

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

In The Matter Of:

Electronic Application Of Kentucky Power)
Company For Approval Of A Contract For)
Electric Service With Air Product And)
Chemicals, Inc.)
Case No. 2020-00019

DIRECT TESTIMONY OF

BRIAN K. WEST

ON BEHALF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

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

A. My name is Brian K. West. My position is Director of Regulatory Services, Kentucky Power Company (“Kentucky Power” or the “Company”). My business address is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received an Associate’s degree in Applied Science (Electronics Technology) and a Bachelor’s degree in Business Management, both from Ohio University, in 1987 and 1988, respectively. I obtained a Master of Business Administration degree from Ohio Dominican University in 2008.

I began my utility industry career when I joined Ohio Power Company as a customer services assistant in Portsmouth, Ohio in 1989. This was a supervisor-in-training position, where I worked in each area of the office (*e.g.*, cashiering, new service, and credit and collections) to gain knowledge and experience with every aspect of managing an area office. After completing the training program, I initially supervised meter readers in the Portsmouth office until being promoted to office supervisor in 1993. In 1997, when the area offices were closed, I transferred to Chillicothe, Ohio and accepted the position of customer services field supervisor, with responsibility for managing customer field representatives who primarily worked with customers on high-bill and other inquiries.

1 In 2000, after American Electric Power Company (“AEP”) merged with Central
2 and South West Corporation (“CSW”), I moved to Columbus, Ohio, where I held various
3 positions in Customer Operations, mostly in process improvement and supporting
4 regulatory filings. In 2008, I transferred to AEP’s Regulatory Services department,
5 where I supported various filings before public service commissions in Arkansas,
6 Indiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia, as
7 well as the Public Service Commission of Kentucky (“Commission”).

8 In 2010, I was promoted to regulatory case manager, with responsibility for
9 energy efficiency/demand response filings, integrated resource plan filings, and various
10 renewable filings across AEP’s service territory. In 2016, I moved to a case manager role
11 with primary responsibility for most Appalachian Power Company filings before the
12 Public Service Commission of West Virginia, the Virginia State Corporation
13 Commission, and the Tennessee Public Utility Commission. I assumed my current
14 position as Director of Regulatory Services for Kentucky Power in February 2019.

15 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF REGULATORY**
16 **SERVICES FOR KENTUCKY POWER?**

17 A. I am responsible for the supervision and direction of Kentucky Power’s Regulatory
18 Services Department, which has responsibility for all rate and regulatory matters
19 involving the Company.

20 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY**
21 **PROCEEDINGS?**

22 A. Yes. I have submitted testimony in Case No. 2019-00140 on behalf of the Company in
23 support of its monthly environmental surcharge filings during the six-month review

1 period July 1, 2018 through December 31, 2018. I also submitted testimony in Case No.
2 2019-00245 in support of certain changes to the Home Energy Assistance in Reduced
3 Temperatures and Temporary Hearing Assistance in Winter programs.

4 II. PURPOSE OF TESTIMONY

5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

6 A. I am testifying in support of Kentucky Power’s application for approval of the Special
7 Contract between the Company and Air Products and Chemicals, Inc. (“Air Products” or
8 the “Customer”) for Air Products’ facility located in Ashland, Kentucky. My testimony
9 explains why the Special Contract is necessary to support economic stability and
10 development in the Company’s service territory; it further demonstrates that the Special
11 Contract will provide benefits to the Company’s other customers and the Commonwealth,
12 in addition to enabling Air Products to continue to operate its Ashland facility. I also
13 provide an overview of some of the details of the Special Contract and support the
14 Company’s request for confidential treatment of certain limited aspects of its Application
15 in this proceeding and the Special Contract.

