

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

VOLUME I

Transcript of November 17, 2020, hearing
before Chairman Michael J. Schmitt at the Kentucky
Public Service Commission, 211 Sower Boulevard,
Frankfort, Kentucky 40602-0615, with Vice Chairman
Kent A. Chandler, Commissioner Talina R. Mathews,
counsel, and witnesses attending via GoToMeeting.

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ALSO PRESENT:

Ms. Candace Sacre, PSC Court Reporter

23 * * *

24

25

1 (Hearing commenced at 9:15 a.m.)

2 CHAIRMAN SCHMITT: And good morning.

3 MS. VINSEL: Good morning.

4 CHAIRMAN SCHMITT: After some unfortunate
5 delay, we're now on the record in Case Number
6 2020-00174, Application of Kentucky Power Company
7 for a general adjustment of its rates for electric
8 service, approval of tariffs and riders, approval of
9 accounting practices to establish regulatory assets
10 and liabilities for approval of a Certificate of
11 Public Convenience and Necessity, and all other
12 required approvals and relief.

13 My name is Michael Schmitt. I'm chairman of
14 the Public Service Commission, and I will be
15 presiding today. Joining me via videoconferencing
16 is Vice Chairman Kent Chandler and Dr. Talina
17 Matthews.

18 At this time I would normally caution
19 attendees to please set your cellular phones to
20 silent mode or turn them off. Due to the current
21 state of emergency because of the COVID-19 crisis in
22 Kentucky, the Commission is hosting this hearing via
23 videoconferencing. Since this continues to be a
24 learning experience for everyone, there are a few
25 suggestions I would offer. In addition to the

1 normal courtesies regarding cell phones, these tips
2 may help with clarity and avoid feedback issues for
3 the videoconference hearing.

4 First, mute your microphone and your video if
5 you are not speaking. Attorneys, when interjecting,
6 please state your name so the video record is clear.
7 If you use a phone for the audio and a computer for
8 the video, turn off the computer audio, otherwise
9 there will be feedback. If you are in a room with
10 several people on their own computers, turn off the
11 computer audio for all but one computer, otherwise
12 there will be feedback. If another participant is
13 in a nearby office, close the doors between the
14 offices. Sound carries further than one thinks,
15 which can cause feedback.

16 Once in the GoToMeeting software platform, go
17 to your settings, the icon looks like a gear, to
18 ensure the microphone setting is on the microphone
19 you are using. There's a pull-down menu feature in
20 GoToMeeting settings that will list the available
21 microphones. Use wired headphones or wired earbuds
22 for better sound quality. Wired is preferred
23 because wireless devices may lose power depending
24 upon the length of the hearing. Keep a charger
25 nearby in case your battery runs low.

1 Please alert the Commission if you are
2 experiencing technology failure that prevents your
3 participation at any time in the proceedings.
4 Attorneys should contact Staff at the previously
5 provided cell phone number.

6 The hearing today is for the purpose of
7 taking evidence on Kentucky Power's request for a
8 general rate adjustment, approval of tariffs and
9 riders, a Certificate of Public Convenience and
10 Necessity, and establishing regulatory assets and
11 liabilities.

12 At this time we'll have the appearance of
13 counsel of record for the parties, who will also
14 identify the witnesses who they intend to testify at
15 some point during the course of this proceeding.

16 So first I would ask attorney for Kentucky
17 Power Company to identify himself, his co-counsel,
18 and witnesses who are expected to testify in this
19 proceeding.

20 MR. OVERSTREET: Thank you, Mr. Chairman.
21 Mark Overstreet, Stites & Harbison, 421 West Main
22 Street, Frankfort, Kentucky 40601, appearing on
23 behalf of Kentucky Power Company. Also appearing
24 with me as counsel for Kentucky Power Company is
25 Katie M. Glass of Stites & Harbison, and Christen M.

1 Blend of American Electric Power. Ms. Blend has
2 been admitted pro hac vice. Tanner S. Wolffram.
3 Mr. Wolffram has been admitted pro hac vice. He is
4 with AEP. And not present in the room today but who
5 will be appearing is Hector Garcia-Santana.
6 Mr. Garcia-Santana also has been admitted pro hac
7 vice to this proceeding.

8 Our witnesses are Brett Mattison, Matt
9 Satterwhite, Kelly Pearce, Kamran Ali, Cynthia
10 Wiseman, Timothy Kerns, Lerah Scott, Hector --
11 excuse me, Heather Whitney, Allyson Keaton, Kim
12 Kaiser, Scott Bishop, Dana Horton, Jason Stegall.
13 Mr. Stegall has had to quarantine because of
14 exposure of a family member to the COVID virus, and
15 he will testify but will not be present with us.
16 Jaclyn Cost, Franz Messner, Adrien McKenzie.
17 Mr. McKenzie will testify remotely. Everett
18 Phillips, Steve Blankenship, Brian West, Alex
19 Vaughan, and Andrew Carlin, if called.

20 CHAIRMAN SCHMITT: Thank you. And for the
21 office of the Kentucky Attorney General.

22 MR. WEST: Yes. Hello. This is Mike West
23 for the Kentucky Attorney General. And also with me
24 we have Larry Cook and John Horne. They are from
25 the Attorney General. We have witnesses that

1 we will be putting on who are not necessarily in the
2 meeting at this point who will be Lane Kollen, Rick
3 Baudino, and Steve Baron.

4 CHAIRMAN SCHMITT: Thank you. And for
5 Kentucky Industrial Utility Customers.

6 MS. KYLER COHN: Good morning. On behalf of
7 Kentucky Industrial Utility Customers, Michael Kurtz
8 and Jody Kyler Cohn from the law firm of Boehm,
9 Kurtz & Lowry, 36 East 7th Street, Cincinnati, Ohio
10 45202. And we are sharing witnesses with the
11 Attorney General, so we are the same slate.

12 CHAIRMAN SCHMITT: Thank you. And for
13 Walmart.

14 MS. GRUNDMANN: Good morning, Your Honor.
15 This is Carrie Harris Grundmann. I was admitted pro
16 hac vice in this case and am joined today by my
17 colleague Don Parker, from the Law Firm Spilman,
18 Thomas & Battle. My address is 110 Oakwood Drive,
19 Suite 500, Winston-Salem, North Carolina 27103.
20 Walmart will be presenting the testimony of Lisa V.
21 Perry.

22 CHAIRMAN SCHMITT: Thank you. Kentucky Solar
23 Industries Association.

24 MR. SPENARD: Good morning, Mr. Chairman.
25 David Spenard and Randy Strobo, Strobo Barkley,

1 239 South 5th Street, Suite 917, Louisville,
2 Kentucky 40202. Our witnesses are James Van
3 Nostrand, Benjamin Inskip, and Justin Barnes.

4 CHAIRMAN SCHMITT: Thank you. Mountain
5 Association for Community Economic Development and
6 Kentuckians for the Commonwealth, and Kentucky Solar
7 Energy Society, collectively, joint intervenors.

8 MR. FITZGERALD: Good morning, Mr. Chairman.
9 Last and certainly -- or I guess almost last and
10 certainly least, Tom FitzGerald from Kentucky
11 Resources Council representing the joint
12 intervenors, Mountain Association, Kentuckians for
13 the Commonwealth, and the Kentucky Solar Energy
14 Society. We will have three witnesses. One of them
15 is present right now, all of them will be at the
16 appropriate time: Andrew McDonald, Joshua Bills,
17 and James Owen.

18 CHAIRMAN SCHMITT: Okay. Thank you.

19 MR. FITZGERALD: Thank you.

20 CHAIRMAN SCHMITT: Sierra Club.

21 MR. CHILDERS: Good morning, Mr. Chairman.
22 This is Joe Childers, Childers & Baxter, 201 West
23 Short Street, Suite 300, Lexington, Kentucky. And
24 with me today is Matthew Miller appearing pro hac
25 vice. Sierra Club has no witnesses.

1 CHAIRMAN SCHMITT: SVWA Kentucky, LLC.

2 MR. FRYE: Good morning, Mr. Chairman. This
3 is Michael Frye in the law firm of Jenkins
4 Fenstermaker, PLLC --

5 CHAIRMAN SCHMITT: Thank you. And for Staff.

6 MR. FRYE: -- P.O. Box 2688, Huntington, West
7 Virginia 25726. We will have no witnesses today,
8 Your Honor.

9 CHAIRMAN SCHMITT: Thank you. And for Staff.

10 MS. VINSEL: Nancy Vinsel for Staff. I
11 should also note that Zach Ripy, financial analyst,
12 will be handling our screen share. So we'll be
13 mentioning his name.

14 And I feel like I also should note that for
15 Sierra Club, Joe Childers and his partner,
16 Bethany N. Baxter, may be trading off throughout
17 this process, but Ms. Baxter is not on the call this
18 morning.

19 CHAIRMAN SCHMITT: Okay. Thank you.

20 MR. CHILDERS: And I apologize, Your Honor, I
21 should have introduced Ms. Baxter too.

22 CHAIRMAN SCHMITT: Oh, that's fine,
23 Mr. Childers. That's no problem.

24 During the course of this hearing, there are
25 a number of witnesses, maybe 30, 35. I guess as

1 Kentucky Power moves forward and we get close to the
2 end, we probably just need to be mindful, or I do,
3 of our need to keep counsel advised as to about when
4 to expect another witness so you can have your
5 people available, and obviously not have them here
6 during the entire -- during the entire session,
7 which is likely to last several days.

8 Also, I guess many of you know this,
9 Mr. Kurtz, I guess, and others who have had
10 hearings, these videoconference hearings in the
11 past, but without any warning, at some point in time
12 during this conference somebody may be cut off. So
13 let us know, we'll try to keep track of it too, so
14 that you don't miss anything, and if you do, then
15 we'll back up and start over again.

16 It would have been better if we could have
17 held this conference live, but that not being the
18 case under the circumstances, we'll just go forward
19 and do the best we can, and it'll all work -- it'll
20 all work out okay.

21 One other thing, I know in the prologue here
22 I mentioned the fact that if you're not speaking,
23 attorneys, to keep your mic on mute. Sometimes
24 people forget to turn it back on, so then we have a
25 waving session or something, so we get in touch with

1 people to let them know that you need to -- you need
2 to turn your -- you need to turn your mic on.

3 All right. In checking the record, I see
4 that the public notice has been given of this
5 hearing and has been filed in the record. Is that
6 correct, Mr. Overstreet?

7 MR. OVERSTREET: That is correct, Your Honor.

8 CHAIRMAN SCHMITT: I understand also that
9 there are no outstanding motions at this time, they
10 have all been ruled on. Is that also correct, or is
11 there anything --

12 MR. OVERSTREET: That's my understanding,
13 Your Honor.

14 THE REPORTER: Could we get him to turn up
15 his volume, please?

16 CHAIRMAN SCHMITT: I'm sorry?

17 THE REPORTER: Could we -- could we get
18 Mr. Overstreet to turn up his volume a little bit,
19 please?

20 CHAIRMAN SCHMITT: Mr. Overstreet, the --
21 your reporter here has difficulty hearing you, and I
22 suspect it's because --

23 MR. OVERSTREET: I apologize, Your Honor. Is
24 this better?

25 CHAIRMAN SCHMITT: Is that better? Can you

1 hear him now?

2 THE REPORTER: If he could turn it up a
3 little bit more.

4 CHAIRMAN SCHMITT: She requests that you turn
5 it up a little more.

6 MR. OVERSTREET: I will -- is this any
7 better?

8 THE REPORTER: Yes.

9 CHAIRMAN SCHMITT: Yes. Here, I think
10 Mr. Overstreet --

11 MR. OVERSTREET: I apologize. These mics are
12 very directional.

13 Your Honor, two things that I omitted to
14 mention in connection with the entry of appearances
15 is that in connection with the Kentucky Power AEP
16 COVID guidelines, we will need to wipe down the
17 witness chair after each -- and desk after each
18 witness testifies, and also that Mr. Pearce also has
19 had to quarantine, but he will be available remotely
20 from another location.

21 CHAIRMAN SCHMITT: All right. I would point
22 out, I guess for maybe future hearings, if it's
23 possible, Mr. Overstreet, part of the problem is, I
24 think, that it looks like you're in a hearing room
25 or a small courtroom or something where, I guess,

1 it's a larger area, and other people -- your witness
2 can probably come up and sit beside you and speak.
3 We had a hearing several weeks ago with the City of
4 Henderson, and they had the same issue, and it was
5 really difficult to hear their people. And to the
6 extent you could have the attorney and a witness in
7 one room or a smaller area, it makes it easier -- it
8 makes it easier to hear.

9 Now, at this point we usually would call for
10 public comments to allow any member of the public to
11 basically make a statement or let their interest or
12 desires be known with respect to this proceeding and
13 its outcome. On Friday and then on yesterday, late,
14 we held videoconferencing public comments, and this
15 morning we were to open up at 9:00 o'clock with a
16 public comment section that was to be separate from,
17 at least in terms of segments of this proceeding, so
18 that you-all wouldn't have to wait, and we wouldn't
19 have to have, you know, everybody on with the public
20 comments.

21 We waited for ten minutes or so, there
22 were -- there was no interest in public comments,
23 and so the public comment section has officially
24 closed. If any member of the public watching this
25 proceeding would like to make a comment, you may

1 send a letter or an e-mail to the Public Service
2 Commission, and that address and how to do that is
3 on the Public Service Commission website at
4 psc.ky.gov.

5 All right. At this time, Mr. Overstreet, or
6 any other counsel in the case, is there anything
7 that you'd like to bring to the Commission's
8 attention or that you think we need to address
9 before we start the presentation of testimony?

10 MR. OVERSTREET: Nothing from Kentucky Power,
11 Your Honor.

12 CHAIRMAN SCHMITT: Anyone else?

13 MS. VINSEL: Chairman, I have a question. We
14 had discussed because of the size, the number of
15 participants, that we were going to ask that unless
16 you are a witness, an attorney, or a Commissioner,
17 that the video also be muted during the hearing. If
18 that's acceptable to you, would you like to move
19 forward with that?

20 CHAIRMAN SCHMITT: That the video would be --

21 MS. VINSEL: The video of the attorneys and
22 the witnesses who are not speaking, who are not
23 testifying, cross-examine, direct.

24 CHAIRMAN SCHMITT: So you're talking about
25 invoking the rule, is that the kind of -- is that

1 what you're saying, sequestration of witnesses?

2 MS. VINSEL: No, not -- not sequester -- not
3 to sequester them, but because of the large number
4 of participants and trying to keep track of who's
5 actually speaking.

6 CHAIRMAN SCHMITT: So they won't be -- all
7 right. I understand. So who is in control of that?
8 Jim here at our office? Who is in control of that?

9 MS. VINSEL: Jim is, but also -- actually,
10 each of the -- each of the participants in the
11 hearing have their own control of that also. They
12 can -- they can mute their mic. They can also mute
13 their video screen.

14 CHAIRMAN SCHMITT: I guess that's -- well,
15 yeah, so we have fewer people on the screen so we
16 could actually see better the people who were
17 testifying and asking questions, correct?

18 MS. VINSEL: Yes, that's exactly right.

19 CHAIRMAN SCHMITT: All right. So it would be
20 appreciated, then, if those who are not
21 participating as witnesses at any given time,
22 basically, not only mute your microphone, but turn
23 off your screen so that you won't appear for the --
24 appear on the screens of the other participants who
25 are actually asking questions, getting ready to, or

1 are in the process of testifying.

2 Is there anything else?

3 MS. VINSEL: No, Chairman.

4 CHAIRMAN SCHMITT: Okay. Mr. Overstreet, I
5 think that the Commission has asked, maybe entered
6 an order about Kentucky Power witnesses, because I
7 think there may be some witnesses who will be taken
8 and maybe will want to be recalled later during
9 the -- during this hearing for the purpose of maybe
10 providing additional testimony or elaborating on
11 testimony given by another witness.

12 Were you aware of that?

13 MR. OVERSTREET: Yes, Your Honor, I was aware
14 of it, and our witnesses are available at the
15 request and timing of the Commission.

16 CHAIRMAN SCHMITT: All right. Thank you.

17 All right. If there's nothing else that we
18 need to be considered -- that needs to be
19 considered, Mr. Overstreet, would you call your
20 first witness?

21 MR. OVERSTREET: Thank you, Mr. Chairman.
22 Our first witness is Brett Mattison. Mr. Mattison
23 is the president and chief operating officer of
24 Kentucky Power Company, and Ms. Blend will present
25 him.

1 CHAIRMAN SCHMITT: Thank you.

2 Mr. Mattison, will you please raise your
3 right hand? Do you solemnly swear or affirm under
4 penalty of perjury that the testimony you are about
5 to give will be the truth, the whole truth, and
6 nothing but the truth?

7 THE WITNESS: Yes, sir; it is.

8 CHAIRMAN SCHMITT: All right. Counsel, you
9 may ask.

10 MS. BLEND: Thank you, Your Honor.

11 D. BRETT MATTISON, called by Kentucky Power
12 Company, having been first duly sworn, testified as
13 follows:

14 DIRECT EXAMINATION

15 By Ms. Blend:

16 Q. Mr. Mattison, will you please state your name
17 and business address for the record?

18 **A. Brett Mattison, 1645 Winchester Avenue,**
19 **Ashland, Kentucky 41101.**

20 Q. By whom are you employed and in what
21 position?

22 **A. Kentucky Power, and I'm the president and**
23 **chief operating officer.**

24 Q. Did you cause to be filed in the record
25 direct testimony?

1 **A. Yes.**

2 Q. Did you also cause to be filed rebuttal
3 testimony?

4 **A. Yes.**

5 Q. And did you cause to be filed data responses?

6 **A. Yes.**

7 Q. Do you have any changes or corrections to any
8 of those documents today?

9 **A. No changes.**

10 Q. If you were asked the same questions
11 contained in those documents today, would your
12 answers be the same?

13 **A. Yes, they would.**

14 Q. Thank you.

15 MS. BLEND: Your Honor, the witness is
16 available for cross-examination.

17 CHAIRMAN SCHMITT: Ms. Vinsel, questions?

18 MS. VINSEL: Yes. Thank you, Chairman.

19 CROSS-EXAMINATION

20 By Ms. Vinsel:

21 Q. Good morning, Mr. Mattison. If --

22 **A. Good morning.**

23 Q. If I ask you anything that isn't clear,
24 please let me know and I'll make sure to rephrase.

25 To start with, in this case, and -- excuse

1 me -- your testimony, Ms. Wiseman's testimony, there
2 seems to be a theme of focus on customer
3 relationship and customer experience. Staff notes
4 that in the last rate case, 2017-179, the theme in
5 that case was a focus on customer growth. And is
6 there any -- can you explain that shift in thought?

7 **A. Yes, ma'am. There's not really a shift in**
8 **thought. We still have a focus on growth for sure.**
9 **Economic development is vitally important to**
10 **Kentucky Power, the region, the area, and the**
11 **communities in which we serve. In addition to that,**
12 **what we've done is take more of a proactive stance**
13 **with our customers, and Witness Wiseman can give**
14 **more detail as to some of those programs that she's**
15 **implemented.**

16 But to stay in touch with our customers more,
17 to find out what their needs are, we revamped what I
18 would call our account management system, where we
19 have our customer service employees that have a
20 portfolio of customers that they call on. They're
21 required to call on those customers in a proactive
22 fashion, to find out if they have any needs, check
23 on reliability issues, and give them their number
24 and information so that they'll have a contact.

25 So it's not really a shift. I would say

1 we've added to our focus from 2017 so that we would
2 be more in tune with our customer base.

3 Q. Thank you. And just speaking of the customer
4 base, according to the cost of service studies filed
5 in this case and in the last two rate cases, the
6 percentage of total operating expenses for the
7 residential class has increased. It was
8 approximately 44 percent two rate cases ago, today
9 it's just over 50 percent.

10 Can you explain what's contributing to this
11 increase in the operating expense for the
12 residential class?

13 **A. Well, the increase in expense, and it's no**
14 **secret that the eastern part of Kentucky, our**
15 **customer base has gone down over that period of**
16 **time. If you go back and you look at our customers**
17 **that we have today versus what we had -- you know, I**
18 **don't know if your time frame is roughly ten years**
19 **ago. We have lost customers and, unfortunately,**
20 **load growth, and so the numerator of the expense and**
21 **the denominator has put that burden on the remaining**
22 **customers. But we've done a very good job of trying**
23 **to manage our expenses, especially this year, where**
24 **we've had to reduce contractors. We're holding**
25 **vacancies to ensure that we keep our expenses down.**

1 And, you know, we have right now 135,000
2 residential customers, but our costs continue to
3 increase, especially when you look at it from a
4 reliability standpoint. When we look at what we
5 have to do from a tree, vegetation-related situation
6 in Eastern Kentucky, we're a very vegetated area,
7 our costs have increased to be able to do
8 reliability in a proper manner.

9 Q. I'd like to follow up on a couple things with
10 that. When you talked about some vacant positions
11 and reduced contractors, in particular with the
12 reduction in contractors, what types of jobs were
13 the contractors doing?

14 **A. The contractors that we're talking about were**
15 **overhead line contractors. And in our vegetation**
16 **management, those would be the two contract groups**
17 **that we reduced during this COVID period of time**
18 **this year.**

19 Q. And has the COVID period impacted Kentucky
20 Power's Vegetation Management Plan?

21 **A. It hasn't impacted the plans that we have**
22 **that we have recovery for. Where our biggest**
23 **problems have been are trees outside our**
24 **right-of-way. When you go back and look**
25 **historically, that was around 30 percent, and this**

1 **year it's right at 50 or 51 percent, is our biggest**
2 **issue.**

3 So we've added, over the last year,
4 contractors to do our tree outside the right-of-way
5 work and reliability. And Witness Phillips would be
6 the better witness to give the detail.

7 That's one of the areas in which we had
8 contractors that we're talking about, and also the
9 overhead line that I mentioned earlier. But, yes,
10 we did have contractors doing vegetative work for
11 us, trying to work on what's causing the majority of
12 our outages.

13 Q. Thank you. Yes, I do plan to follow-up with
14 Witness Phillips in regard to the Hazard Trees and
15 Vegetation Management Program. So thank you.

16 When -- you've touched on this a bit.
17 Looking at one -- there are several cost drivers for
18 this case, but one of the significant cost drivers
19 is lost revenue from lost load.

20 Is that a correct or a fair statement?

21 **A. Yes, that is a fair statement.**

22 Q. And roughly, how -- let's cut -- I'll cut to
23 the chase. Is it correct that the lost load, the
24 revenue from lost load is about \$19.5 million?

25 **A. Yes. Over the three-year period from our**

1 **last case to this case; that is correct.**

2 Q. And is it also correct that about
3 three-fourths of that lost load is due to lost
4 industrial load?

5 **A. That's correct.**

6 Q. Well, building on that, as you touched on
7 economic development, I believe it was in your
8 testimony that there are three new large either
9 commercial or industrial customers that are
10 located -- they either have been located or are
11 locating in Kentucky. And they are -- to make sure
12 I am correct here, are they Dajcor Aluminum?

13 **A. Yes. That's in Hazard, Kentucky.**

14 Q. And Intuit?

15 **A. Yes.**

16 Q. Which I --

17 **A. That's in Hazard, Kentucky, as well.**

18 Q. Which I think I mispronounced. My apologies
19 to them. And Sykes Enterprise?

20 **A. No, that's right. You said it right. It's**
21 **Intuit.**

22 Q. You know, it's one of those words I see a lot
23 but rarely get to say. And Skyes Enterprise?

24 **A. Yes.**

25 Q. Can you tell me the status --

1 **A. The --**

2 Q. I'm sorry.

3 **A. No, I was going to say that Intuit -- you had**
4 **mentioned that industrial customers are locating.**
5 **Intuit would be really classified as a**
6 **commercial-type customer because it's a call center.**
7 **They have hired about 300 individuals in Hazard in**
8 **our -- in a vacant building, and they are doing**
9 **call-center-type work for Intuit.**

10 Dajcor is one that we worked with for a
11 couple years. It's a really good one to highlight.
12 Dajcor is a Canadian company. They do aluminum
13 work, and they moved into an existing building in
14 Hazard. And I was visiting with the CEO and owner
15 about six weeks ago. And we had touted in the
16 Hazard area, and not only Hazard, but Eastern
17 Kentucky, that there's a great skill set in former
18 coal employees, and he mentioned to me that one
19 shift in Hazard is more productive than three shifts
20 in Canada. And so he's looking at that seriously,
21 thinking about the possibility of expanding, and
22 that would be an industrial customer.

23 So they're doing well. Intuit is doing well
24 also. And what was the third one? I'm sorry.

25 Q. Skyes Enterprises.

1 **A. Did you say Sky Enterprises?**

2 Q. S-K-Y-E-S.

3 **A. Oh, yes. It's a little bit smaller customer**
4 **as well. And I would ask Witness Wiseman to give**
5 **you more detail on that particular one. I'm not as**
6 **familiar as I am with the other two.**

7 Q. Thank you. In the application, Kentucky
8 Power proposed -- had three options proposed to help
9 mitigate the rate increase, the first year of the
10 rate increase, and I'd like to walk through those
11 now.

12 I'd like to start with the capacity charge.
13 First, I think it's helpful to get a little bit of
14 background on this. So the capacity charge was
15 first approved in a 2004 rate case, and it is a --
16 is it correct it's a surcharge to recover
17 supplemental annual payments for the Rockport -- I'm
18 just going to call it the Rockport UPA for this
19 point.

20 **A. That's correct.**

21 Q. And is there -- in that supplemental annual
22 payment, is there any FERC rate or FERC-approved
23 amount in that capacity charge?

24 **A. Not that I'm aware of, but Witness Vaughan**
25 **would be the witness that could give the detail on**

1 that. I know it's \$6.2 million that we're
2 mitigating in this case, but as far as is it FERC
3 charges, I'm not sure.

4 Q. Okay. I will follow up with Mr. Vaughan.
5 And you talked about the 6.2 million. Can
6 you describe the proposal?

7 A. The proposal of the mitigation, it was
8 \$73 million and we're asking for \$65 million. I
9 know one of the mitigations was the \$6.2 million in
10 capacity charges. The other was -- and Witness
11 McKenzie will be the one that is our ROE witness,
12 and he'll be up later, but he recommended a
13 bandwidth, and he recommended around a 10.3 ROE to
14 ask, but as part of the mitigation, we decided to
15 move that down 30 basis points, which is roughly
16 \$2.5 million in this case.

17 And also, we have asked for a mitigation of
18 the accumulated federal deferred income tax to
19 offset year one of whatever the rate increase is,
20 that a customer will not pay new rates until
21 January 1 of 2022. So that's a couple of things
22 that we have done to help mitigate and offset this
23 rate case.

24 Q. Going back just to the capacity charge. As
25 you said, the capacity charge, it's about

1 \$6.2 million per year that's recovered from
2 ratepayers; is that correct?

3 **A. Yes.**

4 Q. And the Rockport UPA is scheduled to end on
5 December 31st, 2022; is that correct?

6 **A. That is correct.**

7 Q. And the capacity charge, that tariff would
8 end, then, as of December 31st, 2022; is that
9 correct?

10 **A. Well, Alex Vaughan, again, would be the one**
11 **to give the detail on that. I know after it ends,**
12 **there is a one-year that will carry forward with**
13 **some of the charges, but I'm not sure exactly how**
14 **the mechanics of that work, but Alex Vaughan is the**
15 **witness for that.**

16 Q. Without tipping our hand, there's a reason we
17 had Mr. Vaughan go last. We've noticed a trend.

18 And in the proposal with the capacity charge,
19 I'm aware that Kentucky Power had offered to
20 terminate it early with the condition that the
21 Commission accept the application as is. So is it
22 still Kentucky Power's position that it will end the
23 capacity charge only if the Commission accepts
24 Kentucky Power's proposed rate increase as it is
25 proposed in the application?

1 **A. Again, and I know you mentioned about Alex**
2 **going last, Alex Vaughan, but it is a mitigation**
3 **based on the ask in this case.**

4 MS. VINSEL: Did I hear an objection? No?
5 Okay.

6 MS. BLEND: No, no objection.

7 Q. Let me also follow up about the excess
8 unprotected ADIT, accumulated deferred income tax,
9 again. But let's do a little bit of background on
10 this before I launch into questions.

11 The excess unprotected ADIT resulted from the
12 reduction in the corporate income tax rate with the
13 Tax Cuts and Jobs Act, correct?

14 **A. That's correct.**

15 Q. And do you know what the balance of that
16 account is as of the filing of this rate case?

17 **A. Subject to check, around 111, 113 million**
18 **dollars, something in that neighborhood.**

19 Q. And Kentucky Power is proposing to return
20 approximately 65 million from the excess ADIT,
21 unprotected ADIT, correct?

22 **A. That is correct.**

23 Q. There was a previous case in which the
24 Commission dealt with the Tax Cuts and Jobs Act and
25 its impact. 2018-00035, just for the record.

1 I don't know if you're familiar with that
2 case, but in that case Kentucky Power witnesses
3 testified that an amortization period of less than
4 18 years would result in an adverse impact to
5 Kentucky Power's credit metrics and balance sheet.

6 Are you familiar with that?

7 **A. Yes, I am.**

8 Q. Given that this proposal would return almost
9 half of the ADIT balance, how would that impact
10 Kentucky Power's credit metrics?

11 **A. Well, for a short period of time in year one
12 through about year two, it will have an effect on
13 the credit metrics of the company. And I know in
14 that last case that you mentioned, 18 years was the
15 time frame to have paid those back. It is the
16 customers' money, and considering the timing of this
17 rate case, and we're here because we have to be,
18 whenever you look at where the company has struggled
19 in achieving ROE -- I know in that same case you
20 mentioned, it was an authorized ROE of 9.7. We have
21 not hit that 9.7 since the case.**

22 If you look at my rebuttal testimony, on
23 page 3 there's a table that steps us through all the
24 way down to the end of September, where we have a
25 5.3 percent ROE.

1 So it will have an effect, a minimal effect
2 for a short period of time. And our thinking was
3 that with the COVID pandemic, that by January of
4 2022, we should be back and be out of what we're
5 dealing with right now, to a more normal time frame,
6 if you will, and so the company is willing to
7 sacrifice.

8 You had mentioned earlier about customers.
9 That's one of the things that we brought into our
10 thought process as a way to mitigate this ask for
11 the first year.

12 Q. And thinking of that impact, let me ask a
13 hypothetical. If that same amount of money, the
14 65 million, was returned to customers over, say, two
15 years rather than one year, would it be relatively
16 the same impact on the credit metrics, or would
17 there be a different impact? Again, we're looking
18 at the same amount over a two-year period rather
19 than a one-year period.

20 **A. Right. And hypothetically, you're asking if**
21 **we went 24 months as opposed to 12 months. I would**
22 **defer to our financial experts on that to try to**
23 **give the answer, because I don't want to try to do**
24 **that off the top of my head. I'm sure it would have**
25 **an effect, but I don't know what exactly the effect**

1 **would be.**

2 Q. Okay. Thank you. And I think I should ask
3 that of Mr. Messner and Mr. Vaughan, correct?

4 **A. I would agree with that; yes, ma'am.**

5 Q. In the rate case expenses that have been
6 reported to date, there are payments to
7 Communication Counsel of America.

8 Can you tell me what Communication Counsel of
9 America, what service it provides?

10 **A. The services that they provide, and we**
11 **utilize them to help individuals that have never**
12 **testified in any formal hearing before, to help**
13 **prepare them. That's the main service they provide.**

14 Q. So helping those who are new to testifying at
15 the Commission to prepare to testify?

16 **A. Yes. The Commission, or in any hearing, for**
17 **that matter.**

18 MS. VINSEL: Staff has no further questions
19 at this time.

20 CHAIRMAN SCHMITT: Counsel for the Attorney
21 General.

22 CROSS-EXAMINATION

23 By Mr. Cook:

24 Q. Good morning, Mr. Mattison. This is Lawrence
25 Cook on behalf of the --

1 **A. Good morning.**

2 Q. -- Attorney General. I have just a few
3 questions for you today. I don't think I'll be very
4 long.

5 First of all, did Kentucky Power, its parent
6 company, or any affiliate, receive any financial
7 assistance from the federal government as a result
8 of the COVID-19 crisis?

9 **A. No.**

10 Q. Okay. And in your rebuttal, you reaffirmed
11 Kentucky Power's request to use \$10.8 million of
12 excess accumulated deferred federal income tax to
13 eliminate customer arrearages as of May 28, 2020;
14 isn't that correct?

15 **A. Yes. What we did is, at the same time we
16 made a base rate case filing on June the 29th of
17 2020, at the same time, in a separate filing, we
18 filed to do exactly what you just explained, to use
19 a portion of the \$10.8 million of the ADIT to offset
20 delinquencies for customers through May the 28th,
21 and that's what we did at the same time.**

22 Q. Okay. Thank you.

23 MR. COOK: And, Ms. Vinsel, I wonder if Staff
24 could pull up a Company response to one of the
25 Commission's data requests.

1 MS. VINSEL: Which data request?

2 MR. COOK: That is PSC 2-42. And the
3 response was filed on -- I'm pulling it up here --
4 July 21, 2020. And I can give you the page number
5 too, if that would help.

6 MS. VINSEL: Okay. Thank you. Zach?

7 MR. RIPY: Hi. Can I get a repeat of the
8 document name?

9 MR. COOK: Sure. It's the second data
10 request, and it's Item Number 42. And the Company's
11 responses were filed on July 21. I believe that's
12 where you'll find it in the docket.

13 MS. VINSEL: Zach, if it helps, it's
14 Document 16 in the index list.

15 I appreciate everyone's patience with this
16 process. There are thousands of documents in this,
17 and I know that Staff has them all saved, and
18 getting through them may take a moment.

19 MR. COOK: Thank you, Ms. Vinsel.

20 MS. VINSEL: And, Mr. Cook, what was that PDF
21 pagination?

22 MR. COOK: Page 617. There we go. Yes.

23 Q. So, Mr. Mattison, my question, I think, is:
24 It appears that you sponsored this response to this
25 data request; isn't that correct?

1 **A. That is correct.**

2 Q. Okay. Thank you, sir. And, let's see.

3 Looking at the last paragraph of your response, do
4 you agree that the sum of \$104,033 in expense from
5 the AEPSC Federal Affairs office representing a
6 lobbying expense is included for recovery from
7 ratepayers in this application?

8 **A. Yes.**

9 Q. Okay. Thank you. And your rebuttal
10 testimony made no reference regarding this lobbying
11 expense issue; isn't that correct?

12 **A. I believe that is correct.**

13 Q. And, sir, are you aware that the Commission
14 does not allow lobbying expense as an above-the-line
15 expense for recovery from ratepayers?

16 **A. Yes.**

17 Q. Okay. Would you agree that Kentucky Power's
18 revenue requirement needs to be reduced by that sum
19 in recognition of that fact?

20 **A. I don't know that I agree with that, no.**

21 Q. Okay. In your rebuttal, you characterize the
22 mitigation measures proposed by AG KIUC Witness
23 Kollen as extending the asset offset an additional
24 six months. Are you familiar with that? I can give
25 you the cite.

1 **A. No.**

2 Q. Yeah, it's on pages 5 through 6 of your
3 rebuttal, if you need to pull that up.

4 **A. I'm there.**

5 Q. Okay. And do you see where you characterize
6 Mr. Kollen's proposal, and I'm quoting here, as
7 extending the asset offset an additional six months?

8 Do you see that?

9 **A. Yes.**

10 Q. Okay. Isn't it true, however, that
11 Mr. Kollen's proposal was actually to extend the
12 excess deferred income tax offset an additional
13 12 months, but at 50 percent of the first year
14 offset?

15 **A. I'm not sure without looking at Mr. Kollen's
16 original statement, and I don't have it here.**

17 Q. Okay. I understand. A few days ago AEP,
18 your parent company, made a presentation at the EEI
19 conference that included capital spending
20 projections for the operating companies over the
21 next four years; isn't that correct?

22 **A. That is correct.**

23 Q. And Kentucky Power is projected to undergo
24 \$1 billion in capex over that same time frame; isn't
25 that correct?

1 **A. What's that time frame?**

2 Q. Four years, according to the presentation
3 that was given.

4 MS. BLEND: Mr. Cook?

5 MR. COOK: Yes.

6 MS. BLEND: Is there a document to which
7 you'd like to refer, or Mr. Mattison should be
8 referring?

9 MR. COOK: I don't have it, but it's easily
10 accessible on the Internet.

11 MS. BLEND: Thank you.

12 **A. Well, I don't have that document in front of**
13 **me, and quite honestly, I didn't listen to the EEI**
14 **presentation.**

15 Q. Okay. Well, let me ask you this, then:
16 Could I ask in a post-hearing data request -- I know
17 you don't have it available now. In a post-hearing
18 data request, could you provide Kentucky Power's
19 projected capital spending over the next four years?

20 **A. Sure, we'd be glad to.**

21 Q. Okay. Thank you.

22 MR. COOK: And, Mr. Chairman, that's all the
23 questions I have at this time.

24 CHAIRMAN SCHMITT: All right. Mr. Kurtz,
25 questions?

1 MR. KURTZ: Well, I just want to interject,
2 for Mr. Cook's benefit --

3 MS. VINSEL: May I --

4 MR. KURTZ: -- that EEI presentation --

5 CHAIRMAN SCHMITT: Pause. Stop just a
6 second.

7 Yes, Ms. Vinsel. What?

8 MS. VINSEL: We need to clarify that we need
9 to stop the screen share when we can return back to
10 the testimony.

11 CHAIRMAN SCHMITT: Oh. Okay. All right. So
12 now we need to do what now? We need to go back
13 to --

14 MS. VINSEL: Now we're good with Mr. Kurtz.

15 CHAIRMAN SCHMITT: Okay.

16 MR. KURTZ: Thank you, Your Honor.

17 CHAIRMAN SCHMITT: Mr. Kurtz, do you have --

18 MR. KURTZ: The document that Mr. Cook was
19 referring to is AG KIUC Hearing Exhibit 1.

20 THE REPORTER: I'm going -- I didn't catch
21 that.

22 MR. KURTZ: Edison Electric Institute
23 financial report.

24 But -- am I okay to go forward, Your Honor?

25 CHAIRMAN SCHMITT: Yes.

1 MR. KURTZ: Okay.

2 CROSS-EXAMINATION

3 By Mr. Kurtz:

4 Q. Good morning, Mr. Mattison.

5 **A. Good morning.**

6 Q. When the Rockport unit power agreements
7 expire, what will be the fixed cost savings for
8 Kentucky Power (indiscernible).

9 THE REPORTER: I'm not understanding him.

10 CHAIRMAN SCHMITT: Okay. We need to --
11 Mr. Kurtz, you may have to repeat that question. It
12 was difficult to hear, and the court reporter could
13 not hear the question.

14 UNIDENTIFIED SPEAKER: Your Honor, this is
15 coming from the --

16 (Simultaneous speakers.)

17 CHAIRMAN SCHMITT: I'm sorry. Could you
18 repeat the question, Mr. Kurtz?

19 MR. KURTZ: Yes, sir. I'm sorry.

20 Q. When the Rockport unit power agreements
21 expire at the end -- end of 2022, what is the
22 projected fixed cost savings for Kentucky Power?

23 **A. I'm not sure, Mr. Kurtz. I would -- I would**
24 **refer you to Witness Vaughan.**

25 Q. Witness Vaughan? Okay.

1 Do you know the status of the decommissioning
2 of Big Sandy Unit Number II, basically?

3 **A. To -- to a degree, but to get into the**
4 **details of that, Witness Tim Kerns, who has taken**
5 **over for Deb Osborne, would be the gentleman that**
6 **would know that in more detail.**

7 Q. Okay. And there was \$21 million of
8 decommissioning expense in the test year. Do you
9 know when the bulk of that decommissioning process
10 will be over, and so the rider, the decommissioning
11 rider would trend downward and be a lower bill for
12 consumers?

13 **A. So the bulk of the work should be over by**
14 **midyear 2021 to the end of the year of 2021. So I**
15 **think 2021 is when that should lessen, the bulk of**
16 **that work.**

17 Q. Who -- and who is the correct witness?

18 **A. Tim Kerns.**

19 Q. Okay. There was a reference to the TCJA
20 settlement that was entered into between KIUC and
21 Kentucky Power. Are you familiar with that?

22 **A. I'm not familiar with that.**

23 Q. You're familiar that the -- that through the
24 Tax Cuts and Jobs Act there was a credit on peoples'
25 bills as a result of the reduction in the corporate

1 income tax rate?

2 **A. Yes. Absolutely.**

3 Q. Okay. And you're familiar with the complaint
4 that Kentucky Power filed to change the settlement
5 agreement midyear of this year? They used
6 10.8 million as a reduction to the past -- to make
7 up for the past-due bills of consumers?

8 **A. Right. You said it was a complaint?**

9 Q. Yes. To change the settlement agreement.

10 **A. Yes. We -- you're talking about the one I**
11 **mentioned earlier on June the 29th that we filed to**
12 **mitigate the delinquency, the 10.8 million?**

13 Q. Yes.

14 **A. Yes, I'm familiar with that.**

15 Q. So I take it it's Kentucky Power's belief and
16 approach that settlement agreements can be modified
17 by the Commission if it's reasonable to do so?

18 **A. Yeah. I'm sorry, you cut out on the very**
19 **first part of that. I caught three-quarters of what**
20 **you said, but I didn't catch the first of it. I'm**
21 **sorry.**

22 Q. You heard me say --

23 MS. BLEND: I'll object to the extent that
24 Mr. Kurtz is asking for a legal opinion.

25 MR. KURTZ: Well, I don't want a legal

1 opinion.

2 Q. But is it your understanding, based upon your
3 complaint to change the settlement agreement, that
4 settlement agreements are subject to Commission
5 jurisdiction to review for reasonableness, and they
6 can be changed?

7 **A. I think the Commission can do that in any**
8 **case, sure.**

9 Q. Okay. Would that apply to the 2004
10 (indiscernible) credit settlement agreement?

11 **A. I'm not sure about that. That is something**
12 **the Commission would have to rule on.**

13 Q. Are you sure about --

14 **A. That would be for them.**

15 Q. Are you sure about the other settlement
16 agreement?

17 **A. What do you mean, am I sure about it?**

18 Q. Well, you said that you're sure the
19 Commission can change the tax settlement agreement,
20 but you're not sure about the past due credit
21 settlement agreement?

22 **A. I was giving an overall view, not particular**
23 **to the \$10.8 million. My view is the Commission has**
24 **the authority to do as they choose, not necessarily**
25 **specific to the 10.8, but in any instance.**

1 Q. Could I ask -- I would like to ask a series
2 of questions on this, marked as AG KIUC Hearing
3 Exhibit Number 1, which is the AEP presentation to
4 the EEI Financial Conference in November of 2020.

5 MR. KURTZ: If we could have that put up on
6 the screen, I'd just like to walk through it
7 chronologically.

8 MS. VINSEL: Chairman, if I may. Mr. Kurtz,
9 is this one of the Attorney General KIUC's exhibits?

10 MR. KURTZ: Yes. Yes, Nancy, Hearing Exhibit
11 Number 1.

12 MS. VINSEL: Thank you.

13 So Zach and Travis, we're looking for the
14 Attorney General's Hearing Exhibit Number 1.

15 MR. KURTZ: Thank you.

16 MS. VINSEL: And if you'll please rotate the
17 view.

18 MR. KURTZ: That's great. Thank you.

19 Q. As president of Kentucky Power, I assume
20 you're generally familiar with the corporate
21 activities of AEP, your parent?

22 **A. In general, that would be true.**

23 Q. Okay. Can we go to page 6 of this document
24 to start with, the EEI Key Themes?

25 **A. I'm there.**

1 Q. Okay. The very first one is five to seven
2 percent earnings growth rate in 2021 range. What is
3 the -- what is the five to seven percent earnings
4 growth rate?

5 **A. Well, I think, and not trying to be**
6 **facetious, it's exactly what it says. From the**
7 **corporate perspective, AEP is planning to grow, as**
8 **they have over the last several years, at five to**
9 **seven percent in earnings.**

10 Q. Okay. At the very bottom, what is ESG Focus
11 and Transition Towards a Clean Energy Future? What
12 does ESG mean?

13 **A. Environment, societal, and governance.**

14 Q. Why is that important?

15 **A. Well, it's extremely important when you look**
16 **across the spectrum of the country, where we are as**
17 **a country, and you consider what begins to be a very**
18 **important issue to individuals whenever you talk to**
19 **them, survey them, and listen, as the purpose of**
20 **this EEI conference is, that carbon footprint is a**
21 **big issue. So this is a movement towards a more**
22 **sustainable future, i.e. environment and societal,**
23 **and then the governance to make that happen. That's**
24 **what that means.**

25 Q. And it's an important factor in your stock

1 price and in your credit ratings, is it not? Is
2 this something that people take into account,
3 Blackstone Group, etcetera, in terms of AEP's stock?

4 **A. I'm sure it's a factor.**

5 MR. KURTZ: Okay. Can we go to page 11 of
6 this document?

7 **A. I'm there.**

8 Q. Okay. Then we have ESG Focus, this is a
9 little bit more detailed. So the reduction,
10 42 percent reduction in coal capacity by 2030 is
11 something that helps in your ESG ratings, so to
12 speak?

13 **A. I believe it could be a factor.**

14 Q. Kentucky Power is practically full coal-fired
15 at this point, correct, and the 780-megawatt
16 Mitchell unit is your -- is your -- will be your
17 primary generation source once the Rockport
18 contracts expire in two years; is that correct?

19 **A. Yes, and you have to include into that the
20 Big Sandy gas-fired plant.**

21 Q. Right. The 260 megawatts, Big Sandy, about,
22 Big Sandy 1?

23 **A. Approximately.**

24 Q. And Mitchell is not scheduled to retire until
25 2040; is that correct?

1 **A. That is what it is today.**

2 MR. KURTZ: Okay. Let's go to page 25 of
3 this -- of this document. Can you scroll down -- up
4 a little bit more. Okay.

5 Q. At the very bottom it says that five and
6 seven percent earnings per share growth is
7 predicated on regulated rate base growth.

8 Does that mean you grow your earnings by
9 growing your rate base?

10 **A. That's what it says, yes.**

11 Q. You could also grow earnings by cutting
12 costs, could you not?

13 **A. You could do that. That is a -- that is an
14 option, and it's one that we are very much involved
15 in. AEP, as a company, beginning at the end of last
16 year, took on -- and I know that our chairman has
17 talked about this from time to time at various
18 meetings that he's been in. I'm sure he may have
19 mentioned this at EEI, I don't know for sure, but
20 achieving excellence is a way to transform what
21 we're doing, looking at opportunities to where we
22 can reduce costs, maybe use robotics and different
23 things from that perspective. So we're always
24 scrutinizing our costs and trying to do things in a
25 least-cost manner.**

1 Q. Okay. So this is not unique to AEP.
2 Regulated utilities grow earnings by growing rate
3 base, as opposed to cooperative utilities that do
4 not have that same setup. Would you agree with that
5 statement?

6 **A. I would agree that a co-op and an**
7 **investor-owned utility operate very differently.**

8 Q. And because your earned -- your sales are
9 flat or even declining, as you grow rate base,
10 essentially, and sales are flat or negative, the
11 cost per unit of the electricity on consumers goes
12 up necessarily? That's the way the math works?

13 **A. It's just a numerator/denominator equation**
14 **for sure, and we have been in a declining load**
15 **growth, unfortunately, for the last couple years.**

16 Q. Hence, the dilemma: As you grow rate base to
17 grow earnings and sales are flat or negative, you
18 have the effect of, to the extent there's any
19 elasticity of demand, people will use less of the
20 product because it'll cost more, and now the rate
21 increase is even higher?

22 **A. Well, that's a fundamental economic equation,**
23 **for sure, that you just described, but whenever I**
24 **refer back to my rebuttal testimony, page 3, where**
25 **the ROE at the end of September was 5.3 percent, the**

1 **company -- I'm talking specifically about Kentucky**
2 **Power, not AEP -- has an obligation to serve and**
3 **take care of our customers and do so in a manner**
4 **where they have reliable, affordable electricity.**
5 **But the company has to be healthy, and so in this**
6 **declining growth -- and we have ROEs that we would**
7 **have come in to the Commission much sooner than we**
8 **would now, but as we know, in the last rate case we**
9 **had a three-year stay-out, and so we could not come**
10 **in until now, or we would have been in earlier.**

11 MR. KURTZ: Okay. Can we turn to page 28 of
12 this agreement, of this document? That's it.

13 Q. Do you see the model there for Kentucky
14 Power? Is that the same 5.3 percent return on
15 equity that you just cited?

16 **A. That is correct.**

17 Q. So -- and the small circle means that
18 Kentucky Power is a small piece of AEP; is that
19 right?

20 **A. It's one of the smaller operating companies,**
21 **yes, it is.**

22 Q. So Kentucky Power is dragging down the
23 overall return of AEP corporate, right?

24 **A. I think when one looks at this chart and sees**
25 **the average of what's going on in the other**

1 **jurisdictional utilities, it's apparently obvious**
2 **where Kentucky Power is.**

3 Q. Over the -- it's -- you're -- you haven't
4 been in your -- how long have you been in your
5 position?

6 **A. Approximately two years.**

7 Q. Kentucky Power has always been an earning
8 lagger, so to speak, in the AEP system, has it not?

9 **A. I'm not sure that they always have. "Always"**
10 **is a pretty absolute word, so I'm not sure if that**
11 **would be the right connotation.**

12 Q. Fair enough. Last ten years?

13 **A. Possibly, subject to check. I'm not sure.**

14 Q. On the right-hand side there's the Authorized
15 Equity Layers, and we see that Kentucky Power was at
16 42 percent equity capitalization, moved up to
17 43 percent. That's an improvement of one percent.

18 Did I read that correctly?

19 **A. That's what it says, yes.**

20 Q. Why that improvement? Why does AEP want more
21 equity capitalization in its powering company?

22 **A. Well, I would refer you to Witness Vaughan**
23 **and Witness West to be able to tell you the**
24 **particulars of why that's a good thing with**
25 **utilities.**

1 Q. Fair enough. AEP transmission, the
2 55 percent equity capitalization, those are the
3 transcos, and you have a Kentucky transco, an Ohio
4 transco, an Indiana transco, etcetera; is that what
5 that is?

6 **A. I'm assuming that is what that is, is that**
7 **that's the transcos.**

8 Q. Okay.

9 **A. But I'm not sure.**

10 Q. And AEP likes high equity capitalization
11 because that's how -- that's the -- the debt portion
12 is just simply a pass-through of the interest
13 expense, the profit margin's made on equity,
14 correct?

15 **A. I would assume that to be true.**

16 Q. Page 53. Do you see the \$10,166,000,000 PJM
17 transmission expenditure? And I think it's
18 actually -- Mr. Cook said it's four, but I think
19 it's a five-year period, '21, '22, '23, '25, a
20 five-year period; is that the --

21 **A. What was that amount? What was the amount?**

22 Q. 10.166 billion.

23 **A. Yes, I see that.**

24 Q. Okay. And Kentucky Power is about
25 5.6 percent of AEP East, which is -- which is the

1 PJM footprint, correct, on a 12 CP basis?

2 **A. That would be correct.**

3 Q. So Kentucky Power's share of that 10,166,000
4 five-year capex, then, would be approximately
5 \$569 million?

6 **A. Yes.**

7 Q. That includes transmission growth in all of
8 AEP East, Michigan, Indiana, Kentucky, Virginia,
9 West Virginia, Ohio, and Tennessee, correct?

10 **A. It includes all growth in PJM.**

11 Q. Okay. And it's those states that I just
12 enumerated? That is, it's just the states that AEP
13 is in PJM, it's not New Jersey or Pennsylvania?

14 **A. They're in -- those states you mentioned are
15 included in that.**

16 Q. And then at the bottom we see Investment
17 Categories: Asset Replacement, Local Reliability,
18 RTO Driven, etcetera.

19 Do you see those?

20 **A. Yes.**

21 Q. How do -- how do Kentucky ratepayers benefit
22 from local reliability, transmission investments in
23 Michigan?

24 **A. Well, the RTO, which is PJM, that we're a
25 member of was a requirement of the merger between**

1 **AEP and CSW. And as a result of that, it was**
2 **approved by the Commission in around 2004-2005. And**
3 **it gives great benefit to Kentucky ratepayers to be**
4 **a part of an RTO. You do not want Kentucky Power to**
5 **be an island sitting out there by itself. For**
6 **example, if we were to lose transmission, if we were**
7 **to lose Mitchell and Big Sandy at the same time, how**
8 **could you get generation in to our customer base?**
9 **You couldn't. Lights would go out. So there are**
10 **benefits for being a member of the RTO and PJM.**

11 And the amount that we spend in transmission
12 in Kentucky has moved and changed over the last
13 couple years as a result of some economic
14 development opportunities that we've had that we
15 have had to move out because they moved their
16 timeline, but there is great benefit of being a
17 member of an RTO.

18 Q. There certainly is, but it's not mutually
19 exclusive that Kentucky Power being a member of PJM
20 has to be in the AEP zonal footprint and for local
21 transmission investments in Michigan; isn't that
22 true? Kentucky Power could be a stand-alone member
23 of PJM, get the same benefits, without paying --

24 **A. I don't know that -- I don't know that that's**
25 **true, but I would refer you to Witness Kelly Pearce.**

1 **He is our PJM expert and he could better answer**
2 **those type questions than I can.**

3 Q. Are you familiar that East Kentucky Power
4 Cooperative is a stand-alone member of PJM?

5 **A. No, I am not.**

6 Q. Do you know Dayton Power & Light, a little
7 bitty utility, is a stand-alone member of PJM? Are
8 you aware of that?

9 **A. No, I am not.**

10 Q. What about Duke Energy Kentucky and Ohio?
11 They are one grouping, but they are a stand-alone
12 PJM member. Are you aware of that?

13 **A. No, I am not.**

14 Q. Has -- in your tenure as president, has
15 Kentucky Power looked at stand-alone membership in
16 PJM?

17 **A. Not to my knowledge, no.**

18 Q. Have you looked at joining the East Kentucky
19 Power Cooperative zone and not the AEP zone?

20 **A. No, we have not.**

21 Q. Your service territory overlaps with East
22 Kentucky, does it not?

23 **A. It does.**

24 Q. And you basically serve the same customer
25 base, don't you? Largely, at least?

1 **A. Very similar.**

2 Q. What?

3 **A. Very similar in certain areas.**

4 MR. KURTZ: Page 54 of this document, please.
5 The next page.

6 Q. Here we have, on an AEP total company basis,
7 some transmission asset statistics: Life
8 expectancy, current quantity over life expectancy,
9 replacement needed over the next ten years, percent
10 of the AEP system?

11 Do you see all of those statistics in the
12 right-hand side?

13 **A. I see them.**

14 Q. Have you ever seen those statistics --
15 presumably, to get the AEP total, somebody had to
16 look at each operating company. Have you seen those
17 statistics for Kentucky Power as a stand-alone
18 basis?

19 **A. No, I have not.**

20 Q. Are you aware that one of the Attorney
21 General KIUC recommendations is the Commission open
22 an investigation into the transmission cost of
23 Kentucky Power?

24 **A. No, I am not.**

25 Q. You're not aware of that recommendation in

1 Mr. Baron's testimony?

2 **A. No, I am not.**

3 Q. All right. If the Commission -- let's assume
4 that that is the AG KIUC recommendation, and assume
5 the Commission were to adopt it. Would we be
6 able -- would Kentucky Power be able to provide
7 these type of transmission statistics on a Kentucky
8 Power-only basis?

9 **A. Yes, we could.**

10 MR. KURTZ: The next page is 55, please.

11 Q. It's titled Stable Cost Recovery Framework.
12 Do you see that?

13 **A. Yes, I do.**

14 Q. We're still talking about transmission, are
15 we not?

16 **A. That's what this page is referring to, yes.**

17 Q. And we see that Kentucky is listed as partial
18 tracker/rider recovery?

19 **A. Yes.**

20 Q. And that's because of the last rate case
21 settlement and Commission order, 80 percent of
22 incremental transmission cost increases run through
23 the PPA rider of Kentucky Power?

24 **A. Yes. Not a hundred percent, but 80 percent;**
25 **that's correct.**

1 Q. And your position in this case, of course, is
2 that it should move up to a hundred percent,
3 correct?

4 **A. Yes.**

5 Q. Okay. And the AG KIUC position is it should
6 go back to the old way of doing business, is base
7 rate recovery; is that correct?

8 **A. I am familiar with that; yes, sir.**

9 Q. Why do -- why do investors like tracker
10 recovery or rider recovery?

11 **A. Well, I would assume that they realize that
12 their costs are going to be recovered, that there's
13 a mechanism in place for that to happen.**

14 Q. If the Commission were to approve Kentucky
15 Power's proposal of a hundred percent rider recovery
16 of incremental transmission expense, that would mean
17 that, for example, for Kentucky transco transmission
18 cost increases, that would be -- that would be
19 reflective of a 10.35 percent return on equity that
20 FERC has authorized, that 10.35 percent would
21 automatically flow through?

22 **A. At that percentage, yes.**

23 Q. Okay. And it would be at the -- and this
24 is -- you can see it at the top there, the 9.85 base
25 plus 50 basis point RTO added. That's --

1 10.35 percent, that's the -- that's the return on
2 equity that FERC actually authorizes for all of the
3 operating companies as well as the transcos on
4 transmission; isn't that correct?

5 **A. That is a FERC-regulated rate of return; that**
6 **is correct.**

7 Q. So if the Commission worked with right of
8 recovery, the Commission would be passing through a
9 return on equity that's higher than what you're
10 asking for in this case?

11 **A. I'm not sure that I would characterize it**
12 **like that.**

13 Q. And it would certainly be higher --
14 10.35 percent would be higher than what the AG and
15 KIUC are recommending at nine percent, would it not?

16 **A. Well, sure, 10.35 is higher than nine**
17 **percent.**

18 Q. And the equity rate on capitalization for the
19 transcos would be 55 percent, and for the operating
20 company it would be the max cap structure. Is that
21 the way you understand how it work -- how it would
22 work?

23 **A. Referring back to the inset on, I don't**
24 **remember the page number, but that's how it was**
25 **displayed, yes.**

1 MR. KURTZ: Page 58.

2 Q. It says, "Well Positioned to Capture
3 Potential New Transmission Investment Necessary to
4 Link Clean Resource Rich Areas to Customers."

5 What is -- "Capture," that's because AEP
6 wants these transmission investments, they want to
7 capture them, because this rate base, it adds to
8 earnings? Is that the right way to read this?

9 **A. That's the way that I read it, yes.**

10 Q. Just a few more on this document.

11 MR. KURTZ: Okay. Page 79.

12 Q. Okay. CAGR, compound annual growth rate of
13 five percent for Kentucky Power projected through
14 2025; is that correct?

15 **A. That is what we would hope for, yes.**

16 Q. And at the top, it says "Kentucky Power
17 projected rate base proxy." So to increase the rate
18 base -- rate base is the proxy for earnings growth,
19 correct?

20 **A. Yes. In a regulated, vertically-integrated
21 electric utility; that is correct.**

22 Q. And then at the right we see normalized
23 gigawatt hour sales, a 6.4 percent reduction in 2020
24 estimated and a 1.6 percent estimated in 2021; is
25 that correct?

1 **A. Yes.**

2 Q. So as you grow the rate base, you grow
3 earnings; sales go down, it necessarily means the
4 costs go up on consumers; is that correct?

5 **A. Yes.**

6 Q. You know, you admitted that it's your job,
7 and it's a difficult situation because Eastern
8 Kentucky is a tough service territory, but does this
9 business model make sense for a depressed economic
10 area like Eastern Kentucky?

11 **A. Well, I think whenever you look at it in a**
12 **whole and what we have to do, is -- no one could**
13 **have anticipated, for example, AK Steel shutting**
14 **down, which they did in December. Bellefonte**
15 **Hospital that employed a thousand people,**
16 **significant load, they shut down as well. No one**
17 **anticipated those things happening.**

18 There's no doubt the coal industry has been
19 hampered significantly. When you go back ten years,
20 there was close to 15,000 employees in the coal
21 business. There's now less than 3,000, talking
22 about actual workers in the coal mines. When you
23 look at that same time period, 90-plus tons --
24 90-plus million tons of coal, now it's down to
25 13 million. It's just in a death spiral,

1 unfortunately.

2 Well, that area that we're in in Eastern
3 Kentucky was built off the coal industry and the
4 steel industry, and it's in a -- it's an issue right
5 now of transforming that. That's why, under the
6 leadership of Matt Satterwhite, economic development
7 was such a big deal, and it still is. We've got to
8 grow the base. And you referred to it multiple
9 times, that when you lose load, it costs everybody.
10 There's no doubt about it.

11 So that's why we have to continue to develop
12 our area. It has a great skill set, as I mentioned
13 earlier in questions with Dajcor and how well that
14 those employees are doing, and compared to another
15 country's output, they're doing excellent.

16 So we've got the skill set, we've got the
17 area. And, in fact, yesterday -- I met with a
18 significant economic development prospect yesterday
19 morning in Eastern Kentucky. And I can't divulge
20 the name because they operate under code names, as
21 you know, whenever they are looking. But this is a
22 very legitimate entity and business that could
23 employ three to six hundred employees. That's
24 exactly what we need in Eastern Kentucky, and then
25 you'll see those negative numbers move to positive

1 numbers as it goes forward.

2 Q. And I think everyone would agree with that.

3 And I thought that example about the one shift

4 productivity equals three in Canada was fascinating.

5 So no one disputes that, I'm sure. But why -- if

6 you've got a shrinking business, why isn't your rate

7 base shrinking? Most businesses, if sales are down,

8 they downsize. Why are you upsizing in a shrinking

9 sales environment?

10 **A. Well, we have an obligation to provide a**
11 **certain level of service to customers. We have to**
12 **provide reliability. We have an obligation to**
13 **serve, unlike other businesses. We're not like**
14 **other businesses. So we cannot let our systems**
15 **fail. And rates are determined by what we put in**
16 **those rate bases from the products and services that**
17 **we offer.**

18 And as you know, we serve in a least-cost
19 manner. So if the company is unhealthy, that means
20 our customers are not getting the products and
21 services that they deserve and they should have, and
22 we have to maintain that and keep it going.

23 Q. But you're contributing to the death spiral
24 because you're increasing rate base --

25 **A. To grow --**

1 Q. -- excuse me -- to grow earnings at the same
2 time that sales are shrinking, which would cause
3 sales to shrink more?

4 **A. It's -- well, Eastern Kentucky -- and Witness**
5 **Phillips can address this in more depth. And as you**
6 **know, the topography there is much different than a**
7 **lot of the other utilities across the footprint, and**
8 **the ones you mentioned earlier across the AEP**
9 **footprint. It's heavily forested. It's mountainous**
10 **terrain. Whenever we have to remove a hazard tree**
11 **that's outside the right-of-way -- the right-of-way**
12 **may be no wider than a two-lane road. And I've been**
13 **involved and watched and witnessed when we've had to**
14 **lock a road down, shut it down for an entire nine**
15 **hours just to remove one tree. So providing service**
16 **in our footprint is different than many of the other**
17 **utilities.**

18 Q. Doesn't it make this difficult situation even
19 worse by asking Kentucky Power to, I'll use the word
20 "subsidize" transmission investments throughout the
21 AEP East system?

22 **A. No, I don't believe it makes it worse. As I**
23 **described earlier, it is very beneficial to be a**
24 **member of an RTO. And again, Kelly Pearce is the --**
25 **is the proper witness to address that in detail.**

1 Q. But I think that's a false choice. You
2 don't -- you don't have to be in the AEP zone to be
3 a member of PJM. And to the extent that that's what
4 the current PJM tariffs state, it's a rate and it
5 can be changed, can it not?

6 MS. BLEND: I'll object again to the extent
7 that Mr. Kurtz is asking Mr. Mattison to provide
8 legal testimony regarding how or whether a PJM
9 tariff may be modified.

10 Q. Well, then I'll simplify it. As the
11 president of a utility, you know that you're
12 regulated, and you can go to the regulator and ask
13 for changes in tariffs. That's not illegal. That's
14 a business reality, is it not?

15 **A. No, I think it is a business reality when you**
16 **talk about change in tariff. But you're not only**
17 **talking about change in tariff, you're talking about**
18 **fundamentally shift as a member of PJM in an RTO to**
19 **do something totally different. And I would defer**
20 **to the experts from the electrical perspective, how**
21 **that actually would happen, what you would do with**
22 **current charges, costs, etcetera, and that would --**
23 **that would need to be a different witness than me**
24 **that can give you the detail you're looking for on**
25 **that.**

1 Q. Okay. Well, one last couple set of
2 questions. This is AG KIUC Hearing Exhibit Number
3 3, and then I'll -- then we'll -- okay.

4 This is a PJM document. Do you see AEP
5 dollars per megawatt here of -- this is NITS. Well,
6 do you know what NITS is? NITS is Network
7 Integrated Transmission Service?

8 **A. Yes, I do. That is how transmission owners**
9 **recover their costs through the RTO, PJM in this**
10 **case.**

11 Q. Right. So there's -- this is the bulk of the
12 transmission expense, however PJM -- PJM costs, RTEP
13 and administrative fees and so forth, but this is
14 essentially the return on the transmission
15 investment for the transmission owner, correct?

16 **A. That's what it appears to be, yes.**

17 Q. Okay. At \$80,000 a megawatt year, Kentucky
18 Power has a megawatt footprint of approximately
19 1,000 megawatts, 1,000, 1,200; is that correct?

20 **A. That's correct.**

21 Q. Okay. We'll choose 1,000 so the math is
22 easy. So the NITS -- and this is the AEP average.
23 This is Indiana, Ohio, Kentucky, Kentucky transco,
24 Indiana transco, and so forth. The average is
25 \$80,306 a megawatt year, correct?

1 **A. Yes, that's what it says.**

2 Q. Okay. So AE -- so Kentucky Power here would
3 be about 80 million?

4 **A. Correct.**

5 Q. A thousand megawatts?

6 **A. Doing the math as we described, yes, that's
7 what it would be.**

8 Q. Okay. And midway through we see East
9 Kentucky Power Cooperative \$23,000, 23,763 megawatt
10 a year for -- do you see that?

11 **A. I see it.**

12 Q. They operate in about the same part of the
13 country, part of Kentucky, that Kentucky Power does,
14 do they not?

15 **A. They do from a geographic perspective, yes.**

16 Q. And their NITS transmission charge is about
17 25 percent of AEP average, correct?

18 **A. From a mathematical perspective, that's
19 correct.**

20 Q. Part of the reason is they don't pay federal
21 or state income taxes because they're a cooperative.
22 That would explain part of it, correct?

23 **A. Well, as I mentioned earlier, a co-op and an
24 investor-owned utility operate financially
25 completely different. So if you're asking me to**

1 **speak to how they can get that cost down to \$23,000,**
2 **I have no idea without doing a lot of investigation,**
3 **data requests over to the co-op to figure out what**
4 **goes into that. I have no idea.**

5 Q. That's fair. If that rate applied to
6 Kentucky Power, instead of the 80,000, it's almost a
7 \$60-million-a-year differential?

8 **A. Mathematically, yes.**

9 MR. KURTZ: Okay. Mr. Mattison, those are
10 all my questions. Thank you, Your Honor.

11 CHAIRMAN SCHMITT: Thank you. Counsel -- I
12 guess we need to, what, get back on the screen with
13 the other attorneys?

14 MS. VINSEL: Yes.

15 CHAIRMAN SCHMITT: Okay. At this time,
16 counsel for Walmart, please advise whether or not
17 she has any questions of the witness.

18 MS. GRUNDMANN: Yes, Your Honor. I have just
19 a couple of questions.

20 CROSS-EXAMINATION

21 By Ms. Grundmann:

22 Q. Good morning, Mr. Mattison. How are you?

23 **A. I'm fine. Good morning. Thank you.**

24 Q. Are you having any difficulty hearing me?

25 **A. No, I can hear you fine.**

1 Q. Perfect. Earlier this morning, in response
2 to some questions from Mrs. Vinsel, you discussed
3 the rate mitigation measure that Kentucky Power has
4 proposed with respect to the ROE in this matter.

5 Do you recall that testimony?

6 **A. Yes.**

7 Q. And I think that what you said is that as a
8 rate mitigation measure, that you have proposed an
9 ROE that is 30 basis points below the ROE suggested
10 by Company Witness McKenzie?

11 **A. That is correct.**

12 Q. And that the value of that to customers is
13 approximately two and a half million dollars?

14 **A. Approximately, yes.**

15 Q. And so is it fair to say that the cost to
16 customers as it relates to your currently authorized
17 ROE is approximately two and a half million dollars,
18 between the 9.7 that you're currently authorized and
19 the 10.0 that you're seeking in this proceeding?

20 **A. Well, I hadn't done any studies to look at**
21 **the difference between the 9.7 and 10 and a half,**
22 **but logically, that makes -- that makes sense.**
23 **However, Mr. McKenzie is the expert ROE witness on**
24 **that, and he may have more granular, you know,**
25 **numbers than I do on that. But we chose that ten**

1 **percent because it's actually less than what**
2 **Mr. McKenzie recommended.**

3 Q. And, Mr. Mattison, who within Kentucky Power
4 is responsible for the decision to seek a 10.0 ROE?

5 **A. Well, when it came out as 10.3, I brought my**
6 **senior team together and we decided. You could say**
7 **I decided to move it to a 10.0.**

8 Q. Okay. So you would agree you were ultimately
9 responsible for the ultimate request of the 10.0 ROE
10 in these proceedings?

11 **A. That is correct.**

12 Q. And so nothing would have prohibited the
13 company from not seeking an increased ROE in these
14 proceedings?

15 **A. Not seeking an increase of -- are you**
16 **referring back to the 9.7?**

17 Q. That's correct.

18 **A. That would be true.**

19 Q. And do you happen to know whether
20 Mr. McKenzie was your ROE witness in the 2017 rate
21 case?

22 **A. Yes, I believe he was.**

23 Q. Do you remember what the ROE was that he
24 proposed in that rate case?

25 **A. I am not sure. I think it was around ten,**

1 **subject to check. I'm not exactly sure what it was**
2 **that he proposed.**

3 Q. So subject to check, does a 10.3 also sound
4 correct?

5 **A. It could be, but I'm not a hundred percent**
6 **sure.**

7 Q. And, Mr. Mattison, you understand, and I
8 think you reflected in your testimony, that as rate
9 base continues to shrink in your territory, that
10 fewer customers are going to be asked to pay more
11 simply because there are fewer available to pay your
12 cost; is that correct?

13 **A. That would be correct.**

14 Q. And so don't you think that that fact, in the
15 same way that it has encouraged you to seek a rate
16 increase as part of this case, is another reason not
17 to seek an increased ROE in this case?

18 **A. No, not necessarily. I think that whenever**
19 **you look at several factors -- and again, I'll let**
20 **Mr. McKenzie give the granularity, but I do know**
21 **that we forward look at the forecast and take the**
22 **S&P 500. He expects it to be a 12.3 percent. And**
23 **again, he can speak to that, but he's got very sound**
24 **logic and reasoning as to why he came up with the**
25 **requested 10.3.**

1 When I look at unemployment across the state
2 of Kentucky, if you look at all of Kentucky,
3 unemployment levels are back to where they were
4 pre-COVID. When you look at our service territory,
5 ours in Eastern Kentucky are a bit higher than they
6 are across the state; however, the unemployment
7 statistics are back to what they were pre-COVID as
8 well.

9 So that's why we did the mitigations that we
10 offered, the reduction of the 30 basis points, the
11 capacity charges, and if you inflated deferred
12 federal income tax for a one-year offset to where a
13 customer wouldn't pay any increased cost until
14 January of 2022.

15 Q. I feel like you're conflating a couple of
16 terms, so I just want to make sure. You're talking
17 about unemployment numbers now, as where they sit
18 today, as we sit here today; is that correct?

19 **A. That is correct.**

20 Q. But the rate mitigation measure that you
21 offered was set forth in your testimony that was
22 filed months before, under different unemployment
23 numbers?

24 **A. June the 29th.**

25 Q. And do you have any concept, Mr. Mattison,

1 whether talking about the 10.3 or the 10.0, of how
2 an ROE that high would compare to ROEs awarded
3 across the country?

4 **A. I would -- I would refer you to Witness
5 McKenzie.**

6 Q. So it's fair to say you are not aware?

7 **A. That's -- no, I didn't -- I didn't say that.
8 I would refer you, again, to the detail, though, of
9 Witness McKenzie.**

10 Q. No, I'm happy to seek that detail with
11 Mr. McKenzie, but the question for you is: Are you
12 aware as to how that would relate to ROEs awarded
13 throughout the country?

14 **A. I have seen from time to time different ROEs
15 awarded across the country, yes.**

16 Q. And have you seen ROEs awarded in the last
17 18 months at a 10.3?

18 **A. Not that I'm aware of, no.**

19 Q. So I think you testified a minute ago that
20 you believed Mr. McKenzie's analysis to be sound and
21 reliable; is that fair?

22 **A. I do.**

23 MS. GRUNDMANN: Okay. I don't have any
24 further questions.

25 CHAIRMAN SCHMITT: Thank you. Would counsel

1 for Kentucky Solar Industries Association please, I
2 guess, check in on the video?

3 MR. SPENARD: Yes. Mr. Chairman, I --

4 CHAIRMAN SCHMITT: Oh, Mr. Spenard, good --
5 good to see you again. Do you have questions for
6 this witness?

7 MR. SPENARD: No, Mr. Chairman, KYSEIA does
8 not have any questions for this witness.

9 CHAIRMAN SCHMITT: It's about 12 minutes
10 until 11:00, and we have some people here that need
11 to take a short break, so we'll go into recess until
12 11:00 o'clock, at which time we'll return and see if
13 Mr. FitzGerald has any questions for the witness.

14 (Recess from 10:49 a.m. to 11:05 a.m.)

15 CHAIRMAN SCHMITT: Are we on the record?

16 Okay. We're back on the record. All right.
17 So far as screen share, I guess we can see if -- are
18 all of the attorneys are now on? All right.

19 Let me say this: Ms. Blend, attorney for
20 Kentucky Power, I couldn't understand when you -- I
21 didn't know if you had an objection, or I know you
22 interjected a couple times during Mr. Kurtz's cross.
23 You may have to take off your mask or something, and
24 maybe turn away from the witness and speak into the
25 microphone. It's difficult to hear, I guess, in the

1 size room.

2 Our IT person here said that it was probably
3 the microphones which are for conferencing, or good
4 in a conference room like our hearing room, but in
5 one of -- in a program like this, that basically,
6 they don't transmit the voice very well.

7 So I wanted to give you an opportunity. I
8 didn't understand. I thought maybe you were
9 objecting, but I couldn't hear, and I don't think
10 the court reporter could either. So maybe if you
11 want to object, I think you probably ought to take
12 off your mask or raise your hand or something to let
13 me know so we'll give you an opportunity to
14 articulate your position. Okay?

15 MS. BLEND: Thank you, Your Honor. Can you
16 hear me better now with my mask off and --

17 CHAIRMAN SCHMITT: I can.

18 MS. BLEND: -- speaking into the microphone?

19 CHAIRMAN SCHMITT: It was like with
20 Mr. Overstreet, you just about have to get into the
21 microphone before you can be -- you can be heard,
22 but nobody can understand what it is you're saying.

23 So -- and I think -- I guess -- I know
24 Mr. Kurtz is probably blocked, but I know he's
25 listening. Mr. Kurtz, I think the court reporter

1 had difficulty hearing some of your questions. So
2 it may be, I guess -- a suggestion from our Staff
3 here was to maybe get a little closer to the mic.
4 There were some instances where you were -- your
5 image was basically fading in and out too, but
6 that's -- I don't think that's a problem as much as
7 making sure that what you're saying, your questions
8 actually get on the record.

9 I'm sure they have, but I think it's -- we
10 just want to, going forward, give you an opportunity
11 to make things a little better.

12 All right. Mr. FitzGerald, on behalf of the
13 joint intervenors, do you have questions for the
14 president of Kentucky Power?

15 MR. FITZGERALD: Yes, Mr. Chairman, I do.
16 Can you hear me okay?

17 CHAIRMAN SCHMITT: Yes. Yes.

18 MR. FITZGERALD: Okay. Wonderful.

19 CROSS-EXAMINATION

20 By Mr. Fitzgerald:

21 Q. Mr. Mattison, I'm Tom FitzGerald representing
22 the Mountain Association, Kentuckians for the
23 Commonwealth, and the Kentucky Solar Energy Society.
24 If I ask a question that you don't understand,
25 please just ask me to reframe it and don't try to

1 guess.

2 At the September 30th FERC conference,
3 technical conference on carbon pricing and organized
4 wholesale electricity markets, you noted in your
5 written remarks that, quote, (Reading) Environmental
6 impact is a priority to AEP and its subsidiaries,
7 and reducing carbon dioxide emissions is an
8 important step towards reducing our environmental
9 footprint. Consistent with this priority, AEP's
10 generation fleet has transformed significantly over
11 the past two decades, resulting in a 65 percent
12 reduction in carbon dioxide emissions from 2000 to
13 2019. AEP expects our 2050 goal to exceed an
14 80 percent reduction and to achieve larger
15 reductions, with an aspiration of zero emissions.
16 AEP will add more than 8,000 megawatts of regulated
17 wind and solar generation through 2030. Thus, AEP
18 continues to move to transform the energy industry
19 to provide for cleaner generation, end quote.

20 Do you recall those remarks?

21 **A. You're referring to the technical conference**
22 **that, at the time, Chairman Chatterjee put on with**
23 **FERC that was --**

24 Q. Yes. Yes.

25 **A. -- a carbon -- carbon pricing in organized**

1 **markets September 30th? Is that what you're --**

2 Q. Yes, sir. And I just read -- yes, I just
3 read from your --

4 **A. I do remember that.**

5 Q. Okay. Good. Do I understand from your
6 comments that AEP and its subsidiaries believe that
7 "cleaner generation" through reduction of the carbon
8 footprint of electrical generation is a positive
9 goal for the company?

10 **A. Yes, it is.**

11 Q. Okay. And do AEP and its subsidiaries own
12 any solar generation capacity?

13 **A. Yes, we do.**

14 Q. Okay. Is there any in the KPC service area?

15 **A. Not yet, but we came -- I hate to say it like
16 this, but we came very close at the beginning of the
17 year to having one down in the Pikeville area. We
18 had been working on it for quite some time. It was
19 going to be 20 megawatts that we were going to be
20 able to get online, and we had five parcels of land
21 that we were working with with a third party.**

22 **Everything was good except for the fifth parcel of
23 land that was required for the acreage for the solar
24 had not been mitigated properly from a coal
25 reclamation standpoint, and so we've gone back to**

1 **try to figure out where can we, you know, do another**
2 **one. So we weren't successful in getting that one**
3 **off the ground, but we are actively looking to do**
4 **another one, so --**

5 Q. So -- all right. Thank you.

6 **A. -- we don't have one currently.**

7 Q. Okay. Thank you. Thanks for that
8 explanation.

9 Does the addition of wind and solar
10 generation bring value to the company by assisting
11 in meeting the carbon reduction goals and that
12 aspirational goal of zero emissions?

13 **A. Yes, it does, a renewable source.**

14 Q. Okay. Is it only utility-owned solar
15 generation that contributes to that, those goals, or
16 does distributed solar contribute to the achievement
17 of those goals?

18 **A. I think you can do both. Whenever the**
19 **tariffs are structured in a sense that's beneficial,**
20 **you can do -- you can accomplish it with both.**

21 Q. Okay. If approved, would the Kentucky Power
22 Company proposal to reduce the value of fed-in
23 electricity from rooftop solar encourage or
24 discourage customers from taking service under your
25 proposed new tariff?

1 **A. Could you repeat that? I didn't hear the**
2 **first part of that question.**

3 Q. Sure. Sure. If it's approved, would the KPC
4 proposal to reduce the value of the credit for
5 fed-in electricity encourage or discourage customers
6 from taking service under the new NMS II tariffs?

7 **A. I'm not sure if it will encourage or**
8 **discourage, but I do know that the tariff needs to**
9 **be correct to where we don't have subsidiaries being**
10 **paid for those that aren't gaining benefit. And**
11 **Alex Vaughan, or Witness Vaughan will be the one to**
12 **be able to answer that question ultimately.**

13 Q. Okay. I appreciate that. We'll be exploring
14 that at length.

15 In your written remarks you also noted that
16 the cost of energy is particularly important in
17 areas that are experiencing economic hardships, such
18 as Kentucky Power's retail service territory.

19 Do you remember making that statement?

20 **A. Yes.**

21 Q. Okay. And in response to questioning from
22 then Chairman Chatterjee, you state that, quote,
23 (Reading) At Kentucky Power our focus is always, AEP
24 as well, on the end-use customer.

25 Do you remember that as well?

1 **A. Yes, I do.**

2 Q. Okay. You also noted that in Kentucky,
3 particularly on the eastern side, it has been
4 devastated from loss of jobs, both in steel and in
5 the coal industry.

6 Do you disagree with the direct testimony of
7 James Owen that the impact of COVID-19 on KPC
8 customer service territory has resulted in increased
9 job loss, higher unemployment rates, greater risk of
10 envision -- of eviction, excuse me, greater risk of
11 utility disconnections, an increase in permanently
12 closed businesses, and COVID-related illness and
13 death?

14 **A. Well, I don't know that I agree with all of**
15 **that. I know COVID has had an impact, not only in**
16 **the Eastern Kentucky's footprint, but across all**
17 **areas of the country, the United States I'm talking**
18 **about.**

19 And the comments, I'll refer back to -- I'm
20 assuming you're going back to the FERC conference
21 from September the 30th. When we talk about in the
22 context that Chairman Chatterjee was asking me, he
23 was asking was carbon pricing a priority for the
24 customers of Kentucky Power Company, and what I was
25 saying is that it's important to them; however,

1 there's other things that are just as important, if
2 not more important in the context of their energy
3 reliability, pricing, etcetera. That's the context
4 of that response that I gave to Chairman Chatterjee
5 on September the 30th. When you go back --

6 Q. Okay. So just -- I'm sorry.

7 **A. When you look at -- you asked about COVID**
8 **and the impacts, and business closures, etcetera.**
9 **No doubt, again, it's had an effect on areas across**
10 **the country, but as I mentioned earlier, when we**
11 **look at unemployment rates, they're back to, in our**
12 **footprint, pre-COVID rates. So that would tell,**
13 **one, when you look at that, that the folks have been**
14 **able to get back employed and be able to draw a**
15 **wage.**

16 Q. Okay. Thank you. Do you believe, or does
17 Kentucky Power believe that in determining whether a
18 proposed utility rate is fair, just, and reasonable,
19 that consideration of the economic circumstances of
20 the end-use customers is appropriate?

21 **A. Yes, I think it's appropriate. That's why**
22 **I'll refer back to what I said earlier about the**
23 **mitigations that we took in this case, kind of in an**
24 **unprecedented way that the Company is willing to**
25 **make some short-term sacrifices in our credit**

1 metrics by offering the ADFIT over the 12-month
2 period of time, where rates will be effective in
3 January of '20 through the end of the year -- or
4 '21, rather, and then not paying those new rates,
5 our customers, until January of 2022, plus a
6 reduction in an ROE that an expert witness had told
7 us what would be appropriate, the capacity charges,
8 that we took all that into consideration.

9 Q. Okay. Thank you. Do you agree that the
10 interest of shareholders in maximizing the value of
11 their interest has to be balanced with the
12 conflicting interest of end-use customers and
13 keeping rates affordable?

14 A. I think you have to look at it from Kentucky
15 Power Company's perspective, what's the health and
16 viability of the company at the time. That's the
17 reason why you come in for a rate case. I've
18 referred several time to my rebuttal testimony on
19 page 3, where you have a diagram and chart.
20 Mr. Kurtz, in the EEI presentation, also pointed it
21 out. The current 5.3 percent ROE, that is not
22 sustainable for the Company going forward for any
23 length of time to be able to provide the service
24 that we're required to as a company.

25 So when you look at what we do for our

1 customers, we have to be a strong, viable company.
2 Shareholders, no doubt, own shares with AEP stock;
3 Kentucky Power contributes to the outcome of AEP.
4 However, in this case we're focused on Kentucky
5 Power.

6 Q. All right. We're always focused on the end
7 user?

8 **A. Well, we're focused on the end user of the**
9 **customer is how we make our decisions, which is, I**
10 **look at Kentucky Power as a company, which**
11 **encompasses our customers, our employees, the**
12 **communities, every single thing in our footprint.**

13 Q. Okay. You had -- I just have a couple more
14 questions, and I appreciate your patience.

15 You had mentioned that the context of your
16 comments that I read earlier was that the then
17 Chairman Chatterjee had asked if a reduction in the
18 carbon footprint was a priority for Kentucky Power.
19 And if I understood you right, you said, well, it is
20 not probably the highest priority for Kentucky
21 Power's customers at this point; is that correct?

22 **A. I would agree with -- I would agree with**
23 **that.**

24 Q. Okay. Where does -- where does replacing
25 meters that are still functional with AMI fall in

1 terms of priorities for the end-use customers in the
2 Kentucky Power area?

3 **A. Well, I think AMI meters are right in line**
4 **with what is needed for our customers in the eastern**
5 **footprint of Kentucky. When you talk about those**
6 **that are economically challenged, there's no better**
7 **way to help them than an AMI meter, because it puts**
8 **them in control of their power. And what I mean by**
9 **that is, if you think about it, if you go put gas in**
10 **your automobile, you choose how much gas you're**
11 **putting in it. You know how far it's going to go**
12 **based on how many miles per gallon. They are able**
13 **to see that with an AMI meter, where today they**
14 **cannot see that.**

15 You have fees and charges that are assessed
16 whenever someone is delinquent, and we have to,
17 unfortunately, go disconnect their power. We
18 physically have to send somebody out right now to
19 pull the meter out of the socket, put boots on it,
20 and plug it back in the socket. With an AMI meter,
21 you do not have to do that. You can do it remotely.
22 So as soon as that customer has paid for a
23 disconnect, then they can be reconnected within as
24 little as ten minutes, automatically.

25 Today, we send a servicer out. If he's on

1 the way to reconnect someone for a disconnection and
2 he gets a call that someone's hit a car -- or a car
3 has hit a pole at an intersection and there's an
4 outage, that servicer is going to that outage, and
5 it could be four, five, six, eight hours, who knows
6 how long before service is restored.

7 It also has a function that you cannot do
8 today with AMR meters called flex pay. It gives the
9 customer the ability to choose how much they're
10 going to pay on their electric bill today. It's
11 really a one-way equation with an AMR meter. They
12 get a bill, here's the amount, here's the due date.
13 They don't have that flexibility.

14 In an outage situation, it's outstanding. We
15 had an Easter storm that lasted seven to eight days.
16 We had to physically get in vehicles and drive out
17 to locations and premises to see if customers had
18 power or not. With an AMI meter, it'll tell you
19 instantly if they have power or not.

20 And one of the main things about our current
21 platform, the AMR meter, it used to be an
22 electromechanical meter. Nobody manufactures
23 electromechanical meters anymore. There used to be
24 multiple vendors for the AMR meter. There now is
25 only one vendor, that's it. So most of our meters

1 that we have on system have surpassed their useful
2 life, and we have failure rates far exceeding the
3 ability, soon into the future, that we'll be able to
4 replace AMR meters, because you can't get them. And
5 so we have to do something.

6 And you'll see from Witness Blankenship, who
7 will get in great more detail than I am on this,
8 that if we went to a different AMR-type meter, not
9 the one that we have now, the next level, we'd have
10 to spend \$22 million to put those meters in, and
11 they would be obsolete in a short period of time.

12 We're suggesting the AMI meter because, as
13 technology changes and advances, this is a benefit
14 of the customers. As I stated earlier, it will put
15 them more in control of their power usage. We'll be
16 able to have tariffs that you can do the
17 time-of-day-type rate. They can see exactly what
18 they're using, when they're using it. It's a very
19 good platform for our customers, and I feel like
20 that it will benefit them.

21 Q. Your comments imply that there is an
22 elasticity of demand on the part of your customers.
23 Now, you have a -- I think it's fair to say a
24 disproportionate number of fixed and low-income
25 customers relative to other utilities in the

1 commonwealth?

2 **A. In the service footprint, yes, that would be**
3 **true.**

4 Q. Okay. And have you done any surveying of
5 those customers to determine if they have the
6 capacity to utilize the AMIs in the ways that you
7 described?

8 **A. Are you talking about --**

9 Q. They --

10 **A. You're talking about their knowledge or**
11 **understanding of the meters? If you are, then**
12 **Witness Wiseman would be the one to talk about how**
13 **we plan to roll those AMI meters out. There's a**
14 **plan, an educational piece of it that will last over**
15 **a certain period of time during the deployment of**
16 **those AMI meters.**

17 Q. I was more referring, and I should have been
18 more precise, to whether folks have broadband access
19 and computers that would be necessary to allow them
20 to gain access to the information.

21 **A. Again, that would be Witness Blankenship.**
22 **But as far as the functionality of the meter, you**
23 **don't need broadband. It would be the network that**
24 **we install would create the functionality of the**
25 **meter.**

1 Q. Okay. Thank you. Do you agree that a
2 rate -- or an ROE may be reasonable one time but may
3 become too high or low by changes affecting the
4 opportunities for investment, business conditions
5 generally, or money markets?

6 **A. I'm not sure that I'm following your**
7 **question.**

8 Q. What I was asking is whether the rate of
9 return or rate of return on equity might be
10 reasonable in one business context but may become
11 too high or too low based on changes affecting
12 opportunities for investment, the money market, and
13 business conditions.

14 **A. The only way I know how to answer that is**
15 **that that could be true.**

16 Q. Okay. Can you explain -- this is the
17 second-to-last question.

18 Do you agree with the principle that
19 ratepayers should not be mandated to pay for
20 investments made by a utility that are of no benefit
21 to them?

22 **A. I guess you're going to have to point me to**
23 **what investments do we make that are not of benefit**
24 **to a customer.**

25 Q. I'm just asking as a principle whether you

1 concur with that.

2 **A. Well, it's hard for me to concur with that**
3 **because we don't make investments that don't benefit**
4 **customers.**

5 Q. Okay. Let me ask you the last question. Can
6 you explain why it is that Kentucky Power has
7 proposed a rate of return that is significantly
8 higher than that granted in the most recent fully
9 litigated case before the Public Service Commission
10 at a time and for a region that pre-COVID had
11 disproportionately high rates of unemployment, lower
12 median incomes, and more significant poverty than
13 the norm for Kentucky or the nation?

14 **A. I would refer you to Adrien McKenzie as the**
15 **expert on the ROE that we have in this case.**

16 MR. FITZGERALD: Okay. I have no further
17 questions. Thank you, very much, Mr. Mattison.

18 CHAIRMAN SCHMITT: Thank you. Would counsel
19 for Sierra Club, please, I guess, check in on screen
20 share? Ah, Mr. Miller. Do you have questions?

21 MR. MILLER: Matthew Miller, Your Honor.

22 CHAIRMAN SCHMITT: Okay. Do you have
23 questions of this witness, Mr. Miller?

24 MR. MILLER: Good morning, Mr. Chairman.
25 Good morning, everybody. No, Sierra Club does not.

1 Thank you, very much.

2 CHAIRMAN SCHMITT: Thank you. Mr. Frye, for
3 SVWA, do you have questions of the witness?

4 MR. FRYE: Good morning, Your Honor. No, we
5 have no questions for this witness at this time.
6 Thank you.

7 CHAIRMAN SCHMITT: Okay. Thank you. Does
8 counsel for Kentucky Power have redirect?

9 I think you're on mute. You may be on mute.
10 We can't -- there's no sound.

11 MR. OVERSTREET: What about now?

12 CHAIRMAN SCHMITT: Now you. Are I think
13 you're okay.

14 MS. BLEND: Can you hear me now, Your Honor?

15 CHAIRMAN SCHMITT: Redirect examination?

16 MS. BLEND: Yes, Your Honor. Thank you.

17 REDIRECT EXAMINATION

18 By Ms. Blend:

19 Q. Mr. Mattison, do you still have a copy of AG
20 KIUC -- the Company's response to AG KIUC's Data
21 Request Number 2-42? It was the data request
22 related to lobbying expense.

23 **A. Yes, I do.**

24 Q. Is it your understanding that the \$104,033
25 related to federal lobbying that is referenced in

1 that response is included in the Company's cost of
2 service in this case?

3 **A. No, it's not.**

4 Q. Thank you. And if there were further
5 questions about that issue, who is the subject
6 matter expert that could testify regarding the
7 exclusion of those amounts from the cost of service?

8 **A. Witness Whitney would be the one.**

9 Q. Thank you. Will you please turn to AG KIUC
10 Hearing Exhibit Number 1, which is the EEI -- it
11 should be the EEI Financial Conference PowerPoint
12 presentation?

13 **A. I'm there.**

14 Q. Thank you. Now, do you recall questions and
15 a discussion that you had with counsel for KIUC
16 regarding earnings growth as a driver versus O&M
17 reductions as a driver for overall AEP earnings?

18 **A. Yes, I do.**

19 Q. Will you please turn to page 10 of that
20 exhibit?

21 **A. I'm there.**

22 Q. Can you describe what this page of the
23 exhibit relates to and how it relates to your
24 earlier testimony?

25 **A. Well, what I was -- and you're referring to**

1 **Mr. Kurtz, I believe. What I was trying to describe**
2 **to him, and I used achieving excellence as one of**
3 **those areas for optimization especially, and**
4 **specifically related to our O&M reductions. And so**
5 **I just -- that's the "Lean" out on the left-hand**
6 **margin of the page. Achieving Excellence. There's**
7 **also mention Lean Management System, Data Analytics,**
8 **Automation. I mentioned maybe about robotics.**
9 **Digital Tools, Use of Drones, Outsourcing, Workforce**
10 **Planning, and Strategic Sourcing.**

11 And there's probably, I don't know, 35
12 subsets of each one of those to the right that talk
13 in more detail about what AEP in general is doing to
14 optimize O&M.

15 Q. Thank you. Have AEP and Kentucky Power been
16 making efforts to reduce and optimize O&M over more
17 than just the past year?

18 **A. Absolutely. And specifically, when you look**
19 **at our distribution -- and Everett Phillips will be**
20 **our witness later in the case. He can talk to the**
21 **fact that going forward in 2021, our distribution**
22 **expense in O&M is less than it is in 2020.**

23 Q. Thank you. Will you please turn to Slide 33
24 of AEP KIUC Exhibit Number 1?

25 MS. VINSEL: Chairman?

1 CHAIRMAN SCHMITT: Yes.

2 MS. VINSEL: Can I ask a question? Does
3 Ms. Blend wish to have all of the parties look at
4 these documents as she's going over them?

5 CHAIRMAN SCHMITT: Did you hear the question?
6 Ms. Blend, would you like to have all of the
7 parties, give them an opportunity to look at these
8 documents as you are questioning the witness?

9 MS. BLEND: Yes. Thank you, Your Honor. And
10 I appreciate Ms. Vinsel keeping us mindful of that
11 as we are using a different format than normal.

12 Could Commission Staff please put AG KIUC
13 Exhibit Number 1 on the screen at page 33? Thank
14 you.

15 MS. VINSEL: Zach, I think this is the
16 incorrect exhibit. We're looking for the Attorney
17 General's Hearing Exhibit 1.

18 Just for all counsel -- sorry to do a
19 logistical matter, if I may, Chairman -- because the
20 room that our Staff is in that are doing this is
21 somewhere separate, if, when a counsel wants a
22 document to be screen shared, please clearly
23 identify the docket -- the document, then wait until
24 it's up to ask for a page. I think that might help
25 speed along the process.

1 CHAIRMAN SCHMITT: Is this the document that
2 you requested, Ms. Blend?

3 MS. BLEND: It is, Your Honor. Thank you.
4 And specifically I'd like to refer to page 33 of the
5 document.

6 May I proceed, Your Honor?

7 CHAIRMAN SCHMITT: Yes.

8 MS. BLEND: Thank you.

9 Q. Mr. Mattison, can you please describe what is
10 shown on page 33 of this exhibit?

11 **A. So this is a graphical of what we're trying**
12 **to do, as mentioned earlier, about bending the O&M**
13 **curve. In other words, really focusing on our**
14 **expenses and trying to reduce O&M.**

15 And you can see, if you look at -- just take
16 2018 to 2021 forecast, it was 3.1 billion in '18 of
17 O&M for the corporation, AEP-specific, and in 2021
18 it's 2.75. And you can see the trajectory is
19 sliding downward.

20 Q. Thank you. And the downward trajectory
21 reflects a reduction in O&M?

22 **A. Correct.**

23 Q. Now, continuing on this exhibit, if you'll
24 please turn to page 53.

25 MS. BLEND: And if Staff could please

1 navigate to page 53.

2 Q. Mr. Mattison, do you recall questions from
3 Mr. Kurtz regarding this slide?

4 **A. Yes, I do.**

5 Q. The pie chart in the upper-left-hand corner,
6 and then also the investment on the right-hand side
7 on a total basis, are those numbers specific to PJM
8 or are they total AEP numbers?

9 **A. They're total AEP numbers, which would
10 include all our jurisdictions.**

11 Q. Thank you.

12 MS. BLEND: I have no further questions at
13 this time, Your Honor. Thank you.

14 CHAIRMAN SCHMITT: Vice Chairman Chandler, do
15 you have questions of the witness?

16 VICE CHAIRMAN CHANDLER: I do, Chairman.
17 Thank you. Can you hear me?

18 CHAIRMAN SCHMITT: Yes.

19 EXAMINATION

20 By Vice Chairman Chandler:

21 Q. So I apologize, Mr. Mattison. There's been a
22 lot that has been asked today, and I'm going to jump
23 around quite a bit on some of the questions [sic]
24 that you've given.

25 VICE CHAIRMAN CHANDLER: Is there any way

1 that Staff can bring up that document that we were
2 just referring, which I think is AG KIUC Hearing
3 Document Number 1.

4 And maybe Ms. Blend could also help for a
5 second. What was the page number with the graphic
6 that mentioned bending the O&M curve?

7 THE WITNESS: That's 33, if I'm not mistaken.
8 Let me look at the page.

9 VICE CHAIRMAN CHANDLER: 33. Thank you.
10 Okay. So could we move that to 33 and the reduce
11 the size of that document to a hundred percent from
12 136 percent? Great. Thank you.

13 Q. So just got a question about this for a
14 minute as it relates to Kentucky Power. So
15 assuming, and I know this is -- appears, at least,
16 to be \$4 billion in O&M. So let's just assume this
17 is not a Kentucky-Power-specific graph, that this is
18 AEP wide, since we're talking about billions in O&M.

19 The Company's rate case in this matter is
20 based on a test year ending March 31st of 2020,
21 right, a historic test year?

22 **A. That is correct.**

23 Q. And so insofar as the reduction from 2019
24 actual there on the chart, on the table, go down in
25 2020 estimate and down in 2020 estimate revised, and

1 are expected to be lower in 2021 than 2019, how are
2 those O&M -- and let's just assume that Kentucky
3 Power's O&M is going to be doing something very
4 similar to AEP's. How are those O&Ms, those revised
5 estimates, reflected in this case?

6 **A. Well, again, Vice Chair, I would -- you know,**
7 **when we talk about distributions specifically,**
8 **Witness Phillips can speak to those specific**
9 **numbers, and Brian West can as well. But they would**
10 **be reflected in our case, like you said, that ended**
11 **the test year of March 31 of 2020.**

12 Q. Right. But --

13 **A. And I'm not --**

14 Q. And things have changed is what I'm asking.
15 Like, earlier -- just hypothetically here -- or I
16 guess this is an actuality. But again, the test
17 year ended March 31st of 2020, right? And that's
18 your snapshot of Company operations for the rate
19 you're proposing in this case, correct?

20 **A. That's correct.**

21 Q. And then there are pro forma adjustments made
22 to that snapshot, right?

23 **A. Correct.**

24 Q. Okay. And so the case was filed at the
25 beginning of June, so I assume you finalized the

1 data at some point in April, May, or June, right?

2 **A. I would say that that is correct.**

3 Q. Okay. So you were talking earlier about the
4 reduction in the cost of contractors. How, if, in
5 response to COVID, you reduced the number of
6 contractors, is that reduction in O&M expense seen
7 anywhere on the customer's bill?

8 **A. You're talking about the current billing?**

9 Q. Yes. At all. The current billing or in this
10 rate case. If you've reduced that cost in response
11 to COVID but the numbers in the rate case were set
12 prior to that reduction in cost, A, is any of the
13 reduction in -- any of the reduction currently --
14 that you currently have or that you anticipate in
15 regards to contractor costs in response to COVID?
16 How is that included in the case? And, separately,
17 how does the reduction in your costs due to COVID
18 O&M expenses, such as reducing contractor cost, make
19 it -- make its way onto customers' bills, either
20 currently or in the interim?

21 **A. I follow you. I follow your question. That**
22 **would be -- I would connotate it, but I would refer**
23 **to, you know, Mr. West and Witness Vaughan as well.**
24 **But we have reduced contractors, as I said earlier,**
25 **during the last several months, and that expenditure**

1 is not included, and our reduction thereof is not
2 included in this particular case. And the hope is
3 that this was an anomaly because of COVID and that
4 we would not, on an ongoing basis, have those
5 similar contractors reduced, that we would be able
6 to get back to full scale so that we could continue
7 forward with those activities that they perform for
8 us. This was in response to an immediate COVID
9 situation and an anomaly.

10 Q. Yeah. And so, I mean, you mentioned it as
11 sort of a reduction in expenses when you were asked
12 about reducing O&M expenses, but would you agree
13 that insofar as it's not used, any reduction in
14 expenses is not used to calculate rates, there is
15 no -- there is no dollar benefit to customers?

16 A. Well, there may not be a dollar benefit. For
17 example, the way that I would look at that is, if
18 this case was ruled on today and then two years from
19 now we reduced O&M expenses by 10 to 15 percent over
20 those next two years, the next time we come in for a
21 case, then those dollars would be reflected, and
22 that is regulatory lag. As we all know that's how,
23 you know, it works.

24 Q. I agree with that, but the response you gave
25 earlier about the reduction in contractors was

1 talking about the impact of COVID and the concern
2 about expenses and the impact to customers. But you
3 would agree that insofar as those reductions aren't
4 either long-term or currently included in the rate
5 case, there is no material dollar benefit to
6 customers?

7 **A. To my knowledge, those reductions -- and**
8 **again, subject to check, depending on when we remove**
9 **them from property, if you will, there may be some**
10 **of those dollars in there, there may not. We would**
11 **have to have -- we would have to look at that**
12 **through -- I think Brian West and Alex Vaughan would**
13 **be able to tell us exactly what those costs are.**

14 Q. Okay. And again, I am going to be jumping
15 quite -- around quite a bit, so please excuse that.

16 **A. That's fine.**

17 Q. Earlier you were asked by Mr. Kurtz about the
18 Mitchell retirement that is currently slated for
19 approximately 2040. Do you remember that?

20 **A. Yes.**

21 Q. I just have to be honest. When you answered,
22 I think your answer was something like -- I think I
23 tried to type it down real quickly -- "That is what
24 it is today." And just the way you answered it kind
25 of made me worry that that may not be what the

1 answer is tomorrow.

2 So let me ask: Are you aware of any plans to
3 change the retirement of the Mitchell Plant?

4 **A. No, I'm not. I do know that we've got a**
5 **filing that we've got to put in by the end of this**
6 **month, November the 30th, which, as I understand,**
7 **that we would be filing for CCR and ELG on the**
8 **Mitchell Plant.**

9 Q. So let me ask this question differently. Are
10 you aware of anything that would lead you to believe
11 that the retirement of the Mitchell Plant does
12 not -- that 2040 is not an accurate expectation of
13 the retirement of the Mitchell Plant?

14 **A. No, I do not.**

15 Q. What is Kentucky Power going to do for their
16 long-term capacity needs following the retirement --
17 well, so let me -- even before that. The Rockport
18 retire -- or the Rockport expenses under the UPA
19 expired, and I think we were talking about it
20 earlier as a December 31st date. I think one may
21 be -- may retire a few days before the other, but
22 they are both going to expire in December in two
23 years, right?

24 **A. In 2022.**

25 Q. 2022. So 25 months away from now, I think

1 it's 195 megawatts each, right, so 390 megawatts
2 that the Company has, the expense for that just
3 falls off the books, right?

4 **A. Well, I'm not sure. Again, Witness Vaughan**
5 **would be able to give the granularity to that. I'm**
6 **not sure that it falls off the books. I know**
7 **there's a mechanism that's already in place for year**
8 **one and, after that expires, for some recovery. I**
9 **do know that. I don't know the dollar amount.**
10 **Vaughan, Witness Vaughan can tell us that.**

11 And recently we filed an IRP, an integrated
12 resource plan, that talked about, in the short term,
13 what we would do once we walked away from the
14 Rockport agreement in December of 2022. And as my
15 memory recalls, that would be some short-term,
16 market-type generation that we would go to the
17 market for, and then it plays it on out over a
18 number of years as to what we would need to do for
19 more permanent long -- as you mentioned, long-term
20 generation support.

21 Q. So given the size of the costs that the UPA
22 represent as a portion of the Company's revenues,
23 have you been privy to conversations where there has
24 been discussions about filing a rate case
25 effective January -- for rates effective January 1,

1 2023, given the implication of the expiration of the
2 Rockport UPAs?

3 **A. No, I have not had any discussions about a**
4 **2023 January 1 rate case filed.**

5 Q. Okay. So let me ask a very basic question
6 about some of the conversation that was happening
7 earlier, I think questioning from Mr. Kurtz about
8 compound annual growth rate over rate base.

9 What role do earnings expectations play in
10 the Company's investments -- investment decisions?

11 **A. Well, I think they're an important role that**
12 **it plays. If we are unable to return at a decent**
13 **rate of return, which we are not right now, it is**
14 **harder and harder to put investment in Kentucky**
15 **Power because of the low ROE that's being achieved.**

16 Q. And so, in addition to that, if earnings play
17 that role, then what does increasing earnings and
18 increasing rate base have on the Company's
19 decisions, for the purposes of driving earnings?

20 **A. I'm not sure that I follow your question,**
21 **Vice Chair.**

22 Q. Yeah. So the question you got earlier --
23 asked earlier was the slide that mentioned that rate
24 base was a proxy, right? Do you remember that, that
25 rate base was a proxy? I think your answer was

1 something like rate base is a proxy for earnings
2 growth in a vertically integrated regulated utility.

3 **A. Yes. I remember that.**

4 Q. So -- but there were two different sides of
5 this, right? There's meeting earnings expectations
6 and providing for a return on investment, but in
7 addition to that, there's also the growth of those
8 earnings, correct?

9 **A. Yes.**

10 Q. And so what does the growth of earnings or
11 the growth of rate base as a proxy for earnings play
12 in the Company's investments -- investment
13 decisions?

14 **A. Well, I think they both are linked together.**
15 **If your rate base is growing, your earnings are**
16 **growing, you're going to be more susceptible to**
17 **doing more investment in that particular entity for**
18 **sure. And if you're growing and you're able to**
19 **achieve your authorized ROE, there would never be a**
20 **reason to come in for a rate case, because you would**
21 **be growing into your authorized ROE and the growth**
22 **would be sustaining the Company in exceeding**
23 **depreciation, etcetera. There would be no need for**
24 **a rate case.**

25 Q. All right. But there's a distinction between

1 the amount you earn on investment and increasing the
2 total amount of return, right? I mean, if you earn
3 ten percent on \$1 million and you earn ten percent
4 on \$2 million, that's materially different, right,
5 because the earnings is twice as much, even if the
6 return is the same?

7 **A. Yes. I'd agree with that.**

8 Q. Okay. So I guess what I'm asking is: Does
9 earnings growth drive the Company -- does earnings
10 growth expectations drive any portion of the
11 Company's investment decisions?

12 **A. I think it does.**

13 Q. Okay. And how, I would ask, then, do -- how
14 do you balance that with customer expectations? If
15 you're only making investments that are needed, then
16 how does the implication of making investments for
17 the purposes of growing earnings factor into your
18 decision-making?

19 **A. Well, all the investments we make are needed,**
20 **I mean. And I'll refer to it from a distribution**
21 **perspective with Witness Phillips. Whenever you**
22 **look at our infrastructure, there's opportunities in**
23 **the pipeline that his engineering group has looked**
24 **at that need to be done, and as the investment comes**
25 **available, he's got, what I would say, the next**

1 **project out that will be done, and it's needed,**
2 **whether it's aged infrastructure, advancements of**
3 **technology, etcetera.**

4 Q. So what is the limit, then, on the capital
5 available for -- the capital that the Company makes
6 available for investment?

7 A. Well, I would refer to Witness West and
8 Vaughan, but there is a balancing point. The
9 tipping point is kind of what you're referring to in
10 my mind, that a company can take on only so much
11 investment and then it gets your financial metrics
12 in such a shape that you can't support it.

13 Q. Yeah, but -- so that's on the Company side.
14 So what about the consideration of the customers?

15 A. Well, we always consider the cost to the
16 customer. But if it's a reliability issue and we
17 need to make that investment, we've gotta figure out
18 a way to do that to benefit the customer so that we
19 can serve them adequately. We always want to make
20 sure that we're fair, just, and reasonable in
21 everything that we do.

22 Q. Yeah, I get it. Is there anything specific
23 in regard to customers and the implication that
24 investments or the growth of investments, the growth
25 of rate base, is there anything specific you can

1 point me to that you-all take into consideration on
2 the customer side when making those decisions,
3 because --

4 **A. Well, you --**

5 Q. -- I guess I'm -- I hear a lot about the
6 balancing, but I have -- I don't understand how that
7 is actually implicated in reality.

8 **A. Well, you have to look at, again, the -- and**
9 **when I talk about "balance," I'm talking about where**
10 **the Company currently sits. And I mentioned it**
11 **earlier, that had we not had a three-year stay-out,**
12 **we would have been in far quicker than we are today.**
13 **We would have come in much sooner. And I would say**
14 **that would have levelized the rate impacts and**
15 **wouldn't have the spikes and the lumpiness that you**
16 **have when you have a three-year stay-out or a**
17 **four-year stay-out. You would come in more**
18 **frequently as the investment has increased and the**
19 **need and things that we need to do on behalf of the**
20 **customers, we would do that sooner than later. But**
21 **again, we had a three-year stay-out.**

22 But I'll go back to the mitigation that we've
23 done in this case, thinking about the customer from
24 the ADFIT, one year of not paying those new rates
25 until January of 2022, reducing the ROE by the

1 expert witness is about two and a half million
2 dollars, capacity charges. Every one of those
3 decisions were made on behalf of the customer.

4 Q. Okay. So we'll talk about the mitigation in
5 a minute, but just so I'm clear, is there any point
6 in the process when you're looking at -- I remember
7 the chart, I think it -- I don't remember what
8 document it is. Maybe it's in this AG's document,
9 that the -- the chart you were asked about that had
10 the Kentucky Power's compound annual growth rate,
11 rate base as a proxy for earnings growth over five
12 years is expected to be at an average five percent
13 compound annual growth rate.

14 Do you see that? Do you remember that?

15 **A. Was that -- was that the EEI presentation?**

16 Q. I believe it was, yes.

17 **A. Yes. I do recall that.**

18 Q. So when you-all look at that, and Kentucky
19 Power knows that the compound annual growth rate of
20 earnings and of rate base is going to be five
21 percent over the next five years, does anybody take
22 a step back and say can -- are we sure that
23 customers can afford a five percent growth rate?

24 **A. Well, again, we're always talking about what**
25 **customers can afford and what the impacts are on the**

1 customer. And I'll refer back to, as we mentioned
2 earlier about economic development, if we get one of
3 these to actually show up -- you know, it was in the
4 past Braidy, now it's Unity. If something like that
5 happens and materializes, there -- it cures a lot of
6 ills. And if I'm not mistaken, I think the -- and
7 you can -- I know Witness Satterwhite is coming up
8 after me, but I think it was mentioned that -- in
9 Braidy, that had they come on, we would come back to
10 the Commission, if we got into an over-earnings
11 perspective, and correct that on the benefit of the
12 customer. Subject to check. I just recall, seemed
13 like I remember hearing that conversation.

14 Q. Okay. So I'll move on.

15 I'd like to talk for a minute -- I'll come
16 back to the mitigation measures, but I want to come
17 back for a minute to a comment you made on
18 questioning by Mr. FitzGerald about AMI. And I
19 guess I was surprised by the answer, so I want to
20 understand it better. But you said something along
21 the effect that the best thing Kentucky Power could
22 do for the struggling customers was to invest in the
23 smart meters, and then you expounded on what you
24 believed to be the customer benefit of AMI.

25 Do you remember that?

1 **A. Yeah. I answered that question in the**
2 **context of his question about perfectly good meters**
3 **that we have today, and the best thing we could do**
4 **is replace those meters.**

5 Q. Okay. So I just want to make sure that I
6 understand that, that response. You're not saying
7 in the absolute the best thing you can do for
8 struggling customers is the smart meters? That was
9 only -- you're only answering that, making that --
10 answering that question in response to the absolute
11 of -- let's just say you -- there's a road with a
12 fork, and you're saying go down the current path, go
13 down to the AMI path? That was the context in which
14 you provided your answer?

15 **A. Yes, because if you take the wrong fork with**
16 **our current system, you're going to drive off a**
17 **cliff, because those meters are no longer supported,**
18 **you cannot buy those meters, we're running out of**
19 **those meters. And again, Witness Blankenship can**
20 **tell you the specifics of how many failure rates we**
21 **have, the obsolescence of those meters, and the**
22 **limited supply that we have.**

23 Q. Yeah, and I read the testimony on the AMI
24 meters. I just want to make sure I understand your
25 question [sic] very clearly. You weren't saying in

1 the absolute that the best thing that Kentucky Power
2 could do for struggling customers is to invest in
3 the smart meters, correct?

4 **A. I was not saying that is the sole thing that**
5 **we can do, no.**

6 Q. Okay. I'd like to talk for a minute about
7 the conversation regarding Kentucky Power's
8 membership in PJM. So are you aware of the history
9 with Kentucky Power's proposal to join PJM as it
10 relates to the Kentucky Public Service Commission?

11 **A. Just vaguely. The highlights, I mean.**

12 Q. Thank you. And we'll talk about highlights.
13 I would agree this would be a highlight. You're
14 aware that the Commission initially denied Kentucky
15 Power's proposal to transfer control over its
16 transmission system to PJM?

17 **A. No, I was not aware of that.**

18 Q. Okay. So you weren't aware that the
19 Commission initially denied Kentucky Power joining
20 PJM, only to ultimately approve it?

21 **A. I did not know that there was an initial**
22 **denial of that, no, I did not.**

23 Q. An initial denial. Okay. Do you know
24 whether -- do you know whether Kentucky Power could
25 get the same benefits from PJM as a stand-alone

1 member of PJM?

2 **A. No, I do not, and I would refer you to Kelly**
3 **Pearce as the witness who can answer that question**
4 **much more definitive than I can.**

5 Q. Well, let me ask this: If membership in
6 PJM -- and I'm asking a hypothetical here. If
7 membership in PJM, right, for continued membership
8 in PJM as part of the AEP East Zone, right? You
9 know what I mean by AEP East Transmission Zone?

10 **A. Yes.**

11 Q. Okay. So hypothetically, if continued
12 membership of Kentucky Power the way it is versus
13 not being in PJM, versus let's just -- being in PJM
14 but not being part of the AEP East zone, right? If
15 Kentucky Power is in the net benefits, right, versus
16 if Kentucky Power is getting net costs, versus if --
17 let me retract that.

18 The best way to ask this is: If the status
19 quo leads to AEP affiliates in the AEP East -- the
20 Kentucky Power affiliates in the AEP East zone, if
21 the affiliates of Kentucky Power are getting net
22 benefits and Kentucky Power is getting net costs,
23 and the other affiliates are getting those benefits
24 at the expense of Kentucky Power, how would you know
25 that? How would you, in your position, find that

1 out?

2 **A. Well, the way that I would find that out is,**
3 **I would talk to Kelly Pearce, who knows the PJM**
4 **market, and I would defer to him to try to figure**
5 **that out. There was a lot to your question --**

6 Q. Yeah, and I --

7 **A. -- (indiscernible).**

8 Q. -- tried to withdraw the first part -- I
9 tried to withdraw the first part to make it -- to
10 make it easier to understand. But if the other
11 Kentucky Power affiliates in the AEP East zone are
12 doing well as part of this setup, right, the
13 transmission agreement, the other documents, and the
14 status quo, and Kentucky Power isn't, and part of
15 the reason Kentucky Power isn't is because they're
16 paying an inordinate share of certain costs to the
17 benefit of affiliates, then is it a good idea for
18 the person that you're depending on to tell you that
19 to be an employee of the AEP Service Company?

20 **A. I don't see that that would be an issue.**

21 Q. You don't see that that would be a conflict?

22 **A. I don't, no.**

23 Q. So the person -- so if seven affiliates are
24 doing well at the expense of one affiliate, you
25 don't see the conflict that the person that is

1 telling all -- that is administering all those costs
2 and in charge of telling all those operating
3 companies how well they're doing?

4 **A. Well, when you're talking about "well," are**
5 **you talking about the amount of investment into**
6 **those other utilities' service territory from a**
7 **transmission perspective? Is that what you're**
8 **asking? And the Kentucky Power's footprint of**
9 **service territory is not getting currently the**
10 **volume of transmission investment and so that's a**
11 **detriment to --**

12 Q. Yeah, and --

13 **A. -- customers of Kentucky Power? Is that what**
14 **you're asking me?**

15 Q. Excuse me. The hypothetical was just if the
16 costs exceed the benefits or the benefits exceed the
17 costs. I was trying to think of it very, very high
18 level. If the other utilities are having benefits
19 in excess of costs, right, and Kentucky Power is
20 having costs in excess of benefits, and the
21 difference, the driver is that the other utilities
22 are getting those benefits at the expense of
23 Kentucky Power. That's what I was attempting to ask
24 about.

25 **A. I apologize. Since we're talking**

1 **hypothetically, hypothetically, how long of a period**
2 **of time?**

3 Q. Yeah, that --

4 **A. That has an influence.**

5 Q. That -- and that is a good question. And my
6 question, really, is -- about that, is: How would
7 you know? And I think your response was that you
8 would ask Kelly Pearce, right? That you would ask
9 Mr. Pearce, you would ask the folks at AEPSC. But
10 over any given time -- any given time, do you think
11 that that presents a conflict?

12 **A. No, I don't think that presents a conflict.**

13 Q. That's perfectly fair. And are you -- have
14 you read the Commission's order in the 2017 Kentucky
15 Power rate case in preparation for this case?

16 **A. Yes. I read over it, yes.**

17 Q. And are -- do you remember the portion of the
18 order -- I'm just going to read. It's from page 74.
19 I'm happy to bring it up to view, but it just says
20 (Reading) Last, the Commission strongly encourages
21 Kentucky Power to recognize that it must make a
22 determination regarding its participation in PJM
23 that aligns with the interests of Kentucky Power and
24 its ratepayers.

25 So in response to that, I would just ask:

1 What, since you've been there, have you done to
2 ensure that the participation of Kentucky Power in
3 PJM aligns with the interests of Kentucky Power and
4 its ratepayers?

5 **A. Well, what I know is, it's not good to be an**
6 **island. And I know Mr. Kurtz talked about co-ops.**
7 **That was his only reference was to -- involved with**
8 **co-ops. That currently the transmission system, we**
9 **benefit because of our RTO membership in PJM. If we**
10 **were to lose a generator or lose Big Sandy,**
11 **Mitchell, we've got to go to the RTO to be able to**
12 **supply power to keep the customers' lights on or**
13 **we're going to have blackouts and brownouts. The**
14 **same thing applies with the transmission system.**
15 **It's part of being a member.**

16 I do know this, that if some of the economic
17 development prospects we've had would have actually
18 landed in the time frame, then we would have spent a
19 significant more investment in Kentucky in
20 transmission as opposed to where we have in the last
21 couple of years.

22 **Q. Okay. Well, we can talk about that in a**
23 **minute, but are you aware that LG&E and KU are**
24 **islands and not members of an RTO?**

25 **A. Yes.**

1 Q. And are you aware that FERC transmission --
2 FERC rules require that transmission tariff -- that
3 transmission owners provide open access?

4 **A. Yes.**

5 Q. Okay. So you're -- you wouldn't be, if you
6 weren't a member of PJM -- and I feel like that was
7 sort of a -- I guess I'm a little concerned that
8 either you're part of PJM or the lights go out when
9 a generator goes down, that there wouldn't be any
10 backup power supply or any other agreement, but
11 we'll ignore that for a second.

12 Isn't -- is that really the reality that you
13 look at, either it's the status quo or we take the
14 risk of brownouts and blackouts by not being a
15 member of PJM?

16 **A. Well, I wouldn't say it's the status quo. I**
17 **am very concerned about reliability to our**
18 **customers, for sure.**

19 Q. Okay. So let me just ask the question again,
20 because I don't know that I got a direct answer.
21 What have you, in the last two years, done to ensure
22 that Kentucky Power's participation in PJM aligns
23 the interests of Kentucky Power and its ratepayers?

24 **A. You're asking what have I done at a FERC**
25 **level?**

1 Q. I'm asking anything -- I'm happy for any
2 answer that is in response to the Commission's order
3 that encouraged Kentucky Power to recognize it must
4 make a determination regarding its participation in
5 PJM that aligns with the interests of Kentucky Power
6 and its ratepayers.

7 **A. On the RTO FERC level, I have not done**
8 **anything to mitigate that particular membership in**
9 **the PJM.**

10 Q. And it's not even that. I'm just asking:
11 Have you done anything?

12 Let me ask this: Mr. Horton, Mr. Daniel
13 Horton is going to be a Company witness in this
14 matter, correct?

15 **A. Yes, he is.**

16 Q. And he's provided testimony in this case,
17 correct?

18 **A. Yes, he did.**

19 Q. And are you aware of the role that Mr. Horton
20 played at PJM on behalf of AEP?

21 **A. Yes.**

22 Q. Okay. So anytime in the last two years, has
23 there been any time that you've told Mr. Horton that
24 Kentucky Power would like to vote differently on a
25 matter than any other AEP affiliate?

1 **A. No, there has not.**

2 Q. Okay. And have you conveyed any concerns
3 about ongoing proceedings at PJM to Mr. Horton in
4 order for him to, you know, look into it further and
5 provide you responses on an individualized concern
6 of Kentucky Power?

7 **A. No, I have not.**

8 Q. So what has Kentucky Power done in response
9 to the Commission's encouragement in the last case
10 to recognize it must make a determination regarding
11 its participation in PJM that aligns the interests
12 of Kentucky Power and its ratepayers?

13 **A. Well, I'm going to go back to repeating what
14 I said. I think it's important to be a member of an
15 RTO for the benefit of the reliability and
16 sustainability of the transmission grid system and
17 the ability to flow generation through that system.**

18 Q. That's a great answer. At what cost? At
19 what cost?

20 **A. Whatever our --**

21 Q. At \$500 million at -- net cost, I can't
22 imagine that that's your answer, right? At \$2 net
23 cost, that's an understandable answer, right? That
24 reliability at some point, if there's a -- at some
25 point it can cost too much, wouldn't you agree?

1 **A. The possibility exists, yes.**

2 Q. Yeah. So I guess what I'm asking is: How
3 are you balancing that? In the last two years, how
4 have you balanced your concern with reliability and
5 at least the -- you know, the ability to sleep at
6 night knowing you're part of PJM and you have -- you
7 know, you have generation five states away that's
8 available to serve if something should happen to
9 yours? You have a postage stamp transmission rate.
10 At what cost do you start to decide that that may
11 not be the case?

12 **A. I'm not sure if I know how to answer that**
13 **question specific. I do believe that, again, it's**
14 **important that we are a member of PJM for the**
15 **various things that I've said, at the risk of being**
16 **redundant.**

17 Q. Regardless of the circumstances that could
18 ever happen, is that always going to be your answer,
19 that the reliability benefits of being in PJM
20 outweigh all the risks, or outweigh all costs?

21 **A. Well, I would think that Dana and Kelly**
22 **Pearce would bring to my attention that costs have**
23 **become exorbitant to the point that we should look**
24 **at things, but to date that has not happened.**

25 Q. But the Commission explicitly wanted Kentucky

1 Power, three years ago, to, on its own, ensure that
2 its participation in PJM was aligned with the
3 interests of Kentucky Power and its ratepayers.

4 So are you saying you're depending on AEP to
5 make that determination exclusively for you and
6 nothing has changed in that regard over the last
7 three years?

8 **A. I'm depending on our participation in PJM,**
9 **yes, with the folks that I mentioned, to ensure that**
10 **that is the proper thing for us to be doing.**

11 Q. And if Kentucky Power's interests are not
12 aligned with other AEP affiliates, you're depending
13 on Mr. Pearce and Mr. Horton to inform you of much?

14 **A. Yes, I am.**

15 Q. Okay. Thank you. And I just would like to
16 ask for a few minutes, if I may. I know we're
17 after -- it's a little after 12:00, but just bear
18 with me.

19 The mitigation proposals, I just want to make
20 sure I understand those, that you've asked for a
21 \$70 million increase, right, or it's a \$70 million
22 amount, net is a \$65 million amount, correct?

23 **A. Yes. I think it was closer to \$73 million**
24 **and the ask is 65; that's correct.**

25 Q. 65. So the first thing that you proposed is

1 to accelerate the amortization of excess ADIT at
2 approximately \$65 million for the first year,
3 correct?

4 **A. That's correct.**

5 Q. And as you said earlier, that's customer
6 money, right?

7 **A. Yes, it is.**

8 Q. So your proposal is effectively, the first
9 mitigation is to give customers their money back
10 faster than the Company agreed to with KIUC in a
11 settlement the Commission approved three years ago?

12 **A. Correct.**

13 Q. Or, excuse me, two and a half years ago.
14 Okay. So the second mitigation proposal was the
15 capacity charge. And the capacity charge is a
16 \$6.2 million, we'll call it additional money
17 provided in return for Kentucky Power agreeing to
18 sign a PPA instead of making some other generation
19 decision, correct?

20 **A. Yes.**

21 Q. And you're basically just saying we will
22 forego that extra money if you give us the entire --
23 if you approve the application as filed?

24 **A. As part of the mitigation --**

25 Q. Okay.

1 **A. -- thinking about the customer.**

2 Q. Okay. And so the third mitigation proposal
3 is a ten percent ROE, right?

4 **A. Correct.**

5 Q. Okay. And so the ten percent ROE is -- is
6 30 basis points less than what Mr. McKenzie would
7 have recommended, correct?

8 **A. That is correct.**

9 Q. But you would agree it's higher than what the
10 Commission has given over the last few years?

11 **A. That is true.**

12 Q. Just so I understand the proposal, you're
13 saying that you will only give up -- you will only
14 give up the capacity charge to mitigate the impact
15 to customers if the Commission gives you everything
16 you filed, including an ROE that's higher than the
17 Commission has given in, you know, four, five, six
18 years?

19 **A. I would refer you to Witness Vaughan so he
20 can talk to the details of the financial impacts if
21 we don't get that \$6.2 million and we don't get the
22 ask in this case, what that actual effect would be.**

23 Q. Well, that -- I'll ask Mr. Vaughan a couple
24 questions about this, but I'm just asking -- I want
25 to make sure I'm clear. This is something that was

1 in your testimony. It's: We will -- you will only
2 agree to give up the 6.2 million if the Commission
3 gives you everything in the application, and I think
4 the quote is "the as-filed request"?

5 **A. That is correct.**

6 Q. Okay. And so the first question I have is:
7 The Company has changed some things in response to
8 intervenor testimony in discovery from their
9 applications. So does that apply to the Company's
10 proposal for the mitigation for the capacity charge?

11 **A. I'm not sure that I follow your question.**

12 Q. Well, the testimony says, in the -- the
13 initial testimony says that you'll give up the
14 capacity charge for the next two years if the
15 Commission approves the application as filed.

16 The application has been amended throughout
17 this proceeding in response to discovery requests
18 and on rebuttal, correct?

19 **A. True.**

20 Q. So what is the Company's proposal as it
21 relates to the capacity charge now? Is it the
22 application as amended or the application as filed?
23 Because the direct testimony is very clear, it's as
24 filed.

25 **A. At this moment, it's as filed.**

1 Q. Okay. So the adjustments that Mr. Vaughan
2 agreed to and the responses and the mistakes, I
3 think there were a couple that were identified in
4 rebuttal testimony, the Commission now has to ignore
5 those mistakes and approve as filed; is that
6 correct?

7 **A. No. No, that's not what I was saying. I was**
8 **talking only about the \$6.2 million, not the**
9 **adjustments that Mr. Vaughan, or any other witness,**
10 **for that matter, has filed.**

11 Q. Do you understand what I -- you understand
12 the concern I have is that the proposal by the
13 Company is as filed. It has since been amended. So
14 is the Company saying that it will give up the
15 6.2 million as amended by the Company or that they
16 are only willing to give up the 6.2 million if the
17 Commission approves the application as initially
18 filed?

19 **A. I'm going to refer you to Witness Vaughan on**
20 **that.**

21 Q. I don't know -- Mr. -- I think Mr. Vaughan
22 knows a lot of things, but I don't know that he can
23 officially speak on behalf of the Company as to
24 whether you're willing to give up the \$6.2 million,
25 can he?

1 **A. No, but he can do the analysis and tell us**
2 **what the mitigation may need to be or the financial**
3 **impacts it would have if we changed it.**

4 Q. You've changed the application throughout the
5 case, right?

6 **A. There have been changes made, yes.**

7 Q. Okay. And they're things that the Company
8 agrees to, right? That, oh, yeah, we should have --
9 I don't know, we should have zigged when we should
10 have zagged when adding that thing. Like there were
11 small mistakes and small updates to the application
12 that have been made throughout the pendency,
13 correct?

14 **A. As in any case, yes.**

15 Q. So are you telling me if the Commission
16 approves everything that the Company is now
17 proposing, the Company is no longer proposing or
18 offering up the \$6.2 million mitigation?

19 **A. That's not what I said. I said I would ask**
20 **Witness Vaughan to look at if that does not, as**
21 **filed, get approved, what is the mitigation of the**
22 **6.2 million? I don't know. Does it go down to 4.1?**
23 **I don't know that answer.**

24 Q. Well, the 6.2 million is just the 6.2. It is
25 written in stone. It started at five something.

1 It's 6.2 this year. It's a little less than 6.2
2 next year, because, like we talked earlier, one of
3 the UPAs doesn't exactly run through the end of the
4 year. But the amount is the amount.

5 I want to know -- forget the number for a
6 second -- are you-all offering to -- for the entire
7 amount if the Commission approves the application as
8 currently proposed by the Company?

9 **A. Yes.**

10 Q. Okay. And that would include the Commission
11 approving the full 100 percent of the PPA and the
12 grid modernization rider, in addition to the CPCN
13 for smart meters you're replacing in the grid
14 modernization rider?

15 **A. Yes.**

16 Q. And that's the only time that the Company
17 will even offer up that mitigation impact is if the
18 Commission -- if the Commission gives the Company
19 everything they want?

20 **A. That's how we have filed the case, yes.**

21 Q. Well, I'm -- you could -- you're in charge
22 there. You can -- you're in charge of the whole
23 thing, so I'm asking you very specifically --

24 **A. Well, I understand that, but you're asking me**
25 **to change things on the fly here, and I'm not**

1 **willing to do that.**

2 Q. I'm not. I'm not. I want to clarify that
3 only if the Commission approves all of those things,
4 that is the only time you're offering up the
5 mitigation in relation to the capacity rider?

6 **A. Yes.**

7 Q. Okay.

8 VICE CHAIRMAN CHANDLER: All right. I
9 appreciate it, Mr. Mattison.

10 I apologize for going a little over lunch
11 here, Mr. Chairman. Thank you.

12 CHAIRMAN SCHMITT: Dr. Mathews, do you have
13 questions for the witness?

14 COMMISSIONER MATHEWS: Are you asking me,
15 sir?

16 CHAIRMAN SCHMITT: I'm sorry, I couldn't
17 hear. Do you have questions?

18 COMMISSIONER MATHEWS: Yes. Just a couple.
19 We'll get -- I promise we won't be late for lunch.

20 EXAMINATION

21 By Commissioner Mathews:

22 Q. Can you hear me?

23 **A. Yes, I can.**

24 Q. Okay. I'd like to go back to the questions
25 the Vice Chairman just asked you and maybe follow up

1 on the question about Mitchell and the 2040
2 retirement date that you said that's what it is
3 today.

4 And I think in your answer to him, you said
5 there was a filing due soon on CR and ELG, and
6 those -- that filing might have some bearing on the
7 life expectancy of that Mitchell -- of those
8 Mitchell units?

9 **A. Well, I know that we're required by the end**
10 **of this month, November the 30th, to file with the**
11 **EPA if we are going to pursue doing CCR and ELG,**
12 **both, one or the other. And it's -- to the best of**
13 **my knowledge, we're filing that we are doing both**
14 **CCR and ELG and that the retirement date of Mitchell**
15 **remains unchanged.**

16 Q. And then you will then come to the Commission
17 with an environmental compliance plan, then, that
18 involves the mitigation impact for CCR and ELG?

19 **A. Yes, that is correct.**

20 Q. Do you know how much, and I -- for lack of a
21 better word, mortgage balance is left on those
22 Mitchell units, how much has not been fully
23 depreciated?

24 **A. Subject to check, it's around \$600 million, I**
25 **believe, but Witness Vaughan would be able to give**

1 **the precise number.**

2 Q. I'm not going to say what the last question
3 was said about Witness Vaughan and knowing all the
4 answers to all the questions, because I expect he's
5 used that in every performance evaluation he's had
6 since the Vice Chairman said that he needed a raise,
7 he's the only that can answer a question.

8 So do you consider those -- the decision
9 being very discrete of you'll make a -- you'll make
10 a decision on CCR and ELG and then you'll look at
11 carbon, is that what you think, or do you look at
12 those together?

13 **A. I'm not sure. I believe that we would look**
14 **at those separately. Right now there is no carbon**
15 **pricing that exists.**

16 Q. There's no carbon pricing, but I heard you
17 say that there was a goal and a plan to be carbon
18 neutral, and you're starting at a hundred percent
19 fossil fuels, so you've got to get from a hundred to
20 zero.

21 **A. Well, we're starting with the coal fleet is**
22 **where we're starting first, and have been starting**
23 **with the -- you know, AEP has reduced about**
24 **8,000 megawatts of coal generation over the last**
25 **several years, and continuing with that goal.**

1 Q. Right. Mitchell units are coal-fired?

2 **A. Correct.**

3 Q. So how do they play into the carbon goals as
4 stated by you at the technical conference and by
5 your CEO around the country on earnings calls, in
6 the press, and so forth?

7 **A. Well, in order to continue to operate**
8 **Mitchell, we've got to comply with environmental**
9 **rules with CCR and ELG. And once we make that**
10 **filing, that would be where we're headed with**
11 **Mitchell is to get it in compliance.**

12 Q. Okay. So if the customers -- there's
13 \$600 million left on the mortgage, so to speak. Do
14 you have a ballpark for how much CCR and ELG will
15 cost?

16 **A. I do not.**

17 Q. And there are already some environmental --
18 when you tell me that there's \$600 million left,
19 does that include any of the environmental upgrades
20 that have been done to Mitchell since the Company --
21 since Kentucky Power took ownership of 50 percent of
22 it?

23 **A. They would be included in that figure.**

24 Q. Okay. Because it was a very different figure
25 based on how much it was purchased for and then how

1 much was added in the environmental upgrades.

2 And I guess what I'm saying is: Are you
3 factoring in the risk? And I don't think it's risk.
4 If you're saying you're going to reduce carbon, I
5 don't think it's a risk to say that there's a good
6 chance Mitchell won't make it till 2040.

7 **A. I'm not going to say that it's not a**
8 **possibility, but I'm not sure.**

9 Q. I'll save those questions, I guess, for the
10 environmental compliance plan hearing when those are
11 brought here.

12 Let's spend a little bit of time talking
13 about, you know, the impact of mortgages that are
14 left. How much is left on Big Sandy 2?

15 **A. I'm not sure what's left on Big Sandy**
16 **Number 2, but witness Tim Kerns should be able to**
17 **answer that question.**

18 Q. Okay. Let's talk about Big Sandy 1. Do you
19 have an idea, is it 200-something megawatts? Is
20 that correct?

21 **A. Yes.**

22 Q. Do you know what the -- I don't -- how much
23 that's used? Is it dispatched often? I mean, gas
24 is cheap.

25 **A. I'm not sure exactly how often it runs, but I**

1 do visit with the plant manager from time to time,
2 and it does run often, but I don't have a, you know,
3 specific answer as to exactly the run rate of that
4 plant.

5 Q. Okay.

6 A. And gas -- and gas is cheap, to your point.

7 Q. Yeah. I'm going to do what the Vice Chairman
8 did. The benefit of going last is a lot of
9 questions have been answered; the detriment of going
10 last is that I follow up on random things.

11 So do you have an idea of how much the AMI
12 cost will be per customer?

13 A. In the first year, it would be about
14 31 cents.

15 Q. Okay.

16 A. Because it would be implemented, as far as I
17 know, in phases over a four-year period of time.

18 Q. Okay. What's the second, third, and fourth
19 year?

20 A. Witness Blankenship and Witness West would be
21 able to answer those specific questions, what that
22 buildout would be over time, over that four-year
23 installation period.

24 Q. And I will agree with the Vice Chairman that
25 it -- we must have misunderstood you when you

1 responded to Mr. FitzGerald about the benefits to
2 the low-income customers in your service territory
3 who are challenged in that AMI buildout.

4 I will give the Vice Chairman credit that I
5 heard a similar response that he did, that the best
6 thing you could do would be the AMI.

7 **A. Well, if I said that, it was out of context.**
8 **It was my response into his question about why would**
9 **you get rid of perfectly good meters and go to AMI**
10 **meters, and so I was using it in that context with**
11 **my answer.**

12 Q. So have you thought of -- about how much
13 depreciation -- how much useful life is left on
14 those existing meters that you have?

15 **A. Some of them have -- and again, Witness**
16 **Blankenship can tell us exactly, but some of them**
17 **have no useful life left on those meters. Some of**
18 **them are obsolete as we speak.**

19 Q. Okay. Have you -- do you have a warehouse
20 with some sitting in that still have a life
21 expectancy in them?

22 **A. We do have, and in talking with Witness**
23 **Blankenship yesterday, that is a very small number**
24 **of what I would call inventory of AMR meters.**

25 Q. Okay. So the benefits to the AMI, you said,

1 involved the potential for flex pay, the potential
2 for time-of-day rates, some things that will be more
3 down the pike?

4 **A. Well, once we get the installation in, we can**
5 **do flex pay. We come with a tariff. And the other**
6 **things, the benefits that I talked about, in an**
7 **outage situation or reconnection, or a -- for a**
8 **disconnect for nonpay for an initial connection when**
9 **you're requesting service, all of that can be done**
10 **in an initial installation.**

11 Q. Which for some customers would be four years?

12 **A. For the full buildout, it would be, phasing**
13 **it in.**

14 Q. And the cost of the education that would be
15 necessary for that, do you -- did I read the amount
16 for that in the record?

17 **A. I'm not sure if there was a cost that Witness**
18 **Wiseman put in her testimony for what that would**
19 **cost.**

20 Q. Okay. I didn't recall having seen it, but --

21 **A. I don't recall either.**

22 Q. Would it be significant for some of your
23 customers?

24 **A. I'm sorry, I didn't hear the first part.**

25 Q. I said it might be a significant cost for

1 some of your customers?

2 **A. You're talking about for the education piece**
3 **of it?**

4 Q. The education component.

5 **A. I don't think it's going to be a significant**
6 **cost for some of our customers to go through the**
7 **process of learning how those meters function.**

8 Q. Okay. I would caution you to look at
9 Glasgow, Kentucky, before you roll out a time-of-day
10 rate. Just saying.

11 **A. Thank you.**

12 Q. The education component was very important
13 there.

14 Just to follow up on some of the economic
15 development activities, what's the status of the,
16 what was formerly known as Braidy?

17 **A. Yes. It's now called Unity. About six weeks**
18 **or so ago, I met with the CEO, Don Foster, the new**
19 **CEO of the company. They're, in fact, moving dirt**
20 **as we speak, doing some preliminary work. And it's**
21 **his indication that they're closer now than they**
22 **ever have been before to get full financing. He**
23 **indicated it would be within the first or second**
24 **quarter of 2021. And that's all I know, just from**
25 **what he shared.**

1 Q. And if they go forward, I believe there's
2 some transmission upgrades that would have to be
3 done that you would have to come back to the PPP in
4 because that one expired?

5 **A. That is -- we would have to come, and there**
6 **is transmission and substation upgrades for sure to**
7 **serve that facility.**

8 Q. Okay. And that's the -- some of this is just
9 filling in blanks for me.

10 The whole conversation about the benefits of
11 being in an RTO. It seemed that your answer to that
12 was not -- there was no middle ground. There -- it
13 was AEP being in an RTO or not being -- or not being
14 in an RTO. There was -- could you -- could you --
15 were you having the discussion with the Vice
16 Chairman about Kentucky Power independently being in
17 an RTO?

18 **A. Well, I -- just from my experience, being**
19 **independent and as an island does not appear to be a**
20 **good opportunity for the Kentucky Power customers.**
21 **It puts -- I believe it puts us at risk.**

22 Q. Could you elaborate on that being in an
23 island?

24 **A. Well, what I refer to as an island, if we**
25 **were stand-alone and we were not in an RTO --**

1 Q. But that --

2 **A. -- Kentucky Power --**

3 Q. You're missing that middle ground of if
4 Kentucky Power were a member of PJM separate from
5 AEP East.

6 **A. Okay. So you're asking me if we were -- just**
7 **Kentucky Power was a member as an island, not an**
8 **island in and to ourself?**

9 Q. Correct.

10 **A. I follow you. Well, I would think that would**
11 **need to have some study done to see the effects.**
12 **And I know Vice Chairman Chandler talked about me**
13 **staying up at night. What keeps me up at night is**
14 **keeping people's lights on and safety. So I think**
15 **that was something we would have to look at.**

16 I'm not abstinent that there is no middle
17 ground, I'm just -- from what I know today being a
18 member of PJM. I don't know the implications of
19 being a sole member of an RTO, what the implications
20 of that would be.

21 Q. Okay. There have been some studies that have
22 been released out there in the public, and I'm not
23 going to name -- I'm not going to name specifics, so
24 I don't feel that I need to bring them up, that say
25 companies who belong to RTOs with functioning

1 markets that continue to self-supply may have a
2 higher cost to their customers than they would if
3 they sold their own plants or didn't run their own
4 plants and leaned on the market a little more.

5 Have you done any analysis to see if Kentucky
6 Power might benefit from market purchases and less
7 self-supply?

8 **A. I have not done any studies, Commissioner.**

9 Q. Okay. Would Mr. Vaughan be the person who
10 could answer that question?

11 **A. I don't believe he would. I would refer to**
12 **Kelly Pearce.**

13 Q. Okay. All right. You mentioned that
14 investment decisions are based on expected returns.
15 That's a generalization, but --

16 **A. Yes, I agree with that.**

17 Q. To what degree -- and you say you stay up at
18 night worrying about reliability and safety. To
19 what degree does reliability and safety drive those
20 investment concerns?

21 **A. Well, we're always going to do everything we**
22 **can to provide safe, reliable electricity on the**
23 **systems that we maintain and build. But when you**
24 **look at our ROE and look at further buildout and**
25 **aged infrastructure, it's just difficult to compete,**

1 **quite honestly, for capital funding whenever you've**
2 **got such a low ROE.**

3 Q. But -- and let's talk about those words,
4 "further buildout." Does further buildout mean you
5 would be building something that's not -- that
6 doesn't impact reliability and safety?

7 **A. Not at all. What I mean, "further buildout,"**
8 **I would take maybe a Hazard and a Wooton. That's a**
9 **further buildout to me, making a more robust system,**
10 **not necessarily a further buildout to build a line**
11 **in hopes that someone connects to the end of it.**
12 **Sorry I misspoke on that. That's not what I meant.**

13 Q. Okay. And that may be a -- you know, a gas
14 versus electric sort of nomenclature there.
15 Buildout for, you know, gas would be building a
16 line.

17 I guess that comes back again to the aging
18 infrastructure for which customers have paid the
19 depreciation on over the years. Would you not -- I
20 mean, to what degree does the return impact the
21 decision on whether or not you replace that
22 infrastructure and how much of it is aging and it no
23 longer is reliable?

24 **A. Well, we do studies on that, and Witness**
25 **Everett Phillips can give the detail of, you know,**

1 **how many times we go by and check poles, X number of**
2 **times every other year and find out that, you know,**
3 **by industry standards and criteria they need to be**
4 **replaced. He has very specific data on how many**
5 **poles we replace every year, how much conductor we**
6 **put up to that point of aged infrastructure. And**
7 **you're going to start with the worst to, you know,**
8 **the best, start with the worst first.**

9 Q. But what impact does expected return impact
10 the -- your ability to maintain that system, then?

11 **A. Well, there's --**

12 Q. I could --

13 **A. -- there comes --**

14 Q. I -- I -- go ahead.

15 **A. There comes a point financially that you can**
16 **only take on so much investment based on the**
17 **financial metrics of your company, and you can only**
18 **do so much with that investment that you've got. So**
19 **taking on too much puts the Company in a financial**
20 **bad situation. So earnings, ROEs, if you will,**
21 **drive how much investment you can make on an**
22 **annualized basis.**

23 Q. As do requirements for reliability and safety
24 imposed --

25 **A. I agree.**

1 Q. -- by the Kentucky Public Service Commission
2 and by NERC.

3 **A. I agree.**

4 Q. One more follow-up on the carbon question.
5 What was the goal that has been -- what year does
6 AEP want to be carbon free or -- it is a carbon free
7 goal, it's not a renewable goal, correct?

