

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) Approval Of Tariffs And Riders;)
(3) Approval Of Accounting Practices To Establish)
Regulatory Assets And Liabilities; (4) Approval Of A)
Certificate Of Public Convenience And Necessity,)
And (5) All Other Required Approvals And Relief)

Case No. 2020-00174

REBUTTAL TESTIMONY OF
KELLY D. PEARCE
ON BEHALF OF KENTUCKY POWER COMPANY

**REBUTTAL TESTIMONY OF
KELLY D. PEARCE ON BEHALF OF
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TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION	1
II. PURPOSE OF REBUTTAL TESTIMONY	4
III. COST ALLOCATION AND THE AEP TRANSMISSION AGREEMENT	4
IV. CONCLUSION	10

**REBUTTAL TESTIMONY OF
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I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Kelly D. Pearce, and my business address is 1 Riverside Plaza,
3 Columbus, Ohio, 43215.

4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

5 A. I am employed by American Electric Power Service Corporation (“AEPSC”) as
6 Managing Director of Transmission Asset Strategy and Policy (“TASP”). AEPSC
7 supplies engineering, financing, accounting, planning, advisory, and other services to
8 the subsidiaries of the American Electric Power (“AEP”) system, one of which is
9 Kentucky Power Company (“Kentucky Power” or the “Company”).

10 **Q. PLEASE BRIEFLY DESCRIBE THE TRANSMISSION ASSET**
11 **STRATEGY AND POLICY DEPARTMENT AND YOUR PRIMARY**
12 **AREAS OF RESPONSIBILITY AS MANAGING DIRECTOR,**
13 **TRANSMISSION ASSET STRATEGY AND POLICY.**

14 A. The TASP department is part of the AEP Transmission business unit (“Transmission”).
15 Among its activities, TASP (a) works with AEP operating companies to develop and
16 provide transmission strategy and policy positions, (b) oversees reporting needs for the
17 AEP transmission assets for the AEP transmission-only companies and the AEP
18 operating companies at the regional transmission organizations (“RTOs”), the Federal
19 Energy Regulatory Commission (“FERC”) and state regulatory commissions, and (c)

1 represents AEP in various industry organizations.

2 My current responsibilities include providing Transmission-related support for
3 the AEP operating companies and transmission-only companies (“Transcos”) in their
4 respective state and federal jurisdictions.

5 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND**
6 **PROFESSIONAL BACKGROUND**

7 A. I received a Bachelor of Science degree in Mechanical Engineering from Oklahoma
8 State University in 1984. I received Master of Science and Doctor of Philosophy
9 degrees in Nuclear Engineering from the University of Michigan in 1986 and 1991
10 respectively. I received a Master of Science in Industrial Administration degree from
11 Carnegie Mellon University in 1994.

12 From 1986 to 1988, I worked for a subsidiary of Olin Corporation. From 1991
13 to 1996, I worked for the United States Department of Energy within the Office of
14 Fossil Energy. My responsibilities included serving as a Contracting Officer’s
15 Representative in the oversight and administration of government-funded research of
16 advanced generation and environmental remediation technologies and projects. I also
17 supported strategic studies for deployment and commercialization of these
18 technologies, as well as administration and support of government research and
19 development solicitations.

20 In 1996, I joined AEPSC as a Rate Consultant I in the Regulatory Services
21 department. In 2001, I was promoted to Senior Regulatory Consultant. My
22 responsibilities included preparation of class cost-of-service studies and rate design for
23 AEP operating companies and the preparation of special contracts and regulated pricing

1 for retail customers. In 2003, I transferred to Commercial Operations within AEPSC
2 as Manager of Cost Recovery Analysis. In 2007, I was promoted to Director of
3 Commercial Analysis. During this period, I was responsible for analyzing the financial
4 impacts of Commercial Operations related activities. I also supported settlement of
5 AEP's generation pooling agreements among AEP's operating companies. In 2010, I
6 transferred to Regulatory Services as Director, Contracts and Analysis. In April 2018,
7 I was promoted to Managing Director, Contracts Analysis and FERC Regulatory. In
8 September 2018, I transferred to Transmission in my current position. I am a registered
9 Professional Engineer in Ohio and West Virginia.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
11 **COMMISSIONS?**

12 A. Yes. I testified before this Commission in Case No. 2014-00225. I testified before the
13 Virginia State Corporation Commission in Case No. PUE-2001-00306, before the
14 Public Utilities Commission of Ohio in Case Nos. 11- 346-EL-SSO, *et al.*, 10-2929-
15 EL-UNC, and 14-1693-EL-RDR, *et al.*, before the Indiana Commission in Cause No.
16 43992, before the Corporation Commission of Oklahoma in Cause No. 201700267, and
17 before the Public Utility Commission of Texas in Docket No. 47461. I have also
18 submitted testimony in various dockets, including to the Federal Energy Regulatory
19 Commission in Docket No. ER13-539-000.