16 III. ECONOMIC SITUATION IN THE COMPANY’S SERVICE TERRITORY

17 Q. PLEASE DESCRIBE THE ECONOMIC HEALTH OF THE COMPANY’S 18 SERVICE TERRITORY.

19 A. The Company’s service territory is located in eastern Kentucky. This area has been
20 heavily impacted by the decline of the coal industry across the country and in the
21 Commonwealth, as well as the decline of large industrial operations in Kentucky Power’s
22 service territory. The large industrial operations in Kentucky Power’s service territory
23 that have reduced or shuttered their operations include the AK Steel Ashland facility,
24 which resulted in the loss of 260 jobs. As recently as last month, Ashland-based Our

1 Lady of Bellefonte Hospital announced that it will be closing no later than September
2 2020, resulting in the loss of an additional approximately 1,000 area jobs. Kentucky
3 Power's customers and companies with operations in the Company's service territory
4 face unique and difficult challenges as a result of the economic environment in the area.

5 **Q. PLEASE DESCRIBE THE AIR PRODUCTS FACILITY, ALONG WITH ITS**
6 **OPERATIONS, THAT ARE THE SUBJECT OF THE PROPOSED SPECIAL**
7 **CONTRACT.**

8 A. Air Products' facility is located at 125 Russell Road in Ashland and has a maximum
9 contract capacity of 26,900 kW. It is Kentucky Power's understanding that the facility
10 produces industrial gases, specifically oxygen and nitrogen, through the process of air
11 separation. Historically, more than 60% of the gases Air Products produced were
12 pipelined directly to the adjacent, recently closed AK Steel facility. Kentucky Power has
13 provided retail electric service to Air Products' Ashland facility since 1963.

14 **Q. IS THE COMPANY AWARE OF ANY SPECIFIC CIRCUMSTANCES THAT**
15 **HAVE NEGATIVELY IMPACTED AIR PRODUCTS' OPERATION IN**
16 **ASHLAND, KENTUCKY?**

17 A. Air Products has informed the Company that it is facing economic hardship as a result of
18 the closure of the AK Steel mill in Ashland. Air Products' Ashland facility was
19 originally built to supply industrial gas via pipeline to the AK Steel facility for use in AK
20 Steel's blast furnace and finishing process. Air Products has advised Kentucky Power
21 that the closure of the AK Steel mill results in increased marginal cost for its Ashland
22 facility due to contracting economies of scale as Air Products produces less product. It is
23 the Company's understanding that without a change to Air Products' current business

1 model, Air Products will be unable to continue operating its Ashland facility. Losing Air
2 Products as a customer of Kentucky Power would further exacerbate the already
3 challenging economic situation in eastern Kentucky and have negative impacts on the
4 Company's other customers. The closure of Air Products' Ashland facility would be
5 both detrimental to the Company's other customers who are employed by the facility and
6 would also require all of the Company's remaining customers to assume that portion of
7 the Company's cost of service that currently is being supported by Air Products. As
8 such, the Company negotiated the terms of the Special Contract to provide Air Products
9 with the flexibility it needs to continue its operation and to help stabilize the economy in
10 the Company's service territory.

11 **Q. IS IT THE COMPANY'S UNDERSTANDING THAT THE SPECIAL**
12 **CONTRACT WILL HELP ADDRESS THE ECONOMIC HARDSHIP THAT AIR**
13 **PRODUCTS IS CURRENTLY FACING?**

14 A. Yes, it is the Company's understanding that the Special Contract sets rates that will
15 enable Air Products to make the necessary changes to its current operations that will
16 enable Air Products to continue operating its Ashland facility.

17 **IV. SPECIAL CONTRACT OVERVIEW**

18 **Q. PLEASE DESCRIBE THE SPECIAL CONTRACT.**

19 A. The Special Contract sets Air Product's Total Capacity Reservation at 26,900 kW; 8,400
20 kW of capacity reservation is designated as interruptible capacity. Should the Company
21 call a curtailment of the interruptible capacity, Air Products may choose not to interrupt,
22 or may partially interrupt, and incur an agreed-upon per kilowatt-hour (kWh) Buy-
23 Through charge for all usage above the 18,500 kW Firm Service Capacity Reservation.
24 Conversely, should Air Products interrupt more than the designated 8,400 kW of

1 interruptible capacity, Air Products will receive an agreed upon credit, as set forth in
2 Article 4.5 of the Special Contract.

