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	)	Case No. 2017-00179

SUPPLEMENTAL DIRECT TESTIMONY OF

RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

SUPPLEMENTAL DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

CASE NO. 2017-00179

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**SUPPLEMENTAL DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory and Finance, Kentucky Power Company ("Kentucky Power" or "Company"). My business address is 855 Central Avenue, Suite 200, Ashland, Kentucky.

Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony on June 28, 2017 in support of the Company's application. I also sponsored responses to data requests that were filed July 12, 2017.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. This testimony updates my June 28, 2017 testimony to reflect the results of Kentucky Power's June 2017 refinancing of the Company's $325,000,000 6.00% Senior Unsecured Notes (September 15, 2017) and $65,000,000 WVEDA Mitchell Project, Series 2014A Variable Rate Demand Note (June 26, 2017) (together, the "June 2017 Financing Activity"). Kentucky Power was authorized by order of the Commission in Case No. 2016-00345 to refinance both debt issues.

I also identify those other filings, including adjustments that I sponsored, that the Company is updating to reflect the benefits that will be received by customers as a result of the June 2017 Financing Activity.

II. EFFECT OF THE JUNE 2017 FINANCING ACTIVITY ON THE COMPANY'S PROPOSED INCREASE IN ANNUAL REVENUES

Q. DID THE JUNE 2017 FINANCING ACTIVITY DESCRIBED BY COMPANY WITNESS MILLER IN HIS SUPPLEMENTAL TESTIMONY AFFECT THE REVENUE REQUIREMENT PROPOSED BY THE COMPANY?

A. Yes. The June 2017 Financing Activity is expected to produce interest savings and reduce Kentucky Power's annual revenue requirement by $8,133,797. The annual revenue requirement reduction will not be reflected in its entirety in base rates. Company Witness Vaughan describes how the interest savings are flowed through to customers in this case and through the normal operation of Decommissioning Rider, which is addressed outside this case. Company Witness Elliott describes the effect of the interest savings on the Company's proposed environmental surcharge revenues and the reduction of the environmental surcharge base revenue requirement.

Q. PLEASE DESCRIBE THE EFFECT OF THE JUNE 2017 FINANCING ACTIVITY ON THE COMPANY'S REQUESTED BASE RATE ADJUSTMENT.

A. Exclusive of the additional reductions in the revenues to be collected through the Decommissioning Rider and the Mitchell FGD portion of the Tariff E.S., the June

2017 Financing Activity reduced the Company's requested revenue increase from $69,575,936 to $63,313,785, or by $6,262,152.

Q. IN YOUR ORIGINAL TESTIMONY YOU INDICATED THAT KENTUCKY POWER ALSO WAS REQUESTING INCREASED HOME ENERGY ASSISTANCE PROGRAM ("HEAP") AND KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE FUNDING. DID THE JUNE 2017 FINANCING ACTIVITY AFFECT THE AMOUNTS BEING REQUESTED WITH RESPECT TO THOSE TWO PROGRAMS?

A. No.

Q. WAS THE METHODOLOGY YOU DESCRIBED IN YOUR JUNE 28, 2017 TESTIMONY USED TO DEVELOP THE UPDATED BASE CASE ANNUAL REVENUE REQUIREMENT?

A. Yes.

Q. WERE ANY OF THE ADJUSTMENTS YOU SPONSORED AFFECTED BY THE COMPANY'S JUNE 2017 FINANCING ACTIVITY?

A. Yes. Two of the adjustments I am sponsoring were affected. First, the effect of the financing with respect to the Interest Synchronization Adjustment (Section V, Exhibit 2, Adjustment W49) was to increase the adjustment from an increase to expenses of $4,031,619 to an increase to expenses of $6,449,828. Second, the AFUDC Offset Adjustment (Section V, Exhibit 2, Adjustment W50) was affected. As a result of the June 2017 Financing Activity, the AFUDC offset adjustment was decreased from $569,584 ($561,041 on a jurisdictional basis) to $438,386 ($431,810 on a jurisdictional basis). The Deferred Federal Income Tax adjustment associated with the borrowed funds portion of the AFUDC was decreased from $74,499 ($73,381 on a jurisdictional basis) to $28,627 ($28,197 on a jurisdictional basis). The supporting workpapers for these adjustments are being filed as a part of the Company's supplemental response to KPSC 1-73.

