

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

The Matter Of:

Electronic Application Of Kentucky Power)	
Company For An Order Approving Accounting)	
Practices To Establish A Regulatory Asset)	
Related To The Extraordinary Expenses)	Case No. 2020-00034
Incurred By Kentucky Power Company)	
In Connection With Charges Related To)	
GreenHat Energy, LLC Default)	

Application

Kentucky Power Company applies to the Commission pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 for an Order permitting Kentucky Power to accumulate and defer for review and recovery in its next base rate proceeding those extraordinary expenses incurred by Kentucky Power in connection with PJM Billing Line Item 1999A as a result of the GreenHat Energy, LLC default . Kentucky Power states:

Applicant

1. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919.¹ The post office address of Kentucky Power is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101. Kentucky Power is engaged in the generation, purchase, transmission, distribution, and sale of electric power. Kentucky Power serves approximately 165,300 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan. Kentucky Power

¹ A certified copy of Kentucky Power’s Articles of Incorporation and all amendments thereto was attached to the Joint Application in Case No. 99-149 as Exhibit 1. The Company’s January 16, 2020 Certificate of Existence is attached as **Exhibit 1**.

also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010.

2. Kentucky Power is a wholly-owned subsidiary of American Electric Power Company, Inc. (“AEP”).

The Default of GreenHat Energy, LLC

3. Kentucky Power is a member of PJM Interconnection, LLC (“PJM”).

4. GreenHat Energy, LLC (“GreenHat”) became a member of PJM in September 2014. GreenHat initially transacted almost exclusively in the Long Term auctions at PJM. Between 2014 and 2020 GreenHat systematically amassed a large portfolio of FTRs for the 2018/2019, 2019/2020, and 2020/2021 Planning Periods.

5. GreenHat on June 21, 2018 defaulted on its obligations in the PJM Financial Transmission Rights (“FTR”) auction market. PJM thereafter initiated procedures to close out and liquidate GreenHat’s FTR portfolio in accordance with PJM’s then-effective tariff.

6. PJM undertook an auction of GreenHat’s FTR portfolio as part of the liquidation process. Following the July 2018 auction, PJM announced that the liquidation of GreenHat’s FTR portfolio in the manner required by the tariff would result in significant losses.

7. In connection with PJM’s liquidation protocol following GreenHat’s default the net losses on GreenHat’s positions were allocated to PJM members, including Kentucky Power, in accordance with the default allocation assessment provisions of section 15.2 of the PJM Operating Agreement.

8. The GreenHat default charges were billed monthly to Kentucky Power through PJM billing line item 1999A. Beginning in August 2018, Kentucky Power began booking GreenHat default charges as allocated to Kentucky Power from PJM.

9. The GreenHat default charges allocated to Kentucky Power through December 2019 totaled \$268,517. Of these charges the amount of \$230,567 is associated with sales to the Company's customers and the balance of \$37,950 is associated with off-system sales margins. Kentucky Power estimates the total GreenHat default charges to be allocated to the Company will be \$335,261 and that \$47,383 of this amount will be associated with off-system sales margins.

The Commission's Review Of The Appropriateness of Recovery Of The GreenHat Default Charges Through The Company's Fuel Adjustment Clause (Tariff F.A.C.)

10. Kentucky Power's Commission-approved fuel adjustment clause tariff identifies fuel costs recoverable through the Company's fuel adjustment clause to include "fuel-related costs charged to the Company by PJM Interconnection LLC including but not limited those costs identified in the following Billing Line Items, as may be amended from time to time by PJM Interconnection LLC..."² Among the listed PJM billing line items are FTR market charges (PJM BLI 1500) and credits (PJM BLI 2500).

11. The Commission on February 11, 2019 established Case No. 2019-00002 to review the operation of Kentucky Power's FAC for the period from November 1, 2016 through October 31, 2018 and to determine the amount of fuel costs that should be included in its base rates.

12. Kentucky Power understood that the fuel-related portion of the GreenHat default charges allocated to Kentucky Power through PJM billing line item 1999A, like the other FTR market charges and credits enumerated in the Company's tariff, would be properly recoverable through Kentucky Power's fuel adjustment clause.

² Kentucky Power Company Tariff F.A.C., Section Rate 3(e) (Tariff Sheet 5-1).