8 **A. Well, the goal is in 2050 to reduce by
9 80 percent, and it is an aspirational goal is to be
10 carbon free, carbon neutral. There is no carbon
11 neutral specific date of a goal, it's an
12 aspirational goal by 2050.**

13 Q. And have you -- I know the Company, the big
14 Company, the big AEP had some carbon capture
15 equipment on the Mountaineer Plant at one point.
16 Has that been completely abandoned, that initiative?

17 **A. To my knowledge -- sorry, there's something
18 going on.**

19 Q. Yeah.

20 **A. To my knowledge, and subject to check, I
21 think you're referring to carbon sequestration at
22 the Mountaineer Plant. And to the best of my
23 knowledge, that has been abandoned, did not work
24 out.**

25 Q. Okay. So by 2050, 80 percent reduction.

1 80 percent reduction starting from what? From
2 what --

3 **A. It's just the baseline that we started, I**
4 **believe it was in -- I think it was 2012, I believe**
5 **is when those numbers were first --**

6 Q. Okay. And I know some companies use a 2005,
7 some companies I've seen have a 1990 level that they
8 are starting as their baseline, so I just was trying
9 to check there.

10 **A. Okay.**

11 COMMISSIONER MATHEWS: Okay. I think that is
12 all that I have, Mr. Chairman.

13 CHAIRMAN SCHMITT: Okay. Thank you.

14 THE WITNESS: Thanks, Commissioner.

15 CHAIRMAN SCHMITT: I guess, Ms. Blend, in all
16 fairness, I hadn't thought about it, but after the
17 questions by Vice Chairman Chandler and Dr. Mathews,
18 you ought to have an opportunity to redirect, I
19 mean, if there's anything you'd like to explain or
20 ask the witness to.

21 But before we do, it's now about 20 minutes
22 until 1:00 o'clock, so let's take a lunch break
23 until 1:30. That'll give us 50 minutes. And then
24 if you choose not to ask any further questions, then
25 we'll go to the next witness.

1 I will say this: I think that Staff Counsel
2 has advised that at some point, and I don't know if
3 we'll get to it today, but after the testimony of
4 Mr. Satterwhite, Mr. Pearce, and Mr. Ali, that Staff
5 would like to speak to Mr. Mattison again, I guess
6 to follow up on some additional questions. Okay?
7 All right.

8 MR. BLAND: Thank you, Your Honor.

9 CHAIRMAN SCHMITT: All right. So we'll be in
10 recess until 1:30.

11 (Lunch recess began at 12:40 p.m.)

12 CHAIRMAN SCHMITT: Okay. We're back on the
13 record.

14 Ms. Blend, before I ask you if you want to
15 conduct any redirect, apparently Mr. Cook from the
16 Attorney General's Office asked a question, and
17 Mr. Mattison referred to another witness, but no one
18 can recall or got down exactly who that witness was.

19 Can we find out from Mr. Mattison and -- I
20 don't know. Mr. Cook is on the line, I suspect.

21 Mr. Cook, are you there?

22 MR. COOK: Yes, I am, Mr. Chairman.

23 CHAIRMAN SCHMITT: Well, could you tell us --
24 do you have a recollection of the question that
25 resulted in Mr. Mattison's response about referring

1 the answer to someone else?

2 MR. COOK: Yes. I was asking questions
3 regarding money that was identified in PSC 2 -- I
4 forget the exact question number. But, at any rate,
5 it was about lobbying expense, and I believe it was
6 counsel for the Company that stated that another
7 witness could address those questions, but I did not
8 catch the last name of the witness that she
9 identified.

10 MR. MATTISON: I believe that witness was
11 Brian West.

12 MR. COOK: Yes.

13 MS. BLEND: Let me clarify, if that's okay
14 with Your Honor.

15 Mr. Cook, is your question about which witness
16 is best able to testify regarding the exclusion of
17 federal lobbying expense from the Company's cost of
18 service?

19 MR. COOK: Yes, as identified in response to
20 PSC 2-42.

21 MS. BLEND: I believe Mr. Mattison referred
22 to Ms. Whitney, Company Witness Whitney, as being
23 able to provide any further detail regarding the
24 actual adjustment and cost of service.

25 MR. COOK: Okay. Well, I thank you very

1 much, then.

2 CHAIRMAN SCHMITT: Referred to a Mr. -- is
3 that person listed as a witness?

4 MS. BLEND: Yes. Heather M. Whitney.
5 Ms. Whitney.

6 CHAIRMAN SCHMITT: Okay. At this time,
7 Ms. Blend, do you have any redirect for your
8 witness? Would you like to ask --

9 MS. BLEND: I have no redirect, Your Honor.

10 CHAIRMAN SCHMITT: I'm sorry?

11 MS. BLEND: I have no redirect, Your Honor.
12 Thank you.

13 CHAIRMAN SCHMITT: Then you may call your
14 next witness.

15 MS. BLEND: Thank you. The Company calls
16 Matthew J. Satterwhite pursuant to the Commission's
17 subpoena for his testimony in this case.

18 I will note that we will need just a moment to
19 sanitize the witness and the counsel seats and work
20 spaces, and we'll do that as quickly as we can.

21 MS. VINSEL: Chairman, could I take this
22 moment to try to resolve any issues about going into
23 confidential session to ensure that those are on the
24 line?

25 CHAIRMAN SCHMITT: Yeah, I think they're

1 changing seats, though. Just a second. They have
2 to spray down.

3 Okay. Mr. Overstreet, are we ready?

4 MR. OVERSTREET: Yes, Mr. Chairman, we're
5 ready. We call Matthew J. Satterwhite.

6 CHAIRMAN SCHMITT: Before -- before we swear
7 in Mr. Satterwhite, Ms. Vinsel, staff counsel, I
8 guess needs to clear up something about a potential
9 confidential session.

10 Is that correct?

11 MS. VINSEL: Yes, Chairman. Thank you. We
12 will be going into confidential sessions twice
13 during Mr. Satterwhite's testimony, and I wanted to
14 ensure that everyone who is currently in the hearing
15 has actually signed the -- done whatever they need
16 to do to sign confidentiality agreements with --

17 VICE CHAIRMAN CHANDLER: Ms. Vinsel.

18 MS. VINSEL: Yes.

19 VICE CHAIRMAN CHANDLER: Can I have one
20 second, Mr. Overstreet, to question Ms. Vinsel?

21 MS. VINSEL: Yes.

22 VICE CHAIRMAN CHANDLER: Is confidential
23 information confidential pursuant to a request of
24 confidentiality by a party or is it confidential per
25 the Commission's directive?

1 MS. VINSEL: It is per the Commission's
2 directive.

3 VICE CHAIRMAN CHANDLER: So I guess I'm just
4 going to ask if that made a distinction to your
5 question, Mr. Overstreet.

6 MS. VINSEL: Before Mr. Overstreet answers,
7 let me say, because we've had a couple people
8 apparently phone in and just be listed as caller
9 number, so we can't identify them. They seem to
10 have dropped out.

11 I just wanted to make sure that this was only, you
12 know, the parties and their counsel, the witnesses
13 on the hearing.

14 CHAIRMAN SCHMITT: At some point after lunch
15 we were advised that there was someone identified as
16 Caller 5, but we couldn't -- no one seemed to know
17 who that was.

18 MS. VINSEL: I think it looks like we've
19 resolved the issue and everyone's named. We're okay
20 now. Thank you.

21 Thank you, Your Honor.

22 MR. OVERSTREET: Ms. Vinsel, to answer your
23 question in a little broader perspective.

24 And thank you, Mr. Vice Chairman, for that
25 clarification.

1 Among the parties, all of the parties have
2 signed NDA except for SWVA. So to the extent that
3 the confidential information does not relate to
4 information that was either produced and accorded --
5 produced by Kentucky Power and accorded confidential
6 treatment by the Commission in response to Kentucky
7 Power's motion or was not used by another party in
8 its filing, you know, I think it would be fine
9 except with respect to SWVA.

10 MS. VINSEL: Thank you, Mr. Overstreet. For
11 the purposes of these confidential sessions, Mr.
12 Frye can remain in the hearing.

13 MR. OVERSTREET: Thank you.

14 CHAIRMAN SCHMITT: All right. Mr.
15 Satterwhite, will you please raise your right hand?
16 Do you solemnly swear or affirm under penalty of
17 perjury that the testimony you're about to give will
18 be the truth, the whole truth, and nothing but the
19 truth?

20 THE WITNESS: Yes.

21 * * * *

22

23

24

25

1 MATTHEW J. SATTERWHITE, called by the
2 Kentucky Power Company, having been first duly
3 sworn, testified as follows:

4 MR. OVERSTREET: May I ask, Your Honor?

5 CHAIRMAN SCHMITT: Yes, you may.

6 MR. OVERSTREET: Thank you.

7 DIRECT EXAMINATION

8 By Mr. Overstreet:

9 Q. Mr. Satterwhite, please state your name,
10 employer, and position.

11 **A. Matthew J. Satterwhite, employed by American**
12 **Electric Power Service Corporation, and my position**
13 **is vice president of regulatory services.**

14 Q. And are you appearing here in response to the
15 Commission's subpoena?

16 **A. Correct.**

17 Q. And what is your understanding of the subject
18 matter of your testimony here today in response to
19 that subpoena?

20 **A. From my reading of the subpoena, the**
21 **Commission had questions about transmission under my**
22 **current position, how that applies to Kentucky Power**
23 **and PJM, and selected pages from my previous**
24 **testimony in the last rate case.**

25 MR. OVERSTREET: Thank you.

1 Your Honor, the witness is available for
2 cross-examination.

3 CHAIRMAN SCHMITT: Ms. Vinsel,
4 cross-examination?

5 MS. VINSEL: Thank you, Chairman.

6 CROSS-EXAMINATION

7 By Ms. Vinsel:

8 Q. Good afternoon, Mr. Satterwhite.

9 **A. Good afternoon. Good to see you.**

10 Q. Good to see you again.

11 If you can't hear me or if you don't
12 understand my question, please let me know.

13 **A. Absolutely.**

14 Q. Since we last spoke, you have changed your
15 job. Can you tell me what your job duties are now?

16 **A. Sure. As vice president of regulatory**
17 **services -- and a sound check. Is this good?**

18 Q. It is good. Thank you.

19 **A. As vice president of regulatory services, I'm**
20 **sort of the -- in charge of the central regulatory**
21 **group for American Electric Power. So we're a**
22 **service organization, and we serve all of the**
23 **operating companies, that they don't have to employ**
24 **staff for things like rate cases.**

25 And we help process rate cases. And we do

1 that every day for all of our different
2 jurisdictions, as well as I have staff that we will
3 talk about today, Dana Horton to monitor PJM and the
4 other RTOs. We're sort of like an essential
5 repository for regulatory matters at AEP all the
6 service of our clients, which are the operating
7 companies.

8 Q. Thank you. So when you talk about the
9 regulatory, in addition to FERC and the Kentucky
10 Public Service Commission, I believe there are a
11 total -- well, ten other state regulatory
12 commissions that you deal with. Is that correct?

13 **A. Correct.**

14 Q. Thank you.

15 Prior to today, what has your involvement in
16 this case?

17 **A. When I received the subpoena, I started to**
18 **read some of the testimony. I guess prior to that,**
19 **my staff was involved in helping put together the**
20 **case. Alex Vaughan, a number of the witnesses,**
21 **Jaclyn Cost and others are on my staff.**

22 And, in general, before rate cases are filed,
23 my staff will work with the people at the operating
24 companies to talk about what could go in those
25 cases, what are possibilities, what are we seeing

1 across the country, what are some different ways
2 things might be prevented or things that we thought
3 we should do, what we've seen in other places. So
4 kind of a central learning pool to advise the
5 operating company level. So people under my
6 direction were working with the company on that.

7 Q. Okay.

8 THE REPORTER: I'm having trouble hearing
9 him. I'm sorry.

10 Q. I'm sorry, the court reporter is saying that
11 she's having trouble hearing you. Maybe if you
12 could lean in closer or pull it in closer.

13 **A. Absolutely. Is that better? I'll try to**
14 **talk slower. I know I talk fast. Call time out**
15 **when you need to.**

16 Q. Okay. Will do.

17 Trying to think of when the subpoena was
18 issued, but I can look it up quickly. You may know.

19 **A. I believe it was last Tuesday, yes.**

20 Q. So prior --

21 **A. We got a call Monday, Monday asking if we**
22 **would appear. I said absolutely, and the subpoena**
23 **came on Tuesday.**

24 Q. So prior to that did you have any
25 conversations with anyone, say particularly in

1 response to rebuttal testimony?

2 **A. Trying to think. My staff definitely would**
3 **have. I was aware of sort of -- when the testimony**
4 **was filed, I get updated on what was filed. So I**
5 **think I sat on initial calls with counsel to talk**
6 **about what the issues were in the case.**

7 A lot of what we do is help the operating
8 company determine all the transmission issues in
9 this case, who are the experts that maybe can help
10 you.

11 Dr. Pearce and Kamran Ali would be good to respond
12 to this. They have the most information.

13 So we had them serve in that role to make sure
14 the record could be developed along the lines of
15 what we're seeing in the case. So I was involved in
16 that.

17 Q. Roughly two weeks ago, AEP announced a
18 \$37 billion five-year capital plan that's focused on
19 renewable expansion and grid investments.

20 Are you familiar with that?

21 **A. Yes.**

22 MS. VINSEL: Okay. This is where, Chairman,
23 I would like to go into a very brief confidential
24 session.

25 CHAIRMAN SCHMITT: All right. At this time

1 we'll go into confidential session.

2 MS. SACRE: Yes, sir. Proceed.

3 (Confidential testimony of Mr. Satterwhite
4 heard from 1:52 p.m. through 1:59 p.m.)

5 CHAIRMAN SCHMITT: We're now out of
6 confidential session and back into regular open
7 session.

8 MS. VINSEL: Thank you.

9 Q. Also, Mr. Satterwhite, our court reporter has
10 asked again. She's having a hard time hearing you.

11 **A. I got closer.**

12 Q. Thank you.

13 In terms of regulatory proceedings, is your
14 team's role different for transmission-related
15 matters at the state commission level as opposed to,
16 say, the FERC level?

17 **A. We're involved at every level. There's
18 different teams that are involved. We have a
19 dynamic transmission group that is almost, you know,
20 its own business unit. So they have a lot of
21 people, just like an operating company would, of how
22 they want to move forward. Kelly Pearce is in that
23 group.**

24 Dr. Pearce, I should say. Kamran Ali as well.

25 But when it comes down to filings at the state

1 commission or making filings at PJM or FERC, that's
2 when we would be involved.

3 There's also a DC office. We have counsel out
4 in D.C. and former counsel out there that are also
5 involved and sort of have -- watch as they go
6 through that area.

7 It's really a team effort of who looks at
8 things, but we try to make sure we have awareness
9 about what's going on so we're not being disjointed
10 in how we present things.

11 Q. I want to be clear that I understand, and I
12 don't want to put words in your mouth.

13 What I'm hearing is, in one way, there's a
14 dynamic team that might pull in people from
15 different parts of AEP, but also underlying that,
16 there's a static team, whether it's this team is
17 working with the state commission, this team is
18 working with FERC.

19 Is that a fair assessment?

20 **A. Yeah. I guess I prefer to use the analogy**
21 **of, you know, there's operating companies like**
22 **Kentucky Power, there's a transmission group,**
23 **there's a generation group, and they all serve the**
24 **operating companies, but we serve all of those**
25 **groups to make sure that AEP and the operating**

1 **companies are up to date on all of the issues.**

2 So that's probably that group. We're that
3 underlying that to make sure that things are
4 processed the right way and considerations are made.

5 Q. Thank you. I think I understand now. It
6 also leads well into my next question, which is if
7 there's any difference in your team's participation
8 and processes for operating companies versus the
9 transmission companies.

10 **A. At the transmission level -- we're really**
11 **involved at the RTO level. So PJM, SPC, ERCOT,**
12 **MISO. So I have staff that sort of serve as a**
13 **generalist in those areas. Dana Horton, who will**
14 **appear later. I think all of you know him. He sort**
15 **of watches everything that goes on in the RTOs.**

16 But then in front of our clients, for lack of
17 a better term, are the opco's, the generation group,
18 the transmission group. They all have staff.
19 They're also very involved and interact on their
20 specific issues. A lot of M3 process and reviewing
21 what the little projects are.

22 The transmission group has a group dedicated
23 to that, and they sit on those calls and go through
24 every page they want to go through. That really is
25 someone from the transition group that does that

1 versus my group, but when it gets to transmission --
2 sorry. I'll slow down.

3 Is there a transmission issue on a state case?
4 Is there a filing at PJM? That's when we would
5 review that as well from a central point of view.

6 Does that help?

7 Q. That does. Thank you very much. I
8 appreciate it.

9 I have some questions about the load-serving
10 entity open-access transmission tariff.

11 Do you mind if I just call it LSE OATT?

12 **A. Sounds good.**

13 Q. I know that's the general, but I want to make
14 sure for everybody that we're all on the same page.

15 Given both your current position and your
16 previous position at Kentucky Power -- and I don't
17 know. Did we say that -- what your previous
18 position at Kentucky Power was?

19 **A. Not on the record today, no. Previously I**
20 **served as the president and COO of Kentucky Power**
21 **from 2016 to the end of 2018.**

22 Q. The end -- okay. Thank you.

23 **A. 2017 and 2018 was my term.**

24 Q. So given your current position and then your
25 previous position at Kentucky Power as

1 president/CEO, is it a fair assumption that you're
2 familiar with the LSE OATT expense recovery proposed
3 in this case?

4 **A. I'm familiar with the concept in the last**
5 **case when we established that. So I'm familiar with**
6 **that. I appeared and gave testimony related to that**
7 **in the previous rate case.**

8 Q. Okay. What is being proposed in this case?
9 And I'll bring up some of Mr. Vaughan's testimony.
10 Again, I'm not going to ask you to swear to somebody
11 else's testimony, but I want to make sure we're all
12 on the same page.

13 In this case what's being proposed is in the
14 last rate case the proposal was an 80/20 split in
15 the tariff PPA. In this case Kentucky Power
16 proposes to recover 100 percent of the cost outside
17 of base rates in tariff PPA.

18 **A. That's my understanding, yes.**

19 Q. Okay.

20 MS. VINSEL: Zack, can I ask you to bring up
21 -- and this is in the case record. It's from the
22 application. It's Alex Vaughan's direct testimony.
23 And if it helps -- oh, there you go.

24 And -- good. You're right on where I want
25 you. Can you scroll down, Zack, so that we can see

1 lines 3 through 14 or as much as we can? Okay.

2 That gets it.

3 Q. Mr. Satterwhite, can I ask you to read this,
4 beginning with line 3, which is a question, down to
5 line 14. And, again, let me go back and say this is
6 from the direct testimony of Alex Vaughan.

7 **A. Would you like me to read it to myself or
8 into the record?**

9 Q. Into the record.

10 **A. Okay. I have to put my readers on to look
11 close or far here.**

12 Q. I understand.

13 **A. Starting on Alex Vaughan's direct testimony,
14 page 32, line 3, the question is "Why should the
15 Company recover 100 percent of PJM LSE charges
16 through tariff PPA?"**

17 Answer starts on line 5. "As the Company
18 discussed in its previous base rate case, these PJM
19 charges and credits are volatile and can have a
20 significant financial impact on the Company. The
21 annual level of such charges and credits can vary
22 greatly from year to year and are largely out of the
23 Company's control. Also, as the Company expected,
24 PJM transmission owners have continued to increase
25 their investment in the transmission grid. This

1 increasing level of investment, which is necessary
2 to maintain and improve the grid, will increase
3 transmission charges allocated to LSEs in PJM,
4 including Kentucky Power. The PJM LSE OATT charges
5 are the Company's single largest growing expense;
6 without a full tracking mechanism for these costs
7 allocated to the Company by a FERC-approved rate
8 schedule, the Company does not have an opportunity
9 to earn its allowed ROE."

10 That's finished up on line 14.

11 Q. Thank you very much.

12 And just to reiterate, when Mr. Vaughan says,
13 "As the Company expected, PJM transmission owners
14 have continued to increase their investment in the
15 transmission grid," would you agree that that's your
16 experience too?

17 **A. Oh, absolutely. There's been a movement in**
18 **recent years across the -- especially the eastern**
19 **grid to make sure there's investment in transmission**
20 **systems to make sure it's robust enough to avoid**
21 **issues like we've had before. So there's been**
22 **expectation for investment in the system.**

23 Q. And when you say the eastern grid, is there a
24 particular area that you're speaking of?

25 **A. Really, it's the whole country. I mean, as I**

1 **talked about last time in my testimony too. After a**
2 **tree branch hit a wire in Akron and people are**
3 **walking across bridges in New York City, kind of**
4 **flipped everything on its head. It's kind of a new**
5 **day for how to look at transmission going forward.**

6 Since then there's been -- you know, RTOs were
7 created, real focus on making sure that we are
8 replacing -- we have a good flow, which is what
9 Kamran Ali looks at, make sure there's not risk, and
10 then replacing aging assets to make sure that we
11 don't face problems now that we're all
12 interconnected, really, across the country.

13 MS. VINSEL: Zack, you can clear off the
14 document.

15 Q. Now, there are two quotes that I would like
16 for you to keep in mind as we go through the
17 cross-examination. The first is -- both of these
18 are from Mr. Vaughan's testimony, and the first is
19 what we just discussed, that the PJM transmission
20 owners have continued to increase their investment
21 in the transmission grid.

22 And then the second quote to remember is that
23 PJM LSE OATT charges are the Company's, Kentucky
24 Power's, single largest growing expense, and that
25 the costs are allocated to the Company by a

1 FERC-approved rate schedule. So --

2 **A. Sorry. Just to be clear, to make sure we're**
3 **on the same page, if I can assume that, it says it's**
4 **the single largest growing expense without a full**
5 **tracking mechanism.**

6 Q. Well, there's a semicolon there, and I hate
7 to be a grammarist, but there's a semicolon there.

8 **A. All right. I can appreciate that. Okay.**

9 Thank you. I didn't have -- I didn't know whether
10 it was true or not true.

11 Q. I understand. And --

12 **A. You got me.**

13 Q. You know, we -- we know that Mr. Vaughan is
14 very careful with his words.

15 **A. My wife is an English teacher, so if you**
16 **could not show her this part of the hearing, I would**
17 **appreciate that.**

18 Q. I promise. Although I can't say she's not
19 going to watch it on her own.

20 **A. She won't.**

21 Q. So again --

22 CHAIRMAN SCHMITT: You can't get this kind of
23 excitement very many places.

24 **A. We try. Ready for prime time.**

25 Sorry. I apologize.

1 Q. No, no, no, no. You're good. You're good.

2 So, again, what we're looking at, the PJM LSE
3 OATT charges are the Company's largest single
4 growing expense, and also the concept that these
5 costs are allocated to the Company by a
6 FERC-approved rate schedule.

7 **A. Yes.**

8 Q. And I think -- because of your job, I think
9 it's a fair assumption that you are familiar with
10 FERC-approved rate schedules?

11 **A. Yes.**

12 Q. I have just one more portion of Mr. Vaughan's
13 testimony that I would like to share with you before
14 we go on.

15 MS. VINSEL: Zack, can you bring up again
16 Mr. Vaughan's direct testimony?

17 Q. And this is Mr. Vaughan's testimony beginning
18 on page 33. Let me do this. I'm going to have you
19 read again -- I'm glad you brought your readers,
20 Mr. Satterwhite. Can I have you read lines 6
21 through 11?

22 **A. Sure. So page 33, Vaughan direct, line 6.**

23 "Question: What is the proposed level of PJM
24 LSE OATT charges and credits to be included in base
25 rates?"

1 Answer starts on line 8. "The adjusted test
2 year Kentucky retail jurisdictional total of net PJM
3 LSE OATT charges and credits included in base rates
4 is \$96,896,495. This amount has grown from
5 \$74,377,364 in Case Number 2017-00179, and from
6 \$53,779,456 in Case Number 2014-00396. The single
7 expense is now 16 percent of the Company's total
8 proposed revenues."

9 Q. Thank you very much.

10 I first note, I can recall -- and I wonder if
11 you can recall from the last rate case, which is
12 17-179, when you discussed that the growth in the
13 LSE OATT charges had grown about \$20 million.

14 Do you recall that?

15 **A. I'm trying to remember. I know when we were**
16 **talking about the need to file another case soon**
17 **after the one we tracked, it might have started at**
18 **14 and then went to 19. I'm just going from memory**
19 **there, but that sounds appropriate.**

20 Q. Again, I don't want to put words in your
21 mouth, and I know it's been a while. I'll be
22 careful not to do that.

23 **A. Yeah. It's in the testimony that staff**
24 **identified in the subpoena. I can look at that if**
25 **you want.**

1 Q. I think we're okay. We can move -- we can
2 move on.

3 I've got one more thing I want you to
4 remember, and I'm going to round down here. The \$96
5 million of PJM LSE OATT charges that are included in
6 base rate in this test year -- if you'll just
7 remember
8 96 million.

9 **A. Okay.**

10 MS. VINSEL: And, Zack, if you will remove
11 this document. Can I have --

12 Q. We will look at your testimony,
13 Mr. Satterwhite.

14 MS. VINSEL: Zack, can I have you bring up
15 PSC Exhibit 14?

16 Q. And while he's bringing that up,
17 Mr. Satterwhite, this is your direct testimony from
18 the last Kentucky Power rate case.

19 **A. Can I add one thing before we move on to
20 that?**

21 Q. Yes, please.

22 **A. In between the two questions you had me read
23 was another question about how the tracker allowed
24 for some refunds to come back (indiscernible) --
25 whole section on there.**

1 THE REPORTER: I cannot hear him. No, I
2 cannot hear him.

3 CHAIRMAN SCHMITT: Mr. Satterwhite, could you
4 repeat, I guess, the answer probably going back to
5 where you advised Ms. Vinsel that there was another
6 part of the testimony that you wanted to discuss?
7 The court reporter couldn't hear.

8 THE WITNESS: Absolutely. I leaned back. I
9 apologize, Your Honor.

10 **A. I just want to point out for completeness the**
11 **question in between the two questions read was a**
12 **description about how the nature of the tracker over**
13 **the past few years allowed refunds also to come back**
14 **that wasn't allowed in the base case scenario.**

15 I just thought it was -- Mr. Vaughan put those
16 questions in order for a reason. I wanted to make
17 sure that that was all just considered in the same
18 part of the record.

19 Q. Fair enough. Thank you.

20 MS. VINSEL: Zack, do you mind to go to --
21 it's direct testimony page 18, but it's PDF page 22.

22 Thank you.

23 Q. Mr. Satterwhite, can I have you read lines 1
24 through 9 of page 18? And, again, this is your
25 direct testimony from the last rate case.

1 **A. Sure. My direct page 18, question, line 1,**
2 **"What advantage is provided by addressing volatile**
3 **PJM costs in a tracker versus waiting for the**
4 **Company to file subsequent rate cases?"**

5 Answer starts on line 4. "Kentucky Power
6 incurs charges and credits as a load-serving entity
7 in PJM under the FERC-approved open-access
8 transmission tariff. PJM LSE OATT charges and
9 credits can be volatile and have a significant
10 effect on the Company's revenue requirements. As
11 discussed in more detail by Company Witness Vaughan,
12 the net level of jurisdictional PJM LSE OATT charges
13 and credits increased by approximately \$20.6 million
14 since the last rate case filing."

15 Q. Thank you. And, yes, that is what we just
16 discussed a moment ago about that increase of
17 20 million.

18 **A. I do believe, though, it might be in my**
19 **rebuttal, that might have gone down to \$14 million.**

20 I believe I used that as an example of how it pushed
21 back and forth. We can check that if you need it.
22 I just wanted to make sure.

23 Q. We're actually -- I was going to have Zack
24 take this document down and go to PSC Exhibit 13,
25 which is, in fact, Mr. Satterwhite, your rebuttal

1 testimony from the last rate case.

2 **A. Should have known you were all over it**
3 **already. I apologize.**

4 Q. I can promise you we try everything we can to
5 be as thorough as we can be.

6 **A. As always. Good to see.**

7 Q. Okay. And what I would like to turn to is
8 it's -- within the document, it's testimony,
9 rebuttal testimony page -- beginning on page 8,
10 excuse me.

11 MS. VINSEL: And this is PDF page 11, Zack.
12 Can I have you scroll down, Zack, to -- to that line
13 17 so the bottom is visible.

14 Q. What I'm going to do, Mr. Satterwhite and
15 Zack -- Mr. Satterwhite, I'm going to ask you to
16 read from page 8, line 17, through page 9, line 2.

17 MS. VINSEL: So, Zack, as he's reading it, if
18 I can ask you to scroll at the right time.

19 **A. Line 17 to line 2 on page 9?**

20 Q. Of the following page, yes, sir.

21 **A. Okay. Question on Satterwhite rebuttal 8,**
22 **line 17.**

23 "Question: Why do you say the amount of
24 Kentucky Power's PJM LSE OATT expense is largely
25 outside of its control?"

1 Answer starts on 19. "The LSE OATT expense is
2 largely a reflection of Kentucky Power's share of
3 the costs to rebuild the transmission system in the
4 region. These are expenses charged to Kentucky
5 Power regardless of whether the Company has relief
6 for the expenses in its rate structure. Additional
7 detail regarding the nature of the Company's PJM LSE
8 OATT expense is provided in the direct and rebuttal
9 testimony of Company Witness Vaughan."

10 Q. Thank you, Mr. Satterwhite.

11 MS. VINSEL: Zack, you can stop --

12 Q. I'm sorry?

13 **A. Earlier I said 14 million. In the question**
14 **above, 17 million was the update.**

15 Q. Okay. Thank you. I will make note of that.

16 VICE CHAIRMAN CHANDLER: Ms. Vinsel, can I
17 ask for clarification on that?

18 MS. VINSEL: Yes.

19 VICE CHAIRMAN CHANDLER: This is Kent. The
20 question I have is I think that the additional
21 reference from the direct testimony was the increase
22 over the most recent rate case, and the reference at
23 the top of 8 seems to be a reference to the increase
24 in the fiscal year or calendar year 2018 over the
25 amount in 2017.

1 I just want to make sure we're clear on that
2 because I've kind of been confused with the new
3 references.

4 MS. VINSEL: Okay. Zack, can I have you
5 bring up that exhibit again? It is PSC Exhibit 13.
6 Let's look at the document page 8, PDF page 11.

7 Q. So what we're referring to here is on line 9,
8 an increase of 17 million above the 74.4 million in
9 test year PJM LSE OATT expense.

10 MS. VINSEL: Vice Chair, do we need to ask
11 more questions to get clarification?

12 THE WITNESS: No. He was just referring --
13 sorry.

14 VICE CHAIRMAN CHANDLER: Yeah. So this one
15 is rebuttal 8 and 9. In 8 it says that the 2018
16 estimate for calendar year 2018 is a \$17 million
17 increase over 2017 for the test year amount. Not
18 even 2017, just the test year amount. Right?

19 But the other reference that was on 32 or 33
20 of the direct was talking about a 20.6 million
21 number, and I thought that 20.6 million number was
22 merely the increase between the 2017 rate case test
23 year and the 2014 rate case test year. So I just
24 want to make sure that we're not talking apples and
25 oranges with those two references.

1 THE WITNESS: I don't remember what page
2 number it was on the direct.

3 VICE CHAIRMAN CHANDLER: 33. 32 or 33.

4 MS. VINSEL: Zack, can you bring up --

5 VICE CHAIRMAN CHANDLER: Should be
6 Mr. Satterwhite's direct testimony from the 2017
7 rate case, I believe. Let me check here. Maybe I'm
8 wrong.

9 MS. VINSEL: Yes, it is.

10 VICE CHAIRMAN CHANDLER: It's page 18.

11 MS. VINSEL: Yes. So let me make sure that
12 we're seeing the document.

13 Zack, I know --

14 **A. I can verify that.**

15 MS. VINSEL: We're switching through --

16 **A. I can verify it, Vice Chairman. I apologize.**

17 The vice chairman is correct. The previous
18 reference was referencing rate cases where this one
19 was what happened -- second one in the rebuttal
20 testimony was an update of what's happening that
21 year. That would be considered in a tracker.

22 Thank you for the clarification.

23 VICE CHAIRMAN CHANDLER: Okay. I just wanted
24 to make sure I wasn't confused. Thank you,
25 Mr. Satterwhite.

1 THE WITNESS: I appreciate that.

2 MS. VINSEL: Thank you. And, Zack, you can
3 stop the screen share now.

4 Q. I'm just going to go back here and -- because
5 I have a question about which region you were
6 referring to in that rebuttal testimony where you
7 said that the LSE OATT expense is largely a
8 reflection Kentucky Power's share of costs to
9 rebuild the transmission system in the region.

10 And what region is that that you were speaking
11 of?

12 **A. That was PJM.**

13 Q. Were you speaking of AEP east region or the
14 entirety of the PJM region?

15 **A. I believe the LSE OATT covers everything in
16 PJM, the RTEP and the supplemental.**

17 Q. Okay. Kentucky Power provided a copy of the
18 transmission agreement for the AEP east companies in
19 response to a data request.

20 Let me step back and say would you agree
21 Kentucky Power is in the AEP east transmission zone?

22 **A. Yes.**

23 Q. And I presume that you're familiar with this
24 transmission agreement?

25 **A. I believe so.**

1 Q. Okay.

2 MS. VINSEL: Zack, can I have you bring up --
3 it is Kentucky Power's response to the Attorney
4 General and KIUC's first data request. I'm looking
5 for -- it's PDF page 1656.

6 Oh, actually, no. Let me have you scroll back
7 there, Zack, to the start of this. 1656. That's
8 good. That's good. Thank you. Can I have you
9 scroll back up again? Thank you, Zack.

10 Q. So, Mr. Satterwhite, do you recognize this?
11 I recognize you were not the one who sent this, but
12 this is part of -- the transmission agreement was
13 filed as part of a settlement in a FERC matter; is
14 that correct?

15 **A. That's correct.**

16 Q. And this letter dated August 4th, 2010, is
17 from AEP filing the transmission agreement -- or the
18 proposed transmission agreement.

19 **A. It looks to be. I can authenticate it. This**
20 **looks to be an accurate copy of that agreement.**

21 Q. Thank you.

22 MS. VINSEL: Zack, can I have you now turn
23 to -- it's PDF page 1660. Thank you.

24 Q. This is the -- the introduction to the
25 transmission agreement. And I think it's helpful

1 because it's got some good information here that we
2 can use moving forward.

3 So, Mr. Satterwhite, can I ask you to read
4 beginning here on --

5 MS. VINSEL: Zack, can I have you scroll down
6 a minute. I want to be sure I'm looking at the
7 right page. I believe I am.

8 Scroll up, I'm sorry. This should be page 4
9 of 129. And if you'll scroll back down to the next
10 page. Thank you.

11 Q. Mr. Satterwhite, I would like to have you
12 read this introduction section. I'm going to have
13 you read -- although on the bottom of the
14 transmission agreement it's page 2, but the
15 pagination on the page itself is page 4 of 129. And
16 I say that simply because I want to make sure the
17 record is correct.

18 Can I have you read this? And I'll tell you
19 when to stop.

20 **A. I want to make sure because I don't have the**
21 **PDF pages on the copy that I have. I think that**
22 **might be a function of what's on the screen.**

23 So is this the one that starts on actual
24 page 2? It's the introduction of AEP as a
25 multistate electric utility?

1 Q. Yes, yes.

2 **A. (Indiscernible)**

3 Q. Yes. I'm going to have you -- if you don't
4 mind using your -- the pages on yours, if you'll
5 read starting at the top of page 2 of your pages
6 through page 4 of your pages.

7 **A. Sure.**

8 Q. Okay. Thank you.

9 **A. Thank you. So page 2, Roman numeral I,**
10 **"Introduction," "AEP is a multistate electric**
11 **utility holding company system, providing electric**
12 **service to approximately 5 million customers in**
13 **parts of 11 states. AEP represented in its filing**
14 **in this case that the AEP System is planned and**
15 **operated on an integrated basis pursuant to various**
16 **agreements under which the AEP operating company**
17 **pooled or combined their individual systems to**
18 **achieve the benefits of integrated operations.**

19 "This proceeding involves proposed amendments
20 to one such agreement. The Transmission Agreement
21 entered into in 1984 among the five -- among five of
22 the AEP East Operating Companies - Appalachian Power
23 Company, Columbus Southern Power Company,
24 Indiana-Michigan Power Company, Kentucky Power
25 Company, and Ohio Power Company and administered by

1 the AEPSC, as Agent. As approved by the
2 Commission" -- there's a footnote there -- "the
3 Agreement shares the cost of the Members'
4 investments in Extra-High-Voltage and high-voltage
5 facilities operated at 138 kolovolts and above.

6 "On June 5, 2009, AEP filed with the
7 Commission proposed amendments to the Transmission
8 Agreement.

9 The proposed amendments, if approved, would effect a
10 comprehensive reallocation of transmission-related
11 costs and revenues among the AEP East Companies,
12 including two new members, Kingsport Power Company
13 and Wheeling Power Company," and another footnote
14 there.

15 "AEP represented in its filing that the
16 proposed amendments recognize that, pursuant to the
17 PJM Open-Access Transmission Tariff, the AEP East
18 Companies, including Kingsport and Wheeling, and
19 other load-serving entities in the AEP east zone --
20 AEP zone of PJM now receives network transmission
21 service from and share the costs of the AEP East
22 Companies' transmission facilities, including those
23 operated at voltages below 138kV.

24 "The proposed amendment also would change the
25 primary transmission cost allocation methodology

1 under the Transmission Agreement from the current
2 Member Load Ratio basis to a 12-month coincident
3 peak basis. The proposed amendments specify that
4 the allocation of OATT-based transmission and
5 related costs and revenues will include all seven of
6 the AEP East Companies, including Kingsport and
7 Wheeling."

8 New paragraph on page 3.

9 Q. Mr. Satterwhite, you can skip that paragraph.
10 Let me have you -- let me have you go down.

11 Zack, will you scroll down.

12 Mr. Satterwhite, if I can have you start with
13 this last paragraph that begins IURC.

14 **A. Skip the one that has the intervenors and --**

15 Q. Yes.

16 **A. Kentucky Commission and all? Okay.**

17 "IURC, Steel Dynamics, West Virginia Consumer
18 Advocate, and IOUCC protested AEP's filing, and AEP
19 answered their protests. On August 3, 2009, the
20 Commission issued an order accepting AEP's proposed
21 amendments to the Transmission Agreement for filing,
22 subject to hearing and settlement judge procedures.
23 The Commission suspended the proposed amendments for
24 a nominal period, making them effective, subject to
25 refund, on the first day of the month after a final

1 Commission order in this proceeding, as" -- switch
2 to page 4 -- "requested by AEP." Order Accepting
3 and Suspending Proposed Transmission Agreement is
4 the citation there.

5 "On August 7, 2009, pursuant to an order of
6 Chief Judge Wagner, the Honorable David Coffman was
7 appointed Settlement Judge. The Chief Judge's
8 August 7, 2009, order also scheduled a settlement
9 conference to convene on August 20, 2009.
10 Settlement negotiations (including informal
11 information gathering and numerous conferences,
12 meetings, and telephone conversations) continued
13 since then. The Commission's trial staff
14 participated actively in the discussion. Judge
15 Coffman submitted periodic reports to the Commission
16 on the progress of the settlement discussions.
17 Ultimately, the settlement discussions produced the
18 Settlement Agreement submitted in this document."

19 Then it goes to Roman Numeral --

20 Q. I was going to say, thank you. We're good
21 now.

22 MS. VINSEL: Zack, can I have you scroll in
23 this same document. It's PDF page 1724. And when
24 we get to it, I'll announce the document page.

25 So because this was filed in response to a

1 data request, the page -- within the data request
2 it's page 68 of 129. But, Zack, can I have you
3 scroll down to the bottom?

4 Okay. That didn't help me. Let me have you
5 scroll back up. This is Appendix -- Appendix 1.

6 Q. Mr. Satterwhite, would you agree that AEP
7 East Operating Companies are both LSEs, load-serving
8 entities, and transmission owners?

9 **A. Yes.**

10 MS. VINSEL: Zack, can I have you scroll up
11 so we can see both of these charts, please?

12 **A. Can you give that citation again so we can
13 grab the -- it's difficult to see on the screen.**

14 MS. VINSEL: Yes. Zack, let me have you go
15 back -- there you go. This is -- there you go.

16 Q. This is actually -- it's Appendix 1 to the
17 transmission agreement. If you're looking at the
18 data request, this is page 68. It's stamped page 68
19 of 129 pages. And tell me when you're there,
20 Mr. Satterwhite.

21 MR. OVERSTREET: Ms. Vinsel, Mark Overstreet
22 here. Just to keep the record straight, you
23 referred to a data request, but I don't think we've
24 identified the specific data request, and I believe
25 this is AG KIUC 1-41, Attachment 1.

1 MS. VINSEL: Yes, you're correct.

2 MR. OVERSTREET: Thank you.

3 **A. I have the document in front of me now.**

4 Q. And the chart depicts the allocation of
5 transmission-related costs and revenues, correct?

6 **A. Correct.**

7 Q. Correct. It also depicts AEP operating
8 companies as both LSE and as transmission owners,
9 correct?

10 And earlier when I asked you about, to keep in
11 mind that quote --

12 **A. I'm sorry. I haven't answered. I haven't**
13 **answered yet. I'm looking at it to see. You're on**
14 **page 68 of 129?**

15 Q. Yes.

16 **A. I'm just looking for the operating company**
17 **names on here.**

18 I see AEP as a transmission owner and AEP as
19 an LSE?

20 Q. Yes.

21 **A. If I'm missing something obvious, let me**
22 **know.**

23 Q. No, that was my -- my question was this list,
24 AEP as a transmission owner and AEP as an LSE.

25 **A. Okay. Yes, I see that.**

1 Q. Okay. And, earlier, one of the quotes I
2 asked you to keep in mind that you wrote down from
3 Mr. Vaughan's testimony is that the LSE OATT
4 expenses are costs allocated by the Company --
5 excuse me -- allocated to the Company by a
6 FERC-approved rate schedule.

7 Do you still have that?

8 **A. Written down here? Yes.**

9 Q. And would you agree that this transmission
10 agreement lays out a significant part of that
11 process, the allocation process?

12 **A. Yeah. Taken as a whole, this document was**
13 **amended to change how those would be allocated to**
14 **the different operating companies, correct.**

15 Q. And earlier, just a moment ago, you made a
16 comment about the operating companies.

17 Do you know why this chart refers to AEP as
18 transmission owner and AEP as LSE rather than the
19 operating companies in those designations?

20 **A. Yeah, maybe I should switch from my state hat**
21 **to my FERC hat.**

22 The load-serving entities is the proper term
23 when you're having this discussion. So when I say
24 opco, that's probably not using the right
25 terminology. Should be load-serving entities and

1 transmission owners.

2 Q. Okay. I'm making note of that.

3 MS. VINSEL: Zack, you can stop the screen
4 share, please.

5 VICE CHAIRMAN CHANDLER: Ms. Vinsel, can I
6 ask a question on that? Sorry to interject.

7 Is AEP an LSE itself, or is it an LSE through
8 its operating companies being LSEs?

9 THE WITNESS: I believe the load-serving
10 entity -- AEP is a load-serving entity, and it
11 divides that up among the load-serving entities
12 within membership.

13 VICE CHAIRMAN CHANDLER: Okay. So that's
14 the -- is that the nexus, then, between AEP and PJM,
15 is that PJM sees LSE as an -- AEP as a TO and AEP as
16 the LSE?

17 THE WITNESS: Yeah. It's a bill that comes
18 to AEP, comes to AEP overall. And then that's why
19 we did the allocation method at FERC, to make sure
20 we're properly allocating those amongst the
21 individual load-serving entities within AEP.

22 VICE CHAIRMAN CHANDLER: Okay. Sorry,
23 Ms. Vinsel.

24 MS. VINSEL: You're fine.

25 Q. I want to make sure that I'm clear here too.

1 So Kentucky Power does own its own transmission
2 system, correct?

3 **A. Kentucky Power has (indiscernible). They are**
4 **also a transmission operator, and they're part of**
5 **the AEP system, where PJM clears it all out, sort of**
6 **the clearinghouse for all the transmission owners**
7 **and LSEs that are within the AEP as an LSE.**

8 Q. So is Kentucky Power --

9 **A. I should back up -- I should probably back up**
10 **and clarify because the AEP corporate is not a**
11 **load-serving entity. It's the companies within it**
12 **that are the actual load-serving entities.**

13 It's that clearinghouse concept I was trying
14 to talk about of how it's treated with the PJM bill
15 and part of the RTO where that sort of all -- all
16 the changes happen.

17 Q. So Kentucky Power itself is an LSE and a
18 transmission owner; is that correct?

19 **A. Yes.**

20 Q. And, as you just said, Kentucky Power and AEP
21 are distinct entities.

22 **A. American Electric Power is a tariff company,**
23 **and AEP Service Corp has lots of services to deal**
24 **with the allocation between -- and the FERC-approved**
25 **rate methodology here is that it's absolutely**

1 **transparent and shown how that's going to be**
2 **treated, is my understanding.**

3 Q. You may have just answered part of what I was
4 going to ask. I'm going to ask it anyway.

5 So Kentucky Power needs to recover its revenue
6 requirement as a transmission owner, correct?

7 **A. Correct.**

8 Q. And it recovers it through this transmission
9 agreement; is that correct?

10 Or let me -- let me take that back. Let me
11 say it this way: The methodology for how it
12 recovers costs is covered by the transmission
13 agreement? Is that more correct?

14 **A. How the costs and how the revenues flow is**
15 **governed by the agreement, yes.**

16 Q. So does the Kentucky Power revenue
17 requirement go through AEP before it gets to PJM?

18 **A. Go through AEP. I'm trying to figure out**
19 **how -- so the RTO PJM, it sort of takes care of them**
20 **separately and then bills them essentially or**
21 **recognizes them from an overall systemwide because**
22 **AEP is a system.**

23 So the bill and the revenues sort of are
24 recognized when they come into that overall AEP bill
25 and revenue. And then this methodology shows how

1 that's going to be treated so it's allocated
2 properly and transparently to all the different
3 load-serving entity members within the AEP system.

4 Does that help?

5 Q. I think it does. That difference between
6 recognition and treatment, is that a fair -- I tell
7 you what. Would it be helpful if I follow up with
8 Mr. Vaughan with this question?

9 **A. Actually, Dana, Mr. Horton --**

10 Q. Mr. Horton? Okay.

11 **A. -- would be a good one. He's the PJM expert.**
12 **Mr. Vaughan would have some answers too. Mr. Pearce**
13 **would know. They deal with it more every day. But**
14 **it's the concept that the AEP entity, all the LSE**
15 **members are parts of it.**

16 PJM -- would be appointed at PJM's one system.
17 And so paperwork, for lack of a better term, comes
18 into the one system, and then we have to work, as we
19 work with FERC and others for the allocation of
20 revenues and cost, do that paperwork so it's clear
21 how that one relationship relates to all the key
22 parts. That's my explanation. Mr. Horton can
23 probably give a very technical explanation.

24 Q. Well, I'll be ready for that. Thank you.

25 We just talked about revenue. Now what about

1 expenses as an LSE? How does Kentucky Power recover
2 its transmission expenses?

3 **A. So this is what that nature -- and just to**
4 **clarify -- in the LSE OATT tracker, the expenses**
5 **that go into that, yeah. So that's, again, this**
6 **paperwork that's the overall costs are allocated to**
7 **the AEP as the overall part of PJM.**

8 And then this agreement has the allocation
9 method, and the details are in here, but, roughly,
10 it's a -- they bill -- they bill American Electric
11 Power on a 1-coincident peak metric. And then the
12 point of (indiscernible) go in front of FERC is
13 there for stability and other reasons. We like to
14 separate this on a 12 coincident peak amongst all
15 the members of AEP, and that's how that's figured
16 into -- what gets charged actually ends up the
17 expense that flows through to those companies.

18 THE REPORTER: Can he repeat that, please? I
19 don't know what --

20 MS. VINSEL: You couldn't --

21 Q. I'm sorry. All right. I'll have to ask you
22 to repeat that. The court reporter was unable to
23 hear clearly.

24 **A. Absolutely. Maybe I'll say it better this**
25 **time anyway.**

1 So the LSE OATT expenses that end up being
2 recognized in the rider by Kentucky Power, those are
3 the expenses that are charged to use the
4 transmission system. So AEP receives one bill based
5 on a
6 1 coincident peak, or 1 CP, from PJM as they measure
7 that.

8 Then this agreement takes that and considers
9 the 12 CP amongst all the operating companies, LSEs
10 within the AEP system, and allocates it based on
11 that 12-CP method to decide what charges are going
12 to be charged to each of the LSEs.

13 Q. So I'm going to streamline it a little bit.
14 So the expenses go from PJM back down to AEP where
15 we've got, you know, the 1 CP versus -- and then the
16 methodology in the transmission agreement and the
17 12 CP, down to the actual owners, the operating
18 companies, or what have you, for the LSE.

19 **A. Correct. Correct, and that's the amount that**
20 **would flow through any tracker, would be the result**
21 **of that process.**

22 Q. Let me -- I recall -- I recall something from
23 your testimony, but I'm not going to ask you if you
24 recall it. That seems unfair since it was on video,
25 and I'm not going to be able to show you that. So

1 let me ask you about a general principle.

2 **A. All right.**

3 Q. If Kentucky Power invests in transmission in
4 excess of the proportion of allocated costs under
5 the FERC schedules -- are you following me so far?

6 **A. Say it again.**

7 Q. I was going to say, it's a complex question,
8 and I don't want to take you too far off.

9 So we start with Kentucky Power --

10 **A. Kentucky Power.**

11 Q. -- invests in transmission. That investment
12 is in excess of the proportion of allocated costs
13 under the FERC schedule.

14 **A. What I hear you asking is, as a transmission
15 owner, Kentucky Power invests to be a transmission
16 owner, and that's in excess of the separate item of
17 expense that might come to them for being a member
18 and using the transmission system.**

19 I think we're on the same page there. I
20 understand now.

21 Q. I think the question is too about revenues
22 and expenses and allocation and in general. So that
23 if Kentucky Power's investment is in excess of the
24 allocated costs, those expenses that come back down
25 through the FERC schedule, would that be a benefit

1 for Kentucky Power and its customers?

2 Let me say it a little simpler. If Kentucky
3 Power invested more than they're charged for, then
4 Kentucky Power comes out ahead, correct?

5 **A. I think that -- I apologize, but I think**
6 **that's kind of looking at it a little too granular.**
7 **I think that you could be a transmission owner.**
8 **There's benefits and risks and everything that come**
9 **with being a transmission owner on one page.**

10 And then there's using the transmission
11 system, that expenses come from that. And just
12 because Kentucky Power is investing or not investing
13 in the level of investment in support of the
14 Commonwealth doesn't necessarily dictate the
15 benefits it gets that are representative of the
16 expenses being part of a dynamic system.

17 So it's hard to generalize that closely to it
18 because the two things really are kind of a couple.

19 Q. And I don't want to make this too simplistic,
20 and that's an issue I'd like to circle back to.

21 **A. Okay.**

22 Q. But looking at it from dollars and cents,
23 from a dollars-and-cents perspective, is it the case
24 that, if Kentucky Power investment exceeds the costs
25 that are allocated to it, that that's a benefit to

1 Kentucky Power?

2 **A. If your metric is just using that to judge it**
3 **by, you could say that, but that doesn't -- to me,**
4 **the things are trying to achieve different results.**
5 **You use that as a transmission owner for one**
6 **purpose, and then you use transmission system for**
7 **another purpose. So I think there's other things**
8 **you have to factor in.**

9 But if you want to just do that one metric, if
10 you're saying you're receiving more than you're
11 spending, you could have that be a single metric. I
12 wouldn't use that, but I understand what you're
13 saying.

14 Q. One of the things that Mr. Mattison was asked
15 about was -- and you may recall this from the order
16 in 2017-179, where the Commission raised the
17 question about the interest of Kentucky Power and
18 its ratepayers and how that aligns with PJM's
19 interests.

20 And at that time the Commission asked Kentucky
21 Power to do an analysis and to keep it -- evaluation
22 to be thinking about, how those two interests align.

23 And at some point Mr. Mattison had said --
24 and, again, I'm not going to hold you to what Mr.
25 Mattison said. The question is --

1 **A. We're all listening.**

2 Q. -- quantifying the costs and the benefits. I
3 understand what is being said about, okay, if all
4 our generation goes away, we still have to have a
5 way to provide power to our service. That too seems
6 to be a bit extreme and in the middle ground.
7 Evaluating the costs and benefits is a piece of all
8 of this that we're asking about.

9 Has there been any -- or is there any ongoing
10 analysis that quantifies benefits and quantifies
11 costs? Costs are typically easier to quantify.

12 **A. I think -- I'll say yes, and -- but it's not**
13 **the single little report that would have that as a**
14 **title and the stuff after it.**

15 You know, I think what we were talking about
16 earlier is the lack of congestion because AEP has
17 such a robust system. So the crisis that come --
18 you know, we don't have to -- Kentucky Power doesn't
19 have to take power -- electrons aren't painted red
20 and they come from Mitchell or Big Sandy and come to
21 us. If it's cheaper to go pull it out of Michigan,
22 we're going to pull it out of Michigan if that's
23 cheaper to customers.

24 So it's not just lights stay on. It's that
25 we're part of that robust network that we're a part

1 of, that we're already in. And that's how the AEP
2 system was built to begin with. The generation was
3 away from the population centers. It creates this
4 overall large organization with the transmission
5 system, with the full agreement. And that's just
6 the reality of how everything is set up.

7 So it's not -- that's why it's hard to accept
8 the one metric you said earlier about is it their TO
9 investment or their LSE expenses. There's lots of
10 value for things built, for example, in Southern
11 Ohio to make sure that power can get down after the
12 Big Sandy went down to the one gas unit, there was
13 some congestion issues and things that Kamran Ali,
14 when he speaks later, can tell you about.

15 A lot of investment that wasn't part of the
16 Commonwealth, that absolutely was for the benefit of
17 Kentucky Power customers.

18 Q. So -- and without putting words in your
19 mouth, if the Commission were at some point to ask
20 for some sort of reporting that quantifies costs and
21 benefits, there is something out there. It may not
22 be in one report, but there are parts and pieces
23 that can somehow or another paint a picture. Is
24 that correct?

25 **A. Yeah. I mean, I think if the -- I can't**

1 **speak for Mr. Mattison, but if the Commission wanted**
2 **to talk, you know, outside this hearing because,**
3 **obviously, this is talking a lot about, you know,**
4 **what's happening at FERC, justifying what's**
5 **happening there.**

6 What kind of document or what kind of thing
7 needs to be shared with the Commission to answer a
8 question -- I know talking to Mr. Mattison he'd be
9 more than willing to have that conversation if you
10 want to talk about that. But it's multiple things
11 like FRR versus RPM, what's the Company going to do.

12 Everything that goes into the overall system
13 are all piece parts of showing why there's overall
14 benefit for being part of it.

15 Q. Thank you. Yes, I know that that analysis,
16 you know, the FRR is one of the analysis that we do
17 ask for on an annual basis. So, yes, we're familiar
18 with that.

19 Okay. Let me jump back to where we were
20 before. I'm going to strike that. Let's move on to
21 something else to so highlight something.

22 MS. VINSEL: Zack, can you bring up again
23 Mr. Vaughan -- Alex Vaughan's direct testimony in
24 this case? Thank you. Yes.

25 What I'd like to look at is Exhibit AEV to

1 Mr. Vaughan's testimony. This -- thank you, Zack.

2 Q. Mr. Satterwhite, can you see that this is the
3 documents, the PJM LSE OATT expenses from the test
4 year in this case, which has a historic test year
5 that 12 months ended March 31st, 2020?

6 **A. Is that AEV5 or 3?**

7 Q. AEV5.

8 **A. All right. I'm on the right page now. Can**
9 **you please reask your question?**

10 Q. Okay. Would you agree this is the PJM LSE
11 OATT expenses from the test year in this case?

12 **A. PPA rider base amount 12-month ending March**
13 **31, 2020.**

14 Q. And that's the end of the historic test
15 during this case?

16 **A. Yes.**

17 Q. Okay.

18 **A. Correct.**

19 Q. Let me have you look at line 11. It says
20 "PJM LSE OATT Base Amount." And then this amount is
21 the 96.896 million.

22 Do you remember that 96 million is one of the
23 things I asked you to remember earlier?

24 **A. Yes. Yes.**

25 Q. Do you know how much of the PJM LSE OATT

1 expenses that are reflected in that 96 million are
2 from affiliates?

3 **A. I do not.**

4 Q. Well, Mr. Vaughan included in the last rate
5 case some of the expense accounts that are from
6 affiliates and which ones are from nonaffiliates.

7 So if I were to say to you the items on line
8 3, 4, 5, 7, and 8 are from affiliates -- I've got
9 the account numbers if you want me to read them to
10 you, but let's just use the last two numbers on each
11 of them. On Number 3, the account number ending 35.

12 VICE CHAIRMAN CHANDLER: Ms. Vinsel?

13 MS. VINSEL: Yes.

14 VICE CHAIRMAN CHANDLER: Just one second. I
15 don't know if anybody else has, but I've lost the
16 Company's video.

17 Okay. Now I'm seeing Mr. Satterwhite. Sorry
18 about that.

19 **A. Can you still hear me?**

20 Q. Yes.

21 **A. Yeah, now that -- I wasn't familiar with this**
22 **exhibit. I look at it now, and I see in the**
23 **description it has "affiliated" on the lines that**
24 **you described.**

25 Q. And the lines 3, 4, 5, 7, and 8, subject to

1 check, would you agree those five lines together are
2 over \$88 million?

3 **A. Just a second. I'm trying to put a straight**
4 **line. I volunteered at the polls, and I learned you**
5 **have to use a ruler for everything to make sure you**
6 **got a straight line.**

7 Q. I appreciate that.

8 **A. Sorry. Trying to keep up.**

9 So what was the number you said?

10 Q. A little over \$88 million.

11 **A. Yes.**

12 Q. Okay.

13 MS. VINSEL: Zack, can I have you remove the
14 screen share?

15 Q. So, Mr. Satterwhite, would you be surprised
16 that those five lines together represent more than
17 90 percent of the base amount of PJM LSE OATT
18 expenses in the test year?

19 **A. Sorry. Can you repeat the question?**

20 Q. Would you agree that -- or would you be
21 surprised that those five lines of the affiliated
22 expenses represent more than 90 percent of the base
23 amount PJM LSE OATT expenses in the test year?

24 **A. I think that can depend year to year. I**
25 **believe the document is -- stands for itself, and**

1 **that's what it is. It's really a matter of what**
2 **investments were made in that year and what portion,**
3 **and lots of things go into that.**

4 As Mr. Mattison talked about, you know, when
5 he builds his budget, what he has the ability to
6 invest or not invest. So it can fluctuate from year
7 to year.

8 Q. Okay. Well, I'd like to take a look at some
9 of those AEP transmission owners specifically.

10 MS. VINSEL: Chairman?

11 CHAIRMAN SCHMITT: Yes.

12 MS. VINSEL: Can we go into confidential
13 session?

14 CHAIRMAN SCHMITT: Candace, can you put us
15 into confidential session at this time?

16 MS. SACRE: Yes, sir.

17 CHAIRMAN SCHMITT: You'll have to say when.

18 MS. SACRE: It is activated.

19 CHAIRMAN SCHMITT: We're now into
20 confidential session.

21 (Confidential testimony of Mr. Satterwhite
22 from 3:00 p.m. 3:28 p.m.)

23 CHAIRMAN SCHMITT: Hold on. Mr. Satterwhite,
24 I don't know what your answer is, but we're now in
25 public session. So we can go back while you --

1 THE WITNESS: No, I think I can cover it in
2 public. It's just a general statement that, you
3 know, the people we were discussing and made
4 comments here were not legal counsel. They're just
5 making general comments.

6 MS. VINSEL: Fair enough, and duly noted.

7 Q. So the article discussed the Commission's
8 June 10, 2013, decision regarding the transmission
9 company. I'd like to bring up that order.

10 MS. VINSEL: Zack, can you pull up PSC
11 Exhibit 16? Thank you. Again, this was case
12 number -- I'm going to have to scroll down myself to
13 look at the case number, but --

14 VICE CHAIRMAN CHANDLER: 0042.

15 MS. VINSEL: Thank you. I was going to say,
16 I knew that if Zack scrolled down, I'd find it.

17 Q. And this is the order that was referenced in
18 that article that found -- or the Commission found
19 that Kentucky Transco cannot be classified as a
20 utility service and therefore was not regulated by
21 the Commission.

22 MS. VINSEL: Zack, I think you're on page 8,
23 correct? It looks like.

24 Q. So let me point out, Mr. Satterwhite, this is
25 page 8 of that final order. In that first paragraph

1 is the sentence where the Commission found that
2 Kentucky Transco -- it starts, "Consequently,
3 Kentucky Transco does not legally qualify for the
4 issuance of a CPCN to provide only wholesale
5 transmission service which would not be a
6 Commission-regulated activity and which would be
7 provided under rates and tariffs that are not filed
8 here."

9 **A. Was that a question, if that's what it says?**

10 Q. No, I was just reading that. Now I'm looking
11 down here. Okay. No, I think we're good.

12 And then further -- I'm going to do the
13 reading for this one, if you don't mind, Mr.
14 Satterwhite.

15 **A. Okay.**

16 Q. In the second paragraph, do you see the
17 sentence -- I'm sorry. What did you say?

18 **A. Nothing. I cut you off. Go ahead. I
19 apologize.**

20 Q. It's okay.

21 Do you see the second paragraph, the sentence
22 that begins, "As noted in the Dissenting Opinion"?

23 **A. The paragraph that begins "The fact that
24 Kentucky Transco intends to provide the same
25 wholesale transmission," that one or a different**

1 **one?**

2 Q. That one, the second paragraph. If you go
3 down about two-thirds of the way down, there's a
4 sentence that begins, "As noted in the Dissenting
5 Opinion."

6 MS. VINSEL: Thank you, Zack. I appreciate
7 that you put the hand on it.

8 Q. I'll just read this one.

9 "As noted in the Dissenting Opinion, should
10 Kentucky Transco" -- which is Kentucky Transmission
11 Company -- "propose to construction transmission
12 facilities capable of operating at 69 kilovolts or
13 above, those facilities will be subject to siting
14 review by the Kentucky State Board on Electric
15 Generation and Transmission Siting pursuant to KRS
16 278.700(5) and 278.714."

17 MS. VINSEL: Thank you, Zack. You can close
18 that.

19 Q. I will say that the order does go on to note
20 it was a policy decision in terms of what was a
21 utility, what wasn't, and the siting board.

22 So are you aware whether Kentucky Transmission
23 Company has ever filed an application with the
24 Kentucky Board on Electric generation and
25 Transmission Siting?

1 **A. I can't say for sure. And I know, from my**
2 **time there, I was very focused on having an**
3 **investment in Kentucky Power Company and trying to**
4 **site the project there. I'm not sure what's**
5 **happened in the past two years, so I can't give an**
6 **absolutely and direct certainty, but we can find out**
7 **for you.**

8 **Q. I was going to say, to the best of knowledge**
9 **in your experience, then.**

10 **A. Yeah, I'm not aware of any.**

11 **Q. Thank you.**

12 How did Kentucky Transmission Company get
13 almost \$100 million in rate base?

14 **A. I'm no longer an expert in all of the -- what**
15 **has to be sited and go before the board and what**
16 **doesn't, but I believe that a number of projects --**
17 **and Mr. Ali can maybe talk about some of those, or**
18 **we can have somebody else gather those -- of what**
19 **those projects were, but there's opportunities to**
20 **make investment in the transmission system that**
21 **doesn't meet the threshold, I would imagine.**

22 **Q. But you don't know how Kentucky Transmission**
23 **Company got that almost \$100 million in rate base,**
24 **then. Is that a fair statement?**

25 **A. I've not -- I'm not aware of what those are.**

1 So I can't speak to that.

2 MS. VINSEL: Chairman, staff does not have
3 any further questions for Mr. Satterwhite.

4 CHAIRMAN SCHMITT: We've been at this for a
5 little more than two hours. Why don't we take a
6 break until 15 minutes before 4:00, and we'll come
7 back and give the Attorney General's Office an
8 opportunity to cross-examine. We'll be in recess
9 until 3:45.

10 (Recess from 3:34 p.m. to 3:52 p.m.)

11 CHAIRMAN SCHMITT: Okay. Yes, we're back on
12 the record. We're not on the record.

13 VICE CHAIRMAN CHANDLER: Yes.

14 CHAIRMAN SCHMITT: We're on the record now.
15 It's hit-and-miss. All right.

16 Mr. Satterwhite, I guess the reporter who is
17 here, and off and on has difficulty hearing you, and
18 she has requested that maybe we do a sound test. So
19 I'd ask you to speak into the microphone.

20 And then whoever is going to do -- if we can
21 get whoever is going to cross-examine for the
22 Attorney General, if there is to be a cross, and do
23 a sound test too because she wants to make sure,
24 obviously, that the transcript is correct.

25 All right. So, Mr. Satterwhite, would you

1 state your name into the microphone so that we can
2 see if she can hear properly?

3 THE WITNESS: Sure. Matthew J. Satterwhite,
4 American Electric Power, Kentucky Power Company.

5 CHAIRMAN SCHMITT: Could you hear? Did you
6 still have difficulty hearing?

7 THE REPORTER: Ask him to do it again.

8 CHAIRMAN SCHMITT: I'm sorry?

9 THE REPORTER: Can he do it again, please?

10 CHAIRMAN SCHMITT: Can you do please repeat
11 that, Mr. Satterwhite?

12 THE WITNESS: Matthew J. Satterwhite,
13 American Electric Power, Kentucky Power Company.

14 CHAIRMAN SCHMITT: Are you satisfied you
15 can -- okay. Is there cross-examination from the
16 Attorney General's Office? Mr. West.

17 MR. WEST: Yes.

18 CHAIRMAN SCHMITT: Would you state your name
19 and something so that we can see if the reporter can
20 hear you?

21 MR. WEST: Yeah. This is Mike West from the
22 Attorney General's Office.

23 CHAIRMAN SCHMITT: Okay. All right. Looks
24 like we're ready to go.

25 Mr. West, do you have cross-examination?

1 MR. WEST: No, we do not have any questions
2 for this witness. Thank you.

3 CHAIRMAN SCHMITT: Okay. Mr. Kurtz, do you
4 have cross-examination for KIUC?

5 MR. KURTZ: Yes, sir, very briefly.

6 CHAIRMAN SCHMITT: Can you hear Mr. Kurtz?

7 Just make sure we speak up. We can hear here,
8 I can and the other people in the room, Counsel.
9 But the reporter that Stites & Harbison has here is
10 having difficulty hearing, and so that's the reason
11 that we're going through this. So okay.

12 CROSS-EXAMINATION

13 By Mr. Kurtz:

14 Q. Good afternoon, Mr. Satterwhite.

15 **A. Afternoon. Good to see you.**

16 Q. Okay. I think staff has established that
17 transmission of PJM LSE OATT charges are the
18 Company's fastest growing single expense.

19 Would you agree with that?

20 **A. Yes. That's what we read about earlier, yes.**

21 Q. And from Mr. Vaughan's testimony in the 2014
22 rate case, the expense was 53.7 million, and now
23 it's 96.89 million.

24 Do you recall that?

25 **A. Yes. I recall that, yes.**

1 Q. I think we understand from the record that
2 over the next five years AEP is projected to spend
3 \$10 billion in PJM transmission projects, 2021
4 through 2025?

5 **A. Can I check the -- your exhibits and verify**
6 **that?**

7 Q. Yeah. That was the EEI report towards the
8 back.

9 **A. Page 53?**

10 Q. That sounds --

11 **A. Yeah, the five -- the five-year transmission**
12 **plan.**

13 Q. Yes, that's it.

14 **A. Yes, that's correct.**

15 Q. Now, if the Commission concluded that these
16 transmission costs are very expensive, and they're
17 growing, and they're going to continue to grow, and
18 we're -- we feel that there needs to be some cost
19 containment, what can the Commission do to keep that
20 transmission expense down?

21 **A. I think this is a FERC jurisdictional matter**
22 **as far as controlling those costs. If you wanted to**
23 **go challenge those costs, that's where you'd do**
24 **that. I think there are expenses for the Company**
25 **that are naturally going to come to the Company.**

1 So it's a matter of, when you're doing
2 ratemaking, do you want to allow the Company to
3 recover its expenses or not? And so I think that
4 that's the question for the state commission in a
5 proceeding like this.

6 And then federally would be where I think, if
7 you wanted to raise a question about spending,
8 that's where that would occur.

9 Q. Well, in fact, under the preemption doctrine,
10 the state commission has to allow recovery of
11 FERC-approved transmission expenses, correct?

12 **A. I would agree with that.**

13 Q. However, there's no requirement that recovery
14 be done through a tracker, is there?

15 **A. No. The reason we raised the tracker is to**
16 **make sure that the Company can recognize those**
17 **expenses that are supposed to be reflected, come in**
18 **timely, and don't further exacerbate the problem of**
19 **the Company.**

20 Q. So one thing the Commission could do was go
21 back to a base rate recovery, no tracker, to keep
22 cost containment.

23 **A. I don't know if that's cost containment.**
24 **It's kind of avoidance of the issue maybe for how**
25 **it's going to impact Kentucky Power Company. That's**

1 **the reason why the tracker was proposed in the first**
2 **place. The expenses are still going to be charged**
3 **to Kentucky Power. It's going to further put**
4 **pressure on its ability to properly earn, garner**
5 **investments, and make investments.**

6 So that's why we do feel tracker is the
7 appropriate mechanism because it recognizes it in
8 real time. And also when screwups occur, those can
9 go either way. That can get recognized also in a
10 tracker.

11 Q. Well, if the commission went with a hundred
12 percent tracker recovery, tell me where I'm wrong.
13 At FERC and PJM, you have formula rates,
14 forward-looking future test year formula rates for
15 the operating companies and the transcos, and the
16 transcos get a 55 percent equity capitalization, and
17 everybody gets a 10.35 percent ROE.

18 And then, if we had a tracker here in
19 Kentucky, like you do in a lot of jurisdictions,
20 those would automatically flow through real time.

21 So how would that help consumers?

22 **A. It helps consumers by it's the whole nature**
23 **of why we talk about the tracker to begin with. If**
24 **you don't do that, the Company has no ability to**
25 **earn, all right, because it's the largest growing**

1 **expense.**

2 And there's sort of a -- the elephant in the
3 room is that the Company is not collecting on
4 expenses that it knows it's incurring and
5 potentially would have a mechanism to a tracker to
6 recover.

7 If it's not earning, you know, it's going to
8 cost more to borrow money. It can't invest capital.
9 The parade of horrors that come with a company
10 that's underperforming would happen if such a large
11 expense is not recovered and recognized.

12 The nature of a rate proceeding is to make
13 sure that the Company has an opportunity to earn its
14 authorized return, and unless there's a tracker that
15 tracks these, it's very difficult, in reality, to
16 reach an opportunity to earn that return.

17 Q. Do you listen in on AEP earnings calls,
18 quarterly earnings calls?

19 **A. Yes.**

20 Q. For over what period of time have you been
21 doing that?

22 **A. When I can, off and on for a number of years.**

23 Q. Do you recall that, periodically, an analyst
24 will ask Mr. Akins or the other executives,
25 "Kentucky Power is a drag on your earnings, on your

1 financial metrics. What are you doing to sell
2 Kentucky Power?" And the answer would be, "Well,
3 we're looking at that."

4 Have you heard that conversation?

5 **A. No. I know the answer because investors do**
6 **ask. They recognize that Kentucky Power appears to**
7 **be an outlier in that same graph you had with the**
8 **bubble. And they ask something close to that**
9 **question.**

10 I think consistently our CEO and CFO say,
11 we're not going to talk about individual properties
12 like that. That would be inappropriate. Our focus
13 is on making sure that the properties we have in
14 place have the best chance to be the best companies
15 they can for customers and for shareholders, and so
16 we're focused on managing those properly.

17 Q. In terms of analysis, study, and -- have you
18 -- do you periodically look -- do you regularly look
19 to see whether or not Kentucky Power is a
20 stand-alone entity or Kentucky Power merged with
21 another Kentucky entity, for example, would be
22 better for consumers versus being part of the
23 traditional AEP family?

24 **A. No, that's not an analysis that I would do,**
25 **no.**

1 Q. Early on you said that the Kentucky
2 Commission could go to FERC and deal with
3 transmission at FERC.

4 How so? By proposing a change to the
5 transmission agreement? Proposing a change to the
6 -- the PJM tariff? What would the Commission ask
7 the federal government to do?

8 **A. There's a couple of layers. You know, the**
9 **projects -- there's a stakeholder process at PJM**
10 **that the Commission and others can participate in,**
11 **if there are individual projects that they like to**
12 **question or challenge the veracity of. And witness**
13 **Kamran Ali can talk about those.**

14 And I suppose anyone can file a complaint at
15 FERC to try to change whatever structures are in
16 place at FERC if they want to and take that burden
17 and file to make that change.

18 Q. That's a tough -- that's a tough burden,
19 isn't it?

20 **A. Well, anytime you have the burden in a case,**
21 **you're trying to move something. I won't judge**
22 **whether that's tough or not. We believe there's**
23 **lots of value, and you have to look at the entire**
24 **history of how AEP came to be in the RTO, what it**
25 **looked like when it came there, the benefits that**

1 **have happened, why it was structured like it is now**
2 **and like it was back in the day.**

3 You can't just come in and say I want to
4 ignore all history, and today I want to do this.
5 You sort of have to look at the overall landscape
6 what's happened in the past.

7 Q. Because if Kentucky went to FERC and said,
8 "We're a loser under this transmission agreement,
9 and we're going to sort of multiply over the years,"
10 somebody else would say in Indiana, "Well, too bad.
11 We're a winner. We like the way the agreement
12 works."

13 That's kind of -- everybody goes like this,
14 take it to the other guy?

15 **A. Well, I don't know if I'd accept the premise.**

16 I certainly wouldn't be advocating that Kentucky is
17 a loser in this. I think Dr. Pearce's testimony
18 shows that over time, you know, the different CP
19 methods have swung each different ways.

20 And I think in this hearing some of the
21 questions I've seen and some of the testimony
22 focused so narrowly on transmission, it's not
23 focused on the overall participation in PJM and
24 being part of the zone and part of AEP that Kentucky
25 Power has. So I think you have to look at more than

1 just the narrow scope.

2 Q. I'm talking about something more fundamental
3 than a 1-CP versus a 12-CP allocation of the
4 subsidy. I'm talking about something more
5 fundamental to address this concern from a Kentucky
6 perspective.

7 Did you understand -- I mean, something more
8 fundamental like Kentucky Power being a stand-alone
9 entity within PJM, like Duke Energy Kentucky and
10 Duke Energy Ohio and Kentucky are combined. East
11 Kentucky Power Cooperative, Dayton Power & Light,
12 something like that.

13 **A. I don't believe --**

14 Q. So the state can control its own destiny and
15 wouldn't have to have its transmission costs be
16 reliant on the Indiana transco.

17 **A. I think what you're proposing, first of all,**
18 **wouldn't be allowed currently in the construct of**
19 **PJM. DP&L came in, and they filed independently.**

20 They came in that way. Kentucky Power came into PJM
21 as part of the AEP system.

22 You can't break off a piece and create an
23 island by itself, I don't believe. And creating an
24 island of 168,000 customers, I don't know that that
25 would be very -- a good path for Kentucky Power

1 either, as President Mattison said.

2 And that ignores the overall benefit over time
3 that Kentucky Power has received. It might need to
4 get low-cost power down from the Cook plant in
5 Michigan and travel down and get -- and travel
6 freely without all the congestion. And being part
7 of the overall AEP system on the generation side and
8 the transmission side provides all that benefit.

9 So I don't think it would be good for Kentucky
10 Power to sort of go alone, and I don't think that
11 they functionally can do that.

12 Q. Do you really believe that Cook example?

13 **A. That's the purpose of a grid. That's why a**
14 **grid does not have state lines, an interstate**
15 **transmission grid. You have to have a robust grid**
16 **with the investment to have the benefit and where**
17 **the generation is in different places.**

18 I mean, you look at Kentucky Power, the
19 Mitchell Plant is in West Virginia, but doesn't have
20 to get power from there, even though it's across the
21 state border; it's where the cheapest power can come
22 from, and it can travel on that grid without the
23 congestion and take advantage of the lower power
24 prices that come over time. They don't get added on
25 with congestion costs.

1 Q. The cheapest power in the 13-state PJM
2 region, not the cheapest generation output from the
3 AEP power plants, correct?

4 **A. Well, it's a pretty big -- I mean, we're not**
5 **talking about going to Oklahoma to get it, if that's**
6 **what you mean.**

7 Q. I said PJM.

8 **A. Right. I thought you said within the AEP**
9 **system. Within the PJM system, correct.**

10 Q. So the way it works is the renewables
11 dispatch first because they have zero energy costs
12 within PJM, correct?

13 **A. Whatever's at the stack, at that point in the**
14 **stack, yes.**

15 Q. The nuclear units dispatch next, correct?

16 **A. Yes.**

17 Q. Okay. And all that energy goes -- everybody
18 in PJM pays the same energy price except for line
19 losses and congestion, whether you're in New Jersey
20 or Kentucky or Michigan, correct?

21 **A. That's a benefit of PJM, yes.**

22 Q. Okay. And so Kentucky gets that benefit from
23 PJM regardless of the AEP transmission agreement.
24 That maybe was relevant 20 years ago for purposes --
25 when AEP was not part of PJM, but we get that now

1 anyway.

2 **A. Well, the system as a whole was put into PJM,**
3 **the AEP system, and everyone, as a part of that,**
4 **even out of the AEP zone, it's their responsibility**
5 **to make sure that their zone is robust enough that**
6 **it can carry the power as well, and that's what AEP**
7 **has been doing. That's what the investment is in**
8 **the AEP zone that Kentucky benefits from.**

9 Q. That's why I asked you did you really believe
10 your Cook example because that -- that nuclear
11 generation, wherever it lands in the stack, sets the
12 marginal clearing price for all of PJM, not just
13 AEP, correct?

14 **A. The theory is that the system is open, and it**
15 **can flow freely without having any congestion to**
16 **come here by being a member.**

17 MR. KURTZ: Chairman, those are all my
18 questions.

19 Thank you, Mr. Satterwhite.

20 THE WITNESS: Thank you.

21 CHAIRMAN SCHMITT: All right. Counsel for
22 Walmart --

23 MS. GRUNDMANN: No questions.

24 CHAIRMAN SCHMITT: -- do you have questions?

25 MS. GRUNDMANN: No questions, Your Honor.

1 CHAIRMAN SCHMITT: Kentucky Solar Industries?

2 MR. SPENARD: Yes, good afternoon. No
3 questions for this witness.

4 CHAIRMAN SCHMITT: Mr. Fitzgerald, for joint
5 intervenors, questions?

6 MR. FITZGERALD: No questions. Thank you,
7 Mr. Chairman.

8 CHAIRMAN SCHMITT: Mr. Miller or others from
9 Sierra Club, questions?

10 MR. MILLER: Thank you, Your Honor. No
11 questions from Sierra Club.

12 CHAIRMAN SCHMITT: Okay. Mr. Frye for SWVA?

13 MR. FRYE: Thank you, Your Honor. No
14 questions.

15 Vice Chairman Chandler, do you have questions?

16 VICE CHAIRMAN CHANDLER: I'm going to
17 surprise everybody here, Chairman. I do have
18 questions.

19 CHAIRMAN SCHMITT: I think we're all
20 surprised.

21 VICE CHAIRMAN CHANDLER: I know. That's as
22 funny as I get.

23 EXAMINATION

24 By Vice Chairman Chandler:

25 Q. Good afternoon or almost good evening,

1 Mr. Satterwhite. How are you?

2 **A. Good. How are you doing?**

3 Q. Good. I just want to ask, in terms of the
4 questions that Mr. Kurtz was just asking you, from
5 your experience what does -- what does the past have
6 to do with whether a schedule or rate is just and
7 reasonable at the time?

8 **A. Are you saying what is the path of how
9 electrons flow?**

10 Q. No, no. Past, P-A-S-T. You were talking
11 about the history of how the pool went into PJM, and
12 that's -- I make a joke -- that's ancient history.
13 But we're talking about a decade ago, right?

14 What does the past have to do anything with
15 whether a rate or schedule -- what I mean is that at
16 the PSC, Kentucky PSC level, the other ten
17 jurisdictions you participate in, state
18 jurisdictions and FERC, what bearing does the past
19 and history have on whether a schedule or rate is
20 currently just and reasonable?

21 **A. Yeah, sure. I think someone brought up FRR
22 earlier, and what's the FRR contract and why is that
23 out there. You have to look to history for that.**

24 When AEP came into PJM, that was where that was
25 really born, the concept that we have all this

1 generation, our customers really have already paid
2 for access to that and to put that generation in
3 place. We want to be able to self-supply that
4 capacity going forward.

5 So it's kind of an understanding of you have
6 the current mechanisms and the current markets and
7 the RTOs and how they fit into the structure of how
8 things were set up prior to that when they came into
9 that system, to respect that.

10 Kentucky Power was part of an overall zone,
11 team, lack of a better term, with the AEP zone.
12 Things were created over time to make sure they
13 could serve that, and that got adopted and pushed
14 into the RTO system. You want to make sure that
15 you're looking overall what that impact is.

16 The other point I think I'd look at is, you
17 know, the question I think Commissioner Mathews
18 asked earlier, which is some people are saying
19 should you be doing that FRR? Should you be doing
20 different things?

21 Our point has always been we at the state
22 level like to plan for 20 or 30 years out. We're
23 not looking in three-year chunks and three-year
24 increments. So you want to look over a longer
25 period of time versus react to what happened maybe

1 in one year.

2 And so the argument here is look in the past,
3 look in the future, know that you have a type of
4 system that levels out as it goes up and down. How
5 do you make sure you don't have huge swings up and
6 down, but that things can change over time. And
7 that's based on how you try to make decisions that
8 seem be reasonable.

9 Q. So let me ask about the 1 CP and 12 CP. I'll
10 ask Mr. Pearce whenever that comes time for him too.
11 But you're effectively creating a mismatch with that
12 allocation, correct?

13 It's going from -- it's being allocated to
14 AEP, right, at the LSE, the OATT LSE expenses are
15 being allocated to you all on a 1-CP basis, and
16 you're reallocating it on a 12-CP basis.

17 So, I mean, I just think of cost of service,
18 even at the retail level, there's a disconnect
19 between how you're incurring the expenses and how
20 those expenses are being recovered, correct?

21 **A. I think it's a -- that's why we have the**
22 **discussion at the federal level at FERC to talk**
23 **about that issue. I think if you look at Mr.**
24 **Pearce's testimony as well, it shows it helps stops**
25 **some volatility that could happen. His testimony**

1 **shows over the past seven years there would have**
2 **been huge swings one way or the other way.**

3 You know, if that were just setting base
4 rates, you could really be hurting the Company if
5 they didn't have the ability to go in and adapt to
6 that, and it could affect customers by swinging back
7 and forth both ways.

8 And it's really a recognition that in the
9 zone, you know, Kentucky, APCO, winter-peaking
10 companies, others are not winter-peaking companies.
11 It's just a matter of dumb luck of when the
12 coincident peak happens, when you hit that, and that
13 can really swing things both ways.

14 So they approached it as a 12-CP method would
15 stop that volatility and kind of smooth things out a
16 little bit, and they thought that would be an
17 appropriate approach. They filed that, and the
18 Kentucky Commission intervened in that case and
19 agreed with it.

20 Q. Yeah. So I think that -- and maybe you-all
21 will introduce this later, but the case -- the -- as
22 the document said, the Kentucky Commission initially
23 intervened. I think the document you read from
24 indicated that they didn't take a formal position on
25 the settlement. They may have filed subsequent

1 items in the docket taking the position.

2 All of that is immaterial to the basic
3 fundamental question that I'm asking, which is
4 wouldn't you agree that there's a disconnect
5 between -- between allocating -- getting a cost,
6 incurring a cost on a 1-CP basis, and then
7 allocating it out on a 12-CP basis? There's a
8 fundamental disconnect between those two measures,
9 correct?

10 **A. I would say there's a difference. I don't**
11 **know if it's a disconnect. The difference is why**
12 **would you have a difference in those two? And the**
13 **justification was in that docket. You have the**
14 **difference because it's volatile because of the size**
15 **of the zone and the potential for huge swings of**
16 **winners and losers.**

17 So that difference was justified in that
18 docket and accepted by FERC, and the Kentucky -- I
19 think they intervened out of time, the Kentucky
20 Commission, and said that they were in support of
21 those changes.

22 Q. And so let me ask, though, about the 1 CP
23 versus the 12 CP. It's bigger than that, isn't it?
24 Because it's not just an allocation, it's not just a
25 change in allocation from 1 CP to 12 CP.

1 It effectively recovers the entirety of the
2 AEP -- instead of -- let's just take this. Instead
3 of Kentucky Power, for instance, being its own LSE
4 in AEP, right, and being charged its LSE OATT
5 expenses on a -- let's even make it up -- a 1-CP
6 basis, Kentucky Power instead is being allocated a
7 portion -- everybody, every operating company in the
8 AEPSC zone, all of those costs are in one pot, and
9 then they're being allocated on a 12-CP basis,
10 right?

11 **A. When you say their own costs, that's where I**
12 **want to make sure I'm tracking with you directly.**

13 Q. Instead of -- instead of -- let's just say
14 this. Okay? Let's make this up.

15 So instead of, for instance, AEP being
16 allocated Kentucky Power exclusively, a single
17 bill -- I know that's not how it's done; it's
18 probably on computers, whatever. They get an
19 invoice.

20 AEP gets an invoice at the top says, "Kentucky
21 Power's LSE OATT expense." Right? And it says this
22 is how it's allocated. Our peak load this year was
23 a 1 CP on this date. Here's your bill. Right?

24 Kentucky -- as I understand it, AEP doesn't
25 just take that portion, change it up as if it was

1 allocated on a 12-CP basis, and then send a
2 different bill to Kentucky Power. And if it's more
3 on a 12-CP basis, AEP's better off; they pocket the
4 money. Or, if it's less on a 12-CP basis than a
5 1-CP, AEP is out the money.

6 That's not how it works, is it? Can we say
7 that's how I think it works and see if it's correct?

8 **A. Well, I'm confused on some of your terms of**
9 **how you're using it. Let me say what I think the**
10 **difference is, and maybe then we can figure out what**
11 **we can agree or not agree on.**

12 Kentucky has a benefit of more than just what
13 happens at its border. Like I said before, and you
14 can talk to witness Ali about all the investment
15 that went into Southern Ohio for the benefit to make
16 sure the power could flow properly to customers in
17 Eastern Kentucky at the time.

18 So you can't look at it as simple as here's
19 the level of exactly what happened in Kentucky, and
20 here's the investment that happened in Kentucky.
21 Each of the load-serving entities, which are all of
22 the -- you know, Kentucky Power is one of the
23 load-serving entities -- they group themselves
24 together with everyone, and they sort of share in
25 the overall investment and the benefit from that.

1 And so you want to make sure that there isn't
2 anything left out. You want to make sure that all
3 of those companies put together recovers everything
4 that was invested in there.

5 And this process allows them to do that
6 without having the huge swings of potentially if
7 something happened in the winter or the summer, that
8 it would artificially -- I don't want to say
9 artificially -- it would have that volatility from
10 year to year.

11 And that was the point of the FERC docket, is
12 to show that and show that that was a better method
13 to do it. And that was agreed upon and ruled upon.
14 So that's what became the allocation.

15 Q. I get the volatility. And I'm worried -- so
16 you keep coming back to the volatility, but I'm
17 trying to ask questions about something completely
18 different, which is wouldn't you agree that AEP is
19 billed as a single LSE from PJM for its LSE OATT
20 expenses, and it's billed on a 1-CP basis?

21 **A. Yeah, you know, I was trying to talk earlier**
22 **about was I confusing things for people when I was**
23 **talking about is AEP the LSE or the operating**
24 **company is the LSE. And someone reminded me that**
25 **each of the operating companies are -- they're**

1 **actually the load-serving entities because they**
2 **serve. And all that sort of comes into AEP, who**
3 **sort of handles that billing to make sure it's**
4 **allocated along with the FERC method.**

5 So I think it does sort of come in
6 individually, but the method that they put in place
7 at FERC was how you handle it on the 12 CP basis. I
8 just wanted to clarify that in case I was misleading
9 earlier.

10 Q. But to the substance of the question, does
11 AEP get one bill on a 1-CP basis for all of the PJM
12 LSE OATT expenses incurred on behalf of its
13 operating companies in the PJM system, and then
14 reallocate that to the operating companies on a
15 12-CP basis?

16 **A. I understand it is. And we could ask**
17 Mr. Pearce to clarify this, is that the separate
18 load-serving entity bills come in, and then that's
19 aggregated at AEP to then allocate this over the
20 12-CP method.

21 Q. Okay. But what I'm trying to make sure I get
22 to is that Kentucky is paying a portion of -- it's
23 not just a reallocation of Kentucky Power's portion;
24 it's a allocation of the entirety of the AEPE's LSE
25 OATT expense, correct?

1 **A. Yes, that's absolutely. Yeah, it's part of**
2 **the whole system.**

3 Q. And it's, like, 5 1/2, 6 percent, just rough,
4 right?

5 **A. And that's based on what the usage was in**
6 **Kentucky during that time period. Let me put it**
7 **this way. Maybe I'm saying it wrong.**

8 The costs overall are aggregated together, and
9 then Kentucky's portion is that 6.5 or whatever,
10 6 percent of what those costs overall are.

11 Q. Okay. So let me harken back to your -- I
12 think I'm using that word right -- to your testimony
13 in 2017 in the 2017-179 rate case.

14 Would you agree that in the event -- I think
15 Ms. Vinsel was asking you earlier about the benefits
16 of transmission if an operating company invests in
17 an inordinate amount of transmission, that they get
18 a benefit they don't pay the entire cost of, right,
19 or something along those lines.

20 Do you remember those questions?

21 **A. Yes.**

22 Q. Okay. So forget the benefit from the
23 transmission, right? Let's just talk about dollars
24 and cents.

25 Wouldn't you agree that, as an operating

1 company, insofar as you invest an inordinate amount,
2 which is you invest more in transmission than you're
3 being allocated the cost for. Insofar as that's the
4 case, wouldn't you agree that the revenue you
5 receive as a transmission owner actually goes to
6 offset the PJM LSE expense allocated to you?

7 **A. I think it's whatever you invest in. If you**
8 **can bring in more revenues, it offsets the costs. I**
9 **think you sort of have to separate being a**
10 **transmission owner and the revenue you get from that**
11 **from being a participant on the system once you move**
12 **to the RTO process.**

13 You have a cost for being part of a
14 transmission system. That expense comes in
15 regardless of how much you invest. But if you want
16 to choose that to invest in and invest more than the
17 transmission operator, that would be a benefit to
18 help cover costs, yes.

19 Q. But I'm asking specifically about PJM LSE
20 OATT expense. I remember you discussing in the 2017
21 case that, insofar as the investments can occur in
22 Kentucky Power, that will be an additional amount of
23 revenue that the Company receives that will help
24 offset the increases of the LSE OATT expense.

25 Would you agree with that?

1 **A.** **Yeah. I think that gets to what I was**
2 **talking about earlier, where you can put it in a**
3 **transco or you can put it in Kentucky Power. I**
4 **wanted more investment in Kentucky Power that would**
5 **help that investment and that rate base for Kentucky**
6 **Power to maybe help with other areas that they**
7 **weren't earning as well in. So I think that's what**
8 **I was referring to.**

9 **Q.** **Yeah, but I just want to make sure that I**
10 **understand the mechanics. That is an offset to that**
11 **PJM LSE OATT -- net PJM LSE OATT expense being**
12 **proposed to charge 100 percent to the tariff PPA.**

13 **A.** **You missed me when you pulled in the tariff**
14 **PPA, because I think that's separate from it. I**
15 **think it's a matter of -- I think what you're asking**
16 **is, if you make more transmission operator**
17 **investment, is that a way to help cover and decrease**
18 **some of the LSE OATT expenses.**

19 **Q.** **The net PJM LSE OATT expense, yes.**

20 **A.** **Yes. What I'm saying is, just like if you**
21 **invested in something else and made money, that**
22 **would decrease. It's not that it's a netting --**
23 **direct netting from the start. It's just yes, if**
24 **you're making more money somewhere else, it can help**
25 **decrease money in another place.**

1 Q. Yeah, but this is very specific to the -- the
2 PJM LSE OATT expense are an allocation of
3 transmission costs, the vast majority of which is
4 done by supplemental projects in that LSE's
5 territory, right? It's 100 percent -- supplemental
6 projects, as you understand it, are allocated
7 100 percent to the LSE, correct?

8 **A. 100 percent to the zone.**

9 Q. To the zone, right.

10 **A. Right. It's Kentucky Power's using of the**
11 **AEP zone, and that represents a cost it has for**
12 **transmission. That's what the LSE OATT is.**

13 A transmission owner investment is a separate
14 function. It's how much you're investing in that.
15 That can contribute to those costs, absolutely. But
16 it's sort of a separate track.

17 Q. Right. But what -- I guess what I'm trying
18 to say is, it's circular. If Kentucky Power invests
19 an inordinate amount in supplemental projects in
20 their -- in their, Kentucky Power's, territory and
21 it sits on Kentucky Power's books as a transmission
22 investment, and gets recovered, and they get the
23 offsetting revenues, that -- that investment is
24 going to flow through and come back as LSE OATT
25 expense, correct?

1 **A. Let me take a sidestep on "inordinate**
2 **amount." Obviously, we do planning. We wouldn't do**
3 **something just to invest the dollars. And you can**
4 **talk to Kamran Ali about that.**

5 But yes, the investment you would make as a
6 transmission owner into the system, that would come
7 back as an expense to the overall system.

8 **Q. Okay. So if I have a question -- so that's**
9 **how it works for the operating company, for Kentucky**
10 **Power, right?**

11 But if I have a question about how the
12 Kentucky Transmission Company, right, if that's the
13 same benefit, the same offset for Kentucky Power
14 customers, would you agree that's not the case?

15 **A. If the money is going into the transco versus**
16 **Kentucky Power, that benefit would stay with the**
17 **transco and not come to the Kentucky Power Company,**
18 **correct.**

19 **Q. So insofar --**

20 **A. And let me clarify. The benefit of the**
21 **transmission system being upgraded comes to**
22 **everyone. It's the dollar benefit of that investment**
23 **that wouldn't reach Kentucky Power, which is the**
24 **reason why myself and Mr. Mattison have tried to**
25 **have more investment in Kentucky Power versus the**

1 **transco.**

2 Q. Yeah, and that's what I just want to make
3 sure. No -- no difference in the type of service
4 Kentucky Power customers are going to get
5 necessarily, right? It's just cheaper if the
6 operating company is the one that makes the
7 investment.

8 **A. Cheaper is the question I'd have to think**
9 **more about because, you know, it's sort of**
10 **short-term versus long-term. The reason the**
11 **transcos were created is because they could maybe**
12 **act quicker and get financing quicker.**

13 But to me and President Mattison, the
14 advantage of long run of building the rate base and
15 making sure the earnings from that come into the
16 operating company to balance out with everything
17 else, it's just a matter of when you want to look at
18 it and which advantage you're claiming.

19 Q. Well, let me ask this: As Kentucky Power
20 president, you said that your attempt -- and you're
21 now talking about Mr. Mattison doing the same thing.
22 You wanted the investment to be at the Kentucky
23 Power level, right, not at the Kentucky Transco
24 level.

25 **A. Some of it, yes.**

1 Q. And is that because it was a benefit to your
2 -- it was a benefit to customers, right? It was,
3 long term, cheaper for those investments to occur at
4 Kentucky Power for those customers.

5 **A. I don't know that -- the part I'm quibbling**
6 **with is "long term cheaper." It was a benefit -- it**
7 **was absolutely -- I felt it was a benefit for**
8 **Kentucky Power customers because it helped with the**
9 **overall stability of the return and the health of**
10 **Kentucky Power Company, which is good for customers**
11 **if it's a strong company. That's why I preferred**
12 **more benefit in Kentucky Power.**

13 Q. The revenues from the investment at Kentucky
14 Power offset -- offset costs for Kentucky Power.
15 Agreed?

16 **A. Yeah, see, now you're right. We are getting**
17 **back to the circular nature of it. Just as any --**
18 **yes, just as any other investment that brought a**
19 **return in would offset the costs.**

20 Q. Forget that. But the revenues at the
21 Kentucky Transco level offset no expenses for
22 Kentucky Power customers.

23 **A. That stays with the transco. Correct.**

24 Q. No benefit to Kentucky Power customers. It
25 does not offset expenses at the Kentucky Power

1 level.

2 **A. From simply the return that if it's --**
3 **Kentucky Power transco gets, that distinction --**
4 **that delta there doesn't go to Kentucky Power**
5 **customers, but the benefit of the investment and the**
6 **transmission upgrades, they do go to.**

7 That's why I'm quibbling with the -- you want
8 a solely financial difference between the two, then
9 on that return that transco gets versus Kentucky
10 Power gets, you are correct. But there's still a
11 benefit of having the transco investment for
12 customers.

13 Q. I think we're on the same page.

14 **A. The difference now is could it be more**
15 **expensive if Kentucky Power continues to not be able**
16 **to earn at a lower ROE? Then it would cost more**
17 **money to get the capital to do the investment, and**
18 **the transco may be the better forum for customers**
19 **that way.**

20 Q. And that's fair. I just haven't seen
21 anything to that effect. Have you seen any study to
22 that effect at the operation company level --
23 operating company level?

24 **A. About how capital impacts rate?**

25 Q. Yes. Specifically if -- have you looked at

1 any study where there's been a concern about making
2 specific transmission investments at the operating
3 company level versus that state's transco?

4 **A. I guess I'd put it this way: I've been**
5 **involved in conversations with rating agencies and**
6 **banks when we're trying to refinance things for**
7 **different companies, and the health of the utility**
8 **is very important in that.**

9 So I don't know if it's a study, but it's
10 just -- it's intuitive when you're doing financing,
11 there's concern, if someone can't earn, how they're
12 going to be able to repay that back. And so capital
13 can cost more to fund it.

14 Q. So let me ask you a question. I'm trying to
15 bring this all together. So you're saying that --
16 well, I'll withdraw it.

17 Let me ask about the filing of FERC formula
18 transmission rates. That's your group that does
19 that, right?

20 **A. Correct.**

21 Q. Are you aware of any instance in your time at
22 AEP that an operating company has challenged the
23 FERC formula transmission rates for any affiliate's
24 transmission -- for any affiliate's transmission
25 rates, FERC transmission rates?

1 **A. I can't think of any right now, no.**

2 Q. Okay. The other question I have is, with all
3 of these -- all of this discussion about the
4 allocation of costs, the passthroughs, the offsets
5 to revenues, is Mr. Pearce the next best person to
6 ask about this?

7 **A. About how the allocations work?**

8 Q. How the allocations work, how the revenues
9 offset worked between transmission companies and
10 operating companies, the whole conversation we've
11 had, is there another person that would know
12 additional information?

13 **A. I think he's probably the best person. He
14 worked in commercial operations for a while as well,
15 so he understands the balance of the pool and the
16 generation history with the transmission. Yeah, I'd
17 agree he would be the one.**

18 Q. You've answered a lot of the questions I have
19 typed up through your interaction with Ms. Vinsel.

20 Congestion, you were talking about congestion
21 earlier. Is it your understanding that congestion
22 is a driver for supplemental projects or baseline
23 projects?

24 **A. Yes. Sorry. Sorry to be cute.**

25 Q. No.

1 **A. I think Mr. Ali is going to be the one that**
2 **could really talk about what the criteria are. You**
3 **know, they have the -- if you look in AG exhibits,**
4 **that lays out -- what is this? AG Exhibit 1,**
5 **there's a section in here on transmission that**
6 **really kind of lays out the different drivers for**
7 **how we do asset replacement. This is on page 53,**
8 **local reliability, RTO, customer service, telecom.**

9 He can get into how congestion plays a part in
10 that, how aging assets play a part in that, how
11 making sure that the system is robust enough that
12 what PJM is assuming is in place for its RTEP
13 projects really is in place, that responsibility
14 that everyone has in their zone. The good news is
15 Mr. Ali is a witness in here, so you can get into
16 all those issues with him.

17 **Q. Yeah. And Mr. Ali will give us all the**
18 **answers. So I've learned he's the Mr. Vaughan of**
19 **transmission.**

20 **A. No, he's really the -- I mean, he's the**
21 **person who does the planning here at AEP, so --**

22 **Q. He knows what he's talking about.**

23 **A. Yeah, my people implement the rates that come**
24 **out of that and reflect those. But, really, if you**
25 **want to get into exactly what the nitty-gritty is in**

1 **all of those things, AEP has put that expert up for**
2 **the Commission's benefit.**

3 Q. Yeah. And so I guess I'll round out -- start
4 to round out on that point. So you and Mr. Mattison
5 have talked about the benefits of Kentucky Power's
6 participation in the transmission agreement and AEP
7 in sort of a general high-level sense. They get the
8 benefit from the reduction in congestion, and they
9 get the benefit from the flows from other parts of
10 AEP.

11 What -- what -- and I mean this genuinely,
12 because I take away that this is the -- my concern
13 is that the -- that AEP's position is we're all
14 connected; we should just allocate it the way we
15 always have, right, even back to the days when we
16 were a pool.

17 But what benefit do Kentucky Power customers
18 get from a replacement of a 69 kV line in Michigan?

19 **A. It's the expectation -- I can appreciate**
20 **that. Let me start there, your question, because I**
21 **know it's been raised -- you've raised it before,**
22 **and others have. And I know we've had our -- Kamran**
23 **and others come down to the Commission to talk about**
24 **that and other commissions.**

25 There's a responsibility as part of a zone

1 that's sort of take care of your backyard and expect
2 others taking care of their backyard, that the
3 system is robust enough to move the power so the
4 benefits can be there on the energy side. And
5 anything you might need for operational emergencies,
6 that the system is up and ready to go.

7 And so the AEP system as a whole is
8 responsible for delivering that. And Kentucky Power
9 as a member of that system has a responsibility to
10 give its share. And it's not giving 50 percent of
11 it, it's giving that 5 to 6 percent commensurate
12 with its usage of the system.

13 And its usage of the system is not limited to
14 the borders of the commonwealth. The usage of the
15 system could be larger than that.

16 So I can't say this project that happened at
17 Ball State in Indiana has this direct impact here in
18 Kentucky. It's making sure that system is robust
19 enough to move forward and in the position to
20 provide the overall benefits for whatever it might
21 need to is in place. And Kentucky's part of that
22 and has a duty to participate in it.

23 Q. But you can appreciate that those are already
24 things that are taken into account at the PJM level,
25 right? I mean, baseline projects meant to

1 facilitate or reduce congestion or to make sure that
2 -- to make sure that the bulk electric transmission
3 system is able to move electricity adequately so
4 that, you know, the energy markets work and that
5 they run the FTR markets. You don't need pure 100
6 percent no congestion; you have ability through the
7 FTR market to hedge them.

8 You can appreciate that PJM, bigger than the
9 AEP system, already takes this into account, right?

10 **A. They do that, but PJM also -- I mean,**
11 **supplemental projects are not just side projects**
12 **that are a preference project. Supplemental**
13 **projects are important to make sure the system can**
14 **stand up.**

15 PJM, when it's kind of doing its general
16 planning, is assuming that everything that's already
17 in place is working perfectly. And they might need
18 to shed stuff on one end, or there might be a flow
19 in a different area, and they think that system is
20 going to be in place to handle that. And it's each
21 person -- or each entity within the different zones
22 to make sure that that system is in place so PJM can
23 plan the larger RTEP projects.

24 Q. Right. I get that completely. But what is
25 the replacement of a 69 kV line in Michigan, what --

1 AEP built their transmission system to move energy,
2 right? To move energy from the places it's created
3 to the places it's consumed, right? So insofar as a
4 baseline project, for instance, is allocated based
5 on a number of factors, and they can do things like
6 base it on DFAX, right? Do you understand what I
7 mean when I say DFAX, or at least understand it's
8 generally who gets the benefit of the flow?

9 **A. Yes.**

10 Q. Okay. So do you-all -- has anybody, to your
11 knowledge, ever run or recently run a DFAX on the
12 AEPSC system to see if Kentucky Power is actually
13 getting the benefits from the flow across the
14 system?

15 I mean, just saying it is one thing, but have
16 you-all done -- are you aware of anybody that has
17 done the study to determine whether the capital
18 contribution and the costs is actually showing up in
19 the -- in the benefit of service?

20 **A. That's not something that my group would run,**
21 **and I don't know if somebody else has run it. I**
22 **know it's a pretty dynamic organization and, you**
23 **know, transmission group. They're looking at things**
24 **all the time. They may have run something like**
25 **that. I don't know if that's in Mr. Ali's group or**

1 Mr. Pearce's group, but we're very focused on making
2 sure it's that robust transmission system.

3 So I can't answer that directly, but one of
4 the other witnesses might be able to.

5 Q. Okay. And I do have one question for you.
6 If we need to -- please tell me. You'll know better
7 than I do if we need to go into confidential
8 session.

9 Is your group at all responsible for
10 maintaining AEP's Black Star programs or Black Star
11 plans?

12 **A. On the generation side, the Black Star**
13 **program?**

14 Q. Yes. And filing that with FERC? Excuse me.
15 Sorry.

16 **A. No problem. It's more difficult than is one**
17 **person responsible, as you can imagine. So we have**
18 **a generation group. Paul Chodak is the head of**
19 **generation, and that group is sort of overseeing all**
20 **of that.**

21 But they, again, are almost a service company
22 as well for all the operating companies because all
23 of the generation assets that are on the regulated
24 side are the assets of the presidents in the
25 operating company. So that group would work with

1 that. It wouldn't be my people directly making
2 those decisions, if that's what the question is.

3 Q. I guess why I asked, so it wouldn't come to
4 you-all until it had to be filed with somebody or go
5 in front of a regulatory body. Is that fair?

6 **A. We might get questions about approaching it,**
7 **you know, elements of what might be related to that.**
8 **But we're not the ones, you know, overseeing those**
9 **decisions.**

10 Q. Okay.

11 **A. The operational -- I guess let me say it this**
12 **way. The operational decision isn't ours.**

13 Q. Okay. And the last question I have is, as it
14 relates to rate cases, are those driven by
15 decision -- does your group go to the jurisdiction,
16 the people that -- the people -- I don't know.

17 Let's just see each state in each of the 11
18 states that you-all operate has a president and COO.
19 I don't know if that's the exact title, but let's
20 just assume it's similar to Kentucky.

21 When a rate case -- who determines when a rate
22 case is needed and starts that process? Is it
23 somebody in your group, or is it your group, or is
24 it exclusively kicked off and the decision made at
25 the operating company level?

1 **A. The operating company president is the one**
2 **who decides whether a rate case should be filed or**
3 **not, but they have conversations with the corporate**
4 **finance group. They look at things like the return**
5 **on the rebuttal testimony of President Mattison.**
6 **Sometimes it becomes obvious that they maybe need to**
7 **do something.**

8 But my group does not go and say, "You will be
9 filing a rate case at this time." My group is more
10 of we're up to date on maybe regulatory functions in
11 other places. And we might have a cost of service
12 expert, someone like Alex Vaughan, so that the
13 company -- each of the operating companies don't
14 have to employ an Alex Vaughan for the one six
15 months they might need it or the one year they might
16 need it. We can have that shared resource so the
17 expertise is in-house, and all those costs can be
18 shared amongst all the companies.

19 **Q.** And the decision to do it is left up to the
20 operating company -- the head of the operating
21 companies. Is that what you're saying?

22 **A. Yeah. I cannot tell somebody that they will**
23 **be filing a rate case. The president of all our**
24 **operating companies have P&L responsibility. So,**
25 **ultimately, it's their decision.**

1 Q. Okay. That clarification is very important.

2 VICE CHAIRMAN CHANDLER: Thank you,

3 Mr. Satterwhite.

4 THE WITNESS: Thank you.

5 CHAIRMAN SCHMITT: Dr. Mathews, questions?

6 COMMISSIONER MATHEWS: Just one, maybe two.

7 We'll see.

8 EXAMINATION

9 By Commissioner Mathews:

10 Q. I just want to take you back in time to the
11 last rate case when you spent what I think a lot of
12 time telling us that investment in transmission in
13 Kentucky was a good deal for us and provided a
14 benefit because we only paid 6 percent of that
15 transmission. Is that true? Am I remembering that
16 correctly?

17 **A. Yes.**

18 Q. Is that also true if that transmission
19 investment is done by the transco?

20 **A. Yeah. What I was referring to there was I**
21 **was trying to get as many jobs, as many people**
22 **clocking in in the morning to go to work. And so**
23 **the more investment I could and more capital I could**
24 **get allocated to Kentucky, the better it was going**
25 **to help sort of help rise all ships kind of ride the**

1 **tide a little bit.**

2 So I was fighting for the financial health of
3 the company, as well as trying to do economic
4 development that we'd have enough projects to sort
5 of bring in beyond what Kamran looks at for, you
6 know, reliability and everything else, but have more
7 projects brought into Kentucky for what
8 Vice-President Chandler was also talking about, just
9 having more investment in the Commonwealth.

10 Q. One more time. When you were referring to
11 that it was a benefit to Kentucky if Kentucky Power
12 had transmission investment because we only paid
13 6 percent of it, you were talking about maybe some
14 of those ancillary benefits that come as a result of
15 any construction project in the state? Is that what
16 you're saying today?

17 **A. Yes. It's a direct answer. I apologize if I**
18 **didn't answer it directly before.**

19 Yes, that was part of it. And also what I
20 mentioned earlier, I was trying to get more
21 investment in Kentucky Power versus the transco
22 overall. So that would help with the long-term
23 health of the Company. But investment in the
24 transco and investment in Kentucky Power means I
25 wanted to get investment in Kentucky.

1 Q. And then, if I go back through the questions
2 with Ms. Vinsel and the Vice Chairman, that is a
3 different consideration than putting more assets on
4 Kentucky Power's rate base that then you get a -- as
5 a transmission owner, you get some of the revenue
6 back.

7 **A. I think it's both. Maybe we weren't**
8 **connecting properly, and I apologize if that was my**
9 **fault. I think Vice Chairman Chandler was trying to**
10 **make the direct correlation of A to B, and I was**
11 **trying to say they're kind of disaggregated.**
12 **There's transmission costs, and there's transmission**
13 **ownership.**

14 Yes, I wanted more transmission ownership for
15 Kentucky Power for all the benefits. Was it solely
16 because it's going to decrease the overall LSE OATT
17 costs? No. Because it's going to help increase the
18 overall financial picture of Kentucky Power.

19 So that's was where the disconnect is. I
20 think we're all in violent agreement on the overall
21 issue, though.

22 COMMISSIONER MATHEWS: We could spend the
23 entire rest of the week talking about the difference
24 between the transmission-owning component and the
25 LSE component and the way those things bounce back

1 and forth.

2 So I will spare you that since it's 4:43 on
3 the first day of the hearing, and we're on our
4 second witness of 30 witnesses, and if we count that
5 we're likely going to talk to Mr. Mattison twice,
6 that really means 31 witnesses.

7 So with that, Mr. Chairman, I'm finished.

8 CHAIRMAN SCHMITT: Mr. Overstreet, any
9 redirect examination?

10 MR. OVERSTREET: Very briefly, Your Honor.

11 REDIRECT EXAMINATION

12 By Mr. Overstreet:

13 Q. Mr. Satterwhite, you and the vice chairman
14 discussed Kentucky Public Service Commission's
15 motion to intervene in the FERC Case ER09-1279-000?

16 **A. Yes.**

17 Q. That was the -- the case dealing with the
18 modification of the transmission agreement?

19 **A. Correct.**

20 MR. OVERSTREET: Ms. Vinsel, could we have
21 Company Exhibit 8 displayed, please?

22 MS. VINSEL: Just to be clear, Zack, that's
23 Kentucky Power Nonconfidential Exhibit 8.

24 MR. OVERSTREET: Yes.

25 Thank you.

1 Q. Mr. Satterwhite, do you recognize this
2 document?

3 **A. Yes, I do.**

4 Q. And is that the motion to intervene?

5 **A. Yes.**

6 Q. And could we turn, please, to page 2 of 4 of
7 that Company Hearing Exhibit 8?

8 And just a little bit farther down, please.
9 Thank you.

10 Could you read the paragraph that appears
11 under the heading "Support"?

12 **A. Sure, at the bottom of the page it says**
13 **"Support." It's underlined. It says, "Kentucky PSC**
14 **supports AEPSC's June 5, 2009, proposed amendments**
15 **to its transmission agreement. The Kentucky PSC**
16 **believes that the proposed amendments will result in**
17 **transmission rates that are just and reasonable. It**
18 **appears that under the proposed amendments Kentucky**
19 **Power Company's transmission-related costs may**
20 **actually be lower than at present."**

21 Q. Thank you.

22 MR. OVERSTREET: I'd like to move the
23 admittance of that exhibit, please.

24 CHAIRMAN SCHMITT: I'm sorry, Mr. Overstreet.
25 You moved to what? Make that an exhibit?

1 MR. OVERSTREET: I'm sorry, Your Honor. I'd
2 like to move to make that an exhibit. It's labeled
3 Hearing Exhibit 8, and we can call it that or,
4 because it's the first Kentucky Power hearing
5 exhibit, we can call it Hearing Exhibit 1. It's
6 whatever --

7 CHAIRMAN SCHMITT: We'll identify it as
8 Kentucky Power Hearing Exhibit 1.

9 Is there any objection to the filing?

10 Sustained. Let it be filed as Kentucky Power
11 Hearing Exhibit 1.

12 (KP Hearing Exhibit 1 admitted.)

13 MR. OVERSTREET: Thank you, Mr. Chairman. I
14 have no further questions.

15 CHAIRMAN SCHMITT: We're now at about 12
16 minutes or so till 5:00, and one of our group here
17 needs to leave by 5:00. So we might as well adjourn
18 or go into recess until in the morning.

19 But tomorrow I suspect, unless we make a good
20 bit more progress than we have today, we probably
21 ought to prepare to be at least until 6:00, and then
22 we'll see what happens with Thursday and Friday.

23 So if there's nothing else.

24 Ms. Vinsel?

25 MS. VINSEL: I need to move the Commission's

1 exhibits, the confidential exhibits 1 through 4 and
2 the nonconfidential exhibits into the record.

3 CHAIRMAN SCHMITT: Any objection,
4 Mr. Overstreet, or counsel for any of the other
5 parties?

6 MR. OVERSTREET: No, Your Honor.

7 CHAIRMAN SCHMITT: Let them be admitted as
8 identified by Ms. Vinsel.

9 (Commission Confidential Exhibits 1-4 admitted
10 and filed under seal.)

11 (Commission Exhibits 1-16 admitted.)

12 CHAIRMAN SCHMITT: Is there anything else
13 that we need to take up before we adjourn for this
14 evening?

15 MR. KURTZ: Chairman, Mike Kurtz, to the
16 extend I need to, I move for the admission of AG
17 KIUC Hearing Exhibit 1.

18 CHAIRMAN SCHMITT: Any objection.

19 Hearing none, let it be filed as Mr. Kurtz
20 identified it.

21 (AG KIUC Exhibit 1 admitted.)

22 CHAIRMAN SCHMITT: Anything else?

23 MR. KURTZ: Oh, and AG KIUC Hearing Exhibit
24 3. Sorry.

25 CHAIRMAN SCHMITT: All right. Let the --

1 yeah, let the AG KIUC Exhibit 3, previously been
2 identified as Exhibit 3, be introduced as AG KIUC
3 what? Hearing Exhibit 2, maybe. All right.
4 Anything else that anyone would like to take up?

5 MR. OVERSTREET: I'm sorry, Your Honor. On
6 Exhibit 3, I don't believe there's been a foundation
7 laid for that document as to its provenance. It's
8 numbers on the spreadsheet.

9 MR. KURTZ: Your Honor, it's a PJM document
10 listing the pricing of all the transmission owners
11 in PJM.

12 CHAIRMAN SCHMITT: Overruled. Let it be
13 filed.

14 (AG KIUC Exhibit 2 admitted.)

15 Anything further?

16 If not, we'll be in recess until 9:00 in the
17 morning. Thank you-all.

18 (Hearing adjourned at 4:51 p.m.)

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1 STATE OF KENTUCKY)
)
 2) SS.
)
 3 COUNTY OF JEFFERSON)

4
 5 We, Laura J. Kogut and Jennifer R. Janes,
 6 Notaries Public within and for the State at Large,
 7 with commissions expiring 25 July 2023 and 1 May
 8 2023 respectively, do hereby certify that the
 9 foregoing hearing was taken before us at the time
 10 and place and for the purpose in the caption stated;
 11 that witnesses were first duly sworn to tell the
 12 truth, the whole truth, and nothing but the truth;
 13 that the hearing was reduced by us to shorthand
 14 writing; that the foregoing is a full, true, and
 15 correct transcript of the hearing to the best of our
 16 ability; that the appearances were as stated in the
 17 caption.

18 WITNESS our hand this 22nd day of November
 19 2020.

20

21

Laura J. Kogut, RMR, CRR, CRC
 Notary Public, State at Large

22

23

24

Jennifer R. Janes, RPR, CRR, CRC
 Notary Public, State at Large

25

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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

VOLUME II

Transcript of November 18, 2020, hearing
before Chairman Michael J. Schmitt at the Kentucky
Public Service Commission, 211 Sower Boulevard,
Frankfort, Kentucky 40602-0615, with Vice Chairman
Kent A. Chandler, Commissioner Talina R. Mathews,
counsel, and witnesses attending via GoToMeeting.

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* * *

1 (Hearing commenced at 9:05 a.m.)

2 MS. SACRE: Okay, sir, you're on. You're on,
3 Chairman.

4 CHAIRMAN SCHMITT: We may be on the record,
5 but I don't have a screen that --

6 MS. SACRE: Okay.

7 CHAIRMAN SCHMITT: -- shows anything.

8 MS. SACRE: Okay. Just a second, then.

9 CHAIRMAN SCHMITT: Is your screen working?

10 MS. VINSEL: No, it's the same as this.

11 MS. SACRE: I'll text Jim.

12 MS. VINSEL: There we are.

13 MS. SACRE: Okay.

14 CHAIRMAN SCHMITT: Is your-all's screen
15 working? Mine isn't, but --

16 MS. VINSEL: Yes. Yes, mine is working now.

17 MR. GARCIA-SANTANA: Good morning, Your
18 Honor. This is Hector Garcia with Kentucky Power.

19 MS. SACRE: Here comes Jim.

20 CHAIRMAN SCHMITT: No, it doesn't work. Oh,
21 it does work. It finally made it. Okay.

22 All right. The parties and counsel are all
23 present. I guess we won't know until we start,
24 right? Okay. As we left off yesterday, we had
25 finished, I think, the testimony of Mr. Satterwhite.

1 And so at this time, Mr. Overstreet, are you
2 ready to call another witness?

3 MR. GARCIA-SANTANA: Good morning, Your
4 Honor. This is Hector Garcia with Kentucky Power.
5 Just confirming that you can hear me.

6 CHAIRMAN SCHMITT: Yes, Mr. Garcia. Do you
7 have an idea of a witness to call at this time?

8 MR. GARCIA-SANTANA: Yes, Your Honor. The
9 Company would like to call Dr. Kelly Pearce.

10 CHAIRMAN SCHMITT: Okay. Thank you.

11 Would you please raise your right hand?
12 Okay. Do you solemnly swear or affirm under penalty
13 of perjury that the testimony you are about to give
14 will be the truth, the whole truth and nothing but
15 the truth?

16 MR. PEARCE: I do.

17 CHAIRMAN SCHMITT: Okay. Counsel, you may
18 ask.

19 MR. GARCIA-SANTANA: Thank you, Your Honor.

20 KELLY DOUGLAS PEARCE, having been first duly
21 sworn, testified as follows:

22 DIRECT EXAMINATION

23 By Mr. Garcia-Santana:

24 Q. Good morning, Dr. Pearce. Can you hear me?

25 A. **Good morning. Yes. I'm turning up my volume**

1 **just a little bit. Okay.**

2 Q. Yeah. During the examination, it's possible
3 that we may be instructed to speak clearly. Since
4 we are in a virtual environment, it's a little
5 harder to take down the record, so just to give you
6 a heads up.

7 Would you please state your name, business
8 address, who you work for, and what title for the
9 record?

10 **A. Certainly. My name is Kelly Douglas Pearce.**
11 **My business address is 1 Riverside Plaza, Columbus,**
12 **Ohio 43215. I work for American Electric Power**
13 **Service Corporation. I am managing director of**
14 **transmission asset strategy and policy.**

15 Q. Thank you. And in this case did you cause
16 rebuttal testimony to be submitted on behalf of
17 Kentucky Power?

18 **A. Yes, I did.**

19 Q. And subsequent to that rebuttal testimony,
20 did you also cause to submit supplemental corrected
21 testimony?

22 **A. Yes, I did.**

23 Q. Okay. Were those pieces of testimony
24 prepared by you under your supervision?

25 **A. Yes, they were.**

1 Q. Okay. And did you also cause discovery
2 responses to be submitted on behalf of Kentucky
3 Power?

4 **A. Yes, I did.**

5 Q. And those also were prepared by you and under
6 your supervision?

7 **A. Yes, they were.**

8 Q. Okay. Dr. Pearce, if you would be so kind,
9 would you describe briefly, what's the nature of the
10 corrections that were filed as the supplemental
11 corrected testimony?

12 **A. Certainly. On a couple of pages of my**
13 **revised rebuttal testimony, at pages R7 and R8,**
14 **there were a certain of the numbers that required**
15 **refiling, and there was an additional question and**
16 **answer regarding those revisions.**

17 In the course of doing an analysis of what
18 would be the impacts on Kentucky Power of leaving
19 the transmission agreement and going from 12CP to a
20 1CP basis, I determined that the incorrect values
21 had been pulled, basically from the roughly
22 15 percent nonaffiliate loads within our zone, and
23 so that was discovered last week and corrected and
24 filed last Thursday, the 12th, I believe.

25 Q. Okay. And just to clarify, those

1 nonaffiliates in the zone, can you describe what
2 those are?

3 **A. Certainly. That is within the AEP load zone.**
4 **That's the approximately 15 percent of the load**
5 **within the AEP load zone that represents various**
6 **municipalities and cooperatives that are not**
7 **affiliates to AEP but take transmission service from**
8 **AEP within the AEP load zone.**

9 Q. Thank you. If I were to ask you the same
10 questions today regarding the discovery answers and
11 your corrected supplemental testimony, would you
12 provide substantially the same answers today?

13 **A. Yes, I would.**

14 MR. GARCIA-SANTANA: Your Honor, the witness
15 is tendered for cross-examination.

16 CHAIRMAN SCHMITT: Thank you, Mr. Santana.
17 Ms. Vinsel, questions?

18 MS. VINSEL: Your Honor, Staff does not have
19 questions of Dr. Pearce.

20 CHAIRMAN SCHMITT: Okay.

21 Attorney General, counsel for Attorney
22 General, any questions?

23 MR. WEST: Mr. Chairman, we don't have
24 questions for this witness. Thank you.

25 CHAIRMAN SCHMITT: Mr. Kurtz, questions on

1 behalf of KIUC? Mr. Kurtz, we can't hear. You may
2 be on mute.

3 MR. KURTZ: I was. Thank you. Can you hear
4 me now okay?

5 CHAIRMAN SCHMITT: Yes.

6 MR. KURTZ: Even if the connection is bad.
7 Okay. Yeah, I do have a few questions.

8 CROSS-EXAMINATION

9 By Mr. Kurtz:

10 Q. Good morning, Mr. Pearce.

11 **A. Good morning, Mr. Kurtz.**

12 Q. Under the transmission agreement, Kentucky
13 Power gets its revenue requirement as a transmission
14 owner; is that correct?

15 **A. Yes, it does.**

16 Q. Okay. And then Kentucky Power pays its 12CP
17 allocated share of the AEP zonal cost as an LSE or
18 transmission user; is that correct?

19 **A. Yes, it does.**

20 Q. And the return on equity authorized by FERC
21 for all the entities within AEP, which would be
22 Indiana Michigan, Indiana Transco, Kentucky Power,
23 Kentucky Transco, etcetera, is 10.35 percent; is
24 that correct?

25 **A. That is correct. 9.85 base ROE and 50 basis**

1 **points for RTO participation; that is correct.**

2 Q. Okay. Then the transcos' equity
3 authorization -- equity ratio is authorized up to
4 55 percent for the transcos; is that correct?

5 **A. That is correct.**

6 Q. All right. Now, you filed rebuttal testimony
7 against AG KIUC Witness Mr. Baron; is that correct?

8 **A. Yes, I did.**

9 Q. Okay. Mr. Baron calculated in his initial
10 testimony that if Kentucky Power were a stand-alone
11 entity, transmission entity, it would pay
12 \$19 million per year less in 2020 than as a member
13 of the AEP transmission pool. Is that your
14 understanding of his testimony?

15 **A. That's my understanding of what he**
16 **represented.**

17 Q. Okay. You did not challenge that \$19 million
18 number, did you?

19 **A. I have not reviewed it. I will say that,**
20 **just to clarify the scenario he's describing, it is**
21 **not just Kentucky Power leaving the transmission**
22 **agreement and being part of the zone. That was**
23 **under a scenario where Kentucky Power could, in**
24 **theory, leave both the transmission agreement and**
25 **create its own load zone within PJM.**

1 Q. All right. And all that would require a
2 change to the PJM rules is your understanding; is
3 that correct?

4 **A. Yes. Right now there's specifically a**
5 **portion of the Consolidated Transmission Owners**
6 **Agreement, which is FERC-approved Rate Schedule 42,**
7 **that specifically disallows that.**

8 Q. Okay. Are you aware that Mr. Baron updated
9 the \$19 million number to \$27.689 million based upon
10 AEP's '20-'21 PJM filing?

11 **A. I looked at an updated version of what he**
12 **did. I did not go through the number specifically.**

13 Q. Are you aware that the new number changed
14 from 19 million to 27.689, at least his testimony?

15 **A. I'm aware it increased. I'll accept your**
16 **number.**

17 Q. Okay. Is it correct that over the five-year
18 period 2021 to 2025, AEP plans to spend 10.1 billion
19 on transmission within PJM?

20 **A. Based on, I believe, the exhibit that we were**
21 **talking about yesterday, I believe that is the case.**

22 Q. Okay. And under the current transmission
23 agreement, Kentucky Power would be allocated about
24 5.6 percent of that 10.1 billion, 5.6 percent being
25 its 12CP share of the AEP system; is that correct?

1 **A.** **That, I believe -- I don't think you can do**
2 **the math that straightforwardly in the sense that,**
3 **you know, some of those projects would be part of**
4 **the regional expansion plan and could get allocated**
5 **to other zones. The allocation based on 12CP in the**
6 **AEP zone would only be how much of that got charged**
7 **back to the AEP zone under the current rules, and**
8 **then the allocation between the nonaffiliate and the**
9 **AEP companies under the current transmission**
10 **agreement, then that bucket then would be further**
11 **allocated with Kentucky Power paying its 12CP share,**
12 **which currently is running around 5.7 percent.**

13 Q. Okay. Are you familiar with the Certificate
14 of Public Convenience and Necessity process in the
15 AEP East jurisdictions for transmission?

16 **A. Somewhat.**

17 Q. Can you describe the process in Kentucky
18 versus -- I'll pick just one at random. Versus
19 Indiana?

20 MR. GARCIA-SANTANA: Your Honor, I would like
21 to object to the question to the extent it calls for
22 a legal opinion.

23 CHAIRMAN SCHMITT: Overruled. You may ask.

24 **A. Could you repeat the question?**

25 Q. The Certificate of Public Convenience and

1 Necessity process for transmission line
2 certification in Kentucky versus Indiana.

3 **A. The CPCN process varies across all of our**
4 **states. I believe I&M has -- does not have a**
5 **substantial CPCN process. Kentucky, of course, has**
6 **one. Ohio, on the other kind of end of the**
7 **spectrum, has a very stringent CPCN process.**

8 Q. So it's easier to build transmission in
9 Indiana than Kentucky because of the difference in
10 the CPCN process?

11 **A. I would say the CPCN process may be somewhat**
12 **lighter, but I don't think that is a significant,**
13 **you know, driver in addressing the needs in the**
14 **state. We work through whatever regulatory**
15 **processes we have in each one of our states to**
16 **address the needs.**

17 Q. Would AEP make more money investing in a
18 transco transmission project with a 55 percent
19 equity and 10.35 percent return on equity versus
20 Kentucky Power at 43 percent equity?

21 **A. The earnings are going to be tied to the**
22 **capital structure of the company, I will agree with**
23 **that.**

24 Q. So the higher the equity capitalization, the
25 more profit?

1 **A. Well, the more earnings. But, again, also,**
2 **the flip side as far as the customer value, the**
3 **higher the equity, normally, the lower the debt**
4 **rating. For example, I believe Kentucky Transco has**
5 **a lower debt rating than Kentucky Power does. So**
6 **the net WACC, weighted average cost of capital, for**
7 **the customers can be blended together from these two**
8 **pieces.**

9 Q. Still, the net weighted average cost of
10 capital for the transco is higher than for Kentucky
11 Power, correct?

12 **A. The earnings based on the investment can be**
13 **higher.**

14 Q. Because the equity has to be grossed up for
15 federal and state taxes and debt is not, among other
16 things?

17 **A. Yes, you do have to do an adjustment for the**
18 **taxes.**

19 Q. And a return on equity is -- even after
20 taxes, is higher than the cost of debt, correct?

21 **A. Well, I mean, let me be clear. The**
22 **adjustment for taxes on the equity piece would be**
23 **true of the opco or the transco, if that's what**
24 **you're asking.**

25 Q. Well, yeah, that's true. And I'm also

1 asking: Isn't the equity component higher than the
2 debt component? You're asking for ten percent after
3 taxes --

4 **A. Well --**

5 Q. -- here versus four, five percent for debt;
6 is that your understanding?

7 **A. Yes, the equity component is allowed up to
8 55 percent for the transcos, that is my
9 understanding.**

10 Q. Are you familiar with the process that KPC or
11 some other complainant would have to go through at
12 PJM to change the PJM rules?

13 **A. Which PJM rule are you defining?**

14 Q. The one that prohibits Kentucky Power from
15 being its own transmission zone.

16 **A. Under Article 7.4, to modify that, as
17 referenced in my testimony?**

18 Q. Yes.

19 **A. As far as all the steps within the process,
20 no, I'm not sure I could describe them all today.
21 But I think even through that process, then
22 eventually you would have to make -- it would
23 probably culminate in a required FERC filing to
24 attempt to make that change at FERC.**

25 Q. One last bit of questions, Mr. Pearce.

1 MR. KURTZ: Can -- Ms. Vinsel, could we have
2 on the screen Company Hearing Exhibit Number 7?

3 MS. VINSEL: Yes, Mr. Kurtz, we're getting
4 that displayed.

5 MR. KURTZ: Thank you. Thank you. Could we
6 go to page 8 of 20? That's it.

7 Q. Mr. Pearce, I assume you're familiar with
8 this Company exhibit, this PJM document?

9 **A. I'm sorry, it's cutting off on my screen. I**
10 **only see the top of the exhibit. I don't know if**
11 **others see it that way.**

12 Q. I think it's better now. Can you see the
13 exhibit?

14 **A. Yeah. Okay. I can see it. Hang on. My**
15 **top --**

16 Q. Okay. I assume you're familiar with --

17 **A. Bear with me here. I'm just trying to pull**
18 **it up where I can -- on my screen it's showing very**
19 **small in the up left, and then it's showing just the**
20 **top of the graph. But I think I can see it here.**
21 **Okay.**

22 Q. Okay. This -- are you familiar with Company
23 Exhibit 7? It's a PJM 2005 --

24 **A. Yes, I believe I have seen a version of this.**

25 Q. Okay. Now, if we look at AEP, it is page 8,

1 Baseline and Supplemental Project since 2005. So
2 we're seeing -- what does it show for AEP? How
3 should I read this graph?

4 **A. Yeah. Like I said, I'm trying to expand it,**
5 **and when it expands, it only gives me a quarter of**
6 **it. Hang on.**

7 Q. Okay. It shows for baseline 4,942,000,000 --

8 **A. Oh. Yeah, I'm -- hey, what you just did was**
9 **better. Could you re-shrink it further to, like,**
10 **75 percent? Is there any way -- I apologize. Is**
11 **there any way to scroll down on the exhibit?**

12 VICE CHAIRMAN CHANDLER: So, Mr. Pearce --
13 sorry. This is Kent Chandler. You can control the
14 actual screen with your cursor, the portion of the
15 document that's being presented, and then at the top
16 of the entire dialogue box, there -- you have your
17 own zoom button as well. It's everyone, web cams,
18 then the third item at the top is zoom.

19 THE WITNESS: Okay. I apologize. I see a
20 dialogue box that's got the microphone.

21 VICE CHAIRMAN CHANDLER: On the primary
22 screen that has the document and the video boxes, do
23 you see that?

24 THE WITNESS: Yes.

25 VICE CHAIRMAN CHANDLER: Directly above the

1 video boxes there's an item that says Everyone.
2 Beside that it says Web Cams. Do you see those?

3 THE WITNESS: I see Sharing the Webcam.

4 VICE CHAIRMAN CHANDLER: Yeah. To the right
5 of that, do you have a zoom button?

6 MR. GARCIA-SANTANA: Your Honor, if I may.
7 Dr. Pearce, do you happen to have a freestanding
8 copy of this document? You can follow on your own
9 copy and then probably we can just discuss the
10 document that is being presented, but you are
11 following on your own direct copy. I don't know if
12 you have one available to you.

13 THE WITNESS: I don't believe that I have a
14 copy of this. Let me --

15 MR. GARCIA-SANTANA: Dr. Pearce, actually,
16 you probably have one that we submitted to you by
17 e-mail.

18 THE WITNESS: Okay.

19 MR. GARCIA-SANTANA: Thank you, Your Honor.

20 THE WITNESS: Okay. Yes. Thank you. I have
21 it open now.

22 Q. (By Mr. Kurtz) Great. How about page 8? 8.

23 **A. Okay. Sorry for the delay. Okay.**

24 Q. So if we go to AEP, do I read this as the
25 amount of spending on baseline and supplemental by

1 AEP since 2005?

2 **A. That is correct. That is those statistics.**

3 Q. Okay. And these are the transmission rate
4 based numbers that Kentucky Power pays as part of
5 AEP, correct?

6 **A. That is correct.**

7 Q. Okay. Can we compare that to EKPC? Do you
8 see EKPC, East Kentucky Power Cooperative, who has
9 spent really just a fraction of the dollars on
10 transmission since 2005?

11 **A. That is true, you can, but I believe that is**
12 **an apples-to-oranges comparison. On the very**
13 **document that we're on, if you scroll to the -- this**
14 **is the total spend on a dollar basis. If you move**
15 **to the very next page.**

16 Q. I was just going to go there. East
17 Kentucky --

18 **A. Okay.**

19 Q. -- all the utilities in AEP, so it spent less
20 dollars. It's not really descriptive. But the next
21 page is the amount spent since 2005 adjusted by peak
22 load, to put it more on apples to apples?

23 **A. That is correct. And furthermore, if you --**
24 **we have to recognize the AEP system is a fairly**
25 **broad area with a low population density. So if you**

1 **scroll to the page after this one, which identifies**
2 **it by line miles --**

3 Q. I was going to ask you about that page next,
4 but we still have --

5 **A. Okay.**

6 Q. -- we still see the trend in East Kentucky,
7 adjusted by peak load or by line miles, as a less
8 expensive transmission system than AEP. Would that
9 be fair to say?

10 **A. Yes. It has a -- somewhat less expensive, as**
11 **do many utilities, though, have more expensive on a**
12 **dollar-per-mile basis, which I think the is fairest**
13 **comparison.**

14 Q. And, in fact, yesterday, I don't know if you
15 saw the -- my discussion with Mr. Mattison about the
16 NITS charges by PJM load zone, where East Kentucky
17 was 20 percent, \$20,000 per megawatt -- per megawatt
18 year versus about 80,000 per megawatt year for East
19 Kentucky -- for Kentucky? For AEP. Did you see
20 that exhibit?

21 **A. Yes, I did.**

22 Q. East Kentucky operates in basically the same
23 service territory as Kentucky Power, doesn't it?

24 **A. Could you elaborate?**

25 Q. Same topography, same customer base, probably

1 similar density per transmission mile. I mean, the
2 service territories overlap. Your lines go over
3 their service territory and vice versa, that's what
4 I meant.

5 **A. I haven't done that comparison. I don't**
6 **think I can comment on that.**

7 Q. Does a cooperative utility, if you know, have
8 the same earnings growth requirements as an
9 investor-owned utility?

10 **A. I'm not sure about earnings growth**
11 **requirements. I mean, cooperatives and**
12 **municipalities operate under basically a completely**
13 **different set of rules, in my mind, than**
14 **investor-owned utilities.**

15 MR. KURTZ: Thank you, Mr. Pearce.
16 Mr. Chairman, I have no further questions.

17 CHAIRMAN SCHMITT: Okay. Thank you.

18 Ms. Grundmann, any questions on behalf of
19 Walmart?

20 MS. GRUNDMANN: No questions, Your Honor.

21 CHAIRMAN SCHMITT: Mr. Spenard or Mr. Strobo,
22 questions?

23 MR. STROBO: No, Mr. Chairman, no questions
24 for this witness.

25 CHAIRMAN SCHMITT: Mr. FitzGerald, questions?

1 MR. FITZGERALD: No, Mr. Chairman, thank you.

2 CHAIRMAN SCHMITT: Sierra Club, Mr. Miller,
3 questions?

4 MR. MILLER: Good morning, Mr. Chairman. No
5 questions from Sierra Club. Thank you.

6 CHAIRMAN SCHMITT: Mr. Frye, any questions of
7 this witness?

8 MR. FRYE: No questions, Mr. Chairman.

9 CHAIRMAN SCHMITT: Vice Chairman Chandler,
10 questions?

11 VICE CHAIRMAN CHANDLER: Thank you, Chairman.
12 Can you hear me?

13 THE WITNESS: Yes.

14 EXAMINATION

15 By Vice Chairman Chandler:

16 Q. Dr. Pearce, how are you?

17 **A. Good. How are you? I appreciate you helping**
18 **me through the technical difficulties a minute ago.**

19 Q. That's all right. We're all in the same boat
20 here.

21 Let me ask: Your rebuttal focuses only on
22 the allocation of NITS from a 1CP to a 12CP basis,
23 correct?

24 **A. Yes.**

25 Q. Yeah. So were you watching the hearing

1 yesterday?

2 **A. Yes, I was.**

3 Q. Okay. So you saw my questioning of
4 Mr. Satterwhite and Mr. Mattison on the subject?

5 **A. I did.**

6 Q. Okay. So let me just ask again, because I
7 know that you deal more directly with this than
8 Mr. Satterwhite does. My hope is that after these
9 questions that I can maybe have a better
10 understanding of how everything works together in
11 the AEP East system regarding transmission.

12 **A. Okay.**

13 Q. So there are operating companies and there
14 are transmission companies, correct?

15 **A. That is correct.**

16 Q. Is there a -- ignoring, and I don't mean this
17 to be mean to our friends in the south, but ignoring
18 Tennessee for a minute, does every state that has an
19 operating company in the AEP system have a
20 transmission company?

21 Well, let's just go through them. So
22 Tennessee does not, right? They do not have a
23 transmission?

24 **A. That's correct, they do not.**

25 Q. Okay. And I'm trying to -- work with me

1 here, I may forget a state here. Kentucky does have
2 a transmission company?

3 **A. It does.**

4 Q. Virginia?

5 **A. Yes.**

6 Q. West Virginia?

7 **A. Yes.**

8 Q. Ohio?

9 **A. Yes.**

10 Q. Indiana?

11 **A. Indiana and Michigan have I&MT jointly.**

12 Q. And so the Indiana and Michigan are together?

13 **A. That's correct.**

14 Q. And that's the entire AEP East system,
15 correct?

16 **A. Yes.**

17 Q. So only Tennessee doesn't have a transmission
18 company?

19 MR. GARCIA-SANTANA: Your Honor, if I may
20 interject for a second, just to clarify the record
21 before this goes any further. If I can ask really
22 quickly, Dr. Pearce, Appalachian Transmission
23 Company covers both Virginia and Tennessee, sir, if
24 you know?

25 CHAIRMAN SCHMITT: I'm sorry, Mr. Santana,

1 I'm not sure I understand you.

2 MR. GARCIA-SANTANA: It covers the
3 Appalachian?

4 VICE CHAIRMAN CHANDLER: Yeah, so I can -- I
5 think I can take care of this.

6 Q. There's a singular transmission company
7 for -- that Appalachian, it covers West Virginia and
8 Virginia, correct?

9 **A. I'm sorry?**

10 MR. GARCIA-SANTANA: Tennessee and Virginia,
11 Your Honor.

12 Q. Tennessee and Virginia?

13 **A. Tennessee and Virginia, yes. Excuse me.**
14 **Yes.**

15 THE WITNESS: Thank you for that
16 clarification.

17 Q. Okay. So West Virginia has its own?

18 **A. Yes.**

19 Q. Okay. So I just want to make sure I
20 understand. The operating companies don't own the
21 transmission companies, correct?

22 **A. No, they do not.**

23 Q. Okay. And the -- just to make sure we're
24 also clear, the transmission companies don't own the
25 operating companies, correct?

1 **A. No, they do not.**

2 Q. Okay. So let's look at it for a second from
3 the operating company perspective. Kentucky Power,
4 you heard that -- from Mr. Satterwhite and
5 Mr. Mattison about them attempting to attract as
6 much capital as possible for Kentucky Power
7 Operating Company to invest in a transmission
8 system.

9 Do you remember Mr. Satterwhite's testimony
10 on that point?

11 **A. Yes, I do.**

12 Q. Okay. So Kentucky Power invests, we'll just
13 make up money. Let's make up numbers here for the
14 purposes of illustration. They invest \$10 million
15 in transmission, right? And they file that as under
16 the -- the costs recovered of that \$10 million
17 transmission investment is recovered by the
18 transmission of -- the transmission agreement,
19 correct?

20 Oh, I apologize, Mr. Pearce, you're on mute.

21 **A. Your Honor, I apologize. That kind of**
22 **(indiscernible). Kindly repeat that question.**

23 Q. Yeah, let's wait one minute for the latency
24 issue to go away. Can you hear me now okay?

25 CHAIRMAN SCHMITT: There's something wrong,

1 Mr. Pearce. We can't hear you.

2 MR. GARCIA-SANTANA: Actually, Your Honor --
3 this is Hector.

4 THE WITNESS: Can you hear me now?

5 MR. GARCIA-SANTANA: It may be a timing
6 problem with the Internet.

7 CHAIRMAN SCHMITT: Oh, okay.

8 Q. So let me --

9 CHAIRMAN SCHMITT: Like an old foreign movie,
10 right? You see the lips move and ten seconds later
11 you get to hear the words. Let's try it and see how
12 it works.

13 Q. Yeah. Can you understand -- can you hear me
14 now, Mr. Pearce?

15 **A. I can. Can you hear me?**

16 Q. Okay. Yeah, there's just a short delay,
17 which is probably better for everybody, including
18 the court stenographer.

19 Kentucky Power, let's just say hypothetically
20 invests \$10 million in the transmission system in
21 year X. In order to recover that investment, they
22 include that -- they recover that investment through
23 the transmission agreement that we were discussing
24 yesterday, correct?

25 **A. You said Kentucky Power?**

1 Q. Kentucky Power.

2 **A. Yes. Well, if Kentucky Power invests**
3 **\$10 million in transmission, the revenue requirement**
4 **for that would actually go into their transmission**
5 **formula rate, and they would initially get recovery**
6 **of that revenue requirement directly from PJM.**

7 Q. Okay. So how does that happen in practice?
8 What form is that filled out on? Who is that filed
9 with? Does it go through AEP first? And does AEP
10 then do it, or is it filed directly with PJM by AEP
11 on behalf of Kentucky Power? I just would like for
12 you to explain to us, in practice, how that
13 recovery -- how -- let me just ask it this way: How
14 the request for rate recovery occurs from the
15 Kentucky Power perspective.