III. SUPPLEMENTATION OF FILINGS TO REFLECT THE EFFECT OF THE JUNE 2017 FINANCING ACTIVITY

Q. ARE ANY OTHER WITNESSES SUPPLEMENTING THEIR TESTIMONY?

A. Yes. Company Witnesses Elliott, Miller, and Vaughan are filing supplemental testimony related to the June 2017 Financing Activity.

Q. SECTION II OF THE COMPANY'S APPLICATION IDENTIFIES THE INFORMATION BEING FILED IN RESPONSE TO FILING REQUIREMENTS ESTABLISHED BY STATUTE OR REGULATION. IS ANY OF THE INFORMATION PROVIDED BY THE COMPANY IN RESPONSE TO THESE FILING REQUIREMENTS BEING UPDATED?

A. Yes. Kentucky Power is providing supplemental information in response to the following filing requirements:

- ♦ 807 KAR 5:001 Section 12(1);
- ♦ 807 KAR 5:001 Section 12(2)(e); and
- ♦ 807 KAR 5:001 Section 12(2)(f).

Q. IS KENTUCKY POWER SUPPLEMENTING ANY WORKPAPERS TO REFLECT THE JUNE 2017 FINANCING ACTIVITY?

A. Yes. Kentucky Power is supplementing its response to KPSC 1-73 to update the following workpapers:

a. KPCO_SR_KPSC_1_73_SupplementalAttachment2_Section_IV_page1.xslx

b. KPCO_SR_KPSC_1_73_SupplementalAttachment3_Section_VSchedules_TYE2-28-2017FINAL.xslx

c. KPCO_SR_KPSC_1_73_SupplementalAttachment68__IncomeTaxSchedules_TYE02-28-2017_Final.xslx

d. KPCO_SR_KPSC_1_73_SupplementalAttachment86_AEVWP16.xslx

e. KPCO_SR_KPSC_1_73_SupplementalAttachment87_FGD_Rev_Costs_Adjustments.xslx

f. KPCO_SR_KPSC_1_73_SupplementalAttachment94_W49and50.xslx

Q. IS KENTUCKY POWER SUPPLEMENTING ANY OTHER RESPONSES TO STAFF'S FIRST SET OF DATA REQUESTS OR OTHER FILINGS FOLLOWING THE JUNE 2017 FINANCING ACTIVITY?

A. Yes. The Company is supplementing its response to KPSC 1-4.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes.

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; And (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

SUPPLEMENTAL DIRECT TESTIMONY OF

ZACHARY C. MILLER

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Zachary C Miller, being duly sworn, deposes and says he is a Corporate Finance Analyst Principal for American Electric Power 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

Zachary C Miller

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 Zachary C Miller, this the 1st day of August 2017.

Notary Public

My Commission Expires:

NOTARIAL SEAL STATE OF OHIO

David C. House, Attorney At Law
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date
Sec. 147.03 R.C.

**SUPPLEMENTAL DIRECT TESTIMONY OF
ZACHARY C. MILLER ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2017-00179

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SUPPLEMENTAL DIRECT TESTIMONY OF
ZACHARY C. MILLER ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Zachary C. Miller. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am employed by American Electric Power Service Corporation ("AEPSC") as a Principal Corporate Finance Analyst.

Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in support of the Company's application. In addition, I sponsored responses to data requests.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. This testimony updates my June 28, 2017 testimony to reflect the results of Kentucky Power's June 2017 refinancing of the Company's $325 million 6.00% Senior Unsecured Notes (due September 15, 2017) and $65 million WVEDA Mitchell Project, Series 2014A Variable Rate Demand Notes (due June 26, 2017) (together, the "June 2017 Financing Activity"). Kentucky Power was authorized by order of the Commission in Case No. 2016-00345 to refinance both debt issues.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR SUPPLEMENTAL TESTIMONY?