20 **Q. DID YOU OFFER DIRECT TESTIMONY IN THIS PROCEEDING?**

21 A. No.

II. PURPOSE OF REBUTTAL TESTIMONY

1 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

2 A. The purpose of my rebuttal testimony is as follows:

- 3 • I respond to the Kentucky Attorney General and Kentucky Industrial Utility
4 Customers, Inc. (“AG/KIUC”) witness Mr. Stephen J. Baron’s testimony on
5 transmission issues.
- 6 • I demonstrate that Kentucky Power’s participation in the AEP Transmission
7 Agreement benefits Kentucky Power’s customers; and
- 8 • I respond to Mr. Baron’s suggestion that Kentucky Power should become a
9 standalone member of PJM.

III. COST ALLOCATION AND THE AEP TRANSMISSION AGREEMENT

10 **Q. ON PAGE 13, LINES 12 THROUGH 14 OF MR. BARON’S TESTIMONY, HE**
11 **QUESTIONS KENTUCKY POWER’S PARTICIPATION IN THE AEP**
12 **TRANSMISSION AGREEMENT. PLEASE DESCRIBE THE AEP**
13 **TRANSMISSION AGREEMENT.**

14 A. The AEP Transmission Agreement is a FERC-approved agreement that governs the
15 allocation of revenues and expenses among the AEP member transmission companies.
16 It provides for the equitable sharing among the members of the costs incurred by the
17 members in connection with the ownership and use of the transmission system.

18 **Q. DOES THE TRANSMISSION AGREEMENT PROVIDE BENEFITS TO**
19 **KENTUCKY POWER?**

20 A. Yes. AEP developed an extensive transmission system that serves as the medium for
21 integrating the power supply resources of the member companies. The PJM East Zone

1 system stretches from the southeastern shores of Lake Michigan through northern
2 Indiana and Ohio to the mountains of Kentucky, Tennessee, Virginia, and West
3 Virginia. AEP pioneered extra-high-voltage (“EHV”) transmission as a means of
4 achieving the advantages of large-scale system integration and the ability to move
5 power to widely separated load areas via high voltage and EHV transmission.

6 **Q. WHAT BENEFITS DOES KENTUCKY POWER GET FROM THE**
7 **TRANSMISSION AGREEMENT?**

8 A. A significant benefit that Kentucky Power receives from its participation in the
9 transmission agreement is the allocation of its costs as a PJM Load Serving Entity
10 (“LSE”). PJM allocates the cost of Network Integrated Transmission Service (“NITS”)
11 among LSEs in the AEP zone based on each LSE’s contribution to the single highest
12 hourly peak of the zone over a 12-month period (“1 Coincident Peak” or “1CP”). Under
13 the Transmission Agreement, the total NITS charge to the members is reallocated
14 among the members based on the average of each member’s average contribution to
15 the monthly peaks over a 12-month period (“12 Coincident Peaks” or “12CP”). Mr.
16 Baron appears to agree with the Company, for example on page 19, lines 7 through 11,
17 regarding this difference in the allocation.

18 **Q. WHY DOES PJM ALLOCATE COSTS USING 1CP?**

19 A. PJM has used a simplified approach in terms of allocating transmission costs based on
20 the single highest hourly demand on the system. One reasoning is that the system
21 overall is designed to accommodate this maximum peak, and so 1CP is selected to
22 identify each LSE’s contribution to it.