13. The Commission concluded otherwise and held that “Kentucky Power should not pass through the costs of the GreenHat default under Billing Line Item 1999 as the Item Code is not listed in the FAC tariff for acceptable fuel-related costs charged to the Company by PJM.”³

The Amount to Be Accumulated and Deferred

14. Kentucky Power seeks authority to accumulate and defer for consideration in its next base rate proceeding those GreenHat default charges allocated to Kentucky Power by PJM beginning July 2018 through the anticipated liquidation of the GreenHat portfolio in June 2021.

15. Subject to Commission approval in this case, Kentucky Power recorded a regulatory deferral in FERC account 1823571 and an offsetting provision in FERC account 1823000 in December 2019 business for GreenHat default charges allocated to the Company by PJM.

Basis for the Requested Accounting Treatment

16. Financial Accounting Standards Board Accounting Standards Codification 980-340-25-1 (“FASB ASC 980-340-25-1”) provides for the creation under prescribed circumstances of a regulatory asset. FASB ASC 980-340-25-1 states:

Rate actions of a regulator can provide reasonable assurance of the existence of an asset. ***An enterprise shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:***

- a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from the inclusion of that cost in the allowable costs for ratemaking purposes.
- b. Based on the available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator’s intent clearly be to permit recovery of the previously incurred cost. A cost that does not meet these asset recognition criteria at the date

³ Order, *In the Matter of: Electronic Examination Of The Fuel Adjustment Clause Of Kentucky Power Company From November 1, 2016 Through October 31, 2018*, Case No. 201-00002 at 4 (Ky. P.S.C. December 26, 2019).

the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.⁴

17. Traditionally, the Commission has exercised its discretion to approve a regulatory asset upon demonstration that the expenses to be deferred fall into one of four categories:

(1) an extraordinary nonrecurring expenses which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary nonrecurring expense that over time will result in a savings that fully offsets the costs.⁵

18. The GreenHat default charges are nonrecurring and extraordinary in their causes, scope, and amount. Moreover, the Company had a reasonable and good faith basis for its conclusion that the GreenHat default charges were recoverable through Kentucky Power's fuel adjustment clause and system sales clause.

19. In accordance with FASB ASC 980-340-25-1 and Commission precedent, Kentucky Power requests that the Commission exercise its authority under KRS 278.220 to prescribe the manner in which the Company keeps its accounts by entering an order permitting Kentucky Power to accumulate and defer for review and recovery in its next base rate proceeding its extraordinary and nonrecurring expenses related to the GreenHat default.

Exhibits and Testimony

20. The following exhibits and testimony are incorporated in this application:

- (a) The Company's January 16, 2020 Certificate of Existence [**EXHIBIT 1**];
- (b) The Direct Testimony of Ranie K. Wohnhas [**EXHIBIT 2**].

⁴ (emphasis supplied).

⁵ *In The Matter Of: The Application of East Kentucky Power Cooperative, Inc. For An Order Approving Accounting Practices To Establish A Regulatory Asset Related To Certain Replacement Power Costs Resulting From Generation Forced Outages*, Case No. 2008-00436 at 4 (Ky. P.S.C. December 23, 2012).

Wherefore Kentucky Power Company respectfully requests the Commission enter an Order:

1. Authorizing Kentucky Power Company in accordance with FASB ASC 980-340-25-1 and Commission precedent to accumulate and defer for review and recovery in the Company's next base rate proceeding its extraordinary and nonrecurring expenses related to the GreenHat default;
2. Authorizing Kentucky Power to record the deferred amount as a regulatory asset to be recorded in FERC Account No. 182; and
3. Granting Kentucky Power all additional relief to which it may be entitled.

This 14th day of February, 2020.

Respectfully submitted,



Mark R. Overstreet
STITES & HARBISON, PLLC
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634
Telephone: (502) 223-3477
Facsimile: (502) 779-8349
moverstreet@stites.com

John W. Pollom
STITES & HARBISON, PLLC
250 W. Main Street
Suite 2300
Lexington, Kentucky 40507
Telephone: (859) 226-2300
Facsimile: (859) 253-9144
jpollom@stites.com

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

The Matter Of:

Electronic Application Of Kentucky Power)
Company For An Order Approving Accounting)
Practices To Establish A Regulatory Asset)
Related To The Extraordinary Expenses)
Incurred By Kentucky Power Company)
In Connection With Charges Related To)
GreenHat Energy, LLC Default)

Case No. 2020-00034

DIRECT TESTIMONY OF

RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

**DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2020-00034**

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION	1
II. BACKGROUND	1
III. PURPOSE OF TESTIMONY.....	3
IV. BACKGROUND OF THE GREENHAT DEFAULT	3
V. EFFORTS TO RECOVER THE GREENHAT DEFAULT CHARGES	5
VI. REQUEST FOR DEFERRAL AND ESTABLISHMENT OF A REGULATORY ASSET	7

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

I. INTRODUCTION

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

A. My name is Ranie K. Wohnhas. My position is Vice President, Regulatory and Finance for Kentucky Power Company (“Kentucky Power” or “Company”). My business address is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.