A. Yes. I am sponsoring updates to the following Section V Workpapers.

- Section V Workpaper S-2 Page 1 – Cost of Capital
- Section V Workpaper S-3 Page 1 – Long-Term Debt

Q. WERE THE WORKPAPERS PREPARED BY YOU OR UNDER YOUR DIRECTION?

A. Yes.

II. <u>JUNE 2017 FINANCING ACTIVITY</u>

Q. PLEASE SUMMARIZE THE JUNE 2017 FINANCING ACTIVITIES COMPLETED BY KENTUCKY POWER COMPANY.

A. As authorized by the Commission's December 21, 2016 Order in Case No. 2016-00345, the Company refinanced $390 million of long-term debt. On June 19, 2017, Kentucky Power refinanced the $65 million WVEDA Mitchell Project, Series 2014A Variable Rate Demand Notes. On June 21, 2017 the Company priced $325 million private placement senior unsecured notes with funding scheduled for September 2017.

Q. PLEASE DISCUSS THE TERMS OF THE TWO NEW FINANCINGS.

A. Details of each transaction are described below:

<u>$65 million WVEDA Mitchell Project Series 2014A</u>

Kentucky Power refinanced the $65 million WVEDA Mitchell Project, Series 2014A Variable Rate Demand Notes. The Company entered into a three year, 2.00%, fixed rate agreement maturing in June 2020.

<u>$325 million Private Placement Senior Unsecured Notes</u>

The Company issued new permanent long-term private placement senior unsecured notes in the amount of $325 million across 7, 10, 12 and 30 year maturities at an all-in weighted average coupon of 3.49% and weighted average life of 13.8 years. The private placement transaction priced in June 2017 and was structured with four delayed draw tranches with scheduled funding in September 2017: $65 million Series F, $40 million Series G, $165 million Series H and $55 million Series I. The proceeds are dedicated to retiring the Company's $325 million 6.0% Senior Notes, Series E due September 2017.

Q. PLEASE EXPLAIN THE DIFFERENCE IN INTEREST RATE AND MODE WITH REGARDS TO THE REFINANCING OF THE POLLUTION CONTROL REVENUE BONDS.

A. Prior to the refinancing, the bonds were set at a weekly variable interest rate based on a Municipal Swap Index[1]. In addition, the bonds were backed with letter of credit support that required the Company to pay a 0.75% annual fee for the letter of credit and pay a 0.10% annual remarketing fee to market and sell the bonds in addition to interest coupon. Since the prior deal's inception, June 26, 2014, the Municipal Swap Index has risen from 0.06% to 0.87% at the time of refinancing. Considering the historic data and expected continued climb of municipal rates, the Company took advantage of fixed rate pricing for the next three years in order to create certainty and minimize future costs to the customer.

Q. PLEASE DESCRIBE THE TIMING BETWEEN THE PRICING AND FUNDING OF THE NEW PRIVATE PLACEMENT SENIOR NOTES.

A. Most importantly, Kentucky Power was able to reduce the all-in weighted average coupon from 6.00% to 3.49% on $325 million of debt. In addition, by using a private placement debt offering Kentucky Power gained the ability to delay

[1] The Securities Industry and Financial Markets Association Municipal Swap Index is a 7-day high-grade market index comprised of tax-exempt Variable Rate Demand Obligations (VRDOs) with certain characteristics. The Index is calculated and published by Bloomberg. The Index is overseen by SIFMA's Municipal Swap Index Committee

funding. Private placements contain a delayed draw feature that allows borrowers to have six-week to three-month settlement periods, or to have several closings. This can be advantageous for companies if they do not require funds immediately but have a future funding commitment (i.e. maturity). The feature also allows issuers to take advantage of strong periods of market demand and obtain lower benchmark treasury rates to reduce the overall interest coupon of the issuance. In the case of Kentucky Power, the Company priced the new $325 million private placement offering on June 21, 2017 and scheduled the funding to line up with the upcoming September 2017 $325 million maturity.

III. PROPOSED COST OF CAPITAL AND CAPITAL STRUCTURE

Q. PLEASE SUMMARIZE KENTUCKY POWER'S PROPOSED CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL FOLLOWING THE JUNE 2017 FINANCING ACTIVITY?

A. Based on the test year ended February 28, 2017, Kentucky Power's proposed capital structure and weighted average cost of capital is summarized in Supplemental Table 1 below.

