No. 2017-00179
Riders; (4) An Order Approving Accounting)	
Practices To Establish Regulatory Assets Or)	
Liabilities; And (5) An Order Granting All Other)	
Required Approvals And Relief)	

**TESTIMONY OF
ALEX E. VAUGHAN
ON BEHALF OF KENTUCKY POWER COMPANY
IN SUPPORT OF PARTIAL REHEARING**

VERIFICATION

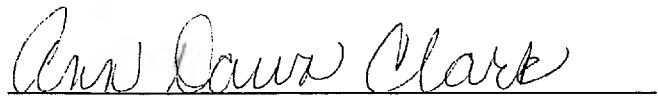
The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Manager, Regulatory Pricing and Analysis that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge and belief.



Alex E. Vaughan

STATE OF OHIO)
) Case No. 2017-00179
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Alex E. Vaughan, this the 7th day of February, 2018.



Notary Public



ANN DAWN CLARK
Notary Public, State of Ohio
My Commission Expires 12-03-2020

My Commission Expires: 12-03-2020

**SETTLEMENT TESTIMONY OF
ALEX E. VAUGHAN, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2017-00179

TABLE OF CONTENTS

I.	Introduction	1
II.	Calculation of Federal Tax Expense Savings.....	2

**SETTLEMENT TESTIMONY OF
ALEX E. VAUGHAN, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND POSITION WITH KENTUCKY POWER**
2 **COMPANY.**

3 A. My name is Alex E. Vaughan. I am Manager of Regulated Pricing and Analysis for
4 American Electric Power Service Corporation with direct responsibility for Kentucky
5 Power Company cost of service and rate design matters.

6 **Q. DID YOU FILE TESTIMONY IN THIS RATE PROCEEDING?**

7 A. Yes. I filed direct testimony, rebuttal testimony, and testimony in support of the
8 Settlement Agreement. I also appeared for cross-examination at the evidentiary hearing
9 in this case.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. In my testimony, I support the calculations of the impact of the Tax Cuts and Jobs Act on
12 the Company's adjusted test year federal income tax expense and revenue requirement
13 included in the Company's Motion of Partial Rehearing. This calculation is included as
14 Appendix 1 to the Company's Motion.

15 **Q. DID YOU PREPARE EXHIBIT 1 TO THE COMPANY'S MOTION?**

16 A. Yes.

1 **II. CALCULATION OF FEDERAL TAX EXPENSE SAVINGS**

2 **Q. HOW DID YOU CALCULATE THE EFFECT OF THE TAX CUTS AND JOBS**
3 **ACT ON THE COMPANY’S REVENUE REQUIREMENT?**

4 A. The Tax Cuts and Jobs Act reduced the marginal corporate federal income tax expense
5 from 35 percent to 21 percent. To determine the effect of the Tax Cuts and Jobs Act’s
6 corporate tax rate reduction on the Company’s revenue requirement, I performed a multi-
7 step calculation. First, I determined the adjusted test year federal income tax expense (at
8 35 percent) incorporating the terms and conditions of the Settlement Agreement to be
9 \$13,953,736. The adjusted test year federal income tax expense (at 35 percent)
10 contributed to the required net electric operating income increase in the Settlement
11 Agreement of \$19,339,091. I then multiplied the net electric operating income increase
12 by the gross revenue conversion factor of 1.64334 (reflecting the prior 35 percent
13 marginal tax rate) to produce the settlement revenue increase requirement of
14 \$31,780,734.

15 Next, I reduced the adjusted test year federal income tax expense to reflect the
16 new 21 percent income tax rate by multiplying the adjusted test year federal income tax
17 expense by 21/35. This resulted in an adjusted test year federal income tax expense (at
18 21 percent) of \$8,372,242, a reduction in adjusted test year federal income tax expense of
19 \$5,581,494.

20 I then reduced the amount of required net electric operating income increase by
21 the reduction in adjusted test year tax expense to arrive at a new amount of required net
22 electric operating income increase (based on the 21 percent income tax rate) of
23 \$13,757,597 (\$19,339,091 - \$5,581,494).

1 Finally, I multiplied the required net electric operating income increase (based on
2 the 21 percent income tax rate) of \$13,757,597 by the gross revenue conversion factor of
3 1.35212 (reflecting the new 21% marginal tax rate) to arrive at the updated settlement
4 revenue increase requirement of \$18,601,874.

5 **Q. DID THE COMMISSION ARRIVE AT THE SAME RESULT?**

6 A. No. In addition to attempting to account for the impact of the Tax Cuts and Jobs Act, the
7 Commission made cost of service adjustments totaling \$5,488,214 as identified in
8 Appendix F of the Rate Case Order. Applying these adjustments to the updated (at 21
9 percent) settlement revenue increase requirement of \$18,601,874 results in a Commission
10 adjusted revenue requirement increase of \$13,113,660. This is an increase of \$765,030
11 over the \$12,348,630 identified by the Commission in the Rate Case Order.

12 **Q. COULD THE COMPANY HAVE PERFORMED THIS ANALYSIS PRIOR TO**
13 **OR DURING THE EVIDENTIARY HEARING IN THIS CASE?**

14 A. No. The Tax Cuts and Jobs Act was signed into law by President Trump on December
15 22, 2017, two weeks following the close of the evidentiary hearing in this case and the
16 same day responses to post-hearing data requests were due.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.