16 **A. Certainly. Certainly. So the -- based on**
17 **the FERC-approved tariffs, part of the PJM tariff is**
18 **Attachment H. So as the process is approved,**
19 **Kentucky Power is one of the companies that on an**
20 **annual basis develops its projected revenue**
21 **requirement for the next year. So they have to make**
22 **an annual filing of that by the end of October each**
23 **year, looking ahead to the next year.**

24 So that is filed, provided to PJM, posted.
25 There's a webinar held, and those rates go into

1 effect January 1 of that year. And then PJM
2 effectively does the billing. And then what happens
3 is, the revenues come back in for our zone to our
4 Transmission Settlements Group.

5 Q. Mr. Pearce, can we wait just a minute on
6 that? I just -- the going up isn't the question,
7 but the how they seek recovery is what I want to
8 clarify first.

9 So they file the request to approve those
10 through their projected revenue requirement as laid
11 out in Attachment H of the PJM Open Access
12 Transmission Tariff, correct?

13 **A. That is correct.**

14 Q. And is that the case for all of the
15 transmission -- well, I guess, let me withdraw that.

16 Is that the case for all of the AEP operating
17 companies? Is that the same process?

18 **A. It is the same process. All of those are
19 under Attachment H. For the op-cos, it's Attachment
20 H14.**

21 Q. H14?

22 **A. Which, as a traditional cost of service, has
23 effectively been approved by FERC, but the protocols
24 then require that we go through, we update all the
25 information on an annual basis, and then it's**

1 **submitted as I described.**

2 Q. Okay. And so that's the projected revenue
3 requirement for the next year. I assume at some
4 point there's a true-up to that, correct?

5 **A. You are correct. What happens is --**

6 Q. Can you --

7 **A. Go ahead.**

8 Q. I think you're going to already do it, but
9 can you explain to me what the true-up is as it
10 relates to the operating companies?

11 **A. Absolutely. So what happens is, for example,**
12 **for 2019, okay, we were required to do a true-up by**
13 **the end of -- by around the end of May is when we**
14 **have to have that completed. It is all tied to the**
15 **FERC Form 1 data.**

16 AEP, we complete our FERC form 1s for each of
17 the op-cos around the middle of April. And so by
18 the end of May, then, we submit that. And the same
19 thing, we basically post it, we will have webinars.
20 Our protocols allow for extensive discovery of that,
21 as they actually do for the projection as well.

22 And then that true-up, that over/under, is
23 included back in the next year's rate. So it's
24 actually for -- the 2019 true-up will be included as
25 a line with our 2020 -- so, I'm sorry, 2021

1 projection that will go into effect this year.

2 So we only collect what we actually spend.

3 That's how we get back the over/under with interest
4 at the FERC rate.

5 Q. Okay. And it's the 2021 because the 2020
6 actually would have been filed the previous October,
7 and you haven't gone through the entire year yet to
8 find out what the true-up needs to be, correct?

9 **A. Yeah, that's exactly right.**

10 Q. Okay. So that's the operating companies.
11 That's how they seek recovery of the revenue
12 requirement, correct?

13 **A. Yes.**

14 Q. Okay. The transmission companies, is that
15 H20A?

16 **A. Yes.**

17 Q. Okay. So the transmission companies -- so
18 the operating companies are on H14, an attachment to
19 the Open Access Transmission Tariff. The transcos
20 are H20A. Is it the same situation just with a
21 different tariff?

22 **A. It is. It is. The templates are nearly
23 identical, standard cost of service, and all those
24 time frames that I laid out are precisely the same.**

25 Q. Okay. And the same projection revenue

1 requirement and then true-up two years later,
2 correct --

3 **A. That is --**

4 Q. -- or year and a half?

5 **A. That is correct.**

6 Q. Okay. So we have -- that's the way that all
7 of the transmission investment done by AEP in the
8 AEP East system is recovered is through those two
9 attachments to the Open Access Transmission Tariff,
10 correct?

11 **A. You are correct.**

12 Q. Okay. And then we go from requesting
13 recovery of the revenue requirement to recovering
14 the revenue requirement.

15 Now, are you aware of the transmission
16 agreement that was referred to yesterday? And I
17 believe it was -- well, it was one of the PSC
18 Staff's exhibits that had the chart as AEP as an LSE
19 and AEP as a transmission owner?

20 **A. I am.**

21 Q. Okay. So in regards to the conversation that
22 we just had regarding H14 and H20, would you agree
23 that that transmission agreement applies only to
24 those utilities, only to those companies that file
25 under H14, in terms of AEP as a transmission owner?

1 Let me ask that differently. That applies
2 only to the operating companies and not to the
3 transmission companies, correct?

4 **A. Yeah, the -- only the operating companies are**
5 **members of the transmission agreement.**

6 Q. Okay.

7 **A. For clarity, I'll only add, though, that when**
8 **it talks about how they allocate the costs coming in**
9 **that's applicable to the operating companies, that**
10 **is all of the costs that they get billed. So it**
11 **would include their -- billing to them as an LSE,**
12 **whether it was, you know, basically pieces of the**
13 **opcos or pieces of the transcos.**

14 Q. Yeah, and that's the next step of what I want
15 to ask you about. So the -- they get filed with
16 FERC, right? And then can you walk us through the
17 process whereby FERC then charges -- this -- maybe
18 this is not the correct term, but effectively
19 charges those transmission revenues back to load?
20 Can you walk us through that process?

21 **A. Certainly. So for net service throughout the**
22 **year, all load-serving entities within our load zone**
23 **are going to be charged more for their transmission**
24 **service. They're going to pay their bill. And**
25 **then, you know, PJM is a clearinghouse, so**

1 **basically, at the end of the day, they'd be revenues**
2 **that they are collecting that come back into -- for**
3 **the AEP zone, that make their way into our**
4 **Transmission Settlements Group.**

5 Q. All right. So we're going to have to go a
6 little more granular than that. I understand
7 that -- my take on PJM is always be -- going to be
8 the transmission owners -- it's a transmission owner
9 organization and load always pays. So I get that --
10 I get that it all gets allocated to LSEs --

11 **A. Yeah.**

12 Q. -- but the question I have is the mechanisms
13 by which that is done.

14 **A. Okay. So the mechanisms by which that is**
15 **done is the transmissions group, the settlements**
16 **group is going to basically identify, based on the**
17 **network service peak load contribution, all of the**
18 **nonaffiliate responsibility and allocation for those**
19 **bills, and then AEP, which is one collective account**
20 **under Appalachian Power, I believe, that's the first**
21 **operating company in alphabetical order, it gets**
22 **allocated to the AEP companies on that basis.**

23 Q. Okay. That's great. So all the NITS costs,
24 right, which we -- okay. Let me take a step back.

25 You would agree that there are additional LSE

1 OATT expenses in a -- above and beyond NITS?

2 **A. That's correct.**

3 Q. Okay. So we'll just talk about NITS for the
4 time being. The NITS costs are broken out first,
5 when they're billed, between LSEs that are not part
6 of AEP and AEP as if it's an entire LSE itself,
7 correct, on a 1CP basis?

8 **A. That's correct.**

9 Q. Okay. So you -- let me ask this: So let's
10 just make it the city of -- and this is a real city,
11 but it may not be in your district. The city of
12 Kalamazoo, right? Let's say it's an LSE within the
13 AEP East system. Is it going to get allocated NITS
14 on a 1CP basis?

15 **A. Yes, it would.**

16 Q. Okay. So it gets allocated on a 1CP basis.
17 So you break -- you get the big picture on how PJM
18 charges on a 1CP basis. You break out everybody
19 who's not an affiliate of AEP, or not a load-serving
20 entity of AEP, and then for AEP, you get the bill on
21 a 1CP basis.

22 Now, that is the bill, as I understand it,
23 for all -- for everyone except for those
24 nonaffiliated LSEs, right?

25 **A. That is correct.**

1 Q. And so let's just -- for an illustration
2 again, even if you allocated those out to AEP LSEs
3 in the east, Kentucky Power Operating Company, Ohio
4 Power Operating Company, Appalachian, even if you
5 allocated all of those out on a 1CP basis, that is
6 materially different in terms of the ultimate costs
7 than if you allocated only the costs of each
8 operating company on a 1CP basis if they were billed
9 separately, correct?

10 **A. Okay. Could I ask you to repeat that one**
11 **more time?**

12 Q. Sure.

13 **A. I just want to make sure I follow it all.**

14 Q. Sure. And maybe I can make it a little more
15 definitive. Is the -- is there a difference, right,
16 between allocating Kentucky Power's 1 CP
17 contribution from the whole AEP residual bill, or,
18 if you just allocated Kentucky Power, Ohio Power,
19 we -- you know, all the different operating
20 companies on their own single CP before -- if the
21 bill was sent directly to Kentucky Power on a 1CP
22 basis instead of being sent to AEP and then being
23 broken out on a 1CP basis.

24 **A. It -- let me say this, and if I don't answer**
25 **your question, please let me know. I think what**

1 **you're asking is, is if each of the operating**
2 **companies, for example, was -- the calculation was**
3 **being done within transmission settlements as though**
4 **the transmission agreement did not exist, each one**
5 **would be allocated on a 1CP basis. I think the sum**
6 **of all the companies together would add up to the**
7 **same amount as is being collected, as is being**
8 **allocated in the block that we were just talking**
9 **about.**

10 Q. I think the sum would be, but would the
11 individual allocations to the operating companies be
12 the same?

13 **A. Well, the individual operating company**
14 **allocations would all be tied to their individual**
15 **contribution to the entire zone's network service**
16 **peak load.**

17 Q. But the -- but the percentage is then applied
18 to the costs allocated to the entire AEP East zone
19 for affiliates, correct?

20 **A. That is correct.**

21 Q. So my question is: Is the same -- let's
22 just -- again, let's just make up a number. So say
23 the allocation was a hundred million dollars, and we
24 know it's way more than that because the -- it's
25 more than a hundred million dollars, right, that's

1 being allocated to AEP after you carve out the
2 nonaffiliated LSEs?

3 **A. Correct.**

4 Q. But let's say it's -- a hundred million
5 dollars is the residual amount that has to be
6 recovered from all the different AEP operating
7 companies. And then let's say the transmission
8 agreement doesn't exist and it's just going to be
9 reallocated on a 1CP basis, right?

10 **A. Yes.**

11 Q. And let's say Kentucky Power's is six
12 percent. Okay?

13 **A. Okay.**

14 Q. So under that, Kentucky Power gets a
15 \$6 million allocation?

16 **A. Yes.**

17 Q. Okay. Compare that situation to, instead of
18 the AEP East zone being treated as a singular LSE,
19 instead think of it, if each AEP operating company
20 was its own separate LSE, right? And it was
21 allocated -- AEP, Kentucky Power, was allocated its
22 1CP and got a bill directly from PJM instead of it
23 running through AEP first, and Ohio Power Company
24 got allocated a 1CP based off the transmission in
25 their -- you know, if -- I guess what I'm saying is:

1 If each one was a separate zone, if each LSE was its
2 own separate zone, you would agree that the outcome
3 from that 1CP allocation is different than the first
4 one I described, whereas everybody just is part of
5 the same TO zone, but they get the 1CP after it
6 comes to the AEP East's companies?

7 **A. Oh, Your Honor, I mean, I need to clarify.**
8 **The scenario we're talking about, I thought, is the**
9 **transmission agreement doesn't exist but they're all**
10 **still apart of the same zone. Okay.**

11 Q. Okay. What I --

12 **A. So --**

13 Q. What I -- go ahead.

14 **A. Okay. So, yes. And I think, if I understand**
15 **your question -- let me -- maybe this will help, if**
16 **I just walk through it. And this is actually in my**
17 **rebuttal testimony, referring to page 7.**

18 Q. Okay.

19 **A. So what we looked at is, if -- and I think**
20 **this is the scenario you're describing is, if, for**
21 **example, Kentucky Power was not part of the**
22 **transmission agreement anymore, it would be**
23 **allocated like the nonaffiliates. It would just**
24 **basically look at the entire bucket of dollars**
25 **allocated to the entire zone --**

1 Q. Right.

2 **A. -- and then it'd be allocated a percentage**
3 **based on its contribution to that one**
4 **(indiscernible). Then on page 7, on line 8, for the**
5 **seven-year period we looked at, that is the**
6 **percentages. The 4.42 percent up to 6.63 percent**
7 **would be the amounts that would be allocated to**
8 **Kentucky Power. It would just basically look like a**
9 **nonaffiliate in our zone. And that's the basis for**
10 **the allocation to Kentucky Power.**

11 Q. Yeah. I know that.

12 **A. Does that answer your question?**

13 Q. What I want to ask, though, is: For Kentucky
14 Power, for instance, is there a difference between
15 an allocation under that scenario? If the
16 transmission agreement didn't exist, right? Compare
17 that example that you put in your testimony --

18 **A. Yes.**

19 Q. -- compare it to an example where, instead of
20 all of the operating companies belonging to their
21 own TO zone, if they were all their own TO zone
22 themselves. If Kentucky Power only got allocated,
23 right, the transmission that's located in their
24 territory, would the calculation be different than
25 under the scenario you laid out on page 7?

1 **A.** **In the hypothetical -- so you're talking**
2 **about, if we went this route that I believe**
3 **Mr. Kurtz was talking about, is if we attempted to**
4 **create a new -- entirely new load zone for Kentucky**
5 **Power itself, as -- instead of it being part of the**
6 **PJM load zone?**

7 Q. That's what I'm trying to understand. It --
8 is that -- yes. That part of that -- that
9 effectively, that's the area. If all the opcos, or
10 even if just -- I was thinking about all the opcos,
11 but if Kentucky Power was its own zone --

12 **A.** **Yeah.**

13 Q. -- would you agree that the allocation to it
14 under 1CP would be different than under the
15 allocation if, for instance, just the TA -- just the
16 transmission agreement didn't exist?

17 **A.** **Yeah, it would be assigned a certain dollar**
18 **revenue amount to the zone, and then under the --**
19 **under the default, I'll say, for PJM, then it would**
20 **be the 1CP. So the contribution of that zone, that**
21 **new Kentucky zone, would be allocated to all the**
22 **loads in the zone. And obviously, if Kentucky Power**
23 **was pretty much the only load in that zone, then it**
24 **would effectively be all allocated to Kentucky**
25 **Power, with perhaps a few munis or co-ops in there.**

1 But I think -- but I do need to clarify
2 something. And I do think that the thinking that,
3 under that scenario, if Kentucky Power became its
4 own -- its completely own zone, okay, if somehow,
5 despite the reference to Article 7.4 specifically,
6 explicitly saying that FERC does not desire that to
7 happen, so personally, I do believe it would be an
8 uphill battle, but on top of that, I don't know that
9 it would necessarily be as easy as saying what the
10 dollar revenue obligation would be for Kentucky
11 Power to be able to just add up Kentucky Power,
12 Kentucky Transcos, the revenue obligation under that
13 zone.

14 Up to this point in time, we have had an
15 integrated system. I mean, we had it for decades,
16 even when we joined PJM and revised the agreement
17 around the 2010 time frame, you know, we still
18 proposed to have an integrated system. So I do
19 think, you know, if such -- and I am speculating
20 here, but if such -- if such filings were even
21 attempted at PJM and at FERC to try to adjust that
22 provision, and it's basically buying an exception, I
23 mean, we'd all agree that there's going to have to
24 be just and reasonable support for that.

25 And I think the problem is, as Kentucky Power

1 being part of an integrated system, is the other
2 companies can look and say, hey, if we have built
3 assets, transmission assets over time in West
4 Virginia, in Virginia, in Ohio, that are clearly
5 supporting Kentucky Power load, I mean, Kentucky
6 Power has a generation asset outside the state, then
7 I think folks could come in with a very strong
8 argument and say, even if they're going to try to
9 create their new zone -- their new zone, that they
10 should be on the hook to pay for some of those
11 legacy -- those legacy investments.

12 Q. And --

13 **A. So the dollar amounts -- and, you know, yes,**
14 **I agree with as far as the peak load contribution,**
15 **but the dollar amount could change substantially**
16 **different than just looking at what's the revenue**
17 **requirement of Kentucky Power and Kentucky Transco**
18 **together. There could be more charges for that,**
19 **plus there could be some other issues in the future.**

20 Company Witness Ali is, I believe, taking the
21 stand after me, and I think he could talk further
22 about if you really had this scenario where Kentucky
23 Power was its own load zone, even if you could get
24 there, what implications there might be, its
25 negative consequences for Kentucky Power's customers

1 going forward, and how we would have to do this
2 planning between the rest of our integrated system
3 and now Kentucky that's stand-alone.

4 Q. Yeah. So those are all great considerations.
5 So I would ask: Does anybody at AEP talk about
6 these things?

7 **A. I mean, I think -- and up to this point we**
8 **have seen the benefits of the integrated system**
9 **across our entire system. The Company Witness Ali**
10 **may have more to add as far as how he looks, but he**
11 **looks at the needs in all the -- all the opcos, all**
12 **the states, and basically does a prioritization,**
13 **shares that with the operating companies, and**
14 **between them, they make the decisions.**

15 But yes, they are looking at it holistically,
16 as an integrated system, to improve the power flows,
17 and reliable power flows across our entire AEP load
18 zone, Kentucky customers included.

19 Q. No, what I'm asking is: I appreciate that
20 there's a steadfast interest by the Company, as
21 evidenced by the testimony, to continue to look at
22 AEP as a holistic entity or as an integrated system.
23 What I'm asking: Is there anybody at the different
24 operating companies or anybody at the AEP Service
25 Company looking out for the concerns of the

1 individual operating companies as part of that goal?

2 **A. Oh, that's a great question. Yes. And, I**
3 **mean, I do think -- at least my personal experience**
4 **has been that when the transmission organization has**
5 **met with the various operating company leaderships,**
6 **that's exactly the type of questions they are**
7 **asking, that they are making sure they are looking**
8 **out for their customers and making sure, is it a**
9 **fair allocation across all the companies.**

10 Q. And it's --

11 **A. I do get -- go ahead.**

12 Q. Excuse me. Go ahead, Mr. Pearce.

13 **A. Just to say, I -- 'cause, personally -- I**
14 **think the term, you know, is one company subsidizing**
15 **another, and personally, I think that in this**
16 **context, I think that's somewhat of a misnomer.**

17 You know, for years, under the old
18 transmission agreement, Kentucky Power was
19 surplusd, and they were -- because they were
20 getting payments from the other operating companies.
21 But, I -- you know, I would have been one of the
22 first ones to argue that in no way are those
23 companies, you know, subsidizing Kentucky Power.
24 Kentucky Power was investing for the good of the
25 system. And then when you blended all that together

1 and you looked at everybody's load obligation, or
2 load contribution, that's a fair allocator. I mean,
3 it's one that's used, you know, time tested in both
4 retail and wholesale rate making.

5 So, you know, I think -- I would not classify
6 that as cross-subsidization. And I also do think,
7 obviously, that these are dynamic and change over
8 time. You know, as we've all discussed, if the
9 scenario we go down, at the least would take three
10 years from the notice, from the transmission
11 agreement, plus there may be some other three-year
12 capacity planning and everything, every attempt to
13 align Kentucky Power assets on load zone.

14 You know, so in that amount of time, you
15 know, if you get to the end of that three-year
16 period and then you start looking out, well, what
17 Kentucky investments are going to have, you know,
18 post three years out, you know, it could be a
19 situation where now Kentucky is starting to ramp up
20 its investment. And if it has managed to climb this
21 hill of becoming its own load zone, then suddenly
22 it's on the hook for a hundred percent of all the
23 investment, whereas under the current mechanism, it
24 would pay less than -- less than six percent of that
25 investment that would be made in the state of

1 Kentucky. So --

2 Q. But --

3 **A. -- I mean, there's just -- I think there's**
4 **some long-term concerns with potentially trying to**
5 **do that that would argue that the climb may not be**
6 **worth the view at the top.**

7 Q. Let me ask this question: If that was the
8 case and Kentucky Power was significantly investing
9 in their transmission system, wouldn't you agree
10 that those would be costs within their control?

11 **A. Kentucky investing in its own system? I**
12 **mean, Kentucky investing in its own state, in the --**
13 **would have some control over that, to the extent**
14 **that PJM doesn't require specific projects, part --**

15 Q. Sure.

16 **A. -- of the expansion plan. Company Witness**
17 **Ali can speak to the specifics of who has the**
18 **ultimate authority on the various decisions.**

19 Q. Yeah, and I'm pretty aware of the
20 differentiation between supplemental and baseline
21 projects, but you're aware of the testimony in this
22 case that the argument for the -- for increasing the
23 tariff PPA from 80 percent recovery to a hundred
24 percent recovery of LSE load expenses is that the
25 Company has no control over those expenses. But

1 under the scenario you described, the Company would
2 then have complete control over the increase in
3 those expenses, correct?

4 **A. I'm going to defer that to Company Witness**
5 **Ali. To the extent that there are some nationwide**
6 **standards like NERC or other things that may be**
7 **required, that Kentucky has to comply with, it would**
8 **be a better question for him.**

9 Q. Well, and I can appreciate it would be a
10 better question. And I'll withdraw that, at least
11 the portion that says "complete control."

12 But wouldn't you agree that under that
13 scenario, they would have much more control over
14 their transmission expenses, over PJM LSE OATT
15 expenses, than they do under the current scenario?

16 **A. I would think that they would tend to have**
17 **some more level of control.**

18 Q. They would. Okay. And let me just ask:
19 Given that, do you think that that's a consideration
20 a utility should have when deciding what agreements
21 it should be in, what level of control they have
22 over the increase or decrease in expenses?

23 **A. That could be one event.**

24 Q. And that's one event --

25 **A. But I do know -- oh, go ahead.**

1 Q. I was going to say: And once you -- once you
2 enter into an agreement, that would be most likely a
3 consideration you would keep in mind as the
4 agreement goes along as to whether or not the
5 agreement continues to be in your best interest,
6 right?

7 **A. Yes. Yes. You would definitely look at all
8 of that.**

9 Q. Okay. So who is looking at that on behalf of
10 Kentucky Power now?

11 **A. As far as the -- I don't know that anybody
12 has done a comprehensive review of, you know, what
13 would be the potential implications for unwinding
14 it. I don't know that somebody at the Company has
15 specifically looked at that. Obviously, if that was
16 a request, and I did hear Company Witness
17 Satterwhite yesterday talk about discussions with
18 Company Witness Mattison about, you know, following
19 this proceeding, additional discussions around these
20 areas, these topic areas. And I think that would be
21 a good forum to perhaps look at that.**

22 Q. Yeah. So this agreement is approximately,
23 we'll just use -- this transmission agreement is
24 approximately ten years old, right? Have you been
25 in and around the transmission -- in and around

1 areas of the Company that deal with this
2 transmission agreement since its inception?

3 **A. Yes.**

4 Q. Okay. And so in that time, has anybody
5 discussed or quantified or attempted to study
6 whether or not the operating companies and the
7 customers of those companies were better off as part
8 of the current agreement as the -- with the
9 agreement amended, with the agreement changed, or
10 with the agreement continued? Has anybody looked at
11 those on a holistic basis or on behalf of any of the
12 individual operating companies within the AEP
13 system?

14 **A. Okay. Let me say this: I would say as far**
15 **as -- there's -- again, there's -- I'm trying --**
16 **there's a very (indiscernible) between Kentucky**
17 **Power leaving the transmission agreement and staying**
18 **part of the AEP zone, which would require a notice,**
19 **a FERC filing, it could require some level of**
20 **approvals, but as far as the impacts at Kentucky**
21 **Power, that's what I believe I did with my rebuttal**
22 **is I went through in this case to show in that**
23 **scenario, it would be -- I believe it would be worse**
24 **for Kentucky Power and its customers to attempt to**
25 **leave the transmission agreement.**

1 Going the next level of saying, well, what if
2 Kentucky not only left the transmission agreement
3 and tried to become its own zone, I am not aware of
4 any specific hard looks at what that -- what that --
5 somebody in the Company has done with that.

6 I think -- I think when we saw the language
7 in the tariffs specifically not allowing that from a
8 FERC perspective, kind of stopped there at this
9 point.

10 Q. But let me just ask: Your testimony was
11 provided in response to a suggestion made by a party
12 in a proceeding at a state level. What I'm asking
13 is: You and your group, on behalf of the different
14 operating companies that depend on AEP Service
15 Company to direct them -- we heard from Mr. Mattison
16 the other day, that he depends on you-all, right,
17 for particularly the transmission planning and the
18 transmission cost recovery. And we heard from
19 Mr. Satterwhite that the operating companies and the
20 transmission group depend on his group to make the
21 filings to get the cost recovery.

22 Prior to it being raised and providing some
23 sort of, you know, calculation in response or in
24 defense of the status quo, I'm just asking, in
25 your-all's daily work on behalf of these operating

1 companies, have you-all looked -- and I assume that
2 the answer would be the same, but have you-all
3 looked at that in any given year of just taking a
4 step back and saying, is this in our customers' or
5 is this in our operating company's best interest to
6 continue with the status quo?

7 Would you say that your response indicates
8 that that hasn't been the case, you haven't looked
9 at that up until now?

10 **A. Well, and I appreciate the question. And let**
11 **me say this: Yes, on a regular basis, I believe we**
12 **look at the settlements, we look at how it's**
13 **impacting the various operating companies. And**
14 **consistent with the discussion yesterday, if I ever**
15 **saw a situation, in transmission in general, where**
16 **we felt like there was an inherent bias, you know,**
17 **for whatever reason, that that was -- that was**
18 **disfavoring one of our operating companies, I do**
19 **believe we would raise it to that -- we would raise**
20 **it up, up the service core chain and we would raise**
21 **it to the operating company.**

22 This allocation discussion that we're having
23 I don't see as an inherent bias. As I discussed, it
24 can move around over time. And there could be areas
25 that Kentucky Power is in that payer that would

1 be -- at times, that Kentucky is in that receiver.

2 So cost allocation, by definition, whenever
3 you develop a form of revenue requirements for
4 its -- for the various entities, you sum them and
5 then you allocate them out. By definition, that's
6 always going to be a zero-sum game. So you're
7 always going to find periods where roughly half of
8 the group could say, you know, I am having to pay
9 more than my revenue requirement, so am I being
10 taken advantage of? And I disagree with that, as I
11 said, in the form of a subsidy. It just -- cost
12 allocation is always going to be a zero-sum game.

13 So this broader context, you know, we've
14 looked at it, not necessarily with the laser lens
15 that we've talked about here over the last half hour
16 or so, but we would, I believe, you know, look at
17 the operating companies and make sure: Are we
18 addressing the needs in the state: Are they paying
19 a fair share of the cost? And if we felt like there
20 was a situation that was inherently biasing any of
21 the opcos, then yes, we would bring it to
22 Mr. Mattison's attention.

23 Q. So Mr. Pearce, if the Company's belief -- and
24 I've heard this now from the three witnesses, that
25 this is an integrated system and this is a fair way

1 to allocate costs of an integrated system. If you
2 always believe that it's an integrated system and
3 you take that at face value, then how is -- wouldn't
4 you agree that taking that position, you're never
5 going to see that there's an inherent bias under
6 this current allocation?

7 **A. That's a good question, and I think -- I**
8 **think, again, it comes back to are all the entities**
9 **receiving a reasonable benefit that is consistent**
10 **with their total cost? If, at the end of the day,**
11 **you know, there could be some situation -- and I'm**
12 **not saying that that couldn't happen, I'm just**
13 **saying up to this point I haven't seen it. And I**
14 **do, though, I'd say a reasonable amount of inquiry**
15 **in that, where, hey, Kentucky Power is truly being**
16 **disadvantaged in this situation and we need to -- we**
17 **need to do something about it, then that's what we**
18 **would do.**

19 Q. Okay. So are you aware of, I think it was
20 the DC Court of Appeals opinion regarding the
21 Dominion 715 projects and the allocation of those
22 costs?

23 **A. Somewhat.**

24 Q. Somewhat, yeah. That makes two of us. So
25 let me just ask: When that matter was remanded back

1 to FERC and FERC required PJM to rerun the -- rerun
2 those allocations, that instead of those 715
3 projects being allocated solely to the Dominion
4 zone, that they be allocated on a regional basis
5 with some sort of consideration of DFAX, did that
6 change the allocation to -- did that start to
7 allocate a portion of those costs to AEP? Is that
8 your understanding?

9 **A. It would potentially allocate a piece of the**
10 **715 as baseline projects, yes, I believe.**

11 Q. Yeah. And did you-all support that
12 allocation, that regional allocation?

13 **A. No. We questioned that, that allocation that**
14 **Dominion was using for that project.**

15 Q. Well, wouldn't you agree, then, that --
16 obviously AEP is an integrated system, right?

17 **A. Yes.**

18 Q. They are -- excuse me. AEP is an integrated
19 system, PJM is an integrated system, correct?

20 **A. That is correct.**

21 Q. Okay. And it is planned on a region-wide
22 basis, that's the -- that's the underlying of the
23 RTEP process, right? It's the regional transmission
24 enhancement, I think that's the right -- but it's
25 the RTEP process, right?

1 **A. That's correct.**

2 Q. Okay. And running those scenarios that FERC
3 required on remand, AEP was being allocated a
4 portion of those costs, or being proposed to be
5 allocated a portion of those costs, because the DFAX
6 came back and said that you-all were getting
7 benefits from those, correct?

8 **A. Okay. If I recall correctly, the Dominion**
9 **system that we're talking about is 500 kV, and the**
10 **allocation that PJM uses in that context is**
11 **50 percent on load ratio share for everything that's**
12 **345 kV double circuit and above, and the other**
13 **50 percent is on DFAX. So some of that would be**
14 **allocated across the entire zone, the entire PJM,**
15 **based on load ratio share, the other half would be**
16 **on DFAX.**

17 Q. Right. But you would agree that some of
18 those came back and indicated that AEP was showing
19 up as certain percentages on the DFAX runs, correct?
20 Is that your understanding or your memory?

21 **A. I vaguely recall that there might have been**
22 **some DFAX allocated to our zone. Company Witness**
23 **Ali may be able to confirm that.**

24 Q. So I guess I would ask: You-all don't
25 propose, as I understand it, in the process of

1 allocating all transmissions, then, across the
2 entire PJM system, even though you agree it's
3 integrated and it's planned on an integrated basis?
4 But that's the basis for the transmission agreement
5 and the steadfastness, right, is that the AEP zone
6 is an integrated system? So why is it -- why is one
7 thing that's good for the goose not good for the
8 gander?

9 **A. Your Honor, that is a great question. And**
10 **let me be clear here. On that project that we're**
11 **discussing, that was a completely different set of**
12 **circumstances. PJM, on any new project -- a new**
13 **project, okay -- they are going to allocate costs as**
14 **I just described. If it's a 345 kV double circuit**
15 **or above in voltage, half is going to be allocated**
16 **to load ratio share. So anywhere within PJM that**
17 **such a project went, AEP would get a portion.**
18 **Similarly, if AEP did some new refilled 765, we**
19 **would get the benefit of it being allocated other**
20 **places.**

21 The problem, and part of our frustration, was
22 when, you know, AEP had its own AEP OATT before we
23 joined PJM. When we joined PJM, unfortunately PJM
24 has made the distinction that legacy assets that
25 were there before aren't subject to region-wide cost

1 allocation.

2 So the set of circumstances in this and the
3 distinction with the Dominion issue is, that is a
4 rebuild of legacy assets that up to that point have
5 not been allocated subject to those rules. They
6 have been assigned to the Dominion zone.

7 So in the sense that you're taking an
8 existing asset that only your zone was paying for,
9 and now you're doing nothing but rebuilding that,
10 but now you're seeking to allocate it across all of
11 PJM we felt like was unfair to our customers, and
12 that's what we've been fighting for. So --

13 Q. And --

14 **A. So that is different. I would not -- I would**
15 **not challenge if it was a prior allocation that was**
16 **continuing, and I think that's what we're talking**
17 **about in the context of the AEP system.**

18 Q. And what if --

19 **A. Were it the result -- rules on a new project,**
20 **I would not -- I would not -- believe I would not**
21 **challenge that right now under the current rules.**

22 Q. Well, let me -- I think this may help me
23 understand your position a little better. So you
24 would say that because Kentucky was always paying
25 for -- let's say it was almost a fully depreciated

1 transmission line in Michigan, that Kentucky should
2 continue to pay for a portion of the replacement for
3 that transmission line?

4 **A. I would say that it is appropriate, to use**
5 **your example, the same way I would say that as**
6 **Kentucky has lines that depreciate down and need**
7 **rebuilt, that I&M should pay a portion of that line.**
8 **We are a fully integrated system, as we have been**
9 **for a long time, and I do feel there's benefits in**
10 **that.**

11 Q. So the -- I believe in your testimony you
12 referenced a nearby page a minute ago about this
13 allocation. So we've talked about it's maybe a
14 little more than just 1CP versus 12CP, it's also 1CP
15 versus 12CP versus 1CP as if AEP East was its entire
16 zone and if each opco was its entire zone? Those
17 are all distinctions to make, correct?

18 **A. Yes.**

19 Q. Okay. So when you looked it at just on the
20 12CP versus 1CP basis, as if the transmission
21 agreement didn't exist, that for '19 and '20,
22 Kentucky paid more under the 12CP, is that -- is
23 that right, that they paid more under the 12CP than
24 they would have been under the 1CP, correct?

25 **A. '19 and '20. I'm just looking here. Yes,**

1 **Kentucky Power would have paid more under a 1CP than**
2 **the 12CP. They benefited for 2019 and 2020. Yes,**
3 **they did.**

4 Q. They paid --

5 **A. They had that benefit.**

6 Q. (Indiscernible) Kentucky Power --

7 **A. They paid -- they would have paid more under**
8 **1CP than they did under the current transmission**
9 **agreement 12CP.**

10 Q. Okay. And so my other question is,
11 forgetting the allocation of those costs for a
12 minute: What percentage -- for these new
13 investments Kentucky Power is being allocated
14 approximately -- we'll say it's six percent, but I
15 think it's 5.7 percent is the most recent 12CP
16 allocation, right?

17 **A. Okay.**

18 Q. Is Kentucky attracting -- is Kentucky
19 Operating Company, Kentucky Power Company, is it
20 attracting six percent of the transmission
21 investment?

22 **A. I have not looked at that. I think we**
23 **provided the numbers of the forecasted capital spend**
24 **for Kentucky Power. I don't know exactly how close**
25 **it is. I would say, based on revenue requirement,**

1 as far as comparing Kentucky Power to the other
2 operating companies, it is attracting more than its
3 load ratio share. The transcos is where it's
4 probably going the other way.

5 Q. What do you mean by "going the other way"?

6 A. Meaning that if you look at -- if you tried
7 to take the transco times 5.7 percent, I believe
8 Kentucky Transco would be -- would be less than that
9 percent.

10 Q. So that --

11 A. It's a little bit more for the opco and a
12 little less for the transco.

13 Q. Yeah. So that's fair. So would you agree
14 that Kentucky -- well, based on the comment, would
15 you agree that Kentucky, then, as a state, between
16 the transco and the opco, and compared to all the
17 other states' transcos and op -- transcos and opcos,
18 that Kentucky Power is getting less than six percent
19 of the new transmission investment over the last few
20 years?

21 A. I would -- subject to check, I think that
22 sounds right that they have for that specific period
23 of time.

24 Q. Okay. And at what point -- to your comment
25 earlier about the fairness of the agreements and the

1 recovery of costs, at what point does that have to
2 be so disproportionate that it's unfair?

3 **A. Well, that's a great question. And again, I**
4 **think the question is, is if Kentucky Power is**
5 **receiving some benefits from the investment of the**
6 **other companies, and I believe it is, then I am not**
7 **sure that's the fair -- that's the fair comparison.**

8 Again, I think that takes me back to my
9 point, that the calling a payment that Kentucky may
10 not have quite as much as the others a subsidy, I
11 don't necessarily agree with that. Just as I would
12 defend Kentucky Power if it had invested a little
13 bit more than the 5.7 and effectively, you know,
14 some of the other companies were questioning the
15 same way. But cost allocation like that is always
16 going to be zero sum.

17 Q. Right. If you --

18 **A. Now, if there was a -- if there was a -- to**
19 **answer your question, if there was some set of**
20 **circumstances where this is biased against Kentucky**
21 **Power, they can never catch up, it can never be --**
22 **and it's very clear that they are getting very**
23 **little benefit, then that may be something we need**
24 **to look at, but, you know --**

25 Q. You --

1 **A. -- I can't say that I have seen it yet.**

2 Q. You keep using the word "benefit," and I
3 don't know -- you know, if I think of benefit, I
4 think of something like DFAX, right, a quantifiable
5 measure of the flow, right, that you're actually
6 getting use out of it.

7 What do you mean by "benefit," because
8 earlier when you used it, it was exclusively in the
9 context of building the integrated system over the
10 last hundred years, but we're here today and we're
11 trying to move forward with tomorrow, and we talked
12 about that \$36 billion capital plan that the Company
13 has.

14 So what do you mean when you keep saying
15 "benefit," and how are you measuring benefit versus
16 something else we can measure, which is the amount
17 of cost coming to Kentucky Power customers?

18 **A. That's a great question. And I do believe**
19 **that when I say -- what I mean by "benefit," it**
20 **is -- is they are receiving the**
21 **benefit of the AEP system in terms of delivering**
22 **reliable power to load consistent with the amount of**
23 **dollars they're paying in in total of the total cost**
24 **responsibility. So not necessarily their own**
25 **system, but their portion of the total cost of all**

1 **the companies together.**

2 If I may use an example, and I did note in
3 my -- in my rebuttal that I'll be the first one to
4 say that there's never any perfect allocator, but in
5 PJM's perspective across the entire system, the 345
6 kV double circuit and above is allocated at
7 50 percent of load ratio share, so that's regardless
8 of where you are.

9 So you can be on the very western edge of
10 PJM, and if it's a line that's higher than that on
11 the very eastern side, you're paying 50 percent --
12 you're paying on 50 percent of that investment, half
13 based on that load ratio share. And the philosophy
14 is, is that the entire PJM RTO, everybody is
15 benefitting in some concept. You know, it --
16 somebody could go in and argue, no, I want
17 everything on DFAX, everything has to be beneficiary
18 pay is tied to a DFAX calculation. And there's even
19 different ways to do the DFAX calculation.

20 So admittedly, I agree with you that benefit
21 can be hard to define sometimes, and you can argue
22 it different ways, but at least I think bringing the
23 PJM system into AEP, when I say "benefit," I say
24 it's part of an integrated network. I do believe
25 that to the extent that, you know, saying we're

1 going to kind of just seal off the borders of
2 Kentucky, and that, you know, they'll pay for the
3 investment in this state and we'll not necessarily
4 look at, well, are there flows coming into the
5 state, and then, by definition, off somebody else's
6 transmission lines? How much are they benefitting
7 from that?

8 I would say if there's -- if there's imports
9 to our service territory from out of state to
10 Kentucky, then that is a benefit they're receiving
11 thanks to that investment that's made by another
12 company.

13 But I agree with you a hundred percent,
14 there's a lot of ways you can argue about benefits
15 and cost allocation. I mean, that can be its own
16 discussion.

17 Q. Yeah, and I appreciate your example, but
18 you're using an example of a bulk electric
19 transmission system and not the 69 kV and 138 kV
20 system that is the basis for a lot of Kentucky
21 Power -- well, not Kentucky Power's, a lot of AEP's
22 investment in these other states. I mean, you are
23 aware of these hundred-, 90-year-old steel lattice
24 poles that they're replacing throughout Ohio and
25 Michigan on the 138 kV system, right?

1 **A. Yeah, I'm aware that -- I'm aware that we**
2 **have some in -- yes, in -- built in the 1930s --**

3 Q. Yeah. And --

4 **A. -- and they are --**

5 Q. And that's a big project, right, and -- but
6 that's not necessarily the BES, is it?

7 **A. I'm sorry, the --**

8 Q. That's not -- that's not exactly the
9 interstate transmission highway of electricity, the
10 138 kV system, right? That's why 345 is the
11 threshold for, a lot of times, of those allocations
12 you're talking about, is because at 345 and above
13 there is a systemwide benefit, but we're talking
14 about 48, 69, 138 kV, right?

15 **A. Yeah. Let me -- let me defer you to Company**
16 **Witness Laizar Planner (phonetic). I think he's**
17 **going to be the best one to describe, at those lower**
18 **voltages, how much Kentucky can benefit from like,**
19 **to use your example, the 138 kV system coming in**
20 **from out of state.**

21 Q. Okay. So let me just ask: When you're
22 looking at whether something is fair or not, are you
23 looking at it from the perspective of AEP Service
24 Company, or the AEP generally, or on behalf of
25 general -- of individual operating companies?

1 A. I think we're looking at it that -- I will
2 say both. I think we're looking at it collectively
3 in terms of all the operating companies, but I do
4 think we also consider it on an individual operating
5 company by -- or operating company basis, to make
6 sure that, you know, there's no one that is -- you
7 know, again, my example was biased in some way, that
8 they are paying for something, it's not clear that
9 it's going to be naturally biased this way for some
10 long period of time without some reasonable
11 expectation that they are getting benefits from.

12 Q. And you're -- in the aesthetic above that we
13 talked about earlier, have you come up on any
14 situation that you can provide me to where you found
15 that the interests of the operating company did not
16 align with AEP on the transmission front?

17 A. You're asking me to really pull my memory
18 here. I do recall, and this was several years ago,
19 for the true-up cost allocations, so that the way
20 that the -- and it's been updated relative to what
21 we've talked about earlier, but the way it used to
22 work, when we did the true-up, the allocation of
23 that true-up back to the companies, it was such a
24 way that it wasn't quite being made whole for the
25 companies. They were just basically the revenue --

1 **the true-up revenues were being allocated, I think,**
2 **on, like, the next year's projection. So it was**
3 **close, but it wasn't getting all the companies back**
4 **to perfectly made whole.**

5 I don't remember which side of that Kentucky
6 Power was on, but we just said it was inequitable.
7 So we actually used the mechanism in the
8 transmission agreement for the operating committee,
9 and said, hey, we can refine this calculation to
10 make sure each of the operating companies is made
11 whole precisely on their -- on their -- on their
12 true-up, receiving the dollars of the true-up if we
13 go through that.

14 So that's -- off the top of my head, that's
15 one example that I can recall that we used the
16 transmission agreement in a positive way to make
17 sure all the operating companies were being treated
18 equitably.

19 Q. So have you seen the increase in the PJM LSE
20 OATT expenses that were discussed yesterday between
21 2014 and the test year in this case?

22 **A. I'm not sure which exhibit.**

23 Q. Yeah. So Mr. Satterwhite was referred back
24 to Mr. Vaughan's testimony on page 32 and 33, and I
25 believe on page 33 of Mr. Vaughan's testimony, it

1 indicated that in the 2014 case, the PJM LSE OATT
2 expense was approximately, I think, 53, 54 million
3 dollars, and that Mr. Vaughan indicated the test
4 year amount was 96.8. That 96.8 was the number that
5 Ms. Vinsel asked Mr. Satterwhite to remember. Do
6 you remember that portion of the testimony?

7 **A. Somewhat, yes.**

8 Q. Okay. I'd be happy, if -- to bring it up if
9 you'd like.

10 **A. Okay.**

11 Q. I'll ask it -- well, so let me -- one second
12 here. All right. Please let me know when you can
13 see my screen, Mr. Pearce.

14 **A. Oh, there we go.**

15 Q. All right. Perfect. Do you see that, that
16 in the 2014 case that it was 53.7 million --

17 **A. Yes.**

18 Q. -- on line 10? And then on line 9 it says
19 the test year amount was 96.8?

20 **A. Yes, I see that.**

21 Q. Okay. That's Vaughan. I can't see the
22 numbers. Vaughan 33, correct?

23 **A. Yes.**

24 Q. Okay. So let me just ask: Given your role,
25 if you-all were being allocated a significant cost

1 from a neighboring transmission owner and the amount
2 had doubled in six years, would you be alarmed by
3 that?

4 **A. I would certainly make inquiries, just to get**
5 **an understanding of are these -- are these really**
6 **needed, are these drivers? Yes, I would do -- I**
7 **would make inquiries.**

8 Q. Okay. And have you made inquiries on behalf
9 of Kentucky Power for the PJM LSE OATT expenses as
10 to why it's doubled in six years?

11 **A. Well, we've reviewed the expenses, and I've**
12 **been in several presentations by Company Witness**
13 **Ali, who's up next, to describe those needs. And I**
14 **do think as we -- what I do recall yesterday in one**
15 **of the exhibits was that -- was that histogram**
16 **showing how many of our assets, exactly how old they**
17 **are. And while we don't replace assets just**
18 **strictly on age, it is -- correlates somewhat with**
19 **condition, condition, performance, and risk, that he**
20 **can walk through that's driving the needs of the**
21 **system.**

22 If you notice from that exhibit, there was a
23 substantial trough, if you will, from about 1980 to
24 about 2010. Why? Well, the capital requirements of
25 the companies was going to generation at the time.

1 That's where the -- that's where the needs were,
2 that's where the drivers are, adding flue-gas
3 desulfurization scrubbers, adding SCRs. So the
4 system progressively kept getting older without the
5 level of investment.

6 So we're at a point now where this
7 infrastructure, yes, needs rebuilt. I appreciate it
8 is driving up a portion of the bill in these ways,
9 but is it needed to keep reliable power in place?
10 You know, I believe it is, but Company Witness Ali
11 is the head of our planning department and would be
12 the perfect one to walk through those, those
13 examples.

14 Q. So you -- so the amount has doubled in --
15 almost doubled in six years and now represents
16 16 percent, as Mr. Vaughan says in his testimony --
17 we just saw that on page 33, 16 percent of the
18 company's revenue requirement in this case, or the
19 company's revenues. Based off -- or based on the 35
20 or 37 million dollar -- billion dollar investment
21 expectations at the AEP level and the amount of that
22 to pinpoint -- I think the EEI document referenced
23 yesterday was something like ten and a half billion
24 of that's on transmission alone. What, in five or
25 six years, can Kentucky Power customers expect the

1 PJM LSE OATT expenses to be?

2 Well, let me ask this: You would agree that
3 90 percent of the PJM LSE OATT expense is from
4 affiliates, correct?

5 Well, let me -- let's --

6 **A. I think it's -- the majority -- the large**
7 **majority certainly would be.**

8 Q. Well, I want to make sure. At AEP 5
9 yesterday, do you remember that, when it was the
10 96.8 and Ms. Vinsel added up to \$88 million, that
11 was almost 91 percent of the PJM LSE OATT expense in
12 the test year. So 91 percent of the current test
13 year bill was from affiliates, those lines that
14 said, you know, PJM affiliated transmission NITS
15 costs 41.6 million, PJM NITS expense-affiliated
16 39.4 million.

17 In five years, given the capital plan, how
18 much is Kentucky Power going to be allocated of
19 those affiliate amounts?

20 **A. Its capital spend? I believe we provided**
21 **that in a discovery request regarding the amounts of**
22 **capital forecasted over the next few years.**

23 Q. And the revenue requirement impact -- and
24 under the current perspective, or the current
25 expected allocation of those costs of Kentucky Power

1 specifically?

2 **A. The revenue requirement of the -- no, we**
3 **don't have any forecast out that far that I'm aware**
4 **of what our revenue requirement is going to be.**

5 Q. You've got a five-year --

6 **A. Capital spend.**

7 Q. You got a five-year capital plan, but you
8 don't know what the impact of that is to the
9 customer?

10 **A. I mean, right now, I know we've done our 2021**
11 **projection and filed it. Beyond that, as far as the**
12 **revenue requirement, impact to customers, I'm not**
13 **aware of a specific allocation, because obviously**
14 **it's not just, you know, the capital piece, but it's**
15 **the O&M and the other costs, which as we did see**
16 **yesterday (indiscernible) for the O&M portion.**

17 Q. So if the Commission wanted to know in five
18 years, for instance, if Kentucky Power filed a rate
19 case for the test year in five years, and based on
20 that five-year capital spend, how much of it AEP
21 intends to spend on transmission expense, could
22 you-all at least give us an idea of what you think
23 the affiliated transmission costs are going to be in
24 year five for the PJM LSE OATT expense?

25 **A. Five years, and for the transmission expense?**

1 Q. Sure. You know what you're going to invest,
2 right?

3 **A. Yeah. We've got a forecast for it. I'm not**
4 **sure how accurate that calculation could be on a**
5 **forecast basis out that far, but there's quite a bit**
6 **of complexity to the formula rate. I mean, you get**
7 **into things like taxes. There might even be -- you**
8 **know, the next administration, who knows what tax**
9 **changes are going to be and everything. So --**

10 Q. I'm not looking --

11 **A. -- it would be -- I'm sorry. It would be --**
12 **it would be pretty back of the envelope.**

13 Q. Yeah, and I'm perfectly happy for the Company
14 to provide whatever caveats they would like in terms
15 of the assumptions they make. But what I'm asking
16 is: Is it -- are you able to?

17 **A. On a reliable basis, I don't know. I don't**
18 **know how reliable we could calculate that number out**
19 **five years.**

20 VICE CHAIRMAN CHANDLER: Chairman, I just
21 have just a couple more questions.

22 Actually, I think that's all I have,
23 Chairman. I appreciate Mr. -- Dr. Pearce. Thank
24 you.

25 THE WITNESS: Thank you.

1 CHAIRMAN SCHMITT: Dr. Mathews, questions?

2 COMMISSIONER MATHEWS: I don't have any.

3 Thank you.

4 CHAIRMAN SCHMITT: Mr. Santana, any redirect
5 examination?

6 MR. GARCIA-SANTANA: Yes, Your Honor, just a
7 few, but we have been going for about 90 minutes,
8 and I'm wondering if there would be time for me to
9 just go ahead and do the redirect now or should we
10 take a break?

11 CHAIRMAN SCHMITT: Well, if you -- yeah, if
12 you don't mind, if we could complete your redirect,
13 then I thought we'd take a break before the next
14 witness was called.

15 MR. GARCIA-SANTANA: I'm sorry, Your Honor, I
16 didn't follow that. Would you like me to proceed
17 with the redirect now or --

18 CHAIRMAN SCHMITT: Yeah, I'd like you to
19 proceed with the redirect of Mr. Pearce.

20 MR. GARCIA-SANTANA: Sure.

21 CHAIRMAN SCHMITT: And after you're
22 completed, we'll take a break before the next
23 witness.

24 MR. GARCIA-SANTANA: Perfect. Thank you.

25 CHAIRMAN SCHMITT: Okay.

1 MR. GARCIA-SANTANA: Thank you, Your Honor.

2 REDIRECT EXAMINATION

3 By Mr. Garcia-Santana:

4 Q. Dr. Pearce, if I can impose on you and on
5 Staff, if we could turn to KIUC Hearing Exhibit 1 as
6 submitted. Oh, I'm sorry, I am sorry. I apologize.
7 I got my -- it was from questioning from Mr. Kurtz,
8 but it's Company Hearing Exhibit 7. I apologize.
9 And specifically I would like to draw your attention
10 to page 10 of the document.

11 **A. I'm sorry, I'm not sure -- Company Hearing**
12 **Exhibit 10. Okay. Is that it?**

13 Q. Yes. That's the document. Thank you.

14 **A. Yes.**

15 Q. That is page 10. Can you see it?

16 **A. Yes, I do.**

17 Q. Okay. Dr. Pearce, I was under the impression
18 that you were trying to provide some explanation in
19 the context of what you were being asked about the
20 costs associated with the transmission investment by
21 AEP, and I think you were trying to refer to this
22 page. Could you explain to us, please, what is it
23 that we have in front of us, and what the
24 significance?

25 **A. Certainly. This is just -- as it shows it,**

1 it is for various PJM utilities, and calculated by
2 PJM itself, but it's -- as it says, it's the
3 estimated cost of each utility's transmission system
4 on a dollar-per-mile basis, circuit mile. So AEP is
5 the largest transmission owner in the United States.
6 We have well over 20,000 miles in our -- in PJM.

7 And so as you see, you know, due to the
8 nature of our system -- well, you know,
9 understandably, people will look at the dollars, the
10 revenue requirement, but we feel like, you know,
11 being as cost conscious as possible, investing only
12 as we need to, that on a dollar-per-mile basis, we
13 actually are coming in, you know, relatively low
14 side.

15 You know, I can't speak for EKPC. You know,
16 they may have a system that is fairly depreciated
17 and with not a big revenue requirement, and they may
18 be coming up on some necessary infrastructure
19 investment themselves. I just can't opine on them.
20 But I think we do pay careful attention to these
21 type of statistics to manage the cost for our
22 customers on a dollar-per-mile basis.

23 And Company Witness Ali can speak in much
24 more detail to that, to the extent that there's any
25 specific questions on it.

1 Q. Thank you, Dr. Pearce. You may recall that
2 you were also asked about the formula rates of
3 Kentucky Power at FERC, through which Kentucky Power
4 recovered its transmission investment.

5 Do you recall that line of questioning, sir?

6 **A. Yes.**

7 Q. Yeah. It's your understanding that Kentucky
8 Power and Kentucky Transco have formula rates that
9 are essentially the same from what's filed with
10 FERC?

11 **A. Yes. Kentucky Power and Kentucky Transco**
12 **have similar formula rate templates at FERC. Is**
13 **that your question?**

14 Q. So, for example, they have the same
15 authorized ROE for their FERC rates, correct?

16 **A. Yes, they do.**

17 Q. And if I can clarify something, Dr. Pearce.
18 Turning our attention to the transmission agreement,
19 am I correct that the parties to that agreement, the
20 members of that agreement, are only the load-serving
21 entities in the AEP East system?

22 **A. You are correct.**

23 Q. Okay. And just for clarification, the
24 transmission-only companies like Kentucky Transco,
25 are only transmission owners; is that correct?

1 **A. That's right. They're under FERC**
2 **jurisdiction, and which is why they're not in -- and**
3 **they are not load-serving entities, so that's why**
4 **they're not part of the transmission agreement.**

5 Q. Right. In other words, they are not
6 load-serving entities because they don't have retail
7 customers, they only have transmission customers?

8 **A. You are correct.**

9 Q. And then turning for a second. You were
10 asked a series of questions about -- I'm going to
11 call it the possibility or the scenario in which
12 Kentucky Power became its own zone within PJM. Do
13 you recall those questions?

14 **A. Yes, I do.**

15 Q. Do you have a sense of whether Kentucky Power
16 would be required to pay for essentially its
17 membership, its fair share, if it became its own
18 zone? And if you could describe a little bit what
19 that would look like if -- to extend that you know.

20 **A. Well, I mean, again -- and this is a**
21 **hypothetical because, as we said, there's a**
22 **provision in the rate schedule that specifically**
23 **says you can't do this, but just saying from a --**
24 **from a filing, you know, arguing that it's just and**
25 **reasonable to do so, I think a natural line of**

1 **questioning is going to be -- is identifying**
2 **potential assets that are known by Kentucky Power**
3 **and Kentucky Transco but for which loads in the**
4 **state of Kentucky are benefitting from and were**
5 **effectively built in part for their benefit. Again,**
6 **Company Witness Ali can probably provide some more**
7 **color around that.**

8 And so, you know, identifying at the end of
9 the day, you know, beforehand, whether Kentucky
10 Power would pay, you know, less or more is unclear
11 to me. If there was additional legacy charges
12 picked up from those -- from such facilities, you
13 know, it could be that a -- that there are
14 additional costs.

15 Q. And it's your understanding that
16 considerations related to Kentucky Power becoming
17 its own zone, to the extent that it were to be
18 something that could be accomplished, would have
19 considerations related to things other than
20 transmission, and what would those be, if you can
21 say?

22 **A. Well, you know, one thing I don't think we**
23 **even touched on is obviously the generation**
24 **agreement between the companies, the power**
25 **coordination agreement that Kentucky is a member of.**

1 You know, it's kind of our cool light now, but it
2 is through, you know, that agreement, the companies
3 can get -- basically, if a Company has a capacity
4 need, given the FRO plan, there's hedge sales,
5 there's various benefits to all the companies, and I
6 think that would require a fresh look and
7 potentially put Kentucky Power's participation in
8 jeopardy as well if it was attempting to peel off --
9 again, not just break out of the transmission
10 agreement but actually try -- attempt to form its
11 own load zone.

12 Q. And this may be a better question for
13 Mr. Ali, but let me ask you this: To the extent
14 that it would have to do with the interrelationship
15 with PJM and others, but from the position that
16 Kentucky Power is in right now with its generation
17 and its transmission assets, do you have a sense of
18 what Kentucky Power would need to pay for if it was
19 in a stand-alone zone in order to provide service to
20 its customers?

21 A. I mean, what -- it would have to pay,
22 obviously, still the -- a portion of the regional
23 transmission expansion plan. Again, other costs
24 that could be directed. It would be -- again, it
25 would be forging new ground here. So as far as --

1 **Company Witness Ali may have some firsthand**
2 **knowledge of some of the -- you know, the -- and he**
3 **may not, but as far as some of the specific assets**
4 **or something that would come into play here.**

5 Clearly we all know that, you know, Kentucky
6 Power has generation that's even outside of
7 Kentucky, outside of the state of Kentucky, and it
8 would require transmission service to import it to
9 its load.

10 Q. Okay. And just to wrap up that topic, sir,
11 let's -- actually, let -- I can come back to that.

12 You provided some testimony regarding the
13 level of control that Kentucky Power has over its
14 transmission investments, if I recall correctly. Do
15 you recall that?

16 **A. Yes.**

17 Q. And to the extent that you were testifying --
18 I just want to clarify the record. Were you at all
19 referring to the control, for example, that Kentucky
20 Power has over the timing of needs or the location
21 of needs or transmission investments that may be
22 required for serving Kentucky Power customers, or is
23 that something that would be more on the planning
24 side for Mr. Ali?

25 I'm just trying to figure out what you were

1 referring to when you were indicating that Kentucky
2 Power may or may not have any control over its
3 transmission investment.

4 **A. Yeah, I said as far as the level of control**
5 **in that scenario, I think as far as still the PJM**
6 **obligations, the NERC obligations, all of that would**
7 **be probably questions better for Company Witness Ali**
8 **to describe.**

9 Q. Okay. Let me get into specifics for a
10 second. But you were also providing some testimony
11 about tests, I understand it's called DFAX; is that
12 right?

13 **A. Yes.**

14 Q. Okay. And is DFAX a reliability measure, or
15 does it take into consideration the normal
16 reliability benefits of transmission, if you know?

17 **A. Yes. I mean, DFAX is going to be the use of**
18 **a new project between the zones. But yeah, that's**
19 **an important distinction that you're making, is yes,**
20 **from a PJM standpoint -- and, again, Company Witness**
21 **Ali can go into more detail, that when PJM does its**
22 **modeling, it basically assumes all assets are in**
23 **perfect working condition. So unlike our**
24 **supplemental work, they consider, you know, a**
25 **brand-new asset the same as an 80-year-old asset in**

1 **terms of their modeling.**

2 Q. Okay. And one last question, then, in that
3 context, Dr. Pearce. We were talking about the
4 scenario in which Kentucky Power would become its
5 own zone. Do you think that that type of decision
6 or scenario would be something that would need to be
7 considered in a long-term -- with a long-term view,
8 or rather based on circumstances in the short term?

9 **A. I think that would need to be considered in**
10 **the context of a very, very long-term view. There**
11 **could be certainly a lot of unintended consequences**
12 **with Kentucky attempting to go its own, as its own**
13 **zone, if you could even get there.**

14 MR. GARCIA-SANTANA: Your Honor, if I can
15 have a second, please.

16 CHAIRMAN SCHMITT: Sure.

17 MR. GARCIA-SANTANA: Thank you, Your Honor.
18 I don't have any further redirect.

19 VICE CHAIRMAN CHANDLER: Chairman Schmitt,
20 can I -- can I ask two questions based on that
21 redirect?

22 CHAIRMAN SCHMITT: Yes.

23 VICE CHAIRMAN CHANDLER: Thank you.

24 * * *

25

1 REEXAMINATION

2 By Vice Chairman Chandler:

3 Q. Just very quickly, when you said -- talking
4 about importing generation, Mr. Pearce, you would
5 agree that if Kentucky Power was its own it TO zone,
6 it would be part of PJM and would not need
7 transmission service in order to be provided
8 generation, regardless of where it's located in the
9 PJM zone -- or PJM, correct?

10 **A. I don't think I can completely agree with**
11 **that, because I -- as I said, the reason I say that**
12 **is because of this: Because of the scenario we're**
13 **talking about where, if you are proposing to take**
14 **an existing zone -- an existing zone, existing TO to**
15 **join PJM as a block, as others have historically, as**
16 **EKPC, as Dayton, others that have been pointed to,**
17 **and now you're trying to go down this path to**
18 **further split it, I don't know that PJM will -- I**
19 **appreciate what you're saying, but I'm not sure PJM**
20 **would necessarily look at it that way when you're**
21 **further carving up.**

22 I mean, we have to ask ourselves, why is that
23 Article 7.4 in there in the first place? And I do
24 think, where is -- if you took on any party -- let's
25 say you took a muni or a co-op that had a small

1 amount of TO, a lot of load in a local area, it was
2 getting benefits from the bigger zone it was in, but
3 it did the math and it suddenly realized, hey, I
4 could call myself my own zone, only pay my share and
5 still get the benefits of all these imports
6 surrounding me.

7 I think -- I think taking that a step further
8 and trying to drill down the -- to the zone on that,
9 I think that's part of what probably drove the
10 desire, through that formation of the Article 7.4,
11 is so we don't start having entities within PJM sort
12 of gaming it to see, well, I'm getting allocated
13 more than I could if I became my own zone.

14 So to attempt to go down that path, I'm not
15 sure you would get the same set of rules applied to
16 you as you would to your point. You know, if
17 Kentucky had always been its own entity, affiliate
18 or not, and never joined PJM and then walked in, I
19 think the rules might apply differently than the
20 situation we're having. So to me, that would be to
21 be determined.

22 Q. To be determined, but you're not aware of any
23 instance that's actually occurred, where a
24 transmission owner or an LSE in a zone has to get
25 some sort of different transmission service when

1 it's a full member of PJM and located within the PJM
2 zone?

3 **A. I'm not aware of that because, to the point**
4 **I'm making -- I'm not aware of that, correct,**
5 **because -- but I'm not aware if this scenario that**
6 **we're trying to go down has ever been attempted**
7 **before, so --**

8 Q. And that's fair. That --

9 **A. -- both of those.**

10 Q. I just want to make sure, there's no rule
11 about transmission service that you were referring
12 to, you're just expressing a concern about a
13 hypothetical?

14 **A. I'm expressing -- I'm expressing if you**
15 **attempt to forge new ground here, you know, taking**
16 **an existing zone exclusively excluded today and**
17 **attempt to break that up, what could the parties**
18 **argue over in terms of, well, you're leaning on me**
19 **but you're trying to carve out some small period,**
20 **still take the benefits but basically get out of**
21 **some, perhaps, historic costs that you were paying**
22 **for.**

23 And again, I think, as I've said, this is not
24 a specific instance that I think Kentucky is
25 necessarily always going to be here. As counsel

1 just asked me, it's definitely going to be a
2 long-term view, I think, should Kentucky -- would be
3 the best look for Kentucky Power and its customers
4 if there's going to be additional discussions on
5 attempting this.

6 Q. But to be fair, nobody's had that discussion
7 before this case?

8 **A. Not the full, what if we split up. It just**
9 **went against this because of the article. I know I**
10 **have not been in conversations about what if we**
11 **tried to overcome Article 7.4 and do something.**

12 Q. Well --

13 **A. And again, I -- and I don't see any -- I**
14 **still don't see any specific automatic benefits to**
15 **Kentucky Power as a result of doing that, but I**
16 **appreciate that it may be worthy of additional**
17 **discussion, I think as someone discussed yesterday.**

18 Q. And the other question I had, and I
19 appreciate -- because I did forget it. And I do
20 appreciate Mr. Garcia's redirect on it, because I
21 asked Mr. Satterwhite yesterday and he pushed it up
22 to you.

23 The offset -- do you remember yesterday me
24 asking Mr. Satterwhite about the difference in
25 investment in a state's transco versus a state's

1 operating company and that the benefit to the
2 operating company is that the revenue requirement
3 from the transmission investment would be an offset?

4 Do you remember that?

5 **A. Somewhat.**

6 Q. So I was going to say: For a million dollars
7 in revenue requirement, or based on -- let's just
8 make up a \$10 million investment, so short life, a
9 million-dollar revenue requirement coming back to
10 the trans -- if it's made by the transmission
11 company, it just comes right back to the
12 transmission company, goes to AEP, you know, it -- I
13 don't know how it works -- pays the dividends,
14 whatever it may be, right? If it's done at the
15 operating company level, there's a million-dollar
16 revenue requirement come back, that is an offset to
17 rates, correct?

18 **A. In the context of what amount goes in, like,
19 if it's in a test year, but that would be -- that
20 would be an offset to rates, you know, the amount.**

21 Q. And -- and --

22 **A. Between rates you could have a tracker. I
23 was going to try not to refer to them, but I will --
24 part of that I will refer to Company Witness
25 Vaughan, because it's the retail tracker.**

1 Q. Yeah. But as I said -- so let's talk about a
2 test year tracker, it doesn't matter. It is an
3 offset if the operating company makes the
4 investment, and that's a benefit that the customers
5 would get, for instance, by having lower rates, as
6 opposed to if the transco makes the investment?

7 **A. The revenue coming in, to the extent it is an**
8 **offset, that's correct. But, of course, in that**
9 **context, Kentucky Power had to cash out money. They**
10 **had to come up with the cash. And obviously, you**
11 **know, if they have to come up with -- let's say a**
12 **number. If it's a \$20 million investment, and, of**
13 **course, the revenue requirement. So they have to**
14 **come up with 20 million, capitalize that. The 20**
15 **million is going to result in a, you know, much**
16 **smaller revenue requirement. I'll just say 3**
17 **million, for example.**

18 So they have to -- so as far as how it
19 affects their credit metrics and all that, so they
20 had to cash out like they have the -- but then they
21 would have the revenues coming in.

22 If the transco, by comparison, made the same
23 investment, either way Kentucky Power gets the same
24 charge as an LSE, but then they avoided -- they
25 don't get the revenue, as you said, but then they

1 didn't have to also come up with the cash outlay
2 either.

3 Q. Okay. And then finally, as it relates to
4 control, and we can talk -- you can defer to Mr. Ali
5 if you'd like, but I think you'll understand the
6 concept and be able to help me here. If the
7 Kentucky Transco becomes the one that owns the vast
8 majority, and the maybe eventually the entirety of
9 the Kentucky transmission system owned by AEP
10 affiliate, then Kentucky Power then would have no
11 control over the needs, the timing, the solutions
12 for transmission investment in the state, correct?

13 **A. I'm going -- I'm going to -- I'm going to**
14 **really defer -- to me that's almost a legal**
15 **interpretation, as far as what level of legal**
16 **control, I mean, when it goes into CPCNs and -- and**
17 **I understand there was an order issued, you know,**
18 **quite a few years ago regarding the Commission's**
19 **view on their jurisdiction over Kentucky Transco, so**
20 **it would be consistent with that order and --**

21 Q. Yeah. Let me ask it -- let me ask it this
22 way: Does Brett Mattison control the amount
23 invested in Kentucky Transmission Company?

24 **A. Brett Mattison is a strong input into those**
25 **discussions, yes.**

1 Q. Yeah. But he does control the investments
2 made in the Kentucky Op -- Kentucky Power Operating
3 Company, correct?

4 **A. Absolutely. Absolutely.**

5 Q. Okay. So it may be a distinction in degree,
6 but it's certainly a distinction, correct?

7 He may have input into the investments made
8 to Kentucky Transmission Company, but he's in charge
9 of the investments made to Kentucky Power?

10 **A. Yeah, and I will -- I don't want to speak for**
11 **Brett. I think it's too -- I mean, when we say**
12 **"input," I mean, that could be -- obviously he's the**
13 **company president, he's going to have very strong**
14 **input into investment in the state of Kentucky --**

15 Q. Okay. And --

16 **A. -- regardless whether it's Kentucky Power or**
17 **Kentucky Transco.**

18 Q. And I just want to make sure we're clear.
19 There is no ownership interest either way between
20 Kentucky Transmission Company and Kentucky Power
21 Company?

22 **A. That is true.**

23 VICE CHAIRMAN CHANDLER: Okay. Thank you
24 Mr. Chairman.

25 CHAIRMAN SCHMITT: Mr. Santana, anything

1 else?

2 MR. GARCIA-SANTANA: Thank you, Your Honor.

3 No. Thank you.

4 CHAIRMAN SCHMITT: Okay. We will now be in
5 recess until ten minutes after 11:00 o'clock, at
6 which time Kentucky Power can call another witness.

7 (Recess from 10:50 a.m. to 11:13 a.m.)

8 CHAIRMAN SCHMITT: Okay. We're now -- we're
9 now back on the record.

10 Ms. Blend, are you taking the next witness?

11 MS. BLEND: I am, Your Honor.

12 CHAIRMAN SCHMITT: Okay. Thank you. If
13 everyone else is on and ready, then, Ms. Blend,
14 please call -- please call Kentucky Power's next
15 witness.

16 MS. BLEND: Thank you, Your Honor. The
17 Company calls Kamran Ali.

18 CHAIRMAN SCHMITT: Okay. Mr. Ali, please
19 raise your right hand. Do you solemnly swear or
20 affirm, under penalty of perjury, that the testimony
21 you are about to give will be the truth, the whole
22 truth, and nothing but the truth?

23 THE WITNESS: I do.

24 CHAIRMAN SCHMITT: Okay. Thank you. You may
25 proceed.

1 MS. BLEND: Thank you, Your Honor.

2 KAMRAN ALI, having been first duly sworn,
3 testified as follows:

4 DIRECT EXAMINATION

5 By Ms. Blend:

6 Q. Good morning, Mr. Ali.

7 **A. Good morning.**

8 Q. Would you please state your name and business
9 address for the record?

10 **A. Kamran Ali. Business address is 8500 Smith**
11 **Mill's New Albany, Ohio 43054.**

12 Q. Thank you. By whom are you employed and in
13 what position?

14 **A. I'm employed as managing director of**
15 **transmission planning for the American Electric**
16 **Power Service Corporation.**

17 Q. Did you cause to be filed rebuttal testimony
18 in this case?

19 **A. Yes.**

20 Q. Did you also cause to be filed data
21 responses?

22 **A. Yes.**

23 Q. Do you have any changes or corrections to any
24 of those documents today?

25 **A. No, I don't.**

1 Q. If I were to ask you the same questions
2 today, would your answers be the same?

3 **A. Yes.**

4 Q. Thank you.

5 MS. BLEND: Your Honor, Mr. Ali is available
6 for cross-examination.

7 CHAIRMAN SCHMITT: Okay. Thank you. Before
8 cross-examination, Mr. Ali, it is a little difficult
9 to hear, so I would ask you to perhaps get closer to
10 the microphone or speak up. We have a court
11 reporter here who sometimes has difficulty hearing,
12 and it's important that she be able to have a
13 complete understanding of your answers.

14 Ms. Vinsel, any --

15 THE WITNESS: Yes, Your Honor.

16 CHAIRMAN SCHMITT: Okay. Any
17 cross-examination?

18 MS. VINSEL: Yes, chairman.

19 CROSS-EXAMINATION

20 By Ms. Vinsel:

21 Q. Good morning, Mr. Ali. Why don't I let you
22 have a moment to say something so that we can make
23 sure that we've got the volume correct?

24 **A. Yes. Can you guys hear me better now? I**
25 **moved the mic up.**

1 MS. SACRE: It's terrible.

2 Q. No.

3 CHAIRMAN SCHMITT: You're still too low.

4 MS. SACRE: He's terrible.

5 CHAIRMAN SCHMITT: You may have to speak into
6 your pocket, hold your microphone.

7 THE WITNESS: How about this? I'm going to
8 switch mics here.

9 CHAIRMAN SCHMITT: That's better.

10 THE WITNESS: Better?

11 CHAIRMAN SCHMITT: That's much better.

12 THE WITNESS: Okay. Awesome. Thank you,
13 Your Honor.

14 Q. Excellent. Okay. I think -- I think we're
15 good to go now. Can you hear me okay?

16 **A. Yes, I can.**

17 Q. Okay. Again, good morning, Mr. Ali. I have
18 a question or two for you about the PJM Attachment
19 M3 process.

20 Before I begin, can I have you give me just a
21 wee bit of explanation. What is the attachment M3
22 itself?

23 **A. Sure. Good morning. So the attachment M3 is**
24 **the process that oversees engagement and review of**
25 **projects, mostly supplemental projects. These**

1 **supplemental projects, in essence, are really, if**
2 **you think about the PJM project, project buckets,**
3 **there are three categories of projects in PJM. One**
4 **is baseline. Those are projects that are driven by**
5 **bright-line criteria. One is upgrades. Those**
6 **projects are driven by generation interconnection or**
7 **changes in their capacity. And then the third**
8 **bucket is the supplemental projects.**

9 The M3 process outlines the process that
10 transmission owners must follow to ensure that these
11 supplemental projects are transparently reviewed
12 with the stakeholders as per the FERC-approved data.

13 Q. Thank you. As the M3 -- and as the
14 attachment M3 process relates to Kentucky Power in
15 supplemental projects, can you provide me just a
16 little more detail? And I appreciated the overview,
17 but if you could give me greater detail about that
18 process in regards to Kentucky Power and
19 supplemental projects.

20 **A. Absolutely. I'll be very happy to do that.**
21 **So, in essence, my organization, the transmission**
22 **planning organization, is responsible for**
23 **determining what are the needs across the**
24 **transmission grid, which also includes the Kentucky**
25 **Power corporate and the region. And what we do is,**

1 on a yearly basis we determine what are the grid,
2 you know, needs based on assessments. You know,
3 some of these assessments are load-flow-type
4 analysis, which is very bright line in nature. You
5 take a line out of service and you see what happens
6 to the rest of the system.

7 Q. Uh-huh.

8 A. Some of the needs are driven purely by the
9 condition, performance, and risk that the assets
10 pose to the grid. So it's my job that we go and
11 collect all those needs across the system, we vet
12 and validate those needs internally, and we vet and
13 validate those needs with our customers. And that
14 happens also on a yearly basis.

15 And then as the needs get vetted and
16 validated, meaning -- I'll give you an example of
17 that. So let's say that my radar shows that there
18 is a line that has 5 million customer minutes of
19 interruptions over a year, then what I want to do is
20 I want to make sure that that is indeed the case, so
21 make sure the data is correct, and, number two,
22 understand why we have so many minutes of
23 interruptions. And the reasons could be, you know,
24 weather. It could be, you know, poor condition of
25 the asset.

1 So once that need is validated, that's when
2 we take that need to the stakeholder forum at PJM.
3 So we then share that with all the stakeholders at
4 PJM, that here is a need on the grid that has
5 resulted in poor performance, poor condition, or it
6 poses a risk to our customers and the grid in the
7 future.

8 Once that is done, the stakeholders then have
9 the ability to comment on that. They have the
10 ability to then provide us maybe additional needs
11 that they are seeing that we have not seen on our
12 radar. And then we have to wait at least 25 days,
13 and in some cases it can take as long as a year to
14 bring back a mitigation plan.

15 So the next meeting that happens with the
16 stakeholders at PJM is the review of the mitigation
17 plan. Again, the stakeholders have the ability to
18 provide alternate or recommend alternate or, you
19 know, if they have questions concerning the project,
20 we have -- you know, we answer those questions
21 during that process.

22 After that, the stakeholders can still send
23 questions to us. We are e-mailed. And then, on a
24 quarterly basis, projects that have been reviewed at
25 PJM, they get published in the local plan. So

1 that's the final step, when PJM publishes the needs
2 and the solutions in the local plan on a quarterly
3 basis.

4 Q. Thank you very much. I very much
5 appreciate -- you answered exactly what I needed.
6 Very thorough. Thank you.

7 MS. VINSEL: Zach, can I ask you to display
8 PAF -- excuse me -- PSC Exhibit 15. Thank you.

9 Q. Just to explain what this is, this is created
10 by AEP. It is --

11 MS. VINSEL: Thank you, Zach.

12 Q. -- the M-3 needs and solutions presentation,
13 and it's titled Sub Regional RTEP Committee:
14 Western AEP Supplemental Projects.

15 MS. VINSEL: Zach, can I have you scroll
16 through three or four pages so I can show this to
17 Mr. Ali? And if you'll go to the next page. There.

18 Q. The remainder of this presentation contains
19 similar slides. This presentation has about 87
20 different transmission projects that sets forth the
21 project driver, assumptions, and identified problems
22 at each site. And again, as you can see from the
23 upper-left corner, this was created by AEP.

24 Mr. Ali, have you seen this document before?

25 **A. Yes, I have seen this document. We prepared**

1 **this document, my team does, on a monthly basis, in**
2 **collaboration with PJM.**

3 Q. And is this -- and if you need us to scroll
4 through a couple more pages, please let me know.

5 But I would ask if this is an accurate
6 representation of an ordinary sub regional RTEP
7 presentation from AEP, and in that sense it has both
8 solutions and needs?

9 **A. That is correct. So this is -- this is a**
10 **correct representation of the process that I**
11 **mentioned earlier. And you can see there are -- in**
12 **a given meeting, there are needs that we're bringing**
13 **forth, and then we are bringing forth needs and**
14 **solutions for needs that may have been discussed in**
15 **previous meetings. So it has -- it has both the**
16 **needs, new needs, and solutions to needs that have**
17 **already been discussed in previous meetings.**

18 Q. Thank you.

19 MS. VINSEL: Zach, you can take that document
20 down. Staff has no further questions, Chairman.

21 CHAIRMAN SCHMITT: For Office of Attorney
22 General, any questions?

23 MR. WEST: We have no questions for this
24 witness, Your Honor.

25 CHAIRMAN SCHMITT: Okay. Mr. Kurtz,

1 questions?

2 MR. KURTZ: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 By Mr. Kurtz:

5 Q. Okay. Great. Good morning, Mr. Ali.

6 **A. Good morning, Mr. Kurtz.**

7 Q. In your rebuttal testimony, you opposed the
8 AG KIUC recommendation that incremental transmission
9 expenses be recovered solely through base rates,
10 correct?

11 **A. Can you please refer me to that, just to**
12 **refresh my memory? I don't -- I'm not recalling**
13 **opposing --**

14 Q. Well, let me say it the opposite way. You
15 recommend a hundred percent tracker recovery of
16 incremental transmission expenses through PPA,
17 correct?

18 **A. That is correct.**

19 Q. Okay. And the AG KIUC proposal was a hundred
20 percent recovery through base rates. Were you aware
21 of that?

22 **A. Yes. I remember seeing that.**

23 Q. Okay. If the Commission accepts your
24 proposal, how big will the rate increase be for
25 calendar year 2021?

1 **A. Mr. Kurtz, that would have been a good**
2 **question for Company Witness Pearce, because I do**
3 **not do rate calculations, so I really can't answer**
4 **that, the impact of that.**

5 Q. And I guess you don't know probably what the
6 rate increase would be in 2022 either, correct?

7 **A. That is correct, sir.**

8 Q. Okay. Well, how do know if your
9 recommendation is reasonable if you don't know how
10 big the rate increase would be?

11 **A. So, Mr. Kurtz, we work as a collective team**
12 **here at AEP. So, of course, my job responsibility**
13 **is to determine what are the needs across the grid,**
14 **as I explained earlier, what risks those needs pose,**
15 **what are the best solutions that are cost effective,**
16 **reliable, and safe for our customers, and then get**
17 **those to the stakeholder process to make sure their**
18 **opinions and feedback is accounted for.**

19 And then, of course, that gets, you know,
20 visited with -- you know, with folks like Brett
21 Mattison, Company Witness Brett Mattison, so that
22 they can look at the other aspects of it, as to what
23 are the rate impacts, you know, how much investment
24 can the Company afford.

25 So really, those decisions are made

1 collectively, and I'm just playing the part of the
2 planning aspect of that.

3 Q. Okay. One basis for your recommendation was
4 your belief that Kentucky Power does not really have
5 effective control over these transmission expenses,
6 correct?

7 **A. Yes, that is -- that is correct. I mean,**
8 **Kentucky Power, or for that matter, any transmission**
9 **owner or load-serving entity across North America, I**
10 **mean, they don't have really the control over the**
11 **needs. The needs are what those are. Some of those**
12 **needs are determined by the age of your system and**
13 **the performance and condition of that system and how**
14 **it is being used. Some of those needs are**
15 **determined by regulation from the RTOs or NERC or**
16 **other regulatory bodies, and some of them are, you**
17 **know, state regulations, as well as customer**
18 **obligations.**

19 So really, there is no control that the
20 transmission owners or LSEs have on the needs. They
21 may have some control on the timing of how and when
22 to address them.

23 Q. Well, between Kentucky Power and its
24 ratepayers, who has more control over the timing and
25 the need for these transmission rate increases?

1 **A.** **I'm sorry, I don't quite get that question,**
2 **Mr. Kurtz. Could you please repeat that?**

3 **Q.** Well, the ratepayers have no -- zero control
4 over the timing and the level and the need of these
5 transmission rate increases. Certainly, I would
6 expect, Kentucky Power has some --

7 **A.** **Well --**

8 **Q.** -- (indiscernible) consumers?

9 **A.** **Mr. Kurtz, like I said, I mean, you know, the**
10 **needs are what they are on the grid. And again, if**
11 **they're not addressed, they pose significant risks**
12 **down the road to our customers and the reliability**
13 **of the grid. So, I mean, nobody has, I would say,**
14 **control over those needs. Now, of course, a company**
15 **like Kentucky Power has to make sure that the**
16 **investments are made in a way that is, number one,**
17 **taking into consideration the impact on customers as**
18 **well as taking into consideration the financial**
19 **health of the company.**

20 And I know I heard Mr. Mattison talk about
21 that. I think he would be the right witness to
22 answer that question concerning, you know, who has
23 more control, whether it's customers or Kentucky
24 Power. Like I said, where I sit, looking at the
25 needs, really, those needs are outside the control

1 of anyone.

2 Q. Well, just to close up, you're aware that the
3 Attorney General KIUC position is that Kentucky
4 Power should get, could get, would get 100 percent
5 recovery of all its transmission expenses; however,
6 it would be through a rate case, not through an
7 automatic tracker? Is that your understanding of
8 our position?

9 **A. Mr. Kurtz, you mentioned that earlier, and I**
10 **remember seeing that. Yes, I'm aware of it.**

11 MR. KURTZ: Chairman, no more questions.

12 CHAIRMAN SCHMITT: Thank you. Ms. Grundmann,
13 any questions for Walmart?

14 Ms. Grundmann, cross-examination?

15 VICE CHAIRMAN CHANDLER: Chairman, can you --
16 can you wave your hand if you can hear us?

17 CHAIRMAN SCHMITT: Yeah.

18 VICE CHAIRMAN CHANDLER: Yeah, we can't hear
19 the hearing room.

20 CHAIRMAN SCHMITT: You can't hear me? You
21 can't --

22 MS. VINSEL: No, they can't hear you.

23 CHAIRMAN SCHMITT: Well, let's see if we can
24 find some way to get it fixed.

25 Nancy, can they hear you, do you think?

1 MS. VINSEL: No, I don't think so.

2 VICE CHAIRMAN CHANDLER: Chairman, we can
3 hear you now.

4 MS. GRUNDMANN: Loud, Chairman.

5 CHAIRMAN SCHMITT: You can? Oh, okay. I'm
6 sorry. I don't know what happened. The system's
7 failures are rampant.

8 Ms. Grundmann, do you have any
9 cross-examination on behalf of Walmart?

10 MS. GRUNDMANN: I do. I just have some very
11 brief questions.

12 CROSS-EXAMINATION

13 By Ms. Grundmann:

14 Q. Mr. Ali, are you familiar with the Virginia
15 Clean Economy Act that was effective -- it went into
16 effect July 1st, 2020, of this year?

17 **A. Yes, I have -- I have read it at a high
18 level, I would say executive summary level, so that
19 that's my level of familiarity with it.**

20 Q. And just from that high level, do you
21 anticipate there being a need for transmission
22 projects associated with the requirements that are
23 imposed on APCo as a result of the VCEA?

24 **A. We have actually not done any analysis to
25 substantiate that, so I really can't answer that.**

1 **That would be -- that would be speculative on my**
2 **part, without having done any analysis concerning**
3 **that.**

4 Q. But you understand that there is an
5 obligation on the part of APCo to either acquire or
6 purchase certain renewable power, whether or not
7 there's an actual need for it, in order to meet
8 certain renewable and carbon free goals by 2050?

9 **A. Yes, Ms. Grundmann, I understand that. I**
10 **guess your question was, would there be transmission**
11 **investment. And like I said, I don't know where**
12 **that renewable is going to come from, where it would**
13 **be located, so I can't really answer if there will**
14 **or there will not be any transmission investment in**
15 **regards to that.**

16 Q. Well, and I guess just my question that sort
17 of flows from that is: I think you made a statement
18 about the grid and the transmission and that the
19 needs are what they are on the grid, right?

20 **A. That is correct.**

21 Q. And just to the extent that APCo were
22 obligated to undertake a transmission project as a
23 result of an obligation imposed with the VCEA,
24 that's not exactly the typical type of need that we
25 would associate with a transmission project, is it?

1 **A. Ms. Grundmann, it really depends, because,**
2 **you know, the tariff, the way it is written in PJM,**
3 **generation interconnection is a cost that is borne**
4 **by the generator. So if the renewables that are**
5 **being acquired are within the PJM zone, which I'm**
6 **assuming most likely they will be -- and again,**
7 **that's an assumption on my part, so I want to**
8 **clarify that -- then those generators need to be**
9 **deliverable to begin with, and those costs of the**
10 **transmission upgrades to ensure deliverability will**
11 **be already part of the generation interconnection**
12 **cost.**

13 So again, like I said, we would really need
14 to know where the exact location of that generation
15 is. If it's outside PJM, yes, there could be --
16 there could be costs, but that -- again, without
17 doing any analysis, I can't speculate on that.

18 **Q. Well, just as an example, I believe the VCEA**
19 **does require that at least some amount of this new**
20 **load be located within the Commonwealth of Virginia.**
21 **Are you familiar with that?**

22 **A. Yes, I am. And, Ms. Grundmann, my -- I guess**
23 **what I'm not familiar with or I don't have an answer**
24 **on is where is the remaining coming from? If the**
25 **remaining is also coming from the PJM region, then**

1 **the expectation that there will be a transmission**
2 **investment needed I think is wrong, because that**
3 **generation is already deliverable within PJM and it**
4 **has already gotten connection to the transmission**
5 **grid.**

6 If it's coming from outside PJM, then, of
7 course, depending on where it's coming from, you may
8 or may not need transition investment.

9 MS. GRUNDMANN: Okay. No further questions.

10 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo,
11 questions for Kentucky Solar?

12 MR. STROBO: No, Mr. Chairman, no questions
13 on behalf of KYSEIA.

14 CHAIRMAN SCHMITT: Mr. FitzGerald, questions?

15 MR. FITZGERALD: No, Mr. Chairman. Thank you
16 very much.

17 CHAIRMAN SCHMITT: Mr. Miller, Sierra Club,
18 questions?

19 MR. MILLER: Thank you, Mr. Chairman. No, no
20 questions from Sierra Club.

21 CHAIRMAN SCHMITT: Mr. Frye, any questions?

22 MR. FRYE: No, Mr. Chairman, no questions at
23 this time.

24 CHAIRMAN SCHMITT: Vice Chairman Chandler,
25 questions?

1 VICE CHAIRMAN CHANDLER: Thank you, Chairman.

2 EXAMINATION

3 By Vice Chairman Chandler:

4 Q. Mr. Ali, how are you?

5 **A. I am doing well, sir. How about yourself?**

6 Q. Good. Yesterday I referred to you as the
7 Alex Vaughan of transmission, that -- the joke has
8 been around here about a couple of hearings we've
9 had, everybody always pushes their questions off to
10 Mr. Vaughan, but now that we're talking about
11 transmission, everybody is pushing their questions
12 off to you, Mr. Ali.

13 **A. Your Honor, I must -- I must tell you that**
14 **that that was very character-limiting move for me by**
15 **naming me Alex Vaughan, so I may have to change my**
16 **name.**

17 Q. Yeah. Well, maybe Mr. Vaughan can be the
18 Kamran Ali of everything else.

19 Let me ask here: Until a comment by
20 Mr. Pearce and then your testimony a minute ago in
21 response to KIUC, the testimony in this case, at
22 least in regards to Mr. Vaughan about the need for a
23 hundred percent recovery of tariff PP -- of the LSE
24 OATT costs and tariff PPA have been that the
25 costs -- that LSE OATT expenses are outside the

1 Company's control because they are pursuant to a
2 FERC-approved rate schedule and that the -- yeah,
3 just that the annual -- this is Vaughan, line 6 at
4 32, (Reading) The annual level such as charges and
5 credits can vary greatly from year to year and are
6 largely out of the -- of the Company's control.
7 Also" -- and this is the portion that
8 Mr. Satterwhite read in the testimony yesterday.
9 (Reading) Also, as the Company expected, PJM
10 transmission owners have continued to increase their
11 investment in the transmission grid. The increasing
12 level of investment which is necessary to maintain
13 and improve the grid will increase transmission
14 charges allocated to LSE and PJM, including Kentucky
15 Power.

16 So as I understood it up to now, the
17 out-of-control was that, hey, FERC said these are
18 the costs, other people are imposing these costs,
19 they're the drivers of it, it's out of Kentucky
20 Power's control, let us recover it through the
21 tariff PPA.

22 But what you're saying is, even if these
23 weren't allocated costs and these were solely the
24 costs of Kentucky Power alone, that you still
25 consider them out of their control. Am I

1 understanding that correct?

2 **A. Yes, Your Honor. So I am focusing on the**
3 **needs aspect of it, right? I mean, so really, all**
4 **these investments are driven by needs across the**
5 **grid, and those needs are, in essence, outside the**
6 **control of anyone, and so that's what I was**
7 **referring to. I think what you are talking about is**
8 **even beyond that, the allocation piece of it. And**
9 **you're right, there is a -- there is a FERC-approved**
10 **tariff for that that I know Mr. Kelly Pearce talked**
11 **about in detail.**

12 Q. Okay. So let me ask this question: Who is
13 the final arbiter of need?

14 **A. I mean, at the end of the day, the decision**
15 **as to which need gets addressed and which need gets**
16 **deferred -- so, first of all, we have to address all**
17 **of them. There is no question about it, because if**
18 **you don't -- if you don't address them, then**
19 **eventually you address them as a failed equipment,**
20 **right, which is more costly for our customers, not**
21 **to mention all the customer interruptions it adds.**

22 So really, as far as the needs are concerned,
23 all of them need to be addressed, but who determines
24 the timing of it? That is a decision that the
25 operating companies have to make for their -- for

1 their needs on their system. And I know
2 Mr. Mattison talked about that yesterday. And, you
3 know, that depends on many factors, which I -- which
4 I think he's the better witness to talk about what
5 factors he considers when making that decision.

6 But like I said, the needs themselves have to
7 be addressed, they are outside the control. As to
8 how many can a company afford in a given year, that
9 is the -- that's the financial factor that
10 Mr. Mattison had mentioned yesterday.

11 Q. So if the need -- you would agree that the
12 transmission, whether it's at the state level or at
13 the federal level, is regulated in some degree,
14 correct?

15 **A. That is --**

16 Q. Transmission --

17 **A. -- my understanding, yes.**

18 Q. Right. Transmission rates. So FERC, for
19 instance, there's a process by which people can
20 oppose or challenge the prudence of projects, right,
21 whether it's that the project isn't needed or
22 whether it's more expensive than it needs to be,
23 whatever it may be, there's a process by which they
24 can challenge the underlying need for a project,
25 correct?

1 **A. That is correct.**

2 Q. And then at the state level, and I know
3 you've got 11 -- or you don't have 11 -- you're just
4 in the East zone, correct? You just operate in the
5 East?

6 **A. No, Your Honor, I oversee planning function
7 for the entire AEP system.**

8 Q. Okay. So great. So 11 jurisdictions, right?

9 **A. That is correct.**

10 Q. Yeah, same as Mr. Satterwhite. So you got
11 the 11 jurisdictions and then the federal review.
12 So would you agree that insofar as maybe FERC
13 doesn't have the -- you know, whether it's -- well,
14 like I say, a CPCN process in Kentucky. We'll just
15 talk about a very simple example. Kentucky
16 ultimately determines the need for a project when
17 you bring in front of them for a CPCN, correct?

18 **A. I think, Your Honor, that maybe the right way
19 for me to point that out would be the need is what
20 it is. Kentucky Commission may be the -- as far as
21 require CPCN, the Kentucky Commission is the one
22 that is validating it and agreeing with it and
23 ratifying it or disagreeing with it, right?**

24 Q. Right. That was my question earlier about
25 the final arbiter. Kentucky Power can assert that

1 there's a need, but as far as the CPCN, the
2 standard, as I understand it, is that the Company
3 must prove need and wasteful duplication. So
4 insofar as the Commission doesn't find that there is
5 a need, would you agree that their -- like, for
6 instance, in that example, in Kentucky, they are the
7 final arbiter to determine, factually, on a legal
8 basis, whether there's a need? And I'm not asking
9 you for a legal opinion, but that's your
10 understanding of the need determination, correct?

11 **A. If you're -- Your Honor, if your question is**
12 **can Kentucky Commission deny a filing for CPCN if**
13 **they don't find a need, then the answer is**
14 **absolutely they can. And similarly, the**
15 **stakeholders have the ability, and they exercise**
16 **that ability, to bring forth any prudency issues**
17 **that that when we file the pro forma 1 filing.**

18 And to my experience, you know, so far, we
19 haven't had an instance where FERC said there was --
20 a project was not prudent. We had one instance
21 where the cost was -- you know, was booked as
22 transmission and should have been booked at
23 distribution, so we made that change thanks to our
24 stakeholder engagement.

25 But again, you're right, FERC -- FERC has the

1 ability during those proceedings to say if there was
2 something prudent or not prudent.

3 Q. Okay. So FERC has that ability. We do agree
4 Kentucky has the ability when it's actually being
5 requested to be built, right, in terms of the
6 Kentucky Power Company.

7 You operate in 11 jurisdictions. Let's just
8 focus on the AEP East system. Is that -- is that --
9 well, let's call it a safeguard, because I want to
10 give myself a little more -- maybe make myself a
11 little more important than I am. But say there's
12 that safeguard as a determination of need in
13 Kentucky in the CPCN process. Can we walk through a
14 couple of the AEP East states and can you tell me
15 whether the -- whether or not you're aware of
16 whether there is that ultimate need, or you've
17 experienced that ultimate need arbitration or
18 determination at the Commission level or deciding
19 board level?

20 So like in Ohio, for instance, is there any
21 determination, is there any sort of CPCN process,
22 either on the operating company or the transmission
23 company side, where there's ever a situation to
24 where, the state level, somebody is the ultimate
25 arbiter of need?

1 A. Your Honor, that's a very loaded question, so
2 I'm going to take it apart a little bit. I hope you
3 don't mind.

4 Q. Take it however you want it.

5 A. So, you know, when it comes to Ohio, let's
6 take that as an example. Does Ohio have a siting
7 process? Absolutely, it does. Is the siting
8 process for Ohio the same as Kentucky? No. There
9 are differences, and those differences are defined
10 very clearly in the state statutes. You know,
11 similarly, Virginia, they have a siting process.
12 You know, states that don't have siting processes,
13 they have other permitting processes. They have
14 rate cases that, you know, you gotta go through, and
15 again -- and to your question, is there an ultimate
16 entity that you can go to and say, okay, I don't
17 agree with the prudence, you know, in my opinion,
18 what is common to all of these jurisdictions, that
19 one entity that anybody can go to and say I don't
20 agree with the prudence of a certain investment,
21 that is FERC.

22 Q. Yeah. I don't want to get off on words like
23 reasonable, just -- you know, just and reasonable or
24 fair or prudent. I didn't anticipate asking
25 questions about this, but your answer specifically

1 was the need is what it is, right? The need is the
2 need?

3 **A. (Witness nodded head.)**

4 Q. But you-all are regulated on the transmission
5 front on -- well, you're regulated on the trans --
6 on transmission on all fronts, right, either at the
7 state or the federal level. And what I want to make
8 sure of is that I understand, there is ultimately
9 some degree of somebody saying what the need is,
10 right, or to -- the word you used earlier was
11 "validate" the need, right?

12 **A. (Witness nodded head.)**

13 Q. You would agree that there's some -- you-all
14 aren't -- let me ask the question this way: You-all
15 aren't the sole determiner in -- the sole
16 determining entity in deciding whether there is need
17 or not? There are checks along the way, correct?

18 **A. That is correct.**

19 Q. Okay. And so do you-all -- and that's the
20 same case for all transmission owners. Let's just
21 use an example. Other transmission owners in PJM,
22 correct?

23 **A. That is correct.**

24 Q. Okay. And so do you-all ever challenge other
25 PJM transmission owners, FERC formula tariff -- FERC

1 transmission formula filings?

2 **A. Not to my -- not to my knowledge, we haven't.**
3 **And again, Your Honor, you know, for us to challenge**
4 **it, first of all, we need to know that there is an**
5 **adverse impact to our customers or our systems for**
6 **us to do that. I'm unaware of any such case where**
7 **we needed to.**

8 Q. Okay. And then -- and then, have -- are you
9 aware of any operating company within AEP
10 challenging any other AEP affiliates' FERC formula
11 filings?

12 **A. Well, Your Honor, I'm not aware of it. Like**
13 **I said, there has to be a basis for something like**
14 **that. And, I mean, I'm not sure, do you -- do you**
15 **have some example that you are -- you are thinking**
16 **about? Maybe I can answer that more completely.**

17 Q. I don't. I'm asking -- I'm asking, are there
18 examples of it?

19 **A. No.**

20 Q. Okay. So do -- these questions -- I don't
21 want to go out of order, Mr. Ali.

22 VICE CHAIRMAN CHANDLER: Can I ask if Staff
23 could bring up that PSC Exhibit Number 15, which is
24 the supplemental planning document?

25 Q. And so, Mr. Ali, we're both aware of this

1 document. These are the near monthly filings made
2 at the sub regional -- sub regional RTEP western
3 meetings, correct?

4 **A. That is correct, Your Honor.**

5 Q. There are a couple of -- or a few, I forget.
6 There's two or three sub regional RTEP committees,
7 right? There's a western, maybe a southern, and an
8 eastern, mid-Atlantic?

9 **A. You're right. It's the mid-Atlantic one.**
10 **Yes, it is.**

11 Q. Okay. And so the sub regional RTEP
12 western -- and I'm just now realizing the R and the
13 regional are the same thing. But the sub regional
14 RTEP western committee is, help me out here, Dayton
15 Power & Light, right, East Kentucky Power, AEP? Is
16 there anybody else in the western?

17 **A. So, Your Honor, so we have in the western**
18 **also part of the FirstEnergy system --**

19 Q. Okay.

20 **A. -- and APF, and, of course, ComEd of the --**
21 **you know, the footprint in Chicago, that's part**
22 **of it.**

23 Q. Of Exelon, right? It's a subsidiary of
24 Exelon?

25 **A. That's right.**

1 Q. Okay. So you-all bring these. And let's
2 take a step back. One thing that Ms. Vinsel didn't
3 ask about and that you maybe covered. There are
4 needs and solutions as part of the process, right?
5 There are times frames between when you can bring
6 those needs and solutions, and then every year
7 there's an update as to the basis, effectively, the
8 information and quantifications that you use as a
9 basis to determine those needs, right?

10 **A. That is correct.**

11 Q. Okay. And so just very quickly, can you
12 explain that annual filing?

13 **A. Yeah. So on an annual basis -- and as a**
14 **matter of fact, we'll be doing that, Your Honor, in**
15 **December, sub regional RTEP. What we bring forth to**
16 **our stakeholders are the assumptions, the criteria,**
17 **the guidelines that AEP and other transmission**
18 **owners utilize in determining the needs across the**
19 **system.**

20 Q. It's the assumptions, criteria, guidelines,
21 and then the word escapes me right now. The models
22 that you use to also drive those needs, right, or to
23 determine those needs?

24 **A. Yes, sir. For the load flow and**
25 **short-circuit analysis, those models are utilized.**

1 **Of course, those models don't -- they are not able**
2 **to -- they are not adequate enough to capture**
3 **anything beyond that. But really, those are --**
4 **those are the models that we have to create, and we**
5 **utilize the same model.**

6 Q. Okay. And so let's talk about just a couple
7 of these.

8 VICE CHAIRMAN CHANDLER: Could Staff turn to
9 pagination page 6. It may be PDF page 7, we'll find
10 out. Yeah, so it is just page 6.

11 Q. And so this is just an example that AEP would
12 bring, and this is a project in -- well, it's not a
13 project. It's a need, correct, in Greenup County?

14 **A. That is correct.**

15 Q. And the need number is identified in the
16 left-hand side, and then the process stage. Do you
17 see that?

18 **A. Yes, I do.**

19 Q. And that's just -- so this is the February 21
20 meeting. So that's just saying that this is the
21 first time this has come before you. So this is the
22 needs meeting being presented on February 21st; is
23 that right?

24 **A. Yes.**

25 Q. And then in your annual filing, what do you

1 call that, your assumptions document?

2 **A. Yes.**

3 Q. Okay. So in your assumptions document you
4 lay out the different types of drivers, right? And
5 so this one is customer service. Do you see that?

6 **A. Yes, sir; I do.**

7 Q. Okay. And so you-all had the assumptions,
8 criteria guidelines for customer service connections
9 in that assumptions document each year, and that's
10 what leads you to mark this as a customer service
11 document -- a customer service need?

12 **A. So the document, the assumptions document,
13 Your Honor, that you are referring to, it talks --
14 it focuses on internal -- internally driven needs,
15 or I should say internally recognized needs that AEP
16 has the ability to recognize. Customer service is
17 not an internal recognized need, because any
18 customer can come and say, okay -- a steel mill can
19 comment and say, I want connection, I want service.**

20 So those are not explicitly discussed in the
21 assumptions document, but we have another document
22 that we share with our stakeholders on annual basis
23 that's called a Customer Interconnection Requirement
24 for the AEP System. And the customer projects are
25 discussed in that document in detail, and as to what

1 requirements that AEP has for connecting customers
2 to the grid.

3 Q. Okay. And so, just so we're all clear here,
4 we get -- what was that document called again?

5 **A. It's a -- and subject to check, Your Honor.**
6 **I may not have the exact, you know, name spelled**
7 **out, but it's call Customer Interconnection**
8 **Requirements for the AEP System.**

9 Q. Okay. So we've got that. We've got that and
10 we've got the assumptions filing each year. We've
11 got the attachment M-3 process, which is an
12 attachment to the Open Access Transmission Tariff.
13 All of those sort of drive this document as well as
14 the -- to a degree, the PJM business practice
15 manual, Manual 14B, right?

16 **A. That is correct, Your Honor. And just for**
17 **completeness' sake, we have the FERC 715 filing that**
18 **is part of that, right, which is the planning**
19 **criteria for the AEP system. And, yeah, I think**
20 **that -- and the models, like you mentioned earlier.**
21 **Just for completeness' sake, the models are**
22 **identified in that -- in that assumptions document**
23 **as well.**

24 Q. And that 715 is the same 715 that me and
25 Mr. Pearce were discussing earlier as it related to

1 the Dominion issue that was remanded from the DC
2 Court of Appeals, correct?

3 **A. It's not --**

4 Q. It's not the same document, but, I'm sorry,
5 it's the same PJM order that the documents have come
6 out of, right, for the --

7 **A. It's the --**

8 Q. -- FERC order?

9 **A. That's right. It's the same document for**
10 **AEP. Of course, each transmission owner has their**
11 **own FERC 715 document.**

12 Q. Okay. And those set forth criteria, certain
13 planning criteria that drive needs as well, right?

14 **A. Yes, Your Honor. Those are more bright line**
15 **in nature, because, you know, NERC transmission line**
16 **standards are applicable to the bulk electric**
17 **system, BES, which is 100 kV and above. So there**
18 **is, of course, a gap there for the load system. So**
19 **the transmission owners are expected, and we all**
20 **file the standards and criteria for the -- even the**
21 **sub transmission systems in the FERC 715 document.**

22 Q. Yeah. And some transmission owners even
23 allow PJM to identify those needs pursuant to their
24 715, in lieu of the transition owner themselves,
25 right?

1 **A. Your Honor, all 715 needs PJM identified and**
2 **verified for all transmission owners.**

3 Q. Okay. So we'll go down this. The other one
4 is the specific assumption references, that's a
5 reference to the assumption document, the annual
6 assumption document; is that correct?

7 **A. Yes, Your Honor.**

8 Q. Okay. And then the problem statement. And
9 can you explain to me just, and I know it's
10 intuitive, but what the problem statement is
11 intended to do?

12 **A. Your Honor, it is explaining the detail, so**
13 **the detail of the need, as to what is -- what is the**
14 **need. In this particular case, you know, it's a**
15 **very simple need. We have a request from the**
16 **distribution company to establish a new service**
17 **point. And as you can see if you go through the**
18 **document, some of the needs are more elaborate in**
19 **nature, because they are more complicated.**

20 Q. Okay. And this is a February 21st document.
21 Can you -- last thing, can you explain to me here
22 this model reference?

23 **A. So that is the RTEP model year that we are**
24 **using to analyze the impact on the load flow and**
25 **short circuit aspects of the grid. So the -- so PJM**

1 puts models together roughly five years ahead. So
2 in 2020, we are using a 2024 RTEP cycle. So what it
3 is referring to is that the analysis that was done
4 or will be done to assess this need and the impact
5 of this on the grid will be using a 2024 regional
6 transmission expansion planning model.

7 Q. Okay. And those are updated annually by PJM,
8 correct?

9 A. Yes, that is true. And, Your Honor, I must
10 say that, you know, it's a collaborative process,
11 because, of course, PJM does not have the load
12 information at each of our distribution substations
13 or the appearances of the line or the configurations
14 of the substations, so we are working
15 collaboratively with PJM to update those models on a
16 yearly basis.

17 Q. And you provide them a significant number of
18 input for your load area, right?

19 A. Yes, sir; that is correct.

20 Q. All right.

21 VICE CHAIRMAN CHANDLER: And so if Staff can
22 turn to page 7 of this document.

23 Q. This is another Kentucky need. Do you see
24 this?

25 A. Yes, I do.

1 Q. Okay. And so we'll go down. It says the --
2 there's the need number, the process stage, it's the
3 first time this has been brought, right, the
4 February 21st needs meeting. Do you see that?

5 **A. Yes, I do.**

6 Q. And the driver, which as I understand from
7 your testimony will have been in the assumptions
8 document, the driver -- a number of drivers
9 mentioned, equipment condition, performance, risk,
10 operational flexibility. Do you see that?

11 **A. Yes, I do.**

12 Q. Okay. And then the need here is the Elwood
13 46 kV station. Now, 46 kV is, in the world of
14 transmission, pretty low voltage, correct?

15 **A. Your Honor, it's still pretty dangerous, but**
16 **yeah, I would say that compared to 765, you can say**
17 **it's low voltage.**

18 Q. Yeah, I'm not saying it's safe to grab on to,
19 but comparatively, it's -- you know, it's even
20 significantly lower than -- you know, it's lower
21 than 69 K -- let me ask this: Is there a
22 transmission voltage, and I think there -- I don't
23 know the answer to this, that's why I was curious.
24 Is there a transmission voltage that AEP operates
25 that's lower than 46 kV?

1 **A. Yes, Your Honor. We do have some 23 kV**
2 **equipment, and we have 34 kV equipment, as well as**
3 **40 kV. I think maybe the question is, is there a**
4 **voltage that AEP doesn't operate? And I think there**
5 **is -- there is not. Across our 11 states, we have**
6 **transmission voltages spanning from 23 kV all the**
7 **way to 755 kV.**

8 Q. Okay. But in terms of the span, this is
9 towards the low end of the voltage, though, right?

10 **A. Yes. Yes, that is correct.**

11 Q. And so -- because I will not get it right, do
12 you mind to walk us through the needs or the -- let
13 me say this: The drivers or the conditions or the
14 performance or risk identifications listed there in
15 the bullet, the bullet points, could you walk us
16 through those and explain those to us as it -- as it
17 drives this need?

18 **A. Your Honor, I'll be very happy to do that.**
19 **Would you like me to do that verbatim or would you**
20 **like for me to summarize -- for me to summarize it**
21 **like I would at our sub regional RTEP?**

22 Q. I would actually love if you could read each
23 bullet point and then tell us what the heck it
24 means.

25 **A. Sure. Absolutely. So starting with Elwood**

1 46 kV station, 46 kV circuit breakers A, B, and C.
2 So really, we have identified -- identified through
3 our needs vetting and validation process that these
4 three breakers need to be addressed. And the
5 reasons for them, number one, 1960s vintage
6 FZO-69-1500P type oil circuit breakers. So what
7 we're mentioning here is the vintage. It's, as you
8 can see, a 60-year-old circuit breaker. Circuit
9 breakers typically have a lifespan of 40 to
10 50 years.

11 It's an oil type circuit breaker. Oil type
12 circuit breakers, of course, pose another risk for
13 us, especially if they are before 1973, when they --
14 back in the day, in the 1960s, there were not a lot
15 of environmental regulations, and all the
16 transmission owners had these circuit breakers used
17 that were the in technology, if you will, at that
18 time. But at that time we didn't have any oil
19 containment built around these breakers.

20 So the reason for mentioning this, and I know
21 our stakeholders understand that, whenever you see
22 oil breaker, that right there is a flag for them,
23 because in some cases, as these breakers get old and
24 if they fail, the cost to mitigate oil
25 contamination, the environmental costs, can even, in

1 some cases, exceed the cost of that entire
2 substation, because these breakers typically -- and
3 again, I'm -- you know, not specifically for this
4 type of breaker, but they can carry at least a
5 thousand gallons of oil each.

6 The next one is fault operation CB --

7 Q. We're going to move on --

8 **A. Sorry, Your Honor?**

9 Q. We're going to move to the next one real
10 quick.

11 On that item -- and it -- you-all have
12 internally, at AEP, prioritized the replacement for
13 the -- at least addressing the concerns surrounding
14 these oil circuit breakers, correct?

15 **A. Your Honor, I'm sorry, there was some --**
16 **there was some background noise there. I couldn't**
17 **completely get your -- get your question.**

18 Q. Has Kentucky Power, AEP, prioritized the
19 replacement or addressing these oil circuit
20 breakers?

21 **A. Your Honor, yes, we are. We are addressing**
22 **these through our system. And yes, we have -- we**
23 **have prioritized the replacement of these breakers.**
24 **Now, one thing I will mention to you, Your Honor,**
25 **around priority, is that we have a -- what I call a**

1 **radar for every single asset on our grid. So every**
2 **single substation, every single transmission line,**
3 **we have a dashboard that tells us what is the health**
4 **of that. Now, that's just a radar, because it's**
5 **telling me, as the transmission planner for the**
6 **grid, that here are the assets you need to go and**
7 **pay more attention to.**

8 What then happens is -- so it is a priority.
9 That's the priority that you're reporting to. So
10 all of these are in that list. As we go through
11 that, we have the obligation to vet and validate
12 every single one of them, because, you know, in some
13 cases, you know, failure has happened. For example,
14 a line went out, and that's what my radar tells me,
15 that this line has gone out ten times in the last
16 year. Now I need to vet and validate it because
17 there is a possibility that the last time it went
18 out, our tree service individuals did something to
19 repair it to a point where it should not be a
20 concern in the future. So then the needs gets
21 vetted and validated.

22 And the timing of how that happens, Your
23 Honor, is very different, because some assets we can
24 validate in a month; some assets may take us a year
25 to validate, because we may need to do more

1 analysis, like side boring and, you know, ground
2 grid analysis, things like that. So as soon as a
3 need gets vetted and validated, as soon as that
4 happens, in the next meeting, stakeholder meeting,
5 we bring it forth to the stakeholders.

6 Q. Yeah. And what I wanted to make clear was
7 that that prioritization or that indication of
8 concern around the oil circuit breakers is indicated
9 in your assumptions documentation, right?

10 A. Your Honor, like I said, yes, it is
11 indicated, and it is in the radar, but the one point
12 I'm trying to clarify here is that, but that's not
13 the order of mitigation, because it still needs to
14 be vetted and validated. It may fall off in that
15 process or it may become a high priority in that
16 process.

17 Q. Right. Okay. Can you go to the next one
18 now? Thank you.

19 A. Sure. Thank you, Your Honor. So the next
20 one is fault ops CB A. Circuit breaker A has 33
21 fault operations. Circuit breaker B has had 83
22 fault operations. Circuit breaker C had 105 fault
23 operations. Your Honor, the manufacturers for these
24 breakers recommend that a breaker be completely
25 overhauled. It's like, you know, your car engine

1 **getting rebuilt or reviewed. After 10 fault**
2 **operations, because those fault operations has a lot**
3 **of energy, so you can think about, you know, the**
4 **context of the breakers are closed and power is**
5 **going through that, and then when there is a fault,**
6 **the fault energy, depending on the short circuit and**
7 **depending on where that breaker is on the system,**
8 **could be thousands of amperes, and that takes a lot**
9 **of energy to open that, clear that, and that will**
10 **wear down the contact very quickly.**

11 So the manufacturers recommend after ten
12 fault operations, you gotta go overhaul it. And we
13 have been doing that. We have been overhauling
14 these breakers. But now they are at a point where
15 you can't even find replacement parts for them to
16 overhaul them.

17 So that's what we are showing here, that
18 these have gone through significant fault operations
19 through their lifespan, and way beyond the
20 manufacturer's recommendation.

21 Q. Can I ask on that, the overhaul, is that a --
22 and I know this isn't your -- what you do,
23 necessarily, but I'm just curious, is that a capital
24 expense or an O&M expense when you do those
25 overhauls?

1 **A. Your Honor, it really depends. Mostly it is**
2 **O&M, because most of the time it may require very**
3 **small parts replacement, but if it becomes a bigger**
4 **item, like maybe a whole portion needs to go away**
5 **or, you know, you need to replace a major component,**
6 **then it can be capital as well.**

7 **Q. Okay.**

8 **A. Your Honor, the next ones are the -- so there**
9 **are some other issues that are identified. Damage**
10 **to the bushings. Like I mentioned earlier, the**
11 **spare part availability is typically mostly our**
12 **concern with these types of breakers. You know,**
13 **it's like having a 1960 vintage car and nobody, you**
14 **know, has parts. If they have it, they are going to**
15 **sell you that at a very high cost, more than**
16 **probably a new breaker would cost.**

17 And then, you know, lack of vendor support.
18 I mean, a lot of these breakers, you know, the
19 vendors don't even have people, resources that know
20 how these operate anymore, because they have all
21 transitioned to new technologies.

22 There are only eight of these remaining on
23 our system, so again, you can -- you know, in the
24 past, Your Honor, what we did -- and again, that's
25 the benefit of being part of that big, integrated

1 system, right, because you can -- you can imagine
2 that we are using the same equipment pretty much all
3 over our footprint. And as equipment becomes
4 obsolete, we have spare parts available because we
5 are retiring stuff, but we are cannibalizing
6 equipment as we retire it, and we keep that in
7 our -- in our stores so that we can get longer
8 lifespan from -- for the rest of the equipment.

9 So we -- as a whole, we have a lot more. And
10 as a result of it, you can see our lines, you know,
11 they are lasting 70, 80 years. This breaker has a
12 lifespan recommended 40, but it's sitting there for
13 60 because we are able to do that.

14 Now, the other thing is, when you only have
15 eight of them left, then, of course, there is not a
16 lot of spare parts even from failed breakers that we
17 can utilize. So that's an important distinction, I
18 think, we are making here.

19 And the last one, Your Honor, is 86 percent
20 of the relays at the station are electromechanical.
21 Electromechanical relays, Your Honor, are -- nobody
22 makes them anymore. Everything is now digital. And
23 they are really, the -- they really base -- you can
24 think about it, it's like an old watch, so they ar
25 very -- all the -- all the functions that they are

1 performing are based on mechanics and tolerances.
2 So really, the weight increases this much and then
3 the relay will operate, but the tolerances are very,
4 very, very small.

5 So these electromechanical relays, number
6 one, they don't -- they don't talk to the new relays
7 anymore. And, number two, they don't -- they have a
8 lot of misapprove -- misoperations because over the
9 years, the tolerances have become very thin. So
10 there are 86 percent of the relays, protective
11 relays, which are protecting the grid, telling the
12 breakers when to open, when to close, those are
13 electromechanical.

14 And I think that pretty much, Your Honor,
15 summarizes the need here.

16 Q. Okay. I appreciate that, Mr. Ali.

17 VICE CHAIRMAN CHANDLER: Mr. Chairman, I have
18 still a number of questions for Mr. Ali, but I
19 noticed at that last response, we're at 12:04.
20 Would you like me to push through or do we -- can we
21 come back to Mr. Ali after lunch?

22 CHAIRMAN SCHMITT: Okay. I guess it's, what,
23 after noon? Why don't we take a break and come back
24 at 1:00 o'clock and finish up? Can we do that?

25 All right. We'll be in -- we'll be in recess

1 until 1:00 p.m.

2 (Recess began at 12:06 p.m.)

3 CHAIRMAN SCHMITT: We're back on the record.

4 Over the lunch hour, we've been undergoing some
5 technological repairs, and hopefully they --
6 hopefully they'll work. So Mr. -- or Kentucky
7 Power, Ms. Blend, are you ready for Vice Chairman
8 Chandler to begin his continued cross-examination of
9 Mr. Ali?

10 MS. BLEND: We are, your Honor. I have just
11 one clarification that I wanted to offer before we
12 resume, if that is okay.

13 CHAIRMAN SCHMITT: Okay. Can you speak up?
14 You're difficult to hear.

15 MS. BLEND: Can you hear me better now?

16 CHAIRMAN SCHMITT: Yes.

17 MS. BLEND: Thank you, your Honor. We are
18 ready to resume. I wanted to address one minor
19 issue before we continue, if that is okay.

20 CHAIRMAN SCHMITT: That's okay.

21 MS. BLEND: Thank you. Small clarification.
22 I believe earlier the vice chairman asked Mr. Ali
23 about rate impacts associated with the company's PJM
24 LSE OATT expense or the year one and year two rate
25 increase. Mr. Ali testified I believe that Dr.

1 Pearce may have been able to answer those questions.

2 I just wanted to point out that Mr. Vaughan,
3 in his rebuttal testimony, addresses the first year,
4 the 2021 rate increase. So I just wanted to mention
5 that in case it's helpful for later witnesses.

6 Thank you.

7 CHAIRMAN SCHMITT: Okay. Vice Chairman
8 Chandler, are you ready to continue your
9 cross-examination?

10 VICE CHAIRMAN CHANDLER: Yeah. Thank you,
11 Chairman. Can you hear me okay?

12 THE WITNESS: Yes, sir, we can.

13 VICE CHAIRMAN CHANDLER: That's never been my
14 problem, so I don't think it's going to start today.

15 Q. (By Vice Chairman Chandler) So we -- Mr. Ali,
16 do you remember we were talking about the -- if Mr.
17 Ripy can bring it up on the screen, I believe it's
18 Staff's PSC Exhibit 15. And we'll wait for -- for
19 Mr. Ripy to bring that document up.

20 And do you remember this -- this is the page
21 that we were discussing?

22 **A. Yes, your Honor.**

23 Q. Okay. And so, big picture, this is -- we
24 walked through the assumptions document that is --
25 the assumptions document as following the attached

1 M-3 which is an attachment to the open
2 access -- PJM's Open Access Transmission Tariff.

3 And these -- these needs proposals, these
4 subregional RTEP presentations are in accordance
5 with all of those -- or proposed -- presented in
6 accordance with all of those in addition to, to some
7 degree, the manual -- I want to make sure I get this
8 right -- the PJM Business Practice Manual, Manual
9 14B, correct?

10 **A. Yes, your Honor. That is correct.**

11 Q. Okay. So we talked about all those
12 documents. This is -- this is sort of the
13 culmination of all those different processes, all
14 those different roles. There is a -- this
15 documentation is a needs and a solutions
16 presentation by AEP, correct?

17 **A. Yes, your Honor. That is correct. The**
18 **only -- only other clarification, the 14B process,**
19 **it also, you know, covers baseline projects, and so**
20 **we go -- and so the baseline projects are under the**
21 **matter of 14B.**

22 Q. Yeah. And so I guess I was just trying to
23 say: There are portions of 14B that govern these
24 presentations --

25 **A. Yes.**

1 Q. -- govern -- or maybe governing is wrong
2 because they're not technically governing documents,
3 but that provide guidance on how these processes
4 should actually occur in reality, right?

5 **A. Yes, sir. You are correct.**

6 Q. Okay. And then -- and just for -- I'm not
7 going to ask you to remind me, but I'll try to go
8 back to 14C in a minute. So we've got 14B.

9 So this is a need, and if we can -- I don't
10 --let me just say, Mr. Ali -- well, I'm going to go
11 to solution here in a second. It is 60 pages away.
12 Can we -- can we go straight to it? And if you see
13 it, you'll know that's it's a solutions
14 presentation; is that fair?

15 If you see it, you'll know whether it's a needs
16 or a solution presentation?

17 **A. Yes, sir. That is fair.**

18 Q. Okay. Can we go to the pagination -- the PDF
19 pagination 67?

20 And while he's going, Mr. Ali, the reason I
21 ask, is: This document is a presentation that you
22 would agree is broken up between a needs -- which we
23 saw that maybe on page 2 or 3 where it says "needs,"
24 and then later there's a break in the pages that
25 says "solutions."

1 Everything after "needs" is a need; everything
2 after "solution" is a solution, right?

3 **A. Yes, sir. As I explained earlier, you know,**
4 **we present the need for service portion of the grid**
5 **during these meetings, and then also we take the**
6 **opportunity to present solutions during this meeting**
7 **for needs that had been previously discussed with**
8 **the stakeholders.**

9 So -- so that's why the presentation is
10 divided into two different sections, if you will.

11 Q. Okay. So this is -- it's page 67. Do you
12 see the document on page 67? It's on the screen.

13 Is it the same one that's in front of you?

14 **A. Yes, your Honor. It is -- it is for Floyd**
15 **County, Kentucky. So it's a -- it's a different**
16 **need for a -- and a different solution. But yes, I**
17 **see it.**

18 Q. It's the same area, right, a county -- a
19 county or two over from Pike?

20 It's the AEP Kentucky Power service territory
21 still, but this is a different need number than that
22 need we looked at on page 7, correct?

23 **A. Yes, sir.**

24 Q. Okay. So process stage solutions meeting is
25 this meeting that we're talking about, the February

1 21st meeting. Do you see that?

2 **A. Yes, sir.**

3 Q. And this was brought -- the solution was
4 brought about eight months after the needs meeting.
5 Do you see that?

6 **A. That is correct.**

7 Q. Okay. And so the -- we'll skip over the
8 supplemental project driver, the assumptions
9 reference. We were just talking about those. We'll
10 go down to the problem statement. We were just
11 talking about that.

12 That lays out the actual conditions or
13 the -- the specifics on -- on how the criteria in
14 the assumptions -- criteria document were
15 implicated, right?

16 **A. Yes. Criteria or guidelines.**

17 Q. Or guidelines. All right. Yes, sir.
18 Assumptions criteria guidelines.

19 Okay. So we'll skip on to go to --

20 VICE CHAIRMAN CHANDLER: Mr. Ripy, do you
21 mind going to the next page, page 68?

22 BY VICE CHAIRMAN CHANDLER:

23 Q. So all that -- all that -- all that
24 information is on the needs side, and on page 68
25 there's just additional needs statements, right?

1 **A.** **Yes, your Honor. This is -- this is pretty**
2 **much the needs in that particular area that are**
3 **recorded and validated. And of course these needs**
4 **were originally shared with the stakeholders, like**
5 **you said, in June of 2019. And then it took us**
6 **roughly eight months to come up with a feasible**
7 **solution, and now we are refreshing the**
8 **stakeholders' memory on the needs that we had**
9 **originally presented, and we're also now sharing**
10 **with them the solution, which is starting on 69.**

11 Q. And so we move to 69. And so you restate the
12 needs so that everybody is -- you know, people have
13 context for what you're about to give them.

14 VICE CHAIRMAN CHANDLER: And if we can move
15 on to page 69, Ms. Ripy.

16 BY VICE CHAIRMAN CHANDLER:

17 Q. This is, you would agree, the presentation of
18 AEP's or Kentucky Power -- the proposed exclusion to
19 that identified need, correct?

20 **A.** **Yes.**

21 Q. Okay. And -- and I'm not going to ask you
22 to -- to do anything verbatim or anything, but just
23 so that we understand the document, to the left,
24 these are all different solutions for a multitude of
25 the needs identified, correct?

1 **A. Yes, sir. So these are -- I would -- I would**
2 **say that these are categorized based on assets. So**
3 **a transmission line is an asset, and a transmission**
4 **substation is an asset.**

5 **So -- so what we are looking at is overall,**
6 **what does it take to solve of these needs**
7 **individually and holistically to see what is more**
8 **cost effective and robust. Once we have made that**
9 **determination, then we lay out the -- our by-asset**
10 **scope and cost of that solution.**

11 Q. Okay. And so that's what these -- these are
12 a description of the solution by sort of asset type
13 or -- or defined sort of project, right, as a piece
14 of the bigger solution and a cost of that -- those
15 individual parts, right?

16 **A. That is correct, sir.**

17 Q. Okay. And so they vary here, just going
18 through, \$35.3 million, \$11.5, \$1.3. This screen is
19 really small, but 1. something, half a million
20 dollars. Do you see all those down the page?

21 **A. Yes, your Honor. I do.**

22 Q. Okay. And then if we'll -- just for full
23 context, we'll go to page 70 just for a minute.

24 This finishes those identified assets or
25 portions, right? And then it gives the total

1 estimated transmission cost.

2 That's the capital cost, right?

3 **A. Yes, that is.**

4 Q. Okay. And then what's the next thing there,
5 the ancillary benefits of -- you removed an obsolete
6 25 miles of a 40- -- is that 46, 48 kV network?

7 **A. Yeah, 46 kV. That is correct.**

8 Q. Can you explain that just for a minute?

9 **A. Yes, sir. So I know you mentioned earlier**
10 **that 46 kV is the lower end of the voltage spectrum.**
11 **And you're exactly right, that is the lower end of**
12 **the voltage spectrum. And these voltages, 43 kV, 34**
13 **kV, 40 kV, 46 kV, and 88 kV, they were -- they're**
14 **pretty predominant across the Appalachian region,**
15 **including Kentucky, but these are obsolete in the**
16 **sense that if we were to go out there today and**
17 **buy -- try to buy transmission equipment, at 46 kV,**
18 **nobody sells that. All the equipment is at 69 kV or**
19 **higher.**

20 So, of course, our goal is that as we are
21 replacing this infrastructure, there are areas where
22 we can't get rid of 46, to be very frank with you,
23 because the load is served off that network, and
24 it's not just a matter of AEP taking that investment
25 in the grid. It's also the customers -- you know,

1 the industrial customers, for example, they'll have
2 to make investments on their side to get to a higher
3 voltage.

4 So what we do is in these cases where we are
5 able to get rid of that voltage, we would get rid of
6 it by retiring it and moving the load to a different
7 voltage like a 69 or 138 kV, such as in this case.

8 Where we cannot get rid of it, your Honor, we
9 would at least design the new assets that we're
10 building to a higher voltage, but we'll still
11 operate it at a lower voltage until such time that
12 everybody else in the -- in the region is ready to
13 make investments on their side to get to the next
14 level of voltage.

15 So, you know, just to kind of give you an
16 example, if you go to the SPB region of AEP
17 footprint or the unmarked region in Texas of AEP
18 footprint, we don't have anything less than 69 kV.
19 Those voltages have already -- the lower voltages
20 have already been phased out over the years, and we
21 are now trying to do that here in the eastern
22 regions as well, where we can.

23 Q. Okay. So we -- so we get the proposed total
24 cost. We know what the need that identified -- that
25 AEP identified that this solves, and then in

1 addition to solving that need that is proposed, AEP
2 has indicated there are ancillary benefits of
3 getting rid of what it believes to be an obsolete 46
4 kV network, right?

5 **A. Yes, sir. That is correct.**

6 Q. Okay. And then these are -- to the right of
7 that, these are existing assets and proposed assets.
8 I'm sure there's a correct engineering term for --
9 for -- but they look to me like individual -- I
10 guess a map of the circuits.

11 can you explain what those are?

12 **A. Yes, your Honor. So each -- each dot**
13 **represents a substation. So each dot represents a**
14 **load, if you can think of stepping down to**
15 **residential or industrial customers or coal mines,**
16 **for example. So each dot is reflecting a delivery**
17 **point to -- to an end user, if you will, and the**
18 **line segments are representing the transmission**
19 **circuits that are connecting them.**

20 So as you can see, if you look at the -- the
21 box that represents the existing infrastructure, all
22 the yellow lines and yellow dots are 46 kV. And of
23 course, that's where all the needs are that we
24 mentioned on the slides beforehand.

25 And then you see the red dots and red lines

1 are the existing 138 system in the area, and -- and
2 there are, of course, some needs identified on that
3 as well. Especially as you can see there's some
4 major customers, and our goal is that, How do we
5 holistically solve that?

6 Now, we can look at it individually, your
7 Honor, and that will be us going by every single
8 substation, every single line, or we can look at it
9 more holistically.

10 And that is what we have done here, is where
11 we can -- some of these stations because they're
12 close proximity -- in close proximity to the 138
13 system, we're just able to move that load onto 138
14 with some 138 infrastructure, and then get rid of a
15 significant portion of the 46 kV network, which as
16 you can see on the proposed section, a lot of the
17 yellow dots are now not there anymore because now
18 they're moved to the 138 kV network.

19 And we still have three stations at 46 kV left,
20 but, you know, a significant portion of them are
21 already being recommended to move to 138 kV.

22 Q. Yeah. So just one of the changes to that
23 point, the existing, the proposed is that the -- I
24 can't say it -- but we'll say it's the Allen to
25 Beaver Creek; is that right?

1 **A. Sorry, your Honor -- your Honor, I'm not**
2 **following you. Are you talking about the --**

3 Q. What is the substation to the far right of
4 the existing --

5 **A. Oh, yeah. Yes, your Honor. You're right.**
6 **So the Allen -- Allen to Beaver Creek -- you know,**
7 **we -- Allen, McKinney, and Beaver Creek are still**
8 **left on the 46 kV network.**

9 Q. Yeah.

10 **A. And the remaining stations, Garrett, as well**
11 **as Saltlick and Spring Fork -- all of them are**
12 **either moved or consolidated on the 138 system.**

13 Q. And that's what I want to make sure that I
14 understand that -- is that McCreary or McKinney?
15 McKinney.

16 **A. Yes, sir.**

17 Q. The McKinney to Spring Fork Tap is the
18 portion that you're talking about being retired; is
19 that correct?

20 **A. Yes, sir. That is correct. 25 miles of --**

21 Q. Beaver Creek. Yeah. Okay. All right.

22 So you proposed all of these. You bring this
23 forth -- you bring forth the need. You bring forth
24 the solutions, and -- and this may -- please tell me
25 if this is a distinction without a difference or a

1 difference without a distinction: Is this Kentucky
2 Power -- is this -- are these Kentucky Power's needs
3 or are these AEP's needs?

4 **A. Sir, these are the -- the needs on the AEP**
5 **transmission grid, and they happen to be in the**
6 **Kentucky region.**

7 So these -- if your question is who owns the
8 needs and who owns the solutions? I mean, I, as the
9 AEP service corporation employee, am the one who is
10 looking at these needs, prioritizing these needs,
11 and developing the solutions.

12 But when it comes to actually approving them
13 and implementing them and funding them, of course
14 that is made in collaboration with Kentucky Power
15 because this is in Kentucky. These investments will
16 be in Kentucky.

17 Q. Yeah. That's what I do -- I do want -- if
18 there is a distinction, I do want to make it here,
19 or at least understand it here.

20 Insofar as the frames in the middle of the
21 screen, the existing assets, right, and the lines
22 and the substations -- insofar as those are Kentucky
23 Power's assets located in Kentucky Power's service
24 territory, is -- is this -- is this -- the page
25 67/68, that's their need, and you or your team is

1 bringing that need on their behalf through the M-3
2 process, and that's -- just so I understand it; is
3 that correct?

4 **A. Yes, sir. That is correct.**

5 Q. And the reason, I would assume -- and I want
6 to ask it so I -- you can tell me I'm right, that's
7 always fun.

8 The reason is you-all can do a consolidated
9 transmission team at AEP. Instead of having one at
10 each one of the individual operating companies, you
11 get -- you get economies of scale and scope by doing
12 that?

13 **A. Your Honor, that is partially correct, but**
14 **the other part of the answer is that the**
15 **transmission system has always been designed as an**
16 **integrated system, as an integrated network, so we**
17 **have to do it this way so we're fair and equitable**
18 **to all of the operating companies within AEP.**

19 **Right?**

20 So my job is regardless of where the needs
21 are, whether it's in Kentucky or Ohio or I&M, I am
22 going to prioritize them based on severity, based on
23 the risk they pose, based on how deteriorated the
24 condition is of the assets.

25 And then I'm going to fix that -- you know,

1 the mitigation plan I'm going to come up with is to
2 address that in a very cost-effective and reliable
3 and safe manner; and I'll then take it back to the
4 operating companies of AEP and say, "Here are the
5 needs, here are my recommendations, here are the
6 risks if you don't address them."

7 And then, of course, like I mentioned
8 earlier, they have to make decisions around how much
9 can our customers afford, how much can the company
10 afford, and then -- and then those needs move
11 forward through the execution process based on it.

12 Q. Yeah. And I -- I didn't mean to indicate
13 otherwise.

14 I guess what I was asking is: The
15 presentation of them in the inquiry process is what
16 I'm asking about because to your -- to your point
17 just then, the AEP transmission group can still
18 identify and prioritize and consider all of the
19 projects in totality in terms of ranking and still
20 go back and present those to the operating
21 companies, like you say.

22 But then the operating companies could then
23 take those, take your recommendations, and then
24 bring those themselves to the M-3 process, right?

25 I'm more asking about that -- that second

1 half of what you were describing, is after the
2 decision has been made, you're then presenting it,
3 effectively, on behalf of the operating company,
4 right?

5 **A. Yes -- yes, your Honor. And the reason for**
6 **that is, like you mentioned earlier, that, you know,**
7 **we have a pool of resources that all operating**
8 **companies use for planning purposes, number 1, to**
9 **make sure that the grid is being designed on an**
10 **integrated basis in a fair manner, and number 2, to**
11 **reduce the burden of resources you will need if one**
12 **of the operating companies was doing it**
13 **individually.**

14 Q. Okay. And so all of these fairly leading
15 questions are getting to -- I'm trying to move as
16 fast as possible to set this foundation for
17 the -- the part that I need to learn, right, or need
18 to understand.

19 The -- the solution -- or the need is
20 the -- or operate -- or the asset owner's needs,
21 right? They're the ones that own the asset, if it's
22 driven by reliability, if it's driven by whatever
23 may be -- in terms of the these supplemental
24 projects, it is the -- it is the transmission
25 owner's need, is what we just discussed.

1 In the solution side, is it necessarily -- in
2 this M-3 process, is it the transmission owner's
3 solution?

4 **A. Absolutely. As a matter of fact, your Honor,**
5 **it's not just only the transmission owner's**
6 **solution, it's the solution that all of the**
7 **customers that are served on that infrastructure**
8 **have to also agree with, and they have to help us**
9 **achieve it.**

10 I mean, those stations that I mentioned that
11 are moving from transmission 46 kV network to 138,
12 those are distribution substations that will also
13 need to be a significant investment in to move them.

14 So really, my team works very closely with
15 Everett Phillips, who I know is going to be on the
16 stand later on, on the solution to come up with what
17 is the right solution for the Kentucky customers
18 because we own them together as the Kentucky Power
19 transmission solution as well.

20 **Q.** And so that's what I'm trying to get to and
21 understand.

22 Where is the distinction made, then, between
23 ownership of the assets of the solution between, for
24 instance -- in a Kentucky Power example here,
25 between Kentucky Power and Kentucky Transmission

1 Company?

2 If the need is of the asset owner, then how
3 does someone other than the asset owner in the M-3
4 process end up owning a portion of the solution?

5 **A. Your Honor, I can -- I can absolutely answer**
6 **that question.**

7 So in essence, there are what we call
8 transmission company operating guidelines, and we
9 call them project selection guidelines, or PSGs in
10 short, and those guidelines were established by
11 transmission as well as the operating companies
12 across the AEP footprint as to which assets need
13 to or pre-qualify to the print as Transco, or
14 transmission company assets, and which assets need
15 to stay within the operating company.

16 And of course, you know, there are also some
17 exceptions because each AEP substation has their own
18 rules, and you have to abide by those rules as well.

19 So there are some exceptions that are carved
20 out there, but that guideline is what guides us to
21 figuring out which assets will go into AEP Transco,
22 Kentucky Transco, and which assets will go into
23 Kentucky Power Company transmission books.

24 And I will tell you, your Honor, that, you
25 know, there is -- of course the purpose behind the

1 Transco was to be able to provide a financial
2 mechanism to the operating companies so that they're
3 able to, you know, more efficiently invest dollars
4 to address needs.

5 But the transmission companies, they can
6 determine, at the end of the day, that if they --
7 they need to make any changes in the level of
8 investment, you know, that that is going into that
9 infrastructure.

10 So the guidelines are the ones that guide us,
11 but at the end of the day, you know, the Kentucky
12 Power has the ability to say, you know, this asset,
13 I would want it to go in Kentucky Power for -- for
14 reasons that -- that would be laid out, you know, in
15 a -- in a -- in their business plan. Make sense?

16 Now, you could not do it the other way
17 around. My understanding is that we can't move
18 assets from Kentucky to Transco that are not in the
19 guidelines, but we could from Transco to Kentucky.
20 And that does happen, if that makes sense.

21 Q. Well, and just so that I'm clear, you're not
22 necessarily moving assets because moving assets
23 would likely require -- and I'm not asking for a
24 legal opinion, but is it your understanding that
25 moving the assets from a regulated utility -- or in

1 your experience that moving those assets would
2 require commission approval in many of the states,
3 including Kentucky?

4 **A. Your Honor -- your Honor, my apologies. Bad**
5 **choice of words there.**

6 **So what I meant to say is let's say we're**
7 **building a new asset, brand-new asset. The Transco**
8 **guideline, which I believe when the Transcos were**
9 **formed in Kentucky, those guidelines were also filed**
10 **as part of the approval process, and the Commission**
11 **I believe has a copy of that.**

12 (A DISCUSSION WAS HELD OFF THE RECORD.)

13 CHAIRMAN SCHMITT: Thank you, Mr. Ali. If
14 you would please try to repeat from the beginning of
15 your answer so the court reporter can pick it up.
16 Thank you.

17 THE WITNESS: Thank you, your Honor. So, Mr.
18 Vice Chair, as I was stating earlier, just in the --
19 you know, for the sake of making sure that the
20 record is clear, what I was stating earlier is that
21 the existing assets, let's say to start with our own
22 by Kentucky Power, right, those are already in the
23 rate base.

24 And now we're enhancing that grid. Maybe
25 we're rebuilding some lines, maybe we're rebuilding

1 some substations, we're maybe building new lines.
2 The Transco guidelines, which are the guiding
3 principles for what assets can or cannot be part of
4 the transmission company, are what we use up front
5 to determine which assets will be owned by Transco
6 and which assets may be owned by operating
7 companies.

8 Of course, they are subject to the approval of
9 the operating company as well as -- you know, if it
10 requires a CPCN filing or something like that,
11 approval of the Commission, but we are using the
12 project selection guidelines for new assets
13 that -- to determine which ones will go in the AEP
14 Transmission Company and which will go in AEP
15 Kentucky Power Company.

16 Q. And so I'm unaware -- and I plead my
17 ignorance on it.

18 I'm unaware of whether this document has been
19 filed with the Commission. Is it something that if
20 requested in a post-hearing data request, you could
21 provide the -- as I understand what you said it is
22 called the transmission company operating
23 guidelines?

24 **A. I'm sorry. Project selection guidelines.**

25 Q. Project -- PSG, project selection guidelines.

1 VICE CHAIRMAN CHANDLER: Is that something
2 that the company can provide in a post-hearing data
3 request?

4 MS. BLEND: Yes, your Honor. I believe,
5 subject to check, that it was produced in discovery.
6 We'll confirm that and either provide the reference
7 to the appropriate data response or we will provide
8 it as a post-hearing data request.

9 VICE CHAIRMAN CHANDLER: Okay. Thank you
10 very much.

11 MS. BLEND: Thank you.

12 BY VICE CHAIRMAN CHANDLER:

13 Q. So as you -- well, let me ask about
14 enhancements for a second so we have a very clear
15 record.

16 Enhancements, rebuilds, are those just -- do
17 you just mean the solutions in general to the needs,
18 whatever they may be, or do you mean
19 enhancements -- or let me ask this way: Do you mean
20 enhancements in terms of the archive -- or like the
21 baseline projects, or do you just mean sort of
22 replacements and the solutions to the needs
23 identified in the inquiry process?

24 **A. Your Honor, the project selection guidelines**
25 **cover all projects. So really whether it's a**

1 **baseline project or a supplemental project,**
2 **depending on what configuration is being --**
3 **recommending -- recommended as a part of the**
4 **solution, we will apply the project selection**
5 **guideline to then determine which components are the**
6 **Transco components and which components are Kentucky**
7 **Power components.**

8 Q. Okay. And okay. And does the -- does --
9 well, let's just say Kentucky Power -- because
10 that's who we're here with.

11 Does Kentucky Power indicate anywhere in the
12 M-3 process that they will not be the entity that
13 owns the entirety of the solution?

14 Let me ask the question differently.

15 Is there anywhere that you're aware of in the
16 M-3 process whereby a Kentucky -- Kentucky Power
17 would indicate that a transmission company or some
18 other entity will own a portion of the supplemental
19 solution?

20 **A. Off the top of my -- my head, I --**
21 **I -- nothing comes to mind where we -- we state that**
22 **explicitly. But like I said, the project selection**
23 **guidelines when we made filings for the Transcos at**
24 **all jurisdictions, that was the guiding document as**
25 **to what assets can and cannot go into the Transcos.**

1 And so that is, I know, available, and we
2 will -- we will make it be available, also, as the
3 counsel mentioned here. But I'm not familiar where
4 we explicitly go out in the M-3 process and -- and
5 explain which assets are going in which companies.

6 Q. Okay. And so is it your understanding
7 that -- that most of the other transmission
8 company -- well, so were you watching the hearing
9 yesterday?

10 **A. Yes, your Honor, I was.**

11 Q. And did you see the portion of the hearing
12 where -- where Mr. Satterwhite was asked about the
13 S&P
14 document or the S&P story from 2014 that discussed
15 the -- the proposals around the AEP territories
16 regarding Transcos?

17 **A. Your Honor, I -- I don't recall it. If you**
18 **don't mind maybe refreshing my memory on it so that**
19 **I don't --**

20 Q. So do you -- are you aware that the Kentucky
21 Public Service Commission, in a June 10th -- I think
22 maybe it was referred to yesterday maybe a
23 June 10th, 2013, order disclaimed jurisdiction over
24 the Kentucky -- AEP Kentucky Transmission Company,
25 that they found that it was not a utility as defined

1 by Chapter 278? Are you aware of that?

2 **A. Yes, your Honor. I am.**

3 Q. And so we -- let me ask this: When you were
4 describing earlier about the filings made with
5 jurisdictions regarding the allocation of projects
6 between the Transco and the operating company, would
7 that inherent -- given that being the situation, is
8 that inherently different than -- than your
9 experience or of the experience of other states
10 regarding the insight they may have into the
11 allocation or these -- these project selection
12 guidelines between transmission companies and
13 operating companies?

14 **A. Yes, your Honor. So I'll maybe clarify it.**
15 **It's a little bit maybe complicated because each**
16 **jurisdiction is somewhat different.**

17 But really the project selection guidelines
18 mentions what assets can qualify for Transco. But
19 what it also clearly states is, is that the -- that
20 the operating company can still choose to put those
21 assets in the operating company because really the
22 purpose of the Transco was to help the operating
23 company with their financial burden, so it gets us
24 where -- where they don't need that help, they have
25 the ability to put those assets in the operating

1 company.

2 So in case -- I think what you're
3 asking -- the question you're asking just to make
4 sure I get it right, is that are the Transco
5 guidelines, the way they are being implemented in
6 Ohio the same as they are being implemented in
7 Kentucky?

8 Is that your question, your Honor? I just
9 want to make sure I get it right.

10 Q. To a degree, yes.

11 **A. Okay. So like I said, in Ohio right now, we**
12 **are following the Transco guidelines the way**
13 **they -- they are stated. In Kentucky we do the same**
14 **thing. My team would follow the guidelines, and we**
15 **will assume that these assets will go in Transco,**
16 **probably, and these assets will probably go in the**
17 **Kentucky Power Company.**

18 But then of course, you know, the Kentucky
19 Power makes the final determination in collaboration
20 with the transmission policy group if that is indeed
21 the case to satisfy, like you said, you know,
22 certain additional requirements that we may have in
23 Kentucky.

24 Make sense?

25 Q. Yeah, it does. And this is what I -- this is

1 really what it was all culminating to, is to
2 understand this better, is that when it comes to the
3 solutions, presented in the M-3 process, for
4 instance, and the implementation of those solutions
5 with investments in the system and the
6 allocation -- or the -- let's just say it this
7 way -- whose books those investments end up on,
8 right, and who owns those solutions.