Supplemental Table 1 Description	Reapportioned Kentucky Jurisdictional Capital	Percentage of Total	Annual Cost Percentage Rate	Weighted Average Cost Percent
Long Term Debt	$648,913,758	54.45%	4.36%	2.37%
Short Term Debt	0	0.00%	0.80%	0.00%
Accounts Receivable Financing	46,105,009	3.87%	1.95%	0.08%
Common Equity	496,766,726	41.68%	**10.31%**	4.30%
Total	$1,191,785,493	100.00%		**6.75%**

Q. WAS THE SAME METHODOLOGY USED TO DEVELOP THE PROPOSED CAPITAL STRUCTURE SHOWN IN SUPPLEMENTAL TABLE 1 AS WAS EMPLOYED IN DEVELOPING TABLE 1 OF YOUR PREFILED TESTIMONY?

A. Yes. Development of the proposed capital structure, as shown in Supplemental Table 1, begins with the per book balances for each category of capital as of the end of the test year, February 28th, 2017. The per book balances are then adjusted to account for known and measurable changes to the Company's capitalization. The capitalization adjustments are shown in Section V, Schedule 3 and detailed in the testimonies of Company Witnesses Wohnhas and Ross. The long-term debt cost component of the Company's capital structure has been adjusted to reflect the new interest rates of the refinanced $65 million WVEDA Mitchell Project, Series 2014A bonds and the new $325 million private placement senior unsecured notes.

Q. WHAT EFFECT DID THE JUNE 2017 FINANCING ACTIVITY HAVE ON KENTUCKY POWER'S WEIGHTED AVERAGE COST OF CAPITAL?

A. The Company’s weighted average cost of capital inclusive of the June financing activity adjustments is 6.75%, which is 53 basis points lower than the weighted average cost of capital debt of 7.28% initially filed in Case No. 2017-00179.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes.

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; And (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

SUPPLEMENTAL DIRECT TESTIMONY OF

ALEX E. VAUGHAN

ON BEHALF OF KENTUCKY POWER COMPANY

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 1 day of August 2017.

NOTARIAL SEAL
STATE OF OHIO

Princess M. Brown
Notary Public, State of Ohio
My Commission Expires 04-19-2020

Notary Public

Notary ID Number :

My Commission Expires: 4/19/2020

SUPPLEMENTAL DIRECT TESTIMONY OF
ALEX E. VAUGHAN ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

CASE NO. 2017-00179

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

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Alex E. Vaughan. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am employed by American Electric Power Service Corporation ("AEPSC") as Manager of Regulatory Pricing and Analysis.

Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in support of the Company's application. In addition, I sponsored responses to data requests.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. This testimony updates my June 28, 2017 testimony to reflect the results of Kentucky Power's June 2017 refinancing of the Company's $325,000,000 6.00% Senior Unsecured Notes (September 15, 2017) and $65,000,000 WVEDA Mitchell Project, Series 2014A Variable Rate Demand Note (June 26, 2017) (together, the "June 2017 Financing Activity"). In particular, my supplemental testimony explains the impact of the June 2017 Financing Activity on the annual revenue requirement proposed in this case, the calculation of the impact on the proposed revenue requirement, and which rate case adjustments were also impacted.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR SUPPLEMENTAL TESTIMONY?

A. Yes. I am sponsoring **EXHIBIT AEV-1S** – Financing Update Impact Summary.

Q. WAS EXHIBIT AEV-1S PREPARED BY YOU OR UNDER YOUR DIRECTION?

A. Yes.

II. JUNE 2017 FINANCING ACTIVITY – REVENUE REQUIREMENT IMPACT

Q. PLEASE SUMMARIZE THE IMPACT OF THE JUNE 2017 FINANCING ACTIVITY ON THE REQUESTED BASE RATE REVENUE INCREASE IN THIS CASE.

A. As discussed by Company Witness Miller, the June 2017 Financing Activity lowered the Company's cost of long term debt and subsequently the proposed weighted average cost of capital (WACC). The reduction of the proposed WACC, in turn, lowered the Company's required net electric operating income (line 3 of Section V, Schedule 2) and impacted six adjustments and the income tax expense associated with those adjustments. In total, the Company's proposed revenue increase decreased by $4.99 million and proposed annual revenues in this case decreased by $6.26 million.