3 **Q. DOES THE SPECIAL CONTRACT ALSO INCLUDE AN ENERGY RATE**
4 **DIFFERENT THAN THOSE CONTAINED IN THE TARIFFS UNDER WHICH**
5 **AIR PRODUCTS CURRENTLY TAKES SERVICE?**

6 A. Yes. The Special Contract provides for an energy rate that escalates annually after year
7 two of the agreement over the seven-year contract period. Table 1 of Article 5.1(B) of the
8 Special Contract sets forth the per-kWh rate applicable to Air Products' energy usage
9 during each year of the Special Contract. As set forth in Article 5.3 of the Special
10 Contract, Air Products' monthly bill will be equal to the sum of the Monthly Energy
11 Charge, the Tariff IGS customer charge, any applicable Buy-Through charges, and any
12 applicable fees, less any compensation for any additional interruptible load.

13 **Q. HOW IS THE MONTHLY ENERGY CHARGE CALCULATED?**

14 A. The Monthly Energy Charge is the product of Air Products' monthly kWh usage and the
15 applicable special energy rate contained in Table 1 of Article 5.1(B).

16 **Q. IS THE MONTHLY ENERGY CHARGE SUBJECT TO MODIFICATION**
17 **DURING THE TERM OF THE SPECIAL CONTRACT?**

18 A. Yes. As set forth in Article 6.5 of the Special Contract, if the Company's Average
19 Annual Fuel Rate exceeds 75 percent of the Monthly Energy Charge, the Monthly Energy
20 Charge may be revised by mutual agreement of the Parties or, if the parties cannot reach
21 such an agreement, by the Commission through a proceeding initiated by the Company.

1 **Q. IS AIR PRODUCTS LIMITED TO TAKING SERVICE UNDER THE TERMS OF**
2 **THE SPECIAL CONTRACT FOR THE ENTIRE TERM?**

3 A. No. Although, the Company expects Air Products to take service at the rates set out in the
4 Special Contract for the entire term of the Special Contract, should Air Products wish to
5 take service under the Company's standard tariff, the Company will transition Air
6 Products to the applicable tariff. Additionally, should any generally available tariff for
7 interruptible service comparable to the service provided under the Special Contract be
8 approved by the Commission, the Parties may agree to transition Air Products' service to
9 such tariff and modify this Special Contract accordingly.

10 **Q. WHAT ARE THE EFFECTIVE DATE AND TERM OF THE SPECIAL**
11 **CONTRACT?**

12 A. The Special Contract becomes effective on the first day of the first billing month
13 following the approval of this Contract by the Commission and has a seven-year term
14 beginning with the effective date. The Special Contract will not become effective
15 without the Commission's approval.

16 **Q. DOES THE SPECIAL CONTRACT ADDRESS WHAT WILL OCCUR AT THE**
17 **END OF ITS TERM?**

18 A. Yes. Article 6.3 requires that, in not later than year six of the Special Contract's term, the
19 Parties begin negotiating a contract extension or a new contract for service.

20 **Q. IS THE SPECIAL CONTRACT'S PRICING STRUCTURE REASONABLE?**

21 A. Yes, it is. As shown in Exhibit 3 to the Application, the escalating energy rate covers the
22 variable cost of serving Air Products and increases Air Products' contribution towards the
23 Company's fixed cost of service compared to its current contribution. As such, the

1 Special Contract provides benefits to Air Products, the Company’s other customers, the
2 Commonwealth, and the Company.