9 I want to make sure I understand, that is
10 still, for instance, in this situation, 100 percent
11 up to the Kentucky Power operating company
12 president?

13 **A. Your Honor, I -- I will be very honest with**
14 **you. I don't think I can answer that and say**
15 **definitely -- definitively that it is 100 percent,**
16 **you know, a call of the operating company.**

17 My presumption is that it is, but I think
18 Witness Mattison or Witness Pearce are probably the
19 better witness because this is more of a policy cost
20 allocation question.

21 But what I can assure you is that when I'm
22 developing a solution, I really don't care if the
23 Transco will end up owning it or Kentucky will end
24 up owning it or Ohio will end up owning it. My job
25 is to come up with the most cost-effective, holistic

1 solution for a customer.

2 So that's what I look at, and then of course
3 these guys have to look at other things around cost
4 recovery, cost allocation, things like that.

5 So I think if your question is that -- who
6 makes that final determination and how much
7 authority somebody has or does not have, I think
8 Witness Pearce or Witness Mattison will be better
9 witnesses for that.

10 Q. So I just asked Mr. Pearce a very similar
11 question, attempting to find out what input
12 Mr. Mattison had, for instance, on investments in
13 the transmission company, and I think his response
14 was something like that they have input, but they
15 had -- the ultimatum decision lies in the operating
16 company.

17 VICE CHAIRMAN CHANDLER: So, Ms. Blend, do
18 you know if Mr. Mattison is the best person to ask
19 about that? Because I would like to understand and
20 have a definitive answer in that regard.

21 MS. BLEND: Thank you, your Honor. I believe
22 Mr. Mattison would be able to speak to that
23 question.

24 VICE CHAIRMAN CHANDLER: All right.

25 MS. BLEND: I don't want to speak for him and

1 promise you that he will provide an answer that you
2 think to be very definitive, but I do believe that
3 he will be able to address that question.

4 VICE CHAIRMAN CHANDLER: No, I think it's an
5 important part of our inquiry on this issue,
6 particularly the PJM LSE OATT expenses.

7 And so if -- I would just ask if Mr. Mattison
8 cannot give a definitive answer, that maybe we can
9 discuss after Mr. Mattison comes back so we can find
10 a witness that can do so.

11 Is that -- are you amenable to that?

12 MS. BLEND: Yes, your Honor. Thank you.

13 VICE CHAIRMAN CHANDLER: Thank you.

14 BY VICE CHAIRMAN CHANDLER:

15 Q. So -- so in terms of a deviation from the
16 guidelines under the project collection guidelines,
17 when you're planning, you are -- and I don't mean
18 this in a derogatory sense, but you're indifferent
19 to who -- whose books it ends up on, right?

20 You're there -- you're there from sort of an
21 engineering perspective, that, here is the
22 engineering need, here is the engineering solution,
23 and then the finances necessarily are up to somebody
24 else.

25 Is that -- I don't want to boil it down too

1 much, but is that effectively what -- is that a fair
2 characterization?

3 **A. Yes, your Honor. And that is very fair, that**
4 **my job is -- I am looking at a solution. But one**
5 **thing I want to clarify is that one thing in finding**
6 **a solution is to ensure that it's cost effective,**
7 **it's reliable, it is safe.**

8 So all of those things are part of my job but
9 not to the extent that, you know, what those
10 solution components may fall into.

11 Q. And the reason I ask that is because is it
12 fair to assume that at this point when these
13 solution -- solution presentations are happening in
14 M-3, no one may have made the decision yet as to who
15 the ultimate asset owner is going to be of any of
16 these different parts of the project, right?

17 **A. Yes, your Honor, that is correct. The only**
18 **thing I would clarify there is, like I said earlier,**
19 **we have an idea, right, based on the project**
20 **selection guidelines.**

21 And -- and these solutions, your Honor, are
22 very long-term solutions in the sense they take four
23 to five years to -- it's not something we can just
24 go address tomorrow.

25 So what we have to do is we not only have to

1 build a solution, we also have to build a cash flow
2 as to what will it take from an -- from an
3 investment perspective.

4 So when we go to the operating company
5 leadership like Brett Mattison, then they have that
6 picture available, that here is a solution, you
7 know, here are the arguments we looked at, here are
8 the risks that we are trying to mitigate.

9 And we believe based on the project selection
10 guidelines that this solution -- you know,
11 which -- which companies that solution resides in
12 and what the cash flows are so that they will have a
13 full picture of what it's going to take and can
14 we -- can we afford it or how much of that we can
15 afford.

16 Q. That's fair.

17 **A. So we do that, but it's not definitive, to**
18 **your point.**

19 Q. And just so I understand, so -- so to your
20 answer, when these are presented, the assumption is
21 that the guidelines will be adhered -- and I know
22 they're guidelines. They're not requirements
23 necessarily, under you're all -- but that they will
24 be strictly adhered to?

25 And so, you know, this transformer X would

1 be -- and generally, in terms of just your planning,
2 you're indifferent as to the decisions of the
3 operating company for planning purposes.

4 **A. Yes, sir. That is -- that is correct. So**
5 **you're right. We -- we look at the guidelines. We**
6 **apply them, and we are indifferent to whether**
7 **that -- those components change, if needed.**

8 Q. Okay. So part of the -- the question
9 yesterday -- and I don't remember who -- who it was
10 asked of or who answered it, but I'll provide you in
11 its context -- regarding how in terms of the rate of
12 return, the ROE, of AEP's different operating
13 companies Kentucky Power historically has been a
14 laggard -- or at least in recent history has been a
15 laggard.

16 Are you aware of that?

17 **A. No, your Honor. Like I said, I don't deal**
18 **with financials or regulatory cost recovery and**
19 **those -- those type of mechanisms.**

20 Q. Okay. And so -- and let me ask this: Have
21 you ever -- either directly or in a roundabout way,
22 have you ever been aware of investment decisions
23 being made at AEP with regards to transmission
24 that -- that prioritize investments in jurisdictions
25 that earn a higher return on equity?

1 **A. Not -- not to my knowledge, your Honor.**

2 Q. Okay. And -- and have you ever heard, either
3 directly or in a roundabout way, an interest in
4 prioritizing transmission investments in
5 jurisdictions that -- back to our earlier
6 conversation -- may have different regulatory
7 processes for implementing transmission -- you know,
8 transmission build, rebuild investment that may have
9 less oversight or more simpler processes?

10 **A. No, your Honor. I haven't gotten any such**
11 **direction from anybody. And I think -- I**
12 **think -- if I may, your Honor, you know, I think**
13 **maybe you're referring to the slide deck that was**
14 **being shared yesterday -- yesterday where there were**
15 **some references to which states have what recovery**
16 **mechanism.**

17 I think what I will tell you, the role I play
18 in that, my role is to determine what are the needs
19 on the grid, what are the right solutions regardless
20 of which bucket those solutions go in, and -- and
21 then making sure that they rationalize or justify
22 the prudent -- or stakeholders that engage in
23 developing them.

24 And then of course it's the job of our
25 leadership to go and acquire capital at the most

1 effective rates for our customers. And I think
2 that's what you were seeing, what -- I have never
3 received direction that we are investing dollars in
4 a certain company because of -- of their ROE.

5 I'm sorry. I'm not aware of that.

6 Q. And you remember Mr. Pearce's testimony today
7 where -- where he agreed that at least in recent
8 history, the investment in other states -- the
9 investment in Kentucky has been shy of its
10 allocation of costs in the last couple of years when
11 you combine, you know, operating companies and
12 transmission companies for the state.

13 Do you remember that?

14 **A. Yes, your Honor, I absolutely remember that.**
15 **And -- sorry.**

16 Q. No, I was just going to ask: So is that an
17 indication that on a -- at least as it relates to on
18 a 1 CP basis or a 12 CP basis, that the needs of
19 other states -- that other states just effectively
20 have more transmission needs than Kentucky?

21 **A. Your Honor, that is -- you know, based on**
22 **where I sit, I don't see it that way. You know, of**
23 **course, you can -- you can appreciate that these**
24 **allocations, they do change over time, right?**

25 I mean, I can go back to 2012, and I know we

1 had to make -- we had to make a significant
2 investment into Baker Substation which is a critical
3 station to serve the Kentucky customer base, extra
4 high voltage. And so during those years, if you go
5 back and you look at it, I'm assuming we will see
6 that the investment allocation was different.

7 I get it that if you look at the data right
8 now, you know, the investment allocation between
9 Kentucky and other operating companies have changed,
10 but that is not to say that it will not change again
11 in the future based on the needs.

12 Now, your question -- the other question, and
13 I want to address the answer to that, that do we
14 have less needs in Kentucky than other operating
15 companies. The answer is no. We do have needs in
16 Kentucky, and I see significant needs in Kentucky in
17 the future years coming up as -- as the system gets
18 more aged.

19 But, at the end of the day, like I said, the
20 line is drawn based on, you know, how much can a
21 company afford, as well as how much distribution
22 investment can also be made.

23 I mean, it will be very irresponsible for us
24 to go and -- say let's go and replace the entire
25 transmission network you're seeing on the map there

1 in front of us in the exhibit and not have the
2 distribution investment to go along because then
3 we're not delivering that benefit to the customer.

4 So it's more complicated than that because
5 it's not -- you've got to have the distribution
6 investment also available. You've got to have the
7 financial, you know, expense to be able to do that,
8 and, like I said, it is volatile over here so we
9 can't just look at a static view and assume that is
10 what the future will hold as well.

11 Q. So there's a -- you remember yesterday that
12 there was a discussion around a \$37 billion
13 investment plan, five-year investment plan. Do you
14 remember that?

15 **A. Yes, sir. I do.**

16 Q. And that 10 and a half million of it was
17 dedicated to transmission?

18 **A. Yes, sir. That is correct.**

19 Q. And at least referred to in the S&P article a
20 significant portion of it allocated to -- to
21 renewables, right?

22 **A. Yes, sir. That is my understanding.**

23 Q. Okay. So I just want to make sure that I
24 understand that you're not directly discussing
25 or -- I want to make sure that I understand that

1 you're not discussing the -- the capital allocations
2 or the capital available from the Kentucky Power
3 standpoint to make the necessary investments in its
4 system to meet its obligation of service.

5 That's not necessarily your -- your job,
6 correct?

7 **A. Yes, your Honor. My -- like I said, my job**
8 **is to tell Kentucky Power where the needs are, what**
9 **the solutions are. What would those solutions take**
10 **from an investment perspective because, at the end**
11 **of the day, they need to understand the dollar value**
12 **of those solutions.**

13 One thing I do want to clarify, your Honor,
14 you said 16 billion had the renewable --

15 Q. I don't think I said -- I didn't mean to if I
16 did. I apologize.

17 I just remember it being about 37 overall,
18 and 10 and a half for transmission. Is that your
19 understanding?

20 **A. Yes, roughly 16 for transmission, but that**
21 **doesn't have the renewables. That's a separate**
22 **piece. I just wanted to clarify that for the**
23 **record.**

24 Q. Okay. 16 for transmission is your
25 understanding?

1 **A. Yes, sir.**

2 Q. Okay.

3 **A. It is entire -- entire network, your Honor.**
4 **So it's not just PJM region. So it is the entire**
5 **transmission network of the AEP system, which**
6 **includes four RPOs.**

7 Q. I appreciate it. Maybe the 10 and a half in
8 the EEI presentation may have been PJM footprint, is
9 that -- is that your understanding?

10 **A. Yes, your Honor.**

11 Q. Okay. That's the distinction. I appreciate
12 it.

13 So in terms of -- of whether adequate capital
14 is being made available to Kentucky Power to meet
15 the needs that you bring to Kentucky Power, right,
16 the identified needs, that would be a question for
17 Mr. Mattison?

18 **A. Yes, your Honor. I think that would be a**
19 **good question for Mr. Mattison.**

20 Q. And the last question I have pending -- it
21 may be in dispute whether it's in the record or not:
22 Does the project selection guidelines apply to
23 baseline projects in addition to supplemental
24 projects?

25 **A. Yes, your Honor. They apply to all project**

1 **drivers across the -- across the system.**

2 Q. Okay. I appreciate it. Mr. Ali, those
3 are -- before I -- before I hand it -- I don't want
4 to have to come back like I did Mr. Pearce. I hate
5 to ask the Chairman for a favor twice. Let me just
6 check one second, make sure I have no more
7 questions.

8 Oh, yeah. The last set of questions I had,
9 Mr. Ali: I wanted to come back to manual 14C. So
10 14B is the planning for projects, effectively,
11 right, supplemental and baseline?

12 And do you -- do you -- are you aware of the
13 purpose of manual -- PJM Business Practice Manual
14 14C?

15 **A. Yes, your Honor, I am.**

16 Q. Okay. And what's your understanding of -- at
17 a very high level, the purpose of manual 14C?

18 **A. Your Honor, I may be -- I may mix those two**
19 **up, but really, in essence, it is -- it is**
20 **discussing, at a high level, the protocols for, you**
21 **know, evaluation and review of needs, projects,**
22 **publishing of them in the subregional RTEP and what**
23 **avenues the stakeholders have if they want to raise**
24 **more comments concerning the portfolio.**

25 Q. And at least a portion of 14C, as I remember

1 it, is sort of the backside of some of the stuff the
2 14B talked about.

3 And would you agree that there are portions
4 of 14C that talk about the tracking of -- or the
5 updates that transmission owners or designated
6 entities, I think they're referred to -- that they
7 provide to PJM on an ongoing basis for transmission
8 projects?

9 **A. Yes, sir. That also includes that. So after**
10 **the projects have been submitted, there are regular**
11 **updates that the transmission owners have to make to**
12 **cost and service.**

13 Also as the project goes into execution, they
14 have to provide -- we have to provide information
15 for project planners who are working on it, so PJM
16 can visit, especially, the baseline project.

17 So I believe all of that is discussed there
18 as well.

19 Q. And what I wanted to make sure of to our
20 discussion earlier about the designation of let's
21 just say whose books it ends up on, right, a
22 transmission project.

23 I just want to make sure that during that
24 tracking process, do you know whether or not -- you
25 answered earlier sort of on the planning side maybe.

1 But do you know during that tracking process of the
2 projects as they're being built, whether they're in
3 construction or scoping or whatever they may be --
4 does -- does anybody give an update or indicate in
5 those filings who the ultimate asset owner is going
6 to be, whether it's going to be a Transco or another
7 affiliate or the initial owner of the -- of the
8 transmission system that identified the -- the need?

9 **A. Your Honor, I do know that for baseline**
10 **projects, we have to sign what we call a designated**
11 **entity agreement with PJM. So for those projects,**
12 **yes, that has to be clearly stated as to who the**
13 **designated entity is. As you know, supplemental**
14 **projects don't require a PJM board approval, so**
15 **there is no such agreement for those.**

16 Q. Okay. And so on that subject, if Kentucky
17 Power -- let's say there's a baseline need in the
18 most recent run of -- of the RTEP, right, that the
19 CETL values go crazy and there's a number of
20 violations and it ends up being a baseline need
21 identified by PJM and Kentucky Power is the asset
22 owner for all of the transmission systems identified
23 in the need, right?

24 Do you understand the scenario I'm setting
25 up?

1 **A. Yes, sir, I do.**

2 Q. And -- and Kentucky Power -- let's say
3 somebody wants to bid on it. It's a designated
4 entity that's not the incumbent transmission owner,
5 right? And Kentucky Power wants to bid on it.

6 If there's going to be an allocation,
7 according to the project selection guidelines, when
8 Kentucky Power files the -- you know, once the bid
9 for the -- it's a competitive project, sorry. It's
10 five years out. It's a competitive project.

11 Kentucky Power wants to bid for it. Do they
12 have to indicate in their designated entity
13 agreement that, for instance, AEP Kentucky
14 Power -- AEP Kentucky Transco is also going to be
15 one of the developers and own a portion of it?

16 **A. So, your Honor, this is -- just let me break**
17 **it down a little bit because I don't want to**
18 **misstate something here.**

19 So, number 1 is that we don't need to
20 identify who is going to own a certain asset at the
21 stage of the need as well as when we're presenting
22 the solution to PJM. We -- that is not a
23 requirement because there will be multiple solutions
24 PJM will have to go and evaluate during that
25 scenario.

1 Once PJM has evaluated and picked the right
2 solution, the cost-effective and robust solution,
3 then PJM is going to ask the entity to sign the
4 designated entity agreement. It is at that time
5 that we have to identify as to who will be the
6 owning entity, and in cases where both Transco
7 Kentucky and Kentucky Power Company own an asset,
8 both of them will be signatories of that agreement.

9 Q. And it's your understanding -- and I'm happy
10 to ask him here in a minute, but it's your
11 understanding that Mr. Mattison would be the -- for
12 instance, in the example provided, would be the one
13 making the determination, correct?

14 **A. Your Honor, like I mentioned earlier, I mean,**
15 **I don't know if I can say 100 percent. I think he**
16 **will be the better one to answer, but -- but, like I**
17 **said, we would -- I would be presenting to the**
18 **operating company the cash flows to undertake that**
19 **project.**

20 And then based on that and see if we can meet
21 the timeline, you know, that determination will be
22 made, you know, by -- by the operating company, and
23 we will then present that to PJM.

24 Q. Yeah. And I -- I hated to put you on the 100
25 percent.

1 But I guess what I'm really asking is: It's
2 your experience that the operating company president
3 makes that ultimate decision?

4 **A. Yes, or his designee or her designee. I**
5 **mean, you know, of course we're working with their**
6 **teams on a regular basis, and they're involved in**
7 **it.**

8 So yes, they would be -- or their designees
9 will make that determination, that if we're okay
10 with making this investment, are we able to afford
11 this investment.

12 VICE CHAIRMAN CHANDLER: Okay. I appreciate
13 it, Mr. Ali. Thank you very much.

14 CHAIRMAN SCHMITT: Dr. Matthews, questions?

15 COMMISSIONER MATTHEWS: I don't have any.

16 CHAIRMAN SCHMITT: Ms. Blend, would you like
17 the opportunity to provide redirect examination?

18 MS. BLEND: Yes, your Honor. Thank you.

19 And before I begin my redirect, Vice Chairman
20 Chandler, the project selection guidelines that have
21 been referenced during Mr. Ali -- during your
22 questioning of Mr. Ali were produced in response to
23 Staff Request Number 2 and Staff 5, so Staff 5, 2
24 Subpart B, as in boy.

25 VICE CHAIRMAN CHANDLER: And just so I'm

1 clear, that's the responses on behalf of the
2 company, the staff's fifth item request, item 2B?

3 MS. BLEND: Yes. Thank you.

4 VICE CHAIRMAN CHANDLER: Thank you very much.

5 REDIRECT EXAMINATION

6 By Ms. Blend:

7 Q. Mr. Ali, I want to follow up quickly on the
8 last -- quickly on the last items or topics that
9 Vice Chairman Chandler asked you about.

10 Do you recall the question about M-3, the M-3
11 process and the identification of a -- the owner of
12 the solution?

13 **A. Yes. I do.**

14 Q. Did I understand your testimony correctly
15 that there is no requirement through that process
16 that a solution owner be identified in that process?

17 **A. Yes. That is correct.**

18 Q. Are you aware of transmission projects for
19 which Kentucky Power Company has obtained a CPCN and
20 in which Kentucky Power Company indicated that
21 Kentucky Transco would also be performing related
22 work that was not the subject of the CPCN but that
23 was related to the Kentucky Power CPCN work?

24 **A. Yes, I'm aware of.**

25 Q. And is one such project the 2018 Enterprise

1 Park project?

2 **A. Yes. It is.**

3 Q. And has Kentucky Power Company relatively
4 recently Kentucky Transmission Company refiled that
5 project in Case Number 2020-00062?

6 **A. Yes. We have.**

7 Q. Is that project the baseline project or a
8 supplemental project?

9 **A. It has mostly baseline components.**

10 Q. Is it your understanding that the Commission
11 approved the 2018 Enterprise Park project?

12 **A. Yes. That's my understanding.**

13 Q. Thank you. A couple of clarification
14 questions regarding the project selection
15 guidelines.

16 Do those guidelines cover competitive
17 transmission projects?

18 **A. No, they don't.**

19 Q. Are -- are competitive transmission project
20 transmission projects relatively common or
21 relatively uncommon?

22 **A. They are very unique in PJMs since 2012, only
23 three competitive projects have been awarded.**

24 Q. Do competitive projects include -- or I'll
25 say it differently.

1 Are asset renewal projects considered to be
2 competitive projects?

3 **A. No, they're not.**

4 Q. Does the project selection guideline document
5 cover asset renewal projects?

6 **A. Yes, it does.**

7 Q. You were asked questions about which entity
8 or entities are ultimately
9 responsible -- responsible for determining the need
10 for transmission investment.

11 Do you recall those questions?

12 **A. Yes. I do.**

13 Q. Who's responsible for maintaining the
14 transmission system?

15 **A. The AEP transmission and the operating
16 companies.**

17 Q. And within the AEP transmission system, who
18 is the expert regarding the condition, performance,
19 and risk of AEP's transmission assets?

20 **A. It is the AEP transmission and the operating
21 companies.**

22 Q. Does PJM have that expertise?

23 **A. No, PJM does not have engineering field
24 project management expertise. The only expert PJM
25 has is markets, planning, and operation.**

1 Q. Does AEP run its transmission system to
2 failure?

3 **A. Absolutely not.**

4 Q. In your rebuttal testimony on page 6,
5 footnote 1 -- on page 6 and including in footnote 1,
6 you refer to and define the term "good utility
7 practice," correct?

8 **A. Yes. I do.**

9 Q. In your opinion, would it be good utility
10 practice for AEP to run its transmission system to
11 failure?

12 **A. No.**

13 Q. Who is liable ultimately for utilities' or
14 transmission owners' failure to maintain its system?

15 **A. It is the utility itself that is liable, at
16 the end of the day.**

17 Q. Have we seen any recent examples of such
18 liability in other parts of the country?

19 **A. Yes, absolutely, we have. I think a good
20 example is in California. And again, our goal is to
21 never get to that stage. We want to make sure we're
22 proactively replacing our infrastructure and our
23 infrastructure is reliable, safe, and cost effective
24 for our customers.**

25 Q. Changing topics, you were asked about the

1 level of control that AEP and Kentucky Power have
2 over transmission needs on the system. Do you
3 recall those questions?

4 **A. Yes. I do.**

5 Q. Do you address the system needs that are out
6 of the company's control or any transmission owner's
7 control on pages five and six of your rebuttal
8 testimony?

9 **A. Yes. I do.**

10 Q. You may have touched upon -- I think you
11 touched upon this briefly in response to a question
12 that the Vice Chairman asked you, but Mr.
13 Satterwhite and Mr. Pearce both referred to you as
14 the witness who might be best situated to identify
15 examples of projects that have been performed
16 outside of Kentucky, but that still will benefit --
17 be helpful or benefit Kentucky Power.

18 Can you provide some examples of such
19 projects?

20 **A. Yes. There are -- there are various examples**
21 **of that. I mean, the most recent one that comes to**
22 **mind is back in 2012, an announcement was made to**
23 **retire up to 7,500 megawatt of generation in the**
24 **Ohio Valley, which is a very -- you know, it was a**
25 **critical generation that was serving the load in**

1 **Appalachian and Kentucky and Kingsport areas.**

2 And when we performed analysis we saw
3 significant voltage internal violations, to the
4 point that we were not able to reliably get power
5 back into the region. And the most cost-effective
6 solution was to utilize our 765 kV network and drop
7 down to the lower voltages, 345 and 138 kV systems,
8 so that we can get the power from the market,
9 regardless of where it's at, and get it back to the
10 customer. And that required investments in Ohio,
11 you know.

12 The one that comes to mind is the Mountaineer
13 765 to 345 kV substation. I think it was roughly
14 \$80 million of investment, the conceptual estimate
15 -- I think the final cost was for a little higher
16 than that. I don't have that on the top of my head.

17 But those -- there are several examples of
18 that, similarly switchover retirement that resulted
19 in significant load flow changes, and we had to make
20 transmission investment in the West Virginia area to
21 make sure that we were able to reliably get power
22 from the grid to areas like Kentucky.

23 Q. Thank you.

24 VICE CHAIRMAN CHANDLER: Can I ask a short
25 question, Ms. Blend? I was confused by the

1 response. Can I ask a short question?

2 MS. BLEND: By all means.

3 VICE CHAIRMAN CHANDLER: Thank you.

4 So the retirement of the generation led to
5 thermal and voltage violations. So those -- were
6 those baseline drivers or supplemental drivers.

7 THE WITNESS: Your Honor, those were -- those
8 were baseline.

9 VICE CHAIRMAN CHANDLER: Those were baseline?
10 Okay. And so the baselines have a defined
11 allocation outside of -- let me ask this way -- I
12 didn't want to go this basic: But supplemental
13 projects and baseline projects are allocated
14 differently, correct?

15 THE WITNESS: Your Honor, it depends. So --
16 so maybe let me explain that. So for projects that
17 are double circuit 345 kV and above that are
18 baseline, 50 percent of that allocation is across
19 the footprint. Everybody pays based on their load
20 share.

21 And the remaining 50 percent is based on
22 DFAX. For baseline projects that are less than 345
23 kV double circuit, 100 percent of that allocation is
24 based on DFAX -- which, by the way, if you go and
25 look at DFAX of baseline projects, 95 percent of

1 those are only assigned to the zone they're in.

2 Only the projects that are sitting at the
3 boundaries of your zone at low voltages are the ones
4 that are assigned to -- outside your zone. And of
5 course, supplemental projects, 100 percent
6 allocation is to the zone.

7 You know, one thing, your Honor, that I may
8 want to mention, and I heard this conversation on
9 DFAX mentioned earlier. One thing we've got to
10 remember is the DFAX is not a metric that can
11 compute all of the benefits of a project. And PJM
12 recognizes that limitation.

13 And for that very reason PJM and its
14 stakeholders identified the projects that are about
15 345 kV double circuit in our 13-state footprint.
16 They need to be allocated to the entire zone based
17 on their load share because even though we can't
18 calculate and quantify the benefit using DFAX, we
19 know that everybody benefits from that.

20 I mean, an example of that, your Honor,
21 recently, a project -- in Dominion, and we can make
22 that available if you need, Ladysmith to Chancellor
23 500 kV line, so Dominion is rebuilding that line.

24 And when PJM ran DFAX on that, 100 percent of
25 the DFAX was in Dominion, but still 50 percent of

1 that cost got allocated early because we all
2 recognized benefits of an articulated transmission
3 network.

4 VICE CHAIRMAN CHANDLER: I just want to make
5 sure: There's a significant difference -- this is
6 the question I have for Mr. Pearce.

7 -- a significant difference between double
8 circuit 345 kV and above, and a 69 kV or a 48 -- or
9 a 46 kV project in Kalamazoo or in Michigan or in
10 northern Ohio, right.

11 I mean, it's the -- it's the difference
12 between the -- I guess I say that -- I say that as
13 the question: There's a difference between the bulk
14 electric transmission system and the 21 and a half
15 or 22 kV, 46 kV, 69 kV system, right.

16 THE WITNESS: Your Honor, you're exactly
17 right, that's there's a difference, and that's why I
18 think you've got to look at the layers, right? So
19 when we think about PJM, it's a broader layer,
20 right? It's a very big system.

21 And in 345 kV network, even sitting in Con
22 Ed, which is in Chicago and New Jersey, it makes a
23 lot of sense. If you get down to the AEP level,
24 even a 69/23 kV system makes sense. You get down to
25 distribution level.

1 I mean, the same argument is true on the line
2 in Hazard, Kentucky, how is that line benefiting
3 customers in Ashland? It's really not, but it is
4 benefiting customers in Prestonsburg, and the line
5 in Prestonsburg is benefiting customers in Ashland,
6 right?

7 So it's the same argument that
8 the 69 kV line in Michigan may not be directly
9 benefiting Kentucky, but it's benefiting Ohio,
10 probably. And lines in Ohio are benefiting West
11 Virginia, and West Virginia is benefiting Kentucky

12 So it's the -- it's the same regional concept
13 that I know PJM is based off basing the 345 kV
14 double circuit on.

15 VICE CHAIRMAN CHANDLER: That's fair.

16 Apologies, Ms. Blend.

17 THE WITNESS: Thank you, your Honor.

18 MS. BLEND: No apologies necessary,
19 Vice Chairman. And I have no further questions on
20 redirect for Mr. Ali. Thank you.

21 CHAIRMAN SCHMITT: All right. Thank you, Mr.
22 Ali. You may -- you may step down. I'm sure you're
23 glad to get a break.

24 THE WITNESS: Thank you, your Honor. We
25 really appreciate it.

1 CHAIRMAN SCHMITT: I guess is Mr. -- we
2 call -- recall Mr. Mattison at this time?

3 MS. BLEND: Yes, your Honor. We will do
4 that. We will just need a moment to sanitize --

5 CHAIRMAN SCHMITT: Okay. Thank you.

6 MS. BLEND: -- the witness table before we
7 resume.

8 MS. VINSEL: Chairman, could we take about a
9 five-minute break?

10 CHAIRMAN SCHMITT: Yeah. Staff counsel would
11 like to take a five-minute break. Before we do
12 that, let me ask this: I know Mr. Mattison is being
13 recalled so he remains under oath. I
14 assume -- well, I shouldn't assume anything.

15 Ms. Vinsel, do you intend to have any
16 questions for Mr. Mattison.

17 MS. VINSEL: Yes, I do.

18 CHAIRMAN SCHMITT: Okay. All right. Good.
19 I didn't know if we were just re-cutting direct to
20 Vice Chairman or other counsel -- so we'll begin in
21 with your cross-examination unless, Ms. Blend, you
22 have something on redirect -- or direct that you
23 would like to put on. If not, you'll get to finish
24 up.

25 MS. BLEND: Not at this time your Honor. I

1 don't at this time, your Honor. Thank you.

2 CHAIRMAN SCHMITT: All right. We'll take a
3 break until -- we'll be in recess until -- let's go
4 25 after 2:00.

5 (A DISCUSSION WAS HELD OFF THE RECORD.)

6 CHAIRMAN SCHMITT: I think we're back on the
7 record.

8 Are all the parties and counsel present?
9 Maybe. Okay.

10 MS. VINSEL: I don't see Kentucky Power yet.
11 There.

12 MS. BLEND: We are here. Thank you.

13 CHAIRMAN SCHMITT: All right. I guess we'll
14 proceed, then, with Mr. Mattison -- Mattison's
15 cross-examination. Mr. Mattison, you remain under
16 oath.

17 THE WITNESS: Yes, sir.

18 CHAIRMAN SCHMITT: And I guess the
19 cross-examination at this time will begin with Staff
20 Counsel Vinsel.

21 MS. VINSEL: Thank you, Chairman.

22 * * *

23

24

25 D. BRETT MATTISON, having been reminded of

1 his oath, testified as follows:

2 CROSS-EXAMINATION

3 By Ms. Vinsel:

4 Q. Good afternoon, Mr. Mattison.

5 **A. Good afternoon.**

6 Q. I believe, but let me double-check: Were you
7 listening and watching to Mr. Satterwhite's
8 testimony yesterday afternoon?

9 **A. Yes, I was.**

10 Q. Okay. And I just want to follow up on a few
11 things that I asked Mr. Satterwhite.

12 Were you aware that approximately 90 percent
13 of the base rate PJM LSE OATT expenses in the test
14 year in this case are related to transmission
15 investment in other AEP affiliates?

16 **A. Yes, in this case I am.**

17 Q. Did you know that you could challenge the
18 transmission company's updates and projections?

19 **A. When you say the transmission updates and
20 projections here, are you talking about the PJM?**

21 Q. The Kentucky -- the Kentucky Transco, the
22 transmission company's -- yes. The updates and
23 projections that are included in the annual update
24 and annual projections.

25 **A. Just to be clear, are you talking about me**

1 **challenging the PJM procedures and the -- and the**
2 **mechanisms, or what the AEP transmission group is**
3 **doing? I just want to make sure that I am clear.**

4 Q. Challenging what the AEP transmission group
5 has -- is doing.

6 A. Well, one thing I want to say is our team at
7 Kentucky Power meets with the AEP transmission team
8 at a minimum on a quarterly basis to look at
9 projects that are actually active, that are being
10 constructed, and those that are in the pipeline, and
11 I attend the bulk of those meetings.

12 I don't attend 100 percent of those meetings,
13 but I do have designees or representatives there
14 from our finance, our regulatory team, our
15 distribution operations team, and we work jointly
16 together, and we keep each other apprised of where
17 we are, statuses, what's impending, ones that may be
18 coming down from PJM that are required, et cetera.

19 So we do work to ensure that we're getting
20 what I would call the best value for the dollar
21 expended.

22 Q. Okay. Let me -- let me come back at it on a
23 little more simple basis. We're not talking about
24 baseline projects here.

25 As you know, one of the issues that's been

1 raised in this proceeding has to do with the
2 transmission expenses for transmission investment in
3 Kentucky Power affiliate entities.

4 So the question is, and I think the answer is
5 probably no here: Have you ever challenged any of
6 the affiliate -- the transmission company's annual
7 updates and annual projections?

8 **A. Not with the affiliates. No, I have not.**

9 MS. VINSEL: Staff has no further questions.

10 CHAIRMAN SCHMITT: Counsel for the Office of
11 Attorney General have any questions?

12 MR. WEST: No, your Honor.

13 CHAIRMAN SCHMITT: Mr. Kurtz,
14 cross-examination? Mr. Kurtz, can you hear? We'll
15 come back to Mr. Kurtz.

16 Ms. Grundmann, on behalf of Walmart, any
17 questions.

18 MS. GRUNDMANN: I do, briefly, your Honor.

19 CROSS-EXAMINATION

20 By Ms. Grundmann:

21 Q. I just wanted to follow up -- good afternoon,
22 Mr. Mattison. I just wanted to follow up on one of
23 the statements you made yesterday either in response
24 to a Commissioner question or on redirect.

25 I think you made a statement -- it was in

1 response to a question from Commissioner Matthews,
2 that it's hard to compete when you have such a low
3 ROE.

4 Was that -- was the context for that
5 statement, not your allowed ROE, but your actual
6 ROE?

7 **A. It would be in reference to where the company**
8 **is performing currently, not our authorized ROE.**

9 Q. And so I want to run sort of a hypothetical
10 by you. I understand your testimony and testimony
11 from some of the other witnesses is that one of the
12 primary issues that you need to come in in a rate
13 case is really the loss of load in your territory;
14 is that fair?

15 **A. Well, that is one of the factors.**

16 Q. Okay. Are there other factors that you would
17 say are as important as that one?

18 **A. Well, when you -- when you look at the**
19 **overall financials of the company, I would call it**
20 **the financial health of the company, ROE is a**
21 **factor. It's fairly obvious that load has decreased**
22 **in our territory. That is a factor.**

23 Also, it's been three years that we've been
24 in for a rate case, so naturally expenses have
25 increased as well, some of those through

1 contractors, et cetera, but we've also done a very
2 good job of decreasing O&M expenses.

3 So -- and I mentioned this yesterday as well:
4 Had we not had the three-year stay-out, we would
5 have come in sooner. Whenever, you know, an
6 electric utility, an investor-owned utility that is
7 also regulated by the Public Service Commission
8 looks at a sustained -- and I'll go back to my
9 rebuttal, a sustained ROE that we've been unable to
10 achieve the authorized over the last three years,
11 starting, I believe it was in September -- September
12 of -- October of this year, September of this year,
13 back to -- beginning in '18, that Table 3 shows the
14 actually achieved ROE, it necessitates coming in to
15 have a base rate case because --

16 Q. Mr. Mattison, I apologize. I don't mean to
17 cut you off. I just feel like we're just getting a
18 little off track.

19 My question just really is: Is there
20 something -- and you identified the fact that you
21 had the mandatory stay-out.

22 Is there something other than the mandatory
23 stay-out and the loss of load that has sort of
24 placed you in this position where your actual ROE
25 has been so low? It also sounds like you identified

1 some increased cost.

2 Is there anything else?

3 **A. There's a multitude of factors.**

4 Q. Okay. So I guess just taking a look at your
5 rebuttal testimony on page R3, and I am happy to
6 read it, but you indicate that despite your prudent
7 management of its operations and continuing economic
8 development efforts within the service territory and
9 then described by direct testimony, customer counts,
10 load, and electricity sales continued to decline.

11 And so those are some of the items that
12 you're talking about affecting the company, correct?

13 **A. Absolutely, those and the fact of the loss of
14 load and the postponement of some economic
15 development opportunities and various things, yes.**

16 Q. So one of the things I want to ask sort of in
17 a hypothetical is: If we didn't factor in any of
18 your other costs, if we took the costs that had
19 existed in your last rate case and could reapportion
20 those based upon the load that you have today, do
21 you have any concept as to where your earnings would
22 be?

23 **A. Not in a hypothetical sense, but
24 hypothetically had we not lost AK Steel, Bellefonte
25 Hospital and a lot of other coal load, we wouldn't**

1 **be in for a rate case today.**

2 Q. Okay. And so with that being true, truly
3 just being able to go in and just reapportion your
4 costs based upon the load that you have is going to
5 significantly alter the financial metrics of the
6 company without adjusting the OATT tracker or
7 increasing the ROE; isn't that true?

8 **A. Sure, it would.**

9 Q. Okay. And you don't have any concept as to
10 that one item standing alone, how that would change
11 the metrics of the company?

12 **A. No. We have not done any analysis on that.**

13 MS. GRUNDMANN: I don't have any further
14 questions. Thank you, Mr. Mattison.

15 CHAIRMAN SCHMITT: Thank you. Mr. Spenard,
16 Mr. Strobo, on behalf of Kentucky Solar, any
17 cross-examination?

18 MR. STROBO: No, Mr. Chairman.

19 CHAIRMAN SCHMITT: Mr. Fitzgerald, any
20 cross-examination?

21 MR. FITZGERALD: No, Mr. Chairman. Thank you
22 very much.

23 CHAIRMAN SCHMITT: Any questions, Sierra
24 Club, Mr. Miller?

25 MR. MILLER: Thank you, Mr. Chairman. I do

1 have just a few questions if it's all right
2 following up on Mr. Chandler.

3 CROSS-EXAMINATION

4 By Mr. Miller:

5 Q. Hi there, Mr. Mattison. My name is Matt
6 Miller on behalf of Sierra Club. How are you?

7 **A. I'm good, Mr. Miller. Thank you.**

8 Q. Good. I just want to -- I have a couple of
9 follow-up questions for clarity based on some
10 inquiry yesterday. Commissioner Chandler and
11 Commissioner Matthews each asked you about the
12 company's continued projection to 2040 as the
13 retirement date for the Mitchell plant.

14 Do you recall that, sir?

15 **A. Yes. I do.**

16 Q. And you indicated in part that KPC would soon
17 be filing a case with PSC here seeking approval of a
18 particular plan to comply with the effluent
19 limitation guidelines or PLGs and CCR rule; is that
20 right?

21 **A. That is correct. November 30 is when we'd
22 have to file that, and then subsequently we'd be
23 coming in to the Commission within plan.**

24 Q. Thanks. And that touches on one of my
25 questions.

1 Do you have a rough guess as to when you had
2 initiated that document with PSC as opposed to the
3 EPA filing?

4 **A. I don't have that exact, but I would say**
5 **within the first five months of the year, somewhere**
6 **in that timeframe.**

7 Q. All right. And I assume you and the company
8 are aware of the provisions, final orders, and the
9 analogous documents for KU and LG&E; is that
10 correct?

11 **A. What are you referring to?**

12 Q. Oh, the Kentucky Utility Company and
13 Louisville Gas and Electric filed a companion pair
14 of dockets that -- quasi CPCNs that were analogous
15 to what it sounds like KPC is going to initiate.

16 I was just asking if you're aware of those
17 documents and the Commission's final order in those
18 cases?

19 **A. I have not read those dockets.**

20 Q. Very well. Commissioner Matthews asked you
21 about the consistency of AEP's 80 percent carbon
22 reduction pledge and carbon neutrality aspiration,
23 asking in part if there wasn't some risk that
24 Mitchell might not make it to 2040 in light of those
25 stated goals and asked you about how you were -- how

1 the company is factoring that in.

2 Do you recall that line, sir?

3 **A. Yes, I do, and I want to clarify something.**

4 **I had a date wrong. She asked about -- Commissioner**
5 **Matthews asked about when did that baseline begin,**
6 **and I said I believe 2012. It was actually the year**
7 **2000. And in 2030, I believe it's 70 percent. In**
8 **2050 is 80 percent and an aspirational goal of zero**
9 **by 2050. I just wanted to clarify that. But I do**
10 **remember that question.**

11 Q. No. That's helpful. Great. Thank you.

12 I believe you responded in part that the
13 company was taking the step of complying with ELG
14 and CCR rule.

15 But just so that the record is clear, you
16 would agree that compliance with those environmental
17 regulations is not necessarily a reduction of carbon
18 pollution -- or carbon emissions. Is that -- would
19 you agree with that?

20 **A. Well, I'm not an environmental expert, but I**
21 **know that we have the ability to file for CCR and**
22 **ELG, which is what we're doing, which allows us the**
23 **ability to operate, maintain, and run that plant.**

24 But to get in particulars about the
25 environmental issues, I don't even know if it would

1 be Tim Kerns in this case as our generation expert.
2 We may have to ask somebody else, but
3 that's -- that's the depth of my knowledge.

4 Q. I can appreciate that. And I don't want to
5 get too far into it, and we'll have that docket.

6 Are you aware, though, that the -- the other
7 option would be to pledge to retire the units as
8 coal-fired units by the end of 2028, and that
9 would -- that would save the company the need to
10 spend on capital upgrades and to keep the units
11 coal-fired in compliance.

12 Are you aware that that is roughly speaking
13 the other option?

14 **A. Well, I mean, I would think that would be an**
15 **option for various, you know, coal-burning plants.**
16 **But in this particular one, that's not what we're**
17 **choosing to do.**

18 Q. I understand. My last question, I guess, is
19 just to confirm: Would you agree that with respect
20 to the company's carbon emissions reduction goals,
21 keeping units coal-fired is the least of -- will be
22 the option that least enables the company to reach
23 those goals when compared with a gas conversion or a
24 retirement and replacement with renewable energies?

25 **A. I don't know that I would agree with that**

1 context because we're talking about looking at the
2 overall AEP footprint, and it may, in some areas,
3 continue to run a coal-fired generator in compliance
4 with environmental laws and mandates, and in others
5 it may be cost prohibitive to do that so you shut
6 that plant down.

7 But we're not just talking about the piece of
8 Kentucky Power's Mitchell plant. We're talking
9 about -- the overall AEP generation fleet are those
10 goals that I laid out earlier, not just Kentucky
11 Power's.

12 Q. I understand that. I appreciate that.

13 Would you agree that in a vacuum for a given
14 plant, keeping it coal-fired will be the -- would
15 emit more carbon emissions than converting it to
16 gas-fired or retiring it and replacing it with a
17 clean portfolio?

18 **A. Is this a hypothetical question?**

19 Q. Well, it -- it's a question in regards to the
20 Mitchell plant in isolation.

21 **A. Well, again, I'll answer the same way. As**
22 **long as there are environmental mandates and rules**
23 **that we can comply with, that's what we'll do. So**
24 **that would be the answer to your question, from my**
25 **perspective.**

1 Q. And you don't -- can you say in a vacuum
2 whether keeping a plant coal-fired results in
3 greater carbon emissions than a gas-fired plant or a
4 renewable energy portfolio?

5 MS. BLEND: May I just clarify? Are
6 you -- is counsel asking Mr. Mattison to assume that
7 the three different types of facilities identified
8 are all dispatching the same amount and running the
9 same amount?

10 Q. Yes. To provide the amount of power and
11 capacity that the Mitchell plant would?

12 **A. Well, I'll just be candid. I struggle to**
13 **answer a question that's in a vacuum because that's**
14 **not how the system works. Again, those corporate**
15 **reduction goals are total for AEP, not just Kentucky**
16 **Power, not Indiana, Michigan, but AEP as a whole.**

17 Q. Thank you. I understand. I'll leave it
18 there. I just had wanted to clarify. It sounded
19 like you answered Commissioner Matthew's questions
20 about carbon reduction goals by saying that the
21 company would comply with the ELGs and CCR rule.

22 And I just wanted to establish that do not
23 bear on the plant's carbon emissions. Would you
24 agree with that?

25 **A. Again, it is what we're doing with the**

1 **Mitchell plant, and the AEP goals are looking at the**
2 **overall generation footprint that we have on the**
3 **entire system, not just the Mitchell plant.**

4 Q. Thank you, sir. I appreciate that.

5 MR. MILLER: And I have no further questions.

6 CHAIRMAN SCHMITT: Mr. Frye, any questions?

7 MR. FRYE: No questions, your Honor.

8 CHAIRMAN SCHMITT: Once again, Mr. Kurtz, are
9 you there?

10 MR. KURTZ: Thank you, Mr. Chairman. I
11 apologize, I had to take a kind of emergency phone
12 call. Can I just ask one question about the
13 Mitchell facility?

14 CHAIRMAN SCHMITT: Sure, you can ask as many
15 questions as you want.

16 CROSS-EXAMINATION

17 By Mr. Kurtz:

18 Q. Good afternoon, Mr. Mattison.

19 One thing that occurred to me on this ELG and
20 CCR issue that's going on, the decision will have to
21 be made on Mitchell soon I guess.

22 What happens if in Kentucky the decision is
23 go ahead with the capital expenditure but the
24 decision in West Virginia is not, or vice versa: in
25 West Virginia they say go ahead and spend money on

1 the plant and the Kentucky Commission says -- says
2 no. What do you do with your co-owner?

3 **A. Well, I think that's a very good question, if**
4 **that, you know, actually occurs, because, as you**
5 **mentioned, we're joint owners with Appalachian Power**
6 **Company, and Kentucky Power actually operates the**
7 **plant.**

8 So if we made a filing, like I said, after
9 the first five months of the new year, and it was
10 rejected by Kentucky and approved by Appalachian,
11 then we're going to have to back up and huddle and
12 figure out what we would do.

13 And I don't have the exact answer to what
14 that would be, but we would definitely have to
15 figure that out for sure.

16 MR. KURTZ: Chairman, I don't have any more
17 questions.

18 CHAIRMAN SCHMITT: Okay. Thank you. Vice
19 Chairman Chandler?

20 VICE CHAIRMAN CHANDLER: Thank you, Chairman.
21 Mr. Mattison, can you hear me?

22 THE WITNESS: I can hear you fine.

23 EXAMINATION

24 By Vice Chairman Chandler:

25 Q. Good afternoon.

1 **A. Good afternoon.**

2 Q. As I understand it, there have been concerns
3 around the AK Steel plant for a while around its
4 closure, maybe even back to 2015 and 2016.

5 When did you arrive at Kentucky Power?

6 **A. I arrived officially on the job on January**
7 **the 1st of 2019.**

8 Q. Okay. And you would agree the loss of AK
9 Steel, in addition to the significant number of
10 coveted jobs, good-paying jobs in that area, it was
11 also a significant loss to your load, right?

12 **A. Yes.**

13 Q. Yeah. So what has the company done in
14 response to that loss of load in an attempt to
15 mitigate the loss of load?

16 **A. Well, we've tried to manage our financials as**
17 **best we could. I mentioned some things yesterday**
18 **about reducing some contractor expense, bending that**
19 **O&M curve. We've done that at Kentucky Power, and**
20 **still yet we continue to have the health or the**
21 **finances of the company not perform as they need to.**

22 So one of the things that we're doing is
23 being here at this rate case, is filing a base rate
24 case, because we've got to have a healthy company to
25 be able to -- as you know, Vice Chair, the role of

1 the Commission is to ensure that the customers'
2 behalf and reliability and needs are met, but it's
3 also for the company as well, and we're utilizing
4 that tool. That's why we're here.

5 Q. Yeah, but I guess I'm -- specific to AK
6 steel, I guess what I'm asking: Has the company
7 done anything specific to mitigate that loss of
8 load, that you can think of that's specific to that
9 loss of load?

10 **A. Well, we're continuing to work through on**
11 **economic development. Cleveland Cliffs actually**
12 **purchased AK Steel. We've met with them, and there**
13 **was a time that everyone thought, including**
14 **Cleveland Cliffs, that there was a furnace there**
15 **called the Amanda Furnace, and it was offline -- in**
16 **2015 is when it went offline.**

17 Once they purchased it and we actually talked
18 with their CFO and their CEO, they thought they
19 would be able to go in and restart that Amanda
20 Furnace. There was hope in the area, hope in the
21 community, hope from some of those workers that had
22 been laid off.

23 But once they got into what I would call the
24 intricacies of that Amanda Furnace, they thought
25 that it would be cost-prohibitive to do that, and

1 then unfortunately they made an announcement that
2 they probably would not be firing up any of those
3 facilities.

4 So we've worked with them through that.
5 We're still working on economic development. We've
6 got several in the pipeline. I mentioned yesterday
7 I met with a significant prospect yesterday morning
8 before -- or Monday morning before the case began on
9 Tuesday.

10 So we're reducing costs. We're holding
11 vacancies. We're doing everything that we can.
12 However, that loss has been significant since our
13 last rate case.

14 Q. And certainly regretful to hear that about
15 the -- the anticipation for the reopening for that
16 facility.

17 Switching gears, you've heard the
18 questions -- you've heard the questions around the
19 differentiation, I guess, between the investments in
20 transmission at -- at transmission company level and
21 at the different operating companies' level the last
22 two days, right, Mr. Mattison?

23 **A. Correct.**

24 Q. Yeah. And do you remember us looking
25 yesterday -- or Mr. Satterwhite, when he was

1 testifying -- some of the documents that Ms. Vinsel
2 had brought up or displayed for him to refer to
3 regarding the change in rate base for a number of
4 Kentucky Power's affiliates, both operating
5 companies and transmission companies?

6 **A. I'll be honest, I did my best to keep up with**
7 **that exchange.**

8 Q. Yeah. And hats off to Ms. Vinsel for moving
9 through a lot of information very quickly.

10 As -- was it your understanding that at least
11 on the transmission company side, since 2013 or
12 2012, they've increased their rate base across the
13 AEP territory from effectively very little rate base
14 to -- well, more, right?

15 Do you remember seeing that on a couple of
16 the transmission companies?

17 **A. Yes.**

18 Q. And I think one of them -- I think the
19 Kentucky Transmission Company on that chart had an
20 NA. There wasn't even any rate base in 2013.

21 And on the top of the chart, you remember
22 those had single digits in terms of thousands of
23 rate base in 2013. Do you remember that from the
24 final chart yesterday?

25 **A. I do recall that.**

1 Q. And those first two -- and I forget which
2 states they were and I think maybe even the third or
3 fourth were AEP affiliates, and they had the highest
4 growth between 2013 and 2019.

5 And I guess, that's not surprising given
6 that -- or I guess: Are you surprised by that given
7 their inception right around that time? Like
8 Mr. Satterwhite said, when you go from zero to ten
9 or from one to ten, well, that's a ten times
10 increase, right?

11 So it's very easy when you started little to
12 have a very high percentage in terms of increase.
13 Would you agree?

14 **A. Right. You're talking about the investment**
15 **in transmission.**

16 Q. Yeah. And in the rate base.

17 So do you remember the Kentucky Power or the
18 Kentucky Transmission Company rate base on that
19 chart where in 2013 it went from NA, and now it's in
20 the \$90-something million area? Do you remember
21 seeing that?

22 **A. It seemed like I remember that number was**
23 **around \$96 million, you-all said yesterday.**

24 Q. Okay. And then the increase over years, it's
25 gone from NA to 90-something million in, you know,

1 what, was that seven years, eight years?

2 Did you notice it increased from something
3 like 80 to 90, 50 to 55 the two years before that?
4 The last five years, that's increased quite a bit,
5 right?

6 My question is: Mr. -- do you remember
7 Mr. Satterwhite's testimony where he indicated that
8 you -- and him as your predecessor had fought to
9 attract more capital to the Kentucky Power operating
10 company.

11 Do you remember that testimony?

12 **A. As far as investment in Kentucky Power**
13 **transmission, that would -- that would be correct.**
14 **We would like to see more investment in the service**
15 **territory of Kentucky Power.**

16 And I mentioned in my previous testimony
17 yesterday morning that some of that was predicated
18 by economic development load, and I think there's
19 several factors of what could predicate the need for
20 transmission.

21 Mr. Ali -- Witness Ali was testifying about,
22 he looks at it -- and the way I like to look at,
23 what he does is he looks at it from an electrical
24 standpoint and the need, and he always is ahead of
25 the curve. The question was asked, you don't run a

1 transmission system to the ground or until it burns
2 up. You try to stay ahead of that. That's one way,
3 what he does electrically.

4 The other is mandated projects from PJM, and
5 then the other is you've got load growth because of
6 a new customer or aged infrastructure. That's how I
7 look at the transmission system of the need for that
8 to happen with the investment.

9 So it's better for us to bring transmission
10 investment into Kentucky Power instead of a Transco,
11 and right now it's an 85/15 split.

12 Unfortunately, in my tenure the last two
13 years, we've had to move out several -- I want to
14 say it was \$50 million plus this year in 2020, and
15 subject to check, like \$36 million last year because
16 of projects that did not materialize that we just
17 weren't able to go forward on, so we weren't able to
18 invest that money in Kentucky.

19 Q. And --

20 **A. I don't mean to interrupt you, but I think**
21 **that may have been -- and I can't speak for Matt**
22 **Satterwhite, but I think that may have been what he**
23 **was referring to when he mentioned me.**

24 Q. Okay. And so let me ask: Are you talking
25 about some of those investments just being pushed

1 out to outer years instead of them in the individual
2 year -- for instance, let me ask about the
3 Enterprise Park. Right.

4 I think Mr. Ali was asked the question by
5 Ms. Blend. Are you aware of that project or that
6 situation?

7 **A. In regard to the Enterprise Park?**

8 Q. Well, sir, are you aware that the Commission
9 had provided Kentucky Power a conditional CPCN for
10 the Enterprise Park project in a 2018 CPCN matter?

11 **A. Are we talking about what was Brady?**

12 Q. No. I believe Enterprise Park is in
13 Pikeville or Pike County?

14 **A. Okay. Right. Was that the EnerBlu?**

15 Q. I believe it may have been.

16 **A. Necessitated because of the customer growth
17 of the potential EnerBlu?**

18 Q. As I read the Commission's order in 2019 --
19 goodness gracious -- 2019 369 where they
20 investigated the additional CPCA, and I think they
21 noted that the basis for the CPCA was customer
22 service in -- yes, in Pike County.

23 And so that project, as you understand it,
24 is -- is no longer going forward as initially
25 planned, but there's another proposal in front of

1 the company -- or from the company in that area,
2 right?

3 **A. Yeah. To my knowledge, it's not going**
4 **forward at the scale that it was if EnerBlu was to**
5 **come.**

6 However, I do believe that there is a request
7 because of condition of need because the system
8 can't support it. It's overloaded, but not because
9 of, you know, unfortunately, customer growth.

10 Q. Yeah, it's a -- as Mr. Ali I think testified
11 earlier, you believe it to be a -- significantly a
12 portion of it is a baseline project and not on
13 customer service demand, right?

14 **A. Correct.**

15 Q. Okay. So economic development aside -- and
16 that may be the entirety of it; if that's the
17 answer, that's the answer.

18 But economic development aside, why, if
19 that's what you -- if you and Mr. Satterwhite want
20 all of the transmission spin to occur at the
21 Kentucky operating -- or the Kentucky Power
22 operating company level instead of Transco -- let me
23 just -- one second.

24 I think we have a phone line that we need to
25 mute.

1 **A. Thank you.**

2 Q. Okay. I think we fixed it.

3 As Mr. Satterwhite said, you both were
4 advocating or have advocated for spending as much on
5 transmission in terms of the need in Kentucky,
6 right, for it to be done at the Kentucky Power
7 operating company instead of at the Transco.

8 Why does it continue to be spent at the
9 Transco?

10 **A. Well, as I mentioned earlier, it's an 85/15**
11 **split. I don't think we want to lose that mechanism**
12 **of having the ability to utilize a Transco, but when**
13 **given the choice, we want at least 85-plus percent**
14 **to go into Kentucky Power. It's better for the**
15 **financial health of the company so that Transco's**
16 **not doing those jobs.**

17 Now, other operating companies may think
18 differently. I don't want to testify on that part,
19 but for us in Kentucky, it's helpful to have it be
20 on Kentucky Power's transmission books.

21 Q. No, and I appreciate -- you know, I've asked
22 quite a few questions about what -- the system as a
23 whole, operating companies in other states, and that
24 was to understand the rules rather than the
25 exceptions, for instance, right, if we do something

1 differently here.

2 I guess I want to clarify: Are you the
3 decisionmaker as to whether or not that split for
4 transmission investment in Kentucky is 85/15, 50/50,
5 or 100/0?

6 **A. Well, I have a lot of influence on that, and**
7 **what I mean by that is I'm given the responsibility**
8 **for the P&L of Kentucky Power, and so given the**
9 **condition that the company is in now, we need to do**
10 **everything we can to make the financial health of**
11 **the company stronger.**

12 And when you look at what's going on from --
13 again, I don't want to sound redundant. We all know
14 why we're here: load loss and where we find
15 ourselves from an ROE perspective -- not the
16 authorized but the earned, we're not able to do the
17 things that we need to do and attract the type of
18 investments from a capital perspective that we --
19 that we need to.

20 So I have an influence in that, and I'll
21 circle back to the reason why we do transmission
22 investment: Is it something that is a potential
23 reliability issue? Is it a customer-driven need?
24 And then I'll -- I'll meet with executive management
25 and say, Here -- here's where we are, this is what

1 we need to do.

2 So I'm a strong influencer in that and part
3 of the final say.

4 Q. Who makes the determination, though?

5 **A. Well, at the end the day, AEP corporate**
6 **supplies us with the capital funding mechanism.**

7 Q. Okay. So is -- is AEP giving you enough
8 capital for you to provide adequate, efficient,
9 reasonable service to your customers?

10 **A. Absolutely.**

11 Q. But they're not providing you enough capital
12 to do that without you putting a portion of your
13 transmission investment into an affiliate?

14 **A. I wouldn't agree with that. The -- the**
15 **capital that needs to be spent is not going to be**
16 **able to be spent until we get the financial**
17 **viability of the company back in a healthy condition**
18 **of 5.3 percent in October, I've seen preliminary**
19 **numbers -- it may even be lower than that, we're not**
20 **going to be able to get that capital because our**
21 **metrics will not allow us to spend to the level that**
22 **we need to be spending.**

23 Q. But --

24 **A. But we're always -- but we're always going to**
25 **spend the level of capital for -- to keep -- make**

1 **sure the system is reliable and healthy, as you**
2 **mentioned.**

3 Q. You don't think those two things are in
4 conflict with each other, that you're always going
5 to have the right amount -- you're always going to
6 spend enough capital to satisfy your requirements,
7 but that you won't be able to get all of the capital
8 you need if you don't meet your ROE?

9 I guess I don't understand how that -- you
10 could have it both ways.

11 **A. Well, here, let me give you an example.**

12 The way that the Kentucky Power system was
13 built was to serve the coal-mining industry on a lot
14 of long, radial feeds, and what we need to do is a
15 lot of 46 kV systems, a lot of 345 kV systems, and
16 Witness Everett Phillips can talk to this more
17 granularly than I.

18 However, those systems that are currently in
19 place today, they need to be dramatically changed.
20 They need to be sectionalized, and to do that I need
21 to have capital in order to make that happen. That
22 creates a better robust, reliable system. If we
23 build it back, we're not going to build it back to a
24 46 kV. We'll probably build it back to 69, and in
25 some cases a 138 kV system. It will be

1 sectionalized with new substations, and this could
2 happen over a ten-year period of time.

3 So currently I don't have the funding to do
4 that. We can still operate the system, and we'll
5 still -- will always be spending the money needed to
6 have a reliable system, but it's not the reliability
7 that we need to get to from a customer perspective
8 because I don't have and cannot attract the capital
9 needed to do what we need to do on those systems I
10 just described.

11 Q. Sure. Under your current split of 85/15,
12 aren't you just making that entire process more
13 expensive?

14 And I ask that from this perspective: If
15 transmissions spent -- if the investment on behalf
16 of a singular project, whatever it may be, it being
17 100 percent owned by Kentucky Power -- rather than
18 split 85/15 between Kentucky Power and the Kentucky
19 Transco, the revenues from it being entirely
20 allocated or on the books for Kentucky Power is a
21 greater revenue offset than if there's only 85
22 percent of the project on their books -- on your
23 books, correct?

24 **A. That could be true, but I've heard the**
25 **discussion and listened to the questions you were**

1 **talking about with Mr. Satterwhite yesterday and**
2 **others.**

3 Mr. Kurtz yesterday was asking about, Is
4 there really a benefit -- and I've heard the analogy
5 multiple times about the 69 line in Michigan, et
6 cetera. I would ask the question: Why would we not
7 want to put that investment in Kentucky?

8 Q. But it's not about -- that's the wrong --
9 that's -- that's looking at it the wrong way.

10 We're not talking about not putting it in
11 Kentucky. I'm asking: Wouldn't you want it to be
12 invested in Kentucky Power rather than Kentucky
13 Transco?

14 Because if all of it is invested in Kentucky
15 Power, the revenue requirement that you receive from
16 the 10.35, the 9.85, plus the 50 -- 50 basis point
17 RTO rider, that revenue that you get from that is an
18 offset to your requirement and the other expenses
19 you're being allocated from affiliates, right?

20 **A. That is correct.**

21 Q. And if only 85 of it is on your books and 15
22 of it is on the transmission company's books, you're
23 only getting 85 percent of that revenue as an offset
24 but you're still being allocated 100 percent of
25 those costs, right?

1 **A. That's correct.**

2 Q. So by continuing to invest 15 percent of each
3 of these transmission projects in Kentucky Transco,
4 you're effectively just making your rates more
5 expensive while simultaneously saying if only your
6 ROE was higher, you will be able to eventually put
7 100 percent of it into your own -- on to your own
8 books, right?

9 **A. Sir, are you asking to -- I want to make sure**
10 **that I'm following what you're asking.**

11 You're asking that we should have less going
12 to the Transco or more going to the Transco.

13 Q. I'm asking: Isn't it a greater benefit to
14 customers -- wouldn't they have -- wouldn't Kentucky
15 Power's customers' rates be lower if more percentage
16 of these transmission investments in Kentucky
17 Power's territory were on Kentucky Power's books
18 rather than Kentucky Transco's books?

19 **A. I agree with that.**

20 Q. Okay. So why --

21 **A. That's --**

22 Q. Yeah. Yeah.

23 **A. That's exactly what Mr. Satterwhite and I**
24 **have been trying to do.**

25 Q. And that's been -- that's what -- I was under

1 the impression that both of you-all are fighting for
2 100 percent -- instead of this 85/15 split,
3 100 percent of these projects be Kentucky Power's
4 projects.

5 Kentucky Power -- Kamran Ali shows up at your
6 door and says, You've got a terrible problem in this
7 area of your system, Mr. Mattison, this is a need,
8 we'll take this to the M-3 process, PJM, in the
9 March 2021 subregional RTEP western.

10 And then when the solution comes along, it'd
11 be -- I assume you would be advocating for
12 100 percent of your solution in that territory to be
13 on Kentucky Power's books, right?

14 **A. I would agree with that.**

15 Q. Okay. And so my question is -- and I think
16 the quote you provided me is a lot of the influence
17 on that decision as to how the cost is allocated
18 between the Transco and Kentucky Power Company --
19 you said you have a lot of influence in that
20 process.

21 My question is: Is there a singular person
22 or group that makes that decision as to what amount
23 is ultimately allocated to the Kentucky Power
24 Transco?

25 **A. I would say I have a lot of influence on**

1 **that, and we've bolstered that over the years, and**
2 **there's a very few that end up making that ultimate**
3 **decision.**

4 I think where we are right now, we don't want
5 to lose that mechanism, but I'm an advocate for as
6 much as we can get on Kentucky Power's books, that's
7 what we want to do.

8 Q. And I think -- I think in your position,
9 Mr. Mattison -- I think that's a great decision.

10 But what I'm -- I'm going to ask very
11 clearly: Who are the people that ultimately make
12 that decision?

13 **A. It's me and the -- and the executive**
14 **management at AEP.**

15 Q. Okay. And when you say executive management,
16 is there a group or we're just -- we're talking the
17 C-suite group, or is there a director of
18 transmission, a vice president? You don't have to
19 say names, a position --

20 **A. No, executive -- there's an executive vice**
21 **president of transmission.**

22 Q. Okay. An EVP of transmission would
23 ultimately be the person --

24 **A. Well, what --**

25 Q. Go ahead. I'm sorry.

1 **A. With myself, them, and the CFO.**

2 Q. Okay. EVP of transmission --

3 **A. But at the end of the day -- I don't mean to**
4 **interrupt you.**

5 At the end of the day I've got the ultimate
6 responsibility as the president of the company.

7 Q. Well, and wouldn't you agree that you've got
8 the ultimate responsibility -- you've got -- as the
9 utility, right? Kentucky Transco is not a utility.
10 We talked about that yesterday, correct?

11 **A. That's right.**

12 Q. That regardless of who owns that transmission
13 system, whether it's 85/15, one of these days in
14 whole, you have, as the president of a utility
15 regulated by the Public Service Commission -- you
16 have the -- the buck stops with you in terms of the
17 obligation of service per the Kentucky statutes,
18 right?

19 **A. I fully understand that.**

20 Q. Okay. And that's -- that's what -- so the
21 EVP of transmission, CFO, which may be I think a new
22 person, maybe, as of the last week or two, and
23 yourself --

24 **A. Yes.**

25 Q. -- make that decision? That's great. Okay.

1 So we agree that had -- all things being
2 equal, we agree that had the Kentucky Transco still
3 being at NA on that chart and not have \$90-something
4 million and that money be invested in Kentucky
5 Power, that ultimately would have been a larger
6 revenue offset for your revenues in this case,
7 right?

8 That's what we were talking about insofar as
9 the transmission is on your books instead of
10 Kentucky Transco -- that's a benefit to customers,
11 that's a benefit to you, right? You make more money
12 that way?

13 **A. Financially, I agree with that, yes.**

14 Q. Right. Yes. So the issue is that -- the
15 disconnect, as I understand it, is the allocation in
16 capital from AEP, would you agree?

17 **A. I guess I'm going to need to hear a little
18 bit more when you talk about the disconnect.**

19 Q. That's perfectly fine.

20 Your share -- the shares in Kentucky Power
21 are owned by AEP, right?

22 **A. We're a wholly -- a subsidiary owned by AEP,
23 that's correct.**

24 Q. So AEP is your shareholder, right?

25 **A. That's correct.**

1 Q. All right. So in terms of attracting
2 shareholder investment you-all are dependent on
3 equity investment from AEP, right?

4 **A. That's correct.**

5 Q. And this gets down to what you talked about
6 earlier, your ability to earn your ROE -- excuse me.
7 Take a step -- I withdraw that.

8 Your ability to attract capital you discussed
9 earlier is at least in some correlation with your
10 ability to earn an ROE or some sort of higher return
11 than I think you mentioned 5-something percent?

12 **A. Is a determinant, yes.**

13 Q. Okay.

14 **A. It's not the sole determinant, but it is a
15 determinant.**

16 Q. Can you -- I would be curious what the other
17 considerations are.

18 When we talk about adequate, efficient,
19 reasonable service, you know, the basis is --
20 there's the rate side of it, and then there's the
21 service side of our regulation.

22 So I would be curious on being able to
23 attract capital, to be able to provide adequate
24 service to your customers, what the other
25 considerations are.

1 **A. Well, it's what we talked about earlier. The**
2 **reason that we're here and we look at load loss,**
3 **et cetera, and cost, that's another determinant. I**
4 **mean, if we had all the capital in the world, we**
5 **couldn't spend it because our finances did not**
6 **support that. It doesn't matter how much money AEP**
7 **is offering me or how much capital is flowing my**
8 **way. I can't spend it. The finances of the company**
9 **are not healthy enough to be able to do that.**

10 Q. But can you afford to continue to have a
11 portion of the transmission investment that is
12 needed?

13 Mr. Ali said need is need. It has to -- you
14 know, the need drives the money. Can you afford to
15 have the company put 15 percent -- or the company,
16 excuse me. AEP put 15 percent of this because
17 doesn't 15 percent of these projects -- into Transco
18 because doesn't that make your rates that much more
19 expensive?

20 **A. We would need to look at that 15 percent, but**
21 **that 15 percent is not the reason why we're here**
22 **having this base rate case.**

23 Q. But the 15 percent is a significant driver in
24 your proposal to recover 100 percent of LSE OATT
25 expense in the tariff PPA, isn't it?

1 **A. It is a driver, but again, it's not a reason**
2 **why we're here having a base rate case.**

3 Q. But wouldn't you agree that insofar as you're
4 only recovering 20 percent of those LSE OATT
5 expenses, as you're only being allocated 85 percent
6 of those offsetting revenues, again, that's a driver
7 for a lower return, right?

8 **A. I agree with you.**

9 Q. Okay. I'm going to ask, Mr. Mattison: Were
10 you aware of the line I read yesterday to you from
11 the 2017 -- the January 2017 rate case, the 20 --
12 let me think about this -- the 2017-179 January '18
13 order of the Public Service Commission regarding
14 Kentucky Power's participation in PJM?

15 Were you aware of that -- the Commission's
16 comments or the Commission's order in that regard
17 before I read that to you yesterday?

18 **A. Is this the one where you read that I believe**
19 **in the order -- that it said that Kentucky Power**
20 **would be looking at ways to reduce costs through PJM**
21 **that we talked about yesterday? And I said I was**
22 **not.**

23 Q. Yeah. That's what I wanted to make sure,
24 that it was talking about -- go ahead.

25 **A. My answer has not changed.**

1 Q. No, no, I don't mean to -- I was trying to
2 refer back to the testimony.

3 So I think the -- the Commission's order was
4 something along the lines of Kentucky Power -- the
5 Commission would like Kentucky Power to ensure that
6 Kentucky Power's participation in PJM is aligned
7 with Kentucky Power and its customers rather than
8 maybe, say, affiliates or how -- to what degree it
9 may be at odds with an affiliate, right?

10 You remember talking about that yesterday?

11 **A. Yes. I do.**

12 Q. And as you indicated yesterday, you were
13 unaware of that prior to -- to us discussing it,
14 right?

15 **A. That's correct.**

16 Q. So I'm just curious: Has anything come to
17 mind or come about -- or if not, can you speak to it
18 a little bit -- as to -- now that you've heard that,
19 do you know what you would intend to do moving
20 forward, after we discussed it yesterday, to -- to
21 sort of implement that or see that Commission's
22 consideration move forward?

23 **A. Are you talking about from yesterday morning
24 until now?**

25 Q. Yeah. I'm just asking if you've come up with

1 anything or thought of any way in which you can say
2 okay, maybe we would do this a little differently,
3 or if you haven't, maybe how you would go through
4 the process of finding out in what ways maybe the
5 interest doesn't align or how you would find out
6 ways to make those interests align.

7 **A. Well, I have thought about it, but I have not**
8 **come up with a plan or a process or, you know, how**
9 **we'll engage to do that, but I am aware of that.**

10 Q. Okay. And I can fully appreciate you've had
11 a lot going on in the last day so I didn't expect
12 you to have the full plan. I was just curious if
13 you'd given it any consideration.

14 And the last question I have, and just to
15 clarify: You were talking to Ms. Vinsel about
16 the -- I think there were quarterly updates with
17 Mr. Ali's group.

18 Do you remember discussing that?

19 **A. Yes.**

20 Q. And were those the updates on transmission
21 projects or needs or solutions, whatever they may
22 be, in the Kentucky Power territory or across the
23 AEP footprint?

24 **A. They're in the Kentucky Power territory.**

25 Q. Okay. And so there isn't a standing process

1 whereby you-all are presented or provided or -- or
2 that you-all review any of the transmission projects
3 across the rest of the AEP system, then?

4 **A. The only time that that really happens is if**
5 **there is -- because of the way, that, you know,**
6 **Eastern Kentucky Power's footprint is, maybe there's**
7 **a project in the Ashland area that's going across**
8 **the Ohio River that affects Ohio or down a little**
9 **bit in West Virginia. Those will come up from time**
10 **to time, but typically those meetings are to provide**
11 **an insight in what's going on in the Kentucky**
12 **service territory and across the footprint of**
13 **Kentucky.**

14 Q. Okay. I appreciate it, Mr. Mattison. I hope
15 you have a nice evening.

16 **A. Thank you.**

17 CHAIRMAN SCHMITT: Dr. Matthews, questions?

18 COMMISSIONER MATTHEWS: I don't have
19 anything.

20 CHAIRMAN SCHMITT: Okay. Ms. Blend, any
21 redirect of Mr. Mattison?

22 MS. BLEND: Yes. Just a few questions, your
23 Honor. Thank you.

24 * * *

25

1 REDIRECT EXAMINATION

2 By Ms. Blend:

3 Q. Mr. Mattison, to one of most recent topics
4 that you just discussed with the Vice Chairman, if
5 Kentucky Power were to -- that additional 15 percent
6 of transmission investment that has been in the
7 Transco. Do you recall that discussion?

8 **A. Yes.**

9 Q. If Kentucky Power were to take on that
10 additional 15 percent of transmission investment,
11 how would the company need to finance that
12 investment?

13 **A. Well, subject to check, and I would have to**
14 **talk to our individuals or the experts at the**
15 **company in our financial area, I'm not sure. I**
16 **don't know if we could -- today, I don't know if we**
17 **could take on that additional investment.**

18 Q. If it did need to be -- if it did need to
19 finance that investment, would you agree that it
20 would need to do that either through that or equity,
21 additional equity?

22 **A. Yes.**

23 Q. And do you have an opinion regarding how the
24 company -- given its current financial state, taking
25 on the additional debt would affect the cost of

1 service?

2 **A. It would be more expensive.**

3 Q. And additionally, do you know how the company
4 taking on the additional equity, how that would
5 affect the cost of service?

6 **A. It would be more costly.**

7 Q. If Kentucky Power's transmission allowed it
8 to take 100 percent of transmission capital in the
9 state of Kentucky, would that be what you would
10 advocate for?

11 **A. Yes. It would be definitely something we
12 would look into for sure.**

13 Q. Do you know whether Kentucky Power has paid a
14 dividend to AEP, its parent, since the last rate
15 case?

16 **A. It has not, and it has not on my watch,
17 either.**

18 Q. And so Kentucky capped -- the result of that
19 is that Kentucky Power has kept that equity capital
20 in Kentucky Power?

21 **A. Yes. We have.**

22 Q. Now, Ms. Vinsel asked you about whether
23 Kentucky Power has challenged any of its affiliates
24 with respect to a rate filing. Do you recall those
25 questions?

1 **A. Yes.**

2 Q. In your tenure at Kentucky Power, has there
3 been any reason for the company to challenge its
4 affiliates' transmission formula?

5 **A. Not that I'm aware of at all. I have met**
6 **with not only Mr. Ali but Kelly Pearce and others**
7 **and have apprised them if there's any need to let me**
8 **know -- this might just go off -- oh, to let me know**
9 **of that, and to my knowledge, there's been no**
10 **discussion of R&E.**

11 Q. Thank you. And one clarifying point is
12 Mr. Kurtz asked you some questions about the
13 Mitchell plant --

14 **A. Yes, sir.**

15 Q. -- and the joint ownership of Mitchell. Do
16 you recall those?

17 **A. Uh-huh.**

18 Q. And I believe you testified that Mitchell is
19 jointly owned by Appalachian Power Company?

20 **A. Yes. Go ahead, I may have misspoke.**

21 Q. Is it your understanding what Wheeling Power
22 Company is the co-owner --

23 **A. Yes. Wheeling. I'm sorry. I said**
24 **Appalachian, but it is Wheeling.**

25 Q. Thanks. Now, do you recall Vice Chairman

1 Chandler's questions to you about the steps Kentucky
2 Power has taken to mitigate the AK Steel load loss?

3 **A. Yes.**

4 Q. Are you aware that AK Steel was a major
5 customer of Air Products in Ashland, Kentucky?

6 **A. Correct.**

7 Q. Has the company -- did the company take any
8 steps -- or can you describe the situation that Air
9 Products found itself in after AK Steel's closure?

10 **A. Well -- and I hate to pass this on to**
11 **Ms. Wiseman, but she may have a little bit more**
12 **intricate detail, but I do know that they supplied**
13 **most of their air gases to AK Steel, and we work**
14 **with them.**

15 And I believe we were able to get them on a
16 rate that would benefit them that they also
17 qualified for, and they're still in business today,
18 which is a good thing. We thought they would
19 probably be shutting their doors as well.

20 Q. Thank you. And is it your understanding that
21 Kentucky Power entered into a special rate contract
22 with Air Products to help Air Products, you know,
23 navigate the changes to its business after AK
24 Steel's closure?

25 **A. Yes. That is correct.**

1 Q. And is it further your understanding that the
2 Commission approved that special contract?

3 **A. They did.**

4 Q. Would you consider those actions by Kentucky
5 Power Company to be a form of mitigation that the
6 company undertook for the loss of AK Steel's load?

7 **A. Absolutely.**

8 Q. And would you agree that in doing so, the
9 company helped to avoid further load loss in the
10 area of another major customer?

11 **A. Yes, keeping native customers is a form of
12 economic development as well.**

13 Q. Thank you. One final question: Has AEP --
14 not Kentucky Power, AEP's appearance or the AEP
15 Foundation made investments in Eastern Kentucky
16 beyond or outside of the costs that Kentucky Power
17 has incurred that are in Kentucky Power's rates?

18 **A. Yeah. Substantial investment. I don't know
19 the dollar amount for sure, but the AEP Foundation
20 is funded by shareholders, and we've made some
21 significant contributions throughout our counties
22 and areas and communities that we serve in Kentucky,
23 and Witness Wiseman can give more detail, but it's
24 been a significant amount of money.**

25 MS. BLEND: Thank you. I have no further

1 questions, your Honor.

2 CHAIRMAN SCHMITT: Thank you. May this
3 witness be excused, at least for the time being?
4 Thank you, Mr. Mattison. You may -- you may step
5 down.

6 THE WITNESS: Thank you.

7 CHAIRMAN SCHMITT: Okay. Is -- according to
8 the list, is Ms. Wiseman the next witness,
9 Ms. Blend?

10 MS. BLEND: Yes, your Honor. Ms. Wiseman is
11 our next witness, and we need to sanitize both the
12 witness seat and counsel table before she takes the
13 stand.

14 While we are doing that, I did want to
15 mention, your Honor, it is about 3:00 -- a little
16 after 3:15 this afternoon. I wanted to let the
17 Commission and the parties know that Kentucky Power
18 Company is willing to stay as late as the Commission
19 are able to and the parties are able to this evening
20 to try to keep this hearing moving along.

21 I know we've spent a lot of time on only a
22 handful of witnesses the last two days, and so I
23 just wanted to let you know we're willing to stay as
24 late as you-all are able to, and we're also willing
25 to start earlier than 9:00 a.m. tomorrow.

1 I just wanted to mention that since I had a
2 moment.

3 CHAIRMAN SCHMITT: Well, we'll probably stay
4 until 6:00 tonight, and if we don't -- if we don't
5 get another two or three witnesses, maybe tomorrow
6 night we may go really late. I don't know. I mean,
7 you may be talking 10:00 or so.

8 We had one hearing here a couple years ago
9 with the East Kentucky Power Group, and we actually
10 went until almost 1:00 a.m. And that was maybe day
11 three, and we went until 5:00 the following day.

12 But we'll try -- I would like not to have to
13 do that, but -- but since we have -- I guess there
14 are maybe ten witnesses from other parties that
15 we've got to -- we've got to get to at some point.
16 We have five days.

17 Obviously, we have Thursday, Friday, the
18 remainder of today, and then Monday if necessary. I
19 guess if we didn't get through Monday, we could just
20 keep plowing on, but we need to -- we need to finish
21 up, and it's not fair to the parties to just keep
22 dragging it out.

23 MS. BLEND: Thank you, your Honor. We'll try
24 to, you know, do everything we can to try to keep
25 things moving on our end and appreciate that we want

1 to move this along as quickly as possible, and so
2 just -- we're ready to do whatever you and the
3 Commissioners prefer with respect to schedule.
4 Thanks.

5 CHAIRMAN SCHMITT: Well, we haven't spoken
6 about it since we started today, but -- so we'll --
7 we'll go until 6:00 or so this evening, and then
8 we'll see tomorrow. I have a special problem that
9 makes it difficult for me to begin earlier than
10 9:00, so -- otherwise it wouldn't -- I wouldn't care
11 to start at 8:00. But we'll see.

12 We can -- in the morning, we can discuss
13 maybe what we do the next two or three days with the
14 hearing. Okay?

15 MS. BLEND: Thank you.

16 VICE CHAIRMAN CHANDLER: I can't imagine
17 who's asking all the questions.

18 COMMISSIONER MATTHEWS: Maybe we should let
19 that person just listen to it by their selves.

20 CHAIRMAN SCHMITT: Well, you know, having
21 this hearing virtually knocked Suzy out of a lot of
22 overtime.

23 COMMISSIONER MATTHEWS: It did.

24 MS. GLASS: Your Honor, Katie Glass for
25 Kentucky Power. I don't think I've made my

1 appearance on camera yet.

2 CHAIRMAN SCHMITT: Ms. Glass, is your witness
3 Ms. Wiseman?

4 MS. GLASS: Yes, it is.

5 CHAIRMAN SCHMITT: Ms. Wiseman, would you
6 please raise your right hand?

7 Do you solemnly swear or affirm under penalty
8 of perjury that the testimony you are about to give
9 will be the truth, the whole truth, and nothing but
10 the truth.

11 THE WITNESS: I do.

12 CHAIRMAN SCHMITT: Counsel, you may ask.

13 CYNTHIA WISEMAN, having been first duly
14 sworn, testified as follows:

15 DIRECT EXAMINATION

16 By Ms. Glass:

17 Q. Ms. Wiseman, can you please state your name,
18 your business address, and your employer?

19 **A. Yes. My name is Cynthia Wiseman, and I work**
20 **for Kentucky Power at 1645 Winchester Avenue at**
21 **Kentucky Power Company.**

22 Q. And what is your position with Kentucky
23 Power?

24 **A. I'm vice president of external affairs and**
25 **customer service.**

1 Q. Did you cause to be filed into the record in
2 this proceeding direct testimony and answers to data
3 responses?

4 **A. Yes.**

5 Q. Do you have any corrections to your testimony
6 or your answers to data responses?

7 **A. I have one correction on page 24 of my direct
8 testimony. There's a typo. The name of the company
9 should be SYKES, not SKYES. So there's a Y and a K
10 that need to be reversed.**

11 Q. So it should be spelled S-Y-K-E-S?

12 **A. Correct.**

13 Q. So there are no other corrections?

14 **A. No.**

15 Q. With the exception of that correction, if I
16 were to ask you the same questions in your direct
17 testimony and the answers data responses today,
18 would your answer be the same?

19 **A. Yes.**

20 MS. GLASS: Thank you, the witness is
21 available for cross-examination.

22 CHAIRMAN SCHMITT: Thank you. Ms. Vinsel,
23 cross-examination.

24 MS. VINSEL: Thank you. Yes.

25 * * *

1 CROSS-EXAMINATION

2 By Ms. Vinsel:

3 Q. Good afternoon, Ms. Wiseman. I just have a
4 few questions for you.

5 **A. Okay.**

6 Q. Speaking of SYKES, can you tell me the status
7 of that project?

8 **A. Yes. Actually, yesterday when you-all were**
9 **talking, you and Mr. Mattison, there were three**
10 **projects that I highlighted in my testimony, and one**
11 **of them was Intuit, and in the testimony it says and**
12 **SYKES.**

13 So that was a collaboration between the two
14 companies. SYKES had occupied the building
15 beforehand. I think there was either a layoff at
16 some point or a reduction in their work force.
17 Intuit came in and took over and rehired a lot of
18 people and are -- I think are continuing to hire.

19 I mean, their job projection when they
20 announced the company was around 3,000. So to my
21 knowledge, that company is doing very well in the
22 Hazard area.

23 Q. Thank you. I'm trying to avoid having to
24 bring up documents to slow us down.

25 I had one question about one of your

1 responses to -- it was a recent data request where
2 we asked Kentucky Power to break out the various
3 projects and include the -- the split between the
4 funding from the KEDS surcharge and then from
5 shareholder funds.

6 **A. Yes.**

7 Q. I had just one question, and I almost hate to
8 bring this up, but in the project that was labeled
9 due diligence for Braidy project --

10 **A. Yeah.**

11 Q. -- there was listed a 1,000 job creation, so
12 it made me wonder: Is that column of job creation
13 actual or projected, or is it blended both?

14 **A. Well, in -- in that case, it's projected**
15 **because -- you know, Braidy is not -- hasn't built**
16 **its facility yet, and that was a -- that was a grant**
17 **that was awarded in 2017, and at that time it was a**
18 **1,000-person job project. So those are projected**
19 **jobs.**

20 Q. Okay.

21 **A. Often, you know, we may not know at the end**
22 **how many jobs are -- and sometimes they take some**
23 **time to ramp up, but in this case with Braidy,**
24 **obviously that's still to come.**

25 Q. No, that's understood. I just wanted to be

1 clear in my own mind that we were talking about both
2 actual projected -- thank you.

3 As -- well, let me not assume that you know.

4 In the Commission's emergency COVID case,
5 administrative case 2020-85, there was a recent
6 order that came out that ended the moratorium on
7 disconnections and also discussed some expectations
8 about many things, but including the contact with
9 customers who do have delinquent accounts.

10 And I just wanted to use this opportunity to
11 see if you could provide the Commission with an
12 update on the process that Kentucky Power is using
13 to contact those customers.

14 **A. Sure. We were consistent with the order, and**
15 **through our technology, we automatically enrolled**
16 **our customers on a payment arrangement that is**
17 **spread over nine months. And flexibility is the key**
18 **word with our customers right now. We will, you**
19 **know, renegotiate that.**

20 But we -- several things to contact them
21 about that. We did an email to customers that we
22 have email notifications too. There was a letter
23 mailed. And then I believe we used, also, an
24 automatic dialer to notify customers about the
25 payment arrangements in advance, and I'm mostly

1 talking about residential customers in this case.

2 MS. VINSEL: Thank you. Staff has nothing
3 further.

4 CHAIRMAN SCHMITT: Counsel for the Attorney
5 General's Office, any cross-examination?

6 MR. WEST: No, we don't have any questions
7 for this witness. Thank you.

8 CHAIRMAN SCHMITT: Mr. Kurtz,
9 cross-examination?

10 MR. KURTZ: No questions, your Honor.

11 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

12 MS. GRUNDMANN: No questions.

13 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo,
14 questions?

15 MR. SPENARD: No questions, Mr. Chairman.

16 CHAIRMAN SCHMITT: Mr. FitzGerald, questions?

17 Mr. FitzGerald, are you present? We'll come back.

18 Mr. Miller, Sierra Club?

19 MR. MILLER: Yes, your Honor. Thank you. I
20 do just have a couple questions.

21 CROSS-EXAMINATION

22 By Mr. Miller:

23 Q. Ms. Wiseman, how are you?

24 **A. I'm good. How are you?**

25 Q. Fine, thank you. Just a moment.

1 A couple of the benefits of AMI cited by a
2 company is favoring approval. The requests in this
3 case included enhancing customers' ability to
4 control and reduce their energy consumption and
5 thereby save on their energy bills as well as the
6 potential reduction in KPC's peak load; is that
7 correct?

8 **A. I don't know about the peak load, but we do**
9 **have a program that I talked about in my testimony**
10 **that is intended to help customers manage their**
11 **usage.**

12 Q. Thank you. And to be fair, the peak load
13 part I got from Mr. Blankenship's testimony and
14 responses, but I appreciate that from your testimony
15 there.

16 And so would you agree that it's vital that
17 customers understand AMI's features and how to take
18 advantage of them, how to use it in order to realize
19 that potential of those energy savings?

20 **A. I do.**

21 Q. Okay. And you indicated that the company
22 planned to roll out a comprehensive education
23 awareness program about AMI leading up to and
24 through the deployment of AMI, and that would
25 include customer work shops , social media, emails,

1 postcards, fact sheets, that kind of thing. Is that
2 correct?

3 **A. It is.**

4 Q. Okay. And then in response to a discovery
5 question Sierra Club tendered, you said that the --
6 that campaign, that affirmative comprehensive
7 outreach would terminate at the end of the AMI
8 deployment process, but that the information -- that
9 there would be information about AMI that would
10 remain accessible to customers online, on the
11 company's website and through customer service.

12 Is that all correct?

13 **A. Yes. But probably worth clarifying, the --**
14 **the portion that will end is the actual AMI rollout**
15 **-- or installation, that part of the education**
16 **campaign the -- that's described in my testimony**
17 **about postcard and the dialer and -- and those types**
18 **of things.**

19 I mean, obviously once the meters are
20 installed, we -- we won't continue with that part.
21 I would see that we would likely move in to
22 promoting more of the benefits of AMI, and that
23 would include the home energy management program
24 that we will have available, and then also with --
25 upon AMI approval, the Flex Pay program which is a

1 prepay program and potential game-changer for our
2 customers.

3 So that will continue, and I really see that
4 continuing for several years, part of our overall --

5 Q. All right. And thank you, ma'am. I
6 appreciate that. And this is basically just -- what
7 I wanted to better understand and clarify is, going
8 forward after the deployment, I wanted to ask if the
9 company is committed to -- you know, apart from this
10 initial affirmative outreach during installation,
11 but later down the line, will the company take
12 efforts to offer education or instruction to new
13 customers, you know, future new customers that --
14 that the company will gain at the time they become
15 new customers, you know, teaching them about how to
16 realize benefits of AMI and -- you know...

17 Maybe you can educate me about whether these
18 are pamphlets or initial consultations. Will there
19 be some kind of education that goes on rather than
20 just figure it out for future customers?

21 **A. Absolutely. So I really see for the next**
22 **several years as we're deploying AMI meters, the**
23 **focus of our whole communications program will be**
24 **around AMI, Flex Pay, and the home energy management**
25 **system.**

1 Most of my work in communications for
2 Kentucky Power has been using the tools that we have
3 available to customers to educate our customers, and
4 that can be things like the average monthly payment
5 plans, paperless billing or, you know, whatever the
6 tool is that we have available, alerts, mobile apps,
7 and so the way I envision it is these tools, initial
8 tools will be incorporated in that initial campaign.

9 Obviously our website is the go-to place for
10 the most comprehensive written information, but then
11 also our call center agents will be teed up to talk
12 about AMI and the benefits, and then, you know, we
13 have a customer service team in the field who would
14 be available to meet with customers as well.

15 And then all the supplemental information
16 that goes with it: What we do on social media, bill
17 inserts for people who are not as, you know, tech
18 savvy. We have a pretty robust email campaign that
19 we run.

20 So we will take advantage of everything that
21 we have available to us because it's very important,
22 obviously , that we get people to engage and use
23 the -- the tools that we are providing.

24 Q. Very good. Thank you, Ms. Wiseman. I
25 appreciate that, and that's helpful. And that's all

1 I have. Thank you.

2 CHAIRMAN SCHMITT: Mr. Frye, any questions?

3 MR. FRYE: No questions, Mr. Chairman.

4 CHAIRMAN SCHMITT: Mr. FitzGerald?

5 MR. FITZGERALD: Mr. Chairman, thank you for
6 getting back to me. I lost the connection just as I
7 was about to ask some questions. Can you hear me
8 now?

9 THE WITNESS: I can hear you.

10 CROSS-EXAMINATION

11 By Mr. FitzGerald:

12 Q. Okay, Ms. Wiseman.

13 Tom FitzGerald, Ms. Wiseman. I represent the
14 joint intervenors: Mountain Association,
15 Kentuckians for the Commonwealth, and Kentucky Solar
16 Energy Society.

17 If there's any of these questions you -- I
18 wanted to explore with you, and if there are any
19 other witnesses that you would like to throw under
20 the bus and say that they would be better to answer
21 the question, feel free to do that. Particularly
22 (inaudible) seems to be the go-to person for that.

23 First let me talk about the Flex Pay a little
24 bit. Do you know the raw number or the percentage?

25 MS. GLASS: Mr. FitzGerald?

1 MR. FITZGERALD: I'm sorry?

2 MS. GLASS: I'm so sorry to interrupt you,
3 but we're having a bit of difficulty hearing you. I
4 think your connection might be a little fuzzy.
5 You're going in and out. Can you try to repeat the
6 question?

7 MR. FITZGERALD: Yes. I was asking the
8 witness whether she knew the raw number and the
9 percentage of residential customers who have been
10 disconnected during the test year for nonpayment of
11 bills.

12 THE WITNESS: I do not have that information.

13 Q. (By Mr. Fitzgerald) Okay. Is there somebody
14 else who might have that information?

15 **A. I am not sure. Maybe Witness West may have**
16 **that information. I'm not sure -- I'm not really**
17 **sure.**

18 Q. Okay. Thanks.

19 Am I correct that Kentucky Power, to your
20 knowledge, has not performed any studies regarding
21 the effect of the voluntary Flex Pay program on the
22 incidence of disconnect for nonpayment?

23 **A. I'm sorry. Can you repeat that?**

24 Q. Yeah. To your knowledge, has Kentucky Power
25 looked at the -- any studies regarding the effect,

1 if any, of the voluntary Flex Pay program on the
2 incidence of disconnection for nonpayment?

3 **A. To my knowledge, we have not conducted a**
4 **study on that.**

5 Q. Okay. Am I also correct that a similar
6 program in Oklahoma, according to your testimony --
7 or according to a data response saw an increase in
8 disconnections of customers who elected to
9 participate in the Flex Pay light program?

10 **A. I'm not sure about that. I recall seeing the**
11 **discovery questions. But again, as it relates to**
12 **the program, the details of it, I think that Witness**
13 **West could answer that.**

14 Q. Okay. Great. Does the -- does the
15 implementation of Flex Pay depend on the customer
16 having an AMI meter?

17 **A. It does.**

18 Q. It does. Okay. To your knowledge, has the
19 company studied limiting the deployment of the AMI
20 meters to those customers have an interest in the
21 Flex Pay option?

22 **A. We have not, to my knowledge. But again --**

23 Q. Okay. You indicated -- I'm sorry.

24 **A. No. Go ahead.**

25 Q. Go ahead. I'm sorry. Oh. I was going to

1 say -- I appreciate that. Were you going to suggest
2 that West -- Mr. West might know that?

3 **A. No. I was going say from the operations side**
4 **of AMI deployment, witness Blankenship is addressing**
5 **that in his testimony.**

6 Q. Okay. So I will -- I'll defer that to him.

7 You indicated in your testimony that
8 customers will benefit from the Flex Pay program by
9 having, quote, greater control over their budget,
10 end quote.

11 And by greater control, do you mean that the
12 customer will better control when they can pay and
13 not what they're going to pay?

14 **A. That's correct.**

15 Q. Okay.

16 **A. The Flex Pay program is designed to give**
17 **customers the opportunity to prepay and on -- you**
18 **know, and on their timeframe and the amount that**
19 **they want to. I mean, there are clearly some**
20 **standards.**

21 We have a minimum -- we have some alerts that
22 oversee, like, a low balance alert and that sort of
23 thing. But -- you know -- and I said earlier that I
24 think the Flex Pay program is a game-changer for our
25 customers, and I'll give you an example.

1 We have a lot of customers -- and I read one
2 today, a social media administrator for our Facebook
3 page, and there was a gentlemen asking our customer
4 service rep if he said -- you know, I know my bill
5 is due, I want -- I need to pay, but I need a couple
6 more days to pay.

7 And so with prepay, I mean, that takes away
8 that concern for our customer where they can pay \$10
9 on Wednesday then pay the remaining amount on Friday
10 once the paycheck comes in, or whatever their
11 situation is.

12 Q. Okay. But my question was: You're not --
13 they're not paying less. It's just when they're
14 paying their bill, right?

15 **A. Right.**

16 Q. Okay.

17 **A. Well, they can pay the amount and when they**
18 **want to pay.**

19 Q. Okay. Switching gears a little bit, could
20 you explain, briefly, your understanding of the
21 purpose of the HEART and THAW programs?

22 **A. Yes. Our HEART and THAW programs are energy**
23 **assistance programs, and they provide payment**
24 **assistance for the -- the HEART program is for low**
25 **income customers. January through April they can**

1 **receive up to \$115.**

2 And then the THAW program is for someone who
3 has just temporarily fallen on hard times or
4 something like that, and they can get \$175.

5 Q. Okay.

6 **A. Those are sisters to the CAC agencies, and,**
7 **you know, there was a recent investigation into all**
8 **of the programs in Kentucky that the Commission**
9 **ruled on earlier this year.**

10 Q. Right. And what rate impact do those
11 programs have on residential customers of KPC, to
12 your knowledge?

13 **A. I don't know the rate impact. The funding is**
14 **-- I think it's a 30 -- well, actually, I think I do**
15 **have the rate impact.**

16 Q. Well, if I say it's a .30 change on the meter
17 each month, is that your understanding?

18 **A. Yeah. Sorry. I thought we were talking**
19 **about a larger number.**

20 Q. Oh, no, I'm sorry. That was an inartful
21 question on my part.

22 So -- and I am a New Math kid, so pardon me
23 if I get this wrong.

24 But I'm assuming that the meter charge on the
25 noncompeting customers is \$3.60 a year; is that

1 right?

2 **A. I believe so.**

3 Q. Okay. Are there any financial benefits that
4 nonparticipating customers reap from having to pay
5 for these programs?

6 **A. Well, I think the benefit is that if we are**
7 **not able to -- you know, if we have customers with**
8 **bad debt that gets written off, then that is**
9 **eventually subsidized back over the entire customer**
10 **base.**

11 Q. Thank you.

12 If I were to coldly and clinically evaluate
13 the relationship between the participating and
14 nonparticipating customers, would it be fair to
15 state that the nonparticipating customers are
16 subsidizing the participating customers?

17 **A. I don't know if I would call it that or not,**
18 **but perhaps.**

19 Q. Okay. Regarding the home energy management
20 system that you testified that KPC intends to deploy
21 this year, what will the customer have to have in
22 terms of equipment to be able to access that
23 customer engagement program?

24 **A. Access to the Internet, or through their cell**
25 **phone, a mobile device, would also get them to the**

1 **platform.**

2 Q. Okay. And do you know, offhand, the level of
3 penetration of the Internet in the service area for
4 KPC, how many people have or don't have access?

5 **A. I do not know that information.**

6 Q. Okay. You mentioned the J.D. Power customer
7 satisfaction survey several times in your direct
8 examination.

9 Do you know when the last time a J.D. Power
10 customer satisfaction survey was done for Kentucky
11 Power customers?

12 **A. Yes. It's done each year, and we receive a
13 quarterly report out.**

14 Q. Okay. Okay. So if we were to do a
15 post-hearing data request, would you get a copy of
16 the most recent one?

17 **A. Absolutely.**

18 Q. Okay. Do you know, offhand, you know, how --
19 I'm sorry. You've already answered that.

20 Regarding AMI, you provided some direct
21 testimony regarding the initiative, and I understand
22 Mr. Blankenship is the -- like the go-to person on
23 this, so if you want to defer any of these questions
24 to him, feel free to, okay? I don't want you to
25 answer if you're not comfortable answering.

1 Do you know whether KPC considered a pilot
2 program to test the relative -- you know, similar to
3 what LG&E and KU have done?

4 **A. I think at one time we did, but, again, that**
5 **would be for Witness Blankenship to --**

6 Q. Okay. Okay. Give me one second here. I'm
7 just going to make a note of that.

8 Do you know whether the company has
9 identified a particular technology that it's going
10 to use, or particular brand of AMI?

11 **A. I do not. Again, that would be witness**
12 **Blankenship.**

13 Q. Okay. Great. Great. You noted that
14 deployment of the AMIs will, quote, allow
15 residential customers to make more informed
16 decisions about their electric consumption and
17 better manage their monthly budgets, end quote.

18 Is it your testimony that residential
19 customers don't currently know how much electricity
20 they're consuming?

21 **A. Well, I think -- I mean, they're obviously**
22 **given that information on their monthly bill. The**
23 **point of that I think is that it's confused -- usage**
24 **is often confused with rates, and it's just a way**
25 **for customers who are interested to better engage**

1 **with the -- with the company and take control of**
2 **their energy usage.**

3 Q. Okay. You also noted that the ability --
4 quote, the ability to access energy usage and cost
5 information can provide residential customers with
6 the capability to take action during the month to
7 manage their energy costs. This is a significant
8 and positive change that will benefit all
9 residential customers, but particularly
10 income-qualified customers or fixed-income customers
11 who are managing a tight monthly budget, end quote.

12 Why -- given KPC's announced interest in
13 providing customers with the capacity to make their
14 energy costs, why is it that the current bill
15 doesn't separate out of the monthly charge from the
16 energy charge the way that, for example, LG&E and KU
17 do?

18 **A. I do not know.**

19 Q. Okay. Do you -- what's the empirical basis
20 for assuming that getting information on energy
21 usage or bill information more frequently will
22 benefit customers, and particularly low-income
23 customers?

24 **A. I'm sorry. Can you repeat the question?**

25 Q. Yeah. Yeah. I'm just wondering: The -- the

1 AMI is touted as being able to provide realtime
2 information that is said to be of value to the
3 customers, and I'm wondering if there are any
4 studies that indicates that having that information
5 more frequently will be of benefit to customers,
6 particularly low-income customers?

7 **A. I'm not aware of a study. Is that what you**
8 **asked me, a study? Sorry. I think your screen's**
9 **freezing.**

10 MS. GLASS: I'm sorry.

11 CHAIRMAN SCHMITT: We haven't been able to
12 hear you since --

13 MR. FITZGERALD: Oh, I'm sorry. Am he coming
14 through clearly now or --

15 MS. GLASS: Yes, I can hear you but --

16 CHAIRMAN SCHMITT: Are you there,
17 Mr. FitzGerald?

18 MR. FITZGERALD: I'm sorry.

19 CHAIRMAN SCHMITT: I didn't know if you were
20 still on the line. I didn't -- your video went off.

21 MR. FITZGERALD: I'm sorry. Can you hear me
22 now?

23 MS. GLASS: Yes.

24 CHAIRMAN SCHMITT: Can you hear me now?
25 Okay. Great.

1 MS. GLASS: I can hear you now.

2 MR. FITZGERALD: I think AT&T is getting back
3 at me for have -- what now, I'm sorry?

4 MS. GLASS: There is a significant time lapse
5 between when you start talking and when we can hear
6 you.

7 MR. FITZGERALD: Okay. Well, I will try to
8 bear that in mind. Thank you.

9 Q. (By Mr. FitzGerald) Ms. Wiseman, regarding
10 the -- the AMI and the ability to get your data
11 in -- in realtime, is the assumption that armed with
12 that information, customers will use less
13 electricity?

14 **A. I think they could adjust -- you know, the**
15 **idea is that they can adjust their habits in their**
16 **homes and figure out what is causing their electric**
17 **consumption.**

18 You know, we are often addressing heating and
19 cooling issues in people's homes, heat pumps in
20 particular and not understanding how a heat pump
21 works, and so I think that is a -- I think to me
22 that would be a benefit of having this data access,
23 that they could monitor how their usage is being
24 used, and if there was something wrong with a heat
25 pump that was in off mode or emergency status, that

1 they could get it fixed.

2 So that's just one example.

3 Q. Okay. Is the goal to better empower the
4 customers to control their energy usage and
5 therefore to lower their utility costs?

6 **A. I think it would be to make them in charge of
7 their usage, potentially, yes, lower their energy
8 costs, and have them use their electricity more
9 efficiently.**

10 Q. Okay. If -- if that is the goal or one of
11 the goals, how does that square with the proposal in
12 this rate case to increase the meter charge for
13 residential customers which has the effect of
14 lessening their ability to take action to control
15 their bills?

16 **A. Well, I mean, those are two separate things,
17 and I don't -- I'm -- I can't really speak to the
18 customer charge, but obviously we want our customers
19 to use their electricity in the most efficient
20 manner that they can so that that frees up money for
21 -- could help mitigate a rate increase, for one, or
22 frees up their money for other things in the
23 community, their groceries and -- and other things
24 that they have.**

25 Q. Okay. The -- assuming that the goal -- one

1 of the goals here is to educate customers about
2 their energy usage in order that they can change
3 their consumption habits and use less, how does that
4 goal help customers whose usage is already declining
5 and who are now being asked to pay more for using
6 less?

7 **A. I'm sorry. Can you repeat that?**

8 Q. Yeah. The reason that I -- my understanding
9 is one of the reasons we are here in this rate case
10 is because of a loss of load and that loss of load
11 is in part due to the exiting of some major
12 customers, but also it's due to a per capita decline
13 in usage.

14 And so I'm wondering how further lessening
15 usage benefits customers when they are simply asked
16 to pay more for the less that they're using?

17 **A. Well, again, we want our customers to use
18 their energy as efficiently as possible. So if
19 they're lessening their usage, then they're freeing
20 up their budget for other things.**

21 Q. Okay. Are you aware of whether residential
22 customers are currently paying a monthly charge for
23 DSM programs?

24 **A. We -- the only DSM program that -- we have a
25 targeted energy efficiency program.**

1 Q. Okay. And is that -- is that being paid for
2 by all of the residential customers?

3 **A. I'm not sure of the status of that. That**
4 **would be -- one of the folks from regulatory could**
5 **answer that question.**

6 Q. Who are those folks? I'm sorry?

7 **A. Well, Witness West.**

8 Q. Okay. So I'll ask Witness West that.
9 Finally, just -- and I'm sorry to be taking
10 so long.

11 MR. FITZGERALD: Mr. Chairman, I appreciate
12 your indulgence. I have no questions for the next
13 witnesses so I'll use up all my questions now.

14 CHAIRMAN SCHMITT: We're going to send you a
15 badge of honor.

16 MR. FITZGERALD: You better send me some duct
17 tape and I'll put it right across my mouth.

18 Q. (By Mr. FitzGerald) I just have a few
19 questions, Ms. Wiseman, regarding the economic
20 trends in the region and KPC's economic initiative.

21 Mr. Mattison's testimony seemed to me to
22 suggest that the region was rebounding and that the
23 effects of the pandemic would be largely gone by
24 2022 when the customers would begin to directly pay
25 for the increased rates as opposed to having the tax

1 benefits that are due them anyway to pay for their
2 first year of a rate increase.

3 So I'm wondering, your testimony seemed to
4 suggest otherwise, and I would like to clarify a few
5 points if I could.

6 You noted that the region has been in
7 economic decline since 2008; is that correct?

8 **A. Yes.**

9 Q. Okay. Did I understand your testimony to be
10 that the trend even prior to COVID-19 has been a
11 loss of load and declining sales due to loss of coal
12 and steel customers and a 6.4 percent loss in
13 overall customers from 2008 to 2019?

14 **A. Right, that's correct.**

15 Q. Okay. And that the population in 19 of your
16 20 counties has declined by 33,000 -- approximately
17 33,000 individuals in those ten years?

18 **A. That's correct.**

19 Q. Okay. And that the overall percentage of
20 those three counties is markedly higher than
21 4.3 percent state load?

22 **A. Correct.**

23 Q. Okay. Do you believe these trends predated
24 the pandemic and will persist after it is
25 controlled?

1 **A. I do think that it predated the pandemic, and**
2 **unless something dramatically changes that, yes, I**
3 **think we will continue to struggle in Eastern**
4 **Kentucky.**

5 I mean, this is a region that built itself on
6 coal mining and steel for decades and decades and
7 decades, and so the rebuilding of that will also
8 take quite a bit of time.

9 Q. I don't disagree a bit.

10 Last set of questions.

11 What is the purpose and the goal of the
12 K-PEGG program?

13 **A. So one of the reasons that I mentioned the**
14 **economic situation of Eastern Kentucky in my**
15 **testimony is because we're asking for -- to maintain**
16 **the rate of funding for the K-PEGG program.**

17 Q. Okay. What -- I'm sorry.

18 **A. Oh, I was just going to answer your question.**

19 Q. No. That was great. That was great.

20 How is it funded?

21 **A. It is funded partially by the company and**
22 **partially by our nonresidential customers at \$1 per**
23 **month.**

24 Q. Okay.

25 **A. And then the company matches that. It's**

1 around \$750,000 a year that we give away in grant
2 money.

3 Q. Okay.

4 A. Maybe not always. Sometimes it rolls.

5 Q. Okay. Who can receive these grants?

6 A. We work mostly with nonprofits in the areas.
7 Government entities can receive it. We're -- you
8 know, we're a partner in the economic development
9 region. We work closely with One East Kentucky,
10 Ashland, Alliance, SOAR, community colleges.

11 I mean, there are a lot of partners and a lot
12 of recipients of the grants.

13 Q. Okay. And they're competitive grants; is
14 that right?

15 A. Well, there is a process, so, I mean, yes.
16 So it's an application that they complete, and it's
17 ruled on by a team of people. We have
18 representatives from the cabinet for economic
19 development, or one representative, and then we have
20 a representative from the Kentucky Association of
21 Economic Development who also participates on that,
22 so --

23 Q. Okay.

24 A. Yes.

25 Q. That's great. And are these funds available

1 to individual companies?

2 **A. Nonprofit entities. And so -- so often --**
3 **so, for instance, take Dajcor, which was a company**
4 **that located to the Hazard area in the past year.**
5 **They work with -- One East Kentucky is the one that**
6 **recruited them to the area, and so -- Perry County**
7 **is the government.**

8 And so we were able to provide grant funding
9 to those two companies to help with the recruitment
10 and startup of Dajcor.

11 Q. Okay. So do any of these grant funds end up
12 supporting for-profit companies?

13 **A. Indirectly, but I will say the purpose of the**
14 **K-PEGG program is to -- to bring -- to attract jobs**
15 **to the area, obviously, was very important. I'm**
16 **very interested in that, but then also to get sites**
17 **and buildings prepared.**

18 So, you know, I think the -- I think that
19 building is -- I'm not sure specifically about
20 Dajcor, but their building is being leased, and so
21 the government -- Perry County government might end
22 that one. I might have that one confused, actually,
23 between Intuit and Dajcor.

24 Q. Okay.

25 **A. But indirectly, yes, I guess it's possible**

1 **that they can benefit.**

2 Q. Okay. And this, believe it or not, is the
3 last question.

4 Is it fair to state that the \$12-a-year
5 charge that's paid by existing commercial customers
6 that indirectly benefits new commercial prospects is
7 a subsidy of the existing customers to these
8 prospects?

9 **A. I do think that that's true, yes. I mean, I**
10 **guess it could be called a subsidy.**

11 Q. Okay. And just so we're clear, and I
12 appreciate all your time, I'm a strong believer in
13 low-income assistance programs and economic
14 development programs. I just -- there's a point I'm
15 making here which may become clear, or may be
16 already clear, but I appreciate very much your work
17 in that regard and your testimony here today, and I
18 appreciate your time.

19 MR. FITZGERALD: Mr. Chairman, I am,
20 mercifully, done.

21 CHAIRMAN SCHMITT: Vice Chairman Chandler,
22 questions?

23 VICE CHAIRMAN CHANDLER: Thank you, Chairman.

24 * * *

25

1 EXAMINATION

2 By Vice Chairman Chandler:

3 Q. Good evening, Ms. -- is it Ms. Wiseman?

4 **A. Good evening.**

5 Q. Are you aware of the Commission's docket in
6 response to COVID-19 case number 2020-00085 where
7 the Commission -- let me just ask this: The
8 Commission asked a number of data requests about the
9 impact of COVID on both customers and companies' --
10 certain utilities' operations?

11 **A. I am aware of that. I wasn't really involved**
12 **in it, but yes.**

13 Q. So if you'll indulge me just one minute here,
14 share my screen.

15 Mr. West in that docket provided the
16 company -- sponsored the company's responses to a
17 number of data requests. One of them -- please let
18 me know when you can see my screen. Do you see
19 that?

20 **A. Yes.**

21 Q. Okay. One of them asked -- if I get it right
22 -- the percent of customers by class that pay on
23 time for 2017 as a year, '18 as a year, '19 as a
24 year, and then each month in 2020.

25 Do you see that?

1 **A. I do.**

2 Q. And then it refers to -- it refers to an
3 Excel attachment. Do you see that as well?

4 **A. I see where it refers to an Excel attachment,**
5 **yes.**

6 Q. Okay. And so please let me know when you can
7 see the Excel attachment on the screen.

8 **A. I can see it. I can't read numbers from it.**

9 Q. That's perfectly fine. I will zoom in now
10 that we can see it.

11 And so the -- if you'll believe me, the
12 response said to go to 1-9 here, and this is the
13 supplemental attachment that it refers to.

14 Is that information a little clearer?

15 **A. Yes. I can see it.**

16 Q. And so do you see that for residential
17 customers that paid on time, the 2017 average --
18 it's a less-than-average because it -- because of
19 the way the Kentucky billing -- do you see that at
20 the bottom, the Kentucky Power billing system
21 archives information -- but the average in '17, '18
22 and '19 for the information was 79.09 percent of
23 customers paying on time, 82.3 percent for 2018, and
24 for 2019, 82.35 percent.

25 Do you see those numbers?

1 **A. I can -- it's blurry, but I can sort of see**
2 **it.**

3 Q. Blurry. Okay. Let me see if I can --

4 **A. It might be me.**

5 Q. Is that any better?

6 **A. Yeah, it might be.**

7 Q. Okay. And I'll ask Mr. West about this, so
8 don't worry about that, but you mentioned that a
9 significant portion of your job is customer service,
10 right?

11 **A. That's a piece of it, yes.**

12 Q. Okay. And I just want to understand: Do you
13 have at least a rudimentary understanding of LIHEAP?

14 **A. Yeah. I'm familiar with it.**

15 Q. Okay. And do you know that they had a LIHEAP
16 cooling program this summer in addition to the
17 ordinary LIHEAP winter cooling program?

18 **A. Yes.**

19 Q. Okay. And is it your understanding that
20 LIHEAP as a general matter, at least in ordinary
21 times, requires there be a late payment or a threat
22 of disconnection before somebody is able to receive
23 LIHEAP assistance?

24 **A. Yes. I'm familiar with that.**

25 Q. Okay. And so would you agree that as a

1 general matter regarding late payments, LIHEAP as a
2 general matter shouldn't be a consideration as to
3 whether or not -- you know, if there was three times
4 as much LIHEAP assistance available, that shouldn't
5 matter as it relates to on-time payment, because
6 on-time payment, if you -- if you pay on time, you
7 can't get LIHEAP, right?

8 It shouldn't increase or decrease according
9 to the amount of LIHEAP available?

10 **A. Right.**

11 Q. Okay. And so you're aware that the
12 Commission's moratorium on -- I'll leave it on this
13 one so you don't go back and forth a bunch.

14 Is it your understanding that the
15 Commission's moratorium on disconnections went into
16 effect in March?

17 **A. It did. Yes.**

18 Q. Okay. And along with that, do you remember
19 that the Commission said that utilities were unable
20 to assess late-payment charges?

21 **A. Yes.**

22 Q. Okay. And so at least for April, May, June,
23 July, and August, those months -- those on-time
24 percentages would reflect the on-time pay rate of
25 residential customers in a time where there was no

1 threat of disconnection and no assessment of late
2 payments, right?

3 **A. Can you repeat that? I'm sorry.**

4 Q. You would agree that the data -- the data
5 here for on-time payment would indicate the amounts
6 for April, May, June, July, and August for
7 residential, commercial, and industrial customers
8 would be reflective of the Commission's order on
9 that subject, that there was no -- there was a
10 moratorium on disconnection and there was no
11 assessment on late fees?

12 **A. Right.**

13 Q. So based in your experience in your position
14 regarding customer service, are you surprised to see
15 that there was little to no impact on the on-time --
16 on the on-time pay rate for residential customers
17 when there was, simultaneously, no assessment of
18 late payment fees?

19 **A. I'm not really surprised because I think -- I**
20 **mean, I haven't really studied this, but just from**
21 **what I've observed is that the same customers who**
22 **were behind probably before the pandemic are the**
23 **ones that are behind still.**

24 Q. So --

25 **A. I haven't analyzed that from the data, but**

1 **that's just my -- basically what I think is the**
2 **case.**

3 Q. Yeah. And I -- let me ask it differently.

4 If that's the case and based on the
5 information we just looked at, do you think that the
6 late-payment fee that the company assesses has an
7 impact on whether those customers -- on customers'
8 behavior?

9 **A. I do not know that. I mean, I would have to**
10 **study that a little bit.**

11 Q. Well, I guess I would just ask your opinion.
12 Do you have an opinion?

13 **A. Repeat the question, please.**

14 Q. Do you believe that the assessment of a
15 late-payment fee, based on your -- based on your
16 experience, the assessment of a late-payment fee
17 impacts customers' behavior as to whether or not
18 they pay on time?

19 **A. I do not. I doubt that it is -- a**
20 **late-payment fee makes a difference to a customer**
21 **who is paying their bill late, for lack of a better**
22 **way to say it.**

23 Q. Right. A person unable to pay their bill on
24 the due date, it doesn't matter if there's an
25 assessment of an additional fee; they're still going

1 to be unable to pay the bill?

2 **A. You know, I don't -- I don't know, and I feel**
3 **like that Witness West may be able to better address**
4 **this. He may have more background information on it**
5 **with customer fees and charges, but I do not, you**
6 **know, think that a customer is really looking at**
7 **their late fee as a determination of whether or not**
8 **they're going to pay.**

9 VICE CHAIRMAN CHANDLER: Okay. I pretty much
10 appreciate it, Ms. Wiseman. Thank you. Those all
11 the questions I have, Chairman.

12 CHAIRMAN SCHMITT: Commissioner Matthews,
13 questions?

14 COMMISSIONER MATTHEWS: Yes. If I can figure
15 out which of my three screens I can get myself off
16 mute.

17 EXAMINATION

18 By Commissioner Matthews:

19 Q. How are you this afternoon, almost evening?

20 **A. I'm good, thank you. How are you?**

21 Q. Can you hear me just fine?

22 **A. I can.**

23 Q. Okay. You are responsible for external
24 affairs, economic development, customer and energy
25 services, and corporate communications?

1 **A. That's correct.**

2 Q. That's a lot to put on a business card.

3 **A. It's a lot. Yes.**

4 Q. So I just have -- and some questions are
5 going to hop between those roles.

6 When you do things like customer satisfaction
7 surveys, how does the cost of electricity and the
8 bill factor into -- I mean, where does that fall?
9 Is that the most important thing with regards to
10 customer satisfaction or the least important thing?

11 **A. Well, in the example of J.D. Power, typically**
12 **what we see in responses is around billing and**
13 **payment or price. I mean, they -- they often run**
14 **those together, and then also reliability of power.**
15 **Those are the two I would say dominating factors in**
16 **our surveys when we see remarks or comments.**

17 Q. That's consistent with what I would expect.

18 How successful has your targeted energy
19 efficiency program been?

20 We -- the Commission scaled back DSM programs
21 and asked utilities to focus only on those
22 low-income programs.

23 **A. On the weatherization programs?**

24 Q. Is that the only energy --

25 **A. That's the only one that we have --**

1 Q. -- that you had left in that -- okay.

2 Has that been successful, have you seen --

3 **A. I think it's successful. I really don't see**
4 **that much information on it, to be honest. It's an**
5 **offering that we have, but I don't really have that**
6 **much information about it.**

7 Q. Okay. Because we've heard anecdotally from
8 some of the areas in the state that weatherization
9 programs are getting to the point where the homes
10 that can be weatherized have been, and other homes
11 perhaps need more than just caulk and --

12 **A. I have not heard -- I'm sorry.**

13 Q. Go ahead.

14 **A. No, I said I have not heard that personally,**
15 **but I wouldn't be surprised.**

16 Q. Okay. I just -- I didn't know with that --
17 the things you're looking at, if you were aware of
18 that.

19 Skip just a second, and let's talk about
20 Flex Pay.

21 **A. Okay.**

22 Q. Walk me through what you mean when you talk
23 about the Flex Pay program, because it's really a
24 few different programs, right, or constitutes -- is
25 it just prepay?

1 **A. It's just prepay.**

2 Q. Okay.

3 **A. And I'll see if I can -- I'll turn to my**
4 **testimony.**

5 So it's a prepay program that would allow
6 customers to do just that, have more control over
7 when they pay and what amount they pay. And once
8 they sign up for it -- I know I really covered the
9 communications part of it in my testimony.

10 Q. Right.

11 **A. And I know West talks about the tariff, but**
12 **they would receive alerts to notify them if they**
13 **were -- you know, there's a whole -- in my exhibit**
14 **there's a whole series of messages that they could**
15 **receive about their balance or if a payment was**
16 **received or something to that effect. And that can**
17 **be done through a text message too.**

18 Q. Okay.

19 **A. So it's really just a prepay program. And as**
20 **I had used in the example earlier, we often see**
21 **people asking for a few more days to, you know, pay**
22 **their bill, or whatever.**

23 And in this case for the -- for people who
24 are on a fixed income or low income, I mean, I
25 really think it's a game-changer. It will help them

1 manage their budgets a little better and, you know,
2 control their finances.

3 Q. And I know that a lot of the co-ops in the
4 Eastern Kentucky area have prepay programs.

5 Have you looked at any of their educational
6 presentations and seen how successful, kind of
7 learned from any of their experience, given that
8 they're -- they're servicing a similar customer
9 base?

10 **A. Yeah. We -- you know, I normally always do**
11 **that, especially before I do any kind of**
12 **communications campaign. I want to see what other**
13 **utilities are using not only just in Kentucky but**
14 **around the country, and then also what other AEP**
15 **companies have done since a lot of them already have**
16 **AMI, and at least -- you know, like PSO is one that**
17 **I've been modeling some of my information from on**
18 **their prepay program, our company in Oklahoma.**

19 Q. And with prepay, one of the benefits would be
20 no deposit or a reduced deposit?

21 If I wanted to get service in your territory
22 now, I would have to have a deposit, and if I'm
23 going to opt for prepay, it would either reduce or
24 eliminate that deposit.

25 **A. Right. You would have to have a deposit if**

1 **your, you know, credit warranted it, and then the**
2 **prepay program would eliminate that.**

3 Q. Okay. So that's -- and as for the question
4 that I believe Mr. FitzGerald asked about, do you
5 think that would make someone use less electricity?
6 I think you can look to some of those -- some of the
7 neighbors and see if that has held out or not.

8 **A. From the prepay program?**

9 Q. Yes, from the prepay program.

10 **A. Sure. I would of course be willing to do**
11 **that. I think the home energy management system**
12 **also gives our customers the opportunities to manage**
13 **their usage through that program. I call it**
14 **customer engagement platform, also home energy**
15 **management program in my testimony.**

16 Q. Okay. And let's talk about the AMI option a
17 little bit.

18 As part of the data and the use of the data,
19 will you be -- will you allow customers to make that
20 data available to third parties who maybe want to
21 help them manage their energy?

22 **A. Yes. Customers -- it's our policy to put**
23 **customers in charge of their own data, and there are**
24 **several mechanisms where they can do that, and then**
25 **the home energy management system would be one way**

1 that they can download data, and then also we have
2 the green button to download more data, and then of
3 course our letter of authorization is available if a
4 customer wants to give data over to a third party.

5 Q. Okay. Another questions is: if I'm a
6 customer is I don't want a smart meter, what is the
7 proposal for the opt-out?

8 A. Well, Witness Blankenship addresses --

9 Q. Okay.

10 A. -- that in his testimony, but as I understand
11 it, it will be, you know, a one-on-one customer
12 basis. The issue is not so much whether or not they
13 can opt out. It's more about whether or not they
14 will be continue to be served with an AMR in the
15 future.

16 COMMISSIONER MATTHEWS: Okay. And I think
17 between Mr. FitzGerald and Mr. Chandler, the rest of
18 my questions were covered. So thank you.

19 CHAIRMAN SCHMITT: Ms. Glass, any redirect?

20 MS. GLASS: Yes, your Honor. Just a few.

21 REDIRECT EXAMINATION

22 By Ms. Glass:

23 Q. It's counterintuitive.

24 Okay. Ms. Wiseman, going back to

25 Mr. FitzGerald's questions regarding the access to

1 AMI information and customers' usage information
2 that they can receive after having an AMI meter
3 installed, he asked questions about Internet access
4 and how customers might be able to access that
5 information, and you testified that they could
6 access it through the Internet or through their
7 phones.

8 **A. Right.**

9 Q. Would customers also be able to access that
10 information on computers at a library, for instance,
11 if they don't have their own computer or if they
12 don't have Internet access at their homes?

13 **A. Yes. Any place like that in a library.**

14 And then I also should have also added that
15 for customers who are maybe not tech savvy or they
16 have -- they do not have Internet access, our call
17 center is always available, and so we have agents
18 there who know about AMI data and that sort of
19 information, and they can help customers with their
20 information.

21 And then also, I think I had mentioned
22 previously, you know, we have a team of customer
23 service folks who would be also willing to meet with
24 a customer in person.

25 Q. Thank you. If a customer wanted to receive

1 information that's -- about their usage that they
2 can get from their AMI meters, and they called the
3 customer service center, could they not only discuss
4 the information with the customer service
5 representative, but could they also have that
6 information sent to them or emailed to them or
7 mailed to them?

8 **A. Yes. I mean, we have several -- the letter**
9 **of authorization process, if they wanted to give it**
10 **to their third party or customer service agents**
11 **would help them with that -- with that.**

12 Q. And earlier there was a question from -- I
13 believe from Mr. FitzGerald about how the customer's
14 bill -- does it show the monthly charge and the
15 energy charge separately.

16 I know you're not involved in the workings of
17 what is displayed on the bill but is it your
18 understanding generally that the Public Service
19 Commission has approved Kentucky Power's bill
20 format?

21 **A. Yes. True.**

22 Q. And I think yesterday Ms. Vinsel was
23 questioning Company Witness Mattison, and she had
24 mentioned that she had detected that there was a
25 change in theme from the last rate case in 2017 from

1 economic development to growth in this case.

2 And I think Mr. Mattison testified that that
3 wasn't exactly the case and there wasn't a change in
4 theme.

5 Could you expound upon the company's economic
6 development efforts since the 2017 rate case and its
7 focus on economic development since then?

8 **A. Absolutely. So we are as committed and**
9 **involved in economic development in Eastern Kentucky**
10 **as we have always been. I think the reason it is**
11 **not as prevalent in my testimony this year is**
12 **because we are just asking to maintain our K-PEGG**
13 **program, and we've kind of found our rhythm I think**
14 **with the K-PEGG program on how we allocate the**
15 **funding through the grant program.**

16 But I would say that there's a whole team of
17 us at Kentucky Power who's involved in economic
18 development. Clearly the internal affairs managers,
19 they split their time with economic development.
20 Brett Madison and I were both involved. The
21 regulatory team is involved, our customer service
22 team.

23 In fact we have a weekly touchpoint call
24 where we review what we consider our prospects, and
25 that's just the ones that someone has reached out to

1 us either through one of the economic development
2 organizations to, you know, inquire about power
3 supply or our rate, and so it's always, you know, on
4 our agenda, economic development.

5 We work very closely with a number of groups.
6 Brett Mattison and I both serve on the One East
7 Kentucky board. I serve on the Ashland's Alliance
8 board and am also the incoming chairperson.

9 No doubt there's a lot of work to do.
10 Economic development is a very long process, and it
11 can take some time. But with all of the partners in
12 Eastern Kentucky, I mean, I think we're on a good
13 path and looking forward to the -- you know, the
14 next few years to come.

15 Q. Thank you.

16 Switching gears a little bit, there was a
17 question about the late-payment fees for nonpayment,
18 and is a late-payment fee intended only to incent
19 customers to pay or does it also reflect Kentucky
20 Power's cost of past due receivables, if you know?

21 **A. I think it's not just for the incent to pay**
22 **it's to -- you know, it's just to compensate for the**
23 **late -- you know, the late-cost receivables.**

24 Q. Okay. Thank you. And final question about
25 Kentucky Power's DSM program and some questions

1 that -- that were brought up earlier.

2 Would Company Witness Scott Bishop be the
3 best witness to answer those questions?

4 **A. He would be. He manages the programs, and**
5 **now works in the regulatory group.**

6 MS. GLASS: Okay. Thank you. That's all I
7 have.

8 CHAIRMAN SCHMITT: You may -- you may step
9 down, Ms. Wiseman. Thank you.

10 THE WITNESS: Okay. Thank you.

11 CHAIRMAN SCHMITT: Is Kentucky Power ready to
12 call Mr. Kerns, its next witness?

13 MS. GLASS: And again we'll just need --

14 CHAIRMAN SCHMITT: I'm sorry. I'm sorry.
15 Stop.

16 (A DISCUSSION WAS HELD OFF THE RECORD.)

17 CHAIRMAN SCHMITT: Ms. Glass, you need to
18 speak up, get close to the microphone. Apparently
19 the reporters are having difficulty hearing you.

20 MS. GLASS: Okay. Thank you. I will not be
21 crossing -- or presenting Mr. Kerns, so I'll pass
22 that on to the next attorney. Thank you.

23 CHAIRMAN SCHMITT: I guess it will take some
24 time too -- I guess you have to clean the witness
25 chair and the stand, correct?

1 I don't know what she said.

2 MS. SACRE: We lost her.

3 (A DISCUSSION WAS HELD OFF THE RECORD.)

4 CHAIRMAN SCHMITT: We're going to have to
5 wait a second and see if I -- we'll have someone
6 from our technical crew here after 5:00.

7 MS. GLASS: Thank you, your Honor. We're
8 ready whenever you are.

9 MS. SACRE: Just say okay. Just close it?

10 CHAIRMAN SCHMITT: Okay.

11 MS. SACRE: I'm afraid to close anything.
12 Lots of red. Not good.

13 CHAIRMAN SCHMITT: Ms. Blend, can you hear
14 me?

15 MS. BLEND: I can, your Honor.

16 CHAIRMAN SCHMITT: When we talked about going
17 late, there's one group I didn't consider, and
18 that's the people who are back here in our hearing
19 room who are actually operating the system.

20 So we'll have to check on that in the morning
21 and see how late we can go. We'll have to wait a
22 second. Ms. Vinsel is back with that crew. We'll
23 have to wait until she comes back.

24 MS. SACRE: Tell her to speak up, too. When
25 she gets way back from that microphone, you can't

1 hear her. Got too much room.

2 MS. VINSEL: Just clarifying their technical
3 support.

4 CHAIRMAN SCHMITT: Will we have somebody here
5 until 6:00?

6 MS. VINSEL: Yes, Anthony is here.

7 CHAIRMAN SCHMITT: All right, Ms. Blend. I
8 think we're ready to go. Would you introduce your
9 witness?

10 MS. BLEND: Yes, your Honor.

11 Thank you. Company calls Tim Kerns.

12 CHAIRMAN SCHMITT: Mr. Kerns, would you
13 please raise your right hand?

14 Do you solemnly swear or affirm that the
15 testimony you're about to give will be the truth,
16 the whole truth, and nothing but the truth.

17 THE WITNESS: I will.

18 CHAIRMAN SCHMITT: Ms. Blend, you may ask.

19 MS. BLEND: Thank you.

20 TIMOTHY KERNS, having been first duly sworn,
21 testified as follows:

22 DIRECT EXAMINATION

23 By Ms. Blend:

24 Q. Mr. Kerns, would you please state your name
25 and business address for the record?

1 **A. Good afternoon. I'm Timothy Kerns, my**
2 **business address is 2791 North US Highway 231, in**
3 **Rockport, Indiana.**

4 Q. Thank you. And by whom are you employed and
5 in what position?

6 **A. I'm employed by Kentucky Power Service**
7 **Corporation. I'm the vice president of generating**
8 **assets with responsibility for Kentucky Power and**
9 **Michigan Power assets.**

10 Q. Thank you. Reminder just to keep your voice
11 up for the court reporter.

12 **A. Okay. I'm sorry.**

13 Q. Mr. Kerns, are you aware that Debra Osborne
14 caused to be filed direct testimony in response to
15 data requests in this case?

16 **A. Yes, I am.**

17 Q. And are you further aware that Ms. Osborne
18 retired effective September 30th, 2020?

19 **A. Yes, I am.**

20 Q. And you are the witness who is adopting her
21 testimony and her data responses for purposes of
22 this case, correct?

23 **A. Yes, I am.**

24 Q. Thank you.

25 Other than the personal biographical

1 information about Ms. Osborne contained in her
2 direct testimony, do you have any changes to those
3 documents?

4 **A. I do not.**

5 Q. And if I were to ask you the same questions
6 today other than the personal biographical answer
7 that Ms. Osborne, would your answers be the same?

8 **A. Yes.**

9 MS. BLEND: Thank you. Your Honor, the
10 witness is available for cross-examination.

11 CHAIRMAN SCHMITT: Ms. Vinsel, do you have
12 any cross-examination?

13 MS. VINSEL: No, Mr. Chairman, I don't have
14 any examination. But I will ask Mr. Kerns if he
15 will lean into the microphone a little when he
16 answers, that would be helpful.

17 THE WITNESS: Thank you, I sure will. As you
18 struggle to hear me if that happens, please don't
19 hesitate to let me know.

20 MS. VINSEL: Thank you very much.

21 CHAIRMAN SCHMITT: Counsel for the attorney
22 general, any questions?

23 VICE CHAIRMAN CHANDLER: We have no questions
24 for this witness, thank you.

25 CHAIRMAN SCHMITT: Mr. Kurtz,

1 cross-examination?

2 MR. KURTZ: I do, your Honor, very briefly.

3 CROSS-EXAMINATION

4 By Mr. Kurtz:

5 Q. Will you turn to page 5 of your testimony,
6 Mr. Kerns?

7 I would like to ask a few questions about the
8 decommissioning and demolition activities of
9 Big Sandy.

10 **A. I'm there.**

11 Q. Okay. The cost of decommissioning Big Sandy
12 Unit Two are being covered by Kentucky Power via a
13 decommissioning rider; is that correct?

14 **A. That's my understanding, yes.**

15 Q. Okay. What is the expected total cost of
16 decommissioning Big Sandy Two expected to be?

17 **A. I'm sorry. I don't have the -- I don't have
18 the number for the total decommissioning. I know
19 that our estimate for the closure of the flash pond
20 is in the -- around \$92 million. But I don't have
21 the information on the unit two decommission.**

22 Q. Okay. What I want to understand is when we
23 can expect to get some rate relief via the rider; in
24 other words, when the costs are going to be finished
25 and therefore the rider will -- will go down.

1 When is the closure expected to be complete?

2 **A. We still expect that to be completed by**
3 **December of 2020.**

4 Q. Okay. Oh, good, so -- and that's a pretty
5 major cost?

6 **A. Yes. Yes. It is.**

7 Q. Okay. So we should -- I know you're not a
8 rates guy. We'll ask Mr. Vaughan.

9 We can expect to see some great relief maybe
10 the following month after that?

11 **A. I would -- as you suggest, I would talk to**
12 **Mr. Vaughan about the rate relief, but we completed**
13 **demolition of the electrostatic precipitator in**
14 **October of 2020 on schedule. We expect the closure**
15 **of the flash pond to be completed by December of**
16 **2020 on schedule.**

17 We have gotten the selective catalytic
18 reduction system on the ground, so we certainly
19 expect it to be completed by December of 2020,
20 again, all on schedule. The remaining activities
21 will be completing the scrap removal, evaluating how
22 many CPCs and conduits -- how many steel conduits we
23 have.

24 But I see nothing that would prevent us from
25 completing by mid-2021 as scheduled.

1 Q. I wanted to ask you about scrap sales.

2 I know you're not the rates guy, but when
3 you -- when you decommission, demolish a plant, do
4 you sell the scrap metal for money and -- correct?

5 **A. In some cases, yes. I'm not familiar with**
6 **the contracts that have been set up specifically for**
7 **this and how those costs are -- you know, come back**
8 **through, but yes, if there's scrap to be sold,**
9 **generally we do. That's part of the contractors**
10 **that we use to demolish a unit.**

11 Q. Thank you, sir. If it is money that comes
12 back from the scrap or other things, is that
13 credited to the decommissioning rider?

14 **A. I'm not -- I'm not sure.**

15 Q. Really quickly, just on this page, what is
16 the status of asbestos removal that's listed on line
17 16, page 5?

18 MS. VINSEL: Pardon me if I interrupt.

19 Mr. Kurtz, would you like to have this document
20 displayed during your cross-examination?

21 MR. KURTZ: No, thank you. It's just the
22 testimony he adopted.

23 MS. VINSEL: Thank you. I appreciate it.

24 THE WITNESS: Thank you. The asbestos
25 removal is complete.

1 Q. (By Mr. Kurtz) Okay. What about removal of
2 coal-handling equipment, is that complete also?

3 **A. Yes. That is complete.**

4 Q. Demolition of the Big Sandy Unit Two cooling
5 tower?

6 **A. Yes, sir. That is complete as well.**

7 Q. Okay. Last question: The removal of
8 coal-impacted soils from the former portfolio?

9 **A. That is underway. It's not complete.**

10 Q. Okay. I have one more question. When
11 this -- when this is it finished, will the facility
12 be returned to a greenfield or brownfield site?

13 **A. My understanding is it will be returned to a
14 brownfield site.**

15 MR. KURTZ: Okay. Thank you, sir. No
16 further questions.

17 CHAIRMAN SCHMITT: Ms. Grundmann,
18 cross-examination?

19 MS. GRUNDMANN: No, your Honor. Thank you.

20 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo,
21 questions?

22 MR. SPENARD: No, thank you.

23 CHAIRMAN SCHMITT: Mr. FitzGerald, questions?

24 MR. FITZGERALD: No, your Honor. Appreciate
25 the opportunity. No questions.

1 CHAIRMAN SCHMITT: Mr. Miller, any questions?

2 MR. MILLER: No, your Honor. No questions,
3 thank you.

4 CHAIRMAN SCHMITT: Mr. Frye?

5 MR. FRYE: No questions, Chairman. Thank
6 you.

7 CHAIRMAN SCHMITT: Vice Chairman Chandler?

8 VICE CHAIRMAN CHANDLER: Yes, your Honor.
9 Just a few.

10 EXAMINATION

11 By Vice Chairman Chandler:

12 Q. Good afternoon -- is it Kerns?

13 **A. Kerns. Thank you. Yes, it is.**

14 Q. I guess it's almost good evening.

15 I appreciate when I heard your description of
16 your address, you said Rockport, Indiana. I was
17 confused, and then you said you were in charge of
18 the generation assets at Kentucky Power so it makes
19 sense that you're there in Rockport.

20 Let me -- at a very high level -- so -- so
21 you would also be in charge of the generation of the
22 Mitchell plant; is that correct?

23 **A. That's correct.**

24 Q. So Mitchell, Big Sandy, and then all of the
25 other assets that I&M owns; is that correct?

1 **A. That's correct. The generating assets, yes,**
2 **the Rockport plant, the hired facilities, and the**
3 **solar facility.**

4 Q. And Mr. Mattison, to his understanding -- and
5 I just want to make sure we're all on the same
6 page -- to his understanding did not anticipate any
7 change in the current expected useful life of the
8 Mitchell plant.

9 Is that also your understanding of an
10 expected useful life, at least until 2040?

11 **A. Yes, sir, it is.**

12 Q. And then Big Sandy is -- I'm going from
13 memory here, but 2030, is that still the anticipated
14 retirement date of Big Sandy unit one?

15 **A. 2031, I believe.**

16 Q. 2031. Excuse me.

17 And I'm going to attempt to do this
18 without -- without going into anything that -- that
19 could possibly be confidential, but would you agree
20 that when Big Sandy One was refired as a natural gas
21 facility, Kentucky Power wasn't necessarily
22 expecting it to dispatch, particularly often, in PJM
23 on an economic basis?

24 **A. That's my understanding, but it's based on**
25 **discussions I heard from a distance. I have**

1 **certainly wasn't -- I wasn't involved with the Big**
2 **Sandy plant at the time, but yes, low-capacity**
3 **factors were anticipated at that time.**

4 Q. And do you understand that it was -- the
5 refiring was a -- understood to be a fairly
6 economical way of Kentucky Power to meet its FRR
7 plan as capacity?

8 **A. Yes.**

9 Q. Okay. And let me ask, when -- when -- well,
10 is it your understanding that Mitchell -- well, let
11 me ask this: Is Mitchell dispatching as often as
12 you or Kentucky Power would have anticipated when
13 the transfer to Kentucky Power occurred?

14 **A. I'm sorry. I can't answer that because I**
15 **don't have information about what the expectation**
16 **was.**

17 What I will offer is that the dispatch of the
18 Mitchell plant is consistent with what we're seeing
19 at our facilities with cheap natural gas renewals
20 and just a soft energy market, so it's not an
21 outlier in the standpoint that it's not dispatching
22 much.

23 Q. It's not a -- it may not be an outlier to a
24 similarly situated coal-fired but it's certainly
25 dispatching less than -- well, that you had hoped,

1 correct?

2 **A. Repeat your question.**

3 Q. That -- let me withdraw that.

4 Has -- has the Mitchell plant experienced an
5 inordinate number of forced outages over the last --
6 we'll say three years, in your opinion?

7 **A. I wouldn't characterize it as an inordinate
8 number. The forced outage rate, particularly on
9 unit one, was certainly higher than we expect and
10 desire in 2017 due primarily to a low-pressure
11 turbine blade failure.**

12 So a three-year average on forced outage rate
13 at Mitchell has been running just around 13 percent,
14 14 percent, and declining since 2017.

15 Q. And so where would you like to see the forced
16 outage rate be for a unit or units like Mitchell?

17 **A. We generally target 7 to 10 percent for the
18 way that we fund the units and where the -- where we
19 anticipate the market being.**

20 Q. Okay. And so are '18 and '19 above those
21 amounts, above that target?

22 **A. So 20 -- 2018 was -- I'm trying to do some
23 math in my head here, but about 15 percent, and 2019
24 would be roughly 11 percent.**

25 Q. So even without the outlier in '17, you're

1 still running in the other two years significantly
2 higher than -- you're double what your target rate
3 is. Why is that the case?

4 **A. So we're looking to -- always looking at the**
5 **amount of spend on the unit, what should we -- what**
6 **should we be investing and how much risk are we**
7 **willing to take around reliability and availability.**

8 As I said, soft energy market has us taking a
9 look at -- at what makes sense for those units, as
10 -- as we are across our coal fleet.

11 So equipment such as the precipitators where
12 we've had issues with our capacity have caused
13 curtailments, not necessarily forced outages. We've
14 had steam leaks in the steam generator which have
15 caused forced outages. We've had other equipment --
16 we've had a boiler feed pump that we had to replace
17 unexpectedly.

18 So it's generally the plant equipment
19 that's -- that's forcing us out.

20 Q. So are you aware of the difference between
21 ICAP and UCAP in capacity planning?

22 **A. Generally.**

23 Q. Okay. And are you aware that PJM requires
24 for the FRR plans -- for the FRR entities to be able
25 to meet their -- to meet their load -- load

1 requirement on a UCAP basis?

2 **A. Yes.**

3 Q. Okay. And you would agree that forced
4 outages are a consideration in calculating the UCAP,
5 is that your understanding?

6 **A. I'm sorry. I can't answer that. I know
7 seasonal D rates due to certain conditions can
8 affect the D cap, but to the degree that forced
9 outage rates impact it, I can't answer that.**

10 Q. Okay. And are you under the -- do you know
11 the Rockport UPA is expired as it relates to
12 Kentucky Power in December of 2022, right?

13 **A. Yes.**

14 Q. And one's at the very end of the year and one
15 is very close to the end of the year, is that your
16 understanding?

17 **A. I thought there was just one UPA and --
18 sometime in December of 2022.**

19 Q. December of 2022. That's fair.

20 Are you under the impression, given your
21 position, that expiration of the Rockport UPAs,
22 there's an anticipation that Kentucky Power will be
23 short capacity?

24 **A. I don't -- I don't have that information. I
25 haven't been involved in the IRP process. I believe**

1 **that would be a better question for Witness Mattison**
2 **or Witness West.**

3 Q. So as it relates to Kentucky Power's FRR
4 plan, do you know who is in charge at AEP of
5 Kentucky Power's FRR plan?

6 **A. I do not.**

7 Q. Okay. And I'm aware at least to a degree of
8 Kentucky Power's current IRP, I think it's 2019-443,
9 there's an indication in there that in outer years
10 that there may be an inclusion of some portion of
11 solar or wind energy.

12 I'm just curious, given your position, does
13 I&M have any utility still solar or wind in their
14 portfolio?

15 **A. Yes. I&M has four sites that total 14.7**
16 **megawatts of generation. We have another site under**
17 **construction now that will be 20 megawatts and**
18 **expect to be in service after -- in 2021.**

19 Q. And do you know if they use that solar as a
20 way to satisfy their FRR plan?

21 **A. I do not.**

22 Q. Okay. I appreciate it, Mr. Kerns. You have
23 a good evening.

24 **A. Thank you, you too.**

25 CHAIRMAN SCHMITT: Dr. Matthews, questions?

1 COMMISSIONER MATTHEWS: I don't have any
2 questions, thank you.

3 CHAIRMAN SCHMITT: Ms. Blend, do you have any
4 redirect?

5 MS. BLEND: Thank you, your Honor. Just a
6 couple of questions.

7 REDIRECT EXAMINATION

8 By Ms. Blend:

9 Q. Mr. Kerns, regarding the company's IRP, which
10 Vice Chairman Chandler mentioned to you, is it your
11 understanding that Company Witness West, who is the
12 witness in this case, is also involved in that
13 proceeding in interrogatory responses to data
14 requests in that proceeding?