1 **Q. WHY IS 12CP USED IN THE TRANSMISSION AGREEMENT?**

2 A. There is generally no “perfect” allocation method. In the case of 12CP, it is reasonable
3 because it considers loads’ use of the transmission system based on more than a single
4 hour. Loads use the transmission system throughout the year and it is just and
5 reasonable that that is reflected in what they are charged. Second, use of only 1CP may
6 incentivize gaming in the sense that LSEs may attempt to reduce their load during that
7 1CP and shift cost to other LSEs. I distinguish gaming from legitimate load
8 management activities. Third and most important, use of the 12CP tends to be less
9 volatile than 1CP. Each member’s contribution to the 12CP is going to tend to change
10 less from year to year than their 1CP contribution. Use of the 12CP thus helps the
11 companies and their customers better manage their costs with reduced volatility.
12 Importantly, in this case, the 12CP method benefits all the members of the
13 Transmission Agreement, including Kentucky Power.

14 **Q. WHAT IMPACT DOES SEASONAL PEAK VARIATION HAVE ON THIS**
15 **VOLATILITY?**

16 A. AEP companies are geographically diverse. Some of the AEP companies tend to be
17 summer-peaking, while others are winter-peaking, including Kentucky Power. If AEP
18 used the 1CP method, individual AEP companies would be subject to more volatile
19 swings in expenses. Their cost would fluctuate significantly depending on whether the
20 1CP occurred in the summer or the winter. The 12CP method results in more stable
21 cost sharing among the AEP companies than other alternatives.

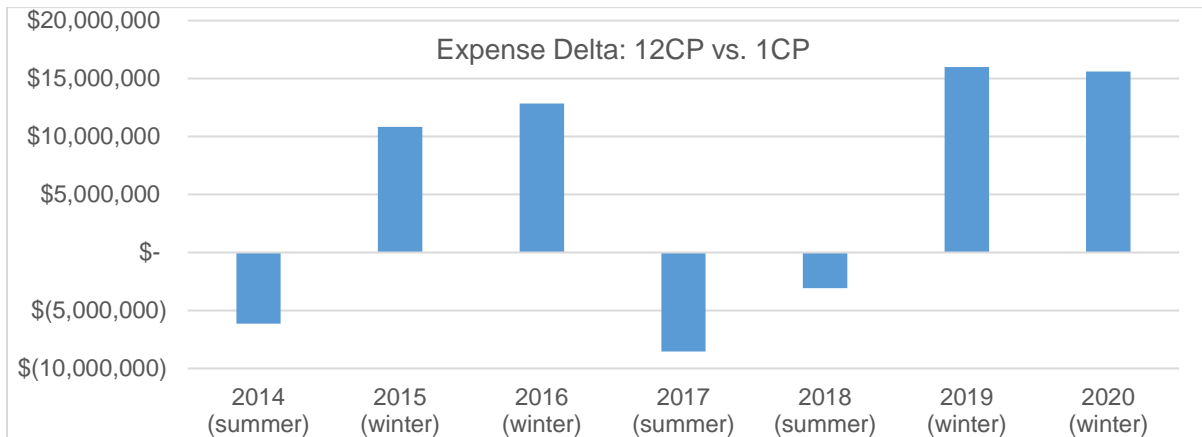
22 **Q. YOU MENTIONED EARLIER THAT THE 12CP ALLOCATION BENEFITS**
23 **KENTUCKY POWER. HAVE YOU PERFORMED AN ANALYSIS THAT**

1 **COMPARES KENTUCKY POWER'S EXPENSES USING THE 12CP**
2 **METHOD TO THE 1CP METHOD?**

3 A. Yes. I looked at the impacts on the peaks for the last seven years in the AEP zone.
4 Over that period, Kentucky Power's allocation of the AEP NITS and net expansion
5 cost based on 12CP varied from 5.66% to 6.53%, with a standard deviation -- a measure
6 of volatility with the higher number indicating more volatility -- of 0.40%. Under the
7 1CP method over the same period, Kentucky Power's allocation of total zonal NITS
8 cost would have varied from 4.42% up to 6.63% with a standard deviation of 0.92%.
9 The 1CP would have resulted in much more volatility for Kentucky Power over the
10 period, with its NITS responsibility changing as much as 2.21% from one year to
11 another. By contrast, the costs allocated using 12CP varied only 0.87% or by a factor
12 of 2.5 less.

13 **Q. WOULD KENTUCKY POWER'S TOTAL NITS COST RESPONSIBILITY**
14 **HAVE BEEN LOWER OVER THIS SEVEN-YEAR PERIOD USING 1CP?**

15 A. Figure KDP-1 shows the increases (2015, 2016, 2019, and 2020) and decreases (2014,
16 2017, and 2018) in NITS expense that would have been paid by Kentucky Power if
17 1CP had been used in lieu of the 12CP allocation methodology specified by the
18 Transmission Agreement. As shown in Figure KDP-1, some years, Kentucky Power
19 would have paid more and some years less using 1CP instead of 12CP. But over the
20 7-year period, Kentucky Power customers would have paid approximately \$37.5
21 Million more using 1CP than they paid under the 12CP method of allocation.