II. BACKGROUND

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Science degree with a major in accounting from Franklin University, Columbus, Ohio in December 1981. I began work with Columbus Southern Power Company in 1978, where I worked in various customer service and accounting positions. In 1983, I transferred to Kentucky Power Company and worked in the areas of accounting, rates, and customer service. I became the Billing and Collections Manager in 1995. My duties included overseeing all billing and collection activity for the Company. In 1998, I transferred to Appalachian Power Company and worked in the rates department. In 2001, I transferred to the American Electric Power Service Corporation (“AEPSC”), working as a Senior Rate Consultant. In July 2004, I transferred back to Kentucky Power Company and assumed the position of Manager, Business Operations Support. I was promoted to Director in April 2006 and to Managing Director, Regulatory and Finance effective September 1, 2010. I was promoted to my current position as Vice President, Regulatory and Finance for Kentucky Power in August 2019.

1 **Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT,**
2 **REGULATORY AND FINANCE?**

3 A. I am primarily responsible for managing the regulatory and financial strategy for
4 Kentucky Power. This includes planning and executing rate filings for both federal
5 and state regulatory agencies, as well as filings for certificates of public
6 convenience and necessity before this Commission. I am also responsible for
7 managing the Company's financial operating plans. Included as part of this
8 responsibility is the preparation and coordination of various capital and O&M
9 operating budgets with other American Electric Power Company, Inc. affiliates. I
10 work with various AEPSC departments to ensure that adequate resources such as
11 debt, equity, and cash are available to build, operate, and maintain Kentucky
12 Power's electric system assets used to provide service to the Company's retail and
13 wholesale customers. I report directly to Brett Mattison, President and Chief
14 Operating Officer of Kentucky Power.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

16 A. Yes, I have testified on multiple occasions in a wide variety of proceedings. These
17 include numerous rate cases, fuel adjustment clause cases, an environmental
18 compliance plan case, various certificate applications for transmission projects, the
19 proceeding to transfer a fifty percent undivided interest in the Mitchell generating
20 station to Kentucky Power, and in connection with the Company's application to
21 convert Big Sandy Unit 1 to a gas-fired unit.

III. PURPOSE OF TESTIMONY

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

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

A. I am testifying in support of Kentucky Power’s application for approval to defer certain costs related to GreenHat Energy, LLC (“GreenHat”) default charges that have been and currently are being allocated to the Company by PJM Interconnection, LLC (“PJM”) through PJM Billing Line Item (“BLI”) 1999, but which Kentucky Power has not yet billed to customers.

IV. BACKGROUND OF THE GREENHAT DEFAULT

Q. PLEASE PROVIDE A BRIEF EXPLANATION OF FINANCIAL TRANSMISSION RIGHTS.

A. Financial Transmission Rights (“FTR”) are financial hedges for congestion costs on the transmission systems controlled by PJM. FTRs were designed for entities that serve load, or Load Serving Entities (“LSE”), like Kentucky Power to provide revenues that may offset costs when the transmission system is congested. LSEs receive FTRs based on their peak demand. LSEs use FTRs to address the congestion costs associated with serving their load. PJM allocates FTRs to LSEs at zero cost in reflection of their ownership of the transmission grid.

Q. ARE LSEs THE ONLY ENTITIES THAT RECEIVE FTRs?

A. No. PJM models the transmission system and after awarding FTRs to LSEs, allows traders to bid into an FTR auction for any remaining FTRs. These auctions are conducted every year, as well as monthly. PJM also conducts long-term auctions for FTRs. FTRs are also traded on secondary markets. Traders acquire FTRs

1 believing the revenues from the selected paths will exceed the FTR costs incurred
2 in the auction.