15 **A. Yes. It is.**

16 Q. Thank you. So, in your opinion, would you
17 expect him to be able to answer some of the
18 questions about the IRPs that the Vice Chairman
19 asked?

20 **A. Yes, I would.**

21 Q. Now, you discussed some of the causes or
22 contributing factors to the forced outage rates at
23 Mitchell plant?

24 **A. Yes.**

25 Q. Do you recall those questions?

1 **A. Yes.**

2 Q. Do AEP and Kentucky Power Company regularly
3 inspect and maintain equipment in generating
4 facilities, including those for that in the Mitchell
5 plant?

6 **A. Yes, we do.**

7 Q. Can you elaborate on that a little further,
8 regarding the inspection and maintenance at
9 Mitchell?

10 **A. So as Ms. Osborne pointed out in testimony**
11 **that I adopted, we have the predictive and**
12 **preventative maintenance programs which are**
13 **routinely assessing and inspecting the condition of**
14 **the equipment and of the systems.**

15 Once we determine that there are needs based
16 on the equipment performance or the health of the
17 equipment from the technologies we're using, we'll
18 then build -- we have what we call an asset help
19 summary which breaks the plant down by systems and
20 equipment. We prioritize that based on high,
21 immediate, low risk, and then we develop what we
22 think the needs are for the plant going forward.

23 We then work with the Kentucky Power
24 leadership team where it weighs those needs against
25 the other needs in the company to decide how

1 we -- you know, how we fund that and what we go
2 after.

3 As I mentioned, the soft energy market has
4 a -- really changing the way we look at those
5 Mitchell units from the standpoint of -- you know,
6 in the testimony here they're described as base load
7 units.

8 Certainly when those units came online, they
9 were to meet base load needs, but as the energy
10 market has changed, they really have fallen more
11 into a load following category inasmuch as a
12 capacity asset for our customers.

13 So investing in those units to maintain a
14 100 percent variability or a zero percent or a 2
15 percent forced outage rate really doesn't make any
16 sense for our customers. Having -- investing in a
17 level that has those -- to be a reliable capacity
18 resource when needed for our customers makes more
19 sense these days.

20 Q. Thank you. The predictive and preventative
21 maintenance that the company performs, can it
22 guarantee or predict with 100 percent when an asset
23 or piece of equipment is going to fail?

24 **A. No.**

25 Q. Are the types of equipment failures that you

1 referenced, I believe you discussed a turbine blade
2 and a boiler.

3 Are those types of equipment failures typical
4 types of failures that occur at coal-fired
5 generating plants as the vintage of Mitchell?

6 **A. With the exception of the turbine blade, yes,
7 and even a turbine failure is not atypical.**

8 **However, the turbine is the piece of equipment that
9 we take the least risk with because of the potential
10 for collateral damage and the safety implications
11 for our employee and the facilities. So we don't
12 routinely throw turbine blades. However, the other
13 -- the other items are fairly typical.**

14 Q. Thanks for that clarification.

15 Are other of the types of equipment and
16 failures that you described the -- the other
17 instances, the boiler failure and the turbine blade
18 failure indicative that Kentucky Power is not
19 quietly inspecting maintenance plants?

20 **A. No. Not at all.**

21 MS. BLEND: Thanks. That's all the questions
22 that I have.

23 CHAIRMAN SCHMITT: Thank you, Mr. Kerns. You
24 may step down.

25 Ms. Blend, are you ready to call your next

1 witness.

2 MS. BLEND: Yes, your Honor, the company
3 calls Lerah Scott.

4 CHAIRMAN SCHMITT: Oh, you'll need a few
5 moments, though. Do you need to do any
6 disinfecting?

7 MS. BLEND: Yes, we will, your Honor, just a
8 moment, to disinfect the witness stand and table.

9 CHAIRMAN SCHMITT: Our reporter would like to
10 take a short break. So let's take a break until
11 five minutes after 5:00. We'll be in recess until
12 then.

13 MS. BLEND: Thank you, your Honor.

14 (A DISCUSSION WAS HELD OFF THE RECORD.)

15 CHAIRMAN SCHMITT: We're now back on the
16 record. Mr. Overstreet, will you introduce your
17 next witness?

18 MR. OVERSTREET: Yes, your Honor, thank you.
19 Kentucky Power now calls Lerah M. Scott.

20 CHAIRMAN SCHMITT: Ms. Scott, will you please
21 raise your right hand? There's something odd about
22 the video because Commissioner Matthews is the only
23 person I can see on the screen.

24 MR. OVERSTREET: Mr. Chairman, we've had a
25 bit of a technical issue, please.

1 CHAIRMAN SCHMITT: Ms. Scott, will you please
2 raise your right hand?

3 Do you solemnly swear or affirm under the
4 penalty of perjury that the testimony you're about
5 to give will be the truth, the whole truth, and
6 nothing but the truth.

7 THE WITNESS: I do.

8 CHAIRMAN SCHMITT: Okay. I do want to say,
9 too: We got another reminder from our reporter at
10 the last break for lawyers and witnesses, please
11 lean forward or pull the microphone towards you
12 because we do, on occasion, have times with the
13 witness or the lawyer asking the question, you'll
14 just fade out and some words will be missing, so --
15 okay.

16 Mr. Overstreet, you may -- you may ask.

17 MR. OVERSTREET: Thank you, Mr. Chairman.

18 LERAH M. SCOTT, having been first duly sworn,
19 testified as follows:

20 DIRECT EXAMINATION

21 By Mr. Overstreet:

22 Q. Ms. Scott, would you please state your name,
23 business address, and employer?

24 **A. My name is Lerah Scott. That's spelled**
25 **L-E-R-A-H. My work address is 1645 Winchester**

1 **Avenue, Ashland, Kentucky, 41101, and my employer is**
2 **Kentucky Power.**

3 Q. And what is your position with Kentucky
4 Power?

5 **A. I am a regulatory consultant.**

6 Q. And did you cause to be filed in this -- the
7 record of this proceeding direct testimony and
8 responses to data requests?

9 **A. Yes.**

10 Q. And do you have any corrections to those
11 filings?

12 **A. I do.**

13 Q. And would you please provide those to the
14 politician and the parties?

15 **A. The first one is on page 9 of my direct**
16 **testimony, line 19, the figure on that line should**
17 **read 414574.**

18 Q. Do you have any others?

19 **A. The second one is on my direct testimony page**
20 **10, line 6. The figure on that should read 111982.**

21 Q. And are there any others?

22 **A. So the first one to page 9 is actually a**
23 **result of a change to a data response. That is**
24 **staff question 46 -- 4, number 65.**

25 Q. And that response was filed last week?

1 **A. Correct.**

2 Q. Okay. Ms. Scott, with those corrections and
3 updates -- if you were asked the same questions in
4 your testimony and data request responses, would
5 your responses be the same?

6 **A. They would.**

7 MR. OVERSTREET: Your Honor, the witness is
8 available for cross-examination.

9 CHAIRMAN SCHMITT: Thank you. Ms. Vinsel,
10 cross-examination?

11 MS. VINSEL: Yes, Chairman.

12 CROSS-EXAMINATION

13 By Ms. Vinsel:

14 Q. Good afternoon -- I'm going to call it
15 afternoon. Good afternoon, Ms. Scott.

16 **A. Good afternoon.**

17 Q. Please let me know if you have any problems
18 hearing me or if you don't understand the question.

19 In your direct testimony, you discussed that
20 Kentucky Power recovers the cost of environmental
21 projects through base rates and through the
22 environmental surcharge.

23 Can you tell me -- let me back up here.

24 We can agree that with the Rockport facility,
25 Kentucky Power has a share of cost associated with

1 Rockport environmental projects; is that correct?

2 **A. That is correct, and just -- for the record**
3 **should state what is flowing through -- the**
4 **environmental surcharges for the approved**
5 **environmental projects.**

6 Q. Yes. Thank you.

7 **A. The company's environmental compliance**
8 **program.**

9 Q. And the monthly environmental compliance base
10 rate revenue requirement includes Kentucky Power's
11 share of costs associated with Rockport
12 environmental projects; is that correct?

13 **A. Correct. The approved one.**

14 Q. The approved one. And can you tell me what
15 the projects are that have been approved?

16 **A. I apologize. I'm just looking through. I'm**
17 **trying to find the exact page on the tariff sheet**
18 **which lists them.**

19 Q. You're fine. Take your time.

20 **A. So they're outlined on Exhibit L, MS2, page 6**
21 **of 7. I will make one caveat to this. This tariff**
22 **sheet has since been approved when I filed this or**
23 **prepared this in that I believe the only change to**
24 **this is under the Rockport project, and it changes**
25 **the very last bullet point there that says at unit**

1 **one. It removes that text to show that SCR, or**
2 **selective catalytic reduction, is now on both units**
3 **or recovered from both units.**

4 Q. So recovered from units one and two, correct?

5 **A. Correct.**

6 Q. Is it correct that the same plant -- if a
7 plant is recovered through the environmental
8 surcharge, it's not also recovered somewhere else?

9 **A. So it's recovered -- there's the chance that**
10 **the Rockport and Mitchell non-FGD is recovered both**
11 **through base and the environmental surcharge.**
12 **However, the Mitchell non-FGD is recovered solely**
13 **through the non-environmental surcharge.**

14 Q. And I want to make sure I understood.

15 You said there's part of Rockport
16 environmental costs that are not recovered through
17 the environmental surcharge?

18 **A. So how the environmental surcharge works --**
19 **I'll flip to the page there.**

20 Q. Okay.

21 **A. One second. Okay. So the discussion of how**
22 **the environmental surcharge works is on page three,**
23 **and I just want to be clear that we first establish**
24 **the base revenue requirements, and then the**
25 **environmental surcharge is going to calculate the**

1 **total cost by month and then reduce what is in base**
2 **to get what is going to be recovered in the**
3 **environmental surcharge.**

4 And that discussion is on page three of my
5 direct testimony.

6 Q. I remember reading it. It was very clear.
7 Thank you.

8 But I think I misunderstood what you said. I
9 know that there are certain Mitchell costs. I think
10 it's the Mitchell non-FDG costs that are excluded
11 from the environmental surcharge. Is that correct?

12 **A. Sorry. That would be the opposite way**
13 **around.**

14 It would be Mitchell non-FGD is solely
15 recovered through the environmental surcharge. It
16 doesn't have a base revenue requirement.

17 Q. Okay. Thank you. Thank you. I think you've
18 answered all my questions.

19 MS. VINSEL: We have nothing further,
20 Chairman.

21 CHAIRMAN SCHMITT: Counsel for the
22 Attorney General, any cross-examination?

23 MR. WEST: I do not for this witness. Thank
24 you.

25 CHAIRMAN SCHMITT: Mr. Kurtz, any questions?

1 MR. KURTZ: No thank you, your Honor.

2 CHAIRMAN SCHMITT: Ms. Grundmann, questions
3 for Walmart?

4 MS. GRUNDMANN: No questions.

5 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo?

6 MR. SPENARD: No questions.

7 CHAIRMAN SCHMITT: Mr. FitzGerald?

8 MR. FITZGERALD: No questions, Mr. Chairman.
9 Thank you.

10 CHAIRMAN SCHMITT: Mr. Miller?

11 MR. MILLER: No, sir. Thank you very much.

12 CHAIRMAN SCHMITT: Mr. Frye?

13 MR. FRYE: No questions. Thank you, your
14 Honor.

15 CHAIRMAN SCHMITT: Vice Chairman?

16 VICE CHAIRMAN CHANDLER: No. Thank you,
17 Chairman.

18 CHAIRMAN SCHMITT: I'm sorry. You don't have
19 questions? Or you do? When there was a hesitation
20 there, I almost -- my heart stopped.

21 VICE CHAIRMAN CHANDLER: I appreciate that I
22 can lighten the mood by -- and save us all a little
23 bit of time and miss probably a little bit of
24 heartache and a little bit of headache.

25 I have no questions. Thank you.

1 CHAIRMAN SCHMITT: Dr. Matthews, any
2 questions?

3 COMMISSIONER MATTHEWS: I don't have any.
4 Thank you.

5 THE WITNESS: May I? Before we go on, can I
6 clarify for Ms. Vinsel because I incorrectly stated
7 that it's Mitchell non-FGD that has been completely
8 excluded from -- or from base.

9 It's actually the other way around. It is
10 Mitchell FGD that is exclusively recovered through
11 the environmental surcharge. I apologize.

12 CHAIRMAN SCHMITT: Ms. Vinsel, any questions
13 based on that revision?

14 MS. VINSEL: No, but thank you for the
15 clarification.

16 CHAIRMAN SCHMITT: Mr. Overstreet, any
17 redirect?

18 MR. OVERSTREET: With that clarification, no,
19 your Honor.

20 CHAIRMAN SCHMITT: All right.
21 Mr. Overstreet, are you ready to call your next
22 witness?

23 MR. OVERSTREET: We are, your Honor, and Mr.
24 Wolffram will be presenting the witness.

25 MS. SACRE: Mr. Who?

1 CHAIRMAN SCHMITT: Wolffram?

2 MS. SACRE: Who is that?

3 CHAIRMAN SCHMITT: Okay. Mr. Wolffram, are
4 you ready to proceed?

5 MR. WOLFFRAM: Yes, your Honor. At this time
6 the company would call Heather Whitney to the stand.

7 CHAIRMAN SCHMITT: Ms. Whitney, will you
8 please raise your right hand?

9 Do you solemnly swear or affirm under the
10 penalty of perjury that the testimony you're about
11 to give will be the truth, the whole truth, and
12 nothing but the truth.

13 THE WITNESS: I do.

14 CHAIRMAN SCHMITT: Okay. Counsel, you may
15 ask.

16 MR. WOLFFRAM: Thank you, your Honor. Just
17 one second.

18 HEATHER M. WHITNEY, having been first duly
19 sworn, testified as follows:

20 DIRECT EXAMINATION

21 By Mr. Wolffram:

22 Q. Ms. Whitney, will you please state your name
23 and business for the record.

24 **A. My name is Heather Whitney. My business**
25 **address is 1 Riverside Plaza, Columbus, Ohio, 43215.**

1 Q. And by whom are you employed and in what
2 position?

3 **A. American Electric Power Service Corporation.**
4 **I'm the director of regulatory accounting services.**

5 Q. And did you cause to be filed in this direct
6 testimony, rebuttal testimony, and discoveries
7 responses?

8 **A. I did.**

9 Q. Do you have any changes, modifications or
10 corrections to those discovery responses or
11 testimony at this time?

12 **A. I do not.**

13 Q. Were those discovery responses and testimony
14 prepared by you or under your supervision?

15 **A. Yes, they were.**

16 Q. And if I were to ask you the same questions
17 that appear in both your discovery responses and
18 your testimonies would your answers be substantially
19 the same?

20 **A. Yes.**

21 MR. WOLFFRAM: Your Honor, at this time the
22 witness is offered for cross-examination.

23 CHAIRMAN SCHMITT: Thank you. Ms. Vinsel,
24 cross-examination.

25 MS. VINSEL: Yes. I just have a few

1 questions.

2 CROSS-EXAMINATION

3 By Ms. Vinsel:

4 Q. I'm going with good evening now. Good
5 evening, Ms. Whitney.

6 **A. Good evening, ma'am.**

7 MS. VINSEL: I'm going to ask, Zach, would
8 you please pull up on screen share a document, and
9 this is from the application. It's in section five,
10 Exhibit 2. And once it's up, I'll let you know
11 which adjustment to go to. Yes, in fact -- I need
12 to go to W08. Let me have you go one more for me.
13 Thank you.

14 BY MS. VINSEL:

15 Q. And Ms. Whitney, this is the -- one of the
16 adjustments that Kentucky Power made to the test
17 year expenses. In this case, this adjustment --
18 again, it's labeled W08 -- it removes tariff PPA
19 revenues and expenses from the test year.

20 **A. Yes. I see it.**

21 Q. Okay. I want to see -- make sure I find --
22 it appears that the only listed purchase power
23 expense related to Rockport is \$1.2 million, and
24 would you --

25 **A. Are you asking me what -- oh --**

1 Q. Oh, no I just wanted you to confirm that, the
2 only listed purchase power expense is related to
3 Rockport and it's removing -- it's 1 -- it's
4 \$1.2 million and it's related to the -- we believe
5 to the declining Rockport deferral?

6 **A. I just want to clarify a couple of things.**
7 **So this adjustment from a big picture perspective is**
8 **we're just wanting to remove for the cost of service**
9 **in this case the revenues and expenses associated**
10 **with this rider because we're trying to get down**
11 **just to the amounts that are included in base rates.**

12 Q. Okay.

13 **A. The 1.25 million that is included in the**
14 **adjustment, it is representative of the declining**
15 **Rockport deferral. It is not necessarily -- I**
16 **wouldn't characterize it as Rockport purchase power**
17 **costs or any -- you know, equating it to something**
18 **that was purchased at a PJM market purchase.**

19 It is exclusively related and represents the
20 declining Rockport capacity deferral, the Rockport
21 PPA deferral.

22 Q. Thank you for that clarification.

23 MS. VINSEL: Zach, you can remove the
24 document.

25 BY MS. VINSEL:

1 Q. The other questions I have for you are
2 related to the -- the prepaid OPEB -- OPEB.

3 It would be helpful for staff, we wanted to
4 clarify one of the data responses that referenced
5 noncash ASC 715 accounting entries, and I'm almost
6 thinking I need to go back and be far more simple to
7 begin with.

8 Is the prepaid OPEB included in rate base?

9 **A. Yes.**

10 Q. And so now, on this one I'm going to be
11 clear, I'm more of a lawyer than an accountant, so
12 if I get this really wrong, I will count on you to
13 let me know.

14 It looks like we have cash accounting entries
15 and noncash accounting entries. Is that correct?

16 **A. Correct.**

17 Q. Okay. And in this data request, there was a
18 reference to the fact that the noncash ASC 715
19 accounting entries are made for financial reporting
20 purposes and they do not impact the cost of service?

21 **A. Are you referring to the data request**
22 **AGKIUC217?**

23 Q. Yes, I am.

24 **A. Okay.**

25 Q. It would be helpful for staff if you could

1 elaborate on that statement. And just to confirm
2 that -- which entries are -- let me try this again.

3 Which entries associated with OPEB are
4 included in rate base?

5 **A. The prepaid pension -- the cash prepaid**
6 **pension asset recorded in account -- FERC account**
7 **165 is included in rate base.**

8 Q. Okay.

9 **A. The way that that -- there's an exhibit to my**
10 **rebuttal testimony, Exhibit 1 kind of helps walk --**
11 **walk a person through these entries at a very high**
12 **level.**

13 The first entry is -- you know, we reduce
14 cash and we increase a prepayment at a very high
15 level. And that's the -- the 165 account. And
16 then, you know, it's sitting in the 165 account, and
17 we have various subaccounts within FERC 165.

18 So in this case, 165-0010 and 165-0035, those
19 are the account -- the subaccounts that include the
20 original prepayment balances for both our prepaid
21 pension and prepaid OPEB cash assets.

22 Then there's a reclassification entry that's
23 made, and that's -- this is what we're referring to
24 as noncash. You know, in double-entry accounting,
25 the debit equals the credits, and so we credit a

1 different 165 sub account and then we debit a series
2 of other balance sheet accounts to spread that
3 original amount out and really represent on the face
4 of our financial statements the funded position of
5 the plans, as well as the accumulated other
6 comprehensive income or a regulatory asset or
7 liability, whichever is appropriate.

8 But that's really -- that noncash entry is
9 really a -- it's really just made for financial
10 reporting purposes, and it's a memo entry in our
11 financial statements. The true character of the
12 amount is a cash prepayment that's recorded in FERC
13 account 165, and that's why it's appropriate for
14 inclusion and rate base.

15 Q. I don't know if it's just me, but I
16 completely understood where you were going, and I
17 very much appreciate that.

18 As I understood, the prepayment contributions
19 are being financed, correct?

20 **A. That's correct. So they're reflected in the**
21 **company's capitalization at the end of the test**
22 **period, and we've also included them in rate base.**

23 The company is seeking the return on
24 components in our cost of service be computed based
25 on capitalization, consistent with the company's

1 requests in prior proceedings.

2 MS. VINSEL: Thank you very much. Staff has
3 no further questions.

4 CHAIRMAN SCHMITT: Counsel for the Office of
5 Attorney General, questions?

6 MR. COOK: Yes, your Honor. This is Lawrence
7 Cook on behalf of the Attorney General. I
8 apologize. There's noise right out my door, but it
9 will go away shortly.

10 CROSS-EXAMINATION

11 By Mr. Cook:

12 Q. Good evening, Ms. Whitney. I have just a few
13 questions for you today.

14 Were you monitoring yesterday's hearing
15 proceedings when Witness Mattison was testifying?

16 **A. Yes, I was listening.**

17 Q. Okay. Did you hear his response to questions
18 we had of him regarding the company's response to
19 the Commission's second set of data requests, item
20 number 42?

21 **A. I think so. Is it in regards to lobbying
22 expense?**

23 Q. Yes. That's correct. Uh-huh.

24 MR. COOK: And so, Ms. Vinsel, I wondered,
25 could we pull that up?

1 MS. VINSEL: I'm sorry. Mr. Cook, could you
2 say that again.

3 MR. COOK: It is the Commission's second set
4 of data requests, the company's response to the
5 second set, and they were filed on July 31st.

6 MS. VINSEL: Thank you. Yes. Staff will
7 bring that up.

8 MR. COOK: Thank you.

9 MS. VINSEL: Zach, I believe that is document
10 number 16 in our document index.

11 MR. COOK: Yes, and it's pagination 617.
12 There we go.

13 BY MR. COOK:

14 Q. And so my question is regarding that last
15 paragraph of the response there, where it appears
16 that \$104,000 was allocated to Kentucky Power by the
17 service company for federal lobbying activities.

18 So I just wanted to ask you if you could help
19 me to understand: Is there an adjustment where --
20 where items from the service company are either
21 removed or the amount's adjusted one way or another?
22 Is that where I could find that?

23 **A. The costs from the service company were**
24 **recorded in FERC account 426.4, which is simply**
25 **excluded from the company's cost of service.**

1 Q. Okay.

2 **A. So there was no need to make an investment.**

3 Q. So it's below the line, is what you're
4 saying?

5 **A. Correct.**

6 Q. Okay. All right. Well, I believe that is
7 all the questions I have, then. Thank you very
8 much.

9 **A. You're welcome.**

10 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

11 MR. KURTZ: One very quick question.

12 CROSS-EXAMINATION

13 By Mr. Kurtz:

14 Q. Good evening. It's true, isn't it, that
15 Kentucky Power did not include the negative prepaid
16 pension expense and the negative prepaid OPEB in
17 accounts 16514, 16537, and did not include those as
18 subtractions from rate base? That's correct, isn't
19 it?

20 **A. As I explained to Ms. Vinsel a little**
21 **earlier, those credits are a part of a nonclass --**
22 **noncash re-class entry that's made, and you really**
23 **cannot isolate and look at that credit without the**
24 **corresponding debits to other balance sheet**
25 **accounts. You need to look at them collectively.**

1 All it's doing is moving -- spreading -- or
2 relocating, really, the ones that -- the amounts
3 that are recorded in 16510 and 35 to other balance
4 sheet accounts. So those -- you either need to look
5 at all of the noncash re-class entries collectively
6 and net them together, which nets zero, and then
7 also include the amounts in 16510 and 16535, which
8 gets you to the company's amount that we've included
9 in rate base.

10 You either need to include all of the noncash
11 entries or ignore all of the them. But the end
12 result is the same, and that's the amount that the
13 company has included in rate base in our
14 application, which represents the cash prepaid
15 pension asset, an OPEB asset.

16 Q. Let me ask you the same question and ask you
17 for a yes-or-no answer.

18 It's true, isn't it, that the company did not
19 include the negative prepaid pension and the
20 negative prepaid OPEB subtractions from rate base?

21 MR. OVERSTREET: Your Honor, at this time we
22 would object that the question has been asked and
23 answered by Witness Whitney.

24 MR. KURTZ: No, she didn't answer.

25 CHAIRMAN SCHMITT: Overruled. He may ask.

1 THE WITNESS: I can't answer that question as
2 a simple yes-or-no answer because it's asking me to
3 kind of ignore or to set aside the whole premise of
4 accrual accounting which is double entry. Debits
5 must equal credits.

6 And so your question was focused on only one
7 side, and I can't ignore the other.

8 BY MR. KURTZ:

9 Q. Isn't the answer that you did not subtract
10 from rate base the negative prepaid pension and the
11 negative OPEB?

12 **A. Those aren't negative prepaid pension and**
13 **OPEB balances. They're one component of a negative**
14 **re-class noncash entry.**

15 Q. Are you aware that Duke Energy Kentucky does
16 not have the same rate base adjustment that AEP has
17 with respect to OPEB and prepaid pension?

18 **A. I'm -- I'm extremely familiar with Kentucky**
19 **Power's financial statements. I did not prepare**
20 **Duke's filing. I know that Witness Carlin made**
21 **reference to Duke's filing. I also know that**
22 **Company Witness Vaughan in his rebuttal testimony**
23 **made mention and discussed some key differences**
24 **between Duke's filing -- Duke's application and**
25 **ours, namely, they use a forecasted test year.**

1 There could be any number of differences in
2 the facts and circumstances related to Duke's
3 application and ours. And so I'm -- I'm not sure
4 that I can opine on how Duke's application may be
5 relevant to the facts that I have very clearly
6 presented and laid out in both my -- in my rebuttal
7 testimony and substantiated that these amounts are
8 cash assets financed by the company, and that the
9 noncash re-class is simply that and is not relevant
10 for rate-basing purposes.

11 Q. And you're aware that the Attorney General
12 can conceive or respond completely disputes the fact
13 that they're at all negative entries.

14 **A. I'm aware of his position. I feel -- I feel**
15 **as though my rebuttal testimony, though, very**
16 **clearly lays out the facts for the Commission and**
17 **helps them understand and provides very clearly and**
18 **supports that these are, in fact, cash assets that**
19 **were financed by the company.**

20 MR. KURTZ: Thank you, Mr. Chairman. No
21 further questions.

22 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

23 MS. GRUNDMANN: No questions, your Honor.

24 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo,
25 questions?

1 MR. SPENARD: No questions, Chairman.

2 CHAIRMAN SCHMITT: Mr. FitzGerald, questions?

3 MR. FITZGERALD: No questions, Mr. Chairman.

4 Thank you.

5 CHAIRMAN SCHMITT: Going to continue to ask,
6 even though you told me you're about ten down before
7 you get started.

8 MR. FITZGERALD: Mr. Chairman, I appreciate
9 that very much.

10 CHAIRMAN SCHMITT: Mr. Miller, questions?

11 MR. MILLER: Thank you, your Honor. No
12 questions.

13 CHAIRMAN SCHMITT: Mr. Frye?

14 MR. FRYE: Mr. Chairman, no questions.

15 CHAIRMAN SCHMITT: Vice Chairman?

16 VICE CHAIRMAN CHANDLER: I do have a couple
17 questions, thank you, Chairman.

18 EXAMINATION

19 By Vice Chairman Chandler:

20 Q. Good evening, Ms. Whitney.

21 **A. Good evening.**

22 Q. Can you explain to me -- I don't know if I'm
23 just dense or if I don't understand the ASC
24 standards all the time. The reference to 980344255.
25 Now, I'm familiar with 25-1 which is the rules

1 around deferral accounting.

2 You made a reference in your direct testimony
3 around 25-5 about how equity -- equity amounts
4 cannot be deferred and that you've had to create a
5 contra account in order to defer the equity return
6 -- let me get this right -- the equity return on the
7 Rockport deferral. Do you remember that?

8 **A. Yes.**

9 Q. And can you explain that to me?

10 **A. What that's really about is getting to the**
11 **timing of income statement recognition, when can**
12 **the -- when from a GAAP perspective can the company**
13 **recognize as carrying charge an income. GAAP says**
14 **we need to recognize as an income until they're**
15 **collected from customers. We cannot do that in**
16 **advance.**

17 So if you were --

18 Q. So -- go ahead.

19 **A. So if we were to just simply debit the**
20 **regulatory asset the credit would be to the income**
21 **statement. We would take that to income, absent**
22 **intervening and saying, no, we need -- we need to**
23 **hang that up on the balance sheet a little bit**
24 **longer --**

25 Q. So -- oh, go ahead. I'm sorry.

1 **A. -- until we begin to collect amounts from**
2 **customers.**

3 Q. So there's an initial amount -- there's an
4 initial amount of the Rockport EPA deferral and a
5 regulatory asset; is that right?

6 **A. That's correct.**

7 Q. And then can you tell me the interaction
8 between that regulatory asset and tariff PPA in any
9 given year?

10 **A. Well, it varied by year.**

11 Q. Yeah. I just mean generally, not even the
12 exact amounts, but that there's a reduction in one
13 and an increase -- a corresponding increase in the
14 other and how that interacts with the equity return,
15 the weighted average cost return for that deferral
16 -- of deferred amounts?

17 **A. So at a high level, the Rockport deferral is**
18 **-- the WACC carrying charge is accruing in the**
19 **principal balance on the Rockport deferral. So if**
20 **we look at my direct testimony, page 35, what I'm**
21 **referring to is the principal balance is recorded in**
22 **account 182-3431, and it's the -- the \$30 -- \$31**
23 **million amount.**

24 As -- what's happening over time, as the
25 amount that's being put into the Rockport capacity

1 deferral declines by -- I think it's \$5 million. It
2 was -- it was \$15 million in year one, declined to
3 \$10 million at some point, and then to 5.

4 The principal -- the principal balance in the
5 Rockport deferral is just growing more slowly, and
6 it's going to be accruing carrying charges at the --
7 at the WACC rate as prescribed by the Commission for
8 future collections from customers.

9 Q. Can I stop you there on the next part?

10 So I understand the difference though is
11 being flowed through tariff PPAs. As one increases,
12 the other one increases, right?

13 But -- but what I want to ask you about is
14 when those occur. When is the weighted average cost
15 of capital applied to that principal amount in
16 the -- in the regulatory asset?

17 **A. I think to make clear, I want to step back**
18 **one second.**

19 You know, we -- there isn't a direct
20 interaction between the Rockport -- the deferral and
21 tariff PPA. There is a -- you know, instead of \$15
22 million being deferred into the Rockport capacity
23 deferral, let's -- I don't have the numbers in front
24 of me, but let's pretend that that's the right one
25 and it declined to \$10 million a year, that \$5

1 million difference is being pushed into the PPA
2 rider, I believe.

3 But I should -- let me -- let me pull up my
4 testimony to make sure that I'm speaking precisely
5 and I'm not confusing the record.

6 Q. Yeah. And I think you can look at page 35 of
7 your testimony on lines 3 and 4 -- or 4 and 5.

8 Excuse me.

9 **A. Yes. So the difference -- so I'm on -- I'm**
10 **on line 1. It was \$15 million in 2018 and '19, \$10**
11 **million in 2020, and \$5 million in 2021 and 2022.**

12 So beginning in 2020, the difference between
13 the 15 and the 10 is \$5 million. Instead of the
14 Rockport capacity deferral growing by \$5 million, \$5
15 million in costs become recoverable through tariff
16 PPA, meaning the amount -- and I can pull up my --
17 if -- I'm trying to think of a place in the record
18 that I could -- could illustrate this -- this to
19 you, but the direct -- what I'm trying to explain is
20 there isn't a direct interaction.

21 Q. Okay.

22 **A. They're related, but there isn't a decrease**
23 **in the Rockport deferral regulatory asset as I heard**
24 **your question imply.**

25 Q. Yeah. And I didn't mean to imply that. I

1 apologize.

2 It should be the opposite of that, right?

3 That there should actually be -- that although less
4 is being deferred, there is still an amount being
5 deferred in each year? I guess what I was --

6 **A. That's correct.**

7 Q. -- was that instead of -- instead of them
8 being interrelated, are they simultaneous?

9 **A. Could you help me understand what you mean?**

10 Q. Yeah. The same -- I'm trying to understand
11 the timing of when the amount being deferred is
12 actually put in the deferral account, and -- and in
13 addition to that, when the weighted average cost of
14 capital is -- is calculated based on that deferred
15 amount each year.

16 **A. We are taking the amount -- so in 2020,**
17 **\$10 million is being deferred. We are dividing**
18 **\$10 million by 12 months.**

19 Q. Okay.

20 **A. And each month, we're -- we're deferring a**
21 **12th --**

22 Q. Okay.

23 **A. -- of the authorized amount.**

24 Q. And then is the weighted average cost of
25 capital applied equally or is it applied at the end

1 of the year on that -- on that account?

2 **A. It's applied on a monthly basis.**

3 Q. On a monthly basis.

4 And so that the -- I guess effectively the
5 yield of the -- or I'll say the rate at the end of
6 the year is an annualized weighted average cost of
7 capital amount, right?

8 **A. Correct.**

9 Q. Okay. So it's not the weighted average cost
10 of capital is being applied in full each month
11 throughout the year?

12 **A. That's correct. It's a monthly -- it's a
13 monthly rate.**

14 Q. Okay. That's what I wanted to -- that's what
15 I want to be clear on.

16 And so is it going to be on December 31st --
17 effectively December 31st of 2020 is going to be the
18 last portion of that deferral added to that account,
19 right?

20 **A. There's \$5 million that will be added in 2021
21 and 2022.**

22 Q. Okay. But I'm trying to -- the very last
23 accounting entry in terms of the amount of the
24 deferral going up is going to be that 12th month of
25 2022; is that correct?

1 **A. At a very high level, yes. Precisely, I**
2 **believe that deferral will end with the ending of**
3 **the Rockport UPA, which happens earlier in the month**
4 **of December, so we may not have a full month of**
5 **December in this deferral.**

6 Q. That was going to be one of the questions. I
7 think it's December 8th is what your testimony may
8 indicate. December 8th of 2022. So it may be 8 out
9 31 days of that deferral month, is that maybe your
10 anticipation for that year?

11 **A. Yes.**

12 Q. Okay. And so then the weighted average cost
13 of capital, since applied monthly, will be finally
14 applied -- whatever the -- I guess the prorated
15 December portion will be applied to that -- that
16 final month, right?

17 **A. Yes, but the -- the regulatory asset will**
18 **continue to be charged a WACC return through the**
19 **time -- through such time as amounts are collected**
20 **from customers and rates.**

21 Q. Right. I just want to make sure I
22 understand.

23 We expect that it will eventually be \$59
24 million, do you remember that, or approximately \$59?

25 **A. Yes.**

1 Q. And what I'm trying to now -- with the
2 timing, it hits \$59 million effectively at the end
3 of 2022 and then it starts to -- well, I guess what
4 I'm asking is: What happens after December of 2022?

5 **A. In this case, the company is proposing to**
6 **begin to amortize the Rockport deferral regulatory**
7 **asset beginning in December of 2022 through the**
8 **tariff PPA consistent with the settlement agreement**
9 **that was approved in the previous case before the**
10 **Commission, but the Commission ultimately modified**
11 **and deferred to a later proceeding the actual**
12 **regulatory accounting -- the rate-making treatment**
13 **for the regulatory asset.**

14 So the company's requesting to begin
15 amortization through the tariff PPA beginning in
16 December 2022 over a five-year period. Company
17 Witness West supports the five-year amortization
18 period.

19 Q. And my question for you is: After the
20 application of a weighted average cost of capital in
21 December of 2022, will there be any more -- the
22 company is -- I want to make sure that the company
23 is not seeking any additional return on that
24 principal amount following that application in
25 December of 2022, correct?

1 **A. My understanding of the authorized Rockport**
2 **capacity deferral is that the WACC carrying charge**
3 **will continue through the five-year period, until**
4 **the regulatory asset balance reaches zero.**

5 Q. Okay. And so the \$59 million is not
6 necessarily going to be the balance as of January 1,
7 2023. The \$59 million under the scenario you just
8 laid out would also include the carrying charges
9 through the time period in which the regulatory
10 asset is being amortized; is that right?

11 **A. No. The \$59 million includes carrying**
12 **charges through approximately December 2022. It**
13 **does not reflect the carrying charges that will**
14 **accrue between December 2022 and when the amounts**
15 **are ultimately collected from customers and rates.**

16 Q. So the company's proposal is not to defer \$50
17 million which will ultimately turn into \$59 million
18 and recover that from customers. It's to defer \$50
19 million, add return to it to be 59, and then add
20 return to it again as it's amortizing and recovering
21 that \$59 million; is that correct?

22 **A. The Rockport -- the Rockport deferral**
23 **mechanism was authorized in the previous case. The**
24 **company isn't proposing a new deferral in this case.**
25 **We're just simply seeking to amortize a previously**

1 **authorized deferral.**

2 Q. Yeah, but I'm not asking about the deferral
3 of the amount as the weighted average cost of
4 capital. I'm now talking about the amortization and
5 recovery of the amount, which you said you're
6 proposing over five years.

7 So what I want to be clear on is: Over the
8 amortization period and the recovery period
9 following the deferral period, is the company
10 seeking a return during the amortization, and I
11 think you indicated that that is the case?

12 **A. Subject to check, I believe that the return**
13 **-- the WACC return on the Rockport deferral through**
14 **the time section collected was authorized in the**
15 **previous rates base case, the company's previous**
16 **case.**

17 I do not believe that's a new request in this
18 proceeding.

19 Q. But you would agree that it would end up
20 costing more than \$59 million if that's the case?

21 **A. Yes. But the previously authorized deferral**
22 **mechanism which provides for a WACC return through**
23 **the time the amounts are collected from customers**
24 **will mean that additional carrying charges will**
25 **accrue between December 2022 and the time through**

1 **which amounts are collected from customers through**
2 **rates.**

3 Q. And the reason I ask this is because at the
4 bottom of 36 of your testimony -- I'll give you time
5 to go there, if you would like.

6 Do you see -- are you there now?

7 **A. I'm on page 36, yes.**

8 Q. At line 16, you say, "Kentucky Power
9 estimates that the Rockport deferral regulatory
10 asset will total approximately \$59 million in
11 December of 2022."

12 That's what we just talked about, correct?

13 **A. That's correct.**

14 Q. We're on the same page about that.

15 And then it says, "resulting in an annual
16 amortization of approximately \$12 million through
17 tariff PPA in a five-year period ending in December
18 2027."

19 So five years at \$12 million is \$60 million,
20 and I'm not the world's greatest mathematician, but
21 I think that the weighted average cost of capital
22 applied to, you know, \$48, \$36, \$24 million over a
23 five-year period is going to end up being more than
24 that difference between the approximate 60 and 59.

25 So I just want to make sure I understand, is

1 the expectation of a \$12 million amortization, or is
2 it more than that?

3 **A. The expectation is for amortization of the**
4 **\$12 million -- or the 6 -- the \$12 million was in**
5 **reference to the principal -- the balance as of**
6 **December of 2022.**

7 All I simply did there is -- you can tell --
8 you can see is I took, you know, \$60 million divided
9 approximately by five years. I did not quantify or
10 estimate the amount of the WACC return that would --
11 the carrying charge that would accrue and then also
12 be recovered through tariff PPA through that time
13 period.

14 Q. Okay. So if you would agree, then, if it is
15 the company's proposal to apply a weighted average
16 cost of capital to the regulatory asset balance
17 through the period of amortization, that the total
18 amount recovered from customers will be in excess of
19 the \$59 million -- over even the \$60 million
20 reference?

21 **A. Yes.**

22 Q. Okay. Can I ask -- switching gears -- on the
23 OPEB, was the prepayment made -- well, let me ask:
24 When was the prepayment made?

25 **A. It's not just one payment. It's been a**

1 **series of payments over time that have accumulated**
2 **into a net prepayment balance.**

3 Q. And that's a -- as Mr. FitzGerald said about
4 his earlier, that was an artful -- inartful way to
5 ask the question.

6 When was the last prepayment made?

7 **A. September - in September 2020, the company**
8 **made a payment -- a contribution to its pension plan**
9 **trust, and that was provided as an exhibit to my**
10 **rebuttal testimony, I think it was my -- the second**
11 **exhibit.**

12 Q. Okay.

13 **A. There was also another contribution to the**
14 **pension trust made in -- sometime in 2017, which is**
15 **the first exhibit.**

16 Q. Yeah. And so I was wanting to go back to the
17 2017.

18 So the -- the prepayment predates the 2017
19 rate case; is that fair to say?

20 **A. No. I think I only -- I provided the -- the**
21 **prepayments made since the test year end and the**
22 **last rate case.**

23 Q. So this didn't exist in any form, not even at
24 the current size, but this -- this prepayment didn't
25 exist prior to -- prior to the 2017 rate case at

1 all?

2 **A. Oh, I'm sorry. I think I misunderstood your**
3 **question. I thought you were asking about the**
4 **specific payments that were included as exhibits to**
5 **my rebuttal testimony.**

6 The cumulative prepaid pension and OPEB
7 assets existed as of the -- as of the test year end
8 in our previous base case, and the prepaid pension
9 asset was included in rate base in the company's
10 application in its 2017 case.

11 The prepaid OPEB asset was not, as I had
12 discussed in my rebuttal testimony.

13 Q. So it wasn't included in rate base as a
14 specific item, is that what you're saying?

15 **A. That's correct. But the -- as I also said**
16 **before in -- this afternoon or evening, and in my**
17 **rebuttal testimony, the return on component of the**
18 **company's revenue requirement has historically been**
19 **computed on capitalization.**

20 Q. Yeah, and that was -- that was really what I
21 was trying to understand from reading the testimony.
22 And so I just want to clarify here.

23 So Ms. Vinsel was asking you about it
24 being -- I think the reference she made -- or the
25 question she had was but the company financed it,

1 and you previously said it was a cash outlay, and
2 you responded effectively as an outlay if you're
3 using capitalization yes, it would be reflected --
4 reflected as the company financed it.

5 Is that -- is that a fair characterization of
6 the previous conversation?

7 **A. The company financed the prepaid -- the**
8 **prepayment, yes.**

9 Q. Okay. So -- so it would be, from the
10 company's perspective, a capitalization if it's a
11 cash outlay -- the company's perspective is it's
12 holistically included in the capitalization because
13 we financed; is that fair?

14 **A. Yes.**

15 Q. Okay. And so it's holistically included in
16 the capitalization proposal in this case, and I
17 think taking your -- your comment a second ago, you
18 sort of believe that it was holistically as a part
19 of capitalization in the 2017 case, right?

20 **A. That's correct.**

21 Q. Okay. So are you aware that the -- that the
22 company, as part of its application in this case,
23 reconciled rate base to capitalization?

24 **A. Yes. I am.**

25 Q. So how is it that that would have been a cash

1 outlay? You financed it in the 2017 case, whether
2 you -- when you brought it over to rate base and
3 reconciled capitalization with rate base.

4 It was -- it was left out with no
5 corresponding impact or nobody saw it? I'm just --
6 I'm trying to understand that distinction.

7 **A. The prepaid pension asset was in rate base in**
8 **the previous case, and it was -- so I'm not sure I**
9 **understand.**

10 Q. OPEB was -- you said a second ago that the
11 OPEB was not in rate base?

12 **A. That's right. So as long as those -- if your**
13 **question is -- we're focused on the prepaid OPEB**
14 **here, I think -- you know, I -- the reconciliation**
15 **that you're referring to wasn't prepared by myself**
16 **or someone on my team, so I -- I can't speak to the**
17 **nitty-gritty details.**

18 But I think the key -- the key thing that I
19 think is important to focus on is that, you know,
20 capitalization has been used historically to compute
21 the return on component of the company's cost of
22 service which reflects items that have been tenets
23 to the company -- these amounts have been tenets.
24 They would be reflected in those amounts.

25 And I want to be -- I want to be helpful in

1 answering your question, but I wasn't in the
2 mechanics of that reconciliation to be able to
3 answer the -- how could it have been missed or maybe
4 it wasn't and there was a reconciliation item noted.
5 I'm just not privy to those details.

6 Q. Yeah. And I hope you can appreciate the
7 question, is that, you know, in 2017, there was a
8 reconciliation done. In 2020 it's sort of, Oh, we
9 missed this last time, but if you're going to use
10 rate base, then this is what you should do.

11 And so I just want to make sure that I
12 understand: Who would be the person in this
13 instance with this reconciliation that I can talk
14 to?

15 And I guess the follow-up question to that
16 would be: Will they understand the nuances of the
17 OPEB issues as well as you do?

18 I feel like I'm between rock and a hard place
19 in getting sort of a finality on the issue.

20 **A. So the reconciliation wasn't -- I understand**
21 **-- I understand your question. And to -- to back up**
22 **a second, I want to take it in -- in pieces.**

23 First of all, Company Witness Vaughan's team,
24 who prepares the cost of service, they prepare the
25 reconciliation, and so he would be the one to speak

1 with regarding why something may or may not have
2 been -- you know, how it was reflected in that
3 reconciliation in this case versus last case.

4 And he also is the witness that you can speak
5 with, you know, treatment in -- in rate base. My
6 team works closely with him and I prepare certain
7 cost of service adjustments and or capitalization
8 adjustments, but his team compiles those schedules
9 holistically.

10 Q. Okay. And I will ask Mr. Vaughan. I
11 wouldn't say -- but please don't leave the country
12 in case there's a follow-up on this issue, but that
13 doesn't seem to be a worry these days. So I
14 appreciate that.

15 The last question would be what I consider to
16 be -- maybe this isn't a fair characterization, but
17 the alternative argument that you provide in your
18 rebuttal testimony. Do you know what I'm talking
19 about when I say that?

20 That if the \$5.42 million amount is removed
21 as Mr. Carlin pronounces there should be a
22 corresponding increase, not an identical amount, but
23 an additional increase of something like \$3.7
24 million? Does that ring a bell?

25 **A. Yes.**

1 Q. Okay. Can you also explain that to me, why
2 the removal of one requires necessarily the increase
3 of the other or the addition of the other?

4 **A. Sure. These cash contributions that the**
5 **company has made into its plan trust are earning a**
6 **return. There's an expected -- there's a rate of**
7 **return on those cash contributions, and that return**
8 **is serving to reduce the pension and OPEB costs or**
9 **the expense that's being recognized in the company's**
10 **financial statements.**

11 So if the prepaid pension and OPEB amounts
12 are excluded from rate base, then -- then it -- it
13 follows that the reduction in expense that is -- is
14 being enjoyed by customers because those exist and
15 have been invested for their benefit, that that
16 should be also removed from the cost of service.

17 Q. And that -- that \$3.7 million amount is
18 exclusively related to the OPEB?

19 **A. No. It's the sum of both the pension -- the**
20 **effect of the pension and the OPEB amounts.**

21 Q. And the OPEB. Okay. I appreciate it,
22 Ms. Whitney.

23 VICE CHAIRMAN CHANDLER: Thank you very much.

24 CHAIRMAN SCHMITT: Dr. Matthews, questions?

25 COMMISSIONER MATTHEWS: No, sir.

1 CHAIRMAN SCHMITT: Okay. Mr. Wolfram, any
2 redirect?

3 MR. WOLFFRAM: Yes, your Honor. Just a few
4 questions.

5 REDIRECT EXAMINATION

6 By Mr. Wolfram:

7 Q. Ms. Whitney, Vice Chairman asked you a few
8 questions about -- related to the Rockport deferral
9 and the amortization of those costs upon -- starting
10 in the beginning of 2022.

11 Do you remember that line of questioning?

12 **A. Yes.**

13 Q. And as part of your testimony in this case,
14 in response to those questions, you stated that it's
15 your understanding the amortization of those costs
16 as well as inclusion of a WACC charge was part of
17 the company's 2017 -- was established in the
18 company's 2017 rate case, specifically case number
19 2017-00179; is that correct?

20 **A. It's my testimony that the deferral was to**
21 **earn a WACC return through the time the amounts**
22 **would be collected -- fully collected from customers**
23 **through rates.**

24 Amortization is requested in this proceeding.
25 In the 2017 case, the Commission didn't -- did not

1 reach, you know, a decision regarding the
2 amortization period for the deferral.

3 Q. And I -- you reviewed the 2017 order as part
4 of your testimony in this case; is that correct?

5 **A. Yes. That's correct.**

6 Q. Do you have a copy of the --

7 MR. WOLFFRAM: Your Honor, if I may approach
8 the witness.

9 CHAIRMAN SCHMITT: Yes. You may.

10 MR. WOLFFRAM: Thank you. Sorry. I know
11 that's a little strange in the virtual environment,
12 but I sided on the side of formality there.

13 Q. (By Mr. Wolffram) Ms. Whitney, do you have in
14 front of you the order in the 2017 rate case?

15 **A. Yes.**

16 Q. Could you turn to page 37 for me?

17 **A. I'm there.**

18 Q. And beginning on pages 37 through 40, I
19 believe this is the -- the information related to
20 what you just described; is that correct?

21 **A. Yes.**

22 Q. And could you read into the record for us the
23 portions of the order that pertain to the -- to the
24 WACC, specifically?

25 VICE CHAIRMAN CHANDLER: Can I -- can I ask

1 the attorney, what -- this is an order in that case,
2 but what is the date of the order?

3 MR. WOLFFRAM: It's January 18 -- or January
4 18, 2018.

5 VICE CHAIRMAN CHANDLER: Thank you.

6 MR. WOLFFRAM: And your Honor, would it be
7 appropriate that we just take administrative notice
8 of the order?

9 CHAIRMAN SCHMITT: Yes. We can.

10 MR. WOLFFRAM: Noting that, I have no further
11 questions for Ms. Whitney.

12 CHAIRMAN SCHMITT: All right. With that,
13 we'll conclude for this evening and go into recess
14 until 9:00 in the morning, at which time I think the
15 next witness is Ms. Keaton; is that correct.

16 MR. WOLFFRAM: Yes, your Honor.

17 CHAIRMAN SCHMITT: Okay. We'll be in recess
18 until 9:00 a.m., in the morning. Thank you.

19 (Proceedings adjourned at 6:08 p.m.)

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1 STATE OF KENTUCKY)
)
 2) SS.
)
 3 COUNTY OF JEFFERSON)

4
 5 We, Laura J. Kogut and Dannielle Copeland,
 6 Notaries Public within and for the State at Large,
 7 with commissions expiring 25 July 2023 and 28
 8 September 2023 respectively, do hereby certify that
 9 the foregoing hearing was taken before us at the
 10 time and place and for the purpose in the caption
 11 stated; that witnesses were first duly sworn to tell
 12 the truth, the whole truth, and nothing but the
 13 truth; that the hearing was reduced by us to
 14 shorthand writing; that the foregoing is a full,
 15 true, and correct transcript of the hearing to the
 16 best of our ability; that the appearances were as
 17 stated in the caption.

18 WITNESS our hand this 22nd day of November
 19 2020.

20

21

Laura J. Kogut, RMR, CRR, CRC
 Notary Public, State at Large

22

23

24

Dannielle Copeland, RDR, CRR
 Notary Public, State at Large

25

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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

VOLUME III

Transcript of November 19, 2020, hearing
before Chairman Michael J. Schmitt at the Kentucky
Public Service Commission, 211 Sower Boulevard,
Frankfort, Kentucky 40602-0615, with Vice Chairman
Kent A. Chandler, Commissioner Talina R. Mathews,
counsel, and witnesses attending via GoToMeeting.

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ALSO PRESENT:

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* * *

1 (Hearing commenced at 9:03 a.m.)

2 CHAIRMAN SCHMITT: All right. We're back. I
3 guess we'll begin our third day of the Kentucky
4 Power rate hearing. Is everyone present? I see
5 Mr. Wolffram.

6 Mr. Wolffram, will you be conducting the
7 direct examination of Ms. Keaton this morning?

8 MR. WOLFFRAM: Yes, Your Honor, we will.

9 CHAIRMAN SCHMITT: Okay.

10 MR. WOLFFRAM: Or I will.

11 CHAIRMAN SCHMITT: All right. If everyone is
12 ready, I think the next witness is Allyson M.
13 Keaton.

14 Mr. Wolffram, you may introduce the witness
15 and, upon swearing, conduct a direct examination.

16 MR. WOLFFRAM: Your Honor, before we get
17 started this morning, the Company would like to
18 bring up one administrative concern that we would --
19 if that would be appropriate at this time?

20 CHAIRMAN SCHMITT: Yes. Fine.

21 MR. WOLFFRAM: Your Honor, as some may have
22 seen, Franklin County, Ohio, which is where we have
23 the Company's -- most of the Company's witnesses
24 currently in the AEP building in Franklin County,
25 issued an advisory, a stay-at-home order for the

1 county, so the Company would ask if it would be
2 appropriate to allow witnesses that the Commission
3 does not plan to recall to be excused, that are
4 located locally, to their homes after they are
5 testifying -- after they testify. We can make those
6 witnesses available within a couple hours' notice,
7 but, again, just as the rate of COVID exposure has
8 increased in Franklin County, and because of that
9 advisory, we would just ask if it would be
10 appropriate to allow witnesses that do not plan --
11 or there's no plans to have them recalled at this
12 time to be excused to their homes, and we can,
13 again, allow -- or make them available within a
14 couple hours' notice to be recalled.

15 CHAIRMAN SCHMITT: And I think that would be
16 okay, but let me ask Vice Chairman Chandler and
17 Dr. Mathews whether they have any present thought
18 about recalling any of the witnesses who have
19 previously testified over the last two days today.
20 You may want to do it, you know, tomorrow or some
21 other time, but today, or would two hours' notice be
22 sufficient if you wanted to call somebody, recall
23 someone?

24 Mr. Chandler, your thoughts?

25 VICE CHAIRMAN CHANDLER: I'm trying to think.

1 It's still very early, Chairman. No one comes to
2 mind that certainly we would need within two hours,
3 and, you know, I certainly defer to the Company
4 whether they would -- and especially on recalling
5 witnesses, as short of questioning as it would
6 likely be, if that was the case, whether they would
7 even want to, you know, bring them back in to do so
8 or just have them participate remotely. I would
9 leave that up to them.

10 CHAIRMAN SCHMITT: Commissioner Mathews, any
11 thoughts, any objections?

12 COMMISSIONER MATHEWS: I don't have any
13 objections. I would be fine if they wanted to make
14 those -- anybody that we -- if we deemed that we
15 needed to hear someone else, or hear someone again,
16 to have them available at home.

17 CHAIRMAN SCHMITT: Okay. All right. Well,
18 Mr. Wolffram, then your motion or suggestion is
19 sustained, and those witnesses who have previously
20 testified may go to their homes but remain available
21 for recall within two or three hours' notice. We'll
22 try to give you more than that. Okay?

23 MR. WOLFFRAM: Thank you, Your Honor. We
24 appreciate it. And, yes, that was certainly a
25 consideration, if any should to be recalled, we can

1 work with them, and if they have the capability to
2 testify from home remotely, we will. I know there
3 may be a couple witnesses that, you know, would need
4 to be in the building for technology reasons, but
5 those that have the ability, we will certainly
6 explore that. Thank you.

7 CHAIRMAN SCHMITT: Okay. Thank you.

8 All right. Ms. Keaton, would you please
9 raise your right hand? Do you solemnly swear or
10 affirm, under penalty of perjury, that the testimony
11 you are about to give will be the truth, the whole
12 truth, and nothing but the truth?

13 THE WITNESS: I do.

14 CHAIRMAN SCHMITT: Okay. Mr. Wolffram, you
15 may ask.

16 Ms. Keaton, let me -- let me caution you,
17 like every other witness. You're really going to
18 need to be close to the microphone, because if you
19 aren't, I guess because of the size of the room or
20 whatever, it's difficult to hear, and Kentucky Power
21 has a third-party court reporter here who's taking
22 down the testimony, recording the testimony, and
23 sometimes she can't hear unless you speak up. All
24 right?

25 THE WITNESS: Okay.

1 CHAIRMAN SCHMITT: All right. Thank you.

2 THE WITNESS: Yes.

3 CHAIRMAN SCHMITT: All right. Mr. Wolffram,
4 you may ask.

5 MR. WOLFFRAM: Thank you, Your Honor.

6 ALLYSON M. KEATON, having been first duly
7 sworn, testified as follows:

8 DIRECT EXAMINATION

9 By Mr. Wolffram:

10 Q. Ms. Keaton, will you please state your name
11 and business address for the record?

12 **A. Yes. My name is Allyson Keaton, and I'm at
13 1 Riverside Plaza, Columbus, Ohio 43215.**

14 Q. And by whom are you employed and in what
15 position?

16 **A. I'm employed by American Electric Power
17 Service Corporation and I'm a tax analyst principal.**

18 Q. Did you cause in this case to be filed direct
19 and rebuttal testimony, as well as discovery
20 responses?

21 **A. Yes, I did.**

22 Q. Do you have any changes, modifications, or
23 corrections to those testimonies or the discovery
24 responses at this time?

25 **A. No, I do not.**

1 Q. Okay. Were those discovery responses and
2 testimony prepared by you or under your supervision?

3 **A. Yes, they were.**

4 Q. And if I were to ask you the questions
5 presented in the discovery responses in testimony
6 this morning, would your answers be substantially
7 the same?

8 **A. Yes.**

9 MR. WOLFFRAM: At this time, Your Honor, the
10 witness is available for cross-examination.

11 CHAIRMAN SCHMITT: Thank you. Ms. Vinsel,
12 cross-examination?

13 MS. VINSEL: Yes. Thank you, Chairman.

14 CROSS-EXAMINATION

15 By Ms. Vinsel:

16 Q. Good morning, Ms. Keaton. I --

17 **A. Good morning.**

18 Q. I need to ask you a few questions to clarify
19 one of the responses you sponsored in a data
20 request.

21 MS. VINSEL: I'm going to ask --

22 **A. Okay.**

23 MS. VINSEL: -- Zach if he'll bring this up
24 on the screen so that -- just to make it easier for
25 everybody. Zach, can you bring up, it's Attorney

1 General KIUC second data request. Thank you. And
2 yes, it's item 16.

3 Zach, do you mind to make the response a
4 little bigger? I think the technical word is resize
5 it.

6 CHAIRMAN SCHMITT: We want to use the proper
7 terminology, we get confused otherwise.

8 MS. VINSEL: There you go.

9 Q. Okay. So, Ms. Keaton, what we need some
10 clarification about is, in the -- make sure it's the
11 second sentence. You referenced the ADIT that's
12 related to the net prepaid pension and OPEB, that's
13 O-P-E-B, contra assets that are --

14 **A. Yes.**

15 Q. -- included in rate base. And then in the --
16 after the comma, you reference that if the
17 Commission allows the two prepaid assets to be
18 included in rate base with no offset for the two
19 related contra assets, then the asset ADIT related
20 to the two contra assets should also be excluded
21 from rate base.

22 So I'm -- again, I don't want to oversimplify
23 this, but I want to understand if this is the case.
24 If you will, I hate to use the word "buckets," but
25 I'm going to use buckets here.

1 **A. Okay.**

2 Q. We have assets, contra assets. So we've
3 got -- in the assets, we've got the prepaid pension,
4 prepaid OPEB, and then ADIT related to that; is that
5 correct?

6 **A. That's correct.**

7 Q. And then that second bucket of the contra
8 assets, so there we have the contra asset for
9 prepaid pension, prepaid OPEB, and ADIT in that
10 bucket also; is that correct?

11 **A. That is correct.**

12 Q. So essentially, if we allow -- let me make
13 sure I'm saying this right. If we allow the prepaid
14 assets, all -- the two assets and the ADIT, and we
15 don't make a similar adjustment for the contra
16 assets, we're basically skewing the results; is that
17 a fair statement?

18 **A. The ADIT should always follow cost of**
19 **service, so if the two prepaid pension and OPEB are**
20 **included in rate base, then so should the ADIT. If**
21 **the contra -- the contra accounts are not included**
22 **in rate base, then the ADIT contra accounts should**
23 **not be included in rate base.**

24 Q. And I apologize. I'm having to text one of
25 my coworkers who, of course, is not in the building,

1 to make sure that I've gotten the answer for you.
2 I'm going to move on to something else right now,
3 and if I hear back in time --

4 **A. Okay.**

5 Q. -- I will let you know, and thank you for
6 your patience with that.

7 **A. Oh, you're welcome.**

8 Q. In regard to the blended state income tax,
9 when it's calculated, is each state's tax rate
10 weighted for a portion of expense that's related to
11 that state? So essentially, when you blend the tax
12 rate, I guess the underlying question is: How do
13 you do it? Are you using a proportion of expenses
14 in each state, or are you just using the tax rate?

15 **A. We use the tax rate, and we also use an**
16 **apportionment for each of the states that Kentucky**
17 **Power is in.**

18 Q. Okay.

19 **A. For example, the blended state rate that we**
20 **use in this case and other cases for Kentucky, we**
21 **have included Illinois and West Virginia, because --**
22 **well, Illinois and Michigan because of electricity**
23 **sales, and we've also included West Virginia because**
24 **they have -- Kentucky Power has property and payroll**
25 **in that state, as well as Kentucky, of course.**

1 Q. I'm sorry. Can you -- can you say that
2 again? I know that I was listening, but I don't
3 know that I quite followed everything.

4 **A. Okay. We include apportionment from other**
5 **states. For example, the blended rate includes**
6 **Illinois and Michigan, which has electricity sales,**
7 **and we also include West Virginia because of**
8 **property and payroll in that state, as well as**
9 **Kentucky, and this is all for Kentucky Power only.**

10 Q. Okay. I think I understand. Let me -- let
11 me ask a couple more questions to make sure I
12 understand. So I know that in your testimony, or --
13 yeah, your rebuttal testimony, you referenced that
14 Kentucky Power incurs this income tax liability in
15 connection with, as you mentioned, the electricity
16 sales in Illinois and Michigan, payroll in West
17 Virginia, property in West Virginia.

18 So when you calculate the blended rate, are
19 you then considering the apportionment of, for
20 example, those electric sales in Illinois and
21 Michigan and then making a calculation for the
22 income tax rate that -- apportionment to create the
23 blended rate based on those electric sales?

24 **A. Yes. That is correct.**

25 Q. Okay. Okay. I --

1 **A. We -- oh, I'm sorry.**

2 Q. No, no, please go ahead.

3 **A. Okay. I was just going to say that Kentucky**
4 **Power has done this in previous cases as well.**

5 Q. And as you know, the Kentucky corporate
6 income tax rate was reduced, just like the federal,
7 and I think that's why there may be a difference
8 from past years, but I understand what you're
9 saying. And --

10 **A. Okay. Great.**

11 Q. -- I've got -- and I apologize, I -- and
12 again, I'm clarifying something with a coworker.
13 Going back to the prepaid pension, OPEB, and the
14 ADIT, are the contra assets currently excluded from
15 rate base?

16 **A. No, in the case they were included. However,**
17 **I realized that they should not have been, and ADIT**
18 **should always follow cost of service, and I**
19 **corrected that in my data request.**

20 Q. And was this the data requests that we're
21 referencing here, or is there a different request
22 where that was corrected?

23 **A. No, the one that you referenced is the one**
24 **that I'm talking -- referring to.**

25 Q. Okay. Thank you.

1 **A. You're welcome.**

2 Q. Okay.

3 MS. VINSEL: I think Staff has no further
4 questions. Thank you very much.

5 THE WITNESS: Oh, you're welcome. Thank you.

6 CHAIRMAN SCHMITT: Office of Attorney
7 General, any cross-examination, Mr. Cook?

8 MR. COOK: Yes.

9 CROSS-EXAMINATION

10 By Mr. Cook:

11 Q. Good morning, Ms. Keaton. Lawrence Cook here
12 for the AG. I have a -- just a couple questions for
13 you about the blended tax rate, state tax rate
14 that --

15 **A. Yes.**

16 Q. -- Kentucky Power is trying to get in this
17 case. So -- and help me out here if I miss
18 something, but my understanding was, I -- when I did
19 research, I could not find any specific orders from
20 rate cases in which the Commission expressly
21 approved any prior use of a blended state tax rate.
22 Am I correct?

23 **A. We have -- we did use the blended rate, I
24 know -- I know in the last two cases, and I believe
25 that it was not -- it was not questioned or brought**

1 **up.**

2 Q. Okay. So in other words, in a litigated rate
3 case, there's no language in the final order that
4 expressly approved using that blended state tax
5 rate, correct?

6 **A. I'm not sure on that.**

7 Q. Okay. Shouldn't the Commission be consistent
8 and treat Kentucky Power as a stand-alone entity for
9 the purpose of calculating state income tax expense,
10 just the same way it does with federal income tax
11 expense?

12 **A. Yes. Yes, I agree, and the blended rate is a**
13 **Kentucky Power rate only. It does not include any**
14 **affiliates or any AEP consolidated members. It is**
15 **Kentucky Power only.**

16 Q. Okay. Could you help me understand that,
17 then? You say --

18 **A. Okay.**

19 Q. -- it's Kentucky Power only, and does not
20 include affiliates, but you're bringing in tax rates
21 from these other states; Illinois, 9 percent,
22 Michigan at 6, and West Virginia at 6.5 percent,
23 correct?

24 **A. Correct. But we have property, payroll, and**
25 **sales in those states.**

1 Q. Okay.

2 **A. That's why we are including them for Kentucky**
3 **Power.**

4 Q. Okay.

5 MR. COOK: Chairman, that's all the questions
6 I have at this time.

7 CHAIRMAN SCHMITT: Mr. Kurtz,
8 cross-examination?

9 MR. KURTZ: No. No, Chairman. Thank you.

10 CHAIRMAN SCHMITT: Ms. Grundmann on behalf of
11 Walmart, any questions?

12 MS. GRUNDMANN: No cross, Your Honor.

13 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo,
14 Kentucky Solar, questions?

15 MR. SPENARD: Good morning, Mr. Chairman. No
16 questions.

17 CHAIRMAN SCHMITT: Mr. FitzGerald, any
18 questions?

19 MR. FITZGERALD: No questions. Good morning,
20 Your Honor. No questions.

21 CHAIRMAN SCHMITT: All right.

22 MR. FITZGERALD: Thank you.

23 CHAIRMAN SCHMITT: Mr. Miller for Sierra
24 Club, any questions of this witness?

25 MR. MILLER: Good morning, Mr. Chairman.

1 Good morning, everybody. No questions, thank you.

2 CHAIRMAN SCHMITT: And Mr. Frye?

3 MR. FRYE: Good morning, Mr. Chairman. No
4 questions at this time.

5 CHAIRMAN SCHMITT: Okay. Vice Chairman
6 Chandler, any questions?

7 VICE CHAIRMAN CHANDLER: Thank you, Chairman.

8 EXAMINATION

9 By Vice Chairman Chandler:

10 Q. Good morning, Ms. Keaton.

11 **A. Good morning.**

12 Q. I do have a couple questions about that
13 blended state tax rate.

14 **A. Okay.**

15 Q. So I think I have that the Illinois and
16 Michigan are included because there are electricity
17 sales in those states?

18 **A. That is correct.**

19 Q. Okay. Can you explain that to me?

20 **A. It is sales from PJM are include -- are the
21 reason why we include those states. We have sales
22 in those states because of PJM.**

23 Q. Okay. So what generation is located in
24 Michigan in which Kentucky Power is using that asset
25 to sell into PJM?

1 **A. I'm not sure. That would be -- that would be**
2 **a better question for another witness.**

3 Q. Okay. Do you know which witness, because
4 you're telling me that they incurred -- well, let me
5 ask it this way: Did -- does Kentucky Power, right,
6 let's say during the test year, did they actually
7 incur Michigan sales tax for those electricity
8 sales?

9 **A. Yes, they did.**

10 Q. Okay. And they also incurred Illinois sales
11 tax for sales from some activity in the state of
12 Illinois in the test year?

13 **A. Yes.**

14 Q. Okay.

15 **A. Correct.**

16 Q. And I guess it makes sense, the state tax
17 rate applies to the sale of electricity. Can you
18 explain to me, or are you saying -- and I genuinely
19 don't know this, but I'm trying. That state sales
20 tax applies to payroll?

21 **A. No. No, no, no. I'm saying that there's**
22 **sales, payroll, and property apportionment, and so**
23 **sales is separate, payroll is separate, property is**
24 **separate. So payroll, we have payroll in West**
25 **Virginia and we have property in West Virginia, so**

1 that is the reason why we included West Virginia.
2 Because we have employees in West Virginia and we
3 have the Mitchell Plant in West Virginia, so that's
4 why we include them. We include sale -- we include
5 Illinois and Michigan because of electric sales, and
6 then Kentucky, obviously.

7 Q. Okay. And do you know -- do you know whether
8 the sales tax apply -- well, let me ask this: How
9 does the sales tax apply to energy sales in PJM? Is
10 it where the energy is sold or where the energy is
11 produced?

12 A. I cannot answer that question, I'm sorry. It
13 would be -- it would probably be more for -- I'm not
14 sure. The PJM. I don't know if that witness is
15 Horton, Witness Horton.

16 Q. Yeah, I don't know if Mr. Horton -- I think
17 Mr. Vaughan is used to having questions thrown at
18 him, I don't know that Mr. Horton is.

19 I don't -- I guess I struggle with, I'm
20 attempting to understand the relationship between
21 Kentucky Power Illinois & Michigan as it relates to
22 the sales -- sale of electricity during test year,
23 particularly if the sales are going into PJM. I
24 don't know, you know, if there is a bilateral
25 purchase or whatever, bilateral sale or direct sale

1 into PJM. I'm struggling to understand how those
2 transactions actually occur to determine whether
3 this makes -- this makes sense.

4 So you would recommend Mr. Horton be the
5 person that maybe could provide that -- I guess what
6 I'm asking is: You've given me the tax
7 implications, right? That's what you're testifying
8 on?

9 **A. Yes, that's what I'm testifying on. I am the**
10 **tax expert, correct.**

11 Q. And who gave you the information on where the
12 sales occur and can explain the sales?

13 **A. Okay. Good question. We had received -- for**
14 **the payroll, property, and sales, we get information**
15 **from our accounting department, and they designate**
16 **what state that the particular sales and payroll and**
17 **property come from. So maybe the -- maybe the**
18 **witness would be Witness Whitney, then, because she**
19 **is accounting.**

20 Q. Okay.

21 VICE CHAIRMAN CHANDLER: And, Chairman, if
22 you don't mind, can I ask Mr. Wolffram if counsel
23 may know if there's an additional witness that may
24 be able to answer that question?

25 CHAIRMAN SCHMITT: Sure. Mr. Wolffram, do

1 you know --

2 VICE CHAIRMAN CHANDLER: Yes, sir.

3 CHAIRMAN SCHMITT: -- if there is an
4 additional witness who would be able to address that
5 subject?

6 MR. WOLFFRAM: Yeah. And, you know, I know
7 we invoked his name quite a bit, but I believe
8 Company Witness Vaughan may also be able to clarify
9 some of the questions related to the PJM sales that
10 are included in the Company's cost of service.

11 VICE CHAIRMAN CHANDLER: Thank you --

12 MR. WOLFFRAM: And I'll also -- yeah, I'll
13 also just clarify a few additional items with
14 Ms. Keaton on redirect as well. Thank you.

15 VICE CHAIRMAN CHANDLER: Okay.

16 Q. So that -- so I just want to make sure that
17 I'm clear, finally, that blended state tax rate,
18 when you-all are referring to that, that is not just
19 sales tax?

20 **A. No. That is property and that is payroll.**

21 Q. Okay. And the payroll is in West Virginia,
22 the property is in West Virginia?

23 **A. Correct.**

24 Q. And the sales in electricity were exclusively
25 in Illinois and Michigan -- or not exclusively.

1 Excuse me. Were at some point, some proportion in
2 the test year to Illinois and Michigan?

3 **A. That is correct.**

4 Q. Okay. And to understand those, the nexus to
5 Illinois and Michigan, I would need to talk to
6 Ms. Whitney or Mr. Vaughan?

7 **A. That is correct.**

8 Q. And those would be the witnesses, for
9 instance, that could tell me whether, beyond the
10 test year moving forward, there may be sales in
11 those states as opposed to different states?

12 **A. Yes.**

13 Q. Okay. Thank you, Ms. Keaton.

14 VICE CHAIRMAN CHANDLER: That's all I have,
15 Chairman.

16 CHAIRMAN SCHMITT: Dr. Mathews, questions?

17 COMMISSIONER MATHEWS: I think I'm going to
18 have to listen to the follow-up on the tax issue
19 with regards to sales tax. I understand completely
20 West Virginia payroll and property. I'm not sure I
21 understand the Illinois and Michigan when it
22 would -- unless it is something unusual about the
23 way Illinois and Michigan tax electricity sales. So
24 I will hold my questions for Mr. Vaughan or
25 Ms. Whitney.

1 CHAIRMAN SCHMITT: Okay. Mr. Wolfram,
2 redirect?

3 MR. WOLFFRAM: Thank you, Your Honor. Just a
4 couple questions.

5 REDIRECT EXAMINATION

6 By Mr. Wolfram:

7 Q. First, Ms. Keaton, I'd like to go back to a
8 couple questions that I believe Mr. Cook asked
9 regarding the Commission's approval, or lack
10 thereof, related to the use of a blended tax rate in
11 Kentucky's previous proceedings.

12 Do you remember those questions?

13 **A. Yes, I do.**

14 Q. Is it your understanding that the blended tax
15 rate is -- was included in the Company's cost of
16 service in those proceedings?

17 **A. Yes, I do.**

18 Q. And the Commission approved the Company's
19 cost of service in those proceedings, which would
20 have included the blended tax rate; is that correct?

21 **A. That is correct.**

22 Q. Okay. I would like to move now to a couple
23 quick questions that Vice Chairman Chandler
24 mentioned about the PJM sales.

25 Is it your understanding that the tax related

1 to -- that is incurred in both Illinois and Michigan
2 are related to Kentucky Power sales to PJM in those
3 states?

4 **A. Yes.**

5 Q. Okay.

6 **A. That is correct.**

7 Q. And just one final clarification. The state
8 tax apportionment, were those -- were the state tax
9 apportionment rates included in Kentucky Power's
10 schedules in this case?

11 **A. Yes, they were.**

12 MR. WOLFFRAM: I have no further questions
13 for this witness, Your Honor. Thank you.

14 CHAIRMAN SCHMITT: Thank you.

15 Ms. Keaton, you may step down. Thank you.

16 THE WITNESS: Thank you.

17 CHAIRMAN SCHMITT: Okay. Mr. Wolffram, I
18 guess you'll need five minutes or so to clean the
19 witness area, correct?

20 MR. WOLFFRAM: Well, Your Honor, I think
21 we've adopted an expedited process, so we're going
22 to try it out to see -- and I will be the attorney
23 sponsoring Ms. Kaiser as well, so if you give us
24 just one second.

25 CHAIRMAN SCHMITT: Yes.

1 MR. WOLFFRAM: Thank you.

2 CHAIRMAN SCHMITT: Are you ready? Ready to
3 proceed, Mr. Wolffram?

4 MR. WOLFFRAM: Yes, Your Honor. At this time
5 the Company would call Witness Kimberly Kaiser to
6 the stand, please.

7 CHAIRMAN SCHMITT: Ms. Kaiser, would you
8 please raise your right hand? Do you solemnly swear
9 or affirm, under penalty of perjury, that the
10 testimony you are about to give will be the truth,
11 the whole truth, and nothing but the truth?

12 THE WITNESS: I do.

13 CHAIRMAN SCHMITT: Okay. Thank you.

14 Mr. Wolffram, you may ask.

15 MR. WOLFFRAM: Thank you, Your Honor.

16 KIMBERLY KAISER, having been first duly
17 sworn, testified as follows:

18 DIRECT EXAMINATION

19 By Mr. Wolffram:

20 Q. Ms. Kaiser, will you please state your name
21 and business address for the record?

22 **A. Yes. It's Kimberly Kaiser, 1 Riverside
23 Plaza, Columbus, Ohio 43215.**

24 Q. And by whom are you employed and in what
25 position?

1 **A. American Electric Power Service Corp, and I**
2 **am the director of compensation.**

3 Q. And did you cause to be filed in this
4 proceeding testimony -- direct testimony, rebuttal
5 testimony, and discovery responses?

6 **A. Yes, I did.**

7 Q. Do you have any changes, modifications, or
8 corrections to either your direct, rebuttal, or
9 discovery responses at this time?

10 **A. Yes, I have one minor change to my direct**
11 **rebuttal -- or, I'm sorry, my direct testimony. On**
12 **page 6, line 19, the sentence should read: The AEP**
13 **system has exceeded the 1.0 score in eight of the**
14 **last ten years. So instead of nine of the last ten**
15 **years, it should say eight of the last ten years.**

16 Q. Do you have any additional corrections,
17 modifications, or changes to your testimony or your
18 discovery responses at this time?

19 **A. No, I do not.**

20 Q. Subject to the one change that you
21 referenced, if I were to ask you the same questions
22 that appear in the discovery responses and your
23 testimony today, would your answers be substantially
24 the same?

25 **A. Yes, they would.**

1 Q. And were the discovery responses and your
2 testimony prepared by you or under your supervision?

3 **A. Yes, they were.**

4 MR. WOLFFRAM: At this time, Your Honor, the
5 witness is available for cross-examination.

6 CHAIRMAN SCHMITT: Ms. Vinsel, questions?

7 MS. VINSEL: Yes. Thank you, Chairman.

8 CROSS-EXAMINATION

9 By Ms. Vinsel:

10 Q. Good morning, Ms. Kaiser.

11 **A. Good morning.**

12 Q. In the 2017 rate case the Commission asked
13 the Kentucky Power witness about contributions,
14 Kentucky Power contributions to a defined benefit
15 and defined compensation plan. At that time the
16 witness testified that Kentucky Power was not making
17 payments into both the defined comp -- defined
18 benefit and defined compensation plan, and that is
19 because the defined benefit plan had ended in 2000
20 and that benefits were frozen in 2010.

21 Are you following me so far?

22 **A. Yes, but I don't believe I addressed any of**
23 **that in my direct or my rebuttal.**

24 Q. No, and that's exactly why I'm going to ask
25 you the next question. Is that still the case?

1 **A. I can't answer that question. That would be**
2 **a question for Witness Carlin.**

3 Q. And Witness Carlin is not here today; is that
4 correct?

5 **A. No, he's here. He's on the witness list.**

6 Q. I'm sorry. Witness Carlin is on the witness
7 list?

8 **A. He is available. He is here in the building**
9 **and available. He submitted data requests but did**
10 **not submit testimony in this case.**

11 Q. Okay. So I need to ask Witness Carlin.
12 We'll get those logistics with Kentucky Power
13 counsel afterwards.

14 **A. Okay.**

15 Q. You can testify to the incentive plans; is
16 that correct?

17 **A. That is correct.**

18 Q. Okay. What we'd like to do is just walk
19 through the short-term incentive plan, the long-term
20 incentive plan, and both the funding metrics and the
21 performance metrics.

22 **A. Okay.**

23 Q. And to the degree you can, we wanted to
24 double-check about 2019 versus 2020, because as I
25 recall, in your testimony there was a change. So

1 let's start with the short-term incentive plan.

2 Can you tell me what the breakout is -- for
3 short-term incentive plan, what is the breakout for
4 the funding metrics between financial metrics and
5 nonfinancial metrics?

6 **A. Okay. For 2019 it was 70 percent EPS,**
7 **20 percent strategic initiatives, and 10 -- I'm**
8 **sorry, 10 percent safety and compliance. And for**
9 **2020, it's a hundred percent EPS.**

10 Q. And when you say strategic initiative, can
11 you tell me a little more about what that is?

12 **A. Yes. Just give me a moment, please.**

13 Q. Sure.

14 **A. I don't seem to have a copy of the short-term**
15 **incentive plan in front of me to give you the**
16 **details of those.**

17 Q. That's fine. Let me ask you, I just want to
18 verify that the strategic initiative, would that --
19 those would be nonfinancial or financial metrics?

20 **A. Those are nonfinancial.**

21 Q. Nonfinancial. Okay. Thank you.

22 So let -- now let's turn from the short-term
23 incentive plan to the performance metrics. Can you
24 give me the breakout for those in 2019?

25 **A. Yes. For 2019, I -- there is a table in my**

1 **rebuttal, Table 3 --**

2 Q. Uh-huh.

3 **A. -- that lays those out and all the individual**
4 **incentives, or all the individual goals. It's --**
5 **for 2019, it was 90 percent nonfinancial, 10 percent**
6 **financial, and that is -- I don't provide a table,**
7 **but for 2020 it's 85 -- I'm sorry, 80 percent**
8 **financial. I'm sorry, I said that backwards.**
9 **80 percent nonfinancial and 20 percent financial.**

10 Q. Okay.

11 **A. So it's 90 and 10 and 80 and 20.**

12 Q. Okay. Thank you. And for the long-term
13 incentive plan, let's start with funding. Can you
14 give me the breakout for funding metrics, and for
15 2019?

16 **A. For 2019 it's 50 percent EPS, 50 percent**
17 **total shareholder return.**

18 Q. And the performance metrics for the long-term
19 incentive compensation?

20 **A. I'm not -- I'm not sure I understand what you**
21 **mean, performance metrics. It's -- the three-year**
22 **long-term plan, those are cumulative measures that**
23 **at the end of the three-year period are calculated,**
24 **and then therefore, you know, the equity would be**
25 **whatever that amount would be based on those**

1 **metrics.**

2 Q. No, I understand completely. We wanted to
3 make sure that that was the case. So for 2020, the
4 funding for the long-term incentive plan?

5 **A. Let me make sure I get -- it was -- we added**
6 **the ten percent metrics for nonemitting generation.**

7 Let me just validate something for a second.

8 Q. Okay.

9 **A. So it's -- the metrics for 2020 is the**
10 **50 percent EPS, 40 percent TSR, and then the 10**
11 **percent for the new nonemitting generation capacity.**

12 Q. I think you've answered all the questions,
13 then, that Staff have for you.

14 MS. VINSEL: I think at the -- at the end,
15 Chairman, if it's acceptable to you, after all the
16 parties have had an opportunity, do you mind if I
17 consult with Mr. Wolfram to find out about
18 Mr. Carlin's availability?

19 CHAIRMAN SCHMITT: No, I think that would be
20 fine. If Mr. Carlin is available, I'm sure they
21 would submit him.

22 All right. Mr. Cook, or Attorney General's
23 office, any questions for this witness?

24 MR. COOK: Yes, thank you, Chairman.

25 * * *

1 CROSS-EXAMINATION

2 By Mr. Cook:

3 Q. Good morning, Ms. Kaiser. Lawrence Cook on
4 behalf of the AG.

5 **A. Good morning.**

6 Q. I just want to -- Staff did get into a lot of
7 the questions that I wanted to ask, so I'm going to
8 try to piece through some of this here, just to ask
9 something to clarify, to help my understanding.

10 So if I understand correctly, both total
11 shareholder returns and earnings per share, they are
12 both financial performance metrics; isn't that
13 correct?

14 **A. That's correct.**

15 Q. Okay. And during the test year, the LTIP
16 compensation was paid in the form of both
17 performance share incentives and restrictive stock
18 units; is that correct?

19 **A. That's correct.**

20 Q. And the PSIs were based solely on a
21 combination of AEP's earnings per share and target
22 metrics for the total shareholder returns; isn't
23 that correct?

24 **A. The performance shares, yes, they were.**

25 Q. Okay. And both the earnings per share and

1 the total shareholder returns are measures of AEP's
2 financial performance; isn't that true?

3 **A. That's true.**

4 Q. Okay. The LTIP's restrictive stock unit
5 incentive comp is based on the stock price of AEP at
6 the grant date; isn't that correct?

7 **A. That is correct.**

8 Q. Okay. And isn't AEP's stock price a measure
9 of AEP's financial performance?

10 **A. Yes, it is, which -- I mean, it is common
11 with long-term incentive plans.**

12 Q. Okay. And the purpose of LTIP is to
13 incentivize AEP executives and managers to enhance
14 shareholder value; isn't that correct?

15 **A. I don't think I would fully agree with that
16 statement. It is true that that's who receives
17 long-term incentives. That is market driven. As to
18 who receives long-term incentive as part of their
19 total compensation package, the financial
20 performance is certainly going to be indicative of,
21 you know, meeting certain goals, and it's going to
22 be the ultimate, you know, score, if you will, of
23 success. But really, the focus on that is making
24 long-term decisions that are around efficiencies,
25 savings, maintaining assets. I mean, it's not just**

1 **about focusing on the financials of it, it's the**
2 **goals that get us there.**

3 Q. Okay. I understand. And the incentive
4 compensation plan was implemented to reward
5 employees for achieving or exceeding targets for
6 AEP's earnings per share, as well as certain
7 operations and safety metrics. Is that a correct
8 statement?

9 **A. Yes, that would be a correct statement.**

10 Q. Okay. And isn't it true that during the test
11 year, the Company included a total of \$5.631 million
12 in incentive compensation, and when broken down,
13 that consists of 1.164 million in LTIP expense and
14 4.467 million in ICP expense?

15 **A. Subject to check, those sound like the**
16 **correct amounts, yes.**

17 Q. I understand. Subject to check. Right.
18 And when that \$5.632 million sum is grossed
19 up for bad debt expense and regulatory fees, the
20 total becomes 5.666 million, is that correct,
21 subject to check?

22 **A. That would not be in my area of expertise. I**
23 **can't answer that question.**

24 Q. Okay. What I'd like to do now is to move on
25 to ask you some questions about supplemental

1 executive retirement program, or SERP.

2 Which employees are eligible for SERP
3 payments?

4 **A. I cannot tell you exactly what the cutoff is,**
5 **but it is a very small portion of the compensation.**

6 Q. Do you know how the determination is made
7 about who participates in SERP?

8 **A. Well, I guess the simple answer would be**
9 **that, you know, the SERP is simply allowing these**
10 **people to -- you know, we use the same formula for**
11 **all employees, but what happens with a certain level**
12 **of compensation, you know, there's IRS limits for**
13 **the tax benefits, and so it is just something**
14 **that -- you know, that you pay on top of that, but**
15 **it's treating them the same as we're treating all**
16 **employees. It just goes beyond, you know, what the**
17 **defined benefit is.**

18 Q. Okay. And in your rebuttal, I believe you
19 stated that SERP is part of the market competitive
20 total rewards package; is that correct?

21 **A. That's correct.**

22 Q. And so based on your rebuttal in general, it
23 sounds like you're saying essentially that SERP
24 expense is incurred to attract, retain, and reward
25 highly-compensated employees; is that correct?

1 **A. That would be a correct statement, and it**
2 **would also be a correct statement for all employees**
3 **at AEP.**

4 Q. And isn't it true that the interests of SERP
5 recipients are aligned more closely with
6 shareholders than are the interests of, for example,
7 a lineman, whose interests are clearly more closely
8 aligned with Kentucky Power ratepayers?

9 **A. I'm not sure I understand your question.**

10 Q. Okay. Well, let me see if I can rephrase it,
11 then. The more highly compensated executives, they
12 have to report to and are responsible for certain
13 shareholder goals; isn't that correct?

14 **A. Shareholder goals such as what?**

15 Q. How the Company performs financially.

16 **A. Well, it wouldn't just be limited to the SERP**
17 **individuals, it would be anybody that participates**
18 **in LTIP, for example.**

19 Q. Okay. But employees such as linemen and
20 linewomen, they certainly don't -- aren't
21 responsible for those types of programs; isn't that
22 correct?

23 **A. That's correct. They're not responsible for,**
24 **you know, focusing on the stock price at AEP.**

25 Q. Okay. So isn't it true that the Company

1 could provide safe and reliable utility service
2 without seeking to recover SERP expense from
3 ratepayers?

4 **A. No, because, you know, just like with base**
5 **pay and incentive compensation, you know, for the**
6 **line workers, which is their total compensation,**
7 **SERP is part of total compensation for these**
8 **executives at a certain level.**

9 Q. Well, and the Company could pay all the SERP
10 it wanted to if it was a shareholder expense; isn't
11 that correct?

12 **A. The -- but the Company wouldn't do that.**
13 **We -- like I said, we use the same formula for them**
14 **as we do all employees. It's not just a random**
15 **amount.**

16 Q. Okay. So those who are eligible for SERP
17 payments also participate in and are eligible for a
18 defined benefit plan in the form of a pension; isn't
19 that correct?

20 **A. That's correct.**

21 Q. And for those who are eligible for SERP, they
22 also are eligible to participate in a 401(k) plan;
23 is that correct?

24 **A. Yes, all employees can participate in 401(k).**

25 Q. And is a portion of the 401(k) plan funded by

1 the employer?

2 **A. Yes, it is.**

3 Q. Okay. So SERP, if I understand correctly,
4 is -- it's a nonqualified retirement plan for IRS
5 purposes; isn't that correct?

6 **A. That's correct.**

7 Q. And SERP can be structured as either a
8 defined benefit or a defined contribution plan;
9 isn't that correct?

10 **A. I don't really know how to answer that**
11 **question. That would also be a question that**
12 **Witness Carlin could answer.**

13 Q. Okay. Do you know whether -- for AEP,
14 whether SERP is a defined benefit or a defined
15 contribution plan?

16 **A. No, it is not.**

17 Q. Okay. So you're saying that it is -- it is
18 not a defined contribution plan?

19 **A. I'm sorry. I'm sorry. I was thinking**
20 **nonqualified.**

21 Q. Okay.

22 **A. So I would -- I would ask Witness Carlin**
23 **further questions. He's really the expert on SERP.**

24 Q. Okay. I understand. Thank you.

25 So AEP files a consolidated federal tax

1 return on behalf of all of its operating companies,
2 including Kentucky Power; isn't that correct?

3 **A. I don't know. That is not in the area of**
4 **compensation.**

5 Q. Okay. Do you know whether AEP has the
6 ability to deduct SERP expense as a business expense
7 when the SERP benefits are paid?

8 **A. No, I do not.**

9 Q. Would it surprise you that -- or not, that at
10 some point in time the SERP expenses are going to be
11 deducted?

12 **A. I can't answer that.**

13 Q. Okay. So bottom line, executives who receive
14 SERP have a salary and benefits package whose
15 monetary worth exceeds that of employees who do not
16 receive SERP; is that fair to say?

17 **A. That's fair to say, because only people that**
18 **are qualified for SERP that would be over the IRS**
19 **limit would be the more highly compensated**
20 **employees.**

21 Q. Okay. Thank you.

22 MR. COOK: Mr. Chairman, that's all the
23 questions I have at this time.

24 CHAIRMAN SCHMITT: Mr. Cook, do you intend
25 to -- along with Ms. Vinsel, would you like to ask

1 Mr. Carlin to clarify some of this or not? If you
2 would, I guess at some point in time when we take a
3 break, anyone who would -- maybe you and Ms. Vinsel
4 could get on the line with Mr. Wolffram and we could
5 do two things: One, see when Mr. Carlin could be
6 available, and, two, give him enough information
7 about the specific issues you'd like to speak with
8 him about so that he would have time to prepare.
9 Okay? If you would.

10 MR. COOK: Yes. That's fine. Thank you.

11 CHAIRMAN SCHMITT: All right. Mr. --

12 MS. VINSEL: Chairman --

13 CHAIRMAN SCHMITT: -- Kurtz, your
14 cross-examination?

15 MR. WOLFFRAM: Your Honor -- Your Honor,
16 before we -- if I may, before Mr. Kurtz asks any
17 questions, Mr. Carlin is available. He's in the
18 room and he has been watching the proceedings, so he
19 is here.

20 CHAIRMAN SCHMITT: Okay. Well, we'll -- I
21 don't know, maybe somebody would want to put him on
22 next. I'll leave that up to counsel.

23 MS. VINSEL: Chairman.

24 CHAIRMAN SCHMITT: Yes.

25 MS. VINSEL: I want to make sure that none of

1 the other parties are objecting to this. There may
2 be a potential objection to have -- calling
3 Mr. Carlin. I want to make sure that --

4 CHAIRMAN SCHMITT: Okay.

5 MS. VINSEL: -- counsel is given the
6 opportunity.

7 CHAIRMAN SCHMITT: When you say someone, one
8 of the other parties may object. All right. Well,
9 let's see.

10 MS. VINSEL: Yes. There's Ms. Grundmann.

11 MS. GRUNDMANN: Your Honor, I guess I have
12 more of a procedural question that maybe you could
13 weigh in on. This is obviously not a subject that
14 Walmart addressed in any of its testimony, but the
15 Commission did ask the Company to file its witness
16 order with the Commission in advance of the hearing,
17 and although there are a great number of witnesses
18 there, Mr. Carlin is not among them.

19 And so I just guess my question: Obviously
20 the Company has the ability to make its case as it
21 sees fit, and it didn't see fit to name Mr. Carlin,
22 so I guess I'm just curious about the
23 appropriateness of identifying him at this late date
24 for certain subjects that they haven't named a
25 witness who is able to answer questions on a given

1 subject for which they are seeking rate relief from
2 Kentucky ratepayers.

3 CHAIRMAN SCHMITT: I think you make a good
4 point. Unless parties to the existing -- to the
5 proceeding, if someone says, well, there's another
6 witness and we'd like an opportunity to examine some
7 details about the witness of another -- about
8 another witness who apparently is unable to testify,
9 so I can understand your point.

10 I guess the question is, I thought that the
11 previous witness, Ms. Keaton, may have said that
12 Mr. Carlin provided information but didn't sign the
13 responses to data requests. So I don't know what he
14 did or what he didn't do. But you make a good
15 point, but this is a regulatory proceeding, and if
16 there's some issue -- I guess you say why would you
17 want to help the Company make its case? I don't
18 know if that's what we're doing or not, if that's
19 what counsel intends to do, but you're correct, he
20 wasn't on the witness list, and probably, if there
21 was a strong objection, we would sustain that
22 objection.

23 MS. GRUNDMANN: Your Honor, I can't claim to
24 have a strong objection. I think what I would
25 request for future proceedings is that the Company

1 be better prepared with its witness list. To the
2 extent, for example, that it has an individual sign
3 discovery requests, it's quite possible that that
4 individual should have been named as a witness for
5 purposes of these proceedings since I'm not sure how
6 they can authenticate those discovery requests
7 absent that individual taking the stand.

8 So I just think it would be more helpful for
9 the parties to plan cross and questions upon a
10 variety of subjects if, you know, we had an accurate
11 list of who was going to testify to which subjects.

12 CHAIRMAN SCHMITT: I --

13 MR. WOLFFRAM: Your Honor, can I --

14 CHAIRMAN SCHMITT: I would agree a hundred
15 percent. I don't know if you've been in any of
16 these other rate cases involving electric utilities,
17 but there seems to be a problem along those lines,
18 because we -- it's not uncommon for something like
19 this, unfortunately, to occur.

20 Does anyone, any of other counsel have any
21 opinion, expression, or objection to Mr. Carlin
22 being asked questions about the subjects, at
23 least -- or any other subject anyone else might want
24 to bring up who later may conduct a
25 cross-examination of this witness or of Ms. Keaton?

1 Anyone else have any thoughts or objections on
2 Carlin?

3 MR. WOLFFRAM: Your Honor, this is -- this is
4 Tanner Wolffram from the Company. We would respond,
5 but it would be appropriate for us to respond after
6 the --

7 CHAIRMAN SCHMITT: Yeah, yeah. Let's hear
8 what everybody else -- anybody else who has a
9 question.

10 Mr. Kurtz, do you have any thoughts?

11 MR. KURTZ: We don't have any objection at
12 all. If Staff wants more information for the
13 record, I think it's a good idea to put him on.
14 Same with the Attorney General. But we have no
15 questions for this witness or for the supplemental
16 witness.

17 CHAIRMAN SCHMITT: Mr. Spenard,
18 Mr. FitzGerald, any questions?

19 MR. SPENARD: Good morning, Mr. Chairman.
20 KSIA has no objections to Staff or the other parties
21 questioning the witness, that they -- that they --
22 the Carlin that they propose to bring in.

23 CHAIRMAN SCHMITT: Okay. Mr. Frye,
24 Mr. Miller, any objection to Mr. Carlin being
25 brought in and asked questions? I suppose -- I

1 guess he could go a little beyond the questions that
2 have been asked, but I think it ought to be limited
3 to what -- to the issues raised at least during the
4 initial cross-examination.

5 MR. MILLER: Your Honor, Sierra Club has no
6 objections to that.

7 CHAIRMAN SCHMITT: Mr. Frye?

8 MR. FRYE: SWVA takes no position on this and
9 has no objection, Your Honor.

10 CHAIRMAN SCHMITT: All right.

11 MS. GRUNDMANN: And just to be clear, Your
12 Honor, I don't know that I need to launch into a
13 formal objection, I just want it to be clear for the
14 record that I thought it was amusing to me that
15 Mr. Carlin was invoked as the appropriate witness to
16 testify to a large number of subjects but hadn't
17 been identified as a witness on the Company's list.
18 And as we're only halfway through the Company's
19 list, I just have concerns to the extent that that
20 arises in the context of other subjects moving
21 forward.

22 CHAIRMAN SCHMITT: I understand your concern,
23 and I -- as an old practicing lawyer myself, I
24 under -- believe me, I understand.

25 VICE CHAIRMAN CHANDLER: Chairman, can I

1 ask -- can I ask a question of Mr. Wolffram? Is
2 there anyone else that answered a data request or
3 that was a data request respondent that is not
4 included in the Company's witness list?

5 MR. WOLFFRAM: Yeah, Mr. Jason Cash did
6 sponsor some data responses, but he has been
7 excused. Mr. Carlin has been made available for the
8 Commission's request to have any witness that's
9 sponsored a data request. He is -- he has been
10 involved in the proceeding and has been made
11 available, and he did sponsor and verify responses,
12 data responses to SERP-related questions, which is,
13 you know, what the subject of his -- or Ms. Kaiser's
14 deferral to Mr. Carlin would be.

15 So again, per the Commission's order, the
16 Company has made Mr. Carlin available. The Company
17 just did not anticipate calling Mr. Carlin as a
18 witness for this case.

19 CHAIRMAN SCHMITT: Now let's continue with
20 the cross-examination of this witness, and then
21 we'll see when Mr. Carlin, and perhaps the -- the
22 other witness, if something comes up that's within
23 the area of his knowledge or expertise, might be
24 called.

25 Mr. Kurtz, do you have cross-examination?

1 MR. KURTZ: Chairman, no, I do not. Thank
2 you, sir.

3 CHAIRMAN SCHMITT: Okay. Ms. Grundmann,
4 cross-examination?

5 MS. GRUNDMANN: No cross-examination, Your
6 Honor.

7 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo,
8 questions?

9 MR. SPENARD: No questions, Mr. Chairman.

10 CHAIRMAN SCHMITT: Mr. FitzGerald, I can
11 anticipate your response, but I need to ask anyway.

12 MR. FITZGERALD: Mr. Chairman, no questions,
13 but I wanted to clarify the -- Mr. Cash was --
14 answered a data request for my clients, and I had
15 raised the issue of the fact that he wasn't on the
16 witness list. I was assured that the other person
17 who answered the same question would be able to
18 answer any questions on that data request, so that
19 was the reason he -- we didn't insist on Mr. Cash
20 being here.

21 CHAIRMAN SCHMITT: Okay. All right. Thank
22 you.

23 Mr. Miller?

24 MR. MILLER: No questions, Your Honor. Thank
25 you.

1 CHAIRMAN SCHMITT: Mr. Frye?

2 MR. FRYE: No questions, Your Honor.

3 CHAIRMAN SCHMITT: Vice Chairman Chandler?

4 VICE CHAIRMAN CHANDLER: Yes. Thank you,
5 Chairman.

6 EXAMINATION

7 By Vice Chairman Chandler:

8 Q. Good morning, still, Ms. Kaiser. Just a
9 couple quick questions on the -- is it the ICP, is
10 that the -- the correct term for one of the plans?

11 **A. Yes, that's our short-term plan.**

12 Q. And under the short-term plan, the 2020
13 metrics were -- the funding metric was moved to
14 100 percent EPS from a previous funding metric in
15 2019 of 10 percent safety, 20 percent strategic
16 initiatives, and 70 percent EPS; is that right?

17 **A. That's correct. That change was made in May.**
18 **You know, we were initially going with the same**
19 **70/20/10 split. That adjustment was made in May due**
20 **to the economic uncertainty that we're all facing.**

21 Q. Okay. And who participates in the ICP?

22 **A. All of our employees participate in ICP.**

23 Q. Okay. So with the -- with the, what we're
24 calling performance measures -- if I call them
25 performance measures, you'll know what I'm referring

1 to, that Table 3 that's in your rebuttal testimony?

2 **A. Yes.**

3 Q. Okay. So if, as Mr. Cook said a second ago,
4 a lineman or, you know, a customer service
5 representative in any portion of Kentucky Power's
6 operations in 2020 did their absolute best to hit or
7 to help the Company hit all of these different
8 performance metrics and the management of AEP was
9 unable to hit the EPS metrics laid out for the
10 funding mechanism, what happens to the payouts to
11 those employees who did their utmost and maybe hit
12 every single one of the performance measures? What
13 happens?

14 **A. So the way it works, you know, the E -- you**
15 **know, a hundred -- so a hundred percent EPS for**
16 **2020, that is going to be the funding mechanism for**
17 **the entire company, then each business unit has**
18 **their own scorecard. For example, Table 3 is the**
19 **operating company's scorecard, and that's what the**
20 **payouts for the Kentucky Power employees, for**
21 **example, would be based on.**

22 So, you know, there's the funding mechanism
23 which is then disbursed to the business units based
24 on all of their performance relative to each other,
25 but if the EPS -- so if the goal was hit, we could

1 still pay out a portion. It wouldn't be a hundred
2 percent funding, but it could still pay out a
3 portion as long as we hit the threshold for EPS.

4 Q. Okay. Yeah, but my -- the scenario I asked
5 assumes that management was unable to hit the EPS
6 threshold. If the Kentucky Power operating
7 customer -- or the Kentucky Power operating company
8 from Mr. Mattison down hit every single one of the
9 performance measures and the EPS threshold for
10 funding was not met, what do they get paid in terms
11 of the ICP?

12 **A. There would be no payouts for anyone in the**
13 **company in that scenario.**

14 Q. There would be no payout. Would you agree
15 that if -- similar scenario. Would you agree that
16 if Kentucky Power's assumed test year amount of the
17 incentive compensation plan payment was included and
18 recovered from customers and rates and management
19 was unable to meet the EPS thresholds for the
20 funding, that that would be a recovery of an expense
21 that the Company never actually incurs and pays out?

22 **A. Yes. Just one moment, please. Yes, that**
23 **would be true, but as I pointed out at the beginning**
24 **with my correction, that has only happened twice in**
25 **the last ten years.**

1 Q. Okay. And I think the correction was -- I
2 just want to make sure I'm -- I didn't get a chance
3 to write it down, but it was eight of the last ten
4 years that threshold has been met?

5 **A. I'm sorry. That what goal was met?**

6 Q. That eight of the last ten years that EPS or
7 the funding threshold was met; is that what your
8 corrected testimony indicated?

9 **A. No, my corrected testimony --**

10 Q. That eight --

11 **A. Not --**

12 Q. Sorry. Go ahead. Go ahead.

13 **A. Not to be -- not -- well, the -- it was eight
14 of the last ten years we paid out at over 1.0.**

15 Q. 1.0. So the funding was in excess and the
16 payment was in excess?

17 **A. In those eight years?**

18 Q. Okay. Yes.

19 **A. Yes, sir.**

20 Q. Okay.

21 **A. Yes.**

22 Q. And I guess I'm -- I want to make sure I
23 understand your rebuttal, is that it's your
24 testimony that because the Commission has previously
25 said that the focus, I think you quote that you --

1 do you remember quoting the 2014 order on the
2 funding versus performance measures?

3 **A. Yes, I do.**

4 Q. Okay. And so that applies -- at least in
5 response to your rebuttal, that applied -- you
6 applied that to the ICP, right?

7 **A. That's correct. From 2014, the recovery was
8 the nonfinancial, which was 85 percent --**

9 Q. Okay.

10 **A. -- for ICP.**

11 Q. Okay. And why should that not apply to the
12 LTIP?

13 **A. I'm sorry. Why should what not apply to the
14 LTIP?**

15 Q. Well, so if the LTIP -- funding and
16 performance is effectively the same thing in the
17 LTIP, right? There is no distinction between a
18 funding mechanism and a performance mechanism; is
19 that -- that's my understanding; is that correct?

20 **A. That's correct. You could say that.**

21 Q. Okay. Okay. And so if -- whether it gets
22 paid out or not, the performance measure is the
23 basis for the recovery of the ICP, or is it your
24 basis for the recovery of the -- what is it, the --
25 let me make sure I get this right -- your Table 3

1 here of 90 percent of the ICP, right,
2 nonperformance -- nonfinancial performance metrics.
3 That's your testimony, right?

4 **A. That's correct.**

5 Q. If that's the basis is the Commission's 2014
6 order, are you taking the position that the 20 --
7 the language in the 2014 order shouldn't apply to
8 the long-term incentive plan?

9 **A. Well, the Company's position would be, you**
10 **know, a hundred percent recovery of the expenses**
11 **that we incurred for the labor costs. I was**
12 **pointing out that in 2014 there was agreement. You**
13 **know, we don't focus on the EPS funding measure, but**
14 **that the Commission agreed that the -- or at least**
15 **for ICP, that 85 percent that wasn't tied to**
16 **financial would be allowed.**

17 Q. Okay. So going back to ICP, are you-all
18 proposing a hundred percent recovery or proposing it
19 in accordance with the 2014 Commission order?

20 **A. We are supporting a hundred percent recovery.**

21 Q. So you used the order as a way to -- as a way
22 to defend against the portion related to denying it
23 based on funding, but then the second part of the
24 Commission order where it denied it on performance,
25 you're just not proposing that? You're proposing to

1 ignore that second half of the Commission's order?

2 **A. I wouldn't say I am proposing to ignore it.**

3 **I was pointing out that, you know, we're very**
4 **deliberate about figuring out what market**
5 **competitive, that dollar amount means.**

6 Q. Oh, excuse me. Excuse me, Ms. Kaiser. Do
7 you mind repeating that answer? You cut out. For
8 the benefit of the court reporter.

9 **A. Sure. I'm sorry. Yeah, we're very**
10 **deliberate about figuring out what it means to be**
11 **market competitive and what dollar amount goes with**
12 **that amount. And as I said, that includes base pay**
13 **and incentive pay, both in the forms of short-term**
14 **and long-term. And the logical thing to do would be**
15 **recover a hundred percent of our targeted expense,**
16 **which would be a hundred percent recovery.**

17 Just pointing out, though, in my testimony
18 that the Commission did agree, because the focus on
19 the intervenor testimony was on the financial versus
20 nonfinancial. So just pointing out that at least,
21 you know, the Commission in the 2014 case agreed
22 with the nonfinancial performance measures. And
23 then I know in the 2017 case it was reduced by a
24 portion, but it was part of a settlement, and that
25 shouldn't necessarily be the precedent either.

1 Q. Okay. So you're asking, effectively, for the
2 Commission to overturn their precedent in the 2014
3 case, but only as it relates to the performance
4 measures?

5 **A. No, I'm not asking that they overturn**
6 **anything.**

7 Q. Okay. But the Commission in the 2014 case
8 said specifically that it should be the financial
9 performance -- that the financial performance
10 measures should be excluded for ratemaking, correct?

11 **A. That is -- that is what the order in the 2014**
12 **case said, yes.**

13 Q. Okay. And you-all are proposing to recover
14 100 percent, correct?

15 **A. The -- that is correct.**

16 Q. Okay. I'm just curious about the change in
17 the -- we'll call it funding and performance
18 measures, since we sort of agreed that they're
19 the -- they're one and the same in the LTIP.

20 The change from 2019, where it was 50 percent
21 EPS and 50 percent total shareholder return, and now
22 in 2020 it's 50 percent EPS, 10 percent nonemitting
23 generation, and 40 percent TSR.

24 Do you remember that?

25 **A. Yes, that's correct. That's for the**

1 **performance shares.**

2 Q. What is this nonemitting generation
3 performance measure?

4 **A. Well, I'm certainly not an expert on it, but**
5 **what it is is a -- it's where, you know, the -- I**
6 **mean clean energy. It is the portion of our**
7 **generation assets that would be solar, hydro, the**
8 **clean energy.**

9 Q. Okay. Who -- can Mr. Carlin speak to that
10 more directly?

11 **A. Mr. Carlin can certainly speak to that.**

12 Q. Okay. Do you know who the best person to
13 talk to about the basis or how that -- how that
14 metric is measured? Are you the best witness for
15 that?

16 **A. No, I would not be the best witness for that.**

17 Q. Do you --

18 **A. That would also be Mr. Carlin.**

19 Q. Mr. Carlin. Okay.

20 And you were asked a question earlier about
21 the 20 percent in 2019, the funding mechanism for
22 the ICP that is strategic initiatives. I remember
23 your response was something like you didn't have
24 that plan in front of you, but -- and that's okay,
25 you don't have to have it in front of you. All I'm

1 going to ask -- all I'm going to ask you is: Is
2 that plan in the record?

3 **A. Yes, it is. It was a data request.**

4 Q. It was a data request response. Do you by
5 any chance know in response to which party? It's a
6 pretty big record.

7 **A. Yes. It -- well, the request is AG KIUC
8 1-25.**

9 Q. 1-25. And that would explain what the
10 strategic initiatives are and how they're -- how
11 they're funded, how it's met, how that metric would
12 be met in 2019?

13 **A. Yes.**

14 Q. Okay. And finally, and if there's another
15 witness that is better to answer this, please --
16 please let me know. Do you -- can you provide more
17 color around why the Company in midyear of 2020
18 changed the funding mechanism for the ICP to
19 100 percent EPS and took out 10 percent safety?

20 **A. Yes. So, you know, that was -- you know,
21 after the pandemic hit, the discussion was that we
22 have to make sure that we are focusing on
23 operational efficiencies, cost reductions, and that
24 in these -- you know, and the word has been
25 overused, but in these unprecedented times, we have**

1 **to make sure that AEP is financially healthy enough**
2 **before any payouts are made, regardless of anything**
3 **else that happens.**

4 What happened to the rest of the goals that
5 make up the other, you know, 20 and 10 percent,
6 those are still being measured as planned. You
7 know, as far as targets were set, we're keeping
8 track of those measures, and they will be used as
9 discretionary adjustments, if needed, either
10 positively or negatively, based on, you know, how
11 the Company is still performing against those
12 strategic goals in safety and compliance.

13 But if the EPS measure is not met, with
14 everything that's going on, it doesn't make sense
15 to, you know, necessarily say that we're going to be
16 obligated to make payouts if it doesn't make sense.

17 Q. Well, let me ask on that. If the folks at
18 Kentucky Power that are the CSRs and the linemen and
19 the meter readers and everybody else are continuing
20 to do their job safely and are continuing to hit the
21 performance measures for proactive safety
22 performance, culture action plans, saving, work
23 plans customized by operation company, if they're
24 continuing to do those things, if we're talking
25 about an overall compensation package and a fair

1 compensation package, then why, regardless of
2 whether AEP doesn't meet their EPS in a 100-year
3 pandemic, do those people deserve not to be paid out
4 those amounts?

5 **A. Well, it's because it's a part of the**
6 **corporate plan. You know, Kentucky Power doesn't**
7 **just operate independently and fund their own**
8 **plan --**

9 Q. So let me ask this --

10 **A. -- but --**

11 Q. -- are the plans on a calendar-year basis, or
12 is there a separate fiscal year that they run?

13 **A. No, the short-term plan is on a calendar-year**
14 **basis.**

15 Q. So in May of the calendar-year basis, the --
16 AEP decided to change the funding mechanism for all
17 customer short-term incentive plans?

18 **A. Yes, that's -- that is correct, for the**
19 **funding for the short-term incentive plans for**
20 **everyone.**

21 Q. Okay.

22 VICE CHAIRMAN CHANDLER: All right. Thank
23 you very much, Ms. Kaiser.

24 CHAIRMAN SCHMITT: Dr. Mathews, questions?

25 COMMISSIONER MATHEWS: I don't have any.

1 CHAIRMAN SCHMITT: Mr. Wolffram, any
2 redirect?

3 MR. WOLFFRAM: Thank you, Your Honor. Just a
4 few questions.

5 REDIRECT EXAMINATION

6 By Mr. Wolffram:

7 Q. Ms. Kaiser, I'd like to take you back. There
8 was some discussion regarding the Company's payout,
9 and I believe it was Vice Chairman that was asking
10 in years that the Company did not -- or the earnings
11 per share goal was not met in two of the ten years
12 that you provided in your testimony.

13 Do you remember that discussion?

14 **A. Yes, I do.**

15 Q. Is it your understanding that in the years
16 that the EPS target was not funded, or completely
17 funded through EPS, that the short-term incentive
18 was funded to the 1.0 target by shareholder funds?

19 **A. I'm sorry. Could you -- could you repeat the
20 question?**

21 Q. Sure. So we established that there were two
22 years within that ten-year period that the 1.0
23 target for STI was not -- or the EPS funding target
24 was not met, correct?

25 **A. Correct.**

1 Q. And so in those two years, isn't it true --
2 or is it true that the remaining 1.0 target, up to
3 the 1.0 target, was funded by shareholder dollars?

4 **A. Well, the -- I mean, the -- let me find the**
5 **table. One second here. I mean, the payouts in**
6 **2011 were 97.8 percent, and 92 percent in 2017. So**
7 **that was -- that was the expense those years.**

8 Q. Right. And at least some of that was
9 contributed by shareholder funds, correct?

10 **A. Correct.**

11 Q. If I could take you back, there was -- and I
12 know that Mr. Carlin is going to talk a little bit
13 about SERP expense, it sounds like, later, but there
14 was some discussion, I believe with Mr. Cook, about
15 the SERP expense being tied to, quote, unquote,
16 highly compensated members of the Company.

17 Do you remember that discussion?

18 **A. Yes, I do.**

19 Q. Is the SERP expense in addition to or above
20 what I'll call market competitive incentive or
21 employee compensation?

22 **A. Not for those individuals, no.**

23 Q. And that is based on -- and could you just
24 expand on that a little bit and explain why it's not
25 in addition to market competitive pay for those

1 individuals?

2 **A. Sure. As I mentioned before, you know, we do**
3 **multiple surveys. We have outside consultants that**
4 **we work with to determine what market competitive**
5 **pay looks like for all of our employees, and we use**
6 **that information to determine what total**
7 **compensation packages should look like for each**
8 **employee, including these highly compensated**
9 **individuals.**

10 Q. And finally, just one more line of
11 questioning. You had a conversation with the Vice
12 Chairman about the -- sorry. Let me -- let me go
13 back just a quick second. Okay. About the funding
14 mechanism versus the performance metric payout of
15 STI. Do you remember that conversation?

16 **A. Yes, I do.**

17 Q. And in that discussion, there was discussion
18 about the 20 -- the Company's 2014 rate case and the
19 order in that case.

20 Do you remember that discussion?

21 **A. Yes, I do.**

22 Q. And it's your understanding that the order as
23 it relates to STI only was where the distinction was
24 drawn between the performance metric versus the
25 funding mechanism of the STI specifically, correct?

1 **A. Correct.**

2 Q. And it's your understanding that the LTIP
3 expense in that case was -- or let me ask you: Do
4 you -- are you aware -- or what is your
5 understanding of the -- how the LTIP expense was
6 treated in that case? Was it excluded or included,
7 if you know?

8 **A. In 2014?**

9 Q. Yes, ma'am.

10 **A. It was excluded.**

11 MR. WOLFFRAM: I have no further questions
12 for this witness, Your Honor.

13 CHAIRMAN SCHMITT: It's probably time for us
14 to take the morning break.

15 Mr. Wolffram, will you be presenting
16 Mr. Carlin, or will that be another attorney?

17 MR. WOLFFRAM: I will be the attorney
18 presenting Mr. Carlin, yes.

19 CHAIRMAN SCHMITT: Okay. If Mr. Carlin is
20 available, would he -- if we take a 10-, 15-minute
21 break, would Mr. Carlin be available as soon as we
22 come back off that break?

23 MR. WOLFFRAM: Yes, Your Honor.

24 CHAIRMAN SCHMITT: All right. So let's take
25 a break now until 20 minutes until 11:00, that's

1 15 minutes, at which time Mr. Carlin will be
2 presented for cross-examination. And then when we
3 get through with him, we can go back to the regular
4 order, which I guess would be what, Mr. Bishop?

5 MR. WOLFFRAM: That's correct, Your Honor.
6 Thank you.

7 CHAIRMAN SCHMITT: All right. We'll be in
8 recess until 20 minutes until 11:00 o'clock.

9 (Recess from 10:25 a.m. to 10:42 a.m.)

10 MS. SACRE: We are on, Chairman.

11 CHAIRMAN SCHMITT: Okay. We're back on the
12 record. Is everyone -- counsel for all the parties
13 here? Can you tell, Candace, is everybody is there?

14 MS. SACRE: Kentucky Power is present. It
15 looks like Mr. Carlin and Mr. Wolffram, is all -- is
16 all that --

17 CHAIRMAN SCHMITT: Mr. Wolffram --

18 MS. SACRE: -- I seem to see.

19 CHAIRMAN SCHMITT: -- can you hear me?

20 MS. SACRE: They can hear us. I think
21 everybody has to populate first, the airwaves calm
22 down. The airwaves are jammed.

23 CHAIRMAN SCHMITT: COVID's attacked our
24 system is what's --

25 MS. SACRE: There's one. I think when

1 everybody gets on probably. Vice Chairman, we still
2 need him.

3 CHAIRMAN SCHMITT: Yeah, I guess our screen
4 is limited, you -- but you know everybody who's on
5 even if they're not on the video, correct? Somebody
6 knows that, I don't.

7 MS. SACRE: Oh, I don't know that. I don't
8 know that, other than the list I have written down
9 that they're supposed to be here. I guess people
10 are having a hard time getting on because we're
11 missing everybody.

12 CHAIRMAN SCHMITT: Do you have an idea,
13 Nancy, what the situation is here? Is it just
14 people haven't gotten back yet or --

15 MS. VINSEL: I can't -- I can't tell what it
16 is, but I can go check with Anthony.

17 CHAIRMAN SCHMITT: That would probably be
18 best.

19 MS. VINSEL: I'll do that. I'll be right
20 back.

21 PSC PERSONNEL: I'll do it.

22 MS. VINSEL: Thank you, Stephanie.

23 MS. SACRE: We're not getting everybody on
24 the screen, Anthony.

25 MS. VINSEL: They -- they -- well --

1 CHAIRMAN SCHMITT: Do we know if everybody is
2 on or off or --

3 MS. VINSEL: We'll know from the control room
4 in the back. And Stephanie has gone to check on
5 that for us.

6 MS. SACRE: He says we're on, it's just
7 taking everyone --

8 CHAIRMAN SCHMITT: Are all of the attorneys
9 now back -- back on? Can you hear? All right.
10 We're not always sure, so that's why we were
11 checking.

12 Mr. Wolffram, are you ready to -- ready to
13 introduce Mr. Carlin?

14 MR. WOLFFRAM: Yes. Your Honor. At this
15 time the Company calls Andy Carlin to the stand.

16 CHAIRMAN SCHMITT: Okay. Mr. Carlin, will
17 you please raise your right hand? Do you solemnly
18 swear or affirm, under penalty of perjury, that the
19 testimony you are about to give will be the truth,
20 the whole truth, and nothing but the truth?

21 THE WITNESS: I do.

22 CHAIRMAN SCHMITT: Okay. Please be seated.

23 Mr. Wolffram, I think how we ought to proceed
24 here is beginning with Ms. Vinsel, Staff Counsel, to
25 let her question Mr. Carlin, and then we'll go down

1 the list. And then if there's anything you need to
2 clarify or clear up, you can do that at the end. Is
3 that okay?

4 MR. WOLFFRAM: Yes, Your Honor. Thank you
5 very much.

6 CHAIRMAN SCHMITT: All right.

7 Ms. Vinsel, questions of Mr. Carlin?

8 MS. VINSEL: Yes. Thank you, Mr. Chairman.

9 ANDREW R. CARLIN, having been first duly
10 sworn, testified as follows:

11 CROSS-EXAMINATION

12 By Ms. Vinsel:

13 Q. Good morning, Mr. Carlin. I'm going to have
14 a data request brought up first.

15 MS. VINSEL: Zach, can I ask you to bring up
16 the PSC's fourth data request? This is -- to help
17 you, this is document number 104 in the hearing
18 documents.

19 And just to explain to all the parties, when
20 I refer to something as a document number, that's
21 simply for internal Commission use to identify
22 documents.

23 While Zach is bringing this up, I'll point
24 out that this is Kentucky Power's response to
25 Commission Staff's fourth request for information,

1 item 10, which asks to explain -- here it is.

2 Zach, can you go to data request 10? It is
3 PDF pagination 197. Thank you, Zach.

4 Q. Mr. Carlin, in this data request we asked
5 about whether Kentucky Power provides a retirement
6 and a security plan in tandem with the 401(k) plan,
7 and as you can see, this response was sponsored by
8 you and by Ms. Kaiser, but she was unable to speak
9 to the underlying question, and that is simply this:
10 I believe it was -- in the 2017 rate case, I believe
11 it was you that testified that Kentucky Power had
12 locked and frozen its defined benefit program.

13 Do you recall that?

14 **A. It locked and frozen its original defined**
15 **benefit program. We still have a cash balance**
16 **program that will eventually grow to supersede the**
17 **value of the original final average pay formula**
18 **defined benefit plan. And so we are still providing**
19 **both a retirement savings plan benefit, a defined**
20 **contribution plan, and a defined benefit plan going**
21 **forward for the foreseeable future.**

22 Q. And I -- is it the case that Kentucky Power
23 is providing matching funds to employees on both
24 plans?

25 **A. The 401(k) contributions are matching. The**

1 **defined benefit contributions are entirely the**
2 **Company's, there's no employee contribution.**

3 Q. As you probably recall, over the past several
4 years the Commission has made adjustments for cases
5 when a utility is providing -- or paying for both a
6 defined benefit and a defined compensation plan.

7 **A. I do recall that some adjustments were made,**
8 **but not in the Company's case, because we were able**
9 **to show that in combination, they provide market**
10 **competitive benefits to employees, where you -- you**
11 **know, and we provided some testimony to that in this**
12 **case as well.**

13 The -- these two plans were designed
14 together. And I'm going to use the analogy I used
15 in the 2017 case. They were designed together to
16 provide a market competitive benefit, but with two
17 components. In other words, this is the -- this is
18 the same size -- this is an ice cream analogy --
19 same size cup or cone, but instead of chocolate or
20 vanilla, we've got a swirl of the two kinds of
21 flavors, but the same size ice cream, which is the
22 market competitive size.

23 Q. I think what we're -- what Staff will do is
24 probably submit post-hearing data requests to ask
25 additional clarifying information. I will point

1 out, to reiterate what one of our former
2 Commissioners had made the point that I think is
3 particularly appropriate with Kentucky Power, and
4 this is why I really want to get to the bottom of
5 this, and that is: For a lot of the ratepayers,
6 they barely have one retirement program. The
7 Commission, over the past few years, has made sure
8 that ratepayers are not paying for a utility to
9 provide -- again, that -- I don't want to use the
10 word "double-dipping," but that is what comes to
11 mind right now.

12 So I think in our post-hearing data requests
13 we will ask some questions to clarify these.

14 **A. Well, so -- and that's fine. We'll respond**
15 **to any post-hearing data requests. The point,**
16 **though, is that they -- these benefits are market**
17 **competitive in total, and they were designed that**
18 **way, and they remain market competitive in total.**
19 **It's not so much whether you have one, two, or five**
20 **plans, it's what each of those plans provides**
21 **towards a market competitive post-retirement benefit**
22 **package and how that compares to the market for that**
23 **type of stuff. And ours compares quite well. It's**
24 **right near the middle.**

25 Q. I appreciate that. I think we may be talking

1 past each other and it's probably not productive to
2 continue at this point with my questions.

3 MS. VINSEL: So Staff will have -- we'll just
4 follow up with post-hearing data requests.

5 CHAIRMAN SCHMITT: All right. For the
6 Attorney General's office, Mr. Cook, do you have
7 questions?

8 MR. COOK: Yes, Chairman. Thank you very
9 much.

10 CROSS-EXAMINATION

11 By Mr. Cook:

12 Q. Good morning, Mr. Carlin.

13 **A. Good morning.**

14 Q. I have just a couple questions for you. So
15 using your analogy of the swirl, isn't it true that
16 essentially SERP is a third swirl?

17 **A. No. SERP is part of, you know, either the**
18 **chocolate or vanilla, take your pick, but it's the**
19 **same formula. In the Company's plan, anyway, it's**
20 **the exact same formula that we provided to other**
21 **employees as a percentage of their pay as the**
22 **underlying qualified plan, it's just an amount that**
23 **exceeds an arbitrary IRS limit.**

24 Q. And isn't it true that, in essence, AEP can
25 have ten swirls, if it chose to, as long as it

1 follows whatever the Commission guidelines are for
2 what ratepayers pay for? Isn't that correct?

3 **A. Well, I suppose if we didn't follow the**
4 **Commission guidelines and they disallow the expense,**
5 **but we could have as many different varieties as we**
6 **wanted. But the real important point, again, is**
7 **that we've designed our benefit program to be market**
8 **competitive in total, and that's what we've got.**

9 Q. Is SERP a nonqualified retirement plan for
10 IRS purposes?

11 **A. It is.**

12 Q. Okay. And again, for IRS purposes, SERP can
13 be structured, hypothetically, as either a defined
14 benefit or a defined contribution plan; isn't that
15 correct?

16 **A. We -- so I would say nonqualified plans can**
17 **be structured that -- to be either. SERP typically**
18 **refers to a defined benefit plan rather than a**
19 **savings-type program. But that's our parlance. I'm**
20 **not a hundred percent sure how everybody else thinks**
21 **about it.**

22 Q. I understand. So if I understand correctly,
23 then, for AEP, and by extension Kentucky Power, SERP
24 is essentially a defined benefit plan; is that true?

25 **A. SERP is -- exactly, that when we use the term**

1 "SERP," we think of it as the excess portion of our
2 defined benefit pension plan which has those two
3 formulas I was referring to earlier, the frozen and
4 locked final average pay formula, which is still in
5 existence but it's frozen and locked, and the cash
6 balance version of the defined benefit pension,
7 which is the one that's going forward.

8 Q. Okay. Thank you.

9 And AEP files a consolidated federal tax
10 return on behalf of all the operating companies,
11 including Kentucky Power; isn't that correct?

12 A. I'm not in the tax department, but I do
13 believe that's correct.

14 Q. Okay. And isn't it true that AEP has the
15 ability to deduct SERP expense as a business expense
16 when the SERP benefits are paid?

17 A. Correct.

18 Q. Okay.

19 MR. COOK: Mr. Chairman, I believe that's all
20 the questions I have at this time.

21 CHAIRMAN SCHMITT: Mr. Kurtz?

22 MR. KURTZ: Thank you, Your Honor.

23 CROSS-EXAMINATION

24 By Mr. Kurtz:

25 Q. Mr. Carlin, good morning. Vice Chairman

1 Chandler was asking questions earlier about a ten
2 percent clean energy metric with respect to these
3 plans. Are you familiar with that?

4 **A. I am.**

5 Q. What is it?

6 **A. All right. Well, it's a metric in our**
7 **long-term incentive plan that has a ten percent**
8 **weight, as you mentioned, for nonemitting generating**
9 **capacity. And what it is is a measure of the**
10 **percentage of our total AEP capacity that is from a**
11 **nonemitting source. So that would include wind,**
12 **solar, hydro, nuclear, energy efficiency programs,**
13 **demand management programs, and it includes both**
14 **owned and PPA capacity.**

15 And so we compare what percentage of our
16 capacity is in those categories as opposed to fossil
17 fuels. Sort of at the beginning of the period, we
18 had -- we had a percentage. Let's just take a round
19 number. Say 28. And then there's a threshold
20 target, a MAC, over the three-year long-term
21 incentive period that -- let's say 30, 31, and 32.
22 So as we improve the percentage of the Company's
23 capacity that's from a nonemitting source, we do
24 better against that goal.

25 Q. How long has that been part of the plan?

1 **A. Less than a year.**

2 Q. Okay. So I know you don't IRP. You don't do
3 the IRP part for the Company, but it sounds like
4 there's a financial incentive for Kentucky Power or
5 any of the AEP companies to get approval to do solar
6 self-build or solar PPAs as opposed to a fossil fuel
7 solution.

8 **A. Well, there is, but remember, these things**
9 **are -- change slowly, A. B, we do have the ability**
10 **to work with our Commission to get those into the**
11 **IRP, and we also have a competitive business. We**
12 **are counting the renewables from our competitive**
13 **business in this measure. So there's a lot of**
14 **different factors, and I forgot one big one, which**
15 **is, as we close plants, either early or on schedule,**
16 **in accordance with the IRP, those count too. So**
17 **that reduces the fossil capacity if we close a coal**
18 **plant.**

19 So there's a lot of factors in here, and we
20 took most of those factors into account in setting
21 the goal, and what it does -- and the whole point is
22 to encourage the Company to change its capacity mix
23 going forward to be more renewable, more
24 sustainable, and better for our customers and the
25 environment, which is what our customers care about.

1 Q. If the net present value of a solar
2 self-build was exactly the same as a market purchase
3 to meet capacity or energy needs, then the Company
4 would have a financial incentive, the employees, to
5 go with the solar project?

6 **A. Well, we're allowed to -- or we include PPA,**
7 **so it doesn't matter whether we own it or we buy the**
8 **power from it.**

9 Q. But I meant, I guess, a market purchase from
10 PJM. A market purchase of energy from PJM versus
11 solar PPA, there would be a financial incentive to
12 do the solar PPA even if the market purchase was
13 cheaper for consumers?

14 **A. I don't -- I don't think so. Well, first**
15 **off, that would cause problems in other areas, such**
16 **as rate recovery. But secondly, it's shrinking our**
17 **overall capacity because we're not going to, in all**
18 **likelihood, shrink the solar or wind capacity. It**
19 **would help. It wouldn't necessarily hurt because**
20 **the denominator gets smaller.**

21 Q. And to sort of compound that, the utility
22 will not earn a profit margin or rate of return on a
23 market purchase. Are you aware of that?

24 **A. Yeah. I'm aware of that, but we, I assume,**
25 **are in the profit margin on renewables, so -- that**

1 we own, so -- and we already own a bunch, so, you
2 know, we could focus our investments more on that,
3 and we could focus them more on the competitive
4 business. I mean, I think it's -- we are fairly
5 neutral between whether we achieve this goal in the
6 regulated environment, which would be our
7 preference, or in the competitive environment.

8 We have a certain amount to invest to
9 maintain our credit ratings and our -- and our
10 earnings growth, and if we can't do it in the
11 regulated environment, we've got other options.

12 Q. How does the ten percent clean energy metric
13 correspond with the ESG, environmental -- is it
14 environmental, social, and governance metric that
15 Wall Street uses that was part of the earnings
16 report that we discussed on the first day of the
17 hearing?

18 MR. WOLFFRAM: Your Honor, at this point we
19 would object as outside the scope of Mr. Carlin's
20 discovery responses, which is what he's here to
21 testify about.

22 CHAIRMAN SCHMITT: I'm going to allow him to
23 ask the question.

24 Go ahead, Mr. Kurtz.

25 Witness, you must answer.

1 **A. Can you repeat the question, please?**

2 Q. How does the ten percent clean -- do you know
3 the ESG metric that AEP has implemented? Do you
4 know what ESG is?

5 **A. Yes, I do know what ESG is, and my -- we**
6 **developed it in-house. We didn't develop it to meet**
7 **a Wall Street standard, and I have not checked to**
8 **see the degree to which it does meet the**
9 **requirements of that. And, in fact, it may predate**
10 **what came out in the Wall Street Journal. So I**
11 **don't know.**

12 Q. Can you give me a dollar order of magnitude?
13 Ten percent of what? What -- how much money are we
14 talking about?

15 **A. I don't know the Kentucky Power portion**
16 **that's LTIP. AEP-wide, LTIP is about 40 -- 40**
17 **million a year, so 4 million a year on an AEP-wide**
18 **basis.**

19 Q. So from that perspective, it's not a lot of
20 money?

21 **A. Not a huge amount. It's more symbolic, but I**
22 **think it's important symbolically.**

23 Q. And \$40 million AEP-wide is what? You just
24 said the ten percent --

25 **A. 40 million -- 40 million is the total annual**

1 cost of the LTIP program assuming target
2 performance, approximately. That's a -- you know,
3 give me a wide margin on that number since I'm
4 pulling it out of thin air, but that's an
5 approximation. So ten percent of that would be
6 about 4 million, so that gives you an order of
7 magnitude --

8 Q. Okay.

9 A. -- of the (indiscernible).

10 Q. That's what I wanted.

11 MR. KURTZ: Thank you, sir. No further
12 questions.

13 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

14 MS. GRUNDMANN: No questions, Your Honor.

15 CHAIRMAN SCHMITT: Mr. Spenard, Mr. Strobo,
16 questions?

17 MR. SPENARD: No questions, Mr. Chairman.

18 CHAIRMAN SCHMITT: Mr. FitzGerald?

19 MR. FITZGERALD: No questions, Mr. Chairman.
20 Thank you.

21 CHAIRMAN SCHMITT: Mr. Miller?

22 MR. MILLER: Thank you, Your Honor. No
23 questions.

24 CHAIRMAN SCHMITT: Mr. Frye?

25 MR. FRYE: No, no questions, Your Honor.

1 CHAIRMAN SCHMITT: Okay. Vice Chairman
2 Chandler?

3 VICE CHAIRMAN CHANDLER: Yeah, thank you,
4 Your Honor.

5 EXAMINATION

6 By Vice Chairman Chandler:

7 Q. Good -- check the clock every time. Good
8 morning, Mr. Carlin.

9 Let me ask a straightforward question: Does
10 Kentucky Power or AEP as it allocates to Kentucky
11 Power contribute to defined benefit and 401(k)
12 matching plans concurrently?

13 **A. Yes, we have both.**

14 Q. Okay.

15 VICE CHAIRMAN CHANDLER: So I just want to
16 pull up on the screen here, and I think this is the
17 order, and correct me if I'm wrong, Chairman, the
18 order that the Commission took -- that we took
19 administrative notice of yesterday. It's the
20 January, I believe, 18th order in Case Number
21 2017-179, Kentucky Power's most recent rate case.

22 Q. Please let me know when you can see my
23 screen, Mr. Carlin.

24 **A. I can see it.**

25 Q. Okay. So do you see that this is page 15 of

1 that order?

2 **A. Yes.**

3 Q. Okay. And do you see that this is the part
4 described as savings plan expense?

5 **A. Yes.**

6 Q. Okay. Do you mind to read the part there
7 that says "In rebuttal"? And before you read it,
8 would you note that that when it's responding here,
9 there's at least citations in 36 to your initial
10 testimony in that case?

11 **A. I see that, yes.**

12 Q. Okay. Do you mind to read there on --
13 starting with the -- the paragraph that starts with
14 "In rebuttal"?

15 **A. (Reading) In rebuttal, Kentucky Power**
16 **explained that participation in the defined benefit**
17 **plan ended in 2000 and benefits were frozen in 2010.**

18 Do you want the whole paragraph?

19 Q. Yes, please.

20 **A. (Reading) Therefore, Kentucky Power does not**
21 **contribute to a defined benefit plan and 401(k)**
22 **matching plan at the same time. The Commission has**
23 **disallowed such matching contributions when both the**
24 **defined benefit plan and a 401(k) matching**
25 **contribution exist currently. This is not the case**

1 **with Kentucky Power.**

2 Q. Was the Commission's order in error in the
3 last case, in that conclusion?

4 **A. I -- without reading it in more detail, I**
5 **cannot say one way or the other. I would need to**
6 **read the whole --**

7 Q. Well, I think it's a fairly straightforward
8 question. If the Commission said in the order that
9 Kentucky Power does not contribute to a defined
10 benefit plan and a 401(k) matching plan at the same
11 time, but you just said that Kentucky Power does do
12 those things at the same time, concurrently,
13 correct?

14 **A. It would seem that there's a misunderstanding**
15 **about that, but I -- again, without reading the**
16 **whole order, I'm not sure where in the order this**
17 **statement is being made, and I can't comment on**
18 **whether or not it's accurate or inaccurate without**
19 **delving into it more deeply.**

20 Q. Okay. So let's read the next paragraph.

21 (Reading) Kentucky Power included 1.662 -- 2 -- 975
22 dollars in its jurisdictional revenue requirement
23 for savings plan expense for employees who
24 participate in a defined benefit plan and have
25 matching 401(k) contributions from Kentucky Power.

1 Do you see that?

2 **A. It just got smaller on me.**

3 Q. Okay. I apologize. How about now?

4 **A. Yeah. So yes, I do see that.**

5 Q. And it goes on to say (Reading) The Attorney
6 General proposed a Kentucky jurisdictional
7 adjustment of \$1,102,496 for savings plan expense
8 for employees who participated in a defined benefit
9 plan and have matching 401(k) contributions from
10 Kentucky Power.

11 Do you see that?

12 **A. Yeah.**

13 Q. And then, the section you just read,
14 (Reading) In rebuttal, Kentucky Power explained that
15 participation in a defined benefit plan ended in
16 2000 and the benefits were frozen in 2010.
17 Therefore, Kentucky Power does not contribute to a
18 defined benefit plan and a 401(k) matching plan at
19 the same time. The Commission has disallowed such
20 matching contributions when both a defined benefit
21 plan and 401(k) matching contribution exist
22 concurrently. This is not the case with Kentucky
23 Power. The Commission finds that the Kentucky
24 Power's savings plan expense is reasonable and
25 should be allowed for ratemaking purposes.

1 Do you see that, going on to page 16, that's
2 the end of that section?

3 **A. Yes.**

4 Q. Okay. So, just to make very clear -- and
5 I'll stop sharing here.

6 So, just to make very clear, you would agree
7 that Kentucky Power does contribute to both defined
8 benefit plans and 401(k) matching plans
9 concurrently?

10 **A. I do.**

11 Q. Okay. And --

12 **A. Just let me explain the paragraph --**

13 Q. And I -- and I -- I just want to ask one more
14 question, Mr. Carlin. I apologize. If Commission
15 Staff asked in a post-hearing data request for the
16 amount included in the test year for both of those
17 contributions, or for both of the costs from the
18 Company, would you or somebody else on behalf of the
19 Company be able to provide those amounts?

20 **A. Somebody would be able to provide those
21 amounts, I assume.**

22 Q. Okay. I'm sorry. Please proceed.

23 **A. Yeah. So we did freeze the final average pay
24 formula, and I talked about this on the stand, and a
25 lot of people remember it because I used the word**

1 "swirl cone." We froze that formula. We did not
2 freeze the entire pension plan because there is
3 another formula that is going forward. It is a cash
4 balance formula. It looks very much like a
5 savings-plan-type benefit, but it is still
6 technically a defined benefit plan, which is why
7 there may be confusion around this.

8 That formula, it's a cash balance formula,
9 which, you know, you get a cash balance
10 contribution, looks like a -- looks a lot like a
11 defined contribution benefit except that its
12 governed under the ERISA rules around defined
13 benefit plans. So that's probably part of what the
14 confusion is here.

15 But we do technically have, and have always
16 had, a defined benefit plan as well as a savings
17 plan. And again, they're all part of the same
18 market competitive goal, postretirement benefit
19 package.

20 Q. Yeah, and I appreciate that. I just want to
21 make sure that I'm clear that you have both of those
22 and some employees have both of those and you
23 contribute to both of those on behalf of those
24 employees, correct?

25 A. Yes.

1 Q. And just to be clear, we can ask for those
2 amounts for the test year and the Company would be
3 able to provide those contributions?

4 **A. I would be surprised if they haven't already**
5 **been provided somewhere.**

6 Q. Okay. I appreciate that.

7 VICE CHAIRMAN CHANDLER: And I think
8 Commissioner Mathews may cover the rest of my
9 questions. So I appreciate it, Mr. Carlin. Thank
10 you. Thank you for making yourself available.

11 CHAIRMAN SCHMITT: Let me ask a question,
12 Vice Chairman, before -- and I may have made an
13 erroneous note on it. Was Mr. Carlin a witness who
14 was supposed to have information about sales in
15 Illinois or Michigan, or was that, once again,
16 Mr. Vaughan?

17 VICE CHAIRMAN CHANDLER: Chairman, I have
18 from my notes that will be Ms. Whitney or
19 Mr. Vaughan.

20 CHAIRMAN SCHMITT: All right. Thank you.

21 All right. Doctor Mathews, questions?

22 COMMISSIONER MATHEWS: Yes. Yes.

23 EXAMINATION

24 By Commissioner Mathews:

25 Q. Good morning, Mr. Carlin. Let's talk about

1 that ten percent clean energy goal, if you don't
2 mind.

3 **A. Certainly.**

4 Q. Would you agree that one of the drivers for
5 this case, as the Company has made the assertion, is
6 that it's driven by the lack of economic development
7 in the service territory of Kentucky Power? Is that
8 one of the drivers for the rate case?

9 **A. I've been on the periphery of some of the**
10 **meetings where we discussed the main drivers of the**
11 **rate case, but I presume that that's at least part**
12 **of it.**

13 Q. Would you agree, and I -- this is not asking
14 you to be an economist or anything other than just
15 an observer of the service territory. Would you
16 believe that -- would you agree that some of that
17 economic downturn has been driven by a lack of
18 coal sales and the closure of many coal mines and
19 coal-mine-related industries?

20 **A. Certainly, to the extent I watch the news,**
21 **that is accurate.**

22 Q. Okay. And you said that the \$40 million for
23 LTIP per year was symbolic, was largely a symbolic
24 gesture that was related --

25 **A. Per --**

1 Q. -- to clean energy?

2 **A. Symbolic, it has a symbolic meaning to it,**
3 **yes.**

4 Q. Right.

5 **A. I didn't say that was its only intent.**

6 Q. Well, but do you agree that the symbolism to
7 the folks of Eastern Kentucky, who are being asked
8 to pay a proportion of this, is also -- I'm just
9 going to say it's -- I'm trying to come up with a
10 word. The symbolism is troubling, that you have
11 customers in a service territory who have been
12 impacted by the decrease in the coal industry and
13 you're providing long-term incentive pay for a
14 further degradation of that coal industry.

15 **A. I don't think that's the case, and I don't**
16 **think the customer should do or should feel that**
17 **way, because the impact on coal and coal-fired power**
18 **generation has been largely economic. Some of it's**
19 **been due to regulation, but --**

20 Q. Then it doesn't need to be incentivized.

21 **A. I'm sorry, I didn't hear that. I wasn't**
22 **done, though. The -- so we've got the -- you know,**
23 **we're a price takers, just -- and our -- a lot of**
24 **our coal-fired generation hasn't been in the market**
25 **like it was for at least 30 or 40 years of life. So**

1 **it hasn't been running as much.**

2 And we're investors, and we're -- that's
3 where our investment dollars are more likely to be
4 going. We're -- you know, I don't think there's
5 very many coal-fired power plants being built, if
6 any, right now, and this is symbolic around our
7 future investment.

8 It's not really -- we would have to -- if we
9 were going to close a coal plant, it would be part
10 of the IRP process and discussed through this kind
11 of hearing. So that's not really what's going on
12 here. It's about future investment, changing that
13 portfolio mix to clean up the environment. There
14 are a lot of customers that appreciate that and want
15 that, and we were willing to do that in Kentucky as
16 well, as well as other economic development
17 activities in Kentucky. So, you know, if the right
18 opportunity arises, we would be there with some
19 investment dollars.

20 So that's what this is about. And it can
21 improve the economy of Kentucky, so -- from a
22 symbolic point of view, it's a good thing.

23 Q. If it's due to economics, it's not something
24 that needs to be incentivized, would you agree?

25 Are you providing an incentive for someone to

1 do something they would do anyway because the cost
2 of solar power is now lower than the cost of
3 coal-fired generation?

4 **A. They are not mutually exclusive. So, you**
5 **know, that depends. If you -- sometimes you have**
6 **other reasons to do it even if the economic**
7 **incentives are already there, symbolism being one of**
8 **them.**

9 Q. And it -- you said it was an investment
10 decision?

11 **A. It is -- these are largely investment**
12 **decisions. Where are we going to put our -- you**
13 **know, our annual investment dollars towards? The**
14 **Company does invest for its future, and, you know,**
15 **usually in our sector, so we would like to invest in**
16 **a regulated environment, that is certainly our**
17 **preference, but we have other options.**

18 Q. I believe that Kentucky Power has a rather
19 significant excess capacity. Is that still true, at
20 least through the end of the Rockport agreement? I
21 don't --

22 **A. I --**

23 Q. -- the last three cases it was in the 30s?

24 **A. I don't know. It's not my area.**

25 Q. Okay. Well, if you took -- or believe me

1 that Kentucky has excess capacity, Kentucky Power
2 has excess capacity, it doesn't need additional
3 capacity of any color, green or otherwise?

4 **A. That may be true. It wouldn't need it for**
5 **its integrated resource plan, but there may still be**
6 **economically valuable opportunities to invest in**
7 **power in Kentucky, either regulated or unregulated.**
8 **So I don't know that landscape. And I do know**
9 **that --**

10 Q. Okay. That's fine. That's fine. How does
11 this incentive affect the decision of closing a coal
12 plant early? I believe you said we may close a coal
13 plant early and replace it with renewable energy.

14 **A. Well, it would certainly encourage us to look**
15 **at that. If the economics of the coal plant are --**
16 **of a coal plant are such that it doesn't look like**
17 **it's in ours and customers' interests to maintain it**
18 **for its scheduled life, it would encourage us to**
19 **take action to close it earlier than the expected**
20 **closure date through the appropriate regulatory**
21 **process.**

22 Q. And if we talk about that appropriate
23 regulatory process, does the Kentucky Public Service
24 Commission have to approve closure of a coal plant?