Q. WHY DID THE REVENUE REQUIREMENT DECREASE BY $4.99 MILLION AS A RESULT OF THE JUNE 2017 FINANCING ACTIVITY?

A. The $4.99 million reduction in the requested base rate revenue increase is a result of the June 2017 Financing Activity lowering the Company's cost of debt and its attendant effect on base rate capitalization (non-environmental).

Q. PLEASE EXPLAIN WHY THE REVENUE REQUIREMENT DECREASE DOES NOT MATCH THE PROPOSED ANNUAL REVENUE DECREASE.

A. As explained by Company Witness Elliott, the lower WACC reduced the environmental base costs and as a result affected revenue adjustment W5. Revenue adjustment W5 synchronizes the amount of test year environmental base costs and environmental revenues. This in turn reduces both going level and proposed revenues by approximately $1.265 million. Because adjustment W5 reduces going level revenues, which is the starting point upon which the proposed revenue increase is added to calculate total proposed revenues, its impact is not captured in the $4.99 million reduction in the proposed revenue increase. However, the bottom line is that through the combination of changes to going level and proposed revenues, the June 2017 Financing Activity has reduced the proposed annual revenue requirement sought by the Company by $6.26 million. The $6.26 million total reduction to proposed revenues is the amount customers will benefit by in base rates when the Company's new base rates go into effect.

	Section V Schedule 1 As Filed	Section V Schedule 1 Refinance Update	Revenue Impact
Sales of Electricity - Col (3) Ln (1)	$ 500,400,208	$ 499,134,503	$ 1,265,705
Proposed Change - Col (4) Ln (1)	$ 65,393,885	$ 60,397,438	$ 4,996,447
Adj Sales of Electricity - Col (5) Ln (1)	$ 565,794,093	$ 559,531,941	$ 6,262,152

Q. ARE THERE ADDITIONAL CUSTOMER SAVINGS RESULTING FROM THE JUNE 2017 FINANCING ACTIVITY?

A. Yes. The June 2017 Financing Activity also produces interest expense savings related to the capital investments recovered exclusively through the Company's Environmental Surcharge (Mitchell plant FGD) and the Decommissioning Rider (formerly the Big Sandy Retirement Rider). Because the Company recovers these capital investments outside of base rates, the interest expense savings for those items are not included in the base rate case. Customers will still realize these savings; however, the savings will not be reflected in the base rate portion of customers' bills. These savings will be implemented at roughly the same time as the Company's proposed new base rates.

Q. PLEASE PROVIDE AN ESTIMATE OF THE ENVIRONMENTAL SURCHARGE AND DECOMMISSIONING RIDER SAVINGS.

A. The estimated reduction in interest expense associated with the Environmental Surcharge is approximately $1.06 million and the estimated reduction for the Decommissioning Rider is approximately $800 thousand. When combined with the reduction in annual revenue requirement, the total benefit to customers of the June 2017 Financing Activity is approximately $8.13 million. Supporting calculations for the estimated benefits of the June 2017 Financing Activity are included in **EXHIBIT AEV-1S** – Financing Update Impact Summary.

III. UPDATED ADJUSTMENTS W13, W14 AND W15

Q. WHICH OF THE ADJUSTMENTS THAT YOU SPONSOR IN THIS CASE CHANGED FOLLOWING THE JUNE 2017 FINANCING ACTIVITY?

A. Adjustments W13, W14 and W15, which are Adjust Firm Sales for Tariff Migration, Year End Number of Customers Annualization, and Adjust Firm Sales for Normal Weather, respectively, all changed as a result of the June 2017 Financing Activity. These revenue adjustments are all calculated in sequence after total test year firm sales revenues have been adjusted for the Environmental Surcharge revenue synchronization (adjustment W5). Because adjustment W5 changed as a result of the 2017 financing activity, these three revenue adjustments changed slightly. **<u>EXHIBIT AEV-1S</u>** – Refinancing Update Impact Summary includes a summary of the originally filed adjustment values, the updated values and Section V, schedule 5 references for each.