Figure KDP-1

Note: Positive values in Figure KDP-1 indicate an increased Kentucky Power expense using 1CP instead of 12CP, while lower numbers indicate a reduced Kentucky Power expense using 1CP.

1 **Q. HAVE THESE VALUES BEEN REVISED SINCE THIS REBUTTAL**
 2 **TESTIMONY WAS FIRST FILED?**

3 A. Yes. To identify the values shown in Figure KDP-1, the annual amounts were first
 4 split between the cost responsibility of the affiliates, which are the AEP operating
 5 companies (~85%), and the non-affiliates which are munis and co-ops that are within
 6 the AEP zone but are not served by any AEP operating company as their load serving
 7 entity (~15%). The Kentucky Power portion of the affiliates responsibility was then
 8 determined using the Kentucky Power allocator on a 1CP and 12CP basis and the
 9 differences or “deltas” were shown in Figure KDP-1. Subsequent to the original filing,
 10 it was discovered that incorrect non-affiliate portions were used in the subsequent steps
 11 instead of the correct affiliate values. Figure KDP-1 above has been corrected and
 12 simplified by taking Kentucky Power’s portion of the entire AEP zone based on 1CP.

1 **Q. DOES THE AEP TRANSMISSION AGREEMENT ALLOW MEMBERS TO**
2 **WITHDRAW FROM THE AGREEMENT?**

3 A. Section 9.3 of the AEP Transmission Agreement allows any member to withdraw from
4 the agreement upon at least three years' prior written notice to the other members and
5 the agent.

6 **Q. IN YOUR OPINION, SHOULD KENTUCKY POWER GIVE THIS NOTICE TO**
7 **LEAVE THE TRANSMISSION AGREEMENT?**

8 A. Due to the benefits described above, no. As I have discussed, doing so would subject
9 Kentucky Power and its customers to greater volatility in NITS costs.

10 **Q. ON PAGE 13, LINE 12 OF MR. BARON'S TESTIMONY, HE SUGGESTS**
11 **THAT KENTUCKY POWER SHOULD SEEK TO HAVE ITS SERVICE**
12 **TERRITORY BECOME ITS OWN LOAD ZONE IN PJM. DOES THE PJM**
13 **CONSOLIDATED TRANSMISSION OWNERS AGREEMENT ("CTOA")**
14 **ALLOW FOR THE ESTABLISHMENT OF ADDITIONAL ZONES?**

15 A. No. As shown in the Company's response to AG/KIUC First Set of Data Requests
16 (AG_KIUC-1-052) the PJM CTOA Section 7.4 provides the following:

17 *For purposes of developing rates for service under the PJM Tariff, transmission rate*
18 *Zones smaller than those shown in Attachment J to the PJM Tariff, or subzones of those*
19 *Zones, shall not be permitted within the current boundaries of the PJM Region;*
20 *provided, however, that additional Zones may be established if the current boundaries*
21 *of the PJM Region is expanded to accommodate new Parties to this Agreement.*

22 The CTOA does not allow for the establishment of a Kentucky Power-specific load
23 zone.

24 **Q. SETTING ASIDE THE CTOA, WOULD THIS ACTION BENEFIT**
25 **KENTUCKY POWER?**

- 1 A. I do not believe it would. Investment among the various AEP Companies, including
2 Kentucky Power, varies over time for reasons explained by Company Witness Ali.

IV. CONCLUSION

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

- 4 A. Yes, it does.

VERIFICATION

The undersigned, Kelly D. Pearce, being duly sworn, deposes and says he is a Managing Director of Transmission Asset Strategy and Policy for American Electric Power Service Corporation 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 after reasonable inquiry.

Kelly D. Pearce
Kelly D. Pearce

STATE OF OHIO

)

) Case No. 2020-00174

COUNTY OF FRANKLIN

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Subscribed and sworn to before me, a Notary Public in and before said County and State, by Kelly D. Pearce, this 12th day of November 2020.



Paul D. Flory
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.09 R.C.

[Signature]
Notary Public

Notary ID Number: NA

My Commission Expires: Never