25 **A. I don't know the answer to that.**

1 Q. I will -- I will answer. We do not. We can
2 deal with the regulatory cost implications and so
3 forth, but there is no -- the Kentucky Public
4 Service Commission does not approve the closure of a
5 coal plant. It can determine on what happens to
6 the undepreciated value that's left, it can make
7 decisions based on the reasonableness of your
8 generation options, but does not weigh in on the
9 closure of a coal plant. So --

10 **A. That is the case --**

11 Q. -- our process is not as stringent as it
12 might be in other states.

13 **A. That's -- those are some very large economic
14 levers that the Commission still has.**

15 Q. That's true. And I just wanted to respond to
16 a few of your comments there and suggest --
17 highlight the symbolism of the reason this rate --
18 one of the reasons this rate case is before us has
19 been purported that it's the poor economic
20 environment of Eastern Kentucky in your service
21 territory and that the downturn of the coal industry
22 has been a large reason for the poor economic
23 conditions in that area, and that the long-term
24 incentive pay being tied to a ten percent clean
25 energy goal had some symbolism as well.

1 COMMISSIONER MATHEWS: So that's all,
2 Mr. Chairman.

3 CHAIRMAN SCHMITT: I had asked during Vice
4 Chairman Chandler's testimony for Ms. Vinsel to look
5 at Mr. Carlin's rebuttal testimony in the 2017 case.
6 I don't know if she has any questions or not, but I
7 want to ask her at this time: Have you had an
8 opportunity, Ms. Vinsel, to look at that? I mean,
9 if it's possible, if we can reconcile what
10 Mr. Carlin's rebuttal testimony was as compared with
11 the order, page 15 or so of the order that was read
12 into the record a minute ago.

13 MS. VINSEL: Yes, Your Honor. I've not been
14 able to complete my review, so I don't have my
15 question completed at this time. Is it possible to
16 take --

17 CHAIRMAN SCHMITT: Well, here's what we can
18 do --

19 MS. VINSEL: Okay.

20 CHAIRMAN SCHMITT: -- let me ask --
21 Mr. Wolffram, you may redirect the witness, but I
22 guess upon reviewing -- once counsel has an
23 opportunity to review Mr. Carlin's rebuttal
24 testimony, we may want to call him again for some
25 limited purpose, just to try to understand the

1 confusion or whatever occurred in the -- in the
2 last -- in the order in the last rate case.

3 So do you have redirect of Mr. Carlin?

4 MR. WOLFFRAM: Yeah, just a few questions,
5 Your Honor, if I may.

6 REDIRECT EXAMINATION

7 By Mr. Wolffram:

8 Q. Mr. Carlin, there has been some discussion
9 about the ten percent renewable goal that is
10 included in the LTIP program. Do you remember that
11 conversation?

12 **A. Yes, I do.**

13 Q. And has -- well, let me ask it this way: Is
14 that ten percent goal in the LTIP program the only
15 consideration that the Company would consider or
16 that employees of the Company would take into
17 account when determining whether or not to invest in
18 additional clean energy programs and/or closing
19 existing, you know, coal and/or gas or combined
20 cycle plants?

21 **A. Certainly not. There's -- you know, all the**
22 **things that we would have considered before we had**
23 **this goal are still in place. We didn't -- you**
24 **know, we didn't turn over management or our brains**
25 **to this goal. So, you know, this is -- this is just**

1 **in addition to all the management practices, all the**
2 **Commission practices, and all of the economic**
3 **practices we would consider in making this decision.**

4 Q. And you may not be the witness to speak to
5 this, but there was some discussion about, you know,
6 the potential implications of the loss of coal jobs,
7 including, you know, mining facilities, etcetera.

8 Do you remember that conversation?

9 **A. I do.**

10 Q. Are you aware of any mitigation measures that
11 Kentucky Power has taken to offset the overall -- or
12 are you just generally familiar with any measures
13 that Kentucky Power has taken to mitigate the loss
14 of coal mining and related jobs within its service
15 area, repurposing coal mining property and economic
16 development opportunities within those -- within
17 those areas?

18 **A. Yeah, I'm aware that we are repurposing coal**
19 **mining facilities. I know we have a strong economic**
20 **development team down there that is -- really has a**
21 **lot of good projects that they're working on and**
22 **have completed. And, you know, we are open to other**
23 **ideas. So I'm sure we are working diligently to --**

24 Q. And just one final question, or maybe line of
25 questioning, I'll say. Do you remember

1 conversations regarding specifically the potential
2 inclusion or exclusion of SERP, SERP expense or
3 compensation expenses?

4 **A. I do.**

5 Q. Could you just provide an explanation of the
6 potential implications, if there are any, of
7 exclusion of related SERP expense or other incentive
8 compensation practices that the Company employs to
9 pay employees market competitive levels of
10 compensation?

11 **A. Yes. Thank you for that. So we're -- you
12 know, I mentioned earlier we're a price taker, and
13 we are a price taker for employees as well. We have
14 to pay market competitively to attract and retain
15 the suitable employees we need to provide service to
16 our customers. And if we can't do that and recover
17 our costs, then something needs to change, because
18 that's not sustainable.**

19 So one of the things that I know we're
20 gradually changing and taking a step into is
21 short-term incentive compensation. We will be
22 moving a portion of that into base pay, a small
23 portion for the physical and craft workforce.
24 It's -- our base pay for that group will still --
25 our total pay for that group won't change and the

1 base pay for that group will still be market
2 competitive, but we'll be able to recover a little
3 bit more of our costs as a result. The same is true
4 for long-term incentive compensation and SERP.

5 And I kind of bemoan these changes, because I
6 know that these programs have value to the Company
7 and our customers, because they encourage a
8 high-performance culture that will eventually erode,
9 or gradually erode, as the value of these incentive
10 programs is reduced. But we -- you know, we have to
11 market competitively and we need to be able to
12 recover our costs, and so it leaves us in a position
13 where, as we gradually chip away at these types of
14 programs, or the cost recovery is chipped away at,
15 we need to find ways to adjust. And that's a strong
16 message that's being sent if those costs are
17 disallowed.

18 MR. WOLFFRAM: I have no further questions
19 for this witness, Your Honor. Thank you.

20 CHAIRMAN SCHMITT: Okay. Thank you.

21 MR. WOLFFRAM: At this time.

22 CHAIRMAN SCHMITT: You may step down,
23 Mr. Carlin.

24 Let's see if we can get Mr. Bishop on the
25 stand here before lunch, and before we take a lunch

1 break, maybe we can complete that witness.

2 MR. WOLFFRAM: If Your Honor will just give
3 us one second while we clean the witness table --

4 CHAIRMAN SCHMITT: Oh, sure.

5 MR. WOLFFRAM: -- and the attorney station
6 and we will call Mr. Bishop. Thank you.

7 CHAIRMAN SCHMITT: Okay. Ms. Glass, are you
8 ready? Okay. Would you please introduce your next
9 witness? Okay.

10 MS. GLASS: Sorry about that. Yes, Your
11 Honor. Our next witness is Scott Bishop.

12 CHAIRMAN SCHMITT: Mr. Bishop, will you
13 please raise your right hand? Do you solemnly swear
14 or affirm, under penalty of perjury, that the
15 testimony you are about to give will be the truth,
16 the whole truth, and nothing but the truth?

17 THE WITNESS: I do.

18 CHAIRMAN SCHMITT: Thank you.

19 Counsel, you may ask.

20 SCOTT E. BISHOP, having been first duly
21 sworn, testified as follows:

22 DIRECT EXAMINATION

23 By Ms. Glass:

24 Q. Mr. Bishop, can you please state your name,
25 business address, and employer for the record,

1 please?

2 **A. My name is Scott E. Bishop. My business**
3 **address is 1645 Winchester Avenue, Ashland, Kentucky**
4 **41101. And I am employed with Kentucky Power.**

5 Q. Can you please state your position with
6 Kentucky Power?

7 **A. I am a regulatory consultant.**

8 Q. And did you cause to be filed into the record
9 of this proceeding direct testimony and responses to
10 data requests?

11 **A. Yes.**

12 Q. Do you have any corrections to either your
13 direct testimony or responses to data requests?

14 **A. I have one minor correction to my direct**
15 **testimony. On page 4 of my direct testimony, on**
16 **line 5, the amount of the nonrecoverable business**
17 **expense currently reads 27551, and it should read**
18 **27556.**

19 Q. Do you have any other corrections?

20 **A. No, that was my only correction.**

21 Q. With the exception of that correction, if I
22 were to ask you the same questions contained in your
23 direct testimony and responses to data requests
24 today, would you give the same answers?

25 **A. Yes, I would.**

1 Q. Thank you.

2 MS. GLASS: Your Honor, the witness is
3 available for cross-examination.

4 CHAIRMAN SCHMITT: Ms. Vinsel, any
5 cross-examination?

6 MS. VINSEL: Yes, Your Honor, just a few
7 things.

8 CROSS-EXAMINATION

9 By Ms. Vinsel:

10 Q. Good morning, Mr. Bishop. How are you?

11 **A. I'm doing fine.**

12 Q. I'd like to start with the discussion of
13 Kentucky Power has requested to recover the PJM
14 billing line item 1999 costs through the Fuel
15 Adjustment Clause, and in this case, this was --
16 these costs, the most immediate costs are predicated
17 on allocating costs from the default of GreenHat
18 Energy, LLC; is that correct?

19 **A. That is correct.**

20 Q. And I -- is it correct Kentucky Power has
21 been allocated those charges since mid -- about
22 mid-2018?

23 **A. I'm sorry. Could you restate that for me,
24 please?**

25 Q. Kentucky Power first was allocated those

1 costs beginning in about mid-2018; is that correct?

2 **A. From my understanding, PJM started allocating**
3 **those costs in 2 -- in the mid-2018. The best**
4 **person to ask regarding the GreenHat default would**
5 **probably be Company Witness Horton.**

6 Q. Okay. But in your direct testimony you also
7 discussed this line item in the background; is that
8 correct?

9 **A. That is correct.**

10 Q. Okay. So I'm just going to ask you to speak
11 to your direct testimony, then. Okay?

12 **A. Okay.**

13 Q. And also, I believe is it correct -- I feel
14 like I need to double-check this. In your direct
15 testimony, is it correct that these costs will be
16 allocated through approximately June 2021?

17 **A. That is my understanding, yes.**

18 Q. Okay. And it looks like probably the total
19 amount collected since 2018 projected to 2021 is
20 going to be about \$335,000, and is that correct?

21 **A. I am not sure what the total projected amount**
22 **of the GreenHat default is going to be when it**
23 **finishes. I believe in Company Witness Horton's**
24 **rebuttal -- Horton's rebuttal testimony, he stated**
25 **the current balance was about \$348,000.**

1 Q. Did you not include an amount in your direct
2 testimony?

3 **A. My direct testimony, there was a balance of**
4 **about 335,000 --**

5 Q. Okay.

6 **A. -- through June.**

7 Q. So then, yes, you can confirm what I asked,
8 but you would clarify it that Mr. Horton has
9 provided a revised number; is that correct?

10 **A. Yeah. He would have the updated number, yes.**

11 Q. Okay. Thank you.

12 Now, in your direct testimony, you said that
13 it was possible that there could be future costs
14 allocated through PJM billing line item 1999, and
15 these costs would be in addition to the GreenHat
16 default; is that correct?

17 **A. If there are more defaults within PJM that**
18 **would be allocated out, yes, it could be in addition**
19 **to the GreenHat default.**

20 Q. And as of today, are you aware of any -- of
21 potential for additional defaults or costs to be
22 allocated to Kentucky Power going forward?

23 **A. I am not aware of any potential defaults, no.**
24 **We're putting the PJM billing line item -- line item**
25 **in place, if approved, for potential defaults that**

1 **happen in the future.**

2 Q. So the purpose of including it, then, is not
3 simply to recover on the current GreenHat default,
4 but also just as a hedge against future defaults?

5 **A. Yes, it's kind of a protection for us to be**
6 **able to allocate the cost directly.**

7 Q. And is it correct that currently this line
8 item is being recovered through -- for the customer
9 portion, part, through base rates?

10 **A. I'm sorry. Could you restate that for me,**
11 **please?**

12 Q. How are you recovering the costs right now?

13 **A. I know that the Company has set up a**
14 **regulatory -- tried to set up a regulatory asset,**
15 **and that has been set aside. I'm sorry. We have**
16 **proposed in a different case to set up the**
17 **regulatory asset, which was denied.**

18 The accounting aspect of handling the
19 GreenHat default I'm not familiar with. That would
20 probably be -- might be able to be answered by
21 Company Witness -- Witness Horton or someone in the
22 accounting aspect like Company Witness Whitney.

23 Q. Okay. Let's see if we can do this without
24 having to bring up -- well, actually, no. I think
25 we may have to bring up some screen share, but I'm

1 going to wait and see if we can answer it without
2 that, if you can answer it without that.

3 I believe -- you sponsored some responses to
4 data requests that addressed the EEI invoice.

5 **A. Yes.**

6 Q. Okay. Let me first ask you -- and this is
7 just for your reference. In response to Staff's six
8 requests for information, item 20, you referenced
9 that Kentucky Power was allocated -- I'm just going
10 to round around here -- a little over \$104,000 for
11 the test period for the EEI invoice.

12 Does that sound about right?

13 **A. Yes. Yes, it sounds about right.**

14 Q. And as I understand it, and please correct me
15 if I'm wrong, that this allocation is based upon
16 Kentucky Power's percentage of total customers,
17 electric revenues, and owned capacity, and that's as
18 comparison to the entire AEP system?

19 **A. That is correct, yes.**

20 Q. And of that \$104,000, how much was excluded
21 from rate base?

22 **A. Company Witness Whitney might be the best
23 person to request that, but I believe it was not
24 included in the base rate case. I believe it was
25 removed.**

1 Q. So you believe it was excluded, but you don't
2 know for sure?

3 **A. I couldn't point exactly where it was at, but**
4 **I do know the EEI was removed from the base -- from**
5 **the test year.**

6 Q. Well, Staff also was unable to locate any
7 corresponding adjustment in this case record, and
8 that was the next thing I was going to ask you, but
9 you're telling me that you're unable to answer that
10 question?

11 **A. I could not point exactly where in -- where**
12 **in the adjustment lines it would be. Company**
13 **Witness Whitney should be able to answer that**
14 **question. I was not able.**

15 Q. And Witness Whitney was excused, so I -- let
16 me -- let me decide whether or not we want to recall
17 her. I won't make that decision right now. Let me
18 move on to another matter.

19 Kentucky Power initially proposed to modify
20 its terms and conditions of service in regard to
21 underground service. In particular, there was an
22 issue about recovery of cost -- the cost
23 differential between overhead and underground
24 facilities if a city or town had required
25 underground facilities.

1 Do you recall that modification?

2 **A. Yes, I do.**

3 Q. And do you recall that in responses to data
4 requests, Kentucky Power revised its plans for how
5 it would recover the costs?

6 **A. What do you mean by revise?**

7 Q. Initially Kentucky Power proposed to recover
8 the costs directly from customers that lived in the
9 city or town that required the underground
10 facilities. Subsequently, in data requests,
11 Kentucky Power discussed collecting it from the
12 municipal government itself and would even agree to
13 a payment system.

14 Does that refresh your memory?

15 **A. Yes, that refreshes my memory.**

16 Q. Kentucky Power has not filed a revised tariff
17 that would align with these proposals that were set
18 forth in data requests. Does Kentucky Power propose
19 to revise the tariff along those lines?

20 **A. We put language in our terms and conditions**
21 **and in our franchise tariffs as part of our**
22 **submittal in the application for the base case. The**
23 **reason we were requesting that language change was**
24 **due to us looking at the tariffs, seeing if there's**
25 **holes, potential risks to the Company and things we**

1 might want to fix in the future. And we had heard
2 of a potential -- or another utility being required
3 to install underground facilities and move their
4 overhead facilities to underground, and we saw that
5 as a potential risk because how would Kentucky Power
6 recover the costs.

7 Q. And, Mr. Bishop, I don't want to interrupt
8 you, but -- I appreciate the background to this, but
9 it doesn't answer my question. And that is:
10 Kentucky Power has made a proposal that revises the
11 tariff at least in data requests, so my question is:
12 Will Kentucky Power be filing a revised tariff that
13 reflects the revisions set forth in the data
14 requests?

15 **A. Yes, we would.**

16 Q. Okay. And just to be sure, I will include in
17 a post-hearing data request for -- ask for a copy of
18 that revised tariff.

19 **A. Okay.**

20 Q. I've got a few more questions, but they're
21 really more appropriate set forth in post-hearing
22 data requests, and just to give you an ahead-of-time
23 clue, we asked that -- and you submitted some
24 information about nonrecurring charges in a
25 post-hearing data request. We're going to ask for

1 the underlying cost calculations and some
2 clarifications, so you can expect that to be coming.

3 MS VINSEL: And one moment. May I check
4 something, one moment, Chairman, in the record?

5 CHAIRMAN SCHMITT: Yes.

6 MS. VINSEL: Thank you. I apologize for the
7 delay, Chairman.

8 CHAIRMAN SCHMITT: No, no apology necessary.

9 MS. VINSEL: I can bring this up pretty
10 quickly.

11 Q. Okay. Mr. Bishop, let's circle back to where
12 the adjustment for EEI was made. Let me make sure
13 here. Okay.

14 You filed a response to the Attorney General,
15 KIUC's second request for information, it's item 44.
16 I'm just going -- we don't need to screen share, I'm
17 just going to ask you to bring it up. And you're
18 the sponsor of this, correct?

19 **A. Yes.**

20 Q. Okay. So in question A the Attorney General
21 asked you to identify precisely where in the
22 application they can be found, and by "they," I'm
23 referring to organizations to which Kentucky Power
24 pays dues, including, but not limited to, Edison
25 Electric Institute, EEI. And I note that in your

1 response you said refer to the application, section
2 5, page 287.

3 I will simply point out that there is no
4 adjustment that would indicate specifically that
5 that adjustment was made. So as a post-hearing data
6 request, we are going to ask that Kentucky Power
7 provide the exact location of where this adjustment
8 was made and how much the adjustment was.

9 **A. Okay.**

10 MS. VINSEL: Chairman, Staff has no further
11 questions.

12 CHAIRMAN SCHMITT: Okay. Mr. Cook for
13 Attorney General, do you have any questions?

14 MR. WEST: I don't have --

15 CHAIRMAN SCHMITT: Oh, Mr. West.

16 MR. WEST: Yes.

17 CHAIRMAN SCHMITT: A substitute. Questions?

18 MR. WEST: That's right. No, not for this
19 witness, Your Honor. Thank you.

20 CHAIRMAN SCHMITT: Mr. Kurtz?

21 MR. KURTZ: No questions, Your Honor. Thank
22 you.

23 CHAIRMAN SCHMITT: Okay. Ms. Grundmann?
24 Ms. Grundmann, do you have questions for this
25 witness? We'll come back. She may have been

1 disconnected.

2 Mr. Spenard, questions?

3 MR. SPENARD: KYSEIA -- no, Mr. Chairman,
4 KYSEIA has no questions.

5 CHAIRMAN SCHMITT: You do not? I'm sorry, I
6 couldn't hear.

7 MR. SPENARD: I apologize, Mr. Chairman. No,
8 KYSEIA does not have any questions.

9 CHAIRMAN SCHMITT: Okay. Thank you.
10 Mr. FitzGerald?

11 MR. FITZGERALD: Mr. Chairman, at the risk of
12 sitting between everyone and lunch, I do have some
13 questions.

14 CHAIRMAN SCHMITT: Okay.

15 MR. FITZGERALD: I was going to -- you know,
16 I was -- I was staying out for ten witnesses, but
17 then Ms. Glass threw Mr. Bishop under the bus.

18 CROSS-EXAMINATION

19 By Mr. Fitzgerald:

20 Q. So, Mr. Bishop, Tom FitzGerald. Can you hear
21 me okay?

22 **A. Yes, I can.**

23 Q. Wonderful. Ms. Glass mentioned yesterday
24 that you would be the witness familiar with the DSM
25 program offerings at Kentucky Power; is that

1 correct?

2 **A. That is correct.**

3 Q. Okay. And do you mind if I ask you some
4 questions about that? I know you've moved on to a
5 different area, but I think you used to work in the
6 DSM programs; is that correct?

7 **A. Yes. I worked with them, yes.**

8 Q. Oh, wonderful. Okay. Could you explain
9 briefly, what is the purpose of an energy efficiency
10 or DSM program?

11 **A. It is -- the DSM program is designed to help
12 customers reduce usage on the system, reduce their
13 use.**

14 Q. Reduce their usage?

15 **A. Yes.**

16 Q. Okay. It would seem counterintuitive to me
17 that a company that is seeking a rate increase due
18 to lost load and declining customer usage would want
19 to incentivize further reduction in energy usage by
20 remaining customers.

21 Is KPC compensated for the revenue that's
22 lost due to the DSM program offerings?

23 **A. According to the statutes, we are able to
24 recover as lost revenue on DSM program -- on DSM
25 programs two to three years.**

1 Q. Okay. So that's how you're made whole?

2 **A. I believe so, in my understanding, yes.**

3 Q. Okay. Am I correct that the only DSM program
4 that's currently available to residential customers
5 is the Kentucky Power targeted energy efficiency
6 program, which is the weatherization and energy
7 efficiency program?

8 **A. Yes. That's our low-income weatherization
9 program.**

10 Q. Okay. And that's only available to
11 residential customers with electric heat that use
12 over 700 kilowatt hours a month or, on a more
13 limited basis, customers with electric water heating
14 who use more than that?

15 **A. Correct. They have to have a minimum usage
16 of 700 kilowatt hours.**

17 Q. Okay. And in an average year, do you know
18 how many KPC customers are served through that
19 program?

20 **A. Through the weatherization program? No, I do
21 not know how many customers are served through that.**

22 Q. Okay. Do shareholders contribute to that DSM
23 program cost, or are the costs paid by the
24 residential ratepayers?

25 **A. The costs are paid by the residential**

1 **ratepayers of the DSM tariff.**

2 Q. Okay. Okay. Thanks. And so that monthly
3 charge is not just imposed on people who are
4 participating, it's imposed on all of the
5 residential customers?

6 **A. Yes, it is.**

7 Q. Okay. Thank you. And do you know what the
8 cost is on a monthly basis right now for that
9 program?

10 **A. I believe it's roughly -- oh, I don't know.**
11 **I don't recall that.**

12 Q. Okay. Does 20 --

13 **A. (Indiscernible).**

14 Q. -- 29 cents -- I'm sorry.

15 **A. Yeah. I was going to say it's around maybe**
16 **24 cents is my recollection.**

17 Q. Okay. Would 29 cents be something that you
18 think is around there?

19 **A. Yes.**

20 CHAIRMAN SCHMITT: I'm looking --

21 Q. Okay.

22 CHAIRMAN SCHMITT: I just happened to be
23 looking at my bill, Mr. FitzGerald. It was 30 cents
24 in October.

25 MR. FITZGERALD: Okay.

1 CHAIRMAN SCHMITT: I got -- I got my latest
2 bill yesterday, but I haven't had a chance to look
3 at it. But it was 30 cents in the DSM row.

4 MR. FITZGERALD: Thank you, Mr. Chairman.
5 Thank you.

6 Q. Is it fair to state, Mr. Bishop, that your
7 nonparticipating customers who use less energy are
8 subsidizing those who are participating in the DSM
9 programs and who are deriving benefits from that
10 participation that aren't available to everybody
11 else?

12 **A. Since everyone pays into the system, into the**
13 **DSM surcharge, that is -- sounds about accurate,**
14 **yes.**

15 Q. Okay. And given the expression -- the
16 express concern of Mr. Mattison when I was asking
17 him about solar, I guess two days ago, that
18 nonparticipating customers shouldn't be subsidizing
19 those taking net metering service, how does Kentucky
20 Power justify charging all residential customers for
21 programs like this that socialize the cost of the
22 program but are only available to a targeted group
23 of members in the class?

24 **A. Well, the DSM surcharge was set up before the**
25 **Commission discontinued it. So before the other**

1 **programs were discontinued, everyone had access to**
2 **DSM and energy efficiency programs.**

3 Q. Okay. But these programs, they don't get
4 them, but yet they are still paying for them; is
5 that correct?

6 **A. I'm sorry. What was that again? You cut out**
7 **a little bit.**

8 Q. I'm sorry. So -- but this program is not
9 available to everybody, yet everyone is still paying
10 for it; is that right?

11 **A. This is -- it's available to low-income**
12 **customers, yes, low income only. Everyone else,**
13 **yes, is paying for it.**

14 Q. Okay. And are there other benefits that the
15 nonparticipating customers get from having a DSM
16 program?

17 **A. There are benefits across the system, because**
18 **as customers use less energy, it becomes cheaper**
19 **for -- those savings are passed along across the**
20 **grid as a whole. Though all the customers may not**
21 **receive a lot of benefit, there is at least a little**
22 **bit of benefit as long as customers are reducing**
23 **their usage.**

24 Q. Okay. Is that part of the justification for
25 spreading the cost of DSM, that everybody benefits a

1 little bit at least?

2 **A. Yes.**

3 Q. Okay. And --

4 **A. Kind of spread the cost -- we kind of spread**
5 **the cost over everybody, and it just happens to be a**
6 **Kentucky Power situation as we only have the one**
7 **program.**

8 Q. Okay. But before you had it spread,
9 everybody had access to most of the programs, right?

10 **A. Yes.**

11 Q. Okay. When you were working with the DSM
12 programs -- and I'm almost done, I promise, and so
13 we can all get lunch and you don't have to listen to
14 me any longer.

15 When you were working with the DSM programs,
16 did you-all estimate how much electricity was saved
17 overall by the individual program offerings?

18 **A. Yes, we -- the energy saved, yes, we did.**

19 Q. Okay. And if --

20 **A. I'm sorry.**

21 Q. Go ahead.

22 **A. Yeah, that -- those savings are usually in**
23 **the annual DSM filings in the status report that we**
24 **file with the Commission.**

25 Q. Wonderful. Thank you. Last couple of

1 questions.

2 If I'm a customer who, either through a
3 Company-sponsored EE or DSM program or through my
4 own energy efficiency measures, I just decide to go
5 out, put in windows or, you know, upgrade my HVAC
6 system, if I'm able to cut my usage, then is it
7 correct that I'm paying less of the fixed costs that
8 are embedded in the volumetric rates?

9 **A. Less of the fixed costs? The fixed costs**
10 **would always be consistent because you would be**
11 **paying less of the cost on an energy charge usage.**

12 Q. Okay. But the energy charge also has some of
13 your embedded fixed costs; is that correct?

14 **A. I believe so, yes.**

15 Q. Okay. So if I'm using less electricity, then
16 I'm paying less towards that than somebody who uses
17 more; is that correct?

18 **A. That is correct.**

19 Q. Okay. But you're still charging both
20 customers the same, right? You don't say, okay,
21 that person's more efficient so we're going to raise
22 their electric rate in order to compensate for the
23 lost fixed charges that they're not paying that
24 are -- that are part of the energy charge?

25 How's that for confusing? Let me try it

1 again.

2 **A. I was going to say, I'm a little confused.**

3 **Can you restate that?**

4 Q. Sure. Sure. The -- so we've established
5 that if I use less electricity that I'm paying less
6 of the fixed costs that are over on the volumetric
7 side, right? Some of the fixed costs are on the
8 metered charge, some are on the other side?

9 **A. I believe so, yes.**

10 Q. Okay. So if I use less, then I'm paying less
11 of that percentage or that amount that's over on the
12 volumetric side than somebody who uses more?

13 **A. I believe that would be, I believe, correct.**

14 Q. Okay. And you are not charging the more
15 efficient user more for their electricity to try to
16 recover those lost fixed charges, are you?

17 **A. No, it's the same rate.**

18 Q. Okay. That's all I needed, Mr. Bishop.

19 Thank you.

20 MR. FITZGERALD: Mr. Chairman, thank you for
21 your indulgence. I am no longer standing in the way
22 of lunch.

23 CHAIRMAN SCHMITT: Mr. Miller, questions?

24 MR. MILLER: Thank you, Mr. Chairman, nothing
25 to add to that. Appreciate it.

1 CHAIRMAN SCHMITT: Okay. Mr. Frye?

2 MR. FRYE: No questions, Your Honor.

3 CHAIRMAN SCHMITT: Vice Chairman Chandler.

4 VICE CHAIRMAN CHANDLER: I do not, thank you,
5 Your Honor. Thank you, Chairman. Sorry. Just to
6 clarify, I do not have any questions.

7 CHAIRMAN SCHMITT: Oh. Dr. Mathews,
8 questions?

9 COMMISSIONER MATHEWS: I do not have any
10 questions for the witness.

11 CHAIRMAN SCHMITT: All right. Ms. Glass, do
12 you have any redirect examination for this witness?

13 MS. GLASS: I do, Your Honor.

14 CHAIRMAN SCHMITT: All right. Thank you,
15 Mr. Bishop. You may step down.

16 MS. GLASS: Oh, I'm sorry. Your Honor, I
17 said that I do.

18 CHAIRMAN SCHMITT: Oh, I thought you said you
19 did not. I'm sorry.

20 MS. GLASS: Thank you.

21 REDIRECT EXAMINATION

22 By Ms. Glass:

23 Q. Mr. Bishop, Kentucky Power is not currently
24 recovering GreenHat default charges currently,
25 correct?

1 **A. Correct.**

2 Q. And they are a fuel-related cost of service,
3 correct?

4 **A. That is correct.**

5 Q. And it sought approval to recover them
6 through Tariff FAC in Case Number 2017-179 and was
7 denied, correct?

8 **A. Could you restate that question? I believe
9 your reference is incorrect.**

10 Q. Sure. So it's correct that it sought
11 approval to recover them through Tariff FAC in Case
12 Number 2017-179 and was denied? And if it helps
13 you, that's the two-year FAC case.

14 **A. The case number for the two-year FAC is
15 2017-00097.**

16 Q. You are right. Please substitute that case
17 number in my question. Thank you for the
18 correction.

19 **A. Okay. And restate your question for me,
20 please.**

21 Q. Sure. So it's correct that the Company
22 sought approval to recover the GreenHat default
23 charges through Tariff FAC in the case number you
24 just stated -- I'm sorry, I've already forgotten
25 it -- and was denied?

1 **A. That is correct.**

2 Q. Thank you. And it filed a request to defer
3 those charges for future recovery in Case Number
4 2020-34, and that was denied, correct?

5 **A. That is correct.**

6 Q. And it's not currently collecting those
7 amounts through Tariff FAC, correct?

8 **A. That is correct.**

9 Q. And it's not currently collecting them
10 through base rates either, correct?

11 **A. That is correct.**

12 Q. Regarding the questions about the EEI dues,
13 those are addressed in Company Witness West's
14 rebuttal testimony, correct?

15 **A. Yes, it is.**

16 Q. And he confirms that those are excluded from
17 the Company's cost of service, correct?

18 **A. Yes, he did.**

19 Q. So can he further discuss those questions
20 that were directed at you about the EEI dues?

21 **A. Yes, he would probably be the better person
22 to ask on those EEI dues.**

23 Q. Okay. Thank you. And I just have one more
24 question.

25 Regarding the Company's P program, the DSM

1 program, it is an approved statutory program,
2 approved by the Kentucky Public Service Commission,
3 correct?

4 **A. That is correct. And they get annual reports**
5 **on the status of that program.**

6 Q. And when I refer to a statutory program, it
7 is governed by KRS 278.285, and in that subsection,
8 is it correct that subsection E, the Commission
9 looks at whether the plan results in any
10 unreasonable prejudice or disadvantage to any class
11 of customers, correct?

12 **A. That is correct.**

13 MS. GLASS: Those are all my questions.

14 Thank you.

15 CHAIRMAN SCHMITT: Thank you. Mr. Bishop,
16 you may step down.

17 At this time we'll recess until 1:00 o'clock,
18 at which time I think Mr. Horton will be the next
19 witness.

20 (Recess from 12:01 p.m. to 1:09 p.m.)

21 CHAIRMAN SCHMITT: Okay. We're now back on
22 the record. We have a new court reporter change.
23 We have one in the morning and another coming in the
24 afternoon.

25 And I guess at this point, Commissioner

1 Mathews, would you say something for the record so
2 that we can see if the reporter can properly hear?

3 Mr. Overstreet, on behalf of Kentucky Power,
4 are you in a position to call your next witness?

5 MS. VINSEL: Chairman --

6 MR. OVERSTREET: Yes, I am, Your Honor.
7 Before we proceed, let me know if that is an
8 appropriate time. Yesterday afternoon we talked
9 about perhaps extending the schedule into the
10 evening, and I didn't know whether you and Dr.
11 Mathews --

12 CHAIRMAN SCHMITT: We haven't discussed it,
13 but I can't go beyond 6:00.

14 MR. OVERSTREET: Thank you, Your Honor.

15 CHAIRMAN SCHMITT: We have today, the rest of
16 today, tomorrow, and Monday. And, if we can't do it
17 then, we'll just keep going until we do. But we can
18 go to 6:00 this evening.

19 MR. OVERSTREET: Thank you, Mr. Chairman.

20 CHAIRMAN SCHMITT: Ms. Vinsel has something
21 to say.

22 MS. VINSEL: I'm sorry, Mr. Overstreet. I
23 didn't mean to speak over you.

24 We have an echo in this room that we'll need
25 to get fixed.

1 CHAIRMAN SCHMITT: Yeah. Apparently, there's
2 an echo on the sound here in the hearing room. So
3 we'll need to see if we can get our IT person to fix
4 that maybe before we proceed.

5 VICE CHAIRMAN CHANDLER: Mr. Chairman, you
6 may want to ask the court stenographer to turn their
7 microphone off.

8 CHAIRMAN SCHMITT: It's off. Her microphone
9 is off. Did that fix it?

10 MS. VINSEL: We still have that going. So
11 are the speakers off also?

12 CHAIRMAN SCHMITT: I can hear it now. It
13 comes over the --

14 MS. VINSEL: I'm making sure my tablet is
15 off.

16 CHAIRMAN SCHMITT: A lot of people back here
17 come out, and we see what they can do?

18 VICE CHAIRMAN CHANDLER: Yes.

19 CHAIRMAN SCHMITT: All right. Ms. Vinsel is
20 seeking help, technological expertise.

21 In the meantime, Counsel, Mr. Overstreet, we
22 -- after looking at Mr. Carlin's rebuttal testimony
23 in the previous case, I think we know how that part
24 of, I guess, sentence or paragraph and maybe on page
25 15 of the order was -- how that was drafted, and we

1 will not need Mr. Carlin to testify again. I think
2 we resolved how that worked out.

3 MR. OVERSTREET: Thank you, Mr. Chairman.

4 CHAIRMAN SCHMITT: So let Mr. Carlin know we
5 will not be asking him to come in and discuss his
6 testimony in light of what was in the order.

7 MR. OVERSTREET: Thank you, Mr. Chairman.
8 We'll let him know.

9 MS. VINSEL: Mr. Harrod is working on it. He
10 thinks he may have a solution. I can tell it's not
11 kicked in yet.

12 CHAIRMAN SCHMITT: The problem is being
13 worked on. So in the meantime I guess we just need
14 to wait until we can see if it can be resolved.

15 MS. VINSEL: I was going to say we might try
16 to say something occasionally.

17 CHAIRMAN SCHMITT: Well, it's still echoing,
18 coming through the speaker here or something.

19 MS. VINSEL: Do you have the GoToMeeting
20 microphone on? Let me double-check, if you don't
21 mind. You might want to ut your mask on. Okay.
22 Where is your -- it's showing it's muted.

23 I'll be right back, Chairman. We're going to
24 try it again. It's still here.

25 I do have to ask, we have discovered that some

1 of the participants who are using a phone have both
2 their computer and their phone microphone on. We're
3 going to ask that, if you're using your phone for
4 the audio, please make sure the computer's settings
5 are turned off.

6 CHAIRMAN SCHMITT: I know at the beginning we
7 went through a list of a number of things that could
8 cause feedback. Perhaps there's a witness or
9 something who's somewhere that maybe didn't hear
10 that.

11 MS. VINSEL: I will be right back again. See
12 what I can do.

13 Okay. We're going to try one more time.

14 CHAIRMAN SCHMITT: No, still hear it. When a
15 witness speaks, can we -- is it the same thing, or
16 is it just coming from speech in this hearing room?

17 MS. VINSEL: Let me try.

18 Vice Chair Chandler, do you mind to say
19 something?

20 VICE CHAIRMAN CHANDLER: Can you hear me,
21 Ms. Vinsel?

22 CHAIRMAN SCHMITT: There is no feedback when
23 you speak.

24 MS. VINSEL: So the feedback is only in the
25 hearing room?

1 CHAIRMAN SCHMITT: I can hear it -- when I
2 speak, do you hear feedback?

3 MS. VINSEL: Yes, I can.

4 CHAIRMAN SCHMITT: It's coming from the
5 hearing room, then. At some point --

6 VICE CHAIRMAN CHANDLER: Just as a check, can
7 we ask Mr. Overstreet to speak?

8 MR. OVERSTREET: This is Mark Overstreet.

9 CHAIRMAN SCHMITT: No feedback.

10 MS. VINSEL: Okay. We need to make sure,
11 Jenny, that all of your speakers are turned off in
12 GoToMeeting and the PC speaker.

13 VICE CHAIRMAN CHANDLER: Thank you,
14 Mr. Overstreet.

15 CHAIRMAN SCHMITT: We're making one last
16 attempt. Ms. Vinsel is bringing all her powers to
17 bear on the subject. If not, apparently there's no
18 feedback coming from anybody but here. And if
19 necessary we'll have to move forward with it the way
20 it is.

21 MS. VINSEL: Yes, indeed, we've got it fixed.
22 We're good.

23 CHAIRMAN SCHMITT: All right. Ms. Vinsel now
24 has demonstrated her prowess as an IT person, and
25 we're ready to go.

1 Mr. Overstreet, would you introduce your next
2 witness, please.

3 MR. OVERSTREET: Thank you, Mr. Chairman.
4 Kentucky Power Company calls Dana E. Horton.

5 CHAIRMAN SCHMITT: Mr. Horton, would you
6 please raise your right hand?

7 Do you solemnly swear or affirm under penalty
8 of perjury that the testimony you're about to give
9 will be the truth, the whole truth, and nothing but
10 the truth?

11 THE WITNESS: I do.

12 CHAIRMAN SCHMITT: Mr. Overstreet, you may
13 ask.

14 DANA E. HORTON, called by the Kentucky Power
15 Company, having been first duly sworn, testified as
16 follows:

17 DIRECT EXAMINATION

18 By Mr. Overstreet:

19 Q. Would you please state your name, employer,
20 and position.

21 **A. Dana E. Horton, American Electric Power
22 Service Corporation, Columbus, Ohio.**

23 Q. And what is your position with the service
24 corporation?

25 **A. I am director for RTO east.**

1 Q. And did you cause to be filed in the record
2 of this proceeding rebuttal testimony?

3 **A. Yes, sir.**

4 Q. And do you have any corrections or updates to
5 that rebuttal testimony?

6 **A. I do not.**

7 Q. And, if you were asked the questions in your
8 rebuttal testimony today, would your answers be the
9 same as they were in the filed rebuttal testimony?

10 **A. Yes.**

11 Q. Thank you, Mr. Horton.

12 MR. OVERSTREET: Mr. Chairman, the witness is
13 available.

14 CHAIRMAN SCHMITT: Thank you.

15 Ms. Vinsel, cross-examination?

16 MS. VINSEL: Staff has no questions for
17 Mr. Horton.

18 CHAIRMAN SCHMITT: Office of Attorney
19 General. Any questions for this witness, Mr. West?

20 MR. WEST: No questions for this witness,
21 Your Honor.

22 CHAIRMAN SCHMITT: Mr. Kurtz.

23 MR. KURTZ: No questions, Your Honor.

24 CHAIRMAN SCHMITT: Ms. Grundmann.

25 MS. GRUNDMANN: No questions, Your Honor.

1 CHAIRMAN SCHMITT: Mr. Spenard or Mr. Strobo,
2 questions?

3 MR. SPENARD: No questions, Mr. Chairman.

4 CHAIRMAN SCHMITT: Mr. Fitzgerald.

5 MR. FITZGERALD: No questions, Mr. Chairman.
6 Thank you.

7 CHAIRMAN SCHMITT: Mr. Miller.

8 MR. MILLER: None from Sierra Club,
9 Mr. Chairman. Thank you.

10 CHAIRMAN SCHMITT: Mr. Frye.

11 MR. FRYE: No questions at this time,
12 Mr. Chairman.

13 CHAIRMAN SCHMITT: Vice Chairman Chandler.

14 VICE CHAIRMAN CHANDLER: Yes. Thank you,
15 Chairman. I do have some.

16 EXAMINATION

17 By Vice Chairman Chandler:

18 Q. Good afternoon, Mr. Horton.

19 **A. Good afternoon.**

20 Q. How are you?

21 **A. Great.**

22 Q. Can I ask you a question? Are you aware of
23 the Company's FRR plan for PJM?

24 **A. Yes.**

25 Q. Okay. And does the Company have its own FRR

1 plan, or is it a single FRR plan for the entire AEPE
2 system?

3 **A. Well, PJM sees it as a single FRR plan for**
4 **within PJM.**

5 Q. Okay.

6 **A. I think for the three operating companies in**
7 **AEP that are part of the FRR plan.**

8 Q. Okay. And just so that we're clear, is it
9 Appalachian, Kentucky Power, and I&M that are FRR
10 entities in PJM?

11 **A. Yes.**

12 Q. Okay. And Ohio Power Company is not?

13 **A. Correct.**

14 Q. Okay. So, as part of that plan, it's your
15 understanding that there's a -- is it an IRR, an
16 internal -- or an IRM, internal reserve margin, that
17 the companies -- can we say "the companies" and you
18 know what I mean?

19 **A. Yes.**

20 Q. Okay. And they have to meet an IRM as part
21 of that FRR plan?

22 **A. Right.**

23 MS. VINSEL: I believe Ms. Grundmann needs to
24 mute her phone.

25 CHAIRMAN SCHMITT: Hey, Ms. Grundmann? You

1 may need to mute your phone.

2 MS. GRUNDMANN: It's muted now.

3 CHAIRMAN SCHMITT: Okay. Thank you.

4 Q. As part of that FRR plan, the companies have
5 to meet an IRM of some percentage?

6 **A. Yes.**

7 Q. And is that approximately 15 percent?

8 **A. Yeah. That's what I was thinking. It varies**
9 **a little bit year to year, but it's around 15**
10 **percent.**

11 Q. Okay. And in order to meet that, they meet
12 that with generation based on a UCAP basis.

13 Is that your understanding?

14 **A. That is also correct. If we were to go down,**
15 **way down the rabbit trail, there's a UCAP**
16 **calculation, and they adjust the target reserve**
17 **margin to account for that. But yes. Short answer**
18 **to your question.**

19 Q. Great. And that's -- instead of an installed
20 reserve margin, that's a -- or an installed
21 capacity, that's a capacity calculation that takes
22 into account the unforced outages and forced outages
23 -- the availability of the installed capacity. Is
24 that fair?

25 **A. Yes, that's correct.**

1 Q. Okay. And are you aware of -- were you
2 following the conversation with Mr. Carlin where we
3 were generally talking about the 10 percent portion
4 of the funding for -- for the ICPE plan that related
5 to sort of an incentive to invest in renewable
6 energy? Do you remember that?

7 **A. I was listening to that conversation, yes.**

8 Q. Okay. And do you understand that, as a
9 general matter, renewable energy -- a lot of terms
10 are thrown out, but we can agree that, as a general
11 matter, solar and wind power, without being co-sided
12 with battery, is nondispatchable energy?

13 **A. Yeah, that's -- that's generally the case,**
14 **agreed.**

15 Q. Yeah. And not to be derogatory or anything
16 to the characteristics of it, but in a sense it
17 produces when whatever fuel, right, solar or wind is
18 is available?

19 **A. Yes, and that's a generally true statement.**

20 You can adjust some of the wind a little bit by
21 fanning the blades. But, yes, for your discussion,
22 yes.

23 Q. Okay.

24 **A. If the wind is blowing, the power is**
25 **producing.**

1 Q. And would you also agree, as a general
2 matter, solar power produces closer to its capacity
3 when it's sunny out and, as a general matter, wind
4 seems to have a capacity factor the colder it is,
5 although the extreme can, of course, affect that,
6 and generally the wind blows better at night as it
7 relates to wind production?

8 Are you aware of those generalizations?

9 **A. I have heard those generalizations. Any**
10 **farther down and that's out of my league, but I have**
11 **heard generally what you're saying there.**

12 Q. Yeah. And I think that's -- thankfully for
13 both of us, that's as far into the details on those
14 that we necessarily need to go.

15 My question is getting to this: In -- in
16 calculating or finalizing the Company's FRR plan,
17 would you agree that the FRR plan is dedicated to
18 meeting the necessary capacity on a UCAP basis and
19 considering the installed reserve margin required by
20 PJM on PJM's peak?

21 **A. We're talking about meeting it based on**
22 **coincident summer peak?**

23 Q. Yeah. That the FRR is based on PJM's peak
24 rather than the individual utilities that have the
25 plan.

1 **A. Yes, that is correct.**

2 Q. Okay. And that, I think for the most part,
3 is going to be the entirety that I'm going to ask
4 about the solar and wind.

5 So I just want to make sure we're on the same
6 place about how the FRR plan, right, is required to
7 meet a PJM requirement, whereas you would agree that
8 if the individual utilities are vertically
9 integrated, for instance, that they still are
10 required to meet their own demand, regardless of
11 whether that demand may be coincident with PJM?

12 **A. Well --**

13 Q. Let me withdraw the question and ask this
14 question: Would you agree that Kentucky Power
15 conducts an IRP?

16 **A. I'm going to have to punt on the Kentucky
17 Power doing its own IRP. I do not get involved with
18 that at all.**

19 Q. Okay. That's fair.

20 Your testimony in this case, the rebuttal
21 testimony, deals primarily with AEP's participation
22 in PJM, right?

23 **A. Right.**

24 Q. And do you know of the mix of AEP operating
25 companies or even AEP affiliates that had to seek

1 jurisdictional -- state jurisdictional approval to
2 join PJM?

3 **A. I'm not familiar with the state**
4 **jurisdictional approval process. So that was back**
5 **in '04 when we joined PJM. I don't know -- I don't**
6 **recall what**
7 was -- what we had to go through with the individual
8 states.

9 Q. Yeah, I'll just ask specific to Kentucky. Do
10 you remember if Kentucky Power had to seek
11 Commission approval to join PJM?

12 **A. I believe so. I was not directly involved in**
13 **that approval process, but I believe that there was**
14 **discussions with the Kentucky Commission at that**
15 **time on joining PJM.**

16 Q. Okay. And have you been following the
17 hearing in this case through the first two days
18 prior to today?

19 **A. Yes.**

20 Q. Okay. And do you remember when I was asking
21 Mr. Mattison questions about the Commission's 2017
22 order as it relates to Kentucky Power's involvement
23 in PJM?

24 **A. If that was the second appearance by**
25 Mr. Mattison, I was listening there. I did not

1 attend the morning where he was on. So I don't
2 recall the 2017 line of questions.

3 Q. Well, there was a -- just one second,
4 Mr. Horton. I apologize. Let me share my screen
5 here with you. I'll just go back to that 2017 order
6 so that we're all on the same page about what we're
7 discussing.

8 I was asking -- can you see my screen there?

9 **A. Yes, yes.**

10 Q. I was asking Mr. Mattison about the -- that
11 final full paragraph on that page of the 2017 -- the
12 January 18, 2017 -- 2018 order in case number
13 2017-179. I'll give you a chance to read that last
14 sentence that has the highlight on PJM.

15 **A. Are we talking about where it says "last, the
16 Commission strongly encourages"?**

17 Q. Yes. Sorry. Sorry. Let me bring it back
18 up.

19 **A. "Last, the Commission strongly encourages
20 Kentucky Power to recognize that it must make a
21 determination regarding its participation in PJM
22 that aligns with the interests of Kentucky Power and
23 its ratepayers."**

24 Q. I'll stop sharing there. Let me know when
25 that's off your screen now.

1 **A. It's off.**

2 Q. Okay. Were you aware of any concern by the
3 Kentucky Commission that Kentucky Power's
4 participation in PJM may not necessarily be aligned
5 with its ratepayers but rather other Kentucky Power
6 affiliates?

7 **A. I was not aware until just preparing for
8 this, this most recent rate case.**

9 Q. Okay. And on that note -- and I think that
10 this is going to make this set of questions a lot
11 easier.

12 Are you aware of any instance in which
13 Kentucky Power has asked you to, let's say, forge a
14 different path on their behalf than maybe with the
15 other AEP affiliates on a particular issue with PJM?

16 **A. No. It's -- we talk with the Kentucky Power
17 staff. And to my recollection, we've pretty much --
18 we've been in alignment with -- with the other
19 operating companies in AEP when we represent PJM --
20 at PJM.**

21 Q. Okay. Would you agree that you discussed in
22 your rebuttal testimony the -- and this is my
23 characterization, so I don't want to put words in
24 your mouth, but just my understanding, the power
25 that AEP or Kentucky Power individually have within

1 PJM?

2 I mean, that was the basis of the testimony:
3 The control over the actions, the tariffs, the
4 rules.

5 **A. Yes. When it comes to sector voting. Is**
6 **that where you're going?**

7 Q. I think that was part of your testimony,
8 right? You discussed primarily the second --

9 **A. Oh, absolutely.**

10 Q. -- RC and the MC, correct?

11 **A. Absolutely, yes.**

12 Q. So I have a couple questions about that.
13 And, if I go too fast, please let me know, but I'm
14 just trying to think these out.

15 So there's the MC -- the members committee --
16 and the MRC, which is the markets and reliability
17 committee, right?

18 **A. Right.**

19 Q. And there's the MIC, the markets
20 implementation committee; is that right?

21 **A. Right.**

22 Q. And the OC, the operating committee, and the
23 PC, the planning committee, correct?

24 **A. Yes.**

25 Q. Okay. And those are the primary two largest

1 -- the two -- I think there's a name for them, but
2 the two bigger committees, right, the MC and the
3 MRC.

4 And then the three primary subcommittees, the PC,
5 OC, and MIC.

6 **A. Correct, yes. You've got it, yes. There's**
7 **the two top committees that have sector voting.**
8 **That's where everything comes up through those two**
9 **upper committees.**

10 Q. Okay. Great. And only members are allowed
11 to vote at the members committee in the MRC,
12 correct?

13 **A. Correct.**

14 Q. And there's about a thousand members?

15 **A. Well, that's -- that's where it gets a**
16 **little -- we have to talk a little bit about that.**
17 **At the upper-level committees, yes. If you looked**
18 **at the PJM roster, there are a thousand members.**
19 **It's over a thousand now. Most of those are**
20 **affiliate members.**

21 For example, AEP, when it comes to the voting
22 at the MRC and members committee, the upper-level
23 committees, we have one vote. But if you go into
24 the roster of a thousand, there's 20 AEP affiliates
25 in there.

1 Q. And that is -- Mr. Horton, I think you've
2 made our day a little shorter because that's what I
3 wanted to get to. Right? So there's a thousand
4 members, but Kentucky Power, Ohio Power, Kentucky
5 Transmission Company, none of those get their own
6 individual vote at the MRC or the MC, correct?

7 **A. Correct. We get to vote at the -- we get 20**
8 **votes at those lower-level committees, but when it**
9 **comes to the upper level, they call it sector**
10 **voting, that's where we get one.**

11 Q. And that's where each sector -- five sectors.
12 Each sector is weighted, and it's out of five. And
13 it has to be, what is it, 3.67 for something to
14 pass? Something like that?

15 **A. It has to be 66 and two-thirds percent to**
16 **pass, yes.**

17 Q. Perfect. So you were talking about within
18 the sector voting that you're just one of 14 -- AEP
19 is just one of 14 of five sectors, right?

20 **A. Right. One of 14 within the -- we pick the**
21 **transmission sector. And so we're one of 14 within**
22 **that sector, and then each of the five sectors gets**
23 **20 percent of the vote. So we're 1/14 of 20**
24 **percent.**

25 Q. Yeah. And you had the choice of a number of

1 sectors, and you chose the sector in which there
2 were the smallest number of members so that,
3 ultimately, you represent a larger proportion of the
4 votes at PJM, correct?

5 **A. Yes, yes.**

6 Q. And so --

7 **A. Because -- I'm sorry. Go ahead.**

8 Q. I was going to say, you would agree that the
9 14 transmission owners at those -- at the MRC and MC
10 sector have the largest proportion of vote
11 individually as a single entity, correct? Each one
12 of them has the same amount, but that's still the
13 largest of any of the other members may have in
14 those senior committees.

15 **A. I think the answer is yes because, for**
16 **example, say the generation sector has 40 voting**
17 **members, and so if we had chosen the generation**
18 **sector, which we could have, we'd have been one of**
19 **40 versus one of 14.**

20 Q. Your vote would have been watered down. Is
21 that fair?

22 **A. That is correct, yes.**

23 Q. Okay. And at the lower committees -- the
24 operating committee, the planning committee, and the
25 MIC -- you-all participate in all three of those

1 subcommittees, right?

2 **A. Correct.**

3 Q. Right. And you vote on behalf of your
4 affiliates in those subcommittees?

5 **A. Yes.**

6 Q. So let's talk about -- and would you agree,
7 then, that -- Dave Anders would be very proud that
8 we're talking about this -- but the way the process
9 works at PJM is that, as a general matter, issues
10 are resolved bottom up, correct? Is that your
11 experience?

12 Would you like me to --

13 **A. I think the answer is yes. What's your
14 thinking of bottom up? I'm not quite sure.**

15 Q. Yeah. That often proposals are brought at
16 the subcommittees, voted on, and then those
17 proposals, after they move from the subcommittees,
18 are brought to the MRC and MC for a larger
19 stakeholder vote.

20 **A. Yeah, that's generally the way it's done.**

21 That's the way it's designed to be done. And then
22 how we re -- kind of redesigned the governance
23 rules -- I don't know -- five to seven years ago to
24 make that process a little more collaborative in the
25 lower-level committees.

1 Q. And the consensus-based -- I think it's
2 referred to as the CBER (phonetic spelling) process,
3 right?

4 **A. Yes.**

5 Q. Okay. And so you often vote at the planning
6 committee. Is that fair?

7 **A. I'm sorry. Can you repeat?**

8 Q. You often vote --

9 **A. Yes.**

10 Q. You often vote at the planning committee?

11 **A. Yes.**

12 Q. Okay. And are you aware of generally how
13 many votes in a -- you know, an ordinary matter, how
14 many votes are cast on an ordinary planning
15 committee proposal? Would you say it's about a
16 hundred?

17 **A. That's a -- that's a reasonable estimate**
18 **depending on the interest in the issue, but rule of**
19 **thumb, it's probably a little over 100 on most of**
20 **the issues. Let's call it 120 to 140.**

21 Q. Okay. So of the planning committee, then,
22 with your 20 affiliates, right, which would include
23 the operating companies, the transmission companies,
24 AEP renewables, the different affiliates you have,
25 that would be approximately one-sixth to one-seventh

1 of the votes cast on an ordinary ballot at the
2 planning committee.

3 **A. Yes, that's a fair assessment.**

4 Q. And is it -- let me ask it this way: Is that
5 the general case for the operating committee and the
6 MIC as well?

7 **A. The MIC tends to get more of the -- the
8 nonsector votes, more of the affiliate votes because
9 the MIC usually attracts a broader cross section of
10 participants from the other supplier sector, from
11 the end-use customer sector.**

12 The planning committee and the operating
13 committee are usually a little smaller, a little
14 more focused on technical-type issues and so attract
15 a fewer number of voters.

16 Q. Okay. So we've got your participation in the
17 subcommittees and the higher-up committees.

18 Are you aware if -- if the transmission owners
19 generally or AEP generally reserved any of its 205
20 filing rights when it joined PJM? Let me ask it
21 this way --

22 **A. Reserved its AEP 205 rights?**

23 Q. Let me withdraw that. Are you aware of any
24 PJM-related, right, or issues dealing with PJM,
25 like -- let's say transmission planning.

1 Transmission planning, would you agree, has been a
2 big conversation at PJM over the last two or three
3 years particularly?

4 **A. Yes.**

5 Q. And you would agree that it's at least
6 focused on these end-of-life projects at least
7 recently, correct?

8 **A. That has been a big focus, yes.**

9 Q. And AEP and -- or some of its affiliates, but
10 AEP and the other transmission owners, for instance,
11 made a filing at FERC -- time doesn't matter
12 anymore -- but six, eight months ago on the issue of
13 end of life planning, correct?

14 **A. Correct.**

15 Q. And that's a right that those transmission
16 owners reserved when they joined PJM, is the ability
17 to still file those types of things on their own
18 behalf?

19 **A. That is correct.**

20 Q. And as a -- please go ahead if you have
21 additional.

22 **A. Yeah, that may be the end of my useful**
23 **knowledge on it. I am aware of the CTOA agreement**
24 **and these 205 rights. I was not involved in that**
25 **original -- how that was set up, but I do know what**

1 **you're talking about there.**

2 Q. I just have one more question on the issue
3 because I think we may exhaust both of our knowledge
4 on the issue, but are you aware that -- is it your
5 understanding that most other members don't have
6 that right, for instance, to still file things, you
7 know, to their benefit or to their credit at FERC on
8 issues that still deal with them as members of PJM?

9 **A. Yes. This -- this 205 rights that are**
10 **retained by the transmission owners -- and**
11 **understand that's not -- being in the transmission**
12 **sector is different from being a transmission owner.**
13 **It sounds the same, but being part of a transmission**
14 **sector is merely for governance and the voting**
15 **purposes.**

16 But if you are a transmission owner and you
17 own transmission assets, yes, you're part of that
18 205 -- that special 205 agreement where you can file
19 with FERC for transmission rates within your system.

20 Q. Okay. And have you ever heard of a document
21 called the joint reliability coordination agreement
22 that's between PJM and TVA that may have been
23 recently brought to the TOAC, Transmission Owners
24 Advisory Committee?

25 **A. I -- I don't remember anything about that. I**

1 do -- I am aware of it, and that's about it. I'm
2 not aware that it was brought to the TOAC recently.

3 Q. Well, just very quickly, can you tell me what
4 the TOAC is?

5 A. Transmission Owners Advisory -- I think it's
6 Advisory Committee, but it is where the -- the
7 owners of transmission, they talk about various
8 transmission issues and usually with PJM involved
9 too. And it's more of a -- I haven't attended one
10 of those in probably ten years, but I do know they
11 exist.

12 Q. Okay. Then I won't ask you any more
13 questions other than you know it exists, and you
14 know that
15 they -- are you aware that the TOAC reserves some
16 rights as it relates to transmission planning and
17 cost allocation after the transmission owners'
18 participation or joining PJM?

19 A. I'm not aware of the relationship between the
20 CTOA, that agreement, and the TOAC.

21 Q. That's fair.

22 A. So I'm not aware of the relationship.

23 Q. Just bear with me for one second, Mr. Horton.

24 And I would just ask, as it relates to FTRs or
25 markets in general that are administered by -- well,

1 withdraw that.

2 You would agree that there is an FTR market
3 administered by PJM, correct?

4 **A. Correct.**

5 Q. In addition to an energy market; is that
6 right?

7 **A. Yes.**

8 Q. And a capacity market?

9 **A. Yes.**

10 Q. Okay. And an ancillary benefits. There's
11 also a market for ancillary benefits, right?

12 **A. Ancillary services?**

13 Q. Services, yeah. Excuse me.

14 **A. Yes.**

15 Q. Are you aware of any other markets that they
16 run?

17 **A. Well, in -- there are other financial markets
18 that they run, the virtual transactions, the up-to
19 congestion transactions. So those -- those
20 financial markets are in play also.**

21 Q. Okay. And is it your understanding that AEP
22 Service Company -- or I think it's service company,
23 but AEPSC, insofar as Kentucky Power is involved in
24 any FTR markets, AEPSC does that -- AEPSC is the
25 entity that has that involvement on Kentucky Power's

1 behalf? Is that your understanding?

2 **A. Yes. Our commercial operations people are**
3 **involved with making those choices, yes.**

4 Q. And let me ask, has the level of involvement
5 by you or anyone else at the AEPSC on behalf of
6 Kentucky Power changed following the GreenHat
7 default with regards to FTRs?

8 **A. I'll start to answer your question,**
9 Mr. Vice Chair. As far as specifically the activity
10 that we do within the FTR markets, no, it has not
11 changed. Our change in involvement in PJM is we
12 have been actively involved with the -- the new
13 chief risk officer and all of the task force and
14 committee discussions that have taken place
15 subsequent to the GreenHat default to reshape the
16 credit and collateral rules, as well as the upcoming
17 discussions on changes in the FTR market.

18 Q. And I -- again, it was an inartful question.
19 I'm getting used to asking those. I meant
20 specifically at PJM in regard to the stakeholder
21 process.

22 Would you say that the involvement has
23 increased since the default of GreenHat?

24 **A. Short answer, yes.**

25 Q. Yes. Have you all hired additional people at

1 AEP to address maybe some of the shortcomings
2 you-all may have or to add additional manpower to
3 have additional oversight or insight into those PJM
4 rules?

5 **A. I'm not aware of hiring additional people. I**
6 **think we've had more discussions between commercial**
7 **operations, the RTO representatives, and our credit**
8 **and collateral people in light of the GreenHat**
9 **default.**

10 Q. And, you know, meetings like the FRMSTF, the
11 financial risk mitigation senior task force, that
12 was created or at least coincident or in response to
13 the default of GreenHat, right?

14 **A. Yes.**

15 Q. And you-all are participating in those
16 meetings?

17 **A. Yes.**

18 Q. Okay. And so have you -- I know you couldn't
19 answer about whether you've hired more people or AEP
20 has hired more people to provide additional insight
21 or oversight over the issue. Have you changed
22 internal processes in response to the PJM GreenHat
23 default or any rules internally so that you-all have
24 more insight or additional oversight over your
25 participation in PJM?

1 **A. I'm -- I am not aware if we've changed any**
2 **credit collateral policies within PJM. I don't**
3 **believe we've changed the way we do our FTR**
4 **selections. I do not know the -- I'm not aware of a**
5 **change in our credit -- our own credit and**
6 **collateral policies that we have undertaken because**
7 **of GreenHat.**

8 Q. And I think this is the last question.
9 Taking a big step back, has AEP changed their
10 participation in PJM in any way related to
11 attempting to identify or ultimately address any
12 shortcomings of rules or regulations that emanate
13 from PJM that may affect its customers or its
14 participation since the GreenHat default?

15 **A. Could you repeat the question, Mr. Vice**
16 **Chair?**

17 Q. Yeah. And maybe it will be better to ask it
18 a little differently.

19 Would you agree that the GreenHat default was
20 an issue with PJM rules?

21 **A. Yes.**

22 Q. And would you agree that it would seem from
23 the studies done on that default that very few
24 people knew that the rules were no good?

25 **A. Yes. That's exactly what the report**

1 **indicated at the time of the default.**

2 Q. So let me ask -- excuse me. I'm sorry.

3 And let me ask this, and I'll ask it as simply
4 as possible. Is AEP doing anything different moving
5 forward to ensure that AEP is able to find and
6 change, for their own behalf, right, find and change
7 rules at PJM that are no good?

8 **A. I think we've had a very active involvement**
9 **with the FRMSTF, the financial risk management**
10 **senior task force, by our credit and collateral**
11 **people, and so we're more proactive now than before**
12 **for GreenHat.**

13 We were participating in the credit and
14 collateral senior task force at that time. The
15 GreenHat default really emphasized the importance of
16 the credit rules in place. And so I know we've
17 increased our participation, we've got more people
18 participating in those -- in those discussions. And
19 so yes.

20 Q. Yeah. But I guess I was asking, even beyond
21 the FTR issue, have you-all taken a step back and
22 said maybe we need to be more -- we need to be more
23 in the weeds, right? Or we need to be following
24 things closer, or we need to dedicate more resources
25 to our participation because there is a significant

1 downside risk to all the different markets we
2 participate.

3 Has that occurred at the AEP level as it
4 relates to PJM since the GreenHat default?

5 **A. I do not know, Mr. Vice Chair.**

6 VICE CHAIRMAN CHANDLER: Okay. All right. I
7 appreciate it, Mr. Horton. Thank you very much.

8 CHAIRMAN SCHMITT: Dr. Mathews, questions?

9 COMMISSIONER MATHEWS: I don't have any
10 questions. Thank you.

11 CHAIRMAN SCHMITT: Mr. Overstreet, any
12 redirect examination?

13 MR. OVERSTREET: Just a little bit, Your
14 Honor.

15 REDIRECT EXAMINATION

16 By Mr. Overstreet:

17 Q. Mr. Horton, in connection with your
18 discussions with the Vice Chairman, do you have an
19 opinion whether AEP has any oversight shortcomings
20 with regard to the PJM rules?

21 **A. If we have any oversight shortcomings?**

22 Q. Right. In connection with the manner in
23 which the service corp participates in PJM and
24 monitors the PJM rules, do you think that the
25 service corp's procedures, methods, et cetera, allow

1 the Company to keep abreast of those rules and act
2 appropriately?

3 **A. In my opinion, yes, I think we've got a**
4 **robust credit and collateral group that we talk to**
5 **regularly and have talked to regularly about the**
6 **changing PJM landscape.**

7 And so we keep them informed of all the
8 changes in the overall rules that are coming along,
9 and I know that they -- they appreciate our -- our
10 interchange and that they are actively reviewing our
11 risk policies and how they -- they affect our -- how
12 we operate in PJM.

13 So, yes, they are active. I don't know that
14 they're more active now than before GreenHat.
15 Obviously, it does focus their attention, but
16 they've always been a robust group in overseeing our
17 risk positions.

18 Q. Thank you.

19 And were there any shortcomings on AEP's part
20 that in any way contributed to the GreenHat default?

21 **A. I don't think so. We -- how our regulated**
22 **side of the house -- and even -- even mostly on the**
23 **deregulated side of the house, we do not actively**
24 **trade in the FTR markets. We use the FTRs as they**
25 **are allocated to us by PJM to manage the congestion**

1 **risk for our -- to meet our own load in Kentucky**
2 **Power and all our operating companies.**

3 So we had no high-risk activity in the FTR
4 market where we were actively trading with GreenHat
5 or even -- even trading to the extent that we knew
6 that there was a GreenHat out there.

7 Q. And the independent consultant's report that
8 you talk about in your rebuttal testimony, at whose
9 feet did the independent consultant lay the blame
10 for the GreenHat default?

11 **A. Well, it was clearly on PJM and PJM senior**
12 **management, and I think we saw the fallout from that**
13 **from resignation of several of the senior managers**
14 **at PJM, including the CEO and the chief financial**
15 **officer.**

16 Q. And did the independent market monitor detect
17 and report the GreenHat issue?

18 **A. No, the market monitor did not. And the**
19 **independent consultant report did interview and talk**
20 **to the market monitor, evaluated his contract, and**
21 **the consultant report did not -- did not, I guess,**
22 **blame the market monitor for missing the GreenHat**
23 **situation.**

24 Q. And you and the vice chairman were talking
25 about the -- I think he called them the two big

1 committees where there's sector voting?

2 **A. Yes.**

3 Q. Which type of interest have the greatest
4 sector voting power?

5 **A. Well, in a lot of cases the -- there are two**
6 **sectors, the end-use customer sector and the energy**
7 **delivery sector, which is the MUs and co-op. They**
8 **have mostly a very unified position, and they also**
9 **have two of their representatives who carry a large**
10 **number of proxy votes.**

11 And so you get a couple of individuals that
12 come to the members committee and the MRC committee
13 that carry a large number of votes that essentially
14 carry those two sectors and then unanimity.

15 So there's kind of a lock on 40 percent of the
16 vote by -- largely by even a couple of participants.
17 And transmission sector usually will vote in unison,
18 but not -- not -- anymore, even the transmission
19 sector gets split up a lot as a number of the
20 transmission owners are divesting of generation, and
21 the generation sector has various interests too with
22 renewables versus fossil generation.

23 So it's -- having a kind of a lock by a number
24 of folks on those two sectors by proxy voters is a
25 big deal anymore.

1 Q. And I think you testify in your rebuttal
2 testimony that, in this sector voting, AEP is a
3 single vote; is that correct?

4 **A. Single vote within the transmission sector.**

5 Q. And if -- if Kentucky Power -- let me go
6 about it this way.

7 Were you here yesterday when there was
8 discussion about Kentucky Power becoming its own
9 transmission zone?

10 **A. Yes.**

11 Q. And if Kentucky Power became its own
12 transmission zone, would it have its own vote in the
13 sector voting?

14 **A. No. The way PJM looks at sector voting is if
15 a company falls within or under the umbrella of a
16 holding company, it only gets one vote. And a most
17 recent example might be when Exelon took over
18 Baltimore Gas & Electric. Essentially one vote went
19 away because Baltimore Gas & Electric no longer had
20 their own vote. It got absorbed into the Exelon
21 sector vote.**

22 Q. And then what about the case of FirstEnergy
23 where a number of its operating companies are in
24 different transmission zones?

25 **A. It's the same -- same effect. FirstEnergy,**

1 **when it comes to sector-weighted voting, gets one**
2 **vote despite having transmission zones in New Jersey**
3 **and eastern Pennsylvania, as well as Ohio.**

4 MR. OVERSTREET: Thank you, Mr. Chairman. I
5 think that's all the questions I have now.

6 CHAIRMAN SCHMITT: All right. Mr. Horton,
7 you may step down. Thank you for your testimony.

8 MR. OVERSTREET: Mr. Chairman, our next
9 witness is Jason Stegall, and Mr. Stegall is going
10 to join us remotely. So I believe he can be
11 available right now. He's on the screen.

12 CHAIRMAN SCHMITT: Okay. Mr. Stegall, will
13 you please raise your right hand? Do you solemnly
14 swear or affirm under penalty of perjury that the
15 testimony you're about to give will be the truth,
16 the whole truth, and nothing but the truth?

17 THE WITNESS: I do.

18 CHAIRMAN SCHMITT: Thank you. Mr.
19 Overstreet, you may ask.

20 JASON STEGALL, called by the Kentucky Power
21 Company, having been first duly sworn, testified as
22 follows:

23 MR. OVERSTREET: Your Honor, Ms. Glass is
24 going to ask.

25 CHAIRMAN SCHMITT: Ms. Glass, you may

1 interrogate your witness.

2 MS. GLASS: Thank you, Your Honor. I'll need
3 one minute to sanitize this area.

4 Sorry for the delay.

5 DIRECT EXAMINATION

6 By Ms. Glass:

7 Q. Mr. Stegall, can you please state your name,
8 business address, and employer.

9 **A. My name is Jason Stegall. My business**
10 **address is 1 Riverside Plaza, Columbus, Ohio 43215,**
11 **and my employer is AEP Service Corporation.**

12 Q. And can you please state your position with
13 AEPSC.

14 **A. I'm the manager of regulatory pricing and**
15 **analysis.**

16 Q. Thank you. And did you cause to be filed
17 into the record of this case direct testimony and
18 answers to data requests?

19 **A. Yes, I did.**

20 Q. Do you have any corrections to those answers?

21 **A. I do not.**

22 Q. Or to your direct testimony?

23 **A. No, I do not.**

24 Q. Thank you.

25 So if I were to ask you those same questions

1 today, would you have the same responses?

2 **A. Yes, I would.**

3 MS. GLASS: Thank you. The witness is
4 available for cross-examination.

5 CHAIRMAN SCHMITT: Thank you.

6 Ms. Vinsel, cross-examination?

7 MS. VINSEL: Thank you, Chairman.

8 Good afternoon, Mr. Stegall.

9 THE WITNESS: Good afternoon.

10 MS. VINSEL: I do not have any questions for
11 you today.

12 CHAIRMAN SCHMITT: Mr. West or anyone on
13 behalf of Attorney General's Office, any questions
14 of this witness?

15 MR. WEST: None for this witness, Your Honor.
16 Thank you.

17 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

18 MR. KURTZ: No, Your Honor.

19 CHAIRMAN SCHMITT: Ms. Grundmann?

20 MS. GRUNDMANN: No questions, Your Honor.

21 CHAIRMAN SCHMITT: Mr. Spenard? Questions?

22 MR. SPENARD: No questions, Mr. Chairman.

23 CHAIRMAN SCHMITT: Mr. Fitzgerald, questions?

24 MR. FITZGERALD: No, Mr. Chairman. Thank
25 you.

1 CHAIRMAN SCHMITT: Mr. Miller?

2 MR. MILLER: Yes, Mr. Chairman. I do have a
3 few questions.

4 CROSS-EXAMINATION

5 By Mr. Miller:

6 Q. Hi, Mr. Stegall. How are you?

7 **A. All right. How are you doing?**

8 Q. Good. Thanks. My name is Matt Miller. I
9 represent Sierra Club here. We're going to pray
10 that my computer stays alive through this series of
11 questions because it crashed not too long ago. So
12 my apologies if that happens again. Knock on wood.

13 Mr. Stegall, I wanted to ask you some
14 questions to better understand the methodology in
15 place for the decision whether and how the Mitchell
16 coal units are committed to dispatch in PJM, and in
17 particular the decision whether to self-schedule
18 versus market- or economic-commit.

19 So just -- just to get us going for some
20 high-level context and definitions, is it correct to
21 define "self-scheduling," you know, in a few words
22 as a generator and an RTO signaling to the market
23 operator a day ahead of time that a unit is going to
24 operate regardless of the prevailing market price,
25 so it will dispatch and take whatever is the

1 prevailing price for its energy that day?

2 **A. I'm going to -- I'm going to be clear. When**
3 **we talk about dispatching -- you can hear me,**
4 **correct?**

5 Q. You know, I can make it out, but it's a
6 little rough coming through to me anyway. I'm not
7 sure of other folks.

8 CHAIRMAN SCHMITT: Yeah, sometimes the audio,
9 Mr. Stegall, isn't what it should be. So if you
10 could speak up or maybe get closer to the
11 microphone.

12 THE WITNESS: Is this better?

13 MR. MILLER: You know, maybe try again. That
14 was actually a little rougher for me.

15 THE WITNESS: All right. Is this better?

16 MR. MILLER: Oh, that's crystal clear.
17 Crystal clear.

18 THE WITNESS: All right. Perfect.

19 MR. MILLER: Thank you.

20 **A. So going back to your question about**
21 **dispatching, I want to be clear, when we talk about**
22 **unit dispatch, there's the making sure that the unit**
23 **is on, which is committing the unit in the day ahead**
24 **as a must-run, and then there's the dispatch, which**
25 **dispatches the unit from the economic minimum up to**

1 **whatever we've identified as the economic maximum.**

2 Q. Great. I appreciate that. That is -- that's
3 a good distinction. And I think what I was getting
4 at with the self-scheduling being the decision to --
5 to make the units available and make them price
6 takers regardless of what the market price is going
7 to be that next day. Is that right?

8 **A. And so that's -- you mean turning the unit on**
9 **or leaving it on regardless of what we expect the**
10 **market price to be. Is that --**

11 Q. Yeah. Maybe we're describing different ways,
12 but my understanding is that self-scheduling, as
13 distinct from market- or economic-committed -- you
14 know, the RTOs have different terms for this -- but
15 that coal units in particular will often
16 self-schedule because they're not able to ramp up
17 and down quickly like a gas unit, and need to make a
18 projection as to whether it's going to be economical
19 to run into the end of the coming days, and so
20 self-schedule and basically take whatever the
21 prevailing market price is that day, even if it
22 doesn't cover the unit's variable operating costs.

23 So you make that projection, you know,
24 anticipating that we're going to be in the black
25 here, so we're going to self-schedule the units.

1 Is that a fair characterization?

2 **A. To be clear, when we're talking about coal**
3 **units, like the Mitchell unit, the ramp rates and**
4 **the ability to start the unit and, if you shut it**
5 **down, the expectation of how long it will be down,**
6 **all of that has to figure into this -- this**
7 **decision. So --**

8 Q. Right.

9 **A. -- you're attempting to make a decision over**
10 **a longer period of time than the market is willing**
11 **to schedule through the day-ahead market.**

12 Q. Got it. Right. And I agree with that.
13 Great. I just wanted to kind of get that fundamental
14 distinction between a self-scheduling versus market
15 or economic commitment mode.

16 **A. Right. And as -- just I want to make sure**
17 **we're still talking same terms. So if I'm -- if you**
18 **operate a generating unit in the market, let's --**
19 **you have an economic distinction or a must-run**
20 **distinction or, for some reason, you're in an**
21 **outage, unavailable. Right? So this is -- this is**
22 **the piece you're talking about because, once the**
23 **unit is on, the unit is dispatched by the market.**

24 Q. Well, once -- once the operator has made the
25 decision to --

1 **A. -- to must-run the unit at an economic**
2 **minimum, then anything above the economic minimum is**
3 **dispatched by the market.**

4 Q. And so let me be clear, though. Are there
5 periods when a coal -- could be any unit,
6 theoretically, but if you self-schedule a unit and
7 say it's going to run, will it be called by the
8 market operator even -- even when it's not meeting
9 its variable costs? You signal to the market
10 operator, This is going to be running, and it will
11 take the price of the market, and we've committed to
12 that, regardless of whether a certain number of
13 hours or that day, it's in the black as a variable
14 operating cost matter.

15 **A. Only to the level of economic minimum.**
16 Anything above that is the market making the
17 decision to dispatch you higher. So if I
18 self-commit or must-run my unit in PJM, I'm
19 committing to run it at economic minimum. Anything
20 above that would be identified by the market, and
21 the market would be dispatching it.

22 Q. Okay. Understood. Thank you for that.
23 But it's possible that in that scenario that
24 the unit could lose money at that economic minimum?

25 **A. It's certainly possible. It's certainly**

1 **possible. It could make money as well.**

2 Q. Right. Of course. Of course. And your
3 forecasts are meant to avoid situations where it's
4 going to lose money at the economic minimum.

5 **A. What -- and what specific forecasts are you**
6 **referring to?**

7 Q. Well -- so good. So we can get into it now.
8 That's -- that was helpful context. So thank you.
9 So you had indicated in a discovery response
10 that -- and I'm just going to read it. I don't
11 think it's controversial. I'm just going to read a
12 few lines -- (Reading) that on a daily basis a
13 six-day estimate of potential margins is prepared
14 and reviewed by the AEPSC commercial operations.

15 Is that right?

16 **A. That's correct.**

17 Q. Uh-huh. (Reading) And from that review, the
18 commitment status of every unit is determined for
19 the next market day, and that when considering the
20 commitment status of the Mitchell units, this
21 includes consideration of the variable costs of the
22 unit versus the forecasted LMP to determine those
23 potential margins.

24 That's one of the part of the consideration?

25 MS. GLASS: Mr. Miller, would you please

1 identify which data request you're referring to?

2 MR. MILLER: Yes, absolutely. I apologize.
3 So this is Mr. Stegall's Kentucky Power's September
4 16th response sponsored by Mr. Stegall to Sierra
5 Club 2-3, and in particular Subsection B.

6 MS. GLASS: Thank you.

7 **A. Okay. Sorry. What was your question?**

8 Q. Basically just reading this response back
9 that there are a variety of factors that AEPSC
10 commercial ops considers. The variable costs of the
11 unit versus the forecasted LMP. Other factors
12 considered for unit commitment include start-up
13 costs, safely managing fuel inventories, contractual
14 commitments, mandatory environmental and the like.

15 Is that -- that describes, at a high level,
16 the decision-making process that you're referring
17 to?

18 **A. Yes.**

19 Q. All right. Can you tell me what the AEPSC
20 commercial ops team looks like? Who's on it? Are
21 you on it?

22 **A. So the commercial operations organization**
23 **generally breaks down into three sections. There's**
24 **a fuel procurement section, there's a section that**
25 **deals with the energy markets and all the data**

1 submitted into those markets, and then there's a
2 section that deals with everything from making sure
3 our PPAs get paid on a monthly basis to the proper
4 accounting for the results of anything that comes
5 through any of the markets that we participate in.

6 Q. And, roughly, how many people is that, and
7 who do they report to?

8 A. I'm not sure how many people there are.
9 There is a senior vice president of commercial
10 operations, and then each of those three groups that
11 I mentioned is headed up by a vice president that
12 reports to her.

13 Q. I see. And remind me who that senior VP is,
14 please.

15 A. Julie Sherwood.

16 Q. All right. Are you on one of these, that
17 team or its subteams, Mr. Stegall?

18 A. No. I work at regulatory services.

19 Q. Is any other witness in this case, such as
20 Mr. Vaughan or anyone else, on any of those teams?

21 A. Not that I'm aware of.

22 Q. Okay. You said that was Ms. Sherwood?

23 A. Yes.

24 Q. Okay. Thank you. All right.

25 I think you said in that discovery response

1 that -- I'm just going to say commercial operations
2 and leave out the AEPSC, if that's all right.

3 **A. That's fine.**

4 Q. (Reading) Commercial operations is the final
5 authority that determines the commitment status for
6 each available generating unit for the next market
7 day.

8 So I just -- I think this is pretty clear, but
9 I just want to be crystal clear that no one at
10 Kentucky Power specifically has input or authority
11 to overrule commercial operations as far as the
12 day-to-day commitment decision-making. Is that
13 correct?

14 **A. I -- I'm not aware the logistics of that. I
15 would -- I would have to defer to Mr. Mattison. I'm
16 not aware that this situation has come up.**

17 Q. I see. You personally are not, at least,
18 involved in having input into the day-to-day
19 commitment decisions?

20 **A. No. I'm merely a witness to the process.**

21 Q. Okay. Thanks. So possibly Mr. Mattison.
22 You're not necessarily aware of anyone else that
23 would be consulting with commercial operations,
24 anyone from KPC who consults with them regularly
25 about the commitment decisions or patterns of

1 commitment decisions?

2 **A. Keep in mind these commitment decisions**
3 **aren't completely made in a vacuum. Mr. Kerns and**
4 **his staff would have input into any decisions that**
5 **would affect the reliability or the safety at the**
6 **plant.**

7 Commercial operations is the final decision
8 point, but Mr. Kerns and his staff are the ones on
9 the grounds at the power plants, understanding what
10 the operational issues are.

11 Q. I see. So, for instance, if there were a
12 stack test that needed to be done or some kind of
13 compliance testing, that could be an instance where
14 you say we got to operate this, but otherwise --
15 otherwise you're not --

16 **A. That's an example.**

17 Q. Okay. Other than that, you're not personally
18 aware of anyone else?

19 **A. No.**

20 Q. Okay. Do you happen to know, does AEP -- so
21 Mitchell is co-owned by KPC and Wheeling Power.

22 Do you happen to know, does AEP commercial
23 operations assume that the respective interests of
24 KPC and Wheeling Power are coextensive for purposes
25 of making Mitchell's commitment decisions?

1 **A. Are you asking if commercial operations takes**
2 **both companies' best interests in mind?**

3 Q. I suppose it's kind of a vague way of my
4 having phrased it. Yeah. For any reason, whether
5 it's different regulatory approvals or otherwise,
6 does commercial operations basically just make a
7 decision as to the plant, irrespective -- you know,
8 without having a distinction in mind between
9 Kentucky Power and Wheeling?

10 **A. Yes. They're generally viewing the**
11 **generating assets -- in terms of market offers,**
12 **they're generally doing it as a single generating**
13 **unit. They're not taking individual ownership into**
14 **account.**

15 Q. Okay. Thank you.

16 **A. So they're trying to maximize -- sorry.**

17 Q. Oh, no, no, no. That -- I didn't mean to cut
18 you off.

19 **A. I was -- okay. They're trying to maximize**
20 **the value of the unit. They're not paying attention**
21 **to the ownership share.**

22 Q. Understood. Thanks.

23 Okay. So putting aside the day-to-day
24 commitment decisions, are you aware of any seasonal
25 or perhaps annual, you know, kind of longer

1 incremental conversations at AEP, or KPC for that
2 matter, where folks make a point of looking back at
3 whether self-scheduling resulted in losses, variable
4 operating losses for significant stretches of time
5 that may have been avoidable if the Company had
6 chosen not to self-schedule Mitchell?

7 **A. I'm not aware of any specific studies, but**
8 **keep in mind -- I mean, you yourself listed earlier**
9 **all the different factors that go into any decision**
10 **to self-schedule: The determination of whether or**
11 **not you have adequate fuel supply, or if you can**
12 **safely operate the unit, or any operational**
13 **considerations such as a test or for a -- you know,**
14 **a two-unit power plant like Mitchell whether you**
15 **need to keep a unit on during cold weather for heat.**
16 **Things like that.**

17 Q. Sure. And I appreciate that. And my
18 question, which I think you answered, but just to be
19 clear, you know, sometimes, you know, looking back,
20 you may get a perspective that wasn't anticipated
21 with the day-to-day analyses. You might see that,
22 weeks over weeks or even months, self-scheduling
23 resulted in losses, and losses that might have been
24 avoidable had a plant not been self-scheduled.

25 And I'm not asking you to admit to or concede

1 that that has happened right here. I'm just
2 wondering if you're aware of conversations,
3 presentations, or certainly any documentary, whether
4 there's a memo or, you know, internal studies that
5 address this as a bigger pattern, if it's come up.

6 **A. I'm not aware of anything formal, but I know**
7 **that they're reviewing the results of the market and**
8 **trying to understand how that fits in with fuel**
9 **supply, fuel obligations, all those other factors to**
10 **make sure that whatever we're doing makes economic**
11 **and operational sense for the units.**

12 Q. Thank you.

13 I suppose a component of that, and I'll just
14 ask to be clear. You know, you may be aware of
15 increasing discussion, some might say debate,
16 studies about coal units self-scheduling -- or
17 sometimes called self-committing, depending on the
18 RTO -- in the trade press at different commissions.

19 Are you aware of any -- any documents or any
20 dialogue at AEP or KPC reacting to that discussion
21 in the industry?

22 **A. I'm not aware of any documentation. I'm**
23 **aware of some of the things that you've mentioned.**
24 **I know that the issues of dispatch have been brought**
25 **up in front of other commissions. I believe RTOs**

1 **have each addressed that to an extent.**

2 Q. That's helpful. Thanks.

3 In that same discovery response, couple
4 subparts down in 2-3D and D-IV, Roman IV, you said
5 that the workbooks that are generated on a daily
6 basis looking ahead six days, they provide a
7 snapshot in time that is used as a starting point
8 for the unit bids that are ultimately submitted to
9 PJM.

10 When you say "unit bids" -- I just want to
11 make sure I understand -- does that encompass the
12 decision whether to self-schedule the units?

13 **A. These daily files initially come up with a --**
14 **say, a recommendation discussion point. These files**
15 **are generated at the beginning of the daily**
16 **commitment process. So you've got an analysts**
17 **looking at unit availability -- current unit**
18 **availability at that point in time, as well as the**
19 **current LMP forecast and attempting to come up with**
20 **some talking points to deal with -- to bring up to**
21 **the rest of the team.**

22 But, yes, it's a snapshot in time. It's done
23 very early in the process, and there's additional
24 monitoring and analysis and communication with the
25 generating plants that goes on up until the point

1 where the units are offered into the market.

2 Q. I see. And so that starting point is then
3 subject to starting point that incorporates the LMP
4 projections and unit costs. That's a starting
5 point, and then other factors, such as fuel contract
6 constraints and the like, are folded in, and then
7 the ultimate decision is made?

8 **A. Yes.**

9 Q. Okay.

10 **A. At a high level, that's the process.**

11 Q. At a high level.

12 Do you have a sense of if or how often fuel
13 contract obligations were a dispositive reason that
14 Mitchell was self-scheduled in the test year or --
15 or other recent history?

16 **A. Not -- nothing exact, no. I know that they**
17 **always take into account the level of fuel that's**
18 **available at the plant and the scheduled fuel**
19 **deliveries.**

20 Q. Do you happen to know if self-scheduling has
21 ever been cited as a means of helping the units
22 achieve a particular target capacity factor?

23 **A. I'm not aware of any of those sorts of**
24 **discussions.**

25 Q. Uh-huh. Do you have an opinion on whether

1 that would be appropriate, to use self-scheduling to
2 ensure that the plants hit a capacity factor?

3 **A. I don't really have an opinion on that, no.**

4 Q. All right. With respect to the test year in
5 this case, are you aware of any substantial
6 stretches of time, say weeks-long periods, week over
7 week, that Mitchell was self-scheduled and was
8 incurring a consistent operating loss on a variable
9 basis?

10 **A. I'm not aware, but I didn't do the analysis
11 to support any sort of decision in that regard.**

12 Q. Okay. Did you happen to review the
13 controversial data that Kentucky Power produced to
14 Sierra Club in its supplemental discovery response
15 on October 9th? There's a bunch of Excel files.

16 **A. I'm aware of the files. I am not -- I don't
17 know how detailed your question is. I don't know
18 that I could answer anything specific on a specific
19 date or time.**

20 Q. All right. Fair enough. I'm almost done. I
21 might be done. Just give me one moment, please. I
22 have two more questions.

23 Do you happen to know -- well, I'll ask you,
24 and I don't want you to say the answer if you do
25 know, at least yet, but are you aware, roughly,

1 the -- take -- from -- from the amount of time that
2 Mitchell actually does dispatch -- not when its
3 units are off, but whether it's actually dispatching
4 in the market -- are you aware of, roughly, the
5 proportion of time that was a result of
6 self-scheduling versus a market or economic
7 commitment mode?

8 **A. I -- I want to refer you to the confidential**
9 **attachment we provided to Staff Question 5-6.**

10 Q. 5-6. Okay. I believe Mr. Vaughan sponsored
11 that.

12 Okay. Do you have -- are you aware of whether
13 that -- the tendency to or, I guess, the proportion
14 by which self-scheduling selected, is that on a
15 seasonal basis or, you know, higher incidence based
16 on season or seasons? Or is it kind of independent
17 of seasonal market demand?

18 **A. Seasonal market demand is one of the factors**
19 **that plays into this, also as well as expectations**
20 **of outages for other units in PJM and whatever**
21 **outage schedules and maintenance outages are**
22 **necessary for the Mitchell units themselves.**

23 Q. Do you know if there have been discussions or
24 have you been a part of any discussions at AEP or
25 KPC about transitioning Mitchell to seasonal

1 operations?

2 **A. I'm not aware of any such discussions.**

3 Q. Okay. The last thing I'll ask is do you have
4 an understanding of whether -- whether the unit
5 commitment decision-making with respect to Mitchell
6 has ever been explicitly offered for approval or
7 specifically challenged or otherwise specifically
8 passed on by this commission -- by this commission,
9 whether that decision of self-scheduling versus
10 market commitment has -- its prudence has been
11 passed on?

12 **A. I'm not aware that the Commission has ever**
13 **addressed it specifically, but the fuel usage at**
14 **Mitchell is, obviously, up for review as part of the**
15 **Company's fuel filings.**

16 Q. Okay. And so would you -- and I'm not asking
17 for a legal conclusion but just your understanding
18 as somebody who supports this decision-making as a
19 technical matter. Is it your understanding that the
20 prudence of these decisions, you know, in tandem
21 with the gains or losses that the Company realizes
22 is at issue in the fuel reconciliation dockets?

23 **A. It's my understanding that, yeah, the**
24 **off-system sales margin and the fuel expense are**
25 **things that are reviewed as part of the fuel**

1 **dockets.**

2 Does that answer your question?

3 Q. It does. It does. And would you agree that
4 it's also at issue in the general rate case?

5 **A. I think only to the extent that you have any**
6 **off-system sales margins included in base rates.**
7 **But even still, anything that you have in base**
8 **rates, if it's trued up in a rider, would really be**
9 **addressed in that particular rider, in this case the**
10 **FAC.**

11 MR. MILLER: Well, Mr. Stegall, thank you
12 very much for walking through this with me. I
13 appreciate your precision and your help.

14 That's all I have, Mr. Chairman. Thank you
15 very much.

16 CHAIRMAN SCHMITT: Thank you.

17 Mr. Frye, any questions?

18 MR. FRYE: No questions at this time,
19 Mr. Chairman.

20 CHAIRMAN SCHMITT: Vice Chairman Chandler,
21 questions?

22 VICE CHAIRMAN CHANDLER: Yeah. Thank you.
23 Just a few, Chairman. I appreciate it.

24 * * *

25

1 EXAMINATION

2 By Vice Chairman Chandler:

3 Q. Is it Mr. Stegall or Mr. Stegall?

4 **A. Mr. Stegall.**

5 Q. Stegall. Good afternoon.

6 In terms of the interaction between the
7 Company's dispatch decisions and the off-system
8 sales calls, is it better to ask questions of you or
9 Mr. Vaughan?

10 **A. I think it depends on the question. I mean,**
11 **I can -- I can talk about how -- the process at a**
12 **high level, but the dispatch is just offering the**
13 **units in. The determine of off-system sales is**
14 **something that occurs once we have market results**
15 **and understand our internal load.**

16 Q. Yeah. And I think that's an important
17 distinction, isn't it, is that there's the ultimate
18 decisions, and then the off-system sales is just the
19 result of those decisions, correct?

20 **A. Correct.**

21 Q. Okay. And you agree that off-system sales,
22 pursuant to a commission-approved tariff, is shared
23 between customers and Kentucky Power, correct?

24 **A. Correct.**

25 Q. And do you know on what percentage basis that

1 is shared?

2 **A. Off the top of my head, I don't recall. I**
3 **know that there is a sharing mechanism, though.**

4 Q. Okay. And is it your understanding that the
5 Company's customers pay -- pay for the units? For
6 instance, the Mitchell and the Big Sandy I unit?

7 **A. I -- I think the Company's customers pay**
8 **their financial obligation towards these generating**
9 **assets.**

10 Q. Okay. And the fuel -- and, you know, other
11 variable O&M expenses -- or the other variable
12 expenses are recovered through a number of different
13 places, right? Base rates plus the different riders
14 that are applicable to those units, right?

15 **A. Correct.**

16 Q. Like the FAC that you were talking about?

17 **A. Yes.**

18 Q. Okay. Is it your experience that the Company
19 makes the appropriate dispatch decisions because
20 they have a sharing mechanism in the off-system
21 sales clause?

22 Let me withdraw that question. Let me ask the
23 question this way.

24 Do you think that a no-sharing of the
25 off-system sales clause between customers and the

1 Company, no sharing with the Company, would change
2 the Company's dispatch procedures or choices?

3 **A. No, because I think commercial operations**
4 **does the best -- tries to make the best decision for**
5 **customers regardless.**

6 Q. Okay. And I was just interested in maybe
7 following up on one of Mr. Miller's questions, and I
8 guess I can appreciate the perspective on it. In
9 regards to the Company's -- and if you can't speak
10 to this, please don't. Just push it off to Mr.
11 Kerns or somebody else. Feel free to.

12 But are you aware of the Company going back
13 and doing after-the-fact reviews of whether -- and
14 I'm really summarizing -- whether -- whether the
15 Company's actions on dispatch decisions have been
16 fruitful, or if there needs to be a change going
17 forward?

18 **A. The evaluation is done whether it's on an**
19 **annual basis or even on a short-term basis. I've**
20 **seen -- I've heard discussions about evaluating on a**
21 **short-term basis. I'm not aware of a formal review**
22 **on something on a month-by-month or year-by-year,**
23 **but that doesn't mean that it's not done.**

24 And the Company's own results and off-system
25 sales margins would dictate, at a high level,

1 whether or not we're successful overall.

2 Q. Well, it would to a degree, but those are --
3 the off-system sales margins -- well, let me ask
4 this.

5 Insofar as sales, right, the revenue received
6 is less than the cost, is it your understanding that
7 the Company shares in those losses?

8 **A. Are you talking about at the end of the day,**
9 **when we file a FAC with an off-system sales margin,**
10 **are there individual hours where we came in**
11 **negative?**

12 Q. No, no. I'm asking the off-system sales
13 clause or the off-system sales margin is shared, a
14 percentage of it, with the Company, correct?

15 **A. Correct.**

16 Q. The profit is shared with the Company.

17 Insofar as there are losses, is the sharing
18 with the Company zero dollars or that percentage of
19 the losses?

20 **A. I -- I don't have enough knowledge of the**
21 **mechanism to tell you for sure. I know across the**
22 **system, I've seen different -- across AEP, I've seen**
23 **different views, but generally the view is that the**
24 **Company -- if it's a loss overall, the Company will**
25 **absorb the loss. If it's a gain overall, then it's**

1 **shared, or the customer gets all of it depending on**
2 **the jurisdiction.**

3 Q. Well, let me make that sure I'm clear. You
4 say the Company would absorb the loss? But doesn't
5 the Company recover the costs through the FAC?

6 **A. Well, any -- any costs for off-system sales,**
7 **so any fuel that's burned to generate off-system**
8 **sales in the FAC is recorded as a credit, subject to**
9 **check.**

10 So we have a cost allocation process at the
11 end -- at the end of the month, and once we know all
12 of our transactions and what serves internal load
13 versus what serves off-system load. And there's a
14 cost recovery mechanism that assigns a -- an
15 offsetting revenue to sort of the contra expense to
16 the fuel for any fuel burned to serve off-system
17 customers.

18 Q. Okay. So let me ask this question: Insofar
19 as sales are made or generation is produced to make
20 sales in excess of native load need, right, is that
21 a function of a particular action the Company took,
22 or is that a function of being dispatched in the
23 market for an amount in excess of native load
24 demand?

25 **A. I would say it's both. It's making your**

1 **generation available to the point where it can be**
2 **dispatched by the market, and then it's market**
3 **demand requesting that you produce more energy that**
4 **can be sold. And this energy that you're producing**
5 **happens to exceed what your internal load is.**

6 Q. So the off-system sales margin is, only for
7 that answer, incentivizing making the units
8 available for PJM's economic dispatch?

9 **A. The way that's characterized seems a bit**
10 **oversimplified.**

11 I think making sure that a unit is available
12 and operating is -- that's the piece that you're
13 incenting. Obviously, the market does the dispatch
14 from, at the very least, your economic minimum up to
15 your economic maximum, but the units aren't -- it
16 takes a lot of work and supervision and maintenance
17 to make sure that the units are available to the
18 market.

19 Q. Would you agree that Kentucky Power has an
20 obligation to provide electricity and reasonable
21 service to its customers?

22 **A. Yes.**

23 Q. And wouldn't you agree that -- are you aware
24 of the capacity performance rules in PJM?

25 **A. Broadly, yes.**

1 Q. But you understand that -- that generators
2 have an obligation to produce when called upon and
3 be available when needed?

4 **A. Yes.**

5 Q. Okay.

6 VICE CHAIRMAN CHANDLER: I appreciate it.
7 Thank you very much. Have a good evening.

8 CHAIRMAN SCHMITT: Dr. Mathews, questions?

9 COMMISSIONER MATHEWS: I don't have any.

10 CHAIRMAN SCHMITT: Ms. Glass, any redirect?

11 MS. GLASS: Just one quick one, Your Honor.

12 REDIRECT EXAMINATION

13 By Ms. Glass:

14 Q. Mr. Stegall, would Company Witness Vaughan be
15 the best witness to discuss the operation of the
16 Company's system sales clause?

17 **A. Yes.**

18 MS. GLASS: Thank you. That's all I have.

19 CHAIRMAN SCHMITT: Thank you. You may step
20 down. Thank you, Mr. Stegall.

21 I guess the next witness is, what, Ms. Cost?

22 MS. GLASS: Yes, Your Honor.

23 Your Honor, may I ask?

24 CHAIRMAN SCHMITT: Thank you.

25 MS. GLASS: I'm sorry. I think she needs to

1 be sworn first.

2 CHAIRMAN SCHMITT: No.

3 Ms. Cost, would you please raise your right
4 hand?

5 Do you solemnly swear or affirm under the
6 penalty of perjury that the testimony you're about
7 to give will be the truth, the whole truth, and
8 nothing but the truth?

9 THE WITNESS: Yes, I do.

10 CHAIRMAN SCHMITT: Ms. Glass, now you may
11 ask.

12 * * * *

13 JACLYN COST, called by the Kentucky Power
14 Company, having been first duly sworn, testified as
15 follows:

16 MS. GLASS: Thank you.

17 DIRECT EXAMINATION

18 By Ms. Glass:

19 Q. Can you please state your name, business
20 address, and employer for the record.

21 **A. Yes. Jaclyn Cost. American Electric Power**
22 **Service Corporation, and 1 Riverside Plaza,**
23 **Columbus, Ohio 43215.**

24 Q. And what's your position with AEPSC?

25 **A. Regulatory consultant senior.**

1 Q. Did you cause to be filed into the record of
2 this case direct testimony and answers to data
3 requests?

4 **A. Yes.**

5 Q. And do you have any changes to your direct
6 testimony or answers to data requests?

7 **A. No, I do not.**

8 Q. If I were to ask you those same questions
9 today, would your answers be the same?

10 **A. Yes, they would.**

11 MS. GLASS: Your Honor, the witness is
12 available for cross-examination.

13 CHAIRMAN SCHMITT: Ms. Vinsel, questions?

14 MS. VINSEL: Thank you, Chairman. Staff does
15 not have any questions for Ms. Cost.

16 CHAIRMAN SCHMITT: Mr. West, questions?

17 MR. WEST: No questions from AG. Thank you.

18 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

19 MR. KURTZ: No questions, Your Honor.

20 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

21 MS. GRUNDMANN: No questions, Your Honor.

22 CHAIRMAN SCHMITT: Mr. Spenard.

23 MR. SPENARD: No questions, Mr. Chairman.

24 CHAIRMAN SCHMITT: Mr. Fitzgerald?

25 MR. FITZGERALD: No questions, Mr. Chairman.

1 CHAIRMAN SCHMITT: Mr. Miller?

2 MR. MILLER: None from us. Thank you, Your
3 Honor.

4 CHAIRMAN SCHMITT: Mr. Frye?

5 MR. FRYE: Nothing from us as well, Your
6 Honor.

7 CHAIRMAN SCHMITT: Vice Chairman Chandler?

8 VICE CHAIRMAN CHANDLER: I have no questions.
9 Thank you, Mr. Chairman.

10 CHAIRMAN SCHMITT: Dr. Mathews?

11 COMMISSIONER MATHEWS: I'm going to make it
12 unanimous. I have no questions.

13 CHAIRMAN SCHMITT: Obviously, there can't be
14 redirect since there's been no cross-examination,
15 Ms. Glass.

16 Thank you, Ms. Cost. You may step down.

17 THE WITNESS: Thank you.

18 CHAIRMAN SCHMITT: I was hoping we'd get one
19 more witness. If we could get Mr. -- is it Messner?
20 And then take a break and begin with Mr. McKenzie.

21 MS. GLASS: Your Honor, we'll just need to
22 sanitize both of our areas quickly.

23 CHAIRMAN SCHMITT: Okay. Mr. Garcia, are you
24 ready?

25 MR. GARCIA: We are, Your Honor.

1 CHAIRMAN SCHMITT: Okay. Mr. Messner, would
2 you please raise your right hand?

3 Do you solemnly swear or affirm under penalty
4 of perjury that the testimony you're about to give
5 will be the truth, the whole truth, and nothing but
6 the truth?

7 THE WITNESS: I do.

8 CHAIRMAN SCHMITT: Thank you.

9 Mr. Garcia, you may ask.

10 * * * *

11 FRANZ MESSNER, called by the Kentucky Power
12 Company, having been first duly sworn, testified as
13 follows:

14 MR. GARCIA: Thank you, Your Honor. If I can
15 check that I am being heard. Yes?

16 MS. VINSEL: Yes. Checking to make sure he's
17 being heard.

18 CHAIRMAN SCHMITT: Oh, yes, yes. You can be
19 heard. Loud and clear.

20 MR. GARCIA: Thank you.

21 DIRECT EXAMINATION

22 By Mr. Garcia:

23 Q. Mr. Messner, please talk into the microphone.
24 And if -- at some point we may receive instruction
25 that you may need to speak more clearly, being that

1 we're in a virtual environment. Is that okay?

2 **A. Okay.**

3 Q. Thank you. Would you please state your name,
4 business address, and for whom you work, and in what
5 capacity for the record, please?

6 **A. Franz Messner. Managing director of**
7 **corporate finance, American Electric Power Service**
8 **Corporation. 1 Riverside Plaza, Columbus, Ohio**
9 **43215.**

10 Q. Okay. And, Mr. Messner, did you cause in
11 this case direct testimony, rebuttal testimony, and
12 discovery responses to be filed on behalf of
13 Kentucky Power?

14 **A. Yes, I did.**

15 Q. Were those prepared by you or under your
16 supervision?

17 **A. Yes, they were.**

18 Q. Do you have any corrections to those data
19 requests or rebuttal testimony or direct testimony?

20 **A. No, I do not.**

21 Q. If I were to ask you the same questions
22 today, would you substantially provide the same
23 answers?

24 **A. Yes, I would.**

25 MR. GARCIA: Your Honor, I would tender the

1 witness at this point.

2 CHAIRMAN SCHMITT: Okay. Thank you.

3 Ms. Vinsel, questions?

4 MS. VINSEL: Yes, Chairman, we do have some
5 questions.

6 CROSS-EXAMINATION

7 By Ms. Vinsel:

8 Q. Good afternoon, Mr. Messner. How are you
9 today?

10 **A. Good afternoon. I'm well. Thank you.**

11 Q. Good. Good.

12 Let's jump in with unprotected excess ADIT.
13 Some of the questions that I asked Mr. Mattison he
14 deferred to you and, I believe, to Mr. Vaughan.

15 As you know, Kentucky Power is proposing to
16 accelerate the return of approximately 65 million in
17 unprotected excess ADIT. And that -- that is about
18 half of the existing balance as of April -- let me
19 be clear -- as of April 2020. Is that correct?

20 **A. To my understanding, I think that's correct,**
21 **subject to check.**

22 Q. Subject to check.

23 Mr. Messner, did you participate at all in
24 the -- I think it was a 2018 case involving the tax
25 cut and JOBS Act reduction in corporate income tax?

1 **A. No, I did not.**

2 Q. Let me -- we've discussed several times that
3 in that case Kentucky Power had offered testimony
4 that it needed 18 years -- or minimum of 18 years to
5 return the unprotected excess ADIT because a shorter
6 period would adversely impact credit metrics.

7 I recognize you weren't part of that. I'm
8 telling you that, hopefully, that you will agree
9 that you have heard that somewhere.

10 **A. Yes, I have.**

11 Q. I'll also note that that period was
12 substantially longer than the Commission authorized
13 for any other utility.

14 So given that background, I think it's natural
15 to have some concerns about returning roughly half
16 of the balance over a one-year period. So can you
17 tell me, are there impacts on the credit -- on
18 Kentucky Power's credit metrics from returning the
19 unprotected excess ADIT, the 65 million, in a
20 one-year period?

21 And I recognize that was a long question. I
22 can shorten it if you like.

23 **A. No, I think I understand. Anything that**
24 **delays or otherwise negatively impacts cash flows**
25 **has a negative impact on credit ratings.**

1 Q. So then let me jump to another question, and
2 I'll circle back to that one. Is there a level of
3 increased amortization of the excess ADIT that, if
4 reached, will downgrade Kentucky Power's credit
5 metrics?

6 **A. I don't know that one could come up with a**
7 **definitive calculation. It is a case that Kentucky**
8 **Power's cash flows are what I would characterize as**
9 **out-of-bounds low for their current credit rating.**
10 So they're already distressed.

11 Q. And I believe that there's testimony -- I'm
12 sorry, I can't recall who filed this testimony --
13 that Kentucky Power is planning to finance the
14 accelerated return of the ADIT.

15 Can you speak to that?

16 **A. Yes. I'm not sure finance as in a proactive,**
17 **okay, we need to go issue \$65 million of -- you**
18 **know, to offset this. It's my understanding that**
19 **what the proposal is is to delay the rate increase**
20 **for a year and offset that with an associated**
21 **decrease of ADF -- deferred income taxes in the**
22 **equal amount.**

23 The impact that that will have is Kentucky
24 Power will need to -- will either have negatively
25 impacted cash flows, and depending on where their

1 money pool balance, their short-term borrowing
2 position is, may need to issue additional debt to
3 term out some of the short-term debt.

4 Q. I may -- it may be Mr. West that had that
5 testimony or Mr. Vaughan. I will follow up with
6 them on that.

7 Let me ask, is there an ROE value that can
8 offset any potential downgrade from the -- from any
9 acceleration of the ADIT?

10 Let me ask this another way. Let me ask it a
11 little more artfully. It's okay. You can laugh.

12 Now I'm trying to think of how I really want
13 to say this. At what point, what -- what -- is
14 there an ROE or a particular point where the excess
15 ADIT, the increased amortization, would not result
16 -- would balance out any credit metric adverse
17 credit impact?

18 **A. Let me think about that question for a**
19 **second.**

20 Q. Sure. Sure. What I'm really asking is is
21 there an ROE value that can offset a downgrade?

22 **A. ROE is the result of the Company's**
23 **operations. And, obviously, in this process we agree**
24 **with an authorized ROE. And it is the case that**
25 **Kentucky Power has not been earning their authorized**

1 **ROE. In fact, I think it's close to half. And,**
2 **obviously, that has negative financial impacts.**

3 There is no -- there's not necessarily a
4 tipping point in terms of if your ROE is this number
5 that results in an automatic downgrade. The credit
6 rating agencies consider all aspects, both
7 financial, quantitative measures, as well as
8 qualitative measures.

9 So I think the answer to the question is
10 there's not a specific ROE that leads to a
11 downgrade. Does that make sense?

12 Q. No, no. It does. It does. Thank you.

13 There also was testimony that, although the
14 accelerated return of the excess ADIT -- although it
15 would be a negative impact, there would not
16 necessarily be an adverse impact from credit rating
17 agencies because this was being returned over only
18 one year. So, basically, a very limited time
19 period, and that would mute any potential adverse
20 impact.

21 Do I have that correct, or would you like to
22 add to that?

23 **A. Yes, you do, generally. I equate it to kind**
24 **of ripping the Band-Aid off. While it will have a**
25 **negative impact on cash flows, obviously, credit**

1 rating agencies, generally -- I'm not sure
2 "accommodate" is the right word, but they take into
3 consideration things that are short duration or
4 one-time events, as being proposed in this rate
5 case. Things that generally lead to being put on
6 negative outlook and/or a downgrade are those things
7 that last for longer than maybe a single one-time
8 event.

9 And a perfect example of that would be the
10 Rockport deferrals that were part of the last rate
11 proceedings. I believe the order was in January of
12 2018, and in March of that same year Moody's moved
13 to put Kentucky Power on negative outlook. And,
14 basically, that means over the next 6 to 18 months
15 they're going to evaluate the Company's financial
16 performance and revisit sooner than perhaps they
17 otherwise would, and then actually Kentucky Power
18 was subsequently downgraded to Baa3, I believe, in
19 April of 2019.

20 Q. I think this was one of the questions
21 Mr. Mattison deferred to you. If -- if the same
22 amount, that approximately 65 million of excess ADIT
23 were -- it was accelerated over a two-year period
24 instead of a one-year period -- so, if you will,
25 split in half, same amount over two years -- would

1 there be an adverse impact from that as opposed to
2 returning the same amount in one year?

3 **A. There will be an adverse impact either way,**
4 **but, as I hopefully explained a moment ago, I think**
5 **that the impact would be potentially more severe**
6 **when the duration is extended other than the**
7 **singular one-time event.**

8 Q. And other than your professional experience
9 -- and believe me, I'm not downgrading that at all,
10 but other than that, of course, your professional
11 experience, is there any other support that you have
12 for your testimony in regard to the adverse impact
13 from returning the excess ADIT over one year or even
14 two years if that were the case?

15 **A. In the credit -- Moody's credit opinions -- I**
16 **don't recall the exact language, and I could find it**
17 **for you, but one of the things that they talk about**
18 **is a period -- you know, whether it be the ADIT or**
19 **some of the Rockport deferrals from the last case,**
20 **they talk about the reason for the downgrade -- I'm**
21 **paraphrasing here -- was due to anticipated longer**
22 **duration period of insufficient cash flows.**

23 Q. Okay. And that makes sense because, again,
24 as you said, accelerating the ADIT, that has an
25 impact on Kentucky Power's cash flow.

1 **A. It does, yes.**

2 Q. And you don't have to show me the document.

3 I think we might have it. There are some
4 confidential exhibits that may have that, so we may
5 see that later.

6 **A. That's correct, yes.**

7 Q. Let me move to short-term debt. And I
8 believe, as you know, that during the test year the
9 short-term debt increased from 380 -- excuse me --
10 38 million, 38.65 million to over 122 million.

11 Do you want to check that and make sure that
12 that's correct?

13 **A. I think that's generally correct.**

14 Q. I'm doing some rounding with the numbers.

15 **A. Yeah. I don't -- I didn't see 122, but I do
16 note in February it was 120 or rounded to 121.**

17 Q. Then I misspoke. I meant to say 120.

18 Can you tell me why the short-term debt
19 balance increased about not quite 82 million during
20 the test year?

21 **A. Well, for a variety of reasons. The primary
22 one is the reason that we're here. Kentucky Power
23 has not been earning their authorized ROE. In
24 addition, they've been deferring some of their
25 earnings. So while they may have earnings, a fair**

1 **amount of it is noncash earnings. So the short-term**
2 **debt is being used to finance the operations of the**
3 **Company.**

4 Q. So, basically, using that -- as you said,
5 using the short-term debt to operate the Company in
6 the place of expected revenues. Would that be
7 correct?

8 **A. Right. Insufficient cash revenues require**
9 **use of the short-term borrowing program for working**
10 **capital purposes.**

11 Q. Also in your testimony you discuss the fact
12 that Kentucky Power had considered issuing private
13 placement debt. I believe -- was that at the end of
14 2019 or fall 2019?

15 **A. Yes. We started, in the third quarter of**
16 **2019, the process to evaluate issuing a private**
17 **placement for those who are around. For the last**
18 **rate case we had a similar situation. We issued a**
19 **private placement in June of 2017, I believe.**

20 But due to the fact that there was uncertainty
21 around Kentucky's economic outlook, it would have
22 made issuing in the private placement market, and
23 those investors are typically insurance companies
24 and the like, it would have been a little bit of a
25 difficult sell in telling Kentucky Power's story.

1 So we kind of stood down and reassessed in
2 December and then again in January. And, obviously,
3 the rate case activity was going on. So what we did
4 instead was, in lieu of the private placement, we
5 issued a two-year term loan that closed, I believe,
6 March 6 in the amount of 125 million to bring down
7 Kentucky Power's short-term debt balance as it
8 approached their authorized limit of 180 million.

9 Q. When you talked about uncertainty in
10 Kentucky's economic activity, can you expand upon
11 that?

12 **A. Yes. As a point of comparison, when we did**
13 **the private placement in 2017, we had investors come**
14 **in, and we had investor presentation for them. At**
15 **the time there was a lot of activity related to**
16 **Braidy Industries. I'm not sure if EnerBlu was in**
17 **the mix yet or not.**

18 There was potential for the -- there was
19 discussions between then-President Satterwhite and
20 members of Congress about, you know, the potential
21 for bringing investment, bringing manufacturing into
22 the Kentucky Power service territory. So that story
23 was positive.

24 Segue to 2019, the conditions are markedly
25 different. So we decided to stand down instead.

1 Issued a two-year term loan to span the period of
2 the rate case and perhaps allow for some further
3 economic development in Kentucky.

4 Q. That's what I -- my next question, you just
5 partially answered, and that's what is it that led
6 Kentucky Power to make this decision to get that
7 two-year term loan to lower the short-term debt
8 about a month before the rate case?

9 **A. So, originally, we had intended on doing the**
10 **private placement in the fourth quarter last year.**
11 **I believe the balances -- we had forecast that the**
12 **balances would be about where they are in, you know,**
13 **October-November time frame. So we had looked at**
14 **originally doing this in the November-December time**
15 **frame.**

16 And because of the, you know, the decision to
17 delay and the balance at the time, we switched
18 course and went to the term loan. We ended up
19 issuing the 125 million in March.

20 Q. Was it a question of timing? It was just a
21 question of timing for -- for what, I guess I should
22 say.

23 **A. So we had originally intended to term out,**
24 **you know, roughly 100 million or so in the fourth**
25 **quarter of last year to put longer-duration debt on**

1 **Kentucky Power that more closely matched the asset**
2 **lives, but because the conditions didn't warrant**
3 **that, or we -- banks will tell us that there's a**
4 **deal to be done, but that means it might be at a**
5 **price that's unattractive.**

6 So rather than issuing into that market in the
7 private placement world, we decided to do a two-year
8 term loan with two banks and knowing that, you know,
9 the rates were going to be cheaper, and it would
10 basically allow us to span the period of the rate
11 case and perhaps allow for more economic
12 development.

13 Does that answer your question?

14 Q. No, no, thank you.

15 Is there any general principle that prompts
16 Kentucky Power to roll short-term debt into
17 long-term debt?

18 **A. Yeah. Generally, with Kentucky Power and our**
19 **other operating companies, we use short-term debt as**
20 **a means of support operations and working capital.**

21 And then, when the debt amount either gets close to
22 their authorized limit or to -- not necessarily in
23 Kentucky Power's case but for some of the other SEC
24 registrant companies, when they get to something
25 that's called index eligible size, which is

1 generally 300 million or more, we will term it out
2 at that point, again using -- the typical durations
3 are 10 and 30 years. But -- and, again, that's to
4 match the longer-lived assets.

5 Q. Thank you.

6 I'm going to try very hard to ask this next
7 batch of questions without having to refer to a
8 document, but basically I want to talk to you about
9 senior unsecured notes.

10 In the application, one of the schedules has
11 long-term debt, and that includes ten senior
12 unsecured notes, all with maturity dates between
13 June 2021 and September 2047. I can give you the
14 exact citation if you want it. It's in the
15 application Section 5, Exhibit 2. It's Work
16 Paper S3.

17 And if I went too fast, I can repeat it.

18 **A. I have that right in front of me.**

19 Q. Okay. So when a debt instrument matures,
20 does

21 Kentucky Power typically refinance that debt
22 instrument?

23 **A. Generally that's the case, yes.**

24 Q. And if the refinancing was at a higher
25 interest rate, would there still be refinancing?

1 **A. If the market conditions indicated that --**
2 **yes. I mean, we do the issuances to maintain capital**
3 **structure, you know, investment grade capital**
4 **structure that is viewed favorably by the credit**
5 **rating agencies.**

6 If it's the case that the market rates,
7 prevailing rates are higher, that would -- that
8 would be something that we would do.

9 Q. Okay. One of the senior unsecured notes
10 matures on June 18, 2021, and it has an interest
11 rate of 7.250 percent.

12 Do you anticipate that Kentucky Power will
13 refinance with June 2021 bonds if an interest rate
14 savings could be incurred with bonds?

15 **A. Could you restate the last phrase of that**
16 **sentence -- question?**

17 Q. Sure. Do you anticipate that Kentucky Power
18 will refinance that note with bonds if an interest
19 rate savings could be incurred?

20 **A. I don't know that it's contingent on interest**
21 **rate savings, but, obviously, it's maturing, so we**
22 **would need to do something to account for that**
23 **maturity.**

24 It may be the case -- I know that might have
25 been a little vague. It may be the case, and I'm

1 speculating slightly here, but, we may look to do an
2 issuance depending on whether the Kentucky
3 short-term debt balance that would not only take out
4 -- you know, take down the short-term debt balance
5 but also facilitate the -- you know, offsetting the
6 maturity.

7 Q. Thank you. And I apologize. I needed to --
8 we're doing a text as a back channel with my
9 coworkers who cannot be here with me today. So I
10 needed to double-check something with a team member.

11 **A. I understand.**

12 Q. Normally, I would just turn and be able to
13 ask them.

14 While I'll wait to see if I get a response,
15 just in general, would you agree that interest rates
16 have fallen since 2017 with one exception of a
17 slight uptick in, I think, September of 2018?

18 **A. Yes, I would say that's accurate.**

19 MS. VINSEL: Okay. Staff has no further
20 questions.

21 CHAIRMAN SCHMITT: Mr. West, any
22 cross-examination for this witness?

23 MR. WEST: Yes. We have just a few
24 questions.

25 * * *

1 CROSS-EXAMINATION

2 By Mr. West:

3 Q. Hello, Mr. Messner.

4 **A. Hello.**

5 Q. Just a few questions about the short-term
6 debt issue that Nancy just explored with you a bit,
7 but during the test year the average monthly balance
8 of short-term debt outstanding was 80.621 million,
9 correct?

10 **A. Yes.**

11 Q. But for ratemaking purposes, the Company
12 proposes a capital structure with no short-term
13 debt. Is that also correct?

14 **A. Yes.**

15 Q. So if the Company sets short-term debt at
16 zero dollars assessed year, is that accurately
17 portraying the month-to-month operations of the
18 Company?

19 **A. Well, a couple of things there. One, you**
20 **know, some of the discussions that we just had about**
21 **we had actually initially intended to issue the**
22 **private placement earlier, which obviously would**
23 **have impacted the average balance, but the capital**
24 **structure that we proposed in this rate case is**
25 **consistent with last rate case.**

1 It's based on a 3/31/20 test year, and I
2 believe the requirements mandate that we use the
3 per-books balance on that date. And, as a practical
4 matter, the delay in the private placement and
5 subsequent term loan that we issued actually
6 resulted in a rate -- the term loan on 3/31 actually
7 has a lower rate than the short-term debt rate
8 that's included in the cost of capital.

9 MR. WEST: Okay. Thank you. That's the only
10 questions I had.

11 CHAIRMAN SCHMITT: Mr. Kurtz,
12 cross-examination?

13 MR. KURTZ: Thank you.

14 CROSS-EXAMINATION

15 By Mr. Kurtz:

16 Q. Sorry. Good afternoon, Mr. Messner.

17 The unprotected excess ADIT, that's money that
18 Kentucky Power owes to consumers; is that correct?

19 **A. Yes.**

20 Q. And you're holding on to it and essentially
21 paying consumers the weighted average cost of
22 capital on the unamortized balance?

23 **A. Could you restate that question, please?**

24 Q. Isn't the weighted average cost of capital
25 carrying charge added to the balance that you owe

1 customers?

2 **A. I am not familiar with that and would defer**
3 **-- I don't know if it's Company Witness Whitney or**
4 **West.**

5 Q. Well, if it's money that the Company owes
6 consumers, and you're not providing any interest
7 carrying charge on it, then the longer it takes to
8 give it back, the worse off consumers would be,
9 correct?

10 **A. Again, I'll defer to Company Witness -- now**
11 **that you're asking the question that way, it may be**
12 **Company Witness West or Company Witness Vaughan.**

13 Q. Okay. This is an issue that AEP deals with
14 in all of its jurisdictions, the unprotected excess
15 ADIT; is that correct?

16 **A. To the best of my knowledge, yes.**

17 Q. For the protected, the tax rules require that
18 the money be refunded over what's called ARAM,
19 correct?

20 **A. I'm not familiar with that. And, again, I**
21 **would defer.**

22 Q. For the unprotected, it's up to, essentially,
23 the discretion of the various commissions.

24 Do you know -- for example, the amortization
25 period in Kentucky, the settlement the Commission

1 awarded was 18 years. Do you know the corresponding
2 terms for Virginia, West Virginia, Indiana, et
3 cetera?

4 **A. No, I do not.**

5 Q. What about for the transmission, the OATT?
6 For transmission same thing -- you have this money
7 that the transmission owner owes consumers, and you
8 give it back. Is there a uniform term that FERC has
9 mandated?

10 **A. I'm not familiar with that.**

11 Q. Okay. Kentucky Power is asking for a
12 13 percent base rate increase in this case, 70
13 million; is that right?

14 **A. I'm not familiar with the percentage, but if**
15 **--**

16 Q. But it is 70 million?

17 MR. GARCIA: Objection, Your Honor. The
18 witness has indicated that he doesn't know.

19 CHAIRMAN SCHMITT: I think that's correct. I
20 think he has indicated he's not familiar with that.

21 MR. KURTZ: Okay. I thought he said he
22 didn't know the percentage.

23 THE WITNESS: No, I do not.

24 Q. Okay. You don't know the dollar amount
25 either?

1 **A. I'm sorry. Could you repeat that question?**

2 Q. You don't know the dollar amount of the
3 requested base rate increase?

4 **A. Not offhand. I believe it is in the 65 to**
5 **70 million range, but --**

6 Q. Yeah. Do you prepare -- are you on the
7 earnings calls with the investment analysts that
8 occur quarterly?

9 **A. I listen to them as I'm able.**

10 Q. We saw you testify that Kentucky Power has a
11 low earned rate of return currently, and it
12 consistently drags down the AEP average return.
13 Isn't that correct?

14 **A. Yes, they are -- Kentucky Power is**
15 **underearning.**

16 Q. And historically has underearned?

17 **A. Yes, I believe that's the case.**

18 Q. And we saw earlier that the solution to that
19 product underearning is to grow rate base to
20 increase rates to increase earnings.

21 Were you here for that?

22 **A. I heard some of that discussion, but I think**
23 **earning -- earning a -- I guess the authorized**
24 **return is the reason that we have this rate**
25 **proceeding. Kentucky is not earning anywhere near**

1 **that, so as part of that story or process is a**
2 **regulatory process, and I'm coming before the**
3 **Commission and establishing reasonable rates.**

4 Q. Agreed. A big driver of the rate increase is
5 poor sales or loss of sales, correct?

6 A. I don't know specifically the main driver.
7 All I know is that Kentucky Power's earning nowhere
8 near their authorized ROE.

9 Q. If base rates go up by 13 percent additional,
10 that's going to cause sales to go down even further
11 because there is some elasticity of demand. People
12 will use less of a product when you charge more.

13 Doesn't that just exacerbate the problem?

14 MR. GARCIA: Objection, Your Honor. That's
15 outside of the scope of the testimony of this
16 witness.

17 CHAIRMAN SCHMITT: I'm sorry. I didn't
18 understand the objection.

19 MR. GARCIA: Outside of the scope of the
20 testimony of this witness.

21 CHAIRMAN SCHMITT: Yeah, I understand. We
22 have wide-open cross-examination in Kentucky under
23 our rules. And it is, I think, relevant to the
24 entire proceeding.

25 MR. GARCIA: Thank you, Your Honor.

1 Q. Doesn't that just make the problem worse?

2 **A. Would you please restate the question?**

3 **There's a couple different things going on there.**

4 Q. Kentucky Power has bad earnings, historically
5 has had bad earnings, historically drags down the
6 AEP average. It's entitled to a reasonable rate of
7 return, but when you grow rate base, grow earnings,
8 and you raise rates, you're going to drive down
9 sales even further and just make the problem
10 compound.

11 Don't you -- do you see that?

12 **A. Not necessarily. I can't speak to consumers'**
13 **usage. What I can speak to and what I'm supporting**
14 **here is the cost of capital and the capital**
15 **structure and this process by which Kentucky will be**
16 **able to earn a fair and reasonable return.**

17 Q. Have you ever heard the concept of, in
18 finance that, there's a natural owner of an asset?

19 **A. Could you ask that question differently,**
20 **please? I'm not sure I understand what you're**
21 **getting at.**

22 Q. Do you believe that AEP is the natural owner
23 of the eastern Kentucky service territory? Is it
24 best suited to serve its own interests and the
25 interests of consumers, or might there be a better,

1 more natural owner of that (indiscernible)?

2 **A. I don't have an opinion on that.**

3 MR. KURTZ: No more questions, Your Honor.

4 Thank you.

5 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

6 MS. GRUNDMANN: No, Your Honor.

7 CHAIRMAN SCHMITT: Mr. Spenard?

8 MR. SPENARD: Yes, Mr. Chairman. We have a
9 few questions.

10 CROSS-EXAMINATION

11 By Mr. Spenard:

12 Q. As a preliminary matter, to the witness, can
13 you hear me?

14 **A. Yes.**

15 Q. Okay. And, if you have any difficulty
16 hearing me or understanding a question, just let me
17 know. Okay?

18 **A. I will. I will.**

19 Q. Thank you.

20 Let's -- let's go back to your testimony from
21 the stand today. If I understand correctly, one of
22 the things that you're testifying about are the
23 cash -- you're talking about cash flow, and you're
24 talking about the earnings from the revenues that
25 are being sought and the cash flow implications.

1 Is that a fair characterization?

2 **A. It's accurate that there is a relationship**
3 **typically with revenues and cash flows, but,**
4 **obviously, in the case of deferrals, you know, the**
5 **cash would not be there.**

6 Does that make sense?

7 Q. All right. So, when we're talking about the
8 accumulated deferred income tax and the balance
9 that's currently carried on the books, the
10 accumulated deferred income tax balance is
11 generated, or it comes into existence, based upon a
12 timing difference between the tax liability to the
13 Internal Revenue Service and then the tax liability
14 that's -- that's for calculating rates.

15 Is it based on a timing difference?

16 **A. I believe that's generally true. I would**
17 **defer perhaps to Company Witness Whitney on some of**
18 **the more technical aspects.**

19 Q. Sure. And I appreciate that. And if there's
20 something that another witness needs to discuss,
21 then that's perfectly fine, or if you think it's
22 fair to give a comprehensive answer, that's fine as
23 well. I just want to try to get a very general
24 understanding.

25 What is your testimony today with regard to

1 the cash flow -- the cash flow -- the consequences
2 to the cash flow associated with Kentucky Power
3 returning the excess -- a portion of the excess
4 deferred income taxes to the ratepayers over the
5 next year?

6 **A. My testimony is that delaying the**
7 **implementation of rates and thus the receipt of cash**
8 **will negatively impact Kentucky Power's cash flows**
9 **versus a scenario where rates go into effect**
10 January 1st of 2021.

11 It's my understanding from listening to
12 Company Witness Mattison and perhaps others that,
13 you know, this delay and offset to ADIT is being
14 done as a way to, you know, to help customers and
15 perhaps get, you know, beyond the period, you know,
16 with this pandemic crisis.

17 Q. Okay. So when you're saying in terms of when
18 rates go into effect, that -- to your knowledge, if
19 you know, and if you don't, then we'll ask another
20 witness. For the rates that are the subject to this
21 application, what is the proposed -- as we sit here
22 today, what is the proposed effective rate for the
23 increase in rates subject to this application?

24 **A. Would you define what you mean by "the rate"?**

25 Q. Well, as part of the application -- if you

1 know, as part of the application, did Kentucky Power
2 Company supply new tariffs, proposed tariffs
3 containing new rates?

4 MR. GARCIA: Your Honor, if I may, I think
5 the objection would be to the use of the term
6 "rates," which, in the context of regulated service,
7 has a different meaning than in the context of
8 finance in which Mr. Messner is testifying. That
9 may be the confusion.

10 MR. SPENARD: Mr. Chairman, if I may, that's
11 -- if my question is confusing, then I'll add a
12 little more specificity to the question perhaps.
13 Again, if it's a better witness --

14 CHAIRMAN SCHMITT: Please do. If the witness
15 doesn't understand, the witness needs to say "I
16 don't understand." Either "I don't understand the
17 question" or "I'm not the person who can
18 appropriately answer the question."

19 But go ahead. Rephrase your question, if you
20 would, Mr. Spenard.

21 MR. SPENARD: Yes, Mr. Chairman.

22 Q. Kentucky Power generates revenues by
23 reference to the rates that it has on file, and
24 they're approved by the Kentucky Public Service
25 Commission; is that correct?

1 **A. Yes.**

2 Q. And the current application, among other
3 things, is seeking an increase in the rates for
4 service that Kentucky Power will be authorized to
5 charge its customers; is that correct?

6 **A. Yes. Thank you for the clarification.**

7 Q. Okay. You're quite welcome.

8 With regard to the effective date of the
9 increase in rates to generate additional revenue,
10 what is the effective date for the rate increase?

11 **A. I'm not aware of that, what that exact date
12 is. It's my understanding is that the proposal is to
13 delay by a year and offset an ADIT balance. The
14 specific date, I would have to defer to probably
15 Company Witness West or Company Witness Mattison.**

16 MR. SPENARD: Okay. Well, thank you. And at
17 this stage what we'll do is we will -- we'll address
18 the issue with Company Witness West, but I certainly
19 appreciate your answers. Thank you.

20 CHAIRMAN SCHMITT: Anything further,
21 Mr. Spenard, of this witness?

22 MR. SPENARD: No, no further questions for
23 this witness, Mr. Chairman.

24 CHAIRMAN SCHMITT: Mr. Fitzgerald?

25 MR. FITZGERALD: Mr. Chairman, we have no

1 questions.

2 CHAIRMAN SCHMITT: Mr. Miller?

3 Mr. Miller may have dropped off.

4 Mr. Frye?

5 MR. FRYE: I am here, Mr. Chairman, and no
6 questions.

7 CHAIRMAN SCHMITT: Okay. Mr. Miller, are
8 you -- have you come back? If not, if --

9 MR. CHILDERS: Your Honor, this is Joe
10 Childers.

11 CHAIRMAN SCHMITT: If you have questions --
12 well, I'll ask Mr. Miller in a minute. Is he there?

13 VICE CHAIRMAN CHANDLER: No. I think,
14 Chairman, that -- I just want to say Joe, but
15 Mr. Childers noted that Sierra Club did not have any
16 questions. I think there he is now.

17 MR. CHILDERS: That's correct. No questions.

18 CHAIRMAN SCHMITT: I'm sorry. I didn't know
19 you'd come in place of Mr. Miller.

20 Are you -- do you have questions of this
21 witness?

22 MR. CHILDERS: No questions, Your Honor.

23 CHAIRMAN SCHMITT: Thank you.

24 Vice Chairman Chandler, questions?

25 VICE CHAIRMAN CHANDLER: Thank you, Chairman.

1 Sorry about that, Mr. Childers.

2 EXAMINATION

3 By Vice Chairman Chandler:

4 Q. Good afternoon. Can you hear me okay?

5 A. **Yes, I can.**

6 Q. Great. So, as a preliminary question, have
7 you seen the witness list in this case for the
8 witnesses on behalf of the Company?

9 A. **I have -- I believe I have, yes.**

10 Q. Okay. And insofar as you've seen that
11 witness and, at least in a general matter, know who
12 is on that witness list, are you the person in this
13 case that most often would be discussing AEP and
14 Kentucky Power matters with banks?

15 A. **Yes.**

16 Q. Okay.

17 VICE CHAIRMAN CHANDLER: Chairman, can I ask
18 if we can go into a short confidential session?

19 CHAIRMAN SCHMITT: Yes. Let's -- Candace,
20 can we go -- can you get us into confidential
21 session?

22 MS. SACRE: We're in confidential, Chairman.

23 CHAIRMAN SCHMITT: Okay. We're now in
24 confidential session.

25 (Confidential testimony of Mr. Messner heard

1 from 3:30 p.m. through 3:50 p.m.)

2 MS. SACRE: Okay. We're back in normal
3 session, Chairman.

4 CHAIRMAN SCHMITT: We're back now in public
5 session.

6 Q. All right. Mr. Messner, can you still hear
7 me?

8 **A. Yes.**

9 Q. Okay. Great. Would you agree that risk and
10 return are positively correlated? Would you like me
11 to ask it differently?

12 **A. Yeah. If the question is is higher risk
13 correlated to higher return?**

14 Q. Well, let me ask it this way. As one
15 increases, do investors, as a general matter, expect
16 the other to?

17 **A. I believe I agree with you. They would --
18 their intent, I assume, would be to be compensated
19 commensurate with the risk.**

20 Q. Right. And that's the basis for -- for
21 instance, Mr. McKenzie is going to talk to us either
22 later today or tomorrow on it, correct?

23 **A. That's my understanding.**

24 Q. On page 6 of your rebuttal testimony, line 21
25 and 22, you refer specifically to the ratios that

1 the Company uses for cash flow.

2 **A. I'm there.**

3 Q. So I'm aware of FFO to debt as a general -- I
4 couldn't explain it to you besides the bare bones of
5 it.

6 What other ratios may you be referring to
7 there other than FFO to debt, if you are referring
8 at all to FFO-to-debt ratios?

9 **A. So the Moody's ratings methodology has**
10 40 percent of their methodology based on financial
11 metrics, and those include cash from operations plus
12 interest divided by interest; cash from operations
13 divided by debt, which is the most important of the
14 financial ratios; cash from operations plus
15 dividends divided by debt; and then debt to
16 capitalization, which is not necessarily directly,
17 obviously, a cash flow-related item.

18 And then the remaining 60 percent, 25 percent
19 of that is regulatory framework. That includes
20 legislative and judicial underpinnings of the
21 regulatory framework of 12.5 percent, and then
22 consistency and predictability of regulation is
23 another 12.5 percent. So those two together make up
24 the 25 percent regulatory framework measure.

25 The next 25 percent is ability to recover

1 costs and earn returns. And that would include, in
2 equal portions, timeliness of recovery of operating
3 and capital costs, and sufficiency of rates and
4 returns.

5 And then the remaining 10 percent is
6 diversification split equally between market
7 position and generation and fuel diversity.

8 Q. Okay. Great.

9 **A. I've submitted, I believe, certain of the**
10 **Moody's credit opinions, and they have scores in**
11 **those opinions that -- for each of those measures.**

12 Q. Great. And so, as I understand it, you
13 discussed a couple of these measures, but as I take
14 it away, you only discussed the ones I can think of
15 that were negative or that were going the wrong way.
16 Is that incorrect?

17 For instance -- let me ask it this way -- are
18 you aware that the company in this case is proposing
19 to recover 100 percent rather than the current
20 80 percent of LSE OATT expenses through the tariff
21 PPA?

22 **A. In listening to testimony this week, I've**
23 **heard that discussion, but I was not specifically**
24 **involved in that, no.**

25 Q. No, no, I agree. But I didn't see your

1 testimony on it at all. But what I'm asking is,
2 outside of the 40 percent financial, you would agree
3 that that at least is a positive for some of those
4 other categories that Moody's, for instance, takes
5 into account, correct?

6 **A. I'm going to paraphrase your question. If**
7 **the proposal in this case, they were allowed to earn**
8 **recovery on hundred percent -- I apologize. I don't**
9 **know a lot about that issue -- specific issue. So**
10 **perhaps you can either rephrase the question, or**
11 **maybe somebody else would be better able to answer**
12 **it.**

13 Q. Well, we're talking about the timely recovery
14 of costs, right?

15 **A. Right.**

16 Q. And it's a tracker that recovers costs. So
17 we know that it deals with the timely recovery of
18 costs. So we know that. And that's what one of
19 those statements you read was about, correct?

20 **A. Correct.**

21 Q. And instead of recovering 80 percent of the
22 cost through a tracker, they recover 100 percent of
23 the cost through a tracker.

24 So in terms of timely, great. But, second,
25 wouldn't you also agree that that's also the ability

1 to recover expenses, one, and that would help in the
2 ability to earn an ROE, right?

3 **A. I would agree that having this automatic**
4 **recovery is viewed favorably as opposed to being**
5 **required to go in for a base rate case in order to**
6 **recover those costs.**

7 Q. Right. And even in addition to that, it
8 helps in the whole idea of a constructive regulatory
9 -- or a constructive regulatory atmosphere
10 environment, correct?

11 **A. To the extent that it's viewed as favorably**
12 **impacting Kentucky Power's financials, yes.**

13 Q. Okay. So -- but I guess what I'm asking for
14 is would you agree, then, that insofar as what
15 credit ratings agencies look at with risk, that the
16 testimony was only focusing on the downside risks
17 presented in the Company's application, or the
18 status quo without the rate case, rather than any of
19 the positives that it's proposing or that had
20 occurred?

21 **A. I only -- in the testimony that -- my**
22 **rebuttal testimony that you've referenced, I'm only**
23 **focusing on the impact that decreased cash flows**
24 **would have on Kentucky Power's credit rating.**

25 Q. Right.

1 **A. Not discussing other risk-associated items.**

2 Q. Right. But what I'm asking is you're the
3 only person for Kentucky Power that discussed any of
4 these credit-related issues, right?

5 Let me ask the question differently. Are you
6 aware of any other Kentucky Power witness that spoke
7 to any of those other considerations that Moody --
8 that Moody's has in making their credit ranking
9 decisions?

10 **A. I've not read all the testimony. I don't**
11 **know. I do know that I reviewed testimony from a**
12 **2018 case, Company Witness Horeled, and I believe he**
13 **did, in fact, talk about credit ratings. I'm not**
14 **sure if anyone has in this case.**

15 Q. Okay. One of the financial metrics you
16 mentioned was something something something divided
17 by debt. Was that free cash flow from operations?

18 **A. Yes.**

19 Q. Okay.

20 **A. That's one thing that Moody's, I guess, has**
21 **the largest weighting from a financial perspective.**

22 Q. Okay. How is Kentucky Power's FFO to debt?

23 **A. As I mentioned earlier, I would characterize**
24 **it out-of-bounds low for their current credit**
25 **rating. I wish I had their most recent credit**

1 **opinion, but if I remember correctly, I believe it**
2 **decreased from the mid-teens down to -- I want to**
3 **say 10 percent, subject to check, at year-end 2019.**
4 **And I believe that the range that Moody's looks for**
5 **for Baa entities are -- is 13 percent to 22 percent.**

6 Q. Do we have in this record what the -- what
7 the anticipated FFO-to-debt ratio is in 2021?

8 **A. Not to my knowledge no.**

9 Q. And if we requested that, would the Company
10 be able to provide it? If we asked -- if we asked,
11 based on the application, what is the Company's
12 anticipated FFO-to-debt ratio in the year 2021, the
13 calendar year, would the Company be able to estimate
14 that?

15 **A. The calculation can be done, but I'm not sure**
16 **how reasonable the estimate would be, only because**
17 **there's so many other factors that would go into**
18 **cash from operations. You know, load assumption,**
19 **more or less all the assumptions that are part of**
20 **this case.**

21 Q. Right. But what you said was that -- you
22 talk about decreased cash flows having an impact on
23 Kentucky Power's credit rating, but other than
24 talking about it in general, how can the Commission
25 take that into account if we can't look at it in the

1 particulars?

2 **A. I think you can look at Kentucky Power's --**
3 **the latest Moody's opinion. And, subject to check,**
4 **I believe it was April of this year, and they**
5 **mention a couple of different items related to**
6 **deterioration in the cash flows.**

7 And there is a schedule in there that shows --
8 I'm not sure how far back it goes, but you can see
9 that particular metric. And, again, I wish I had it
10 in front of me, but I believe it's now -- at year
11 2019, I think it was --

12 MR. GARCIA: Your Honor, if it would be
13 helpful, I actually have a copy handy I can provide
14 to the witness.

15 VICE CHAIRMAN CHANDLER: If you're going to
16 provide it to the witness, could you identify where
17 in the record it is?

18 MR. GARCIA: Sure, Your Honor. And this is
19 attachment to AG1-39. And that includes the various
20 credit report updates, and each one of them has a
21 particular date. So I'll let the witness identify
22 once they have them.

23 VICE CHAIRMAN CHANDLER: Thank you.

24 MR. GARCIA: May I approach the witness, Your
25 Honor?

1 VICE CHAIRMAN CHANDLER: Don't forget to turn
2 your microphone back on, Mr. Messner.

3 MR. KURTZ: Vice Chairman, could I interject
4 something, please?

5 VICE CHAIRMAN CHANDLER: Up to the Chairman.

6 CHAIRMAN SCHMITT: I'm sorry? What was the
7 question?

8 MR. KURTZ: Chairman Schmitt, could I
9 interject at this point?

10 CHAIRMAN SCHMITT: Yes.

11 MR. KURTZ: On AG KIUC Hearing Exhibit 1,
12 page 74, it will demonstrate the FFO-to-debt ratio
13 of all the AEP operating companies, and it will
14 confirm that, just like earnings, Kentucky Power is
15 dragging down the AEP average quite considerably.
16 And perhaps that can be put on the screen. I think
17 it would
18 be --

19 CHAIRMAN SCHMITT: I was going to suggest
20 maybe that would be better than the direction we're
21 going now.

22 MR. KURTZ: So that's Hearing Exhibit 1,
23 page 74. Nancy?

24 MS. VINSEL: I was going to say, I'm not
25 sure. I'm not sure exactly -- there it is. There it

1 is.

2 MR. GARCIA: Thank you, Your Honor.
3 Specifically, the April 2020 credit opinion for
4 Kentucky Power from Moody's is in AG 179, Attachment
5 6.

6 VICE CHAIRMAN CHANDLER: Okay. Thank you.

7 Q. So, Mr. Messner, are you looking at the same
8 thing there we are, page 74 of KIUC Hearing
9 Exhibit 1 -- AG KIUC Hearing Exhibit 1?

10 **A. Yes.**

11 Q. Okay. So is this -- so you're saying that in
12 2019 that 8.7 percent is the FFO to debt for
13 Kentucky Power?

14 **A. So there are a number of different views**
15 that -- of this particular measure. AEP has a view
16 that adjusts for certain -- makes certain
17 adjustments.

18 Moody's has a view, and they have a standard
19 methodology that they put out, the things that they
20 adjust for, and S&P also has their own methodology.
21 And then there's, of course, GAAP, if you just use
22 the GAAP numbers, but the numbers that I see here
23 are close to what the Moody's view suggests.

24 Q. Excuse me. Okay. So we've got an
25 FFO-to-debt ratio here in 2019, and I just want to

1 make sure
2 that -- your rebuttal testimony talks about the
3 deterioration of cash flows and the impact those
4 reduction to cash flows has on metrics and those
5 metrics have on credit ratings, right?