IV. <u>TARIFF CLASS IMPACTS</u>

Q. DID YOU CALCULATE THE IMPACT OF THE JUNE 2017 FINANCING ACTIVITY ON THE PROPOSED RATE INCREASES IN THIS CASE FOR THE VARIOUS TARIFF CLASSES?

A. Yes, **<u>EXHIBIT AEV-1S</u>** – Refinancing Update Impact Summary provides a summary of the proposed revenue impacts by tariff class.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes.

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; And (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

SUPPLEMENTAL DIRECT TESTIMONY OF

AMY J. ELLIOTT

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Amy J. Elliott, being duly sworn, deposes and says she is a Regulatory Consultant Principal for Kentucky Power Company, that she has personal knowledge of the matters set forth in the forgoing testimony and that the information contained therein is true and correct to the best of her information, knowledge, and belief

Amy J. Elliott
Amy J. Elliott

COMMONWEALTH OF KENTUCKY	)	
	)	Case No. 2017-00179
COUNTY OF FRANKLIN	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Amy J. Elliott, this 3rd day of August 2017.

Judy K Rasquist
Notary Public

Notary ID Number: 571144

My Commission Expires: January 23, 2021

**SUPPLEMENTAL DIRECT TESTIMONY OF
AMY J. ELLIOTT ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2017-00179

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SUPPLEMENTAL DIRECT TESTIMONY OF
AMY J. ELLIOTT ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Amy J. Elliott, and I am a Regulatory Consultant for Kentucky Power Company ("Kentucky Power" or the "Company"). My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40601.

Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in support of the Company's application.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. This testimony updates my June 28, 2017 testimony to reflect the impact on the Environmental Surcharge base revenue requirement and adjustments as a result of Kentucky Power's June 2017 refinancing of the Company's $325 million 6.00% Senior Unsecured Notes (due September 15, 2017) and $65 million WVEDA Mitchell Project, Series 2014A Variable Rate Demand Notes (due June 26, 2017) (together, the "June 2017 Financing Activity"). The June 2017 Financing Activity is discussed in the supplemental testimony of Company witness Miller.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR SUPPLEMENTAL TESTIMONY?

A. Yes. I am sponsoring **EXHIBIT AJE-1S** – Base Revenue Requirement.

II. EFFECT OF REDUCED WEIGHTED AVERAGE COST OF CAPITAL ON THE COMPANY'S ENVIRONMENTAL SURCHARGE CALCULATION

Q. PLEASE DESCRIBE THE EFFECT OF KENTUCKY POWER'S JUNE 2017 FINANCING ACTIVITY ON THE ENVIRONMENTAL SURCHARGE.

A. The Environmental Surcharge is calculated using the most recently approved weighted average cost of capital ("WAAC") to determine the return component for the Company's environmental projects. The Company's June 2017 Financing Activity lowered its cost of debt, and as explained by Company Witness Miller in his supplemental testimony, lowered its WAAC by 53 basis points from 7.28% to 6.75%. Upon Commission approval, Kentucky Power will be able to include this lower weighted average cost of capital in the Environmental Surcharge calculation.

Q. PLEASE DESCRIBE THE CALCULATIONS THAT WERE PERFORMED TO DETERMINE THE IMPACT ON THE ENVIRONMENTAL SURCHARGE.

A. The reduced WACC affects two parts of the Company's environmental surcharge calculation. First, the Company recalculated its base revenue requirement. This calculation is demonstrated in KPCO_SR_KPSC_1_73_Attachment87_FGD_Rev_Costs_Adjustment.xls.

Second, the Company calculated the interest savings associated with that portion of the environmental surcharge designed to recover approved environmental costs exclusively through the environmental surcharge (the Mitchell FGD and associated consumables).

Q. WHAT IS THE OVERALL REDUCTION IN THE MONTHLY BASE REVENUE REQUIREMENT AMOUNTS TO BE INCLUDED IN TARIFF ES?

A. The base revenue requirement included in Tariff ES as filed with the application totaled $50,226,547. The newly calculated base revenue requirement, as demonstrated in **EXHIBIT AJE-1S** and calculated using the 6.75% WACC described above was reduced by $1,352,342 to $48,874,205.