3 **Q. WHAT WAS THE GREENHAT DEFAULT?**

4 A. GreenHat Energy, LLC was an energy trading company that acquired a large
5 portfolio of FTRs for the 2018/19, 2019/20, and 2020/21 delivery years. In June
6 2018, GreenHat defaulted on its financial obligations when its revenues failed to
7 exceed its costs and GreenHat owed significant additional funds to PJM to cover
8 its FTR portfolio. PJM was then forced to begin the process of closing out and
9 liquidating GreenHat's portfolio. The process is expected to continue through May
10 2021 when PJM will liquidate the final GreenHat FTR position. Kentucky Power
11 anticipates being billed (or credited) in connection with the May 2021 liquidation
12 in June 2021.

13 **Q. WHY WERE A PORTION OF THE LOSSES INCURRED BY GREENHAT
14 IN CONNECTION WITH THE ONGOING LIQUIDATION OF ITS
15 PORTFOLIO ALLOCATED TO KENTUCKY POWER?**

16 A. The enforcement of obligations provision of section 15.2 of the PJM Operating
17 Agreement provide that any loss (or gain) on a default liquidation are allocated to
18 PJM members, including Kentucky Power.

19 **Q. HOW MUCH OF THE GREENHAT DEFAULT HAS PJM ALLOCATED
20 TO KENTUCKY POWER?**

21 A. The total amount allocated to Kentucky Power through December 2019 is
22 \$268,517.¹

¹ Of the \$268,517 allocated to Kentucky Power, \$37,950 is associated with off-system sales margins and

1 **Q. DOES KENTUCKY POWER HAVE AN ESTIMATE OF THE TOTAL**
2 **AMOUNT OF GREENHAT DEFAULT CHARGES THAT MAY BE**
3 **ALLOCATED TO IT?**

4 A. Yes. The total cost to Kentucky Power is estimated to be \$335,261. Of this amount,
5 it is estimated that \$47,383 will be associated with off-system sales margins.

6 **V. EFFORTS TO RECOVER THE GREENHAT DEFAULT CHARGES**

7 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE ISSUE OF**
8 **THE GREENHAT DEFAULT?**

9 A. Yes. Kentucky Power proposed in its most recent two-year fuel adjustment clause
10 review case² that it be permitted to recover that portion of the net GreenHat default
11 charges associated with service to its customers through the Company's fuel
12 adjustment clause ("Tariff F.A.C.").

13 **Q. WHAT WAS THE BASIS OF THE COMPANY'S PROPOSAL?**

14 A. Kentucky Power's Tariff F.A.C. defines fuel costs recoverable through the
15 Company's fuel adjustment clause to include "fuel-related costs charged to the
16 Company by PJM Interconnection LLC including but not limited to those costs
17 identified in the following Billing Line Items, as may be amended from time to time
18 by PJM Interconnection LLC" Among the expressly enumerated billing line
19 items are two arising in connection with FTRs: FTR market charges (PJM BLI
20 1500) and FTR market credits (PJM BLI 2500). Based upon the "including but not
21 limited to" clause of the tariff, because the FTR default charges are fuel-related,

should appropriately be recovered through the Company's Tariff S.S.C. (System Sales Clause).

² *In the Matter of: Electronic Examination Of The Fuel Adjustment Clause Of Kentucky Power Company From November 1, 2016 Through October 31, 2018*, Case No. 2019-00002 (Ky. P.S.C. February 11, 2019).

1 and because the tariff expressly identified two other FTR-related charges and
2 credits recoverable through the fuel adjustment clause, Kentucky Power understood
3 its tariff to permit the recovery of the GreenHat default charges through the fuel
4 adjustment clause.

5 **Q. DID KENTUCKY POWER INCLUDE THE GREENHAT DEFAULT**
6 **CHARGES IN THE CALCULATION OF ITS FUEL ADJUSTMENT**
7 **CLAUSE FACTOR?**

8 A. No. Following the April 16, 2019 hearing in the two-year review proceeding, and
9 subsequent discussions with Staff, Kentucky Power elected to await the
10 Commission's decision in the two-year review case before including the GreenHat
11 default charges in the calculation of the Company's fuel adjustment clause factor.
12 The Company also elected not to include the portion of GreenHat default charges
13 associated with its off-system sales when it updated its system sales clause factor
14 in August 2019 pending a Commission decision in the two-year review case.

15 **Q. DID THE COMMISSION AGREE WITH THE COMPANY'S**
16 **INTERPRETATION OF ITS TARIFF?**

17 A. No. By order dated December 26, 2019 in Case No. 2019-00002³ the Commission
18 concluded that the Company was not authorized to recover fuel-related expenses
19 billed to it through unenumerated billing line items without first obtaining
20 Commission approval.