6 But what I'm asking, has the Company provided
7 the Commission, in consideration of its request
8 here, or of any other matter in any other, you know,
9 2019-2020 case, the impact of its proposals?

10 **A. Not to my knowledge, no.**

11 Q. So we know that any cash outlay, whether it
12 be \$1 or \$100 million, has an impact on cash flow,
13 right?

14 **A. Yes.**

15 Q. And it's -- it's a matter of degree, would
16 you agree, as to what impact it ultimately has, any
17 given proposal?

18 **A. I think that's a reasonable statement.**

19 Q. Okay. So, like, an amortization of
20 \$100 million of excess ADIT over 100 years has an
21 impact on cash flow, but it's a greater impact if
22 it's amortized over 50 years. Is that fair?

23 **A. A shorter amortization period has a larger
24 negative impact from a credit perspective.**

25 Q. Has a greater impact. And that's intuitive,

1 but what I'm asking is 18 years in 2018 35, as I
2 understand from the Company's proposal, was still a
3 concern, 10 years is a concern. But any shorter
4 time is going to have a greater impact on the
5 Company's cash flow. That was your testimony
6 earlier, correct?

7 **A. It will have a larger negative impact on the**
8 **Company's financial position.**

9 Q. And you're saying, for \$113 million balance,
10 that the Company can pay \$65 million amortization in
11 one year because it's only one year?

12 **A. I'm not necessarily saying they can take it.**
13 **I believe my testimony was that a more singular,**
14 **one-time event may be viewed by Moody's more**
15 **favorably than if the duration is extended.**

16 And, again, there I'll reference back to the
17 last case -- and they mentioned it in their credit
18 opinions -- the cash deferrals are pressuring their
19 credit metrics.

20 Q. Okay. So that's perfectly fair, but you
21 understand the Company is proposing the \$65 million
22 accelerated amortization to offset their rate
23 proposal, right?

24 **A. Yes.**

25 Q. So I'm asking can the Company financially

1 take that proposal? Can it weather that proposal
2 that they're making?

3 **A. When you say "weather," do you mean from a**
4 **credit rating perspective, I assume?**

5 Q. From a financial health and/or a credit
6 rating perspective.

7 **A. It's -- it's a financial burden for sure.**

8 Q. Okay. So -- so to Ms. Vinsel's question
9 earlier about a one-year amortization at
10 approximately \$65 million, okay? Work with me here
11 on a hypothetical because I really want to
12 understand the way Moody's and S&P look at this,
13 okay, and you're our insight into that.

14 If Mr. Mattison gets up at the end of the
15 hearing and says, "We are going to half our revenue
16 requirement ask." Right? So let's just say it's
17 66 million, that we're proposing that it only be a
18 \$33 million-a-year increase.

19 Do you follow me up to now? In the
20 hypothetical, do you understand up to that point?

21 **A. If I understand you correctly, you're**
22 **suggesting in lieu of 65 million, you halve it to**
23 **33 million.**

24 Q. Yeah. Okay. We're on the same page then.

25 And in lieu of a one-year, approximately,

1 \$66 million amortization of excess ADIT, Mr.
2 Mattison says no, no, we're going to do two years at
3 33 million.

4 Right? Does that make sense? So it's the
5 same amount. What I'm asking for, it's still a
6 limited duration of two years instead of one year,
7 right?

8 What is your understanding of how that will be --
9 would be viewed?

10 **A. Again, I apologize if I wasn't clear earlier.**
11 **The rating agencies, in my view, would be more**
12 **understanding of a single, one-time event as opposed**
13 **to something that puts continued pressure on**
14 **particularly a metric that is already below**
15 **investment grade.**

16 Q. So a one-time event only counts as one year,
17 is what you're saying, instead of a one-time event
18 that just so happens to occur over two years?

19 **A. It's the duration, I think, that would be**
20 **viewed unfavorably. I mean, as a practical matter,**
21 **Kentucky Power's metrics are quite poor now. I**
22 **think the rating agencies would recognize that this**
23 **is being done to offset some of the increase -- you**
24 **know, the impact on the customers.**

25 It may not change their overall opinion, and

1 they may -- you know, may put the Company on a
2 negative outlook or take further rating action.
3 But, again, in my opinion, the one-time event with
4 the one-year duration would have less of an impact
5 than two or more years.

6 Q. Well, what I want to finally get to is you
7 say less of an impact. What we were talking about
8 earlier about the impact, for instance, cash flow,
9 we agreed that it was a degree, right? It was a
10 matter of degree. Over 100 years, 50 years, 25
11 years, they all have a negative impact to cash flow.
12 It's to the degree at which.

13 So what I would ask now is what degree to
14 which will that be viewed negatively as a one-year
15 event -- a limited duration one-year event at the
16 same magnitude as a limited duration two-year event?

17 **A. I can't assign a specific degree, but, as I**
18 **mentioned earlier, after the last rate case Moody's**
19 **put Kentucky Power on negative outlook. And, again,**
20 **their protocol is to revisit that company in the**
21 **next 6 to 18 months, which they did, and the cash**
22 **flows were still low over that time.**

23 So the longer the cash flows are not in range,
24 again, in my mind, the higher the probability that
25 they might take action as opposed to an instance

1 where we do a one-time in a single year.

2 Q. Okay. And what's the outlook for both S&P
3 and Moody's as it relates to Kentucky Power?

4 **A. Kentucky Power, the outlook is stable.**

5 Q. For both, correct?

6 **A. Yes.**

7 VICE CHAIRMAN CHANDLER: I appreciate it,
8 Mr. Messner. Thanks for bearing with us through the
9 transition there. Thank you.

10 CHAIRMAN SCHMITT: Dr. Mathews, any
11 questions?

12 COMMISSIONER MATHEWS: I have a question
13 related to something else.

14 You probably are the right person since you
15 deal with the ratings agencies and the lenders.

16 EXAMINATION

17 By Commissioner Mathews:

18 Q. Is there an impact of Kentucky Power being so
19 heavily fossil fuel? Does that have an impact on
20 the ratings?

21 **A. I believe -- you're a little bit muffled, but
22 I believe --**

23 Q. Oh, I'm sorry.

24 **A. -- the question was is the fact that Kentucky
25 Power has fossil fuels in their generation mix, does**

1 **that impact their credit ratings or how they are**
2 **viewed by investors?**

3 I can tell you that --

4 Q. Say both.

5 **A. -- the investors definitely take that into**
6 **consideration, and there are certain investors who**
7 **will no longer lend to companies that have any kind**
8 **of carbon footprint.**

9 From a credit rating perspective, I would need
10 to go back and look at the opinion. I know it's
11 mentioned -- I believe it's mentioned in the credit
12 opinion, but without actually reading it --

13 Q. That's fine.

14 **A. -- which I'm happy to do, I'm not sure. I**
15 **think the singular reliance does have -- well, I**
16 **can't speak to that yet without -- I would need to**
17 **look and read the opinion.**

18 Q. Okay. And that's in our documents. I'll
19 just read that myself.

20 COMMISSIONER MATHEWS: That's all I have.

21 CHAIRMAN SCHMITT: Okay. Thank you.

22 Mr. Garcia, any redirect?

23 MR. GARCIA: Yes, Your Honor, just a few.

24 * * *

25

1 REDIRECT EXAMINATION

2 By Mr. Garcia:

3 Q. Mr. Messner, you were asked some questions
4 regarding the credit metrics of Kentucky Power and
5 the relationship with the authorized ROE?

6 **A. Yes.**

7 Q. And, if you would explain to me, sir, a
8 little bit the relationship between the credit
9 metrics, the authorized ROE and the actual ROE that
10 the Company earns from the point of view of credit
11 metrics and credit rating agencies.

12 **A. So I guess the response to that would be the
13 actual earned ROE are the most important. As we
14 know, Kentucky Power has an authorized ROE that's
15 significantly higher than what their actual earned
16 ROE is. So, in that regard, earned ROE is most
17 important by far.**

18 Q. Do I understand correctly that having an
19 authorized ROE is important, but earning it -- or
20 the actual earned ROE is what affects most
21 significantly the cash flows and the credit metrics?

22 **A. Yes, that's correct.**

23 Q. And, in turn, that would have the greater
24 impact on the credit rating agency's evaluation of
25 the Company?

1 **A. Yes. Actual ROE -- actual earnings has the**
2 **most impact.**

3 Q. Okay. And you were asked about the ability
4 of the Company to recover its transmission costs.
5 Do you recall that line of questions?

6 **A. Yes, I do.**

7 Q. Okay. And on a very general level, it's your
8 understanding that the credit rating agencies would
9 view negatively if the ability of the Company to
10 recover those transmission costs in a tracker was
11 eliminated?

12 **A. Yes. The ability to recover via tracker is**
13 **viewed more favorably than if the Company would have**
14 **to wait for a base rate proceeding. The current**
15 **recovery is viewed favorably, yes.**

16 Q. Okay. And in your testimony, if I recall
17 correctly -- and if not, if you could state it right
18 now -- one of the things that the rating companies
19 right now in their evaluation most recently in April
20 of 2020, one of the things that they consider a
21 favorable factor supporting Kentucky Power is its
22 regulatory environment. Is that correct?

23 **A. That is correct, yes.**

24 Q. And having the tracker for recovering
25 transmission costs would be part of that supportive

1 environment, correct?

2 **A. Yes, it would.**

3 Q. Let me ask you something. And you were also
4 asked some questions about the return of ADIT?

5 **A. Yes.**

6 Q. And do I understand correctly that the -- in
7 terms of credit metrics, starting on 2022 the
8 return -- when I say pace, it was authorized in the
9 2018 case -- by the Commission in 2018. It's going
10 to be the same as it was authorized in 2018. Is
11 that correct?

12 **A. That's my understanding after the one-time
13 event proposed, that it will be consistent with what
14 was agreed to in the 2018 proceeding.**

15 Q. And does that relate to what you were
16 indicating --

17 MS. VINSEL: We can't hear.

18 CHAIRMAN SCHMITT: Sorry. Sorry. Stop. I
19 don't think --

20 MR. GARCIA: Thank you, Your Honor.

21 CHAIRMAN SCHMITT: Well, wait, Mr. Garcia. I
22 think people are having difficulty hearing your
23 questions and possibility the witness's answers, but
24 I think it's his questions.

25 MS. VINSEL: No. Actually, his --

1 Mr. Messner's last response, we could not hear.

2 CHAIRMAN SCHMITT: All right. The issue was
3 Mr. Messner's last response to your question, which
4 could not be heard. So I don't know if we can read
5 the question, or if you can remember -- if
6 Mr. Messner can remember the question and try to
7 reanswer.

8 THE WITNESS: Yeah, it's probably safest to
9 reask the question. I believe the answer -- I know
10 the answer, but --

11 MR. GARCIA: I can ask the question again,
12 Your Honor, and I'll try to speak slower.

13 CHAIRMAN SCHMITT: All right. Thank you.

14 MR. GARCIA: Thank you, Your Honor.

15 Q. So, Mr. Messner, you were asked about the
16 return of the ADIT?

17 **A. Yes.**

18 Q. And is my understanding correct that starting
19 on 2022, the pace at which the Company is going to
20 be returning to customers if the ADIT would be the
21 same as it was authorized in 2018 by the Commission?

22 **A. Yes, that's my understanding.**

23 Q. Okay. And is there a relationship between
24 that quality and your indication that it does make a
25 difference from the point of view of the credit

1 metrics and the way that they are evaluated by
2 credit rating agencies of whether the duration of
3 the accelerated return that is proposed by the
4 Company in these circumstances that we have today,
5 is there a relationship between those two, that
6 starting in 2022 it essentially goes back to what
7 was approved in 2018?

8 **A. So if I understand your question, I would --**
9 **I would assume there would be no difference -- or no**
10 **difference in opinion of the credit rating agency**
11 **that they have now if the rate of return goes back**
12 **to being the same as it was, you know, as part of**
13 **the '18 proceeding.**

14 Q. But if the duration of the accelerated
15 process was longer, you would expect that it's more
16 likely that there would be a reaction?

17 **A. Yes, that would be viewed negatively, more**
18 **negatively than the one-time event.**

19 Q. Let me switch topics, if I may. You were
20 asked about the maturity of some debt by Kentucky
21 Power?

22 **A. Yes.**

23 Q. Okay. And, if you can explain to me,
24 Mr. Messner, is it normal for the Company to
25 refinance debt earlier than its expected maturity?

1 **A. That's not -- that's not typical, no.**

2 Q. And why is that?

3 **A. Well, debt, and particularly the debt that**
4 **was discussed in the rate case proceeding today, is**
5 **a make-whole requirement. So refinancing it early**
6 **would require effectively a make-whole is a payment**
7 **to investors of the interest that will be foregone,**
8 **and that payment is on top of the principal that**
9 **will be repaid.**

10 So from the investors' perspective, they're,
11 quote, made whole in that they're getting the
12 interest that they would have otherwise earned, you
13 know, between now and the maturity, as well as the
14 return of the principal amount.

15 Q. Now, going back to the way that the Company
16 actually did it in this case this year, the new term
17 loan that the Company was able to secure to
18 refinance its debt, the interest rate was actually
19 lower than the short-term debt that it repaid; is
20 that correct?

21 **A. Yes.**

22 Q. And that is a benefit to customers?

23 **A. Yes. The impact is that it would -- resulted**
24 **in a lower cost of capital than had we left the**
25 **short-term debt balance outstanding.**

1 Q. Now, to be fair, is that circumstance usual,
2 or was that a situation that was rather unusual?

3 **A. It was a rather unusual situation in that the**
4 **short-term debt rate was based on the 12-months**
5 **ending March 31st of 2020, the cost of short-term**
6 **debt over that period.**

7 And it just so happened that, when we did
8 ultimately issue the term loan, closed March 6, I
9 believe -- I don't have the exact timing, but I
10 believe the fed took -- made two rate cuts, the
11 second one taking the fed funds rate down to zero to
12 .25 percent.

13 The term loan is a floating rate note, and so
14 the impact on that was that the term loan is
15 actually -- a two-year term loan is actually a
16 cheaper cost rate than the short-term debt would
17 have had in the cost of capital.

18 Q. Okay. And in the cost of capital that's
19 calculated, you did reflect the benefit to
20 customers, correct?

21 **A. Yes. The lower-cost term loan is in the cost**
22 **of capital in lieu of the short-term debt that was**
23 **taken out.**

24 Q. Okay. You were also asked about the relative
25 low interest rates that are right now in the

1 financial environment.

2 Do you recall that line of questioning?

3 **A. Yes.**

4 Q. I think that you mentioned that there have
5 been an uptick in 2018, but then interest rates
6 since then have gone lower. Is that correct?

7 **A. Yes. I'm not sure the exact timing, but that
8 sounds about right. The answer would be the
9 interest rates environment today are lower than they
10 were in 2017.**

11 Q. And the reason for that, a significant
12 disturbance in the financial markets related to
13 COVID-19 and the corresponding reaction from the
14 Federal Reserve to reduce interest rates to respond
15 to these unprecedented conditions?

16 **A. Yes.**

17 MR. GARCIA: If I can have a moment, Your
18 Honor?

19 CHAIRMAN SCHMITT: Yes. Sure.

20 MR. GARCIA: Those are all the questions that
21 I have on redirect, Your Honor.

22 CHAIRMAN SCHMITT: Thank you.

23 Mr. Messner, you may step down.

24 THE WITNESS: Thank you.

25 CHAIRMAN SCHMITT: I guess our next witness

1 is Mr. McKenzie.

2 MR. GARCIA: Yes, Your Honor. And Mr.
3 McKenzie will be joining remotely, and I see him on
4 screen right now. If we can check his sound when we
5 bring him in. Thank you.

6 CHAIRMAN SCHMITT: Is this a witness that
7 you're responsible for, Mr. Garcia? You'll be doing
8 whatever redirect there may be?

9 MR. GARCIA: Yes, Your Honor. I have the
10 privilege of asking questions of Mr. McKenzie.

11 CHAIRMAN SCHMITT: Okay. Thank you.

12 All right, Mr. McKenzie. Will you please
13 raise your right hand?

14 Do you solemnly swear or affirm under penalty
15 of perjury that the testimony you're about to give
16 will be the truth, the whole truth, and nothing but
17 the truth?

18 THE WITNESS: Yes, I do.

19 * * * *

20 ADRIEN MCKENZIE, called by the Kentucky Power
21 Company, having been first duly sworn, testified as
22 follows:

23 CHAIRMAN SCHMITT: Mr. Garcia, you may ask.

24 MR. GARCIA: Thank you, Your Honor.

25 * * *

1 DIRECT EXAMINATION

2 By Mr. Garcia:

3 Q. Mr. McKenzie, would you please state your
4 name and business address for the record?

5 **A. My name is Adrien McKenzie, and my business
6 address is 3907 Red River Street, Austin, Texas
7 78751.**

8 Q. And, Mr. McKenzie, by whom are you employed
9 and in what capacity? What's your title?

10 **A. I'm employed by the firm FINCAP, Inc., and
11 I'm a principal in that firm and its president.**

12 Q. Mr. McKenzie, in this case did you submit
13 testimony, direct testimony, rebuttal testimony, and
14 discovery responses on behalf of Kentucky Power?

15 **A. Yes, I did.**

16 Q. Okay. And you are -- we're going to have a
17 couple corrections to the rebuttal testimony, and I
18 will go through those now.

19 CHAIRMAN SCHMITT: Okay.

20 Q. Mr. McKenzie, do you have any corrections to
21 your testimony? And I suppose that you're going to
22 direct me to page 32?

23 **A. Well, actually, the first correction I have
24 to my rebuttal testimony is on page R12, line 2, and
25 the word "not" should actually read "now." So the**

1 **sentence should read, "I certainly agree with**
2 Mr. McKenzie that uncertainty and associated risk is
3 greater now than it was prior to March 2020."

4 Q. Thank you. When I said 32, I meant 12. You
5 have it in front of you. Thank you.

6 Mr. McKenzie, do you have another correction
7 to your testimony on page 37?

8 **A. Yes, I do. At R37, the table labeled R-2 had**
9 **some typographical errors, and in particular there**
10 **were some numbers that were inadvertently left off**
11 **that table, and I believe you've provided an errata**
12 **to that effect.**

13 Q. Yes.

14 MR. GARCIA: Your Honor, at this point, if I
15 could impose on Staff, the corrections are reflected
16 in the Company Hearing Exhibit 9.

17 MS. VINSEL: Zack, can you please display
18 Kentucky Power -- excuse me -- Company Hearing 9?
19 I'm sorry, Company Exhibit 9.

20 MR. GARCIA: Thank you.

21 Q. And, Mr. McKenzie, you have your own copy of
22 this with you, correct?

23 **A. Yes.**

24 Q. Okay. If you would please describe what was
25 the typographical error on page 37 and how this

1 revised Table R-2 corrects it?

2 **A. Certainly. If you compare the table on**
3 **Hearing Exhibit 9 with the original Table R-2 in my**
4 **filed testimony, you can see that the only**
5 **difference is that on three lines of the original**
6 **table under "Projected Bond Units," you'll see that**
7 **the numbers were left off that table and were not**
8 **incorporated into the averaging.**

9 So here in Exhibit 9 corrects that table by
10 including the results of my analyses using projected
11 bond yields for the CAPM, the empirical CAPM, and
12 the risk premium approach.

13 Q. Just to clarify, Mr. McKenzie, it's not that
14 the corrected values were different from your
15 calculations, but instead that the original version
16 of page R27 did not correctly reflect the
17 calculations that you had made?

18 **A. Yes, that's correct. If you turn to page R40**
19 **of my rebuttal testimony, lines 13 through 18**
20 **discuss the results of applying the CAPM using the**
21 **projected bond yields.**

22 If you look at page R41, lines 1 through 3,
23 that reflects the results of the projected bond
24 yields under the ECAPM approach, and the risk
25 premium approach results using projected bond yields

1 are shown on page R41, lines 11 through 18.

2 So the correction merely reflects those
3 numbers that were already discussed in my testimony.

4 Q. Thank you, Mr. McKenzie.

5 With that correction, the direct rebuttal
6 testimony -- I'm sorry -- the direct testimony, the
7 rebuttal testimony, and the discovery responses that
8 you submitted, those were prepared by you under your
9 supervision?

10 **A. Yes, sir.**

11 Q. And with the correction you just made, if I
12 were to ask you the same questions today, would you
13 provide substantially the same answers?

14 **A. Yes, I would.**

15 MR. GARCIA: Your Honor, I would submit for
16 the record what has been identified previously as
17 Company Hearing Exhibit 9 -- it's an errata to the
18 testimony of Mr. McKenzie -- for admission to the
19 record.

20 And with that, he's tendered for
21 cross-examination.

22 CHAIRMAN SCHMITT: Let it be added to the
23 record.

24 (Company Hearing Exhibit 9 admitted.)

25 MR. GARCIA: Thank you, Your Honor.

1 CHAIRMAN SCHMITT: Ms. Vinsel, any
2 cross-examination?

3 MS. VINSEL: Yes, Chairman.

4 CROSS-EXAMINATION

5 By Ms. Vinsel:

6 Q. Good afternoon, Mr. McKenzie.

7 **A. Good afternoon.**

8 Q. If you have any problems hearing me, please
9 let me know.

10 **A. Okay. I can't see you, but I can hear you**
11 **very well.**

12 Q. I -- yes, I can see that. There. There I
13 am.

14 Can you see me now?

15 **A. I certainly can.**

16 Q. Okay. Mr. McKenzie, are you aware of any
17 rating agencies or any industry observer that has
18 singled out this commission for awarding abnormally
19 low or punitive ROEs?

20 **A. No. That would definitely not be the case.**
21 **I think, generally, the Kentucky Commission is**
22 **viewed as being a supportive regulatory agency.**

23 I will note that in the Moody's reports they
24 have voiced some concerns regarding apparent links
25 between economic conditions and service territories

1 and a downward movement on ROEs, but I don't think
2 that rises to the level that you were discussing.

3 Q. Thank you. I had some -- some general
4 principles I would like to cover with you initially.

5 Would you agree that, in terms of investing,
6 there's a rule of thumb that the higher the risk,
7 the better the return?

8 **A. Yes, that's correct. There's an expectation,**
9 **certainly on the part of investors, that**
10 **compensation should reflect risk. So, if they're**
11 **going to bear more risk, they need a higher expected**
12 **return to do that.**

13 Q. Can you tell me what's generally considered
14 the least risky investment?

15 **A. Well, generally, that would be a security**
16 **issued by the U.S. government. So, for example,**
17 **30-year Treasury bonds are typically viewed as close**
18 **to risk-free as you can get, and those serve as the**
19 **risk-free rate in applying the CAPM, for example.**

20 Q. And what you mentioned, that the government
21 securities, the Treasury bills, Treasury bonds, are
22 generally considered to be less risky because the
23 risk of the government going bankrupt is rather low?

24 **A. That's correct. I mean, they have taxing**
25 **ability, they have the ability through their --**

1 **through issuing debt and through monetary policies**
2 **to basically meet their obligations.**

3 Q. Would you agree that risk and return
4 typically follow an upward slope linear
5 relationship, again, in that the greater the risk,
6 the greater the expected return?

7 **A. Well, I agree that there is a relationship.**
8 It's not necessarily linear.

9 Q. Okay.

10 **A. I think if you have an extreme change in**
11 **risk, you can have a very marked change in the**
12 **return. So, for example, going from an**
13 **investment-grade bond rating of Baa3 down to a BB+**
14 **rating would imply a very significant upward move in**
15 **the ROE that wouldn't necessarily apply for staying**
16 **within the investment-grade scale.**

17 Q. Okay. Thank you.

18 Would you agree that utility bonds are a more
19 risky investment than a Treasury bond?

20 **A. Yes, generally, that's true.**

21 Q. And would you agree that, in general,
22 corporate stocks are typically considered to be at
23 the higher end of the risk and return relationship?

24 **A. I'm sorry. You said corporate stocks? Do**
25 **you mean common stocks? Equities?**

1 Q. Yes, common stocks. Yes.

2 **A. Yes, they would be considered to be riskier**
3 **than debt instruments.**

4 Q. And, finally, would you agree that, in
5 general, utility investment falls somewhere between
6 Treasury bonds and common stocks on that -- that
7 relationship between risk and return?

8 **A. Well, if we're speaking of utility common**
9 **stocks, that is a common stock. The risks of a**
10 **utility common stock would exceed the risks of a**
11 **utility bond, and those would, in turn, exceed the**
12 **risks of a Treasury bond.**

13 If you're speaking about the relationship
14 between returns from different classes of common
15 stocks, we would need to look at the industry, but
16 the risk of the utility industry generally is
17 considered to be lower than that of the market as a
18 whole.

19 Q. Thank you. I think your answer -- I wish I
20 had put it that artfully. Yes, the market as a
21 whole is what we were looking at.

22 MS. VINSEL: Zack, can I have you bring up
23 Mr. McKenzie's rebuttal testimony?

24 Q. While he's bringing that up, I would like to
25 go -- I have some questions in regard to

1 Exhibit AMM-21.

2 And, Mr. McKenzie, I know you're turning to
3 the page. Please let me know when you're there.

4 **A. I'm there. Thank you.**

5 Q. Thank you. Is it correct that the companies
6 that are listed --

7 MS. VINSEL: And, Zack, could you resize it
8 just a little bit -- I'm sorry -- to make it bigger.
9 I need it to be clearer. Thank you.

10 Q. It's correct that these companies are public
11 companies who do not operate in a regulated
12 environment. Is that correct?

13 **A. That's correct. Their prices are not**
14 **regulated. Obviously, they have to comply with**
15 **various regulations depending upon the industry**
16 **they're in, but they are not -- they wouldn't be**
17 **considered regulated utilities.**

18 Q. That distinction is taken. Thank you.

19 MS. VINSEL: Zack, can I have you scroll down
20 to the bottom? Okay. That's it.

21 Q. I'm looking at the average. I'm sorry. I
22 didn't capture which column is which, but each of
23 these three columns -- one is for Value Line, one is
24 for IBES, and the other is for Zacks.

25 Mr. McKenzie, as I understand, you eliminated

1 the highs and lows as you were working on the
2 average and the midpoint; is that correct?

3 **A. Yes.**

4 Q. If the eliminated highs and lows are removed,
5 would you agree the average earnings growth for
6 Value Line would be 9.92, for IBES, 8.84, and for
7 Zacks, 8.86?

8 **A. Actually, I'm sorry. I didn't understand the**
9 **question.**

10 Q. I think the question -- I think the question
11 actually is not removed. If they're included.

12 So if we were to include to not remove the
13 highs and lows --

14 **A. Well, that would surprise me. I mean, I'm**
15 **looking at page 3 of Exhibit AMM-21, and just**
16 **looking down the column under Value Line there's**
17 **more numbers at the high end that were excluded than**
18 **at the low end, I believe, or at least they're**
19 **equal.**

20 So it looks like there's actually more high
21 numbers excluded than low numbers. There's only
22 two -- three low numbers excluded, five high numbers
23 excluded. So I'm --

24 Q. Okay.

25 **A. I'm not sure that it would have much of an**

1 **impact on the average. I haven't done the math. So**
2 **I can't tell you, but that would surprise me.**

3 Q. Okay. Thank you. I appreciate that.

4 MS. VINSEL: Zack, you can take down the
5 document. Thank you.

6 Q. This is one I'm just going to have you refer
7 to your testimony. We don't need to bring this up,
8 I don't think.

9 In your rebuttal testimony you note that the
10 average allowed ROE by state commissions -- let me
11 back up.

12 You have a table with the average allowed ROE
13 by state commissions for the past four years.

14 **A. Yes.**

15 Q. And through -- okay. And according to that
16 table -- I'm sorry, I'm going to look at it just to
17 make sure -- the average allowed is 9.69 percent,
18 correct?

19 **A. That's correct.**

20 MS. GRUNDMANN: This is Carrie Grundmann.
21 Would you just point out the table so I can quickly
22 find it in the testimony?

23 MS. VINSEL: Sure. Zack. Let me have you
24 bring up Mr. McKenzie's rebuttal testimony.

25 MS. GRUNDMANN: I'm happy to just have you

1 refer to it as well. I have it in front of me in
2 hard copy.

3 MS. VINSEL: I think this is something that's
4 probably better. If I'm going to ask these
5 questions, we need to have them in front of us.

6 Zack, will you scroll -- you're going to need
7 to go back. We're going to look for it's on
8 rebuttal page 5. I don't have the PDF handy.
9 Probably about 37 pages. Almost there. Two more
10 pages. There you go. If you'll resize it so it's a
11 little bigger.

12 Q. So this is the table I'm referring to, and
13 the average return -- the average ROE by state
14 commissions is 9.69 percent.

15 Let me ask, the average return for your proxy
16 group is 9.79, correct?

17 **A. That's correct. I will point out there is a**
18 **distinction between those numbers, and I think the**
19 **Commission should be aware of what that distinction**
20 **is.**

21 The Table R-1 is a reporting of allowed ROEs
22 by RRA. And the 9.79, which is shown lower down on
23 my testimony, that is the -- that is the allowed ROE
24 that Value Line reports as being in effect for the
25 utilities in the proxy group.

1 So Value Line typically informs investors as
2 to what ROE is currently authorized for that
3 company.

4 And it might report a weighted average if the
5 Company operates over multiple jurisdictions.

6 So there is a distinction between the two sets
7 of data in that respect.

8 Q. Okay. And does that distinction impact the
9 fact that between 2017 and this -- I believe it's
10 September of 2020 -- that there's a downward trend
11 in the ROEs?

12 **A. Yeah. I mean, first off, I'm not -- a**
13 **downward trend, you could say that. I think we're**
14 **not through 2020 yet. We don't know what will be**
15 **coming down the pike. Those numbers move around.**
16 **Obviously, the 9.68, it went up to 9.73 in 2019, but**
17 **the primary difference is -- and I think you're**
18 **correct here, it's timing. So the 9.79 number is**
19 **the actual ROE that the utilities in the proxy group**
20 **are currently authorized to earn.**

21 Now, those authorized ROEs may have been set
22 some time ago, but, nevertheless, that's the
23 opportunity cost. That's the earned return that the
24 companies in the proxy group have been authorized,
25 but there is timing differences there.

1 Q. In your rebuttal factor you explain that you
2 used an adjustment factor to convert year-end
3 returns to average returns to address that
4 difference between the flow of earnings and a book
5 value or point estimate.

6 Can you explain how you determined these
7 adjustment factors? Or expand upon them?

8 **A. Yeah. Basically, the adjustment factor --**
9 **and this refers to the expected earnings approach,**
10 **which is shown on Exhibit 20 of my rebuttal**
11 **testimony, and it's also reported in my direct**
12 **testimony at AMM-9.**

13 But, basically, the adjustment is required
14 because Value Line reports year-end returns on
15 equity. So, in other words, we're taking the amount
16 of equity at the end of the year and dividing that
17 by the earnings over the year.

18 So that's really a mismatch because the
19 earnings are a product of the investment over the
20 entire year. So that's the purpose of averaging a
21 beginning-of-year equity and an end-of-year equity
22 in order to compute that.

23 Just as if -- if you had a bank account with a
24 thousand dollars in it at the beginning of the year
25 and \$10,000 in it at the end of the year, you

1 wouldn't compute your interest return by dividing
2 the interest earned over the year by the 10,000 at
3 the end of the year; you'd use an average balance.

4 So that's essentially what this adjustment
5 factor does. The adjustment factor, it's not
6 indicated in the footnotes; it's actually a formula
7 that's reported in regulatory finance, which is a
8 treatise on utility finance. It's the same factor
9 that FERC uses for the same purpose. It's been used
10 there since, I believe, 2000 to recognize that same
11 distinction.

12 Q. The market has recently seen an increase in
13 utility beta values; is that correct?

14 **A. Yes, a very significant increase.**

15 Q. And do you know if the betas for most
16 investments made an upward or downward adjustment?

17 **A. I don't know the answer to that. You know,**
18 **the market equals one, so, presumably, if some went**
19 **up, some went down. But I haven't done an**
20 **industry-by-industry study to look at what changes**
21 **were for other industry groups with respect to**
22 **betas.**

23 Q. And for the utility sector?

24 **A. Well, the utility sector, they've decidedly**
25 **increased. I mean, the average beta for the proxy**

1 **group in the last case was about .66, and it's now**
2 **about .87. So that's about a 32 percent rise.**

3 Q. Do you believe this is a permanent
4 adjustment, or is it a reaction to the economic
5 situation resulting from the pandemic?

6 **A. Well, it's certainly a reaction to -- a**
7 **response to the pandemic, and its investors'**
8 **adjustments to the prices that they're willing to**
9 **pay for common stocks in the market that leads to**
10 **this observed change in beta.**

11 Now, we can't see forward. I mean, the beta
12 that should be used in the CAPM is actually kind of
13 the -- the true beta is a projected value. And
14 there is no way to estimate that except by looking
15 at historical information, which is the accepted
16 approach. It's how Value Line measures beta. It's
17 how Bloomberg measures beta. And the question is
18 how do those pricing relationships change over time?

19 In this case, you know, none of us have the
20 ability to see into the future to see what
21 relationship utility stock prices will have to the
22 broader market going forward, but, in my view, there
23 is no basis to ignore the actual behavior that took
24 place earlier this year which indicates a sharp
25 change in beta values and an upward revision in the

1 risk perceptions of investors.

2 I think anytime we get into subjectively
3 trying to decide what part of the five-year history
4 we're going to accept and what part we're going to
5 throw out, we get on really shaky ground, because it
6 just opens the door to subjective arguments about
7 what prices might be reasonable or indicative of
8 future relationships and what might not be.

9 I think beta has been an accepted risk measure
10 at the Commission. I know we've had discussions
11 here about beta when they were going down. So I
12 think that the appropriate course is to take betas
13 at their face value.

14 MS. VINSEL: Thank you. That answered all of
15 Staff's questions. We have nothing further.

16 CHAIRMAN SCHMITT: Mr. West or Mr. Cook or
17 Attorney General?

18 Any questions, Mr. West?

19 MR. WEST: Yes, Your Honor.

20 CROSS-EXAMINATION

21 By Mr. West:

22 Q. Mr. McKenzie, how are you?

23 A. **I'm well. Thank you, sir.**

24 Q. I want to start out with some questions about
25 your analysis of the utility proxy group. When you

1 initially calculated your DCF in this case, you
2 excluded six low-end estimates, correct?

3 **A. That's correct, sir.**

4 Q. Okay. And did you also exclude any high-end
5 DCF results?

6 **A. No, I did not.**

7 Q. In fact, did you keep one in your analysis
8 that was actually 13.6 percent?

9 **A. Yes. That's correct. I discussed that in my
10 testimony. In my most recent analysis, the number
11 is still 13.6. It's for Sempra under the Value Line
12 growth estimates.**

13 Q. When was the last time a 13.6 return on
14 equity was approved by a commission in a rate case?

15 **A. I don't know. I haven't done that research.**

16 If you look at my risk premium analysis -- let's
17 see.

18 So if you look at page 3 of AMM-19, you'll see
19 that there were some numbers, you know, up in that
20 territory back in the early '80s.

21 I think the other thing to recognize too is
22 that, while I've excluded some numbers at the low
23 end of my DCF range, I've also retained quite a few
24 numbers that I don't think would be considered to be
25 reasonable that there's no regulatory commission

1 that has approved either.

2 So, for example, on page 3 of AMM-15, you can
3 see a 6.4 percent ROE included in the BR plus SV
4 growth calculation. So I haven't excluded that
5 number, but I'm not aware of any regulatory
6 commission approving an ROE of 6.4 percent either.

7 Q. Thank you.

8 And you mentioned that possibly back in the
9 '80s some ROEs were set at that level. Weren't
10 interest rates much different than they are now at
11 that time?

12 **A. Yes. They were considerably higher.**

13 Q. And based on your initial calculations
14 applying your DCF, you came up with a range of mean
15 and median returns between 8.6 and 10.2., and then
16 in your updated analysis that range went from 8.2 to
17 10.3; is that correct?

18 **A. Yes.**

19 Q. I want to move on for a moment and talk about
20 your analysis related to the competitive proxy
21 group.

22 Is it fair to say that utilities reap certain
23 economic benefits that make them attractive to
24 potential investors that your typical unregulated
25 competitive firm working in an open market would not

1 have access to?

2 **A. Well, I certainly think it's true that**
3 **there's trade-offs. I addressed this in my**
4 **testimony, that it's not the case that Coca-Cola,**
5 **for example, faces the same business conditions as**
6 **Kentucky Power.**

7 That's certainly clear.

8 So there's pluses and minuses. I mean,
9 Coca-Cola can leave markets if -- if demand is
10 declining, they can decline to serve customers, they
11 can reduce their product offerings, they can change
12 their pricing.

13 But, again, at the end of the day, as my
14 testimony discusses, it really comes back to risk.
15 And I think if you look at the risk measures, you'll
16 see clearly that the risks of that group are
17 comparable or, in some cases, less risky than the
18 utility group. And I think that's what matters at
19 the end of the day.

20 Q. Well, don't utilities have a big advantage in
21 that they have a fixed pool of customers that are
22 obligated to purchase from them in some respect?

23 **A. Yes, that's true that utilities, by and**
24 **large, don't face competition. So they're the only**
25 **game in town. And if you want electricity delivered**

1 **to your home, then you need to purchase service from**
2 **that one company.**

3 But, again, that specific fact doesn't
4 necessarily indicate that the utility is higher or
5 lower risk than any particular firm in the
6 competitive sector.

7 As I indicated earlier in responding to Staff,
8 it's certainly clear that, if you look at the market
9 as a whole, utilities are viewed as less risky. But
10 in the case of the nonutility group that I've
11 identified in my testimony, I don't believe that's
12 true, and I presented evidence to demonstrate that.

13 Q. Let's talk about some of that.

14 MR. WEST: Could Staff bring up AMM-21 in the
15 rebuttal testimony of Mr. McKenzie?

16 MS. VINSEL: Zack, I don't know if you caught
17 that. This is Mr. McKenzie's rebuttal testimony,
18 which is a document you had just brought up. And
19 it's Exhibit AMM-1.

20 Is that correct, Mr. West?

21 MR. WEST: AMM-21. And that's at page 170 of
22 the PDF that was filed.

23 Is there any way we can enlarge that just a
24 little?

25 Q. So, Mr. McKenzie, can you see the exhibit on

1 the screen?

2 **A. Yes.**

3 Q. Okay. So this is -- this is the cost of
4 equity estimates for the competitive proxy groups,
5 is it not?

6 **A. Yes.**

7 Q. And this -- we were already talking about
8 this, so I thought I'd skip ahead to it, but can you
9 just explain why Kentucky Power should earn a
10 comparable return to, say, Lockheed Martin, Coke,
11 Pepsi, Walmart, Apple, some of the companies listed
12 on this exhibit?

13 **A. Yeah. Sure.**

14 I mean, this goes back to the very fundamental
15 standards that underlie a return, which we discussed
16 from a financial standpoint earlier in the day. We
17 all agreed that as risk goes up, return goes up, and
18 for comparably risky investments, the returns should
19 be comparable.

20 So if -- you know, when a common equity
21 investor is trying to decide where to put their
22 money, they are not restricted to considering only
23 utility stocks. They can invest their money in
24 Lockheed Martin and Coca-Cola.

25 And if you look, for example, at Coca-Cola,

1 you're looking at a company with an A-plus bond
2 rating, an A1 rating from Moody's, the highest
3 safety rank that Value Line issues.

4 So there's -- it's a very strong firm with
5 dependable earnings. It's paid regular dividends
6 for many years. It's an established product. So
7 it's not just the case that because Coca-Cola is
8 selling soft drinks that it's inherently riskier
9 than Kentucky Power.

10 I think if you look at the legal standards
11 underlying a fair rate of return -- and I'm not a
12 lawyer -- but interpreting those, again, the Supreme
13 Court in Hope and Bluefield is saying that the
14 return has to be commensurate with opportunities of
15 comparable risk.

16 It didn't say "other utilities" or "other
17 utilities with the same credit ratings." It said
18 "other investment opportunities." And Mr. Baudino
19 recognizes this in his testimony as well.

20 Q. But to go back to your discussion with
21 Ms. Vinsel, in general you would say that investing
22 in a utility presents less risk than in other
23 industries, in competitive industries?

24 **A. Well, if we're looking at it on an**
25 **industry-by-industry basis, you know, again, what I**

1 **told her was I haven't done a comparison of various**
2 **industry groups to decide which industries might be**
3 **higher risk than utilities and which might be lower.**

4 I think, as a general proposition, we're all
5 agreed that utilities are less risky than the market
6 as a whole, but when it comes to individual
7 companies, that's a different proposition.

8 Again, you know, if you look at Johnson &
9 Johnson, that's an established company that has a
10 AAA rating. It has a rating that's the same as the
11 U.S. government. So it's not a high-risk common
12 stock; it's a very conservative common stock.

13 And, from that standpoint, I think this
14 nonutility analysis is an important benchmark. And
15 that's all it is. I haven't used that as the basis
16 of my recommendation, but I do believe it deserves
17 consideration.

18 Q. Okay. One final question -- or maybe two --
19 on competitive proxy -- the competitive proxy group,
20 and then I'll move on, but on page 14 of your
21 initial testimony, you said that the average and
22 midpoint DCF estimates for the low-risk group of
23 firms in the competitive sector of the economy
24 ranged from 9.5 to 10.8 before consideration of
25 flotation costs.

1 Just to be clear -- and I'm sure we all know
2 this -- but the 9.5 represents average and not the
3 low end that you analyzed, correct?

4 **A. That's correct.**

5 Q. Okay. So it would be fair to say that some
6 investors in the competitive proxy group are
7 accepting returns below the 9.5 percent, correct?

8 **A. Yes. The DCF results in that respect are**
9 **analogous to those for the utility proxy group. We**
10 **have a range of results, some high, some low. And**
11 **the effort in trying to identify this unobservable**
12 **quantity is to distill that range down to a more**
13 **discrete quantity.**

14 Q. Okay. I want to move on and ask a couple
15 questions about the impact that COVID had on your
16 analysis or it's had on the industry.

17 On page 36 of your initial testimony you said
18 that it would be unreasonable to disregard current
19 capital market conditions in establishing a fair
20 rate of return -- or return on equity. I'm sorry.

21 You say that (Reading) The challenges posed by
22 the COVID-19 crisis have the potential to
23 significantly impact the financial pressure of the
24 investor-owned utilities, increasing the overall
25 level of investor risk, and will have to be

1 addressed by state regulators.

2 Am I quoting you correctly on that?

3 **A. Yes.**

4 Q. Okay. When you initially calculated your
5 DCF, it was -- apparently you retrieved the data in
6 May of 2020. Does that seem about right?

7 **A. Yes. That's correct.**

8 Q. Okay. Wouldn't it be fair to say that, given
9 the timing of COVID-19 and the response to it, the
10 DCF calculations that you arrived at may have
11 already accounted for the volatility and uncertainty
12 associated with COVID, given that we're talking six
13 months -- or six weeks or a few months after COVID
14 emerged?

15 **A. Well, I think the -- I think the stock prices
16 at May 1st certainly reflected some aspects of the
17 COVID pandemic and the market's reaction. I think
18 you could argue about whether analysts had enough
19 time at that point to incorporate their expectations
20 about what that might mean going forward into their
21 growth rates.**

22 But, you know, and I think part of the issue
23 back then when I did my -- when I originally filed
24 my direct testimony, is just the high degree of
25 uncertainty and not knowing where the markets were

1 going to head from that point.

2 So I think there was a greater degree of
3 uncertainty about market direction when I did my
4 analysis that are included in my direct testimony.

5 Q. That's fair. And on some level isn't
6 uncertainty equated with risk or a greater degree of
7 risk?

8 **A. Yes. That's true.**

9 MR. WEST: If we could pause for just a
10 moment, I think we have someone, a caller, who has
11 their phone on, Caller 15.

12 MS. VINSEL: If we could ask everyone on
13 phones to make sure that their phones are on mute.

14 MR. WEST: Okay. Thank you. I believe
15 they've taken care of it.

16 Q. So I'm going to move on to another general
17 question. I believe Ms. Vinsel may have touched on
18 this with you, but I wanted to make sure I
19 understand your answer, and maybe my question is a
20 little bit different, but it's regarding beta
21 values.

22 And you-all discussed the fact that, in the
23 utility industry, betas have increased recently.
24 And I believe you said that that would, by
25 implication, mean that betas in other industries

1 have decreased, but my question is whether it's
2 possible that those betas could return to their
3 pre-COVID levels fairly quickly. Do you have any
4 insight on that?

5 **A. Well, I don't have any insight for you into**
6 **what will actually transpire. If I did, I'd love to**
7 **share it with you, and we could both go live on that**
8 **island somewhere, but, you know, the -- it's**
9 **certainly possible.**

10 I mean, betas change over time. There's no
11 question about that. They respond in kind with
12 changes in stock prices. So they will presumably
13 change one way or another over time, but we don't
14 know how.

15 There's nothing to say that the market
16 couldn't go through another period of disruption
17 just as it did back in March going forward. I mean,
18 in response to some development that we don't know,
19 whether to do with COVID or some other financial,
20 political, or other crisis.

21 So the point is not that betas will be forever
22 constant, but the point is is that the information
23 that we have now is the best we have now, and that,
24 in my view, ignoring it or tinkering with it or
25 suggesting that somehow because it moved in one

1 particular direction or another it's now no longer
2 valid, I think that's dangerous.

3 Q. Well, if betas in the utility group increase
4 or decrease, one or the other, in the future, in
5 your opinion is it more likely that they decrease or
6 increase from their current levels?

7 **A. Yeah, I can't put a probability on that. It**
8 **all depends again on how utility stock prices move**
9 **going forward relative to the market. So I can**
10 **certainly grant that if they return to their old**
11 **pattern of behavior, by and large over time utility**
12 **betas could moderate, but as I just indicated, it's**
13 **possible they could increase. I mean, we don't**
14 **know.**

15 And that's why I think the best course is to
16 use the accepted published benchmark which has been
17 used in rate cases for many, many years, and that's
18 the Value Line betas.

19 Q. Okay. Thank you.

20 Moving on to -- I just have a couple questions
21 about a previous Commission case that you may or may
22 not be aware of. Have you had an opportunity to
23 review the Commission's final review in the Duke
24 Energy Kentucky case in 2020-271 that was issued
25 earlier this year?

1 **A. Yes.**

2 Q. Okay. You're aware that the Commission
3 awarded a 9.25 return to Duke in that case?

4 **A. Yes, I'm aware of it. And I'm also aware of**
5 **a number of distinctions which I think warrants them**
6 **not doing that in this proceeding.**

7 Q. Well, that's fine. I appreciate that. I
8 believe you spelled that out in your testimony --
9 rebuttal testimony that you gave. That was included
10 in your testimony, correct?

11 **A. No, I didn't address the Duke order directly**
12 **in my testimony. I mean, my testimony presents the**
13 **reasoning behind why -- supporting my**
14 **recommendations, but I think with respect to Duke,**
15 **there's clear differences, both --**

16 Q. Well, maybe I'm mistaken, but I assumed
17 maybe -- maybe I'm thinking of someone else, but did
18 you not address it in your rebuttal testimony? I
19 might have the wrong -- I apologize.

20 **A. I'm not sure. If you have a specific**
21 **reference, I'm happy to look for it.**

22 Q. No. I'm sorry. I was just noting that we
23 had that to refer to if we needed to, but my real
24 question was are you aware about -- whether Duke
25 Kentucky has been downrated by S&P or Moody's

1 because of that Commission order?

2 **A. No. In fact, they have not been, but, again,**
3 **there's differences between Duke and Kentucky Power,**
4 **and I think the Commission should be mindful of**
5 **those when it establishes an ROE in this case.**

6 Q. Noted. Thank you.

7 Are you also aware of the portion of that
8 order where the Commission said that in regards to
9 flotation costs the Commission has historically
10 rejected and continues to reject the notion of
11 flotation costs to be included in ROE estimates?

12 **A. Yes.**

13 Q. Okay. But you recommended inclusion of the
14 flotation costs, did you not?

15 **A. Yes, I do.**

16 Q. Okay. Moving on. Just a couple questions
17 regarding your conclusions, and then I'll wrap up.

18 But excluding flotation costs, your
19 recommended range was 9.3 to 10.4 for the ROE,
20 correct?

21 **A. Yes.**

22 Q. Your CAPM and your ECAPM results don't fall
23 within that range, do they? In fact, they're quite
24 higher, aren't they?

25 **A. Yeah, as is the expected earnings. So all of**

1 those numbers fall outside the range. The only --
2 and so does the DCF. So what we're really trying to
3 do is take some disparate results and distill them
4 down to a reasonable range that reflects the cost of
5 equity. And that's what I've tried to do.

6 Q. Did you say "a reasonable range"?

7 A. Yes. I believe that 9.3 to 10.4 is a
8 reasonable range, excluding flotation costs.

9 Q. So if your results from your CAPM analysis
10 and your ECAPM analysis all exceeded the upper bound
11 of the range that you're saying is reasonable, would
12 that make them unreasonable?

13 A. No, I don't believe so. I mean, again, the
14 CAPM, ECAPM, and expected earnings approaches all
15 produce numbers that are above the top of my range,
16 but the range is constructed based on those values
17 and considering the range of outcomes, including the
18 risk premium and DCF numbers.

19 So it's not a question of suggesting that
20 because the CAPM numbers fall outside the range I've
21 distilled from those results that they're somehow
22 rendered unreasonable.

23 Q. Okay. Just a couple more questions about the
24 CAPM and the ECAPM, and I want to go back to if you
25 recall the table that you looked at with Ms. Vinsel

1 in her cross-examination previously where you showed
2 the average allowed ROEs in 2020. I believe it was
3 Table R-1 on R5 of your rebuttal testimony.

4 We don't have to pull it up or look back at
5 it. I mean, I think you recall that the average was
6 in the 9.69 -- it was 9.69, wasn't it?

7 **A. That's correct.**

8 Q. Okay. And, again, your ECAPM and your CAPM
9 analysis is much higher than the average allowed
10 ROEs so far in 2020, isn't it?

11 **A. Yeah. And I think that, in large part,**
12 **reflects what we discussed earlier in terms of this**
13 **dramatic upward move in betas, which is probably not**
14 **reflected in most of the record evidence in cases**
15 **that were decided earlier this year.**

16 Q. Okay. Give me just one second.

17 On -- in your rebuttal testimony, don't you
18 state that allowed ROEs should be used to evaluate
19 whether recommended ROE is sufficient to meet
20 regulatory standards?

21 **A. Yeah, it's one benchmark. It has**
22 **limitations.**

23 I don't think the Commission should look blindly to
24 determinations based on RRA and make a finding with
25 respect to Kentucky Power using that.

1 I think they need to take a broader approach
2 and consider the record evidence in this proceeding,
3 but it certainly is one benchmark.

4 Q. Understood. Thank you.

5 MR. WEST: I believe that's all the questions
6 I have.

7 CHAIRMAN SCHMITT: Mr. Kurtz,
8 cross-examination?

9 MR. KURTZ: Very briefly.

10 CROSS-EXAMINATION

11 By Mr. Kurtz:

12 Q. Good evening, Mr. McKenzie. Your recommended
13 return on equity is 10.3 percent, correct?

14 **A. Yes.**

15 Q. That's an after-tax return on equity?

16 **A. Yes.**

17 Q. Okay. For ratemaking purposes, the utility
18 has to recover a pretax return to yield your
19 recommended after-tax return of 10.3 percent,
20 correct?

21 **A. That's correct. They recover an income tax
22 allowance.**

23 Q. What is the pretax rate of return on equity
24 that would result from your recommendation?

25 **A. I don't know the answer to that.**

1 Q. If the gross revenue conversion factor was
2 1.34482, what would it be?

3 **A. What did you say that was?**

4 Q. 1.34482.

5 **A. I think it's over 14 percent, if my math is**
6 **right.**

7 Q. So a 14 percent pretax return on equity being
8 requested in this case is what consumers would
9 actually pay, if your recommendation is adopted?

10 **A. That's correct.**

11 Q. How did your recommendation take into account
12 that the Company's proposed 13 percent base rate
13 increase would hurt -- potentially hurt the economy
14 of eastern Kentucky, which is already one of the
15 weakest economies in the United States?

16 **A. Well, I address this briefly in my rebuttal.**

17 You know, it isn't my purview to advise the
18 Commission on social issues or those types of
19 factors. My -- the purpose of my testimony is to
20 present an independent appraisal of what the cost of
21 equity is demanded by investors in the market.

22 So that cost is not driven by the specific
23 situation faced by ratepayers within the service
24 territory. It's -- just like the cost of any other
25 input, it's determined in a market.

1 So when Kentucky Power buys coal, they pay a
2 price for that coal. And the price of the coal
3 isn't based on how things are going in the service
4 territory; it's what the market price is.

5 Q. So does that mean you did not take into
6 account the fact -- the effect that your
7 recommendation would have on the businesses and
8 people of eastern Kentucky?

9 **A. That's correct.**

10 MR. KURTZ: No further questions.

11 CHAIRMAN SCHMITT: Ms. Grundmann,
12 cross-examination?

13 MS. GRUNDMANN: I do, briefly.

14 And I apologize, Your Honor. My cocounsel is
15 here with me, and he may or may not be as
16 cooperative as I might otherwise hope he would be
17 for purposes of this cross-exam. So I'll be brief.

18 Ms. Vinsel, do you think we could pull up AG
19 KIUC Hearing Exhibit 1 and go to page 28 of that
20 document?

21 CROSS-EXAMINATION

22 By Ms. Grundmann:

23 Q. Mr. McKenzie, while we're turning to that
24 exhibit, have you been observing the last couple of
25 days of this hearing?

1 **A. Not all of it. I've seen some.**

2 Q. So this presentation has made its way into
3 the record a couple of times, and I just wanted to
4 ask you your opinion on some information in one of
5 these slides.

6 Have you seen this exhibit brought up thus far
7 in the hearing?

8 **A. Yes.**

9 Q. Okay. So you're at least vaguely familiar
10 with it. So I am looking at page 28 of the
11 document. And I want to link it to some of your
12 testimony. Do you see there in the dark blue line
13 the information that says "2021 Forecasted Regulated
14 ROE is 9.0 percent"?

15 **A. Yes, I see that.**

16 Q. Do you agree with me that that is AEP's
17 estimate as to what its average likely ROE is
18 expected to be for its regulated business lines,
19 including Kentucky Power?

20 **A. Yeah. I'm assuming that's their forecast of
21 an actual earned ROE, which is consistent with
22 what's reported in the table or in the little
23 balloons above.**

24 Q. Well, I think that the balloons above, would
25 you agree with me, are actual numbers and -- so the

1 light blue are actual numbers, and the navy blue is
2 a forecasted estimate.

3 **A. That's right.**

4 Q. Okay.

5 **A. I would agree with that.**

6 Q. And then if you look a little closer under
7 the blue balls, you'll see that under AEP Ohio,
8 APCO, Kentucky Power, SWEPCO, that all of those have
9 pending base rate cases, and I think that you were
10 involved in the APCO case in Virginia. So you're
11 familiar with those?

12 **A. Yes.**

13 Q. So it looks as though the Company is
14 forward-looking as to what it might expect its ROE
15 to be in 2021, partially accounting for the results
16 of some of these base rate cases. Doesn't that seem
17 fair?

18 **A. Yeah, I would expect that they would need to**
19 **make some assumption about what allowed ROEs would**
20 **be in order to construct an estimate of earned ROE**
21 **for 2021.**

22 Q. Okay. And so does the notion that the
23 Company would want to earn a 9.0 ROE, is that
24 something that the Commission should take into
25 account in setting the return on equity for purposes

1 of this proceeding?

2 **A. Well, I'm going to push back on your**
3 **question.**

4 I mean, you said the Company would want to earn an
5 ROE of 9. I mean, there's a lot of factors that go
6 into actual earned returns and -- in terms of, you
7 know, as we see in this service territory, for
8 example, the pattern of sales, the pattern of costs,
9 the pattern of investment and how much those are
10 being recovered through rates or not being recovered
11 through rates, as is the case in this particular
12 instance.

13 So I don't think the 9 percent represents a
14 goal of the Company or, alternatively, a weighted
15 average of the allowed ROEs that they necessarily
16 expect for their jurisdictions.

17 I think it might be an outcome of some
18 forecast model but considers a wide variety of
19 factors which I'm not privy to. I don't know how it
20 was arrived at.

21 Q. Understood. And you didn't take part in
22 putting together this presentation that was given a
23 couple of weeks ago to EEI, were you?

24 **A. No, I did not.**

25 Q. So I guess you don't have an opinion as to

1 the Company's conclusions about its strong financial
2 position based upon a 2021 forecasted regulated ROE
3 of 9.0 percent for its regulated entities, do you?

4 **A. No. Again, I can't really speak to what**
5 **exactly that number represents or how it was arrived**
6 **at.**

7 Q. Understood.

8 Mr. McKenzie, can I have you take a look at
9 your rebuttal testimony? I actually wanted to ask a
10 couple of questions about Exhibit -- I believe it's
11 AMM-13.

12 **A. I'm there.**

13 Q. The question that I have about this document
14 that I'm trying to understand is you have identified
15 the document as state-allowed ROEs. Is that fair?

16 **A. Yes.**

17 Q. And so when you say that, for example, Duke
18 Energy Corporation has an allowed ROE of 10.10,
19 you've taken this document from Value Line; is that
20 right?

21 **A. That's correct. This is what Value Line is**
22 **reporting to investors in their individual reports**
23 **for the various companies listed.**

24 Q. So I guess I'm just trying to understand
25 because I couldn't understand the math so as to tell

1 whether this document is useful or not because, for
2 example, Duke Energy was awarded a 9.5 percent ROE
3 in South Carolina recently and a 9.25 percent ROE in
4 Kentucky.

5 I'm just trying to understand what that --
6 where that 10.1 came from and how it's calculated
7 because it seems, just looking at Duke, it seemed a
8 little high to me, and I'm trying to understand
9 whether it includes all of the Company's regulated
10 operations or just state-based vertically-integrated
11 utilities.

12 **A. Well, there's -- there's -- basically what**
13 **Value Line reports generally is -- how they break**
14 **that up is between electric and gas utility**
15 **operations.**

16 So they don't -- in certain instances they
17 break it up between jurisdictions and report
18 different numbers from different jurisdictions, in
19 which case I just developed a weighted average based
20 on that, but that's about the extent of the detail.

21 So as the quarterly publications of Value Line
22 are released, they typically update those numbers to
23 reflect what proceedings might have taken place in
24 the interim.

25 Q. I guess I'm just trying to understand. Does

1 this allowed ROE potentially include transmission or
2 FERC-approved rates, or is it solely
3 state-authorized ROEs? Because you phrased it as a
4 state-allowed ROE, and I'm -- just looking at Duke,
5 I saw that number at 10.1 and was, like, that seems
6 really high because I think that they've been
7 awarded a 9.9 in North Carolina, a 9.5 in South
8 Carolina, a 9.25 in Kentucky, and all of those are
9 lower than 10.1., so I'm trying to understand how
10 there's an allowed ROE of 10.1 under the
11 circumstances.

12 **A. Right. Yeah, I mean, generally, as again --**

13 Q. So I guess I'm asking do you know what the
14 inputs were that Value Line used to arrive at the
15 10.1?

16 **A. Right. And I think the answer to that**
17 **question is clear, no, I don't. And the reason I**
18 **still think that the numbers are valid is because**
19 **that's what Value Line reports to investors.**

20 So from an investors' standpoint, it does form
21 the basis of an expectation with respect to allowed
22 ROEs, but they do not report any of the details or
23 underlying calculations supporting those figures.

24 Q. And so then I guess it's fair to say that
25 when we look at this average 9.79, that's for the

1 totality of the operations of these companies.

2 **A. Electric operations.**

3 Q. Does it include any nonregulated affiliates?

4 **A. No, it does not. They're allowed returns, so**
5 **they are -- purportedly by Value Line, they are**
6 **based on the actual allowed returns that are**
7 **currently in effect for the regulated operations of**
8 **these companies, and specifically the electric**
9 **operations because some of them, obviously, have gas**
10 **operations too, and those are reported separately.**

11 Q. And did you -- I just don't know the answer
12 off the top of my head, but was the underlying data
13 forming the basis for AMM-13, were those produced in
14 some of your work papers?

15 **A. Yes, they are in my work papers. I don't**
16 **know that my --**

17 Q. Sorry. Go ahead.

18 **A. Pardon me. I don't know that there's been a**
19 **request for my rebuttal work papers, so I'm not sure**
20 **that those have been produced, but the Value Line**
21 **sheets underlying the original direct testimony are**
22 **included in my work papers.**

23 MS. GRUNDMANN: Your Honor, would it be
24 possible to make a posthearing data request for
25 these Value Line investment surveys dated July 24,

1 August 14, and September 11, 2020?

2 CHAIRMAN SCHMITT: It certainly will, and at
3 the close of the testimony we'll discuss time
4 periods. It would have to be in writing in, like,
5 an interrogatory. No, you'll have an opportunity to
6 do that.

7 MS. GRUNDMANN: Thank you, Your Honor.

8 Q. Mr. McKenzie, I think that in response to
9 some questions from the Attorney General you were
10 asked a question of whether you were aware whether a
11 commission has ever issued a 13 percent ROE to the
12 extent it was included in some of the results that
13 you didn't exclude in the DCF.

14 Do you remember that line of questions?

15 **A. Yes.**

16 Q. And do you -- so when you're forming your
17 estimates as to what an appropriate return on equity
18 would be, do you look -- does it matter to you that,
19 if awarded, your requested ROE would be essentially
20 the highest ROE awarded in the last 18 months across
21 the country to any utility?

22 **A. Well, my recommendation certainly isn't**
23 **predicated on the findings of regulatory agencies in**
24 **prior proceedings. It's predicated on the analyses**
25 **that I've presented in my testimony, so there isn't**

1 a direct connection between regulatory findings in
2 other cases and my recommendation, no.

3 Q. Okay. Okay.

4 A. The only clarification I would add is that my
5 risk premium approach is predicated entirely on the
6 findings of regulatory agencies, but it's over a
7 long period of time, back to 1974, and then it's
8 also adjusted for changes in interest rates over
9 that study period. But, again, it does -- it is
10 based on regulatory findings directly.

11 Q. Understood.

12 Mr. McKenzie, could I ask you to turn to
13 page R2 of your rebuttal testimony focusing on
14 Figure R-1?

15 A. Okay. I'm there.

16 Q. And I just want to make sure that I'm
17 understanding this correctly, but you have created a
18 figure in response to some testimony from AG KIUC
19 Witness Baudino about where his ROE recommendation
20 falls as related to certain benchmarks.

21 Is that a fair description as to what you're
22 trying to show in Figure R-1?

23 A. Yes.

24 Q. And so then, as I look at Figure R-1, you had
25 four benchmarks -- allowed ROE, expected earnings,

1 electric authorized 2019, and electric authorized
2 2020. Is that fair?

3 **A. Yes.**

4 Q. And the large bars, the large thick bars -- I
5 apologize, my copy here is in black and white --
6 that is the range of results that your analysis
7 reveals for each of those four benchmarks?

8 **A. That's correct.**

9 Q. And then the dark line that runs horizontally
10 across that, that's Mr. Baudino's -- those are his
11 conclusions and his ROE results at 9.0, correct?

12 **A. Yes, that's correct.**

13 Q. And so they fall within the range for each of
14 these four metrics, do they not?

15 **A. Yes. They fall within the range, although
16 considerably below the indicated average.**

17 Q. Understood.

18 MS. GRUNDMANN: I don't have any further
19 questions at this time. Thank you, Mr. McKenzie.

20 THE WITNESS: Thank you.

21 CHAIRMAN SCHMITT: Mr. Spenard, questions?

22 MR. SPENARD: Yes, Mr. Chairman, just a few.

23 CROSS-EXAMINATION

24 By Mr. Spenard:

25 Q. Good evening. Can you hear me, Mr. McKenzie?

1 **A. Yes, sir, I can. Thank you.**

2 Q. Thank you.

3 MR. SPENARD: Could Staff please share on the
4 screen a cross-examination exhibit? It's the
5 application Section 3, Volume II, McKenzie direct
6 testimony, page 7. Is that -- is that document
7 available?

8 MS. VINSEL: Yes, Mr. Spenard, it should be
9 available.

10 MR. SPENARD: Thank you.

11 MS. VINSEL: I'm going to give them a little
12 help.

13 Zack, we're talking about document Number 9.

14 Q. This will be page number 221 of 333.

15 Good. Thank you.

16 **A. Thank you.**

17 Q. There is a question that begins on line 9,
18 Question Number 13. "What part does regulation play
19 in ensuring that Kentucky Power has access to
20 capital under reasonable terms and on a sustainable
21 basis?"

22 Do you see that question?

23 **A. Yes, sir.**

24 Q. Okay. And beginning on line 12, the answer,
25 the first sentence, "Regulatory signals are a major

1 driver of investors' risk assessment for utilities."

2 Do you see that?

3 **A. Yes.**

4 Q. With regard to the phrase "regulatory
5 signals," what does the phrase "regulatory signals"
6 comprise?

7 **A. Well, in my view, it would really come down
8 to the actions as well as pronouncements from
9 regulatory agencies with respect to rate cases, rate
10 proceedings, and other proceedings involving the
11 utility.**

12 Q. And I apologize. I'm trying to -- I
13 appreciate that answer to get on the same page. For
14 example, is it your testimony that the Commission
15 order that will be produced from this application
16 falls within the set of regulatory signals?

17 **A. Sure. I think that's true. I think that the
18 Commission's order in any proceeding will be
19 examined by investors and evaluated with respect to
20 how whatever actions the Commission took in that
21 particular proceeding would impact that utility, as
22 well as perhaps other utilities that operate in the
23 state.**

24 Q. Okay. And with regard to the -- again, the
25 first sentence on line 12, "Regulatory signals are a

1 major driver of investors' risk assessment for
2 utilities," in terms of the phrase "risk
3 assessment," what does that phrase comprise?

4 **A. Well, it really comprises -- I guess there's**
5 **a couple of things. First is the security of the**
6 **capital that's invested in the utility. So**
7 **certainly debt investors are concerned with the**
8 **ability to -- of the utility to meet the obligations**
9 **under the debt instrument itself and repay the**
10 **principal.**

11 With respect to common shareholders, they're
12 interested in whether there's a reasonable
13 opportunity that they're going to earn a return
14 that's comparable to what they could earn on another
15 investment.

16 So I think those are the two major issues with
17 respect to what drives the risk, is the uncertainty
18 surrounding those -- those events.

19 Q. And that -- and, again, this is your
20 testimony. I'm just trying to make sure I'm on the
21 same page.

22 In terms of the -- when you say "risk assessment,"
23 that phrase, that ties into the investors' view as
24 to the uncertainty associated with a return? Or did
25 I miss -- did I miss that?

1 **A. No, that's part of it. And, again, I mean,**
2 **regulatory signals are one driver. They're not the**
3 **sole driver, but they're certainly a consideration.**
4 So there's timeliness of recovery, regulatory lag.
5 All of those considerations would be part of what
6 investors would be interested in when they look to
7 see what the regulatory climate is in any particular
8 jurisdiction.

9 Q. So perhaps this can be wrapped up with one
10 more question.

11 With regard to the regulatory signals, for
12 regulatory signals for Kentucky Power Company, are
13 they more or less unique to Kentucky Power Company,
14 or does -- or is the regulatory signals associated
15 with Kentucky Power Company -- do they share those
16 with the rest of the AEP family?

17 **A. Well, I think when we're trying to, at least**
18 **from my standpoint, look at an ROE for Kentucky**
19 **Power Company, we're focused primarily on what's**
20 **happening in Kentucky, not what's happening in Ohio**
21 **or other jurisdictions. I think that's what we're**
22 **trying to do here, is to establish a fair ROE for**
23 **the Kentucky jurisdictional electric operations of**
24 **Kentucky Power.**

25 So when I talk generally about regulatory

1 drivers here, it's a general statement. If we're
2 talking about this particular case, it really comes
3 down to the actions of this commission.

4 MR. SPENARD: Okay. Thank you. That's all
5 the questions that I have.

6 CHAIRMAN SCHMITT: Mr. Fitzgerald?

7 MR. FITZGERALD: Mr. Chairman, I do have a
8 few questions.

9 CROSS-EXAMINATION

10 By Mr. Fitzgerald:

11 Q. Give me just a second. There we go.

12 Mr. McKenzie, can you hear me okay?

13 **A. Yes, sir. Thank you.**

14 Q. Wonderful. When Mr. Kurtz asked you whether
15 your analysis considered the dire economic
16 conditions that have faced most of the 20 counties
17 comprising the KPC service area, you responded that
18 you didn't consider, quote, "social matters." Your
19 response sounded dismissive of those conditions, and
20 I wanted to follow up a little bit to give you a
21 chance to clarify that.

22 Is it your testimony that the conditions of
23 the ratepayers, the economic conditions, should not
24 be considered by the Commission when it's reviewing
25 the proposed rate increases and what ROE to approve?

1 **A. Well, I think, you know, clearly we're in**
2 **agreement that the Commission's job is to balance**
3 **the interests of consumers and investors. So I**
4 **don't dispute that.**

5 I think there are various regulatory standards
6 that have been established that provide the
7 Commission with guidance as to how to accomplish
8 that, and there are regulatory and judicial
9 standards governing what a fair rate of return is.

10 And I'm certainly not being dismissive of
11 economic hardships faced by customers in Kentucky
12 Power service territory. My only clarification was
13 really to note that, as an ROE expert, my job is to
14 present an independent assessment of what the
15 capital markets tell me, and that assessment doesn't
16 really involve assessing economic hardship on the
17 part of consumers and adjusting the ROE in any way
18 to account for that.

19 I think there's also some dangerous
20 implications that can result from those types of
21 adjustments as well.

22 **Q. Okay. That was what I was trying to clarify.**
23 You weren't suggesting that those considerations are
24 not appropriate for the Commission; it's just that
25 they weren't part of your particular analysis?

1 **A. They're not part of my analysis, and they**
2 also -- again, I mean, purely from the standpoint of
3 a regulatory analyst looking at the cost of equity
4 and looking at the financial integrity and health
5 and viability of the utility, I would suggest that
6 deviating markedly from the market cost of equity
7 presents a lot of challenges and pitfalls for --
8 ultimately, for consumers as well because if the
9 utility is unable to earn a fair ROE, that has
10 implications for reliability ultimately and the
11 quality of service ultimately.

12 And I think, obviously, there's fairness
13 issues to investors as well in terms of what a
14 return should be granted for them putting up their
15 capital.

16 So it's not -- it's not a swag where we get to
17 say, well, things are tough in the service
18 territory, and the cost of equity is sort of an
19 amorphous number. We know it's not a fixed number
20 that we can look at in the market, so we're just
21 going to chop an increment off because there's
22 hardship in the service territory. I don't think
23 that's good policy.

24 **Q.** Okay. Would you agree that whether rates are
25 fair, just, and reasonable, which, as you noted, is

1 the standard that the Commission uses and one that
2 has been adjudicated in the courts in Kentucky,
3 necessarily includes consideration of whether those
4 rates are reasonable in light of the economic
5 conditions of the 28 counties that comprise the KPC
6 service area?

7 **A. I think that's a legal question I'm not**
8 **qualified to weigh in on.**

9 Q. Okay. You mentioned in response to questions
10 a minute ago that you looked to Kentucky to see what
11 was an appropriate range for the ROE. Is it -- were
12 you aware -- because it sounded like you were
13 looking at a report that suggested a higher ROE than
14 Duke has actually been getting.

15 Were you aware that the most recently
16 litigated case involving Duke Power Kentucky was a
17 9.25 ROE?

18 **A. Yes, I'm aware of that. And that's the order**
19 **that I was referring to in the earlier**
20 **cross-examination, and my only point on that was**
21 **that there are distinctions in the sense that Duke**
22 **is a higher-rated company, and the Commission**
23 **specifically cited Duke's ability to mitigate**
24 **regulatory lag when they gave that order.**

25 And if we look at President Mattison's

1 testimony with respect to earned ROEs for Kentucky
2 Power, it presents a very different picture. This
3 utility has not been able to mitigate regulatory
4 lag. It's earning returns which are dramatically
5 below what it's authorized.

6 Q. Right. Last question. Do you think that
7 it's inappropriate in the balancing that you
8 acknowledge has to occur between the interests of a
9 utility that's been underearning and a region that
10 has been underemployed and is having a fairly dire
11 economic time meeting its bills, do you think it's
12 appropriate that the Commission consider something
13 on the lower end of the ROE range rather than the
14 golden plate or the gold standard?

15 **A. Well, I mean, again, you're putting me in a**
16 **hard position because that's not really --**

17 Q. Well, I tell you what --

18 **A. The purpose of my testimony is to really give**
19 **the Commission the data it needs with respect to**
20 **what the market demands.**

21 Q. Okay. Well, let me ask you that question,
22 then. If it's a hard question for you, I just -- I
23 wanted to distinguish your role is to produce one
24 set of numbers, and the Commission's is to balance
25 the interests of all the parties in order to

1 determine what's fair, just, and reasonable.

2 You wouldn't disagree with that, would you?

3 **A. No, I wouldn't disagree with that.**

4 MR. FITZGERALD: Okay. I appreciate your
5 time and didn't mean to put you in a hard spot.

6 CHAIRMAN SCHMITT: Mr. Miller or Mr.
7 Childers, cross-examination?

8 MR. MILLER: Hi, Mr. Chairman. I'm back.
9 Sierra Club has no questions. Thanks a lot.

10 CHAIRMAN SCHMITT: Mr. Frye?

11 MR. FRYE: No questions at this time,
12 Mr. Chairman.

13 CHAIRMAN SCHMITT: Vice Chairman Chandler?

14 EXAMINATION

15 By Vice Chairman Chandler:

16 Q. Good evening, Mr. McKenzie.

17 **A. How do you do.**

18 Q. Wore out. It's been a long day. Thank you
19 for asking.

20 Let me just clarify. What role do the Hope
21 and Bluefield cases that you cite on page 5 of your
22 testimony play in your determination of an adequate
23 or proposed return on equity?

24 **A. Well, I think it's important to go back to**
25 **realize that one thing the Hope and Bluefield cases**

1 don't do is they don't tell the Commission how to
2 come to an answer, so they specifically leave that
3 up to the regulators. They do not specify a
4 particular methodology that should be employed.
5 It's the end result that matters.

6 So with respect to the end result, my view is
7 that there's a variety of methods that are accepted
8 in terms of analyzing the market cost of equity. I
9 think this Commission noted in its order in the Duke
10 case that it was appropriate to present multiple
11 methodologies. That's what I've done.

12 But I think, again, coming back to this end
13 result standard, it's not a good end result if a
14 commission authorizes an ROE of, let's say,
15 9.7 percent, and the utility is earning something
16 less than 6 or consistently earning less than 9.7.
17 That's a problem that needs to be addressed, and I
18 think that goes to the heart of the Hope and
19 Bluefield standards.

20 Q. Let me ask, on that front, have you provided
21 the Commission, as it relates to the return on
22 equity, the final product, the end result?

23 A. Well, in my view, the purpose of my testimony
24 is to present the market cost of equity. I'm
25 recommending 10.3. The company is asking 10. And

1 **I'm supporting 10 as a reasonable end result.**

2 Q. Right. But I just want to make sure I'm
3 clear that, as it relates to a return, you believe
4 that your proposal is -- is enough of an end result
5 that the Commission can accept it without making any
6 other adjustments necessary to reflect the legal
7 standards required.

8 **A. That's correct.**

9 Q. Okay. So you --

10 VICE CHAIRMAN CHANDLER: Can we get --
11 Mr. Ripy, can we get the document -- and I believe
12 it would be page 219, if it was 221 earlier -- but
13 the document that -- Ms. Vinsel, was it Number 9,
14 Mr. McKenzie's direct testimony?

15 MS. VINSEL: Yes, that's correct, Vice Chair.

16 VICE CHAIRMAN CHANDLER: So it will be Number
17 9 at 219, Mr. Ripy. You mind to share that?

18 Q. And I believe this will be page 5 of your
19 direct testimony, Mr. McKenzie, if it's easier to --
20 if you've got a version in front of you you'd prefer
21 to look.

22 **A. Thank you.**

23 Q. I'll ask you to look at the screen in a
24 minute, but I'd rather save your eyes until then.

25 So page 5, you cite both Hope and Bluefield.

1 When we get there, just please confirm that.

2 **A. That's correct.**

3 Q. Okay. And so your first one there is at
4 Bluefield, the Footnote 1, you started with a public
5 utility. There's something missing in the middle,
6 and then it ends with "public duties" at the end.

7 Do you see that?

8 **A. Yes.**

9 Q. Okay. And have you read the Bluefield case,
10 Bluefield Water Works & Improvement Company v.
11 Public Service Commission?

12 **A. Yes.**

13 Q. Okay. And so are you aware that there's --
14 well, are you aware that there's important text
15 prior to "a public utility is entitled"?

16 **A. Yes, certainly.**

17 Q. Okay. And what -- do you know what is
18 missing in between there where the ellipsis is
19 between "risks and uncertainties" and then "that
20 return should be"?

21 **A. No, not offhand.**

22 Q. Okay. So would you be surprised to know that
23 it says, "But it has no constitutional right to
24 profits, such as a realized or anticipated and
25 highly profitable enterprises or speculative

1 ventures"?

2 **A. No. I've read that language before. That's**
3 **-- that sounds familiar.**

4 Q. Okay. And so would you agree that that
5 language sounds like firms that are unregulated? Is
6 that a fair assessment, that are not rate-regulated?

7 **A. No, I wouldn't agree with you on that.**

8 Q. So you would agree that those highly
9 speculative ventures would likely be rate-regulated.

10 **A. No. What I'm saying is that I don't agree**
11 **that just because a firm is unregulated it's a**
12 **highly speculative venture.**

13 Q. I apologize. That wasn't the question that I
14 asked. I believe -- I meant to ask it the other
15 way, which was, although it may be one, it's not
16 necessarily the other, but you would agree that if
17 it's highly speculative it is not a rate-regulated
18 entity, correct?

19 **A. I see what you're saying. Yes, I would agree**
20 **with that. Well, actually, let me take that back.**

21 Q. Go ahead.

22 **A. There can be instances where rate-regulated**
23 **firms can be considered highly speculative. So the**
24 **most recent example would be PG&E. They just got**
25 **through getting out of bankruptcy, and they were**

1 **highly speculative for quite some time, and the**
2 **stockholders lost all their money.**

3 Q. I appreciate it. Were they highly
4 profitable?

5 **A. No. That was the problem. They couldn't**
6 **recover their costs and meet their liabilities with**
7 **respect to inverse condemnation associated with**
8 **wildfires.**

9 Q. Right. Right. And with your quote there
10 about Hope, it starts off, I believe, "The investor
11 or company point of view"; is that correct?

12 **A. Yes.**

13 Q. Okay. Would you be surprised to know that
14 the portion just above that -- or just before that
15 in the order says that "the ratemaking process under
16 the Act," which is, I believe, the Natural Gas Act.
17 Is that your understanding as well?

18 **A. Yes.**

19 Q. Okay. "The ratemaking process under the Act,
20 i.e., the fixing of just and reasonable rates,
21 involves a balancing of investor and the consumer
22 interests." And then would you agree that the quote
23 you cited there goes on to discuss the investor
24 interests?

25 **A. Yes.**

1 Q. Okay. And so is it your testimony that the
2 balancing act only occurs after an ROE is
3 determined, or would you agree that customers should
4 be considered in the determination of an ROE?

5 **A. Well, I think -- I'm not trying to cop out**
6 **here, but I think it does call a little bit for a**
7 **legal opinion in terms of analyzing the exact**
8 **language of Hope and Bluefield in terms of what that**
9 **means.**

10 But, to me, again, it comes back to that end
11 result and is the end result fair, and the end
12 result is, I think clearly, based on the language
13 included in my testimony and also the language that
14 you've supplied today, it does anticipate a
15 balancing. I don't disagree with that whatsoever.

16 I just wanted to clarify that my only point is
17 that I don't think it's an imbalance for the Company
18 to be offered an opportunity to earn in the market
19 cost of equity, whatever the Commission decides that
20 actually is.

21 Q. Well, and that's why I wanted to ask about
22 going back to the end result portion we talked about
23 earlier. So is it your understanding -- or let me
24 ask this: Is it your testimony that, as it relates
25 to return, what you've proposed is the end result in

1 that matter, and are you proposing for the
2 Commission to make no adjustments in balancing the
3 consumer interests in making the determination of
4 the return on equity?

5 **A. Yeah, I think how the Commission balances**
6 **interests, when it comes to the return on equity, is**
7 **to consider the record evidence in this proceeding**
8 **and make a determination as to what the actual**
9 **market cost of equity is. It's not --**

10 Q. Excuse me. Go ahead.

11 **A. Well, I just wanted to clarify that, and**
12 **again, I think I mentioned this earlier, it's not a**
13 **question of deciding that, well, as a Commission we**
14 **think the market cost of equity is 9.7, but we're**
15 **going to cut it down to 9 because the economy is**
16 **suffering. I think that's bad policy.**

17 Q. Yeah, and what I wanted to be clear about --
18 what I'm asking here is there's -- one of the things
19 that was addressed in rebuttal testimony was one of
20 the parties proposed an adjustment, the Company said
21 we've already made that adjustment, right? And the
22 concern was that it's unfair for the same adjustment
23 to be made twice.

24 What I'm effectively asking you is have you
25 balanced, in your determination of your ROE

1 recommendation, the interests of investors and
2 consumers insofar as it's included in your end
3 product, or are you providing only the perspective
4 of the investor and leaving the balancing of the
5 consumer to the Commission?

6 **A. I think when it comes to Hope and Bluefield**
7 **and the requirements for a return, I think they're**
8 **not -- there's not a distinction. I think the**
9 **Commission's job is to establish what it believes to**
10 **be the market cost of equity and allow the utility**
11 **an opportunity to recover that.**

12 So just -- again, getting back to any other
13 input that goes into providing service, if the cost
14 of wire is X, the Commission doesn't multiply that
15 by 90 percent and put that in the cost of service
16 based on a balancing of consumer interests and
17 investor interest. The cost is the cost.

18 And I think the same is true for the cost of
19 equity, that, clearly, based on the language we've
20 discussed, Kentucky Power is not entitled to earn an
21 ROE that exceeds its costs or that is equivalent to
22 a speculative enterprise or a highly profitable
23 enterprise. I think that's what we're kind of
24 talking about when we try to balance these issues.

25 **Q. Yeah. And I can appreciate that -- that --**

1 that -- you know, understanding our role, I think I
2 somewhat do, but what I'm wanting to make sure of,
3 in consideration of your evidence, is have you
4 considered that, or should we assume that that
5 hasn't -- that consumer interest has not necessarily
6 been considered in the amounts that you've provided
7 us? That's what I want to be sure of in this
8 matter.

9 **A. Well, again, my evidence presents my**
10 **independent estimate of the market cost of equity,**
11 **and I think that establishing the ROE based on the**
12 **market cost of equity does represent the appropriate**
13 **balancing. I think that's what the Commission is**
14 **supposed to be doing.**

15 Q. Okay. And I do have just one more question.
16 And I apologize.

17 One of the items that I believe is mentioned
18 in your -- the Bluefield quote maybe is -- can you
19 still see that?

20 **A. I have my testimony here in front of me.**

21 Q. I believe it's on line 7 --

22 **A. Uh-huh.**

23 Q. -- where it talks about the part of the
24 country, same general part of the country.

25 **A. Right.**

1 Q. And so in terms of the economy, for instance,
2 in the 20 eastern Kentucky counties that Kentucky
3 Power serves, the broader eastern Kentucky area, the
4 Appalachian area, Kentucky as a state, did any part
5 of your analysis specifically look at that, or was
6 your analysis more -- more generalized than looking
7 at specifically the area in which Kentucky Power
8 operates to determine if -- I think the quote says
9 that, you know, the rates, the return "being made at
10 the same time and in the same general part of the
11 country on investments in other business
12 undertakings which are attended by corresponding
13 risks and uncertainties."

14 **A. Yeah, I mean, it's difficult to translate**
15 **that language into monitoring capital markets,**
16 **because, obviously, Kentucky Power and AEP are**
17 **competing on a global basis for capital, and it's**
18 **generally accepted that a utility -- an investor in**
19 **AEP, or let's take Kentucky Power, has the**
20 **opportunity to invest in any number of other**
21 **equivalent common stocks in the utility space.**

22 So it's really pretty impractical to think
23 that we're going to go to eastern Kentucky and find
24 some kind of a comparable group on which to evaluate
25 a fair ROE. I think, in olden times, when the

1 Supreme Court was looking at this, there was the
2 notion that we would look to nonregulated firms and
3 see --

4 Q. Mr. McKenzie, I don't mean to interrupt you.
5 I will ask the question again and give you an
6 opportunity, but I'm afraid we may have had an issue
7 with our connection to the system, and it may have
8 stopped recording. So I just want to make sure
9 that's not the case.

10 MS. VINSEL: Yes, it's --

11 CHAIRMAN SCHMITT: What happened?

12 MS. VINSEL: -- that failure that we
13 experienced yesterday where they can't see and hear.
14 It's that failure.

15 VICE CHAIRMAN CHANDLER: We can hear you now,
16 Ms. Vinsel.

17 CHAIRMAN SCHMITT: As far as we know, it's
18 still working. I don't know.

19 MS. VINSEL: It's working again, Chairman.

20 VICE CHAIRMAN CHANDLER: Ms. Vinsel, you can
21 hear us?

22 MS. VINSEL: Yes, we can hear you, Vice
23 Chair.

24 VICE CHAIRMAN CHANDLER: Okay. Can we just
25 confirm that it's still recording and that it

1 recorded throughout that period?

2 CHAIRMAN SCHMITT: It did.

3 Q. All right. I apologize, Mr. McKenzie.

4 **A. Yeah, I think I was just wrapping up my**
5 **answer, but I was just suggesting that it's really**
6 **impractical to think that we could go to the**
7 **Company's service territory and look for**
8 investment -- businesses of comparable risk and
9 develop a market return based on that kind of a
10 notion, because capital markets are much broader.

11 And I think back when the Supreme Court was
12 looking at this, there was an idea that they would
13 look to nonregulated businesses as the basis of the
14 earned returns that were used in evaluating the fair
15 ROE, but I think that's not really how that type of
16 analysis should be done.

17 Q. Okay. But I just want to make sure that I'm
18 clear. You did not, as part of your analysis, look
19 at the returns or earnings of companies that do
20 operate in Kentucky Power to determine whether the
21 ROE proposed for Kentucky Power was appropriate in
22 light of those circumstances?

23 **A. In light of businesses that are operating**
24 **within the service territory of the utility?**

25 Q. Right, the same general part of the country

1 that Kentucky Power operates at. I just want to
2 confirm that that was not the case.

3 **A. I did not do that.**

4 VICE CHAIRMAN CHANDLER: All right. I very
5 much appreciate it, Mr. McKenzie, sticking with us
6 for three days. Thank you very much.

7 CHAIRMAN SCHMITT: Dr. Mathews, questions?

8 COMMISSIONER MATHEWS: I have one. Well, I
9 have a question about timing. I know you said
10 earlier, Mr. Chairman, that you would like to break
11 by 6:00?

12 CHAIRMAN SCHMITT: Yes, but let's see if we
13 can finish this witness and go on.

14 COMMISSIONER MATHEWS: Well, my concern is
15 not so much myself, but the reams of notes that I
16 see
17 Mr. Garcia taking during everyone else's
18 questioning.

19 CHAIRMAN SCHMITT: Well, Mr. Garcia can ask
20 all the questions that he wants. Personally, I
21 don't think it's necessary to have asked very many
22 questions during the cross, but whatever.

23 Go ahead. Let's finish it up unless -- the
24 only thing that would make me take a contrary
25 position, what -- I'd want to first talk to

1 Ms. Grundmann and see how her law partner is doing,
2 because that -- that would be a primary concern.

3 How is your partner, Ms. Grundmann?

4 MS. GRUNDMANN: My cocounsel has adopted a
5 far more agreeable demeanor and is prepared to join
6 us for as long as we need.

7 CHAIRMAN SCHMITT: Okay. Well, if that
8 becomes a problem, you just let us know. Okay?

9 MS. GRUNDMANN: No, we're good. He had his
10 moment. It corresponded with almost exactly when I
11 was preparing to ask my cross, and then of course as
12 soon as I was done, he was perfectly fine with
13 quieting up and taking a nap. So thank you.

14 CHAIRMAN SCHMITT: All right. Thank you.

15 Dr. Mathews, do you have a question or two or
16 three or whatever?

17 COMMISSIONER MATHEWS: I think maybe we can
18 do it in one.

19 EXAMINATION

20 By Commissioner Mathews:

21 Q. When you're looking at the -- because is it
22 not important that we look at relative risk of
23 companies?

24 **A. Yes, it is important that we look at the**
25 **overall risk.**

1 Q. Still getting the proper (indiscernible) and
2 so forth?

3 **A. That's correct.**

4 Q. So companies that have trackers such as the
5 fuel adjustment clause, companies that are granted
6 the opportunity to earn their environmental
7 surcharge mechanisms and so forth, those companies
8 would be lower in risk in your group, correct?

9 **A. Yeah, other things equal. I address this in
10 my testimony, and I presented it in my direct
11 testimony. Exhibit AMM-3 compares the various
12 regulatory mechanisms that are in place for the
13 proxy group companies.**

14 So on that basis it's my determination that
15 Kentucky Power is not lower risk compared with the
16 proxy group on the -- based on those considerations.

17 I think the other factor to keep in mind that
18 was discussed earlier with Mr. Messner is that
19 investors really care about what actually
20 transpires. They don't so much care about what the
21 -- they care about what the authorized ROE is, but
22 they also are very invested in whether the utility
23 is able to earn it.

24 And I think the evidence in Mr. Mattison's
25 testimony shows that despite the tracking mechanisms

1 and regulatory mechanisms in place, Kentucky Power
2 has been unable to do that for quite some time. I
3 think that's a significant risk for investors.

4 Q. And I was having that conversation from that
5 all other things being held equal.

6 COMMISSIONER MATHEWS: I'm done, Mr.
7 Chairman.

8 CHAIRMAN SCHMITT: I'm sorry. Have you
9 completed your --

10 COMMISSIONER MATHEWS: I'm finished.

11 CHAIRMAN SCHMITT: Mr. Garcia? I know you
12 probably have 20 pages of notes, but go right ahead.
13 You're welcome to spend all the time you want on
14 redirect.

15 MR. GARCIA: Your Honor, first of all, let me
16 emphasize I will ask the questions at your pleasure.
17 If you would prefer that we go on, I am ready to
18 proceed now or we can --

19 CHAIRMAN SCHMITT: Let's go ahead and finish.
20 If we finish now, we can start with Mr. Phillips in
21 the morning, and I suspect your last four witnesses
22 will probably take some time. So we might as well
23 go ahead and finish this witness now and start fresh
24 in the morning with someone else.

25 MR. GARCIA: I will do my efforts to do it

1 quicker, Your Honor, but I need --

2 CHAIRMAN SCHMITT: You take whatever time
3 you -- no, Mr. Garcia, you take whatever time you
4 need. Don't worry about that. We want you to have
5 every opportunity to ask every question that you'd
6 like to ask, and that's only fair.

7 MR. GARCIA: I'll try to be efficient. I
8 have been teased before about lawyer minutes, which
9 are, like, three times longer than everybody else's.

10 CHAIRMAN SCHMITT: I'm a lawyer. I know how
11 lawyers are.

12 MR. GARCIA: Thank you, Your Honor. May I
13 proceed?

14 CHAIRMAN SCHMITT: Yes, you may.

15 MR. GARCIA: Thank you.

16 REDIRECT EXAMINATION

17 By Mr. Garcia:

18 Q. Mr. McKenzie, if I can draw your attention to
19 AMM-21. You were asked questions about that.

20 **A. Yes.**

21 Q. Actually, let me ask you at a general level.
22 The DCF model, is it vulnerable to market anomalies?

23 **A. Yes. I mean, there's model risks associated**
24 **with any approach we use to estimate the cost of**
25 **equity. That's why I recommend using multiple**

1 **approaches. I think that's one of the problems that**
2 **I have with Mr. Baudino's analysis because he relies**
3 **only on the DCF for his recommendation.**

4 So I think it's important to use more than one
5 model. And certainly there's -- there's the
6 potential that conditions in the market can cause a
7 method like the DCF to be -- to produce results that
8 are unrepresentative.

9 Q. Great. And under your analysis, one of the
10 things that you did was the information in AMM-21
11 was it to -- I'm going to use the word temper it
12 with the use of other methodologies to arrive at
13 your conclusions about what is the required ROE from
14 investors for Kentucky Power?

15 A. Yes, that's correct. I mean, AMM-21 was the
16 DCF model for the nonutility group, which actually
17 didn't factor directly into my recommendations, but
18 as I indicated earlier, I think it's an important
19 benchmark that should be considered, but it's just
20 one of a number of methods that I believe the
21 Commission should give weight to.

22 Q. If I can, then, turn your attention on the
23 same spirit of the question to AMM-14, which I think
24 follows the table, the exhibit that you were asked
25 about, AMM-13. So I'm asking you about AMM-14.

1 **A. AMM-14? Okay.**

2 Q. Okay. And am I correct, Mr. McKenzie, if you
3 could explain a little bit the relationship between
4 the information that you present in AMM-14 and the
5 midpoint -- the range of reasonableness in the
6 Baudino proxy group as illustrated in AMM-13,
7 please.

8 **A. Okay. I'm having a little bit of a problem.**
9 **AMM-14 in my rebuttal testimony is the summary of my**
10 **updated results. Is that where you wanted to point**
11 **me?**

12 Q. That's correct, with the use of the multiple
13 methodologies that you have?

14 **A. Okay. I mean, I think in some ways it's**
15 **better summarized in Hearing Exhibit 9, which**
16 **basically condenses those numbers down using**
17 **averages which demonstrates that the indicated ROE**
18 **for the proxy group is on the order of 10.1, which**
19 **is actually higher than my recommended midpoint.**

20 And so I think that is adequate support for my
21 recommendation. The range is certainly reflective
22 of the results. As I pointed out earlier, it's not
23 the case that the range reflects the extremes, but
24 it reflects a necessary narrowing of the results of
25 the individual analysis down to a reasonable range.

1 Q. Okay. And I'm going to take a shortcut and
2 ask you a question that I think will consolidate
3 some of the pages that the Commissioner Mathews so
4 aptly observed.

5 Kentucky Power, within the range of utilities,
6 with its Baa3 Moody's rating would tend to be a
7 riskier investment. Like, for example, Duke
8 Utilities with -- Duke Kentucky with Baa1 or
9 Louisville Gas & Electric with A3 or similar peers
10 that are rated higher by credit rating agencies,
11 correct?

12 **A. Yes, that's correct. And, as I think I**
13 **indicated earlier, as you get down to the very**
14 **bottom of the investment grade scale, that**
15 **consideration becomes even more important because**
16 **any further degradation of the Company's credit**
17 **metrics or credit rating would imply speculative**
18 **grade rating, which entails a very significant**
19 **increase in risk and cost of capital.**

20 Q. Thank you. If I can draw your attention to
21 AMM-19, please.

22 **A. Okay. I'm there.**

23 Q. And this page reflects a portion of the
24 analysis for the risk premium methodology; is that
25 correct?

1 **A. Yes.**

2 Q. Okay. And that is, again, one of the
3 alternative methodologies that would provide a
4 richer picture than relying, for example, only on
5 the DCF methodology?

6 **A. Yes, sir.**

7 Q. Okay. Can you explain to me why is it
8 necessary to have dates range that goes in this page
9 from 2019 to 1974? Would it be possible to have a
10 significantly shorter sample and still be able to
11 rely on this analysis, like, say, five years?

12 **A. Well, in my view, that wouldn't be the proper**
13 **approach. I think when we look at historical**
14 **studies, we really should consider all of the**
15 **available data. Just like I don't think it's**
16 **appropriate to suggest that we should subjectively**
17 **take out information when we construct beta values**
18 **based on an argument about whether it applies or**
19 **didn't apply. I think the more sound basis for this**
20 **analysis is to consider all of the available data,**
21 **which is what I've done here.**

22 Q. Okay. And, Mr. McKenzie, you were asked
23 about beta and about the utility industry as it
24 compares to the oil market. Do you recall that line
25 of questioning?

1 **A. Yes.**

2 Q. And, if you could explain, sir, projected
3 beta, future beta, you know, the ones that would
4 make us lots of money if we could know them, are
5 they any or predictable than, say, for example,
6 interest rates, which cannot be predicted even if
7 they can be projected?

8 **A. Yeah. It's analogous. It's analogous to**
9 **many of the inputs that goes into estimating the**
10 **cost of equity. The same -- the same is true about**
11 **the growth rate that's used in the DCF study, for**
12 **example. It's an unknown quantity. It presumably**
13 **shouldn't reflect investors' expectations, but we**
14 **can't observe those. So we have to go out and**
15 **develop a proxy, and the Value Line beta is the most**
16 **widely relied upon for that purpose.**

17 Q. Okay. You were asked about distinctions with
18 the Duke Kentucky order that recently authorized
19 9.2 percent ROE?

20 **A. Yes.**

21 Q. And I think you started to point out that
22 there were some important distinctions, and I want
23 to make sure that the record is clear what those
24 important distinctions are.

25 **A. Well, the first one we discussed earlier is**

1 **the credit rating. So Duke's Moody's rating is Baa1**
2 **versus a Baa3 rating for Kentucky Power. Now, their**
3 **S&P rating is A minus, which is the same at Kentucky**
4 **Power, but I think it's important to point out that**
5 **S&P's rating methodology is generally based on the**
6 **entire corporate entity. So it focuses -- it**
7 **focuses on AEP and all of the subsidiaries. It's**
8 **less company-specific.**

9 So if you look, for example, in the S&P
10 reports, they indicate a company-specific credit
11 profile for Kentucky Power of BBB. So, in other
12 words, they're saying that on a stand-alone basis
13 perhaps the risk of Kentucky Power would be
14 considerably lower, but they get support from AEP,
15 they're not paying dividends right now, and they're
16 able to access the capital markets through AEP, and
17 all of those things contribute to the A minus
18 rating.

19 Aside from the distinction of ratings, the
20 capital structure was different. Duke had about
21 48 percent equity. That's higher than what the
22 Company is requesting in this case.

23 And then, as I mentioned earlier, the order
24 specifically noted that Duke was in a position to be
25 able to mitigate regulatory lag. And as I think you

1 know, the evidence that we've seen in President
2 Mattison's testimony in this case demonstrate that
3 isn't the case for Kentucky Power. They're well
4 behind the eight ball in terms of actually earning
5 the allowed ROE that the Commission has found to be
6 just and reasonable in the last case.

7 Q. You mentioned the equity layer of Kentucky
8 Power as a point of comparison. Is it your
9 understanding that the equity for Kentucky Power is
10 relatively lower at 42 percent?

11 **A. Yes, it is, and this goes back to an earlier**
12 **question about -- that I had about pretax versus**
13 **after-tax returns as well. I mean, the fact that**
14 **Kentucky Power's equity layer is lower than the**
15 **companies in the proxy group. If you look at the**
16 **allowed equity layers for utilities where -- that**
17 **were authorized ROEs in 2020, for example, those are**
18 **averaging around 49 percent. Many of them are well**
19 **above 50.**

20 So that's implying a greater tax burden as
21 well as a greater cost burden and is associated with
22 Kentucky Power's capital structure.

23 Q. In other words, am I correct that authorizing
24 a higher ROE for Kentucky Power actually has a
25 lessened effect on customers because of that

1 relatively low equity layer?

2 **A. Yes, that's correct. And, in fact, there's a**
3 **chart in my direct testimony that illustrates that**
4 **impact, that compares Kentucky Power's weighted**
5 **average cost of equity with comparable statistics**
6 **for others in the industry that were recently**
7 **authorized at the time I prepared my direct**
8 **testimony, and Kentucky Power's is right in the low**
9 **end.**

10 Q. Okay. You were asked some questions about
11 the relationship between the ability of Kentucky
12 Power to attract capital and the economic
13 circumstances in its service territory.

14 From an investor point of view, Mr. McKenzie,
15 the economic condition of Kentucky Power, would that
16 be a -- a risk factor actually would make an
17 investment riskier and, therefore, would require a
18 higher return?

19 **A. Yes, that's true. I mean, that is one of the**
20 **features of the utility that credit rating agencies**
21 **and other investors would consider, common equity**
22 **investors would consider because it directly impacts**
23 **the utility's ability to earn a fair return and meet**
24 **its financial obligations.**

25 So to the extent that the service territory is

1 weak, that would imply greater risks to investors.

2 Q. And then let me then ask you one last
3 question in connection with this. You were asked
4 about the Bluefield and Hope standards. And it's
5 your understanding, sir, that the interest of the
6 consumers and the utilities are misaligned under the
7 Hope and Bluefield standard? Or are they consistent
8 with each other?

9 **A. No, I think under the Hope and Bluefield**
10 **standards there's a balancing of those interests.**
11 **So they would not be misaligned if those standards**
12 **are applied.**

13 Q. So let me ask you, then, one final question
14 just to verify that. Would it be bad for the
15 customers of Kentucky Power if the Company had an
16 ROE that wasn't sufficient to attract capital and
17 assure financial integrity?

18 **A. Yes. There's definite harms that can come to**
19 **consumers if the utility is unable to attract**
20 **capital.**

21 Q. And, conversely, it's good for customers if
22 the Company actually has an ROE and is able to
23 achieve that ROE that is consistent with Bluefield
24 and Hope?

25 **A. That's correct. And as Vice Chairman pointed**

1 out, that doesn't imply a return on a speculative
2 enterprise, but it implies a fair return that's
3 based on capital market evidence.

4 MR. GARCIA: Your Honor, if I can have a
5 second?

6 CHAIRMAN SCHMITT: Yes, you may.

7 MR. GARCIA: Your Honor, that's it.

8 CHAIRMAN SCHMITT: Okay. Thank you.

9 Well, we'll now go into recess until 9:00 in
10 the morning, at which time we'll come back. And I
11 guess is Mr. Phillips our next witness?

12 MR. GARCIA: That's my understanding, Your
13 Honor.

14 CHAIRMAN SCHMITT: Okay. We'll now be in
15 recess until 9:00 a.m. in the morning. Thank
16 you-all.

17 (Hearing adjourned at 6:30 p.m.)

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1 STATE OF KENTUCKY)
)
 2) SS.
)
 3 COUNTY OF JEFFERSON)

4
 5 We, Laura J. Kogut and Jennifer R. Janes,
 6 Notaries Public within and for the State at Large,
 7 with commissions expiring 25 July 2023 and 1 May
 8 2023 respectively, do hereby certify that the
 9 foregoing hearing was taken before us at the time
 10 and place and for the purpose in the caption stated;
 11 that witnesses were first duly sworn to tell the
 12 truth, the whole truth, and nothing but the truth;
 13 that the hearing was reduced by us to shorthand
 14 writing; that the foregoing is a full, true, and
 15 correct transcript of the hearing to the best of our
 16 ability; that the appearances were as stated in the
 17 caption.

18 WITNESS our hand this 22nd day of November
 19 2020.

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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

VOLUME IV

Transcript of November 20, 2020, hearing
before Chairman Michael J. Schmitt at the Kentucky
Public Service Commission, 211 Sower Boulevard,
Frankfort, Kentucky 40602-0615, with Vice Chairman
Kent A. Chandler, Commissioner Talina R. Mathews,
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APPEARANCES
(Continued)

FOR SIERRA CLUB (Via Videoconference):

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FOR KENTUCKY PUBLIC SERVICE COMMISSION:

Ms. Nancy J. Vinsel
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P.O. Box 615
Frankfort, Kentucky 40602
(502) 564-39404
nancy.vinsel@ky.gov

ALSO PRESENT:

Ms. Candace Sacre, PSC Court Reporter

* * *

1 (Hearing commenced at 9:10 a.m.)

2 MS. SACRE: You're on.

3 CHAIRMAN SCHMITT: Are we on?

4 Okay. It appears we're back on the record.

5 Mr. Overstreet, are you --

6 MR. OVERSTREET: Good morning, Mr. Chairman.

7 CHAIRMAN SCHMITT: Good morning. Do you have
8 Kentucky Power's next witness available and ready to
9 testify?

10 MR. OVERSTREET: Yes, sir. We're ready to
11 go. Before we started, I was wondering whether we
12 had a hard stop for this evening.

13 CHAIRMAN SCHMITT: Well, we're going to go --
14 I guess if we get through Kentucky Power's
15 witnesses, yeah, there's no reason why we can't stop
16 at 5:00 o'clock. We're not going to finish, I don't
17 think. Maybe we will. If we get close, if we get
18 down to one or two witnesses at 5:00 o'clock, we may
19 keep going.

20 MR. OVERSTREET: Okay.

21 CHAIRMAN SCHMITT: Unless somebody has a
22 commitment. I mean, if you have -- any of the
23 attorneys or witnesses or parties have a problem or
24 a commitment or something, I mean, we've got Monday
25 scheduled, if necessary, so that -- it won't be a

1 problem. I don't want to put anybody to a lot of
2 inconvenience over it.

3 MR. OVERSTREET: Thank you, Mr. Chairman. We
4 would call Everett G. Phillips.

5 CHAIRMAN SCHMITT: Okay. Mr. Phillips,
6 please raise your right hand. Do you solemnly swear
7 or affirm, under penalty of perjury, the testimony
8 you are about to give will be the truth, the whole
9 truth, and nothing but the truth?

10 THE WITNESS: I do.

11 CHAIRMAN SCHMITT: Thank you.

12 Counsel, you may ask.

13 EVERETT G. PHILLIPS, having been first duly
14 sworn, testified as follows:

15 DIRECT EXAMINATION

16 By Mr. Overstreet:

17 Q. Mr. Phillips, if you'll lean forward and
18 speak into the microphone, please.

19 **A. I do.**

20 Q. Mr. Phillips, would you please state your
21 name, position, and business address for the record?

22 **A. Everett G. Phillips, 1645 Winchester Avenue,**
23 **Ashland, Kentucky 41101.**

24 Q. And by whom are you employed and in what
25 capacity?

1 **A. Kentucky Power Company as vice president**
2 **distribution region operations.**

3 Q. And, Mr. Phillips, did you cause to be filed
4 in the record of this proceeding direct testimony
5 and responses to data requests?

6 **A. Yes, I did.**

7 Q. And do you have any corrections or updates to
8 your testimony or data request responses?

9 **A. No.**

10 Q. And if you were asked those same questions
11 today, would your answers be the same?

12 **A. Yes, they would.**

13 MR. OVERSTREET: Your Honor, the witness is
14 available --

15 CHAIRMAN SCHMITT: All right. Ms. Vinsel.

16 MR. OVERSTREET: -- for cross-examination.

17 CHAIRMAN SCHMITT: Ms. Vinsel,
18 cross-examination.

19 (Feedback.)

20 MS. VINSEL: We have to wait a second, see if
21 we can fix our audio.

22 CHAIRMAN SCHMITT: We're getting feedback.

23 MS. VINSEL: Will you turn off your speaker,
24 please?

25 THE REPORTER: It's on mute.

1 MS. VINSEL: One moment.

2 CHAIRMAN SCHMITT: We have to wait a second,
3 see if we can fix our audio.

4 MS. VINSEL: You might want to put on a mask.
5 And then I need to check your GoToMeeting. No, it's
6 not. Click right there. Click that.

7 THE REPORTER: Okay. Give me just -- can I
8 have just one second? Give me just one second.

9 MS. VINSEL: Sure. Sure. It looks like you
10 need it.

11 CHAIRMAN SCHMITT: Did that solve the
12 problem? It still -- we still have --

13 THE REPORTER: Okay. Let me get out
14 altogether and I will start again. And I am very
15 sorry. Is that better?

16 MS. VINSEL: Let's try again. I think we've
17 resolved it.

18 CHAIRMAN SCHMITT: Okay. All right. Let's
19 just try, see what we can do.

20 Ms. Vinsel, cross-examination?

21 MS. VINSEL: Yes. Thank you, Mr. Chairman.

22 CROSS-EXAMINATION

23 By Ms. Vinsel:

24 Q. Good morning, Mr. Phillips. How are you
25 today?

1 **A. Good morning.**

2 Q. I have just a few questions for you. They
3 are in regard to vegetation management. We're aware
4 that Kentucky Power and several other utilities in
5 your area have an increasing issue with what's
6 called hazard trees. And is it correct, these are
7 trees that are outside of a utility's right-of-way
8 but still either do or can create outage situations;
9 is that correct?

10 **A. Yes. Yes, that's correct. What we call a**
11 **hazard tree or a danger tree are trees that either**
12 **are leaning toward the line or are diseased in some**
13 **manner. We're seeing a lot of roof rot disease with**
14 **our oak trees. The emerald ash borer beetle has**
15 **killed most of the ash trees in Kentucky. And other**
16 **pathogens are killing those trees. As one example,**
17 **we've had some big old oak trees -- you know, oak**
18 **trees are one of your healthiest trees, and that --**
19 **that are out there and have a healthy root system,**
20 **but for some reason, it may be possibly because**
21 **we've received above average rainfall over the last**
22 **several years, that it's causing the roots to rot.**

23 So that big oak tree falls over and at the
24 butt it's just a ball. The roots are still in the
25 ground and the butt of the tree has basically broken

1 away from the roots. It's kind of an eerie feeling
2 when you walk up to one of those. It's very
3 unusual. But unfortunately, in the steep terrain,
4 we are experiencing more of that type of situation.

5 Q. I will say that I had the -- I consider it a
6 great good fortune to spend about a week in
7 September in an area that was in Kentucky Power
8 service territory and abutted it and got to
9 experience firsthand the issues that you're talking
10 about. So those are vivid memories.

11 **A. Well, good. I hope you had a good time.**

12 Q. I had a wonderful time. Beautiful area.

13 CHAIRMAN SCHMITT: Nothing like a little root
14 rot to, you know, stimulate your day.

15 THE WITNESS: That's right, Your Honor.

16 Q. There are a couple issues that I want to get
17 to with hazard trees in particular. Intuitively,
18 for people -- again, I think if you don't see the
19 terrain, sometimes it's hard to imagine why a hazard
20 tree has become such an issue once the trees in the
21 right-of-way are dealt with.

22 And can you walk me through, is there any
23 correlation between clearing out trees in the
24 right-of-way and then hazard trees increasing an
25 issue, or is it just both trees in the right-of-way

1 and hazard trees would have been an increasing issue
2 no matter what?

3 **A. When we first started the program back in**
4 **2010, the right-of-way was grown up within the power**
5 **lines, so we first had to remove those. Once the**
6 **right-of-way is established, which it is now --**
7 **we're into our five-year cycle. We're into that**
8 **program. So the trees within the right-of-way are**
9 **being cut and removed, you know, within a five-year**
10 **period.**

11 Well, what that allows, though, once that
12 right-of-way is cleared, then the trees on the edge
13 of the right-of-way or just outside the right-of-way
14 in a forested area, heavily forested area, those
15 trees then, especially young trees, they reach for
16 that sunlight. Well, there's sunlight in the
17 right-of-way versus in the forest.

18 So subject to check, but I believe I had
19 mentioned that in one of my previous testimonies in
20 one of the previous rate cases, that we would
21 potentially see that effect. As we established the
22 right-of-way, we would see an increase in outside
23 the right-of-way issues, and lo and behold, that is
24 happening for us.

25 **Q. Is -- I'm going -- this is almost a complex**

1 question. I want to make sure I break it down. In
2 terms of cost for hazard trees -- no, let me back
3 up.

4 The trees in the right-of-way, would Kentucky
5 Power always -- when they take down a tree, would
6 they always clear the tree out of the right-of-way,
7 or could they leave the tree in the right-of-way,
8 again, depending on the location?

9 **A. Yes, it depends on the location. The -- if**
10 **it's in a maintained area when we're -- when we're**
11 **clearing the right-of-way, if it's in a maintained**
12 **area, we remove the tree and the brush. If it's an**
13 **unmaintained area, if it's going across the hillside**
14 **in the forest, we'll leave it lay. We put it at the**
15 **edge of the right-of-way so that we can still walk**
16 **through, but we do leave the tree and the brush in**
17 **an unmaintained area.**

18 Q. And that raises the issue, then -- I mean, by
19 definition hazard trees are outside of the
20 right-of-way, so they're on private property or
21 property belonging to someone else. Is it your
22 experience that more often they clear -- trees,
23 hazard trees, have to be removed rather than placed
24 strategically but left there on the property?

25 **A. When that -- when we use the term "remove,"**

1 that means we have cut it down. It doesn't
2 necessarily mean that we have removed it from the
3 property. It just means --

4 Q. Okay.

5 A. -- we have cut it down.

6 Q. So what term do you use to indicate that the
7 tree has been cut up and taken off of the property?

8 A. That's usually termed "removing the debris."

9 Q. Okay.

10 A. And so some customers request us to remove
11 that debris, some will permit us to leave it. So we
12 work with each individual customer.

13 Q. Okay. And my last question, really, has to
14 go to the cost. I would think if you have to remove
15 the debris that that's an increased cost, but also,
16 given the terrain of Kentucky Power, do you have
17 issues where your crews have to remove the debris
18 but, because of the terrain, perhaps cannot get in
19 the trucks they need to do it?

20 A. In a lot of our locations it is manual work,
21 both to trim, cut, and remove the tree, and remove
22 the debris. It is a manual process. But if a
23 customer requests us to remove it and it's in a
24 maintained area, we remove it. If it's in an
25 unmaintained area, we work with the customer, but

1 **ultimately, if they want it removed, we remove it.**

2 Q. Thank you. You answered all my questions.

3 CHAIRMAN SCHMITT: Cross-examination by
4 Office of Attorney General?

5 MR. COOK: Your Honor, the AG has no
6 questions of this witness.

7 CHAIRMAN SCHMITT: Ms. Grundmann,
8 questions -- oh, Mr. -- I'm sorry. Mr. Kurtz,
9 you're next in line. I got -- lost my order here.
10 Any questions?

11 MR. KURTZ: Thank you, no.

12 CHAIRMAN SCHMITT: Ms. Grundmann, any
13 questions by you or co-counsel?

14 MS. GRUNDMANN: Yes, very briefly. My
15 co-counsel is napping. He said he wanted to be
16 prepared for Mr. Vaughan's testimony later today.

17 CROSS-EXAMINATION

18 By Ms. Grundmann:

19 Q. Good morning, Mr. Phillips. How are you?

20 **A. Good morning. Just fine, thank you.**

21 Q. I just want to understand a little bit. A
22 couple of witnesses for the Company have offered
23 testimony on the rider that you're proposing to
24 recover AMI costs. Can you sort of break down for
25 me specifically the context in which you provided

1 testimony on this -- on that issue?

2 **A. Yes. The GMR, the grid modernization rider,**
3 **would benefit our customers because it would -- it**
4 **would allow us to do additional reliability**
5 **projects, improves the grid, if you will, with the**
6 **smart grid technologies of today, and which AMI is**
7 **one of those technologies. The challenge that we**
8 **have with this in distribution is with the limited**
9 **amount of capital that we have and the fact that**
10 **Kentucky Power's service territory is experiencing**
11 **little to no load growth. We don't have the**
12 **opportunity to do many capacity-driven projects that**
13 **helps upgrade the facilities as you're increasing**
14 **your revenue.**

15 So without that increase in revenue, we need
16 a way to make sure that we have capital available to
17 do distribution projects and not have to compete
18 internally with generation and transmission
19 projects, which is what we have to do today.

20 Q. I'm sorry. I apologize. I think I asked a
21 poor question. I believe that Mr. Vaughan and
22 certainly Mr. West both offered testimony on this
23 rider, correct?

24 **A. That's correct.**

25 Q. And I'm just trying to understand what

1 aspect -- like why did you offer testimony on that
2 piece? What about your role within the Company
3 makes you an appropriate witness to offer testimony
4 on it? I'm just trying to understand whether my
5 questions are best directed to you or some of the
6 other witnesses offering testimony on this subject.

7 **A. The reason that I introduced the GMR in my**
8 **testimony was because I'm the one that's requested**
9 **the Company to develop a mechanism that we could be**
10 **able to add additional capital without reducing my**
11 **current spend for reliability projects which benefit**
12 **our customers today.**

13 So we have a growing need to enhance our
14 grid, our distribution grid, and I want to be able
15 to do that in the most low-cost manner possible, and
16 just this GMR would afford us that ability to do so.

17 Q. And when you say "in the most low-cost manner
18 possible," do you mean that from the perspective of
19 the Company or from the Company's customers?

20 **A. I think that's one and the same. Everything**
21 **we do is for the customers. So everything we do, we**
22 **try to do it in the most efficient manner and the**
23 **lowest cost possible. Every time --**

24 Q. Well, so --

25 **A. -- we purchase equipment, we --**

1 Q. Go ahead.

2 **A. -- we go through a procurement process to**
3 **make sure that we're buying the best equipment**
4 **available at the lowest cost possible.**

5 Q. Well, but -- so I guess, then, obviously
6 there's two ways that you could recover costs for
7 AMI, right? You could come in on a base rate case
8 and seek to recover the cost that you incurred or,
9 as you have proposed here, you could have a rider
10 that allows you to recover the costs as you spend
11 them; is that fair?

12 **A. That's correct.**

13 Q. And so in a base rate case the Commission
14 would be entitled to look at all costs and savings
15 that may have occurred in the period when the monies
16 were spent, in terms of allowing you to recover
17 those in future rates from customers, correct?

18 **A. That's correct. With the GMR, it actually**
19 **will give the Commission -- it gives the Commission**
20 **more transparency and ability to review our projects**
21 **within the GMR. And the Company is more than**
22 **willing to provide reports and any data that they**
23 **would need to review that. And so I feel it**
24 **actually gives the Commission more opportunity to**
25 **scrutinize that, those projects.**

1 Q. But essentially what you're asking the
2 Commission to do here is to approve a future spend
3 of money based upon estimates that are being
4 provided now; is that correct?

5 **A. That is correct, much like we -- our**
6 **vegetation plan has done over the last ten years.**
7 **This would be in a very similar fashion. We'd**
8 **report out on an annual basis of our spend, and all**
9 **true-ups would occur, which is in Mr. West's**
10 **testimony. He could speak more to that, but that's**
11 **how that would work.**

12 Q. And just out of curiosity, do you have any
13 position on -- does the Company have a position
14 on -- well, let me -- let me rephrase this.

15 You have proposed the GMR as an ongoing
16 mechanism for future grid modernization projects,
17 correct?

18 **A. That is correct.**

19 Q. So other than --

20 **A. For example --**

21 Q. But other than the AMI, you're not proposing
22 any specific future projects at this time?

23 **A. Not at this time; that's correct.**

24 Q. And so I assume that the Company would not be
25 opposed if all the Commission were to approve would

1 be AMI as the sole project that could be recovered
2 through the GMR; is that correct?

3 **A. The first project that we need approved is**
4 **the AMI, so if the Commission was wanting to do**
5 **that, I would refer that to Witness West to verify,**
6 **but from an operations perspective, we need AMI**
7 **first, and --**

8 Q. Well, I think you're saying that the
9 Company's position on whether or not it would be
10 okay with an approval of a mechanism that only
11 permitted you to recover AMI and did not open the
12 door for future projects, that the person to answer
13 the Company's -- the questions about the Company's
14 position on that is Company Witness West?

15 **A. That is correct.**

16 Q. Okay.

17 MS. GRUNDMANN: No further questions.

18 CHAIRMAN SCHMITT: Mr. Spenard? Mr. Strobo?

19 MR. SPENARD: Good morning. Good morning,
20 Mr. Chairman. KYSEIA has no questions.

21 CHAIRMAN SCHMITT: Mr. FitzGerald, questions?

22 MR. FITZGERALD: Yes, Mr. Chairman. Thank
23 you.

24 * * *

25

1 CROSS-EXAMINATION

2 By Mr. FitzGerald:

3 Q. Mr. Phillips, can you hear me okay?

4 **A. Yes.**

5 Q. Okay. You're listed as testifying concerning
6 Kentucky Power's smart grid investments and overview
7 of investments to be recovered through the proposed
8 grid modernization rider. Mr. Vaughan and Mr. West
9 are also listed concerning the GMR. Is it to you or
10 to one of them that I should direct questions
11 following up on Ms. Grundmann's questions concerning
12 the use of a GMR to recover costs and profits for
13 the incremental deployment of AMI rather than the
14 more traditional cost recovery through a base rate
15 case? Are those questions for you or should I --
16 should I ask Mr. Vaughan or Mr. West?

17 **A. If you're asking about the mechanism or how**
18 **the GMR will work or the -- how the revenue**
19 **requirements would work, that would be either**
20 **Witness West or Witness Vaughan.**

21 Q. Okay. If you're not comfortable answering
22 this, I just have a couple other questions. What is
23 the impact -- you say -- you say that the GMR is a
24 benefit to the Company and to the customers, that
25 they are one and the same. The reality is, though,

1 that when you are accelerating the cost recovery, is
2 that not an adverse rate impact to the customers?
3 They're paying more quickly than they would if it
4 were spread out over the useful life of the asset?

5 **A. Well, with respect -- could you repeat the**
6 **question and make sure before I --**

7 Q. Sure.

8 **A. It may be better for Witness West, but --**

9 Q. Okay. Well, my question was: What is the
10 rate impact on ratepayers for the use of the rider
11 relative to spreading the recovery of the costs of
12 deployment over the useful life of the assets?

13 **A. Yeah. Witness West or Witness Vaughan would**
14 **be -- would be better. Any rate impact, that --**
15 **they're the experts on that.**

16 Q. Okay. Well, I will save those questions.
17 And that's what I needed to know, Mr. Phillips.
18 Thank you very much.

19 MR. FITZGERALD: Mr. Chairman, I am all
20 finished.

21 CHAIRMAN SCHMITT: Okay. Thank you.
22 Mr. Miller or Mr. Childers, Sierra Club?

23 MR. MILLER: Good morning, Mr. Chairman.
24 Good morning, everybody. Sierra Club has no
25 questions for this witness. Thank you.

1 CHAIRMAN SCHMITT: Mr. Frye, any questions?

2 MR. FRYE: No, Mr. Chairman, not at this
3 time.

4 CHAIRMAN SCHMITT: Vice Chairman Chandler,
5 questions?

6 VICE CHAIRMAN CHANDLER: I have no questions,
7 thank you, Chairman.

8 CHAIRMAN SCHMITT: Dr. Mathews, questions?

9 COMMISSIONER MATHEWS: I have no questions.

10 CHAIRMAN SCHMITT: Okay. Mr. Overstreet, any
11 redirect?

12 MR. OVERSTREET: No, thank you, Your Honor.

13 CHAIRMAN SCHMITT: Thank you.

14 Mr. Phillips, you may -- you may step down.
15 Thank you.

16 THE WITNESS: Thank you.

17 CHAIRMAN SCHMITT: Are you ready to call your
18 next witness, Mr. Overstreet?

19 MR. OVERSTREET: Yes, Your Honor. That would
20 be Mr. Blankenship, and as soon as we sanitize, he
21 is -- he's in the chute and ready to go.

22 CHAIRMAN SCHMITT: Okay. Thank you.

23 Okay. Ms. Blend, are we ready to go?

24 MS. BLEND: Yes, Your Honor. Thank you.

25 Good morning.

1 CHAIRMAN SCHMITT: Mr. Blankenship, would you
2 please raise your right hand? Do you solemnly swear
3 or affirm, under penalty of perjury, that the
4 testimony you are about to give will be the truth,
5 the whole truth, and nothing but the truth?

6 THE WITNESS: I do, Your Honor.

7 CHAIRMAN SCHMITT: Okay. Ms. Blend, you may
8 ask.

9 MS. BLEND: Thank you, Your Honor.

10 STEPHEN BLANKENSHIP, having been first duly
11 sworn, testified as follows:

12 DIRECT EXAMINATION

13 By Ms. Blend:

14 Q. Good morning.

15 **A. Good morning.**

16 Q. Would you please state your name and business
17 address for the record?

18 **A. Stephen Blankenship, 12333 Kevin Avenue,**
19 **Ashland, Kentucky 41102.**

20 Q. Thank you. By whom are you employed and in
21 what position?

22 **A. Kentucky Power Company as the region support**
23 **manager.**

24 Q. Did you cause to be filed in this case direct
25 testimony, rebuttal testimony, and responses to data

1 requests?

2 **A. Yes.**

3 Q. Do you have any corrections or changes to any
4 of those documents at this time?

5 **A. No.**

6 Q. If I were to ask you the same questions
7 contained in those documents today, would your
8 answers be substantially the same?

9 **A. Yes.**

10 Q. Thank you.

11 MS. BLEND: Your Honor, the witness is
12 available for cross-examination.

13 CHAIRMAN SCHMITT: Thank you.

14 Ms. Vinsel, cross-examination?

15 MS. VINSEL: Thank you, Chairman. Staff has
16 no questions for Mr. Blankenship.

17 CHAIRMAN SCHMITT: Mr. Cook or Office of
18 Attorney General, questions?

19 MR. COOK: Yes.

20 CROSS-EXAMINATION

21 By Mr. Cook:

22 Q. Good morning, Mr. Blankenship. I have a few
23 questions for you today. In this case it's true,
24 isn't it, that the Company did not provide a
25 cost-benefit analysis regarding the proposed AMI

1 deployment; isn't that correct?

2 **A. The Company did not provide a cost-benefit**
3 **analysis because it did not seem -- it did not think**
4 **it was necessary. The alternatives in this case are**
5 **relatively simple. Due to the obsolescence of our**
6 **AMR system, our lack of vendor support, and the fact**
7 **that 75 percent of our meters are at the end of**
8 **their useful life, based on this fact, it was not**
9 **deemed necessary to spend money to hire a consultant**
10 **to give an analysis that would not provide any more**
11 **information than what we already know.**

12 Q. And if I understand correctly, to date the
13 Company has only identified mere categories of
14 potential savings that could result from the
15 project; isn't that correct?

16 **A. Could you describe -- as far as mere savings,**
17 **describe what you're --**

18 Q. Well, benefits to ratepayers, savings for
19 ratepayers.

20 **A. The -- we've identified several customer**
21 **benefits that would come along with AM -- with**
22 **transition from AMR to AMI. First of all, the power**
23 **information, they would go from 12 data points -- or**
24 **12 readings per year to over 35,000. This would**
25 **make -- put them in charge of their electric usage.**

1 **We've also -- they would also at that point be able**
2 **to get high bill alerts with the option of flex pay.**
3 **We'd be able to remotely connect and disconnect**
4 **meters.**

5 In addition to that, we're looking into --
6 one of our affiliate companies is looking at sharing
7 our -- a portion of our communication network for
8 the ability to have other utilities -- or our
9 utilities use a portion of our network. That would
10 offset some of the expenses. We are going to take a
11 look at that aggressively also in Kentucky. And
12 also, there would be multiple -- as Company Witness
13 Mattison discussed earlier, with our outage
14 notification, currently a customer, when the power
15 goes out, they have to call us to let us know the
16 power is out. At that point, with AMI, we will
17 know, basically instantly, as soon as the power is
18 out. That, of course, will expedite the restoration
19 of service. There are many customer benefits
20 associated with AMI.

21 Q. Okay. And isn't it true that the Company --
22 the Company's existing meters, that there are spare
23 parts available for them?

24 **A. There are meters within the affiliate**
25 **companies, but what we -- what you have to**

1 understand with this portion is that our affiliate
2 companies are in various phases of their AMI
3 deployments, and they are still using these same AMR
4 meters. So we are basically in competition for
5 these meters. At that point, anything that we may
6 receive from one of our affiliate companies would be
7 the same obsolete, end-of-useful-life meters that we
8 are -- currently have on our system now.

9 Q. Okay. If, hypothetically, the Commission
10 were to deny your application for AMI deployment in
11 this case, and without prejudice, and if the Company
12 decided to refile for a CPCN for AMI deployment with
13 a cost-benefit analysis, isn't -- first of all, that
14 is something the Company could do, isn't it?

15 A. The -- I think regardless of what happens in
16 this case, you know, Witness Mattison described
17 earlier in his testimony, we are at a fork in the
18 road with our metering program in Kentucky Power.
19 Literally, one goes right over a cliff. Today -- we
20 have an obligation to provide service to our
21 customers. Today I can guarantee that to you. A
22 year from now, if we keep going the way we're --
23 failure rates that we have now, I can't -- I
24 can't -- I won't be able to guarantee that. So we
25 will have to do something.

1 Q. Okay. And so if I understand your testimony
2 correctly, instead of providing the cost-benefit
3 analysis that focused on -- specifically on Kentucky
4 Power's service territory, the Company instead has
5 presented this Commission with generalized studies
6 touting AMI benefits and customer satisfaction
7 surveys; isn't that correct?

8 **A. No, sir. What we've tried to provide here is**
9 **the facts of the dire straits that we are in with**
10 **our meter program right now. Again, I can't stress**
11 **enough that due to obsolescence of the AMR system,**
12 **the meters that we use are no longer being**
13 **manufactured, and when you couple that with the**
14 **fact, again -- I'll repeat this again for the**
15 **record, is 75 percent of our meters are at the end**
16 **of their useful life. And currently we're**
17 **experiencing higher than normal failure rates, and**
18 **we expect that to grow exponentially as they get**
19 **older.**

20 Q. Okay. Do the -- do the other AEP operating
21 company affiliates that have gone with AMI, do they
22 all use the same meter manufacturer and model?

23 **A. Are we discussing AMI or AMR?**

24 Q. AMI.

25 **A. Currently, within the AEP system, there is**

1 **two vendors. The majority of them use one. There**
2 **is -- our affiliate in Texas has a separate company**
3 **that they use -- or vendor that they use.**

4 Q. So the family of companies do not all use the
5 same type of equipment. And does that include also
6 the communications network and computer backhaul
7 equipment as well?

8 **A. They all -- they all utilize a mesh**
9 **communication -- a mesh communication network. They**
10 **do have separate backhuls for those. Like I said,**
11 **out of -- one of the four companies -- or, I'm**
12 **sorry, the five companies that have -- strike that.**
13 **It's four companies.**

14 One is on one vendor, the other four
15 companies are utilizing one, another vendor.

16 Q. Okay. So if I understand you correctly,
17 there is no centralization or standardization of
18 these systems among all the operating companies,
19 correct?

20 **A. This is all handled from the centralized**
21 **organization, if that's your question. I think that**
22 **you're --**

23 Q. Has the service company or any affiliate ever
24 done any studies to determine whether cost savings
25 could be achieved by standardizing or sharing the

1 same AMI computer backhaul systems?

2 **A. I'm not aware of a study.**

3 Q. Okay. So it sounds like there's duplications
4 between the AEP operating companies; is that
5 correct?

6 **A. As far as duplication, the networks
7 themselves operate similarly. There's still a
8 mesh-based network. It will still come back into
9 a -- the head-in system. The current contract, the
10 way I understand it -- and I can't speak to that
11 directly for the other companies, so I won't.**

12 Q. Okay. I understand. Are you aware that Duke
13 Energy procured a large pool of standardized AMI
14 metering infrastructure for its operating companies
15 to use, thus driving down the per-meter cost?

16 **A. I'm not aware of Duke's process; no, sir.**

17 Q. Okay. In your -- I'm sorry. Go ahead.

18 MS. VINSEL: Chairman. Chairman. I'm
19 sorry --

20 CHAIRMAN SCHMITT: I'm sorry, can't hear
21 anybody.

22 MS. VINSEL: I'm sorry to interrupt, but we
23 can't hear distinctly. If Mr. Blankenship doesn't
24 mind to lean forward.

25 CHAIRMAN SCHMITT: Mr. -- yeah,

1 Mr. Blankenship --

2 THE WITNESS: How about now?

3 CHAIRMAN SCHMITT: -- frankly, there's a
4 hearing problem here.

5 MS. VINSEL: Thank you.

6 THE WITNESS: Is that better?

7 CHAIRMAN SCHMITT: Yeah, I think that's fine.
8 Is that -- it's the court reporter is the one whose
9 hearing is more important. She has to hear more
10 clearly so she can record your testimony.

11 So, yeah, please proceed, Mr. Cook.

12 MR. COOK: Okay. Thank you, Chairman.

13 Q. And, Mr. Blankenship, if you need for me to
14 speak up too, just let me know. Okay?

15 So I think I was asking, and I'm not sure if
16 I caught the answer, I beg your pardon if I repeat
17 this question. I was asking about if you were aware
18 that Duke Energy procured a large pool of
19 standardized AMI metering infrastructure for its
20 operating companies to use, thus driving down the
21 per-meter cost?

22 **A. I'm not aware of the Duke process, but I can**
23 **attest that as far as with AEP, we're looking at the**
24 **same economies of scale to try to drive volume**
25 **purchasing.**

1 Q. Okay. In your direct testimony, as you
2 mentioned, you discussed the benefits of AMI
3 metering, right?

4 **A. That is correct.**

5 Q. And in your rebuttal, however, you state that
6 many of those benefits have already been achieved by
7 AMR metering; isn't that true?

8 **A. I believe I stated that a portion of the**
9 **benefits have already been accomplished with AMR**
10 **metering.**

11 Q. Okay.

12 **A. There were certainly quantifiable benefits**
13 **that I couldn't put a price tag on or a cost to,**
14 **such as customer satisfaction with -- you know, if**
15 **I'm able to provide a customer with the data that**
16 **they can take better control of their electric**
17 **usage, I can't quantify as far as what that's worth**
18 **to customer A versus customer B, but it's still a**
19 **benefit that they have.**

20 Q. Okay. And, in fact, you say the reason that
21 the Company did not perform a cost-benefit analysis
22 is that benefits of an AMI system would not show up
23 in such a study for that same reason; isn't that
24 correct?

25 **A. No, I think the key to the -- the reason,**

1 again, we did not perform any cost-benefit analysis
2 is due to the dire needs to upgrade our metering
3 system. And right now AMI is the standard in the --
4 in the industry. The only other option that we
5 would have would go to a slightly upgraded obsolete
6 AMR system which uses the SCM Plus technology, and
7 that would be -- we just deemed that was an
8 unnecessary cost that we -- but really, it only has
9 one vendor right now, and proprietary information.

10 So it would be an undetermined amount of time
11 that we would have to be with that system at an
12 estimated cost around \$22 million, and we would be
13 the only AEP company on this, so we would bear all
14 cost for this, and for an undetermined amount of
15 time. As you say, technology -- with technology,
16 there's advancements, there's rapid changes. This
17 vendor could go out of business at any time. At
18 that point -- then we would have to upgrade to AMI
19 at that point at a cost of, estimated, 37 million.
20 So we deemed it was the least-cost option right now
21 would be to go to AMI.

22 MR. COOK: Chairman, that's all the questions
23 I have at this time.

24 CHAIRMAN SCHMITT: Thank you.

25 Mr. Kurtz, cross-examination?

1 MR. KURTZ: I have no questions, Your Honor.

2 Thank you.

3 CHAIRMAN SCHMITT: Ms. Grundmann?

4 MS. GRUNDMANN: No questions, Your Honor.

5 CHAIRMAN SCHMITT: Mr. Spenard or Mr. Strobo,
6 questions?

7 MR. SPENARD: Good morning. No questions.

8 CHAIRMAN SCHMITT: Mr. FitzGerald?

9 MR. FITZGERALD: Yes, Your Honor, I do have
10 some questions.

11 CROSS-EXAMINATION

12 By Mr. FitzGerald:

13 Q. Mr. Blankenship, can you hear me okay?

14 **A. Yes. If you could speak up just a little**
15 **bit.**

16 Q. Yeah. How's this? Is that better?

17 **A. A little bit; yes, sir.**

18 Q. Okay. In your testimony you had a Figure 3,
19 which was the AMI meters in Kentucky. Am I reading
20 it correctly that 88 percent of the Kentucky
21 investor-owned utilities have non-AMI meters?

22 **A. Just a moment. Let me get to the Figure 3.**

23 Q. Certainly. It's on page 118 of the first
24 volume of the testimony.

25 **A. On my direct testimony it should be page 8.**

1 **Figure 3?**

2 Q. Yeah.

3 **A. Okay. I'm sorry. What was your question?**

4 Q. Okay. What is the overall percentage of
5 meters in Kentucky that are non-AMI?

6 **A. This was at the end of 2018. At that point,
7 non-AMI meters, total for Kentucky was 60 percent.**

8 Q. Okay.

9 **A. So I would note --**

10 Q. What tech --

11 **A. I would like to note, though, that AMI
12 penetration with our municipalities and co-ops is at
13 74 percent.**

14 Q. Okay. Well, my question -- I guess my
15 question: You indicated you're at a fork in the
16 road and that even though you -- there wasn't a
17 cost-benefit analysis, you just stated that AMI is
18 the least-cost option. We'll get back to that in a
19 second. But I'm wondering, what are these other
20 utilities using to meter the electricity usage by
21 their customers if they don't have AMI? Do you know
22 what technologies --

23 **A. Is there a certain company that we are
24 discussing?**

25 Q. Let's take LG&E KU, for example.

1 **A. I know they -- LG&E KU, I think they do have**
2 **a pilot with AMI, that they're going to that**
3 **direction. It's my understanding that Duke Kentucky**
4 **has went to AMI as well.**

5 Q. Yeah. So let's get back to LG&E and KU.
6 Yes, they asked for full deployment of AMI and it
7 was denied, so they went with an expanded pilot
8 program. And we'll come back to that in a second,
9 because I wanted to explore if and why not Kentucky
10 Power has done a program.

11 If -- my specific question is: For the
12 non-AMI customers in LG&E KU, for the other portion
13 of that 60 percent in Kentucky that don't have AMI
14 means, what are they using to meter electricity?

15 **A. I do not know, sir.**

16 Q. Okay. 'Cause you stated that you're at this
17 crossroad and the only choice that you have is to go
18 with the, quote, obsolete AMRs or to go with the
19 AMI. And it looks to me like there must be some
20 other options out there because people are getting
21 bills every month based on somebody metering their
22 usage, and so some other meters must be available
23 for those customers.

24 **A. I can't speak for Duke or LG&E and KU.**
25 **Whether they are using legacy meters, I don't know,**

1 but I can tell you that as far as what's being
2 manufactured today, they're not -- as far as an
3 electromechanical meter, our vendor is no longer
4 available. And as far as AMR itself, just an AMR
5 meter that we use, there's only a single vendor
6 remaining.

7 Q. Okay.

8 A. I can't speak for them as far as what they
9 use, if they're using legacy meters.

10 Q. So are the AMR meters that you are using,
11 they are still being manufactured?

12 A. I'm sorry, I couldn't hear you.

13 Q. Are the AMR meters that you are using still
14 being manufactured?

15 A. No, sir. Our current SCM platform that we
16 have, those meters are no longer being manufactured.

17 Q. Oh, but the SCM Plus are, correct?

18 A. There's a single vendor for that. It's a
19 proprietary technology with one single vendor.

20 Q. No, I understand that, but they are being
21 manufactured; is that correct?

22 A. Yes, sir.

23 Q. Okay. And have you done a cost-benefit
24 analysis of deferring AMI and replacing the meters
25 as needed using the SCM-2 for the current time, and

1 then perhaps revisiting AMI?

2 **A. Well, as I stated earlier, sir, we have**
3 **looked at the -- we did look at this option. I**
4 **didn't do a cost-benefit analysis, but we did an**
5 **initial study looking at the SCM Plus. It would**
6 **require us to update -- replace our meters with**
7 **their meter reading equipment and also change our --**
8 **heavy on our -- the backhaul system as well. The**
9 **estimated cost-out -- again, the estimated cost is**
10 **around 22 million, which is roughly --**

11 Q. That would be --

12 **A. -- (indiscernible) AMI deployment.**

13 Q. I'm sorry. That would be --

14 **A. And you have --**

15 Q. That's -- I'm sorry.

16 **A. Excuse me. I'm sorry. Go ahead.**

17 MS. BLEND: Your Honor, may Mr. Blankenship
18 please be permitted to finish his answers to
19 Mr. FitzGerald's questions?

20 MR. FITZGERALD: Yeah. Thank you. I thought
21 he had.

22 Q. Go ahead, Mr. Blankenship.

23 **A. My apologies. I did not mean to interrupt**
24 **you, sir.**

25 I was saying that it was going to be

1 50 percent of the cost, as I stated earlier in my
2 testimony here, that this is for an undetermined
3 amount of time. To give you an example, in 2017 the
4 current SCM meters that we have in our system, there
5 was approximately three vendors at that time.
6 There's none today. That's how quickly this changes
7 with advancements in technology.

8 AMI is the standard within the industry,
9 that's a simple fact in the numbers I provided on
10 the other figure. The -- we just -- when you look
11 at that, when you put this all in -- start looking
12 at this, we just did not see the point in spending
13 on an obsolete technology that -- for an
14 undetermined amount of time, then I'm going to have
15 to turn around and then upgrade to AMI eventually
16 anyway. The least-cost option would be to go to AMI
17 now.

18 Q. Okay. Were you finished? I don't want to
19 interrupt you.

20 **A. Yes, sir. I'm sorry. Go ahead.**

21 Q. Okay. Thank you. Is the SCM Plus
22 technology, the slightly upgraded AMR meters, are
23 they compatible with your existing system, or would
24 you have to replace all of the meters in your system
25 if you go to that?

1 **A. It's my understanding that we would have**
2 **to -- we would have to replace our head-in, and also**
3 **we're looking at the vendor, trying to figure it**
4 **out. But as of right now, we would have to upgrade**
5 **our metering equipment and also we'd have to go to**
6 **two platforms for a short time until we got those**
7 **meters changed out. The same with AMI, basically.**

8 Q. Do you know what the cost would be of running
9 the two platforms if you went to the SCR -- SCM-2,
10 or SCM Plus and replaced the meters as needed?

11 **A. To run both systems in parallel, is that what**
12 **you're asking, the cost?**

13 Q. I guess what I'm asking is: Is it a -- is it
14 an option to replace the meters that are failing
15 with the SCM Plus AMR meters as needed?

16 **A. It's an unviable option. We -- again I go**
17 **back, we would have to upgrade our systems at that**
18 **point, replace our meter reading equipment and run**
19 **parallel systems for an undetermined amount of time,**
20 **especially if I do it on a -- on a case-by-case**
21 **basis in a reactionary fashion, that would be --**
22 **that would cost more if I just replace meters as**
23 **they fail and have to run two systems.**

24 Q. Have you costed that out relative to
25 deployment of AMI?

1 A. We've gotten an estimate for the SCM Plus,
2 which, as I discussed earlier, was 22 million.
3 The -- I would have to come -- I would have to give
4 you numbers later on for that. I do not know to run
5 both parallel -- again, it would be hard to estimate
6 that because I don't know how long we would do that
7 if we do it in reactive manner. I would have to --
8 to average that out, the cost to run both platforms.

9 Q. Okay. Before we move on, how can you with
10 any confidence state that going to AMI now is the
11 least-cost option if these other options have not
12 been costed out?

13 A. Sir, I -- as I said before, the option -- the
14 first option, if we were to go to SCM Plus, we're
15 estimating that in the end it'll cost our customers
16 approximately \$59 million. And I'll explain that.
17 As I said before, to upgrade to SCM Plus, we're
18 estimating that to be around \$22 million. Again, we
19 have to run two -- we'd have to replace our meters,
20 our equipment. And again, this is a single-vendor
21 manufacturer that we -- with proprietary technology
22 that with -- as advancements -- as the AMR numbers
23 keep trending down, it makes up a very small
24 percentage of their sales as well. So it's going to
25 be here for an undetermined amount of time.

1 It -- like I said, three years ago there was
2 three vendors that were producing SCM meters, today
3 there's none. So at that point we will have to go
4 to AMI eventually because that is the industry
5 standard, and at that point, then we would have to
6 pay an additional \$37 million.

7 Q. If it's the industry standard --

8 **A. I do think -- I do think --**

9 Q. I'm sorry.

10 **A. I was just going to state, technically this**
11 **will be the most-cost option if we upgrade to SCM**
12 **Plus.**

13 Q. You say the most-cost option?

14 **A. Yes, sir; it will be more expensive to our**
15 **customers.**

16 Q. How is \$22 million more costly than
17 59 million?

18 **A. As I said, it would be -- because eventually**
19 **it'll be 59 million. If it --**

20 Q. Is your testimony -- I'm sorry.

21 **A. Again, sir, I can't -- I don't have a crystal**
22 **ball. I can't tell you exactly when the system will**
23 **go away, but based on the track records of the**
24 **industry, the SCM Plus technology will not be here**
25 **forever.**

1 Q. Your testimony is that the AMI technology is
2 the industry standard, but is it not the case, from
3 your testimony, that 60 percent of Kentucky's meters
4 are not AMI?

5 **A. Just a moment, please. If you -- in my**
6 **direct testimony on page 7, if you look at the AMI**
7 **penetration in the United States, 70 percent of U.S.**
8 **households have an AMI meter.**

9 Q. And I was talking about Kentucky, and I think
10 your Figure 3 shows that it's 60 percent?

11 **A. Yes, sir. And Figure 2, if you look at the**
12 **country as a whole, when man -- when manufacturers**
13 **make meters, they don't look at just -- just at**
14 **Kentucky, they are looking at the country as a**
15 **whole. And --**

16 Q. In this case --

17 **A. -- that number we have --**

18 Q. I'm sorry. I'm sorry.

19 **A. -- (indiscernible) and the -- when you look**
20 **at the 60 percent of non-AMI in Kentucky, I do not**
21 **think Duke at that point had all their numbers in**
22 **it. I believe that number has grown.**

23 Q. If we could shift a little bit.

24 MR. FITZGERALD: And, Mr. Chairman, I'm sorry
25 to be taking so much time here.

1 Q. Mr. Blankenship, how are you proposing to
2 recover the costs of deployment of the AMI
3 infrastructure?

4 MS. BLEND: I'm sorry. Mr. FitzGerald, would
5 you mind repeating your question? There was an
6 audio issue, it may have been on our end, and you
7 were a little garbled.