Q. PLEASE RECONCILE THIS $1.352 MILLION REDUCTION IN THE ENVIRONMENTAL BASE REVENUE REQUIREMENT WITH THE $1.265 MILLION IMPACT DESCRIBED IN THE SUPPLEMENTAL TESTIMONY OF COMPANY WITNESS VAUGHAN.

A. The $1.265 million amount described by Company Witness Vaughan represents only the retail portion of the reduction of the environmental surcharge base revenue requirement. Because the allocation between retail and other customers is performed after the comparison of the current month revenue requirement and the base revenue requirement in each month's calculation of the Environmental Surcharge, the base revenue requirement included in Tariff E.S. reflects the total environmental cost and not just the retail allocation.

Q. PLEASE DESCRIBE HOW THE DECREASE IN THE WACC AFFECTS ADJUSTMENT W5.

A. Adjustment W5, among other things, synchronizes test year revenues with the base revenue requirement. As shown on Section V, Schedule 2, W5, the net effect of the reduced WACC resulting from the refinancing is to reduce the Company's total proposed revenues in this case by an additional $1,265,926.

III. <u>EFFECT OF THE JUNE 2017 REFINANCING ACTIVITY ON MITCHELL FGD COSTS</u>

Q. WHAT WAS THE EFFECT OF THE JUNE 2017 REFINANCING ON THE MITCHELL FGD AND RELATED COSTS THAT ARE RECOVERED EXCLUSIVELY THROUGH THE ENVIRONMENTAL SURCHARGE?

A. The expected reduction in interest expense for the Mitchell FGD-related costs is approximately $1,069,600. Please refer to Schedule 3 of Company Witness Vaughan's **<u>EXHIBIT AEV-1S</u>** for the calculation.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes.

Kentucky Power Company
Environmental Surcharge Base Revenue Requirement Calculation
To Be Included in Tariff ES

		As-Filed Base Revenue Requirement Calculation				As-Revised for updated WACC Base Revenue Requirement Calculation			
Ln No	Month / Year	Mitchell Non-FGD Costs	Kentucky Power's share of Rockport Environmental Costs	Gains on Sale of Allowances	Adjusted Environmental Base	Mitchell Non-FGD Costs	Kentucky Power's share of Rockport Environmental Costs	Gains on Sale of Allowances	Adjusted Environmental Base
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	March 2016	$3,477,986	$ 514,231	$ 134,076	$3,858,141	$ 3,361,616	$ 514,231	$ 134,076	$3,741,771
2	April 2016	$3,413,744	$ 751,107	$ -	$4,164,851	$ 3,297,824	$ 751,107	$ -	$4,048,931
3	May 2016	$3,344,436	$ 749,547	$ -	$4,093,983	$ 3,228,866	$ 749,547	$ -	$3,978,413
4	June 2016	$3,421,619	$ 901,719	$ -	$4,323,338	$ 3,306,718	$ 901,719	$ -	$4,208,437
5	July 2016	$3,460,296	$ 902,730	$ 119,500	$4,243,526	$ 3,345,371	$ 902,730	$ 119,500	$4,128,600
6	August 2016	$3,492,141	$ 890,223	$ -	$4,382,364	$ 3,377,728	$ 890,223	$ -	$4,267,952
7	September 2016	$3,370,617	$ 761,093	$ 13,073	$4,118,637	$ 3,258,938	$ 761,093	$ 13,073	$4,006,958
8	October 2016	$3,465,379	$ 838,038	$ -	$4,303,417	$ 3,354,575	$ 838,038	$ -	$4,192,612
9	November 2016	$3,339,166	$ 853,952	$ -	$4,193,118	$ 3,229,078	$ 853,952	$ -	$4,083,031
10	December 2016	$3,426,802	$ 934,402	$ 5,100	$4,356,104	$ 3,317,288	$ 934,402	$ 5,100	$4,246,589
11	January 2017	$3,288,715	$ 848,223	$ -	$4,136,938	$ 3,179,486	$ 848,223	$ -	$4,027,709
12	February 2017	$3,237,579	$ 814,551	$ -	$4,052,130	$ 3,128,650	$ 814,551	$ -	$3,943,201
13	**Total**	**$40,738,480**	**$9,759,816**	**$271,749**	**$50,226,547**	**$39,386,138**	**$9,759,816**	**$271,749**	**$48,874,205**