³ Order, *In the Matter of: Electronic Examination Of The Fuel Adjustment Clause Of Kentucky Power Company From November 1, 2016 Through October 31, 2018*, Case No. 2019-00002 at 3-4 (Ky. P.S.C. December 26, 2019).

1 amount of losses anticipated to be incurred and allocated as a result of GreenHat's
2 default. According to the March 26, 2019 Report of the Independent Consultants
3 on the GreenHat Default, GreenHat amassed one of the largest portfolios of FTRs
4 in PJM history.⁵ From January 2017 until its June 2018 default, GreenHat
5 maintained the largest open volume FTR portfolio.⁶ In fact, its portfolio was nearly
6 twice the size of the next largest portfolio over that period.⁷ By the time of its
7 default, GreenHat had amassed approximately \$123 million in unrealized mark-to-
8 auction losses.⁸

9 The Independent Consultants' report also noted several complications that
10 contributed to the GreenHat default. Simply put, Kentucky Power could not have
11 anticipated nor planned for the default and the resulting default charges.

12 Finally, and as stated previously, the Company's tariffs provided a
13 reasonable and good faith basis for the Company's conclusion that the GreenHat
14 default charges were recoverable through Kentucky Power's fuel adjustment clause
15 and system sales clause.

16 **Q. DO THE DEFAULT CHARGES REPRESENT A NONRECURRING**
17 **EXPENSE?**

⁵ Robert Anderson & Neal Wolkoff, REPORT OF THE INDEPENDENT CONSULTANTS ON THE GREENHAT DEFAULT at 11 (March 26, 2010), <https://www.pjm.com/-/media/library/reports-notices/special-reports/2019/report-of-the-independent-consultants-on-the-greenhat-default.pdf> (last accessed February 8, 2020).

⁶ *Id.* at Appendix Chart A4.

⁷ *Id.*

⁸ *Id.* at 12.

1 A. Yes. Unlike traditional operating and maintenance and fuel expenses, the GreenHat
2 default charges will be incurred over a finite period. That period is anticipated to
3 stretch from June 2018 through May 2021.

4 **Q. IF GRANTED AUTHORITY TO ESTABLISH A REGULATORY ASSET,**
5 **HOW DOES KENTUCKY POWER PROPOSE TO RECOVER THE**
6 **EXPENSES ASSOCIATED WITH THE DEFERRED GREENHAT**
7 **DEFAULT CHARGES?**

8 A. The Company will offer a proposal to recover the requested regulatory asset in its
9 next base rate case. At this time, the Company anticipates that it will request
10 authority to amortize the regulatory asset over a three-year period.

11 **Q. HOW HAS THE COMPANY ACCOUNTED FOR THE REQUESTED**
12 **DEFERRAL?**

13 A. In December 2019 business, Kentucky Power recorded a regulatory deferral in
14 FERC account 1823571 for GreenHat default charges allocated to the Company by
15 PJM. Because the Commission has not yet authorized regulatory deferral for
16 GreenHat default charges allocated to the Company by PJM, Kentucky Power
17 determined to concurrently record an offsetting provision in FERC account
18 1823000, consistent with Financial Accounting Standards Board Accounting
19 Standards Codification 980-340-25-1. If the Commission approves this request for
20 deferral and creation of a regulatory asset, the provision in FERC account 1823000
21 will be reversed. See Table 1 below for additional detail.

1

Table 1

Current Accounting for Requested Deferral					
Accounting Period(s)	Account	Account Description	Regulatory Asset Dr./ (Cr.)	Expense Dr./ (Cr.)	Description
August 2018 through December 2019	5614008	RTO Admin Default LSE	-	230,566.75	PJM Invoice Expense: Billing Line Item 1999A
	5614007	PJM Admin Defaults OSS	-	37,950.02	
December 2019	1823571	GreenHat Settlement Regulatory Deferral	268,516.77	-	Entry to establish regulatory asset for GreenHat default charges subsequent to Kentucky Power's FAC Order in Case 2019-0002
	5614008	RTO Admin Default LSE	-	(230,566.75)	
	5614007	PJM Admin Defaults OSS	-	(37,950.02)	
December 2019	1823000	Other Regulatory Assets	(268,516.77)	-	Entry to establish regulatory asset provision: GreenHat default charges
	5614008	RTO Admin Default LSE	-	230,566.75	
	5614007	PJM Admin Defaults OSS	-	37,950.02	
Net Impact of Entries Through December 2019			-	268,516.77	

2

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

4 **A.** Yes, it does.