3 **V. CONFIDENTIAL TREATMENT**

4 **Q. IS KENTUCKY POWER SEEKING CONFIDENTIAL TREATMENT OF THE**
5 **SPECIAL CONTRACT’S RATE-RELATED PROVISIONS AND EXHIBIT 3 TO**
6 **THE APPLICATION?**

7 A. Yes. Kentucky Power is seeking confidential treatment for: (a) the Special Contract
8 rates shown in Table 1 of Article 5.1(B); (b) the Confidential Bill Illustration Addendum
9 to the Special Contract; and (c) Exhibit 3 to the Application (collectively the
10 “Confidential Rate Information”). Each of the portions of the Company’s filing
11 designated as Confidential Rate Information either constitutes or reflects the Special
12 Contract rates.

13 **Q. PLEASE DESCRIBE THE UNFAIR COMPETITIVE INJURY TO KENTUCKY**
14 **POWER IF THE CONFIDENTIAL RATE INFORMATION IS MADE PUBLIC.**

15 A. Making the rates public would establish a ceiling for future rates negotiated with
16 industrial and large commercial enterprises looking to locate in Kentucky Power’s
17 service territory, or for existing customers asking to establish new rates through special
18 contracts. Common sense and experience teach that future prospects will demand rates
19 that meet or are less than the Air Products rates. Kentucky Power might be faced with
20 meeting or beating the rates in the Special Contract or risk losing the prospective new
21 business. In addition, existing customers also could seek similar rates with respect to
22 both existing and any expanded load. This means that the Confidential Rate Information
23 cannot be disclosed to existing customers or to the more general public.

1 **Q. DOES EXHIBIT 3 TO THE APPLICATION REFLECT THE SPECIAL**
2 **CONTRACT RATES?**

3 A. Yes. The exhibit also reflects the confidential strategy Kentucky Power used to negotiate
4 the Special Contract and design its rates. The disclosure of such information would
5 jeopardize the Company's ability to negotiate future special contracts.

6 **Q. WOULD MAKING THE CONFIDENTIAL RATE INFORMATION PUBLIC,**
7 **INCLUDING TO COMPETITORS AND CUSTOMERS OF AIR PRODUCTS,**
8 **RESULT IN UNFAIR COMPETITIVE INJURY TO AIR PRODUCTS?**

9 A. Yes. The affidavit of Kirk T. Massa, Air Products Energy Manager, North Region,
10 which Kentucky Power submitted with its motion for confidential treatment in this case,
11 indicates that Air Products also would suffer unfair competitive injury if the Confidential
12 Rate Information were made public.

13 **Q. DOES KENTUCKY POWER TAKE ALL REASONABLE STEPS TO PROTECT**
14 **THE CONFIDENTIAL RATE INFORMATION FROM PUBLIC DISCLOSURE?**

15 A. Yes. Dissemination of the Confidential Rate Information is restricted by Kentucky
16 Power, its parent, AEP, and American Electric Power Service Corporation ("AEPSC").
17 The Company, AEP, and AEPSC take all reasonable measures to prevent its disclosure to
18 the public as well as to persons within the Company and third-party vendors who do
19 not have a need for the information. Within those organizations, the information is
20 available only upon a confidential need-to-know basis that does not extend beyond those
21 employees with a legitimate business need to know and act upon the identified
22 information. In addition, Confidential Exhibit 3 was not provided to Air Products.

1 Mr. Massa's affidavit reflects that Air Products also maintains the Confidential
2 Rate Information as confidential and protects it from disclosure.

3 **Q. IS THE CONFIDENTIAL RATE INFORMATION OTHERWISE AVAILABLE**
4 **TO COMPETITORS AND CUSTOMERS OF KENTUCKY POWER AND AIR**
5 **PRODUCTS?**

6 A. No, the information is not publicly available. Nor can it be reasonably discerned through
7 lawful means.

8 **Q. FOR WHAT PERIOD IS KENTUCKY POWER SEEKING CONFIDENTIAL**
9 **TREATMENT OF THE CONFIDENTIAL RATE INFORMATION?**

10 A. Kentucky Power requests the Confidential Rate Information be kept confidential for the
11 term of the Special Contract.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes, it does.