8 MR. FITZGERALD: Sure. It may just be that's
9 my natural state is speaking a little garbled.

10 Q. But my question is: How are you proposing to
11 recover the cost of the AMI infrastructure from
12 ratepayers?

13 **A. We are proposing to use a grid modernization**
14 **rider.**

15 Q. Okay. And over what period of time would you
16 be recovering the \$59 million?

17 MS. BLEND: Mr. FitzGerald, do you mean the
18 \$37 million the Company has estimated the cost of
19 the AMI equipment to be in this case?

20 MR. FITZGERALD: I'm sorry. I thought
21 Mr. Blankenship, earlier in discussing he said it
22 was \$59 million.

23 MS. BLEND: I believe he was referring to the
24 cost to move to the SCM Plus AMR platform and then
25 subsequently have to move to AMI.

1 MR. FITZGERALD: Okay. So thank you for that
2 clarification, Counsel.

3 Q. Mr. Blankenship, over what period of time
4 would the Company propose to recover the
5 \$37 million?

6 VICE CHAIRMAN CHANDLER: Can I just ask?
7 Sorry. Can I just ask if the -- the witness would
8 clarify that?

9 CHAIRMAN SCHMITT: Well, I think that --
10 Mr. FitzGerald, in essence, asked.

11 Do you understand -- do you understand,
12 Mr. Blankenship, what the -- what the issue is or
13 what the questioners are asking? And that is, I
14 think, to clarify the cost if you went to a modified
15 or a different AMR meter over a period of time, what
16 ultimately that cost would be if you had to shift at
17 some point to an AMI meter. And then how do you
18 intend -- I guess we're talking about the rider you
19 suggested, the -- I think Mr. FitzGerald's last
20 question was about recovery of the costs for an AMI
21 system. So if you could maybe just try to go
22 through that process again in some detail, it might
23 clear it all up.

24 VICE CHAIRMAN CHANDLER: Yeah, and I
25 appreciate that. And thank you, Chairman. I just

1 want to make sure that the -- that the witness has
2 clarified that instead of counsel, so we can have --
3 have that in evidence because that was confusing.
4 Thank you.

5 CHAIRMAN SCHMITT: Well, I think, too, for
6 Mr. FitzGerald's benefit, there's something when --
7 when Mr. FitzGerald's video is not very good, it's
8 like when you speak, the speech is sort of garbled,
9 and so is the video, and it makes it difficult to --
10 it's like I said yesterday about these old Korean
11 movies where we can see you speaking, but there
12 aren't any words, and then later you hear the --
13 hear the audio. So that's the problem. It's not
14 you, it's with the technology some way.

15 MR. FITZGERALD: Yeah. Mr. Chairman, if
16 it -- if it's okay with you, I'll go ahead and turn
17 off my video and just have the audio, and hopefully
18 that will be a little bit better.

19 CHAIRMAN SCHMITT: Well, we might check and
20 see. Let's let the -- let's let the witness explain
21 the meter issue and then we can -- if you'd like to,
22 we can try by -- see if the audio is better by
23 turning off the video.

24 But for the time being, Mr. Blankenship, if
25 you can go through your explanation in as much

1 detail as possible about the meter problem. Okay?

2 THE WITNESS: Yes, Your Honor. Certainly.

3 Just to clarify, if we were to go -- upgrade
4 to SCM Plus and then subsequently go to AMI, that
5 would be approximately \$59 million. If we were to
6 go to the full AMI deployment now, that would be the
7 estimate that's in my testimony of \$37 million.

8 Does that --

9 CHAIRMAN SCHMITT: All right. And how do
10 you -- how would -- the cost, either way you do it,
11 how do you propose to recover the cost from
12 ratepayers?

13 THE WITNESS: What we proposed for AMI is the
14 grid modernization rider to collect the \$37 million
15 over a four-year per -- a four-year deployment.

16 CHAIRMAN SCHMITT: Mr. FitzGerald.

17 MR. FITZGERALD: Okay.

18 CHAIRMAN SCHMITT: Okay. All right. You
19 want to try --

20 MR. FITZGERALD: All right. Thank you,
21 Mr. Chairman. Let me do this: Let me go ahead
22 and -- now, is that any better?

23 CHAIRMAN SCHMITT: Well, I think the audio is
24 may be a little better, but let's test it out --

25 MR. FITZGERALD: Okay.

1 CHAIRMAN SCHMITT: -- with the questions and
2 let's see.

3 MR. FITZGERALD: Okay. Thank you,
4 Mr. Chairman. Thank you. I appreciate your
5 indulgence.

6 Q. The -- Mr. Blankenship, with respect to your
7 existing meter -- meters, are the costs of those
8 meters fully depreciated now?

9 **A. I do not know the answer to that question.**

10 Q. Okay. So the --

11 **A. (Indiscernible) Witness West or Vaughan.**

12 Q. Okay. Great. I will ask them that.

13 Do you know whether -- how much the customers
14 would pay each year of those four years during which
15 you would be recovering your costs under a GMR?

16 **A. No, sir. Again, you would have to speak
17 to Mr. -- or Company Witness Vaughan.**

18 Q. Okay. He is our go-to guy. Hold on just a
19 second.

20 What's the useful life of the AMI
21 infrastructure that's being considered?

22 **A. I believe you said the useful life of the AMI
23 infrastructure?**

24 Q. Yeah.

25 **A. The initial estimates from the vendor is it**

1 **also has a 15-year.**

2 Q. Okay. So 15 years is the warranted life or
3 the useful life?

4 **A. I'm sorry?**

5 Q. Is that the warranted --

6 **A. I'm not --**

7 Q. I'm sorry.

8 **A. That would be the useful life, not warranted.**

9 **It would be use -- even though you can buy extended**
10 **warranties on the systems, but the actual useful**
11 **life would be 15 years.**

12 Q. Okay. Do you know, or is this a question for
13 Mr. Vaughan, what the rate impact would be on the
14 ratepayer if you went through the base rate case and
15 recovered the cost of these meters in a manner that
16 is consistent with their useful life rather than
17 front loading your recovery through a GMR?

18 **A. I would have to defer that to Company Witness**
19 **Vaughan as well.**

20 Q. Okay.

21 CHAIRMAN SCHMITT: Mr. FitzGerald, are you
22 still with us? Perhaps not. Mr. FitzGerald may
23 have been disconnected or something. Why don't we
24 give him a minute to see if he can -- if he can
25 reconnect.

1 Ah, Mr. FitzGerald, you're back with us. Can
2 you hear, Mr. FitzGerald?

3 MR. FITZGERALD: Chairman, can you hear me
4 now?

5 CHAIRMAN SCHMITT: Okay. Are you back on,
6 Mr. FitzGerald?

7 MR. FITZGERALD: Yes. Sorry about that.

8 Q. Mr. Blankenship, a couple other questions.

9 **A. Yes, sir.**

10 Q. The -- did -- you testified that the --
11 instead of having 12 data points regarding their
12 usage, that having access to AMI infrastructure
13 would give them 35,000 data points on usage, and
14 that would put them in charge of their electricity
15 usage. Don't they already control their electricity
16 usage?

17 **A. Well, with AMI, they're -- it greatly**
18 **empowers the customer at that point. They -- with**
19 **that -- with 12 readings a year, you basically once**
20 **a month know what you're using. You can't pinpoint**
21 **it to a day. Like, if you wanted to know if an**
22 **element is going out in your water heater or**
23 **something to that effect, you would -- when you know**
24 **something is running at that point, you can -- it's**
25 **almost realtime data. So that would empower them to**

1 **take complete control of their household at that**
2 **point.**

3 Q. Don't you think that the monthly bills that
4 they receive, that the increases in their rates over
5 the years gives them a sufficient incentive to take
6 control of their energy usage?

7 A. It gives them a snapshot in time for a
8 monthly bill, but again, it does -- when you can get
9 high bill alert notifications, when you're -- you
10 know you're using power, as far as your usage, it
11 does empower the customer more.

12 Q. But with -- empowered with that information,
13 what can they do about it? Because there's a
14 certain number of lights that you can turn off, and
15 you can replace your HVAC system if you have the
16 capital, but what else does that information provide
17 that's of value to the customer?

18 A. Well, if nothing else, it would help pinpoint
19 where they may be having issues. According to what
20 time of the year it is, they could --
21 weatherization, things like that. Again,
22 information is power, and what a customer decides to
23 do with that is -- the benefit is there if they want
24 to take advantage of it.

25 Q. Okay. Is the Green Button that allows people

1 to access their data on a monthly basis, is that a
2 subscription initiative that you have to sign up
3 for?

4 **A. I believe in Company Witness Wiseman's**
5 **testimony, the Green Button is available to all**
6 **customers, they log in to their account.**

7 Q. Okay. Do you know how many people log on to
8 those accounts to access the Green Button
9 information?

10 **A. No, sir. I would not be the witness that**
11 **could testify to that.**

12 Q. Okay. So you don't know how frequently or
13 how many customers have actually had an interest in
14 finding out their energy usage?

15 **A. No, sir. I do not know the exact number.**

16 Q. Okay. Does KPC offer a budget -- a budgeting
17 program that spreads the energy costs across the
18 months evenly in order to eliminate cost spikes for
19 certain months?

20 **A. I believe we do offer a budget program.**

21 Q. Okay.

22 **A. That would not be in my area of expertise.**

23 Q. Okay. Given the interest that KPC has in
24 allowing customers to access the information on
25 their energy costs, does KPC currently separately

1 report energy usage from the meter charge in the
2 monthly bills that you send to customers?

3 **A. I do not know the answer to that question.**
4 **Again, that is not in my area of expertise.**

5 Q. Okay. One of the reasons you indicated that
6 going to AMI was imperative, using your words, was,
7 quote, due to an increased number of customers
8 installing distributed energy resources, end quote,
9 and the need to, quote, facilitate these resources,
10 end quote.

11 Isn't it the case that current meters are
12 able to support net metering?

13 **A. Well, it's true with AMR we do have meters**
14 **that can support net metering. The fact of the**
15 **matter, going back to what I discussed earlier,**
16 **those meters are no longer being manufactured and**
17 **they are in short supply.**

18 Q. Ms. Wiseman testified that you lost
19 6.4 percent of your customers over the period of
20 2008 to 2019. What did you do with those AMR meters
21 that you pulled from those locations?

22 **A. I didn't hear the first part of the question.**
23 **You broke up, sir.**

24 Q. Sorry. Ms. Wiseman testified that
25 6.4 percent loss of your customer base during the

1 period of 2008 to 2019. My question was: What did
2 you do with the AMR meters that you pulled from
3 those residences or those locations where you no
4 longer had a customer?

5 **A. Normally when a customer moves out of a home,**
6 **we don't immediately remove the meter. So I can't**
7 **say for sure what happened to every one of those**
8 **meters. We normally --**

9 Q. Okay.

10 **A. -- the practice of what we do is, at that**
11 **point, in case someone else moves into the residence**
12 **after they leave, we will leave the meter there so**
13 **the customer, the next customer, we don't have to**
14 **come out and install a meter. And then after so**
15 **many months of inactive usage, then it will create**
16 **an order, then we will go out and remove the meter**
17 **service at that point.**

18 Q. Okay. Are you familiar with the time-of-day
19 voluntary tariff that you have?

20 **A. No, sir. Anything with a tariff, you need to**
21 **speak to Mr. Vaughan, Company Witness Vaughan.**

22 Q. Vaughan. Okay. Okay. Hold on just a second
23 here. Okay. Thank you.

24 Do you have -- Mr. Blankenship, getting --
25 this is getting back to empowering the customers.

1 Do you have any empirical basis, any study
2 indicating that giving information on energy usage
3 more frequently will benefit customers by allowing
4 them to, for example, lower their bills?

5 **A. As in my direct testimony on pages 9 and 10,**
6 **figure 4, J.D. Power does show that in 2019 that**
7 **customers that do have -- that are aware that they**
8 **have an AMI meter are -- generally are 18 index**
9 **points higher than customers that do not have an AMI**
10 **meter, due to --**

11 Q. I'm sorry. And how does that correlate out
12 to savings of energy?

13 **A. I believe it would go back into the**
14 **empowerment of the customer, that they have the**
15 **options, or the opportunity at that point to get**
16 **the -- from 12 to 35,000 data points or readings per**
17 **year. It empowers them to take control of their**
18 **energy usage and know. In addition, as far as**
19 **satisfaction goes, there's outage notifications,**
20 **things -- there's multiple, as I discussed earlier,**
21 **customer benefits that would make them more**
22 **satisfied with it.**

23 Q. Is it your assumption that armed with this
24 information, customers will use less electricity?

25 **A. Did you say -- I'm sorry. Did you say it was**

1 **my assumption?**

2 Q. Yeah.

3 **A. I would say more along the lines that they**
4 **will have the opportunity --**

5 Q. To use less electricity?

6 **A. -- (indiscernible) -- I'm sorry?**

7 Q. To use less electricity?

8 **A. Yes, sir. That will give them control of**
9 **their electric usage, and at that point, if they --**
10 **I can't speak for every customer, as far as if they**
11 **want to use less electricity, but it will give them**
12 **the opportunity.**

13 Q. Okay. Give me just a second here.

14 **A. Yes, sir.**

15 Q. Do you know, Mr. Blankenship, whether average
16 customer usage in the KPC service area has declined
17 on a per capita basis?

18 **A. I do not have that information.**

19 Q. Okay. And has your company, to your
20 knowledge, explored what a comparable investment in
21 weatherization, replacement of housing stock that
22 has radiant heating, or other measures that would
23 directly assist customers in being able to use less
24 would do in terms of allowing customers to lower
25 their utility bills relative to putting in AMI

1 infrastructure?

2 **A. I believe AMI would give them more**
3 **information to help them with those decisions.**

4 Q. But it wouldn't give them access to capital,
5 will it?

6 **A. No, sir.**

7 Q. Okay. A couple more questions and I promise
8 I'll be done. In your testimony you noted concerns
9 with worker safety associated with meter reading and
10 meter disconnection as being among the
11 considerations for AMI.

12 Is it the case that the Company uses remote
13 equipment to read meters now, rather than physically
14 going out and reading the meters, that they are in
15 cars and driving by and picking up that information?

16 **A. As far as reading the meters, that is**
17 **correct, they do it in a vehicle. But the actual --**

18 Q. Okay.

19 **A. -- process of installing the meter,**
20 **reconnects and re -- and disconnects is a manual**
21 **process where they have to go to the home**
22 **themselves. That would be eliminated with AMI.**

23 Q. Okay. But the meter reading, unless -- it is
24 not -- it's not a risk of dog bites or -- because
25 you're doing it from inside a car, right?

1 **A. Currently, unless there's a communication**
2 **issue with the meter, then we would have to get out**
3 **and read the meter itself.**

4 Q. Okay.

5 **A. But you are correct, on a normal basis, they**
6 **use it -- they drive a vehicle.**

7 Q. Okay. You mentioned that one of the benefits
8 of AMI was the savings in -- reduction in fleet
9 costs and savings from streamlining of departments.
10 Translating that, does that mean layoffs or
11 elimination of job positions?

12 **A. We anticipate a reduction in workforce**
13 **through attrition, but due to the technology**
14 **advancements with AMI, we would be really**
15 **relocate -- or reallocating some of our employees**
16 **into more technical jobs. Again, with the AMI**
17 **communication network, we'll need some of those**
18 **employees to assist with that.**

19 Q. Have you done a manpower study on how many
20 jobs would be lost?

21 **A. We've done initial estimate that we think**
22 **there would be an attrition of around four to five**
23 **employees.**

24 Q. Four to five employees? So those workers
25 would be safe but unemployed; is that correct?

1 **A. I'm sorry, I didn't hear the first part.**

2 Q. Never mind. I'll withdraw that question.

3 You're asking for full deployment of AMI, yet
4 at the time you filed your testimony, you had not
5 selected a particular technology; is that correct?

6 **A. That is correct, sir, due to the -- as we**
7 **discussed earlier, the advancements in technology.**
8 **That coupled with the challenges of the Eastern**
9 **Kentucky terrain, we thought it was prudent that we**
10 **explore and examine all options to get the most**
11 **cost-efficient and reliable system that we could for**
12 **our customers.**

13 Q. But at this point in time you're asking for
14 \$37 million to deploy a system whose details and
15 capabilities you have not presented to the
16 Commission; is that correct?

17 **A. We've had informal discussions with vendors**
18 **and got preliminary pricing as what they**
19 **estimated -- the estimate was based upon, and at**
20 **this time we have narrowed our decision down to two**
21 **vendors and hope to make a decision very soon on**
22 **that.**

23 Q. Okay. Your plan for multiyear deployment, in
24 your testimony, is that you're going to serve the
25 cities and towns first, the more densely populated

1 areas, and the rural customers last; is that
2 correct?

3 **A. Well, what we decided is for a multiyear**
4 **deployment. And through the economies of scale, we**
5 **want to get the densely populated areas first and**
6 **get our communication network backbone established,**
7 **and then we'll relocate -- reallocate our assets --**
8 **our resources at that point to more travel-intensive**
9 **areas, the sparsely populated areas.**

10 Q. Okay. So it may be as long as four years
11 before a rural customer would see an AMI meter?

12 **A. No, sir; that's incorrect.**

13 Q. Okay. Tell me --

14 **A. What we plan to do is --**

15 Q. -- if it's -- it's a four -- okay.

16 **A. I can explain the --**

17 Q. I'm sorry.

18 **A. I can explain our deployment, if you'd like.**

19 Q. Please do.

20 **A. In the first year, basically what we -- I**
21 **just discussed, we're going to try to do a cross**
22 **section of our territory to all three districts.**
23 **Those customers will get an opportunity to have an**
24 **AMI. And at that point we'll go into more of a --**
25 **we'll finish out the district at that point in '22,**

1 '23, and '24 years. And at that point there will be
2 many rural customers or the more sparsely dense --
3 population area. So at some point --

4 Q. Okay. At --

5 A. -- as soon as 2022, we'll be getting into the
6 more rural areas.

7 Q. Okay. And when will you be completed in the
8 deployment? Is it at four years?

9 A. Yes, sir. We hope to be done at the end of
10 2024, full deployment by January of 2025.

11 Q. Okay. Under the grid modernization rider,
12 will a customer pay for the AMI meters before they
13 have one installed for their own service?

14 A. They would -- the way I understand, the rider
15 is -- again, we can't -- I can -- I could accelerate
16 the deployment, but we felt it was more prudent to
17 do it in smaller increments.

18 Q. Okay. Just a handful more questions. The --
19 have you -- you indicated you have not done a
20 quantitative cost-benefit analysis on AMI; is that
21 correct?

22 A. Again, we did not do a cost-benefit analysis.
23 Based --

24 Q. Okay.

25 A. -- on the fact that -- the obsolescence of

1 the AMR system, we didn't -- we didn't feel it was
2 necessary based upon the obsolescence of the AMR
3 system, lack of vendor support, and the -- and the
4 fact that 75 percent of our meters are at the end of
5 their useful life.

6 Q. Okay. And is the Company projecting that it
7 will -- it will accrue savings from deploying AMI?

8 A. We will have operational benefits that come
9 from this, obviously. The -- well, first off, it
10 would be with our outage notifications. We do feel
11 that we'll be able to pinpoint outages in a more
12 timely manner, which in itself will produce a
13 savings. We'll be able to do remote firmware
14 upgrades -- excuse me -- upgrades at the top.

15 We'll also have enhanced system monitoring
16 capabilities. Basically, every meter will have
17 end-of-line voltage at every home at that point.
18 And what this can do for the Company at that point,
19 and also helps our customers, will be we can be more
20 proactive in finding transformer failures, issues
21 with regulators on the line, even to the point,
22 almost, of a broken neutral on a home due to
23 fluctuations of the voltage, if it goes up and down
24 on the meter.

25 And also, we do expect to have improved meter

1 reading accuracy as well, which is -- I think is
2 also a customer benefit, as well as ours, that --
3 less estimated bills. For example, today if we come
4 out and read your meter once a month, it's 30 days
5 or more before you can actually know there's a
6 problem. With AMI metering, we'll know within hours
7 or days, with our analytics team, if there's an
8 issue with the reading.

9 Q. Okay. Thank you. Last questions. You
10 indicated that A -- you indicated that AMI was
11 needed to support a flex pay program; is that
12 correct?

13 **A. Yes, sir.**

14 Q. Are you aware of whether other utilities
15 offer prepay or split bill options for customers
16 without AMI technology?

17 **A. The only utilities that I'm aware of that**
18 **offer a program similar to this have AMI. I'm not**
19 **aware of any others.**

20 Q. Okay. Have you -- have you looked to see
21 whether it would be possible to implement a prepay
22 or flex pay program or split options without AMI
23 technology?

24 **A. I'm sorry. You broke up again, sir.**

25 Q. Okay. I was asking whether you had done any

1 sort of analysis of whether that flex pay program
2 could be provided without AMI technology.

3 **A. The basis upon the flex pay system is --**
4 **really, it's determined by AMI. If we were to go**
5 **with another system that would provide -- be more**
6 **manual labor process, that we'd have to actually go**
7 **out at any time and dis -- and pull the meters that**
8 **the customer said they didn't want service at that**
9 **time.**

10 Q. No, my question -- and I apologize. Just as
11 an example, I have -- I have utility bills that I
12 pay. On their -- the websites, they give you an
13 option of splitting your payment. And I don't --
14 you know, I'm just wondering, do -- have you
15 explored, since my -- the testimony of Ms. Wiseman
16 was that flex pay is -- provides for flexibility for
17 customers to be able to pay incrementally. Have you
18 explored doing split bill billing or making that
19 option available to customers without AMI
20 technology?

21 **A. No, sir; I have not. Again, that's not in my**
22 **area of expertise as far as the -- that part.**

23 Q. Okay. I -- last question. Do you know
24 whether the rate impact of the GMR on the customers
25 for those four years will be higher than if you

1 amortize the cost of the infrastructure over its
2 useful life?

3 **A. Again, I believe that I would have to defer**
4 **that to Company Witness Vaughan.**

5 Q. Okay. Thank you, Mr. Blankenship. You have
6 been -- I appreciate you very much.

7 MR. FITZGERALD: Mr. Chairman, I appreciate
8 your patience. All right.

9 CHAIRMAN SCHMITT: Okay.

10 Mr. Miller, questions?

11 MR. MILLER: No questions, Your Honor. Thank
12 you.

13 CHAIRMAN SCHMITT: Mr. Frye? Mr. Frye?
14 We'll have to ask Mr. Frye again. He probably got
15 cut off.

16 Vice Chairman Chandler, questions?

17 VICE CHAIRMAN CHANDLER: Yes, just a couple
18 things. Oh, there's Mr. Frye.

19 CHAIRMAN SCHMITT: Oh, Mr. Frye. Do you have
20 any questions?

21 MR. FRYE: Sorry, Your Honor, I was having
22 technological difficulties. No questions, Your
23 Honor.

24 CHAIRMAN SCHMITT: All right.

25 Mr. Chandler.

1 VICE CHAIRMAN CHANDLER: Thank you, Chairman.

2 EXAMINATION

3 By Vice Chairman Chandler:

4 Q. Good morning.

5 **A. Good morning.**

6 Q. Earlier you testified as to those 2018
7 figures and -- or 2018 numbers in your Figure 3 of
8 your direct testimony. You said something about how
9 you didn't think Duke electric meters were fully
10 installed by the end of 2018.

11 Do you remember saying that?

12 **A. Yes, sir.**

13 Q. And are you certain that's the case?

14 **A. That would be subject to review. I'm not
15 certain on that number; no, sir.**

16 Q. Okay. When you talk about reallocating the
17 employees that currently do meter reading, let me
18 see if I understand. Those employees would merely
19 be doing different work, there would not actually be
20 a reduction in the number of employees for a
21 proposal that replaces AMR meters with AMI, correct?

22 **A. No, what would happen at that point is:
23 Obviously, if we get AMI, we will not need as many
24 meter readers as we have today with AMR. We would
25 have a reduction -- the number would be larger than**

1 the five -- or the four to five that I discussed.
2 We would just relocate those. And again, I -- until
3 I get to the final numbers on this, it would be --
4 we'll say ten, just for hypothetically. There will
5 be five people that would be transferred into other
6 jobs at that point, and then, through attrition, we
7 would -- through retirement, things like that, we
8 would -- so we would have a reduction of four to
9 five employees.

10 Q. A total over the Company, you would have four
11 to five less employees under AMI than AMR?

12 A. Yes, sir.

13 Q. Okay.

14 A. That's preliminary estimates right now, yes.

15 Q. Okay. And you had talked about earlier if
16 you did the other AMR system in addition or in order
17 to replace the current AMR meters with the other
18 AMR.

19 Do you remember those questions?

20 A. Yes, sir; SCM versus SCM Plus.

21 Q. Yeah. And you mentioned a concern around
22 running two different systems for a time. Do you
23 remember that?

24 A. Yes.

25 Q. Is that obviated by using AMI?

1 **A. I'm sorry, I don't understand the -- what's**
2 **your question?**

3 Q. If you implement AMI as proposed, wouldn't
4 you also be running two systems for the -- for
5 approximately four years?

6 **A. Yes, sir; but that would be a determined**
7 **amount of time. We would know after four years we**
8 **would eliminate AMR.**

9 Q. Right. But are -- was it your testimony that
10 you would be running two AMR -- if you -- if you
11 replaced your meters or added the new AMR, than it's
12 your testimony that you'd be running both AMR
13 systems for a 15-year period?

14 **A. No, sir. No, sir. If it was A -- if we are**
15 **going from SCM to SCM Plus, I'll clarify the**
16 **statement here, we would -- eventually we would**
17 **eliminate the SCM system and go completely to SCM**
18 **Plus. The danger we run with that, though, is no**
19 **other of our affiliate companies are on that system.**
20 **We would bear the full cost of that system at that**
21 **point.**

22 Q. Yeah.

23 **A. If you look at the economies of scale.**

24 Q. Yeah. And that's -- I guess that's a
25 different issue, though, because can you point me to

1 where, in terms of costs and things, in your
2 testimony you talk about the economy of scale, the
3 savings you-all are getting because other AEP
4 affiliates have that metering system, the AMI
5 system?

6 **A. I think what we -- the advantage we get out**
7 **of this are the experience that our affiliate**
8 **companies, through their deployments and then**
9 **through volume pricing, leveraging the -- AEP's size**
10 **at that point is what it would help us with savings.**

11 Q. Well, experience is not necessarily economy
12 of scale, right?

13 **A. No.**

14 Q. Okay. And you said that of the approximately
15 five affiliates that have AMI -- is that right?

16 **A. Yes, sir; five.**

17 Q. Okay. And are there affiliates that do not
18 have AMI?

19 **A. Currently, in the AEP affiliate companies,**
20 **there's two, us and our affiliate company in**
21 **Louisiana.**

22 Q. So Kentucky and -- is that SWEPCO, the SWEPCO
23 portion of Louisiana, or the Louisiana portion of
24 SWEPCO; is that right?

25 **A. Yes, sir.**

1 Q. Okay. So there are two that are not AMI,
2 four that are AMI of a certain type, and then one
3 other that has AMI of a different type; is that
4 correct?

5 **A. Yes, sir.**

6 Q. Okay. And you-all have made a final
7 determination as to vendor and communications
8 network?

9 **A. We have narrowed it down to two vendors.**

10 Q. Okay. So -- and what about communications
11 network?

12 **A. It's -- we're -- right now we're looking at a**
13 **mesh-based system and a tower-based system. The two**
14 **vendors are --**

15 Q. Okay. So we have not -- you have not
16 narrowed down the type of communication system, you
17 have not narrowed down the manufacturer yet.

18 So can I -- can I go back to the economies of
19 scale example and understand, if those four
20 utilities have already made determinations of a
21 particular type and you-all have not yet made a
22 determination as to the type or even communications
23 network, or the manufacturer or communications
24 network, then how -- isn't it a bit premature to be
25 talking about economies of scale with affiliates?

1 **A.** Well, what we would do at that point, the
2 **SWEPCO, as we mentioned, they're looking at the same**
3 **systems we are, and also our Indiana Michigan**
4 **affiliate, they have a very small percentage of AMI**
5 **penetration right now, so they're looking as well.**
6 **That's where we would -- we -- the plan would be for**
7 **us to use -- us to combine, we pull together and**
8 **go -- and each company at that point use the**
9 **economies of scale.**

10 Q. But -- okay. And I just want to make sure
11 the record was correct, and I do appreciate
12 Ms. Blend -- Ms. Blend's help, but I want to make
13 sure that the record is correct.

14 The \$59 million number you threw out was
15 merely a combination of the 22 million for the
16 AMR -- AMR replacement, plus the 37 million you've
17 discussed with AMI, correct?

18 **A.** **Yes, sir; that is correct.**

19 Q. And you are using that -- is it right to
20 think that you were just using that as an example,
21 that it's your testimony, your expectation, that if
22 the Company was to go the AMI -- the AMR route at 22
23 million, that prior to an entire life cycle of the
24 proposed AMI, the Company would still have to do AMI
25 within that approximately 15 years?

1 **A. Obviously I can't predict the future. I can**
2 **just go by the past history of this technology.**
3 **Again I point back to, in 2017 there was three**
4 **vendors for our current meters, now there's one.**
5 **But I don't expect it to last the full 15 years; no,**
6 **sir. I would not -- I would be very surprised if**
7 **SCM Plus is around in 15 years.**

8 Q. And I appreciate that. I wanted to make sure
9 I understood the \$59 million number is all -- I'm
10 just trying to make sure the record is straight that
11 that is premised on, it's your position that if the
12 Company was to go the AMR route at \$22 million, that
13 within -- prior to 15 years the Company would also
14 have to already install the AMI that they're
15 currently proposing, and that's just 22 plus the 37,
16 correct?

17 **A. Yes, sir; that is correct.**

18 Q. Okay. And I just have a question about
19 manufacturer support. When did the three
20 manufacturers in 2017 that supported your current
21 AMR system, when did they inform the Company they
22 would no longer support -- well, let me ask the
23 first question: Are they no longer supporting the
24 system or no longer manufacturing the system?

25 **A. They are no longer manufacturing the meters,**

1 but our support system for our reading meter
2 equipment, that was -- we got notification this
3 summer that there would no longer be vendor support
4 for the current reading, the readers that we have in
5 our trucks that are handheld. Prior to that I was
6 in another position, so I don't know the exact date
7 as far as when they informed the Company.

8 Q. So the three manufacturers, would they have
9 informed you-all that they were going to cease
10 manufacturing the meters?

11 A. Yes, sir. They norm -- that -- they --
12 normally vendors will let you know that there's --
13 they're no longer going to produce this.

14 Q. And do they give you a lead time where they
15 tell you in the next year, year and a half we're
16 going to be doing this, or do they just tell you we
17 stopped manufacturing this yesterday, just wanted to
18 give you a heads-up?

19 A. They normally will give you a little lead
20 time. As far as a time frame, I don't know exactly
21 when they try to do it. They normally will let you
22 know before they cease production.

23 Q. And why do they let you know?

24 A. Well, if you're -- if -- well, if your system
25 is basically using their meters and they're no

1 longer going to be produced, then they'll let you
2 know that you're going to have to look at an
3 alternative in the future.

4 Q. You don't think they give you lead time so
5 that you can purchase some from them before they end
6 manufacturing?

7 A. I can't speak to --

8 Q. You don't think that --

9 A. -- (indiscernible).

10 Q. I'm just asking. Is that your experience,
11 that they indicate with enough lead time so that
12 interested parties can purchase some before they
13 finish manufacturing?

14 A. I believe they would probably be aware we
15 would start purchasing meters, whatever they have
16 left in stock. I don't know if that's a given. I
17 think that they would -- we would go ahead and
18 purchase that if we were using their system.

19 Q. Okay. Okay.

20 A. They would --

21 VICE CHAIRMAN CHANDLER: That's all the
22 questions I have. I appreciate you,
23 Mr. Blankenship.

24 CHAIRMAN SCHMITT: Doctor Mathews, questions?

25 COMMISSIONER MATHEWS: I just have one or

1 two.

2 EXAMINATION

3 By Commissioner Mathews:

4 Q. When you talk about all these benefits that
5 you have quantified, you talk about giving customers
6 the -- what do you call it? -- ability to control
7 their own electricity usage, correct?

8 **A. Yes, ma'am.**

9 Q. We've had several witnesses talk about the
10 levels of poverty in your service territory. Do you
11 think that the levels of poverty and the housing
12 stock that comes with that would make it more or
13 less difficult for customers to use AMI data to
14 change their electricity usage?

15 **A. I'm sorry, I did not hear the end of the**
16 **question.**

17 Q. Given the levels of poverty and the housing
18 stock that goes with that, do you think that would
19 be easier or more difficult for these customers in
20 this service territory to use the AMI data from a
21 Green Button or whatever, to change their
22 electricity usage?

23 **A. The customer does have various ways to get**
24 **this information. Even if they do not have access**
25 **to the Internet, most people do have a cell phone --**

1 Q. The --

2 **A. I'm sorry?**

3 Q. Even if they have the information, are they
4 limited, because of the housing stock, in what they
5 can do to change their electricity usage?

6 **A. I believe what you're asking me is, will they
7 have the financial means to correct it?**

8 Q. I believe that --

9 **A. Is that correct?**

10 Q. I believe Mr. FitzGerald also asked you that
11 question. I'm not sure you answered. I'll just
12 take that you're not answering now either, and I'll
13 say that aren't these issues that should be
14 quantified before you bring it to the Commission?

15 **A. What we -- the reason we're talking about
16 this today, again, is our obligation to provide safe
17 and reliable service. While I'm cognizant of the
18 issues that you're talking about, that is -- my
19 responsibility is to make sure that I am able to
20 provide our customers with that safe and reliable
21 service. And again I reiterate that today I am able
22 to do that. I do not know if I'll be able to do
23 that a year from now because, as I stated earlier,
24 currently we only have 2,000 of these -- of our
25 residential meters in stock. We anticipate that it**

1 **would last us through next year, and that is the**
2 **driving force that we have to do something.**

3 COMMISSIONER MATHEWS: Chairman, I don't have
4 any further questions.

5 EXAMINATION

6 By Chairman Schmitt:

7 Q. What -- Mr. Blankenship, what is the useful
8 life, or the average useful life of the AMR meters
9 that Kentucky Power has left?

10 **A. The average useful life of an AMR meter is**
11 **15 years. At this time, Your Honor, 75 percent of**
12 **the meters installed are at that point.**

13 Q. Are --

14 **A. End of their useful life.**

15 Q. Are at or over their useful life; is that
16 what you're saying?

17 **A. Yes, sir. They -- the majority of our meters**
18 **were installed in 2005-2006, so going into '20-'21,**
19 **they will be at the end of their useful life.**

20 CHAIRMAN SCHMITT: I have -- I have no other
21 questions.

22 Ms. Blend, do you have redirect?

23 MS. BLEND: Yes, Your Honor. Thank you.

24 * * *

25

1 REDIRECT EXAMINATION

2 By Ms. Blend:

3 Q. Mr. Blankenship, Mr. FitzGerald asked you
4 questions about the recovery period the Company is
5 proposing with regard to its AMI meters.

6 Do you recall those questions?

7 **A. Yes.**

8 Q. And I believe I heard your testimony in
9 response to that question, or those questions, to be
10 four years. Is four years the number of years over
11 which the Company's AMI -- proposed AMI investment
12 will be recovered, or is that the number of years
13 over which the Company will deploy the meters
14 themselves?

15 **A. Yes. We need to correct that. The**
16 **deployment is four years. As far as the recovery,**
17 **that would be to Witness Vaughan. I'm not sure on**
18 **that number, but the deployment is four years.**

19 Q. Thank you. And does Company Witness West
20 also discuss the time period over which the cost of
21 the AMI deployment would be recovered?

22 **A. Yes, ma'am.**

23 Q. Do you recall questions about -- from
24 Mr. FitzGerald about whether the Company -- or how
25 many meters the Company has been able to collect as

1 a result of loss of load in its service territory?

2 **A. Yes.**

3 Q. Would you -- is it your understanding that
4 the amount of load loss is directly correlated with
5 the number of meters that the Company -- I'll ask it
6 differently.

7 The Company could lose a large amount of load
8 and only a relatively few number of meters; is that
9 right?

10 **A. That is correct.**

11 Q. You have been listening to the hearing this
12 week, correct?

13 **A. Yes.**

14 Q. Have you heard discussion regarding the
15 closure of AK Steel in the Company's service
16 territory?

17 **A. Yes.**

18 Q. If you know, is AK Steel a large load, or was
19 it a large load in Kentucky Power's service
20 territory?

21 **A. Yes.**

22 Q. Did it have relatively few or relatively
23 numerous meters metering that load?

24 **A. In the context as far as the rest of the**
25 **system, it would be a low amount of meters, number**

1 **of meters.**

2 Q. So is there necessarily a correlation between
3 load loss and the number of spare meters that may
4 become available as a result of the load loss?

5 **A. No.**

6 Q. The Vice Chairman asked you questions about
7 where in the record, or where in the materials that
8 you sponsor the concept of economies scale is
9 discussed.

10 Do you recall those questions?

11 **A. Yes.**

12 Q. Will you please turn to page 17 of your
13 direct testimony?

14 **A. Okay. I'm there.**

15 Q. Do you discuss the economies of scale
16 associated with Kentucky Power's ability to join its
17 purchasing power with its affiliates on lines 6
18 through 16 of page 17 of your direct testimony?

19 **A. Yes.**

20 Q. And if you recall, did you also respond to
21 data requests from the AG and KIUC regarding this
22 topic?

23 **A. Yes.**

24 Q. Thank you.

25 MS. BLEND: And if it -- it would be

1 appropriate, Your Honor, I could stipulate to the
2 data responses that are relevant, or I can walk
3 Mr. Blankenship through them, whichever you would
4 prefer. I'm trying to be sensitive to time.

5 CHAIRMAN SCHMITT: I think they are in the
6 record, correct? Do we --

7 MS. BLEND: They are.

8 MS. VINSEL: They are in the record, but it
9 would be helpful if they would at least note which
10 data responses are --

11 CHAIRMAN SCHMITT: Yeah.

12 MS. VINSEL: -- responsive.

13 CHAIRMAN SCHMITT: Counsel, Staff Counsel is
14 asking if you would note for the record --

15 MS. BLEND: Yes.

16 CHAIRMAN SCHMITT: -- specifically those data
17 responses.

18 MS. BLEND: Yes. Yes, Your Honor. I didn't
19 want to put Mr. Blankenship through a memory test,
20 but they are: AG KIUC set 1, item 89; AG KIUC
21 set 1, item 100, and AG KIUC set 2, item 56. Thank
22 you.

23 Q. Mr. Blankenship, you testified earlier in
24 response to questions from the Vice Chairman about
25 which of the Company's affiliates have AMI meters.

1 Do you recall that discussion?

2 **A. Yes.**

3 Q. And I believe you testified that SWEPCO
4 Louisiana does not have AMI meters?

5 **A. That is correct. And --**

6 Q. Is it your understanding that any of the
7 SWEPCO jurisdictions has AMI meters at this time?

8 **A. I misspoke on that. They do have a small
9 number of AMI. They just started a small number of
10 AMI meters there.**

11 Q. In Louisiana?

12 **A. Louisiana, Arkansas. Part of their
13 territory. I don't know exactly what the location
14 is.**

15 Q. Thank you. The remainder of SWEPCO's
16 territory, which comprises Arkansas, Louisiana, and
17 Texas, outside of that small pilot area, is
18 non-AMI --

19 **A. That is correct.**

20 Q. -- is that right?

21 **A. It is all AMR through there.**

22 Q. Thank you for clarifying.

23 **A. Uh-huh.**

24 Q. Now, Commissioner Mathews asked you some
25 questions about one of the benefits of -- associated

1 with AMI in terms of customer access to data usage.

2 I just have a clarifying question or two there.

3 Is customer access to data so that they could
4 understand or potentially change their usage, is
5 that a driver of the Company's AMI proposal in this
6 case?

7 **A. Yes.**

8 Q. It is the driver, or is the driver --

9 **A. Can you repeat the question? I'm sorry.**

10 Q. Is customer access to data a driver or the
11 driver of the Company's proposal?

12 **A. No.**

13 Q. Or is it just a benefit of the proposal?

14 **A. It's a benefit. The driver is the
15 obsolescence of the AMR system. I'm sorry, I didn't
16 understand the question.**

17 Q. I'm sorry, I articulated it poorly.

18 MS. BLEND: Thank you. I have no further
19 questions.

20 THE WITNESS: Thank you.

21 CHAIRMAN SCHMITT: Well, Mr. Blankenship, you
22 may -- you may step down.

23 All right. It's ten till 11:00. Let's take
24 a break until 11:00 o'clock, and then we'll come
25 back, I guess, and begin the testimony of Mr. West.

1 We'll be in recess --

2 MS. BLEND: Thank you, Your Honor.

3 CHAIRMAN SCHMITT: -- until 11:00 a.m.

4 (Recess from 10:51 a.m. to 11:04 a.m.)

5 VIDEO TECHNICIAN: You're on the record, sir.

6 CHAIRMAN SCHMITT: Thanks. We're now back
7 and on the record.

8 Mr. Overstreet, are you -- are you ready for
9 the next witness?

10 MR. OVERSTREET: Thank you, Mr. Chairman. We
11 are, and I would call Brian K. West.

12 CHAIRMAN SCHMITT: Mr. West, would you please
13 raise your right hand? Do you solemnly swear or
14 affirm, under penalty of perjury, that the testimony
15 you are about to give will be the truth, the whole
16 truth, and nothing but the truth?

17 THE WITNESS: Yes, sir; I do.

18 CHAIRMAN SCHMITT: Thank you.

19 Mr. Overstreet, you may question the witness.

20 MR. OVERSTREET: Thank you, Mr. Chairman.

21 BRIAN WEST, having been first duly sworn,
22 testified as follows:

23 DIRECT EXAMINATION

24 By Mr. Overstreet:

25 Q. Mr. West, please state your name, business

1 address, and employer.

2 **A. Sure. My name is Brian West. My business is**
3 **address is 1645 Winchester Avenue, Ashland, Kentucky**
4 **41101. My employer is Kentucky Power.**

5 Q. And what is your position with Kentucky Power
6 Company?

7 **A. I'm the director of regulatory services.**

8 Q. And did you cause to be filed in the record
9 of this proceeding direct testimony, rebuttal
10 testimony, and answers to data requests?

11 **A. Yes, sir.**

12 Q. And do you have any corrections or updates to
13 any of those filings?

14 **A. I do. It's in my direct testimony at**
15 **page 32, and I believe it is on lines 12 and 13.**
16 **It's a question, an additional question that**
17 **shouldn't have been there, it just needed to be**
18 **deleted.**

19 Q. And is that question and the corresponding
20 answer, does that appear in other -- in some other
21 place of your direct testimony?

22 **A. Yes, sir; it does.**

23 Q. Okay. And with that one change, if you were
24 asked those same questions here today, would your
25 answers be the same?

1 **A. Yes, sir.**

2 MR. OVERSTREET: Mr. Chairman, the witness is
3 available.

4 CHAIRMAN SCHMITT: Thank you.

5 Ms. Vinsel, cross-examination?

6 MS. VINSEL: Yes. Thank you, Chairman.

7 CROSS-EXAMINATION

8 By Ms. Vinsel:

9 Q. Good morning, Mr. West.

10 **A. Good morning.**

11 Q. I would like to start with the adjustment for
12 the dues paid to the Edison Electric Institute, and
13 I'm just going to refer to it as EEI. Staff has
14 noticed inconsistencies, both in terms -- well,
15 three things: Where the adjustment is in the
16 record, how much the adjustment is, and the
17 percentage that was removed for legislative
18 activities or, as EEI puts it, influencing
19 legislation. So I've got several documents I would
20 like for us to walk through, just to get some
21 clarity into the record.

22 **A. Certainly.**

23 Q. Thank you.

24 **A. Can you hear me okay, by the way?**

25 Q. Yes, I can. Thank you, very much.

1 **A. Okay.**

2 MS. VINSEL: Travis, can I ask you to bring
3 up Document 294?

4 What I'm asking to -- Staff to display on
5 screen share is Kentucky Power's response to the AG
6 KIUC data request, the second data request, and it's
7 item 44.

8 Now, Travis, if you'll go to PDF -- the PDF
9 pagination 264. Thank you.

10 Q. This -- I think that we've seen this request
11 multiple times during this proceeding. In this case
12 the Attorney General KIUC, in question A, asked
13 Kentucky Power to indicate where in the application
14 the EEI adjustment was made. And in this case,
15 Mr. -- and Mr. Bishop answered this. He referred to
16 the application, section 5, page 2 of 87.

17 MS. VINSEL: Travis --

18 **A. Yes, I --**

19 Q. Do you see that?

20 **A. I see it, yes.**

21 MS. VINSEL: Travis, can I have you go to
22 Document 11?

23 Q. And, Mr. West, I've gotten a message that
24 some of our remote users are having some issues
25 hearing you. If you don't mind -- I know that

1 you're sitting close, I just want to make sure
2 you're speaking into the mic.

3 **A. Okay. I'm sorry about that.**

4 Q. Thank you. I think it's just what happens
5 with this.

6 MS. VINSEL: Thank you, Travis.

7 Q. What this is, this is from the application,
8 section 5, and this is actually Exhibit 1, page 2 of
9 87. I think in the data response there was an
10 inadvertent admission of the Exhibit 1 label. I
11 will tell you, I double checked Exhibits 2 and 3,
12 and they do not have the same pagination.

13 Mr. West, to the best of your ability, can
14 you show me where on this, the fully adjusted base
15 case summary, we would find the EEI adjustment?

16 **A. Well, I think I can do you one better and**
17 **point you to exactly where it's at. I believe that**
18 **this is how that answer should have been -- or**
19 **should have read.**

20 Q. Okay. Good. Thank you.

21 **A. Part A. And if we could -- if you would go**
22 **to section 5, schedule 4.**

23 Q. Schedule 4?

24 **A. At lines -- schedule 4, at line 415. Now, in**
25 **that -- in that grouping there, that PDF, it would**

1 **be page 19 of 87. And is there a line 415?**

2 Q. Yes. So here where it's line 415, it says
3 930.2 -- this is a miscellaneous general expense?

4 **A. Yes. Yes. And that first figure there, and**
5 **I'm having a little trouble reading it, but I**
6 **believe it is 433840?**

7 Q. Yes.

8 **A. The amount, and when I'm looking back to my**
9 **rebuttal testimony at R11, the item that says -- the**
10 **part that was included in the cost of service, the**
11 **88,000, that is -- that would be found in that 433**
12 **number.**

13 Q. And is that 433 number broken out anywhere
14 else in the case record?

15 **A. Yes, it is. It was in a data request, and**
16 **that is -- that was on KPSC 2-47, attachment 2**
17 **provided the detail for that miscellaneous general**
18 **expense.**

19 Q. And I'm just going to quickly look at
20 something. Was that attachment, was it -- I know
21 that sometimes Kentucky Power's attachments are
22 incorporated into the PDF of the data response and
23 sometimes the attachments are separate documents,
24 usually Excel spreadsheets.

25 So was this filed as a separate document or

1 is it contained within the body of the response to
2 PSC 2?

3 **A. Oh, my. I don't know the answer to that.**

4 Q. Okay. Well, then I'll --

5 **A. I apologize.**

6 Q. Let me see if we can find it here in this
7 proceeding, because I know --

8 **A. Okay.**

9 Q. -- Staff had looked for it, and we want to
10 make sure that we have it.

11 MS. VINSEL: Okay. Travis, can I have you
12 bring up Document 47?

13 Q. So is this, then, the attachment where
14 there -- it would be broken out to indicate EEI?

15 **A. Yes, it's on there.**

16 Q. Okay.

17 MS. VINSEL: Just to make sure, Travis, can I
18 have you scroll down?

19 Q. It looks like it might be line 232.

20 **A. Is that attachment 2 or attachment 1?**

21 Q. Looks like it is attachment -- let me see.
22 It is --

23 MS. VINSEL: I'm sorry, Zach, I've got you in
24 the wrong document. It's Document Number 48.

25 **A. Okay.**

1 Q. And it is in the tab detail at line 232.

2 Okay. I see it. So it looks like -- I see. This
3 is the \$88,000 that was included in --

4 **A. Yes.**

5 Q. -- base rate? Okay. Thank you. That
6 clarifies two of the questions, then. Thank you.

7 MS. VINSEL: Zach, can you take that down,
8 please?

9 MR. OVERSTREET: Ms. Vinsel, I apologize. I
10 got a little bit lost. So that -- was that the
11 response to Staff 2-47, attachment 2, that you found
12 the information you were looking for?

13 MS. VINSEL: Yes, that is correct,
14 Mr. Overstreet.

15 MR. OVERSTREET: Thank you.

16 Q. Okay. Now, we also have a question about the
17 basis for the amounts that were excluded for
18 legislative activity.

19 MS. VINSEL: Zach, can I have you bring up
20 Document, again, 294, and I'll give you the PDF page
21 when it's up.

22 For everyone else, what this is, is this is
23 Kentucky Power's response to Attorney General KIUC
24 second data request, item 44, attachment 1.

25 And Travis, if I can have you turn to page

1 240 -- excuse me -- 267, PDF 267. All right. If
2 you'll blow this up, because the part I want to read
3 is a little small.

4 Q. Again, this is Kentucky Power's response to
5 the AG KIUC second data request, item 44,
6 attachment 1. It's page 3 of 20.

7 All right. Do you have that? I see you've
8 got the binder in front of you. Are you on this
9 page, Mr. West?

10 **A. Well, actually I'm looking at my rebuttal**
11 **testimony at R11, but I'm familiar with -- I can see**
12 **it on the screen.**

13 Q. Okay. Well, here's my question --

14 MS. VINSEL: And, Travis, I may have to have
15 you blow this up, because I want to look at two
16 lines in the description, but I also want to look at
17 footnotes 1 and 2. Perfect.

18 Q. So, Mr. West, is it correct, this is -- this
19 is the bill from EEI to AEP, and it incorporates the
20 entirety of AEP, if you will. It's been
21 subsequently allocated. So let me back up rather
22 than ask you a multipart question.

23 Does this represent the bill from EEI to AEP?

24 **A. Yes, that's my understanding.**

25 Q. And AEP then allocates the EEI membership

1 dues out to who? Well, who does -- who does AEP
2 allocate the dues out to?

3 **A. The operating companies.**

4 Q. Okay. And as I understand, I believe the
5 allocation is based on the total number of
6 customers, I believe electric sales, and one other
7 piece, as compared to AEP opcos as a whole?

8 **A. I'm not certain as to the allocator that they**
9 **use, whether it's total number of customers or what**
10 **it is.**

11 Q. Okay. I know that we had that in Mr. Bishop's
12 testimony, so I think we're good with that.

13 **A. Okay.**

14 Q. What I'm asking about is if you can see where
15 it says "Regular activities of Edison Electric
16 Institute," and then there's footnote number 1.

17 **A. Yes.**

18 Q. And when I come down to footnote number 1,
19 just confirm with me that this is what it says, what
20 I'll read to you. (Reading) The portion of 2020
21 membership dues related -- relating to influencing
22 legislation, which is not deductible for federal
23 income tax purposes, is estimated to be 13 percent.

24 Would you agree that's a correct reading?

25 **A. Yes, I would.**

1 Q. And then when I look at the second line on
2 the description that says "Industry Issues," with,
3 again, a footnote number 2, and I come down to
4 footnote number 2 and it says, (Reading) The portion
5 of the 2020 industry issue support relating to
6 influencing legislation is estimated to be
7 24 percent.

8 Is that a correct reading of what you see?

9 **A. Yes.**

10 Q. Okay. Thank you.

11 MS. VINSEL: Zach, will you take that down?
12 And then I would like to go to Mr. West's rebuttal
13 testimony. For our internal purposes, this is
14 Document 459. And Travis, if I'm calling you Zach,
15 I apologize. If you'd please go to PDF pagination
16 37. If I -- can I have you scroll down so we can
17 see all of Figure 2? There are two tables there.

18 Q. Now, as I look at this, let me start with the
19 bottom, and I just want to walk through it. And,
20 Mr. West, tell me if I'm reading this correctly.

21 The bottom, there are three -- three lines in
22 that table, column starts with Journal ID, account
23 number. Come over to the last column, and it's
24 telling me the amounts that are included or
25 excluded; is that correct?

1 **A. That is correct.**

2 Q. And just because I went to look ahead of
3 time, and I really don't want to have to bring up
4 this document also, but can we agree that in those
5 accounts, 4261000 is the -- that's the account
6 number for the account that's named Donations?

7 **A. I am not certain about that. I see that the**
8 **readback on your number is correct, but I don't know**
9 **that it's donations.**

10 Q. Well, subject to check, this would be
11 donations.

12 **A. Subject to check.**

13 Q. Subject to check. Account number 4264000,
14 subject to check, is civic and political activity?

15 **A. I'm sorry, I didn't -- I didn't catch that**
16 **last -- what that was.**

17 Q. It is civic and political activity.

18 **A. Okay. Thank you.**

19 Q. And I can refer --

20 **A. Yes.**

21 Q. I'll refer you to where this is located in
22 the record. And then 9302000 is miscellaneous
23 general expense?

24 **A. Yes. That's one you previously identified.**

25 Q. Identified?

1 **A. Yes.**

2 Q. And to let you know where I found the account
3 information is in the application. I believe it's
4 section 2. But this is Exhibit M, which is Kentucky
5 Power's chart of accounts.

6 **A. Okay. Thank you.**

7 Q. And just so you don't have to look through
8 every one of these accounts, the donations account
9 number is on page 10 of 18, the civic and political
10 activity is on page 11 of 18, and the miscellaneous
11 general expense is identified on page 17 of 18.

12 **A. Thank you. Okay.**

13 Q. Okay.

14 **A. I have that exhibit in front of me now.**

15 Q. Okay. What Staff would like to understand
16 is, given that the bill from EEI indicates two
17 different activities that have percentages of
18 13 percent and 24 percent for influencing
19 legislation, what is the basis for Kentucky Power to
20 allocate only 3.9 percent of the EEI dues to
21 legislative activities?

22 **A. Could you maybe repeat your question for me,
23 please?**

24 Q. Okay. Well, let me go back here. We can
25 even look at this, although I understood from the

1 bill it's 24 percent, but looking here on the top
2 table on Figure 2, we have the EEI invoice line
3 item, which is, in fact -- okay. Looking at the
4 aggregate for each of three particular line items on
5 the EEI bill.

6 **A. Right.**

7 Q. Next to it, it says -- it says, (Reading) AEP
8 legislation percentage, 13 percent, 26 percent.

9 As we recall, on the EEI bill those
10 percentages for legislative activities were
11 13 percent and 24 percent. I then come over, there
12 is a -- it looks like some sort of an apportionment
13 with AEP legislative amount, Kentucky Power
14 allocation, and then Kentucky Power legislative
15 allocation.

16 So my question is: How was -- what is the
17 basis for 3.9 percent legislative allocation?

18 **A. Okay. I apologize. I don't have that**
19 **calculation right in front of me.**

20 Q. Would Mr. Vaughan --

21 **A. I see it --**

22 Q. I'm sorry?

23 **A. I see it here.**

24 Q. I'm sorry?

25 **A. I see it here, but I apologize. I'm sorry.**

1 Q. And could Mr. Vaughan --

2 **A. (Indiscernible).**

3 Q. I'm sorry, I don't -- do not mean to talk
4 over you. Would Mr. Vaughan be able to answer that
5 question?

6 **A. He may. This was -- this information was**
7 **provided to me by Witness Whitney, so that may be**
8 **the better witness for that.**

9 MR. OVERSTREET: Ms. Vinsel, if Mr. Vaughan
10 is unable to provide the information, we could
11 certainly provide it in a post-hearing data request.

12 MS. VINSEL: Okay. We have one question,
13 if -- and we will ask this in a post-hearing data
14 request, but our question is: 3.9 percent part of
15 the total AEP pill -- AEP bill, rather than Kentucky
16 Power's portion. But it's -- because Mr. West does
17 not know, we'll move on from that question.

18 Q. We've asked several witnesses, and many of
19 them have referred us back to you, giving us some
20 answers but also referring back to you.

21 I have a question about the excess
22 unprotected ADIT, and I'm just going to call it the
23 excess ADIT for this questioning purposes,
24 recognizing we are talking about unprotected.

25 **A. Yes.**

1 Q. As we know from certain data responses,
2 Kentucky Power intends to finance the cash shortfall
3 from the -- if the proposed accelerated amortization
4 of the excess ADIT is accepted, authorized, then
5 Kentucky Power intends to finance the cash shortfall
6 from that accelerated amortization, and it will be
7 financed with long-term debt and equity.

8 It would seem that Kentucky Power probably
9 has developed some sort of a plan to address this.
10 So our question is, really: What are the projected
11 financing costs? And if I've made an unfair
12 presumption, please let me know.

13 **A. No, not at all. You're asking about the**
14 **projected financing costs of the cash shortfall**
15 **because we're proposing the one-year offset of the**
16 **ADFIT?**

17 Q. Yes, that's correct.

18 **A. I do not know if Witness Messner has made an**
19 **estimate of that. I have not -- I'm not aware of**
20 **one, if he did do one.**

21 Q. I can tell you he did not because he didn't
22 know the answer either.

23 Okay. I suspect that Mr. Messner's answers
24 for the rest of my questions will have to suffice.

25 MS. VINSEL: Chairman, Staff has no further

1 questions at this time.

2 CHAIRMAN SCHMITT: Mr. Cook, Mr. West, for
3 Attorney General, any questions?

4 MR. COOK: Yes. Thank you, Chairman, I do
5 have some questions.

6 CROSS-EXAMINATION

7 By Mr. Cook:

8 Q. Mr. West, good morning.

9 **A. Good morning.**

10 Q. I have some questions for you about several
11 subjects, and the first one is the EEI dues, but if
12 you'll bear with me, I want to try to not duplicate
13 the ones that Staff asked. So -- but I do have some
14 other ones that I want to get into. So let's see
15 here.

16 MR. COOK: First, Ms. Vinsel, I'm wondering
17 if we could pull up a response to -- that is found
18 in the second set of the AG KIUC's data requests,
19 and those were filed on September 30.

20 MS. VINSEL: Travis -- Travis, that's
21 Document Number 294.

22 MR. COOK: And it's item 44, and the Adobe
23 pagination is page 264.

24 MS. VINSEL: Mr. Cook, is this the correct
25 document?

1 MR. COOK: Yeah, I'm taking a look here. I
2 have to zoom up a little bit just to verify. Let's
3 see.

4 MS. VINSEL: My apologies, Mr. Cook. I
5 didn't mean to try to rush you.

6 MR. COOK: No, you're fine. Let's see.
7 Yeah, I don't see the item number here, so that's
8 what I'm having difficulty with. Is it 244?

9 MS. VINSEL: Yes.

10 MR. COOK: Okay. Great. And then what I'd
11 like to do is just have the first paragraph of that
12 response.

13 MS. VINSEL: So the -- yeah, the next page
14 down.

15 MR. COOK: Okay. And I believe in there,
16 there should be the phrase "Kentucky Power Company
17 classifies dues as -- and memberships as operation
18 and maintenance expense within the jurisdictional
19 cost of services." Is that in there?

20 THE WITNESS: It looks like it's the last
21 sentence of that paragraph.

22 MR. COOK: There we go. Yes, thank you for
23 highlighting it. Okay. So you see that too. Thank
24 you.

25 Q. Okay. Now, Mr. West, your rebuttal, as

1 Ms. Vinsel had indicated earlier, your rebuttal
2 page 11 indicates that \$88,361 in EEI dues was
3 included for recovery from ratepayers; isn't that
4 correct?

5 **A. Yes. That's what it says.**

6 Q. And that \$88,000 figure refers to influencing
7 legislation, correct?

8 **A. No, sir; it is nonlegislative activities of**
9 **EEI.**

10 Q. Nonlegislative activities?

11 **A. That is correct.**

12 Q. And --

13 **A. That's correct. Like restoration, crisis**
14 **management, operations, and industry issues. So**
15 **that's what that represents.**

16 Q. And would that also, then, include the other
17 items of EEI activity that are not identified there,
18 such as regulatory advocacy and public relations?

19 **A. I'm sorry, sir, I don't know if that's**
20 **included in there or not.**

21 Q. Okay. And are you aware that historically
22 the Commission has excluded 45.35 percent of EEI
23 dues to -- basically to not allow costs for
24 regulatory advocacy, public relations, and
25 legislative advocacy to be passed on to ratepayers?

1 **A. I believe I remember reading that in one of**
2 **the intervenor testimonies. It may have been**
3 **Witness Kollen. And since I'm kind of new to**
4 **Kentucky and my role, I was not aware that that was**
5 **something that was done.**

6 Q. Okay. Correct me if I'm wrong, and subject
7 to check if you don't have a calculator with you,
8 but when I multiply that \$88,000 figure, approximate
9 figure, by that 45.35 percent as Mr. Kollen
10 recommends, I get \$40,000 that needs to be excluded,
11 is that correct, subject to check?

12 **A. Subject to check on your math, but I'm not**
13 **certain that it needs to be excluded, sir. As I**
14 **said --**

15 Q. Okay.

16 **A. -- I believe the 88,000 is for regular EEI**
17 **activities that are industry standard.**

18 Q. Okay. I want to move on to another area that
19 Ms. Vinsel touched upon, and that's the accumulated
20 deferred federal income tax.

21 Would you say that the COVID pandemic has
22 changed the circumstances regarding how the excess
23 ADFIT should be utilized since the time of the
24 settlement in the 2018-00035 case?

25 **A. I would tend to agree with that, sir. I**

1 think in the -- in the 2018 case, where the 18-year
2 amortization was set, I believe that was appropriate
3 at the time. And the Company's proposal here to
4 accelerate that and offset the first year, I also
5 believe that is right, because of the pandemic, and
6 this was something that Kentucky Power wanted to do
7 for our customers. I mean, knowing that we had to
8 come in for a case, and it's never a good time for a
9 rate case, we thought that this was an important --
10 an important mitigation to help offset that first
11 year. So yeah, I believe both of those are right.

12 Q. Okay. Thank you. Would you agree that using
13 the excess ADFIT, I'm going to call it, money to pay
14 past arrearages and offset any increase awarded is
15 beneficial to ratepayers?

16 A. So you're asking if I think the offset, as
17 well as the -- I assume you're referring to the
18 10.8 million that we proposed in our -- what I call
19 the debt forgiveness filing?

20 Q. Yes.

21 A. That's what you're referring to? And would
22 those be benefits to customers?

23 Q. Yes.

24 A. Absolutely. Absolutely. I think those are
25 both meaningful mitigation -- mitigation efforts

1 **that the Company proposed, you know, due to the**
2 **pandemic.**

3 Q. And is it also appropriate to say that it
4 would be beneficial to Kentucky Power as well?

5 **A. In the respect that it would -- like if you**
6 **look at the debt forgiveness filing, for instance,**
7 **forgive -- or using that -- those dollars to absorb**
8 **some of those delinquencies for customers would have**
9 **the effect of lowering bad debt expenses at the**
10 **Company, which would also flow through to the**
11 **customers in lower rates.**

12 Q. Okay. Now I'd like to move on to some
13 questions about the grid modernization rider and
14 about AMI.

15 **A. All right.**

16 Q. In rebuttal you state that the grid
17 modernization rider -- I'm going to call it GMR,
18 okay? You state that the GMR would lengthen the
19 time between rate cases, correct?

20 **A. Yes, it has the potential to do that. In**
21 **between rate cases, a mechanism like the GMR would**
22 **provide more concurrent recovery on an annual basis,**
23 **which would increase cash flow, and that would have**
24 **the effect of possibly lengthening the time between**
25 **rate cases. Does that make sense? I don't know if**

1 **I explained that well enough.**

2 Q. No, thank you. I understand your answer.

3 The Company is not seeking a CPCN for any
4 specific grid modernization items in this current
5 case, other than the AMI system; isn't that correct?

6 **A. That's correct. It's the only project at the**
7 **time that we're seeking a CPCN. And just to be**
8 **clear, AMI is a grid modernization project. And as**
9 **Everett Phillips, Witness Phillips, I apologize,**
10 **testified to, it's like -- it's the first thing that**
11 **we need to do. It's the communications backbone of**
12 **anything that would, you know, continue to modify**
13 **the grid.**

14 Q. Well, let me just ask you: If the GMR rider
15 is approved, isn't it true that cost-benefit
16 analyses for grid modernization projects would
17 become a thing of the past?

18 **A. I don't believe it would become a thing of**
19 **the past, and I guess as an example, if you're**
20 **thinking about our proposal was we could bring a**
21 **project to the Commission in one of the annual**
22 **filings, and to -- it depends on the -- on whether**
23 **that project needed a CPCN or not. We would meet**
24 **all the requirements of the CPCN. We would include**
25 **elements in our filing that would show that it was**

1 **cost justified, it was a prudent expenditure, and it**
2 **would benefit customers. So I don't think that a**
3 **cost-benefit analysis would necessarily be a thing**
4 **of the past.**

5 Q. And you're not claiming that the GMR is to --
6 is for the purpose of replacing safety-related
7 equipment, are you?

8 A. Let me make sure I understand you. You said
9 that the GMR would not -- that I'm not proposing
10 that the GMR replace -- maybe you better repeat the
11 question. I apologize.

12 Q. Okay. Sure. If I understand you, your
13 testimony, I don't -- it sounds like you are not
14 claiming that the GMR is for the purpose of
15 replacing safety-related equipment; is that correct?

16 A. I guess it's not the -- it's not the purpose
17 of replacing safety-related equipment. The G -- I
18 mean, the GMR will help to recover costs for
19 projects that will modernize the grid. And to the
20 extent that those projects have safety-related
21 elements to them, it could recover safety-related.
22 I -- that's a pretty broad category, safety-related.

23 Q. Okay. And Kentucky Power is not asserting
24 that it has a special or emergency financial need
25 for the GMR, is it?

1 **A. Well, I think that if you reference Witness**
2 **Mattison's rebuttal testimony at page 3, I think it**
3 **is. He showed the earned ROEs for the Company, and**
4 **you can see how they have gone down. And, you know,**
5 **we're at a point where we're looking for**
6 **alternatives, and the GMR provides one of those**
7 **alternatives. As I mentioned, it has the cash flow**
8 **benefit to it. It provides the capital that we need**
9 **to do projects that modernize the grid.**

10 So it's -- I guess I might describe it as
11 kind of a tool in the toolbox, that it's something
12 that could help the Company in between rate cases.
13 And if the Company is more financially stable or
14 healthy, then that's a benefit to customers.

15 **Q. Okay. And the Company is proposing that**
16 **expenses to be recovered under the GMR would include**
17 **depreciation expense; is that not correct?**

18 **A. There is a depreciation element to it. I did**
19 **not do the rate design personally on that. I'm**
20 **talking about the kind of elements that would be in**
21 **the GMR at a high level. Witness Vaughan is the**
22 **rate design expert.**

23 **Q. Okay. And if the Commission approves the AMI**
24 **proposal, Kentucky Power is saying that will lead to**
25 **certain savings; isn't that correct?**

1 **A. Yes. There will be certain savings. I**
2 **believe Witness Blankenship talked about a few of**
3 **them just a bit ago. In my rebuttal testimony I**
4 **mentioned reconnect fees. Obviously, with AMI, if**
5 **you can do it remotely, you don't need to charge the**
6 **customer a fee for that. So there will be some**
7 **savings like that, certainly.**

8 Q. Well, why did Kentucky Power not propose to
9 offset savings against the cost of the new
10 investments and operating expenses to be included in
11 the GMR?

12 **A. Do you have a specific reference in testimony**
13 **to that or --**

14 Q. No, I'm afraid I don't.

15 **A. Okay. Let me -- let me -- let's try it**
16 **again, then. Could you maybe repeat your question?**

17 Q. Okay. I can -- certainly. Yes. Why did
18 Kentucky Power not propose to offset savings against
19 the cost of the new investments and operating
20 expenses that it proposes to recover through the
21 GMR?

22 **A. Well, I believe that in my rebuttal testimony**
23 **I did propose to offset the cost of the -- or the --**
24 **what's included in the -- in the test year. I think**
25 **it was about 188,000 for the reconnect fees. And to**

1 the extent -- and I believe we answered some of this
2 in discovery, but I don't know the discovery numbers
3 right now. I believe we answered some things in
4 discovery saying that we would -- to the extent that
5 we can quantify the benefits, that we would -- we
6 would flow those back through in the GMR.

7 Q. Okay. So that's your testimony today,
8 though, if -- and I don't have your testimony up in
9 front. I don't want to have to require Staff to
10 take the time to pull all that up. But your
11 testimony is that the Company is willing to do that;
12 is that correct?

13 A. Yes, sir.

14 Q. Okay.

15 A. Absolutely.

16 Q. All right. Let me see here. Just one second
17 as I go through my notes here. I want to make sure
18 that I did -- okay.

19 MR. COOK: Mr. Chairman, with that, I believe
20 that's all the questions I have.

21 CHAIRMAN SCHMITT: Thank you.

22 Mr. Kurtz, cross-examination?

23 MR. KURTZ: Yes, sir. Very briefly.

24 * * *

25

1 CROSS-EXAMINATION

2 By Mr. Kurtz:

3 Q. Good morning, Mr. West.

4 **A. Good morning.**

5 Q. You are director of regulatory services for
6 Kentucky Power; is that correct?

7 **A. Yes, sir.**

8 Q. In that role, do you regularly perform an
9 analysis comparing Kentucky Power's rates to the
10 rates of adjoining, neighboring utilities, for
11 example, the East Kentucky co-op distribution
12 utilities and/or KU or any of the other utilities in
13 Kentucky?

14 MR. OVERSTREET: Mr. Kurtz and Mr. Chairman,
15 there's a really bad feedback. It's almost like
16 Tommy James & the Shondells doing Crimson and
17 Clover, and we can't understand what Mr. Kurtz is
18 saying.

19 CHAIRMAN SCHMITT: I think that's true. I
20 don't -- I don't know, Mr. Kurtz, I guess there's an
21 audio issue. I don't know if it's on your end or
22 somewhere else.

23 MS. VINSEL: I think it's -- I think it's
24 within Mr. Kurtz's office.

25 MS. GRUNDMANN: And I was actually going to

1 say that for me -- this is Carrie Grundmann. I
2 started hearing the feedback during Mr. Cook's
3 cross-examination, and it just got worse and -- with
4 Mr. Kurtz.

5 CHAIRMAN SCHMITT: Okay.

6 MS. VINSEL: Okay.

7 MR. KURTZ: I have the same setup as
8 yesterday, and there was no problem. Is --

9 **A. Mr. Kurtz, if you could take another shot at**
10 **that question, I'll --**

11 Q. I will. Is the feedback still there?

12 **A. It's better. It seems to be better now.**

13 Q. Okay. I have the same setup as yesterday, so
14 I don't think it's on my end, I don't think.

15 Do you perform on a regular basis, or
16 periodic basis, a comparison of Kentucky Power's
17 rates to the rates of the other utilities in
18 Kentucky?

19 **A. I have not personally performed anything like**
20 **that. I -- although I have seen occasionally a**
21 **report on it. I believe EEI does some kind of a**
22 **comparison on an annual basis.**

23 Q. I'm sorry. So you have seen those reports on
24 an annual basis? That would be fine. Is that what
25 you said?

1 **A. I have seen one, yes. I didn't prepare it.**
2 **I think it might have been EEI, but I'm not certain**
3 **about that.**

4 Q. Well, isn't EEI kind of a nationwide study?
5 I mean comparing your rates plus or minus the
6 environmental surcharge, plus or minus the FAC
7 decommissioning rider, system sales tracker, all
8 your riders bundled into one end result retail rate
9 versus the same analysis for the EKPC distribution
10 cooperatives that are adjacent to Kentucky Power
11 and/or KU in particular, those neighboring
12 utilities.

13 **A. I understand now. Thank you for that**
14 **clarification. I have not prepared any of those**
15 **studies, no.**

16 Q. Doesn't -- does management of Kentucky Power
17 not have interest in how your rates compare to your
18 neighbors?

19 **A. I wouldn't say that we don't have any**
20 **interest in it. It certainly provides a data point,**
21 **but, you know, each utility is very different in how**
22 **they recover their costs and what their costs are.**
23 **So to that extent, you know, there are, you know,**
24 **understandable differences in the rates.**

25 Q. Well, I certainly agree, but I would think as

1 a utility executive manager of rates, you'd like to
2 know how you stack up to your competitors, given of
3 all the differences where you're --

4 **A. Well, I --**

5 Q. -- (indiscernible) competitors, since it's
6 (indiscernible), your other regulated utilities in
7 Kentucky. Is there no such interest?

8 **A. No, sir. I mean, I do have an interest in it
9 and the Company has an interest in it and I have
10 seen some numbers. I'm just saying that I don't
11 routinely prepare anything like that, but I have
12 seen some numbers. So I have a general
13 understanding of where those -- where we are against
14 some of the other utilities.**

15 Q. Okay. That's great. Could I -- could I make
16 a first on-the-record data request for any analysis
17 that Kentucky Power has in its possession that
18 compares your rates to the rates of other utilities
19 in Kentucky? Could you provide that, Mr. West?

20 **A. I'm certain that we can find something. I --
21 as I said, I didn't do it. I don't believe my staff
22 did either, but since I -- you know, I've seen some
23 numbers, certainly we can do that.**

24 Q. Okay. I mean, you're in here asking for a
25 13 percent base rate increase. I think it's fair to

1 understand how your rates stack up to the other
2 utilities, given everybody understands every utility
3 has different cost structure, but still it's
4 probative, I think, to see how your rates are. So
5 you will -- you will provide that?

6 **A. Yes, sir. Yes.**

7 Q. Okay. Same question, but instead of rates,
8 reliability, how your reliability stacks up to the
9 other utilities with respect to SAIDI, safety, and
10 whatever other reliability metrics you use. Do you
11 perform that?

12 **A. No, sir. Witness Phillips would have been
13 the better witness for that question.**

14 Q. Have you seen -- if you don't perform it,
15 have you seen it?

16 **A. I'm sure I've seen some numbers at some
17 point. I don't routinely sit in with Everett on his
18 meetings, so I can't even remember the last time I
19 would have seen anything like that.**

20 Q. Okay. Could I make a data request of
21 Kentucky Power to provide that same comparison of
22 reliability metrics of Kentucky Power versus the
23 other utilities in Kentucky? Can you provide that,
24 Mr. West?

25 **A. To the extent that the information is public,**

1 I think we probably could. I know that there are
2 some benchmarking studies for organizations that
3 gather that kind of data. I would caution you on
4 comparing reliability data from company to company,
5 just because, you know, the differences in terrain
6 and forestation, things like that can have a big
7 difference where one company looks really, really
8 good and another one may not be as good. But you
9 need to take a lot of factors into consideration.
10 It's not simply just comparing a number to a number.

11 Q. I think that's fair. Certainly it would be
12 unfair to compare Kentucky Power's territory to
13 LG&E's, which is a much denser situation, but don't
14 you think it would be fair to compare Kentucky Power
15 to the EKPC distribution cooperatives that are
16 adjacent and have the same terrain?

17 **A. Certainly I agree that we can provide the**
18 **information.**

19 Q. Okay. Thank you.

20 MR. KURTZ: Your Honor, no more questions.

21 CHAIRMAN SCHMITT: Thank you. I assume that
22 you'll send written data requests, Mr. Kurtz,
23 correct, at the end of the case. As is our
24 practice, parties will have an opportunity to reduce
25 their data requests to writing, and I assume that's

1 what you intend to do, correct?

2 MR. KURTZ: Correct.

3 CHAIRMAN SCHMITT: Okay. Thank you.

4 All right. Ms. Grundmann, questions?

5 MS. GRUNDMANN: Yes, Your Honor. I think
6 I'll be relatively brief.

7 CROSS-EXAMINATION

8 By Ms. Grundmann:

9 Q. I have the last five minutes here to say good
10 morning, Mr. West, how are you?

11 **A. I'm good. How are you?**

12 Q. Doing well. I obviously just have a couple
13 of questions about your grid improvement rider.
14 Obviously you've had an opportunity to take a look
15 at the direct testimony of Lisa Perry that was filed
16 in this docket, correct?

17 **A. It's been some time since I did look at it,
18 but I did at some point.**

19 Q. You offered rebuttal testimony in response to
20 some of her testimony; isn't that correct?

21 **A. Can you be specific in my rebuttal testimony?**

22 Q. Correct. It begins on page R3.

23 **A. You mean section 4, where I talk about the
24 grid modernization rider?**

25 Q. That's correct.

1 **A. Okay. What was your specific question on it?**

2 Q. So you understand that Walmart opposes the
3 grid modernization rider; is that correct?

4 **A. I believe that's correct, yes.**

5 Q. Along with other intervening parties?

6 **A. I understand that other intervening parties
7 are opposed to it, yes.**

8 Q. Okay. And I just want to kind of go through
9 and make sure that I understand exactly what it is
10 that the Company is seeking here. So what you would
11 like the Commission to do is approve broadly this
12 rider that you are calling the grid modernization
13 rider, and you propose, for purposes of this
14 proceeding, that the Commission allow you to recover
15 costs associated with an AMI rollout and leave open
16 the possibility that future projects would also be
17 proposed for recovery through this grid
18 modernization rider. Is that an accurate reflection
19 of your proposal for this proceeding?

20 **A. That's accurate. The first project is AMI,
21 so that's the only one that's on the table right
22 now --**

23 Q. And you've covered --

24 **A. -- but other --**

25 Q. Sorry. Go ahead.

1 **A. But, yes, other projects, the way that we're**
2 **envisioning it or proposing it to the Commission is**
3 **that in the annual true-up filings we could bring a**
4 **new project in and go through a review process with**
5 **the Commission. And they would have full control**
6 **over that. They could look at full transparency,**
7 **look at anything they want.**

8 **Q. No, I understand. My question really boils**
9 **down to: Can you point to me in the testimony,**
10 **whether it's in your direct, rebuttal, another**
11 **witness', where you have very clearly defined what**
12 **projects would be proposed for recovery through the**
13 **grid modernization rider?**

14 **A. Well, there is no -- at this point we**
15 **proposed AMI to start with, the first project.**
16 **Witness Phillips talked about, in general, that**
17 **there are some other grid modernization projects**
18 **that he would propose to do. You know, just off the**
19 **top of my head, DACR is one of them. It stands for**
20 **distribution automation circuit reconfiguration.**
21 **And I believe we do have some of that on some of our**
22 **circuits, but it needs to be expanded and put on**
23 **more circuits --**

24 **Q. Well, I --**

25 **A. -- so that would be an example of one.**

1 Q. Well, I apologize. I think you and I are
2 sort of cross purposing it. I understand that
3 you're identifying specific items. What I'm trying
4 to understand is, from a broad level definitional
5 standard, how would any party understand what
6 projects they could expect to see in the future as
7 being within the scope of a grid modernization rider
8 and which projects are not within the scope, so that
9 we could have any comfort level that this doesn't
10 become a catchall for any project that the Company
11 wants to propose and receive rate recovery
12 immediately from customers, because -- so my
13 question, I'll ask it again, is: Where in the
14 record -- and so I'm asking you to point me to
15 somewhere in testimony, discovery, something that
16 has been filed in this case, where the Company has
17 defined the parameters of projects that are
18 appropriately within the scope of the grid
19 modernization rider.

20 **A. Thank you for that. I understand your**
21 **question. I don't believe we defined that anywhere.**
22 **I don't remember any discovery response where we**
23 **defined all the parameters to it. What my proposal**
24 **would be is that we would work with the Commission**
25 **and the Staff on what projects would rightfully fall**

1 **within that such that it would not be a catchall, as**
2 **you describe. We would happily work with Staff.**

3 Q. So I guess it's possible, then, that in
4 working with Staff and the Company, that you could
5 propose a project in a true-up, annual true-up
6 proceeding, that ultimately should be recovered
7 through base rates because it involves the provision
8 of safe and reliable service?

9 **A. Well, let me answer your question this way:**
10 **There's a lot of projects that have a safe and**
11 **reliable service element to them. And I'm not**
12 **familiar with all the distribution projects that are**
13 **out there. I'm not an accountant, I'm not an**
14 **engineer, and I think that they probably all have**
15 **some kind of a safe and reliable benefit to them.**
16 **But again, we would propose the project to the -- to**
17 **the Commission at the annual filing and we would let**
18 **them decide.**

19 Q. But you understand, don't you, Mr. West, that
20 there is a definite difference between the Company
21 investing capital that it needs to invest to provide
22 safe and reliable electric service and then to come
23 in to this Commission for a base rate case versus an
24 annual proceeding where you want immediate cost
25 recovery for a project? You understand that there's

1 a difference between those two mechanisms?

2 **A. Yes, generally there's a difference.**

3 Q. And so in terms of this grid modernization
4 rider, I think you've already identified that we
5 really don't have any parameters for what the line
6 is between projects that fall into the "We need to
7 provide safe and reliable service" and the projects
8 that would be part of modernizing the grid?

9 **A. As I stated, I don't believe we defined those**
10 **parameters anywhere in the record, but we would**
11 **happily work with the Commission to develop them.**

12 MS. GRUNDMANN: Thank you, Mr. West. I don't
13 have any further questions.

14 THE WITNESS: Thank you.

15 CHAIRMAN SCHMITT: Mr. Spenard, questions?

16 MR. SPENARD: Yes, Mr. Chairman.

17 CROSS-EXAMINATION

18 By Mr. Spenard:

19 Q. Good afternoon, Mr. West. Can you hear me?

20 **A. Yes, I can.**

21 Q. Okay. Thank you. And if there is any
22 difficulty hearing me, or alternatively, if you
23 don't understand a question, just let me know.

24 Okay?

25 **A. Certainly.**

1 Q. Okay. In terms of the application, you
2 prefiled testimony, and at page 3 of your testimony
3 in the application, among other things -- you
4 describe the purpose of your testimony and, among
5 other things, the purpose of your testimony includes
6 supporting the proposed increase in annual revenues,
7 and then also the year-one offset to approved rates;
8 is that correct?

9 **A. That is correct.**

10 Q. Okay. With regard to your prefiled
11 testimony, you describe the year-one offset to the
12 approved rates roughly pages -- on pages 6, 7, and
13 8; is that correct?

14 **A. Yes, I believe it starts on page 5.**

15 Q. Okay.

16 **A. I'm sorry. I'm sorry. You're correct. Page**
17 **6.**

18 Q. Okay. And with regard to section 2 of the
19 application, the filing requirements, Exhibit E, I'm
20 looking at the various tariffs that are proposed,
21 and your name is the name that is on the tariff.
22 The bottom of the tariff pages, issued by Brian K.
23 West. Your name is the name on those tariffs; is
24 that correct?

25 **A. Yes, it is. As the director of regulatory**

1 **services, that is my name on the bottom.**

2 Q. Okay. And in terms of the billing on a
3 going-forward basis, this is -- the bills that are
4 going to result as a consequence of this proceeding,
5 okay, there's going to be -- each customer will have
6 a total balance due, and that total balance due
7 comprises a variety of line item elements; is that
8 correct?

9 **A. Yeah, it certainly does.**

10 Q. Okay. And one of those line item elements
11 that's proposed is -- concerns the excess
12 unprotected ADIT?

13 **A. Do you mean that there is a line item for
14 tariff FTC?**

15 Q. Well, I'm looking, and I am trying to
16 avoid -- I'm trying to avoid too much of calling up
17 exhibits, but do you --

18 **A. Sure.**

19 Q. -- propose on the customer bill to have a
20 line item associated with the federal tax cut
21 credit?

22 **A. No, and I tell you what, I'll give you the
23 general idea that I have and then Mr. Vaughan can
24 clean it up if I make any mistakes, but I believe
25 that what we are going to need to do is, whatever**

1 rate increase would be approved in this case, those
2 rates would go into effect January 14th of '21, then
3 we would use the federal tax cut tariff to flow
4 credits back through such that there would be no
5 increase for the customer in year one.

6 Q. So in terms of the --

7 A. So it --

8 Q. Go ahead.

9 A. Well, I just think that the line item would
10 already be there, then, for the federal tax cut.

11 Q. Okay. Okay. So with regard to the -- with
12 regard to the tariff changes, the effective date for
13 the new rates will be -- on the tariff I'm looking
14 at, the effective date is for service rendered on or
15 after December 30th, 2020, and those bills would
16 roll in in January of 2021, correct?

17 A. Yes. As we filed the case, it was
18 December 30th, but we had a couple of deficiencies
19 that we had to clean up, so the Commission, I
20 believe, deemed it filed on -- I believe it was
21 around July 11th or 12th of this year, and then that
22 pushed the effective date for the rate out to
23 January 14th.

24 Q. Okay.

25 A. So I realize we have to clean up the bottom

1 **of the tariff when we, you know, file them after the**
2 **case with the correct date.**

3 Q. Sure. Now, with regard to January 14th,
4 2021, the service charge, the actual service charge
5 for the customer -- if your application is approved,
6 the actual service charge from the customer will
7 increase from \$14 to \$17.50; is that correct?

8 **A. That's my understanding for residential, yes.**
9 **Witness Vaughan designed those rates, and --**

10 Q. Well, and I appreciate you pointing out
11 that -- yes, that I'm -- I'm discussing Tariff R. --
12 R.S., the residential service, so I appreciate you
13 pointing that out. And if any of these questions
14 are more appropriate for Witness Vaughan, we'll
15 defer those to Witness Vaughan, but in that your
16 testimony is to support the year-one offset, I'd
17 like to at least see if these are your questions
18 before Mr. Vaughan testifies.

19 Do you understand where I'm coming from?

20 **A. Oh -- oh, absolutely. Go right ahead.**

21 Q. So let's look at the -- let's look at the
22 implementation for the new rates. You'll have a
23 service charge at \$17.50, and let's say a
24 hypothetical, you have a customer that uses one
25 kilowatt hour, and with that, under the proposed

1 rates, they would pay 12.265 cents for that kilowatt
2 hour under residential -- for residential service.
3 That's the proposal.

4 **A. I think you need to save that question for**
5 **Witness Vaughan.**

6 Q. Okay. Well, let's try this to see if -- and
7 I apologize, I just -- as between you and Witness
8 Vaughan, I'm not sure who's the best to field this.
9 But if you had a situation in which a customer's
10 bill under the proposed rates was, say, 17 dollars
11 62.265 cents, which would be the new rate, is the
12 offset designed such that the effect -- the customer
13 is going to be billed that amount, there will be
14 something on the bill that would say, yes, this is
15 what you would owe, but because of the year-one
16 offset, it would effectively be reduced down to the
17 amount they would pay under the current rates, which
18 is the \$14-a-month service charge and the \$9.81 per
19 kilowatt hour energy charge?

20 Are you trying to basically get the -- for
21 the year-one offset is to have it that the customer
22 usage, before the effective date of the new rates
23 and with the effective date of the new rates, it's
24 basically going to look the same for that portion of
25 the customer's bill?

1 **A. Here's my understanding of it, and again,**
2 **Mr. Vaughan can help us out when he gets up here. I**
3 **try to think of it just real simple, I -- that**
4 **there's going to be -- there would be no increase.**
5 **It's a year-one -- it's an offset to what the**
6 **increase would have been.**

7 So I'm not sure if there would be anything
8 else on the bill besides Tariff FTC. That's our
9 proposal would be to use that mechanism to credit
10 the customers such that there would be no increase
11 in the first year.

12 **Q. Okay. And again, this may be appropriate for**
13 **Mr. Vaughan, but in terms of your understanding and**
14 **the -- there is at least a portion of the bill -- of**
15 **all the billing elements that go into the total**
16 **balance due from the customer, there is a portion of**
17 **the bill associated with the service charge which is**
18 **fixed and a portion of the bill associated with the**
19 **energy charge, correct?**

20 **A. That is correct.**

21 **Q. Okay. So in terms of that year-one offset,**
22 **is the year-one offset to -- if this is your --**
23 **within your field, is that year-one offset granular**
24 **such that not only would the amount that the**
25 **customer would pay stay the same, keep the --**

1 basically defer the rate increase for a year, but is
2 it granular such that the customer -- the service
3 charge that that customer is going to be required to
4 pay would also stay the same, or is it -- is it
5 basically the customer with no usage is still going
6 to get billed that proposed \$17.50 to be offset down
7 to \$14?

8 **A. At the -- at that kind of a granular level,**
9 **Witness Vaughan can answer that.**

10 Q. Okay. And --

11 **A. I apologize.**

12 Q. -- I'm going to ask --

13 **A. I apologize. I just don't have that kind of**
14 **detail.**

15 Q. No, it's quite all right. It's -- there's no
16 apology necessary. It's quite -- quite all right.
17 We'll ask those questions to Mr. Vaughan. Let me --
18 but I think we can -- can maybe wrap this up with
19 you with just a couple of more questions with regard
20 to the excess unprotected ADIT. Okay.

21 Now, in terms of the Company's approach to
22 utilizing the excess unprotected ADIT, is any amount
23 of that -- is any of that amount that's going to be
24 used designed for the purpose of preserving the
25 current compensation rate for customers who will be

1 taking -- who are under the Net Metering Service II
2 Tariff, the new tariff that's coming in, is it -- is
3 the compensation rate completely divorced from any
4 application of the benefit of the excess unprotected
5 ADIT?

6 **A. I'm sorry, sir, I do not know, but I'm sure**
7 **Mr. Vaughan does.**

8 Q. Sure. And again, it's quite all right. And
9 at this stage, I appreciate your answers.

10 MR. SPENARD: And so with that, we'll have
11 some questions for Mr. Vaughan. Thank you so much,
12 Mr. West.

13 THE WITNESS: Thank you.

14 CHAIRMAN SCHMITT: Mr. FitzGerald, do you
15 have questions of this witness?

16 MR. FITZGERALD: I do, Mr. Chairman. I have
17 quite a few, though. Do you -- is it your --

18 CHAIRMAN SCHMITT: Well, that's what I was
19 going to ask.

20 MR. FITZGERALD: Is it your pleasure to go
21 ahead and break?

22 CHAIRMAN SCHMITT: I was going to ask. If
23 you --

24 MR. FITZGERALD: I'm sorry.

25 CHAIRMAN SCHMITT: When you -- if you said

1 yes, I was going to ask how extensive your
2 examination might be, because otherwise we can break
3 for lunch at this time and then come back. So I --

4 MR. FITZGERALD: I've got -- I've got -- I'm
5 sorry.

6 CHAIRMAN SCHMITT: Yeah, you've got a lot of
7 questions, or a number of questions, so let's just
8 take our lunch break now and come back at 1:15.

9 All right. We'll be in recess.

10 MR. FITZGERALD: That sounds like a plan.
11 Thank you, Mr. Chairman.

12 CHAIRMAN SCHMITT: We'll be in recess until
13 1:15.

14 (Recess began at 12:19 p.m.)

15 COMMISSIONER SCHMITT: We're back on the
16 record. Are the parties ready to continue?
17 Mr. Fitzgerald?

18 MR. OVERSTREET: Kentucky Power is, your
19 Honor.

20 COMMISSIONER SCHMITT: Okay. Mr. Fitzgerald?
21 There you are. Your turn to cross-examine Witness
22 West.

23 MR. FITZGERALD: Thank you, your Honor. And
24 I switched to a computer that was built within this
25 century, so hopefully things will be a little bit

1 better.

2 CROSS-EXAMINATION

3 By Mr. FitzGerald:

4 Q. Mr. West, I want to make sure you're the
5 right person to ask these questions.

6 So let me first -- you and Mr. Blankenship
7 were listed as witnesses on AMI.

8 Are you comfortable answering some questions
9 about AMI for me?

10 **A. I apologize. I had the mic off.**

11 **Yes, sir.**

12 Q. Okay. Wonderful. And you and Mr. Vaughan
13 were both listed as witnesses concerning the grid
14 modernization.

15 Is it to you or to Mr. Vaughan that I should
16 direct questions about the method of cost recovery,
17 the use of a rider rather than folding it into a
18 base rate case and what those impacts will be in
19 terms of the rates for customers?

20 Is that Mr. Vaughan's area?

21 **A. Well, to the first part, I believe I can
22 answer that.**

23 MR. FITZGERALD: Excuse me. My co-counsel is
24 making a --

25 THE WITNESS: Sure.

1 COMMISSIONER SCHMITT: I've had law partners
2 like that, Mr. Fitzgerald. That -- I know the
3 problem.

4 MR. FITZGERALD: Sorry, Mr. Chairman. Dog is
5 my co-pilot over here, and he's being a little loud.

6 BY MR. FITZGERALD:

7 Q. So, okay. Back to -- should I ask
8 Mr. Vaughan or you about the rate and design of the
9 new net metering tariff?

10 **A. Mr. Vaughan for the net metering tariff, sir.**

11 Q. Okay. Great. And what about the voluntary
12 T-O day -- time of day tariff and the proposed
13 changes on that? Is that Mr. Vaughan also?

14 **A. Yes.**

15 Q. Okay. And then finally, the declining block
16 rate and the costs and benefits of Flex Pay. Is
17 that for you or is that something I should direct to
18 Mr. Vaughan?

19 **A. The first part to Mr. Vaughan and Flex Pay to
20 me.**

21 Q. Okay. Okay. Wonderful. Wonderful. Okay.

22 So let's get started, if we could. Under the
23 grid modernization rider -- and you said you're okay
24 answering questions on that?

25 **A. Yes, sir.**

1 Q. Okay. And if there's some that you're not
2 comfortable with, let's kick them over to
3 Mr. Vaughan, okay? He's like -- he's batting
4 clean-up here, apparently.

5 So under the proposed rider, will a customer
6 pay for the installation and deployment of the AMI
7 infrastructure before they have one installed in
8 their own residence, potentially?

9 **A. Yes. The per meter charge would start at the**
10 **time that we start the implementation of the meters.**

11 Q. Okay. So is it possible, then, that a
12 customer will have to pay for that infrastructure
13 for up to several years while seeing no direct
14 benefits?

15 **A. It's possible, but those customers will still**
16 **get those benefits when the meters are installed.**

17 Q. Okay. And are there indirect benefits that
18 they will accrue before they actually have their own
19 meter?

20 **A. Are there indirect -- could you be more**
21 **specific about that?**

22 Q. Yeah. Well, are there -- the improvement in
23 the grid overall, does that benefit a customer who
24 doesn't yet have a meter?

25 **A. I think any improvement to the grid overall**

1 **would benefit our customers, yes.**

2 Q. Okay. And that should be considered in your
3 estimation in determining the value of this
4 technology?

5 **A. Considered in the value? What do you mean**
6 **exactly by that?**

7 Q. Well, what I mean is there's -- there's a
8 suggestion -- or there's system-wide benefits, you
9 think, from deploying the technology?

10 **A. There will be reliability benefits,**
11 **certainly, I think Mr. Blankenship talked about**
12 **those this morning.**

13 Q. Okay. And you think those should be
14 considered?

15 **A. Well, when you say "considered," what --**

16 Q. Well, in terms of the Commission determining
17 what the value of this technology will be.

18 **A. I think the Commission will look favorably on**
19 **any improvement in reliability on Kentucky Power's**
20 **system, and I think our customers will look**
21 **favorably on that too.**

22 Q. Okay. And am I correct that the ability to
23 cover cost more quickly under a rider is a financial
24 benefit to the company?

25 **A. More concurrent recovery reduces regulatory**

1 lag, sure.

2 Q. Okay.

3 A. In this case, it -- it is -- it's an
4 alternate mechanism to help the company with cash
5 flow. I believe some of our other witnesses have
6 talked about the deferrals that were approved in the
7 2017 case, and that that's, you know, put a strain
8 on some of the company's metrics, and one of those
9 was cash flow.

10 And that's one of the benefits of the -- of a
11 grid modernization rider as we proposed is that it
12 can help with more concurrent recovery and cash
13 flow.

14 Q. Okay. And that, in turn, is requiring more
15 payment by ratepayers more quickly; is that correct?

16 A. Well, what it does is -- is -- you know,
17 every time we have a rate case, you know, there's
18 usually, you know, a larger spike, you know, when we
19 come in for a rate case, and say that's every three
20 years, every four years, something like that.

21 What a rider has the benefit of being able to do is
22 smooth out some of those increases where you may
23 have a smaller increase each year, a smaller
24 increase each year, and over time, the customers can
25 absorb that easier than a large spike. Does that

1 **make sense?**

2 Q. Yeah. It does. But I'm wondering: If you
3 depreciate the asset over its useful life, are you
4 going to see a large spike?

5 **A. If we depreciate the asset over its useful
6 life --**

7 Q. Right. You amortize the value and that you
8 charge over a more extended period of time. You're
9 not going to see really a spike, are you?

10 **A. So are you -- are you asking if the recovery
11 period -- the implementation period of four years
12 for the GMR, are you asking if -- if it would be
13 over the whole life of the asset, if that would be
14 less of an impact?**

15 Q. Uh-huh. Less of a spike.

16 **A. I think if you do the math on it, yeah, it
17 would be less of a spike.**

18 Q. Okay.

19 **A. But still, the assets will be depreciated
20 over their useful life.**

21 Q. Right. But they're going to be paid for
22 within the first four years, even though they have a
23 useful life of 15?

24 **A. I'm not -- not certain about that,
25 Mr. Fitzgerald. Mr. Vaughan could help answer that**

1 **question, I think.**

2 Q. Okay. That's -- that's what we'll do.

3 The -- do you know whether the math has been
4 done that the company will receive sufficient
5 benefits from AMI to eventually cover the costs for
6 deploying it?

7 **A. Well, when you're looking at obsolete**
8 **technology and as -- and I know I'll repeat some of**
9 **these things, but Mr. Blankenship mentioned seven**
10 **years, 75 percent of them are at their useful -- end**
11 **of their useful life and 10 percent failure life.**
12 **When you're looking at technology like that, it's**
13 **really not particularly useful to spend the money to**
14 **hire a consultant to do a cost-benefit analysis on**
15 **it when the answer is "you need to replace this and**
16 **we need to find what the least cost alternative to**
17 **replace it is."**

18 **So I -- in this scenario, I think it was far**
19 **more prudent not to spend money on a cost-benefit**
20 **analysis when we already know the answer. The**
21 **answer is the least cost alternative, and that's an**
22 **implementation of AMI. And that brings all the**
23 **other benefits with it. It's like the icing on the**
24 **cake, you know, all the benefits of AMI.**

25 Q. Well, I guess I'm more wondering: When you

1 have budgetary constraints the way that your
2 customers do, whether replacing the existing
3 generation of meters with a -- let's say, you know,
4 a good, competent car that will get you from here to
5 there rather than a Cadillac might be more prudent.

6 Now, you said the least cost alternative is
7 deployment of AMI, but the testimony earlier was you
8 could deploy the next generation of SCM plus AMR
9 meters for about 15 million less and defer the
10 installation of AMI to the next generation of
11 meters.

12 **A. Well, what my understanding was of**
13 **Mr. Blankenship's testimony was that you've got --**
14 **you have a situation where, yes, the \$22 million**
15 **would be the estimated cost to go to the SCM plus**
16 **platform, but you're looking at one manufacturer in**
17 **the country that even makes that meter, and I**
18 **believe Mr. Blankenship also said that there are no**
19 **current manufacturers making the meters that we are**
20 **currently using.**

21 Q. Right.

22 **A. So much -- much like electromechanical**
23 **meters, nobody makes those anymore. You know, the**
24 **industry standard moved to AMR, and then now the**
25 **industry standard has moved to AMI, and it's only a**

1 matter of time before that one manufacturer decides,
2 "Hey, we're out of the game now. We're all AMI.
3 That's the industry standard."

4 And what -- what Mr. Blake was saying is that
5 I would have to spend \$22 million, and then at an
6 indeterminant period, I've got to spend \$37 million
7 then to go to AMI, and that's far more expensive
8 than just doing AMI right now.

9 Q. Now, you say an indeterminant period. The
10 AMR meters have a warranted life and a useful life
11 of about 15 years, don't they, and a warranty life
12 of less but a useful life of 15?

13 A. Well, I assume so. But I guess what I'm
14 trying to say is there's a big risk of putting all
15 your eggs in the basket of one manufacturer, and you
16 don't know when they're going to start -- stop
17 making those.

18 I think that the prudent thing to do is
19 consider very heavily that risk.

20 Q. And I -- I appreciate that that's what the
21 company thinks is prudent, absent a cost-benefit
22 analysis, but I guess what I'm wondering is: The
23 -- well, let's just leave it. Let's leave it at
24 that. I think you've made your point, and hopefully
25 that continues to enlighten us.

1 Let's switch -- well, let me just ask this to
2 wrap up this section. Given that the company has
3 yet to identify a technology, which presumably will
4 be a technology from one vendor, ultimately, and
5 there is no hard cost that has been quantified and
6 there's no demonstration that the actual benefits
7 anticipated actually exceed the cost -- given all of
8 that, don't you think it's more appropriate from a
9 Commission standpoint for the company to select the
10 technology, deploy it, and seek to recover those
11 costs over the useful life of the assets in future
12 rate cases when they're actually used and useful and
13 when the prudence of that investment can be
14 defended?

15 **A. I think the way that I would answer that is**
16 **that at the time now -- Mr. Blankenship, I'm sure,**
17 **talked about that -- that we're at a crossroads here**
18 **where we have to do something. I don't believe we**
19 **can wait any longer. We must make a decision now on**
20 **this situation.**

21 **And as far as the -- I believe you -- you said**
22 **we were looking at two technologies, right? That's**
23 **what Mr. Blankenship had testified to?**

24 **Q. Right.**

25 **A. And the AEP system has over 2.3 million AMI**

1 meters. We know, pretty much, what these estimates
2 are. Okay? Yes, we're working with those two
3 vendors to get estimates, but it's not like we've
4 never done this before. And all of the benefits
5 that we talk about in our testimony, whether it's
6 Ms. Wiseman or myself or -- or Mr. Blankenship,
7 these are benefits that we've seen in all of our
8 jurisdictions that currently deploy AMI.

9 So I would disagree with -- with the way you
10 said that. I think that we -- we do know the
11 benefits, and I think we do have a good handle on
12 the costs.

13 Q. Okay. Well, given that, you've got the
14 experience of other companies within the AEP family;
15 is that correct?

16 A. That's correct.

17 Q. Okay. Do you know whether they got approval
18 from their respective commissions without a
19 cost-benefit analysis and whether they got approval
20 as a rider as opposed to in base rate recovery?

21 A. Honestly, I'm -- I'm not familiar with how
22 the other companies did that.

23 Q. Okay. Well, thank you.

24 And I don't mean to put too fine a point on
25 this, Mr. West, but isn't the company, in essence,

1 seeking a blank check from the ratepayers' accounts
2 for a future shopping trip?

3 **A. Are you referring to our AMI proposal?**

4 Q. Yeah.

5 **A. Not -- I don't think I would think about it**
6 **that way. We have -- as I said, we've got to make a**
7 **decision. We need to do something. And**
8 **Mr. Blankenship and his team have done everything**
9 **they can to get the estimate as accurate as possible**
10 **from these two technologies.**

11 **And I believe he explained that, you know,**
12 **there were a couple other companies in -- in the AEP**
13 **system that were looking at some of these**
14 **technologies too, and part of the reason for that is**
15 **we want to make sure that we get the -- the best --**
16 **the best system for the money and what's going to**
17 **work best for Kentucky Power.**

18 **So we're -- we're working with those two**
19 **companies to get the -- the best estimates possible.**
20 **Does that answer your question?**

21 Q. Yeah. That's fine. Let's switch gears. And
22 that's a fair response.

23 Let me ask: Is it fair to state that the
24 reason that Kentucky Power is here in this rate case
25 is primarily because it hasn't been able to realize

1 the allowed rate of return from the last rate case?

2 **A. I would say that -- that it's two-fold.**

3 **In Mr. Mattison's testimony, certainly there's a**
4 **table of earned ROEs, and they continue down and**
5 **down and down.**

6 **So those -- those numbers are -- are a reason**
7 **that we're in for this rate case. But we're also**
8 **here for our customers. You know, I had -- my**
9 **career started out in customer service 30 years ago,**
10 **and I worked in, oh, probably 12 -- about 10, 12**
11 **years in customer service, so I learned a lot**
12 **working with customers. That's what we're in the**
13 **business for here.**

14 **So I would say that we're here for the**
15 **company, but we're here for the customers too. And**
16 **with -- with AMI and the critical situation we're in**
17 **around, you know, our AMR system and needing to do**
18 **something, there's just such a host of benefits that**
19 **AMI can offer customers and the Flex Pay program**
20 **along with it, that we think this is -- this is the**
21 **right thing to do for customers.**

22 **Q. Okay. Is the reason for the decline of -- or**
23 **the -- of the inability to achieve the allowed rate**
24 **of return -- my understanding of Mr. Mattison's**
25 **testimony and the other witnesses' is that it's a**

1 loss of industrial customers, decline in the coal
2 market spurred by natural gas and renewables, and an
3 overall loss of customers due to out-migration as
4 well as a decline in per capita demand. Is that
5 correct?

6 **A. I don't have Mr. Mattison's testimony in**
7 **front of me presently, but I do believe that those**
8 **were some of the ones that were listed, yes.**

9 Q. Okay. And as the proposal, as I understand
10 it, is to increase the allowable ROE, according to
11 the Witness McKenzie's -- Mr. McKenzie's testimony
12 is that a higher ROE is necessary to attract
13 investment.

14 Is that -- do you concur with that?

15 **A. Did you say to attract investments?**

16 Q. Yeah. Investment in the company.

17 **A. Yeah. In general, you know, as an investor,**
18 **I think you want to invest in a strong company, a**
19 **company that shows that -- that they can earn a fair**
20 **return. So I -- I think that's fair.**

21 Q. Okay. So the effect of this from the
22 ratepayers' standpoint is that they are going to be
23 footing a higher bill with higher rates, higher
24 allowable rate of return while using less
25 electricity; is that correct?

1 **A.** **I don't know that they'll be using less**
2 **electricity. That having more information available**
3 **to them, as we've discussed with AMI, certainly**
4 **provides our customers the opportunity to engage**
5 **more in -- in their bill and control it more. But**
6 **I'm -- I apologize. I don't feel like I'm answering**
7 **your question.**

8 **Q.** **That's okay.**

9 **A.** **Okay.**

10 **Q.** **No. That's fine. That's fine.**

11 **What -- have you figured -- or has -- or this**
12 **-- would this be for Mr. Vaughan?**

13 **What do you anticipate the effect will be of**
14 **increased rates and deployment of AMI through the**
15 **rider of residential customers?**

16 **What will their reaction be?**

17 **Will they use more?**

18 **Will they use less?**

19 **A.** **I think the customers will -- will have the**
20 **opportunity, again, with -- with the integral data**
21 **to engage and identify where -- where their usage is**
22 **at, really. You know?**

23 **The way I think about it is you have a**
24 **situation right now where you really don't know what**
25 **-- what you're using on a daily basis until you get**

1 your bill, and that's one reading a month. Right?
2 AMI has the ability to notify you when you have a
3 high bill. I mean, if -- if it's higher by, you
4 know, so much over the day before, and you know, one
5 of the things that I think is great about that is --
6 and I used to -- I used to run into this back --
7 back early in my career, where a customer would
8 install a heat pump, is the example I can think of,
9 and for some reason it -- it malfunctioned, and the
10 customer didn't know it was malfunctioning until
11 they got their bill and, you know, it was like \$800.

12 And that's just the example. I can't remember
13 what it actually was, but it was a high bill. And
14 when you have -- have the technology like AMI that
15 can identify those things and alert you, you know,
16 within a day or two that, hey, you've got a problem,
17 you can save that customer a lot of headache with
18 that kind of power.

19 Q. Okay. Leaving aside the opportunity by
20 getting more realtime data to determine if your
21 equipment is malfunctioning, do you anticipate that
22 having access to this data which was described by
23 Mr. Blankenship as empowering the customer, what --
24 what benefit is that information to them unless they
25 are going to try to -- to modify or reduce their

1 consumption in response to it?

2 **A. Well, I think that that is the benefit, is it**
3 **provides them the opportunity to do it, where**
4 **they --**

5 Q. Okay.

6 **A. -- don't have that now.**

7 Q. Okay.

8 **A. Okay.**

9 Q. That's what I was trying to -- to get a sense
10 of.

11 In the current state of affairs for Kentucky
12 Power, how is it sustainable that we are going to
13 possibly increase meter charges, increase energy
14 charges, and put a grid modernization rider on top
15 of that that is going to potentially cause less
16 consumption, how is that sustainable for the
17 customer when the reason we're here in the first
18 place is because of declining sales and lower usage?

19 **A. Would you care to ask that one more time,**
20 **sir?**

21 Q. No. Don't worry about it. Let's just let
22 that go. Let me --

23 **A. Okay.**

24 Q. -- just ask one more question on rate, and
25 this may be something for Mr. Vaughan.

1 Do you know whether the company has
2 considered reworking its rate design to align the
3 ratepayers' interests in lower utility costs with
4 the company's interest in staying whole and healthy?
5 Because basing it on the viability of sales of
6 increasingly expensive electronic industry and on
7 technology intending to make people use less of that
8 electricity doesn't seem to be a sustainable model.

9 **A. I -- I don't know if any analysis has been**
10 **done on that with respect to rate design.**

11 Q. Okay. I'll check with Mr. Vaughan on that.
12 Net metering, you think I need to talk to
13 Mr. Vaughan; right?

14 **A. Yes. That's correct.**

15 Q. Okay. Great. I'm just scrolling down here
16 because we may be closer to being done here than I
17 had anticipated.

18 **A. Okay.**

19 Q. Give me just a minute here.

20 Okay. And time of day rates, also
21 Mr. Vaughan?

22 **A. Yes, sir.**

23 Q. Okay. And then the declining block was also
24 him, right?

25 **A. Yes. That's correct.**

1 Q. Okay. Flex Pay. Do you know the raw number
2 and percent of customers who have been disconnected
3 during the test year for nonpaying bills?

4 **A. Okay. So Kentucky Power test year,**
5 **disconnected for non-pay. Is that right?**

6 Q. Yeah.

7 **A. I think for -- for total, it's just a shade**
8 **under 11,000, and for residential I think it was**
9 **around 10,400.**

10 Q. Okay. Great. And am I correct in
11 understanding that Kentucky Power has not, to date,
12 performed any studies regarding the impact of a Flex
13 Pay program on the incidence of disconnections?

14 **A. Yeah. That would be right. We haven't done**
15 **any studies.**

16 **What we did is talked to one of our sister**
17 **companies, Public Service Company of Oklahoma, who**
18 **has a -- I think they've had a Flex Pay -- it's in**
19 **my testimony, but I think it's been since 2015 or**
20 **2016. They've had a lot of great things to say**
21 **about that program. So we talked a lot with them**
22 **when we were trying to put this together.**

23 Q. Okay. And did I misunderstand the testimony
24 that the program in Oklahoma actually started an
25 increase in disconnections for customers who used

1 the Flex Pay option?

2 A. Yeah. Initially -- this is my understanding.
3 Initially, it did, and they -- as far as I know they
4 didn't do any studies on it either to determine why
5 that was, but the popular thought -- and I tend to
6 agree with this -- is that customers that -- it's
7 sort of a -- a step change, if you will, from --
8 from the way that we normally do, you know, with
9 post -- post-pay billing, where, you know, a
10 customer is -- is more -- on the Flex Pay, they're
11 more accustomed to paying, say, smaller amounts more
12 frequently instead of paying a larger amount once a
13 month.

14 And until they kind of get the hang of it,
15 you know, there's -- there was a -- they saw an
16 increase in those -- in those disconnections early
17 on, until a customer kind of got accustomed to it.

18 But the great thing about that is that, you
19 know, there's no reconnect fee, there's no late
20 fees, there's no deposit charge, and all the
21 customer has to do to get reconnected is pay enough
22 to -- to get a positive balance on their account,
23 and then they're reconnected within 15 minutes.

24 So I -- I would attribute it more to kind of
25 an education issue of just kind of getting used to

1 **how the program works.**

2 Q. Okay. If you -- that's the Oklahoma, that's
3 why you saw an increase initially?

4 **A. Yeah. And that -- like I said, that came**
5 **from a conversation I had had with one of our folks**
6 **out in -- out in Oklahoma.**

7 Q. Okay. Two last areas I would like to ask
8 about.

9 Are you the person to ask about the
10 commercial customers and the -- of the delta
11 three-phase service, the current service, or is that
12 something for Mr. Vaughan?

13 **A. Well, I did have something in my rebuttal**
14 **testimony. Is that what you --**

15 Q. You did. On page 14, I think.

16 **A. Page 14.**

17 Q. Yeah. And I just wanted to follow up on that
18 if you're comfortable with it.

19 **A. I'll -- I'll try to help you. I'm not an**
20 **engineer, but I talked to a couple of folks to find**
21 **out what -- you know, what your concern was.**

22 Q. Okay.

23 **A. And this -- this is -- this is what we came**
24 **up with.**

25 Q. Wonderful. Wonderful. I'm not an engineer

1 either, and I didn't stay at the Holiday Inn Express
2 last night either, so we'll try to muddle through
3 together.

4 **A. Okay.**

5 Q. In your rebuttal testimony you mentioned that
6 the Kentucky Power requirement is that commercial
7 customers with a delta three-phase service are going
8 to have to upgrade to a wye three-phase service; is
9 that correct?

10 **A. Yes. That's what the requirement is.**

11 Q. Okay. And is the delta service available now
12 to any new customers?

13 **A. I apologize. I don't know the answer to
14 that.**

15 Q. Okay.

16 **A. I just know that it's a safety concern, you
17 know, for the customer system, for -- for our line
18 personnel, and we take that pretty seriously, so we
19 want to make sure that everything is -- is safe for
20 the customer.**

21 Q. Sure. Absolutely. I think safety is of
22 paramount concern.

23 How many existing delta accounts are in the
24 Kentucky Power territory now, do you know?

25 **A. I do not know, sir.**

1 Q. Okay. And do you know whether NMS -- the net
2 metering customers to date have had to pay for the
3 upgrade from delta to wye?

4 **A. I do not know.**

5 Q. Okay. All right. Well, then that's fair
6 enough. I won't ask any more questions about that.
7 Just the last couple of questions.

8 Mr. Mattison had discussed AEP's commitment
9 to reducing carbon emissions by 80 percent by 2050
10 and aspires to even greater reduction, zero
11 emissions.

12 Experts on the energy transition have
13 identified the electrification of energy loads and
14 the expansion of renewables as a key strategy for
15 carbonization on a large scale.

16 Has the company evaluated the potential for
17 increasing the customer load and accelerating
18 Mr. Mattison's goals by incentivizing
19 electrification of the customer loads?

20 **A. What was that last word, sir, incentivization**
21 **of customer?**

22 Q. Customer loads.

23 **A. Loads.**

24 Q. Yes.

25 **A. Okay. I'm not aware that any analysis or**

1 **study has been done in that respect.**

2 Q. Okay. That's fair enough.

3 MR. FITZGERALD: Mr. Chairman, I appreciate
4 your indulgence. Mr. West, thank you very much.
5 It's been a good conversation. I've learned some
6 things.

7 THE WITNESS: Thank you.

8 COMMISSIONER SCHMITT: Mr. Miller for Sierra
9 Club, any cross-examination?

10 MR. MILLER: Yes, Mr. Chairman. Just a few
11 questions.

12 CROSS-EXAMINATION

13 By Mr. Miller:

14 Q. Hi there, Mr. West. My name is Matt Miller
15 with Sierra Club. How are you?

16 **A. I'm good. How are you?**

17 Q. Not too bad.

18 Just a few questions for you depending on
19 whether you're able to answer them.

20 Have you -- do you oversee environmental
21 regulatory compliance as part of your
22 responsibilities?

23 **A. I mean, with respect to filings of the**
24 **Commission, I certainly would be involved in that,**
25 **but the details behind it would be -- would be**

1 **another group.**

2 Q. All right. I think that I -- let me try a
3 couple questions, and I think that may be enough to
4 answer, but let me try them out.

5 Mr. Mattison indicated earlier this week
6 orally that Kentucky Power will initiate a docket
7 with the Commission seeking approval of its ELGs
8 compliance plan for Mitchell, and I recall him
9 saying the first few months of 2021.

10 I'm just curious if you're involved in that
11 and if you happen to know more precisely when that
12 will be filed?

13 **A. I have been on a few calls where we've talked**
14 **about the potential for that filing. We are talking**
15 **about sometime in -- in the first quarter, is my --**
16 **I -- sorry.**

17 Q. No. That's perfectly fine.

18 So -- and -- and we won't get into the
19 details, but I just want to ask, you know, we
20 learned that apparently the company will be
21 proposing to select from among other options to make
22 capital investments at Mitchell to maintain the
23 plant as coal-fired past 2028 and through the 2030s.
24 At least that will be the proposal.

25 Is it safe to say that Kentucky Power's

1 analysis of the economics of that option featured
2 some projected capacity factor as an assumption at
3 which the coal-fired units would operate into the
4 future?

5 **A. Honestly, I can't speak to what was included**
6 **in the analysis, sir. I apologize.**

7 Q. That's all right.

8 The ELGs and CCR rule do not directly
9 regulate carbon emissions, do they?

10 **A. Again, I --**

11 MR. OVERSTREET: Mr. Chairman, I'm going to
12 object. This is far outside the scope of this rate
13 case. He's asking about filing that has not even
14 been made.

15 MR. MILLER: And I -- that was going to be my
16 last question. I just wanted to get some clarity on
17 a matter that was raised by a couple of the
18 commissioners and that Mr. Mattison did speak to,
19 and there wasn't an objection at that time.

20 COMMISSIONER SCHMITT: You can answer the
21 question if you -- if you know.

22 THE WITNESS: Would you care to restate your
23 question, Mr. Miller?

24 BY MR. MILLER:

25 Q. Sure. I'm just wondering can you confirm the

1 ELGs, the effluent limitation guideline, and the CRR
2 rule do not directly regulate carbon emissions?

3 **A. I honestly don't know, sir.**

4 Q. I see. That's all I have. Thank you,
5 Mr. West.

6 **A. Thank you.**

7 COMMISSIONER SCHMITT: Mr. Frye, any
8 questions?

9 MR. FRYE: No questions, Mr. Chairman.

10 COMMISSIONER SCHMITT: Vice Chairman
11 Chandler, questions?

12 VICE CHAIRMAN CHANDLER: Yeah, thank you,
13 Chairman.

14 EXAMINATION

15 By Vice Chairman Chandler:

16 Q. Good afternoon, Mr. West.

17 **A. Good afternoon.**

18 Q. You have -- my desk is nothing but Post-it
19 notes, and a couple of them have Mr. West on them
20 where people have conferred questions to you, so
21 apologies as they're going to be all over the place.

22 The first one I'm going to ask, I believe I
23 asked Ms. Wiseman about it: Were your responses and
24 supplemental responses on behalf of the company in
25 case number 2020-00085 -- do you remember that?

1 That's the Commission's COVID docket.

2 **A. Yeah. Sure.**

3 Q. And do you remember the numbers -- in
4 general, do you remember the numbers or the data we
5 were looking at, Ms. Wiseman and I?

6 **A. Was it around -- some percentages around
7 customers paying on time?**

8 Q. It was, for the residential, commercial, and
9 industrial class.

10 **A. Yes.**

11 Q. Okay. And we were looking at those. As far
12 as you remember, do you remember the -- 2017, there
13 wasn't a complete 12 -- 12 months of data because of
14 the archiving. Do you remember that?

15 **A. I believe so. That's right.**

16 Q. But there were full -- full data sets for the
17 on-time pay percentage for 2018 and 2019 as a year.
18 Do you remember that?

19 **A. I do.**

20 Q. And then it provided each month January
21 through August in that supplemental response?

22 **A. That sounds correct. Yes.**

23 Q. So do you remember that the -- that the
24 on-time pay percentage January through August was --
25 was either at, a bit higher, or a bit lower than the

1 previous two-year -- two- or three-year average. Do
2 you remember that?

3 **A. I actually don't remember those numbers**
4 **specifically.**

5 Q. Okay. And that's perfectly fine. And just
6 to refresh your memory, I'll bring that Excel
7 document up.

8 **A. Okay.**

9 Q. Just if you bear with me for a minute. And
10 please let me know when you can see my screen,
11 Mr. West.

12 **A. Okay. Not yet.**

13 Q. Should be coming.

14 **A. Oh, there it is.**

15 Q. Okay. And -- what we were looking at,
16 Ms. Wiseman and I, were 1-9 of this supplemental
17 attachment. Do you remember this? Zoom in.

18 **A. Can you make it a little bigger?**

19 Q. Certainly can.

20 **A. There you go. There you go.**

21 Q. All right. And do you see that the table is
22 percent of customers that pay on time by class?

23 **A. I do. I see that.**

24 Q. Okay. And then there's the '17, '18, and '19
25 average. Do you see those?

1 **A. Uh-huh.**

2 Q. Subsequent then as we discussed, the '17 is
3 not a complete data set because of the archive?

4 **A. Correct.**

5 Q. Okay. And so the -- at least the '18 to '19,
6 the annual average on-time pay percentage for
7 residential customers was 82.3 and 82.35 percent.
8 Do you see that?

9 **A. I do.**

10 Q. And then do you see the figures January
11 through August for the residential customers?

12 **A. I do.**

13 Q. Okay. And -- and do you remember Ms. Wiseman
14 and I talking about -- about that -- that from the
15 Commission's order in March, in response to COVID,
16 you're aware that the Commission did not allow and
17 does not through the end of the year -- in a
18 subsequent order, allow the assessment of late --
19 late-payment fees for customers, residential
20 customers?

21 **A. That's correct.**

22 Q. Okay. So for January and February, those
23 months would -- would likely include -- or would
24 include an on-time pay percentage for customers who
25 would have been at least aware that the tariff -- or

1 paying with the understanding that the tariff
2 includes a late-payment fee, right?

3 **A. We could assume that some would, yes.**

4 Q. Right. And then at least a portion of March
5 but through August, there was no late-payment fee
6 assessed or allowed to be assessed to those
7 customers, correct?

8 **A. That is correct.**

9 Q. And would you agree that the on-time pay
10 percentage did not materially change through those
11 months when there were no -- when there was no
12 late-payment fee assessed?

13 **A. I would agree that it didn't seem to be move
14 -- move around too much. And my take on it is that,
15 you know, there's -- customers that like to pay on
16 time will pay on time, and they don't -- they don't
17 want to incur late fees.**

18 **And I'll -- I'll tell you right now, I'm
19 married to someone like that. My wife would sooner
20 poke her eye out than dare to incur a late fee.
21 She'll mail a payment two weeks ahead of time to
22 make sure that there is no chance that she'll incur
23 a late fee.**

24 **So I think that the late fee for 80-some
25 percent of our customers is -- is effective at**

1 **incenting them to pay on time and -- anecdotally.**

2 Q. Well, if it -- if it affects behavior, then
3 why in the absence of the late fee did behavior not
4 change?

5 **A. I think that that is probably because**
6 **typically, you're not going to just stop what you've**
7 **been doing for 50 years or the mindset you have that**
8 **"I don't want to be late, I want to make sure that**
9 **I'm paid on time."**

10 I don't think that that would affect, you
11 know, where somebody would just decide, "Well, I'm
12 going to slack off these next so many months because
13 the Commission says they're not going to, you know,
14 charge me any, and then I'll start up again."
15 **It's my opinion that that's not likely.**

16 Q. Okay. Do you know if that's the case for
17 commercial and industrial customers in the company's
18 territory?

19 **A. I don't know.**

20 Q. Okay. No, that's okay. We can just look and
21 see at the data that we have, right, on that
22 subject? Do you see the Excel spreadsheet?

23 **A. I do.**

24 Q. Do you see there was -- at least through
25 August there was a -- I would call it a material

1 reduction in the on-time pay percentage for
2 commercial and industrial customers?

3 **A. And I think that -- that part of the -- you**
4 **know, the effects of the pandemic I'm sure had**
5 **effects on those customers, and I'm sure they wanted**
6 **to pay on time. A lot of them wanted to pay on time**
7 **and continue as they always had but probably found**
8 **themselves in a situation where they couldn't.**

9 Q. And you don't think that's the case for
10 Kentucky Power's residential customers?

11 **A. I think it could be. I'm just giving you my**
12 **opinion on -- you know, based on personal knowledge.**
13 **I'm sure there were some customers that wanted to**
14 **pay on time, and -- and they could not for whatever**
15 **reason.**

16 **But I -- I feel strongly that there are a lot**
17 **of people that -- that it's in their mindset, and as**
18 **long as they can -- they can do it, they will**
19 **continue to pay on time.**

20 Q. Okay. And -- and do you remember
21 Ms. Wiseman's -- when she was -- the company's
22 attorneys provided redirect to Ms. Wiseman where she
23 was asked about -- I think it was Ms. Wiseman that
24 said that -- that maybe she didn't think that it did
25 have an impact, but that on redirect, she was asked

1 specifically about the other uses for -- for having
2 the late-payment fee.

3 Do you remember her being asked and answering
4 that question?

5 **A. Vaguely. I don't remember what her answer**
6 **was.**

7 Q. Well, she did mention that it reflect -- I
8 believe -- goodness -- that it reflects account
9 receivable -- that it reflects the company's
10 accounts receivable?

11 **A. I generally remember that question, yeah.**

12 Q. Okay. So let me ask you this: In your
13 opinion, and given your position at Kentucky Power,
14 what's the purpose of a late-payment fee?

15 **A. Well, I believe it does -- the purpose is to,**
16 **one, incent customers to pay on time; and, two, to**
17 **pay towards some of the fees that were referenced by**
18 **Company Witness Wiseman.**

19 Q. Okay. And do you know what the company does
20 with its accounts receivables -- receivables?

21 **A. We factor our accounts receivables, meaning**
22 **we sell them to AEP credit.**

23 Q. And when do you-all do that?

24 **A. I think that those are done on a daily basis,**
25 **since we -- you know, whenever we're reading meters,**

1 **we're billing customers that night. I'm really not**
2 **the expert on this.**

3 **I think that -- well, I'm not sure who is.**
4 **I apologize. I don't have a whole lot of knowledge**
5 **on that.**

6 Q. Well, no, I -- I asked Ms. Wiseman about it,
7 and she did defer to you.

8 And on redirect, the company's attorneys
9 asked her questions about what other purposes it
10 serves, and -- and she said that it -- paraphrasing
11 here, it reflects the cost of the past-due
12 receivables, but if the company settles their
13 account receivables each day, then what is the cost
14 of past-due receivables?

15 **A. Then what is the cost of what?**

16 Q. Well, she said something about past-due
17 receivables. Right?

18 If somebody hasn't paid -- well, let me ask
19 it this way: If somebody hasn't paid, right -- if
20 you charge somebody for something -- not even
21 talking about the company. You're a handyman. You
22 charge -- you do a job for them, and you have done
23 the job, and then you send them the bill, right?

24 You've already had the capital outlay -- or
25 you've already done the work, right? And so every

1 day it takes for them to pay you, you're effectively
2 financing that, right? That's a real cost. Whether
3 it's an opportunity cost or whatever it may be, it's
4 a real -- it's a real economic cost to the person
5 who has sent the invoice. Right?

6 **A. Yeah, okay.**

7 Q. Okay. But -- but imagine the day that
8 that -- that person sends the invoice out, they
9 immediately sell that account receivable to somebody
10 else and they get paid. They don't have any -- any
11 concern anymore how long it takes to get recovered,
12 right? They don't have any economic cost going
13 forward.

14 Wouldn't that be the case for the companies?

15 **A. Well, what we've seen, though, is an increase**
16 **in the amount of delinquencies, the increase in**
17 **collectibles, and there's -- it's my understanding**
18 **there is a collection experience fee that is**
19 **charged, and I guess the -- the larger of**
20 **outstandable -- of outstanding debt is in the bad**
21 **debt expense, the uncollectibles, the higher that**
22 **collection experience fee is.**

23 **So in a way that's like a carrying charge for**
24 **a company that -- you know, for a company that**
25 **factors their receivables, it's the equivalent --**

1 **that's how I think of it, anyway, the equivalent of**
2 **a carrying charge.**

3 Q. If a person is struggling to pay the bill at
4 the due date, is it your experience that they're
5 going to be able to pay their bill following the due
6 date and after the assessment of additional fees?

7 **A. I don't know. It depends on a lot of**
8 **factors, I would think.**

9 Q. And is it your experience that as rates go
10 up, that as a general matter, people are more able
11 to afford their bills?

12 **A. Again, that depends on a lot of factors. One**
13 **bill could go up, one bill could go down. There**
14 **could be a change in any number of things that would**
15 **affect whether a customer can -- can afford that**
16 **bill or not.**

17 Q. But -- but, Mr. West, holding all other
18 things equal, the more expensive something is, the
19 less affordable it is, right? That's intuitive.

20 **A. Well, it depends on -- on the customer, I**
21 **think, or the situation.**

22 Q. Okay. So the only -- I guess the only other
23 chance I have on the issue in terms of account
24 receivables would be Mr. Vaughan. Is that -- is
25 that a fair assessment?

1 **A. And I -- I don't know if Mr. Vaughan knows a**
2 **lot about that. I honestly don't know. But you can**
3 **certainly ask.**

4 Q. Okay. So staff -- Commission staff was
5 asking you earlier about the EEI dues. Do you
6 remember that?

7 **A. I do.**

8 Q. Okay. And the actual expenses -- you went
9 through an Excel spreadsheet with Ms. Vinsel. Do
10 you remember that?

11 **A. Uh-huh. Yeah.**

12 Q. And I think it was -- excuse me for a second
13 -- response to an Excel spreadsheet -- attachment to
14 it in response to KPSC2-47. And I'll bring it up
15 here in a minute.

16 But is that what you remember it being, that
17 attachment to?

18 **A. Yes.**

19 Q. And that's where that \$88,000 sum was related
20 to EEI dues. Do you remember that?

21 **A. Yes.**

22 Q. Okay. And -- and the reason I'm asking, big
23 picture to start off with: The data there was
24 provided by Ms. Scott and Ms. Whitney. I think they
25 were the respondents to the data requests. Right?

1 My question is different. Rather than the
2 people who were able to provide the data, who is
3 supporting the reasonableness of recovering the
4 expenses included in those Excel spreadsheets?

5 Does that question make sense?

6 **A. I think so. Who supports the reasonableness**
7 **of recovering the -- like the \$88,000?**

8 Q. Right. Because you addressed the \$88,000 in
9 your rebuttal testimony, so I take it as with the
10 \$88,000, you're the one supporting the
11 reasonableness of the recovery, correct?

12 **A. I would say that that's fair.**

13 Q. Okay. And I'm just curious, the other
14 expenses in that document, not in terms of -- you
15 know, Ms. Whitney worked for AEPSC, correct?

16 **A. Yes. That's correct.**

17 Q. And she was able to provide the data in her
18 role as an accountant on behalf of Kentucky Power,
19 right?

20 **A. That's right.**

21 Q. And Ms. Scott works for you, correct?

22 **A. Yes. She does.**

23 Q. Okay. And your role in this case -- it's not
24 your expectation that either of those two people are
25 necessarily able to speak to the company's ability

1 to argue that the individual costs included in that
2 are reasonable for recovery. Does that make sense?

3 **A. It makes sense.**

4 Q. So would you be the witness that would be
5 available to discuss some of those -- the
6 reasonableness of some of those expenses?

7 **A. I can certainly try if you would like to.**

8 Q. Well, I --

9 **A. Well -- go ahead.**

10 Q. No. No. Let's break -- if it's okay with
11 you, instead of -- you know, I'm trying to make sure
12 it's you, but we can bring it up, we can talk about
13 it, and if you can talk about it specifically, that
14 would be great.

15 But I'm trying to understand having seen them
16 why it's reasonable for customers to pay them, and I
17 assume that getting down to the nitty-gritty, it
18 would be you or Mr. Vaughan that could speak to
19 that. Is that fair?

20 **A. It is. And I don't know that -- that I'm**
21 **going to get down into the nitty-gritty, as you say.**
22 **But, you know, we would -- we would be more than**
23 **happy to work on any post-hearing data request if**
24 **that would help too.**

25 Q. Well, no, I appreciate that. But these are

1 costs that you've proposed in your application for
2 recovery, right?

3 **A. Yes. They're -- it's my understanding**
4 **they're costs that are normally included in the cost**
5 **of service.**

6 Q. Well, and that's -- that's what I wanted to
7 ask about. So I'll share my screen here for some of
8 them.

9 But some of them are business development
10 costs. Please let me know when you can see my
11 screen. And I will zoom in. I promise.

12 **A. I can see it, but --**

13 Q. Okay. So we'll go to -- maybe I zoomed in
14 too much. Excuse me.

15 **A. No. That's good.**

16 Q. All right. So we'll go down here to --
17 sorry. Just let me scroll here for a minute to the
18 line we were talking about earlier so we can get our
19 bearings.

20 Like the 232, Edison Electric Institute,
21 \$88,361.34. Do you see that?

22 **A. Yes, sir.**

23 Q. Okay. So when we were talking about costs
24 that were historically included in the company's
25 cost of service, you mentioned earlier that

1 following the -- your -- following your reading of
2 some of the intervenor testimony, you became aware
3 that historically the Commission had denied a larger
4 portion of, for instance, EEI dues than the company
5 proposed in this case, right?

6 **A. I remember reading that. Yes.**

7 Q. Okay. And so when you say that these are the
8 costs that were historically included in the
9 company's cost of service, that may not necessarily
10 be the case. Correct?

11 **A. Honestly, it could be. And as I said, I --**
12 **I'm not -- I wasn't included in -- or involved in**
13 **the last rate case to know that history.**

14 Q. Okay. But, like, for instance, advertising
15 expense, is it your understanding that advertising
16 expense is ordinarily a recoverable expense for a
17 monopoly utility regulated by the Public Service
18 Commission?

19 **A. Well, if it -- if it has to do with safety,**
20 **it would.**

21 Q. Okay. And -- and what -- what is that --
22 what is that assertion based on?

23 **A. Assertion based on -- it's my understanding**
24 **that safety-related messaging and advertising are**
25 **recoverable in the cost of service and other types**

1 **of advertising are not.**

2 Q. Perfect. And -- and so that would be your
3 basis, then, for this particular advertising, that
4 it's safety-based?

5 **A. I honestly don't know what is included in**
6 **this advertising line.**

7 Q. Okay. And then down here for public opinion,
8 do you see that -- that are Column G for these
9 public opinion when described -- they're public
10 opinion services completed by MSR group?

11 **A. I do see it. And as I said, it -- it is my**
12 **understanding that these were normal costs that were**
13 **included in the cost of service.**

14 Q. Okay. And then -- let's see down here.
15 Additional advertising, more advertising in the
16 Daily Independent Appalachian News.

17 Is it -- is it your testimony that this
18 \$59,000 in advertising is all safety related?

19 **A. What are those? Those are, like, Kentucky**
20 **Press Services?**

21 Q. Right. Your company billing Daily
22 Independent Appalachian News. This entire section
23 here is \$59,820.04.

24 **A. Now, we had -- my team had gone through and**
25 **eliminated all of the ones that we didn't feel -- I**

1 keep getting -- I'm sorry. My team went through and
2 did make the adjustment in this case for the
3 advertising that we felt didn't -- didn't apply, and
4 we took it out.

5 Q. Okay. But to the question I asked you about
6 earlier about who was supporting the reasonableness
7 of it, we -- could you understand that maybe the
8 Commission never gets that distinction?

9 A. Well, I guess with respect to the -- the
10 adjustment that we made in the case, whichever
11 witness sponsored that -- if that was Witness Scott,
12 then she was testifying as to the reasonableness for
13 the ones that were still standing after we removed
14 the ones that were not.

15 Q. Okay.

16 A. I've just got -- when it comes to the EEI
17 stuff, I'm just not -- I'm not sure who would have
18 that kind of, you know, specific knowledge of every
19 advertising thing that they did and that was
20 included in those -- that were included in -- in
21 those line items.

22 Q. Okay. And -- and then -- I just want to go
23 real quickly here.

24 So beyond the public opinion, then we have a
25 number of things here, like between lines 225 and

1 229, there's the Kentucky Chamber of Commerce.
2 There's a lot of stuff on here that's just AEP
3 bills, intercompany billing. Southeastern Electric
4 had changed.

5 And all of these are under the category of --
6 excuse me, to get through them -- there's quite a
7 few of them to get through, of miscellaneous general
8 expenses. Do you see that?

9 **A. I do.**

10 Q. Okay. And so do you know who would have
11 supported these as being reasonable to recover from
12 customers?

13 **A. We included what we felt was reasonable to**
14 **recover from customers.**

15 And what I mean by that, your Honor, is we
16 went through a list and removed all the ones that we
17 thought were not appropriate to recover. So what
18 remains on the list is what we thought -- now, we
19 can certainly do some more research on those and
20 digging if that will help.

21 Q. No, I -- what I want to ask is in the company
22 case in chief, where did they -- where did you-all
23 explain where these -- how these costs are
24 appropriate for recovery?

25 **A. I don't know that we addressed that**

1 **specifically in any Q&A or -- or discovery response.**

2 **I don't remember if we did.**

3 Q. Well, I -- and maybe it's unfair for me to
4 ask you on the stand to point to a multi thousand --
5 10, 15, 20 or however many thousand pages it is, but
6 if the Commission asked -- if we asked staff in a
7 post-hearing discovery response where in the record
8 the company, you know, put forth the argument as to
9 why the company expenses are reasonable or why these
10 are appropriate and the other ones are not, could
11 the company point us to those if it's in the record?

12 **A. We can certainly look and see where it might**
13 **be in the record. Yes.**

14 Q. I appreciate that. And with the 24 percent
15 and 13 percent that were discussed earlier in
16 regards to the EEI dues, do you understand that --
17 is it your understanding that those are amounts or
18 percentages required under IRS rules for
19 deductibility purposes?

20 **A. I honestly don't know, your Honor. I'm**
21 **sorry.**

22 Q. You don't remember reading that on the EEI
23 invoice where it specifically said "this is for tax
24 purposes"?

25 **A. I don't really remember reading that.**

1 Q. That's fine.

2 So why is the company proposing the first
3 year offset, using the excess -- the accelerated
4 amortization of the unprotected excess ADITs?

5 **A. Primarily, we're offering that as a**
6 **mitigation effort for customers to absorb that**
7 **first-year increase, allowing more time for, you**
8 **know, the economy to come back, and the effects of**
9 **the pandemic to -- to die down.**

10 It was a reasonable mitigation effort. It was
11 one that we thought would be meaningful to customers
12 and would help, honestly.

13 Q. So do you think that -- I just want to make
14 sure I understand -- the proposal to offset a
15 portion of the second year, then, is unreasonable?

16 **A. Well, I had mentioned in my rebuttal**
17 **testimony, and Witness Messner had talked about the**
18 **extra pressure that the time length would put on --**
19 **on the company's credit metrics. I guess, you know,**
20 **in general, if it's a shorter period of time,**
21 **there's less of an effect.**

22 And that's why we were -- we were pretty
23 comfortable staying with the one year and willing to
24 -- to take a little ping for that. We know that it
25 may result in, you know, a little additional hurt on

1 **financial metrics for the company, but it -- I think**
2 **it's the right thing to do for customers.**

3 Q. Okay. And by the right thing, you just mean
4 the first year offset. You don't agree that
5 offsetting the second -- a portion of the second
6 year is the right thing to do?

7 **A. Well, just, it --I guess it's a level of**
8 **tolerance, you know? Like I said, we're willing to**
9 **do as much as we possibly can for our customers, and**
10 **-- and they're the reason that we're in business,**
11 **and we felt pretty comfortable at one year, just not**
12 **any further than that.**

13 Q. Well, and the willingness -- I do have a
14 question on that, as it relates to the capacity
15 charge.

16 Do you remember me asking Mr. Mattison about
17 the company's proposal as it relates to the capacity
18 charge?

19 **A. I do.**

20 Q. Okay. And -- and do you know --
21 Mr. Mattison's testimony is that the company is only
22 willing to forego the capacity charge for the next I
23 guess two years if the company's application as
24 filed is accepted in total by the Public Service
25 Commission.

1 Do you remember that?

2 **A. I do. I remember.**

3 Q. Okay. And is that -- does that continue
4 through -- through this hearing, continue to be the
5 company's position?

6 **A. Let me -- let me ask you a clarifying
7 question.**

8 **There were some other adjustments, I think,
9 and -- where you may be referring to something in --
10 in our rebuttal testimony where Mr. Vaughan had made
11 a couple of changes --**

12 Q. Well, there's two questions.

13 **A. -- is that the context of it?**

14 Q. One -- two separate questions, then, based on
15 that.

16 The first one is: Is it the company's
17 proposal that -- that it's only going to offer this
18 up if the Commission approves the application as
19 filed, or is -- because that's what Mr. Mattison's
20 testimony says, as filed. I think the rebuttal even
21 says "as filed".

22 Or is it the company's proposal that they
23 will only give it up if the Commission approves
24 everything the company asked for as amended?

25 **A. I understand the question, and I remember**

1 **Mr. Mattison saying "as filed."**

2 **I do believe that -- that we would have to**
3 **take those amendments into consideration, though.**

4 Q. Okay. So -- so you're saying that -- that
5 due to the company's amendments in this case, the
6 company no longer necessarily takes a position as it
7 relates to the capacity charge?

8 **A. No. I didn't say that. I said I think that**
9 **we would have to take the amendments into**
10 **consideration.**

11 Q. Okay. Let me ask, then: Based on knowing
12 that you-all made amendments, right, what is the
13 company's position?

14 **A. I think the company's position would be that**
15 **instead of the "as filed" I believe was the way you**
16 **asked it, the as filed or as amendment -- which one**
17 **are you saying, that we would still be -- that the**
18 **capacity charge would still be conditional on the**
19 **"as amended" is the way...**

20 Q. And that's a -- that's a 10 percent ROE, the
21 grid modernization rider, a CPCN for AMI, the
22 10.-something million dollar excess -- accelerated
23 amortization for the bills as of some point in June,
24 the increase in the customer charge, and then the
25 net metering tariffs as -- as filed -- oh, and

1 avoided a cost rate as amended in Mr. Vaughan's
2 rebuttal testimony.

3 Is that -- is that the company's proposal?

4 **A. That sounds like a fairly comprehensive list.**

5 **Yes.**

6 Q. Okay. I was curious about -- do you remember
7 the questions that Mr. Spenard was asking you
8 earlier regarding the first-year offset?

9 **A. Yes. Generally.**

10 Q. Okay. But something you may be getting to --
11 and I'll try to ask this more directly. The purpose
12 of the offset is to make customers as a whole
13 indifferent to the increase, right?

14 **A. That's right. It's to absorb that first-year
15 increase.**

16 Q. But because of the proposed change --
17 proposed change in the rate design, it may not hold
18 each individual customer harmless. Is that fair?

19 **A. It's possible. I think Mr. Vaughan needs to
20 address that specifically with you.**

21 Q. Okay. Just a couple more that people have
22 pushed off to you, Mr. West.

23 **A. Sure.**

24 Q. Most of these say "Vaughan" beside them.
25 So I just want to make sure still -- the

1 Illinois and Michigan sales still -- those questions
2 should still go to Mr. Vaughan?

3 **A. Yes, sir.**

4 Q. Okay. We talked about the late fees. Are
5 you in charge of the company's FRR plan as it
6 relates to -- as it relates to Kentucky Power?

7 **A. I am not. Again, Witness Vaughan would know
8 the most about the FRR plan.**

9 Q. Okay. And as it relates to the IRP, though,
10 are you-all planning your resources in the IRP for
11 purposes of meeting your FRR plan or to serve your
12 native load?

13 **A. I think that Kentucky Power's IRP focuses on
14 planning for its native load.**

15 Q. Okay. So the wind -- forget the wind.
16 The solar, for instance, right, solar
17 occurs -- solar as a generalization -- Mr. Horton
18 and I were talking about this as a generalization.
19 Solar is better in the summer and better when it's
20 sunny outside, right, as a general matter?

21 **A. I remember those -- yeah. I remember those
22 questions, yes.**

23 Q. Okay. And when Kentucky Power peaks, it's
24 ordinarily in the winter, correct?

25 **A. Yes. It's normally in the winter like in the**

1 **early morning.**

2 Q. Early morning right after dark?

3 **A. Yeah. Probably. Probably. We have a lot of**
4 **electric heating customers.**

5 Q. Okay. So as it relates to meeting Kentucky
6 Power's peak demands, solar power would have little
7 ability to -- to contribute, correct?

8 **A. That's my understanding, yes.**

9 Q. Okay. But Kentucky Power -- but PJM, do you
10 understand PJM to be generally a summer peaking
11 utility or a summer peaking RTO?

12 **A. Generally, yes.**

13 Q. Okay. And so for the FRR -- do you remember
14 me and Mr. Horton talking about how the FRR plan is
15 required to be planned for -- to meet PJM's peak?

16 **A. I remember that discussion, but I'm afraid I**
17 **can't offer a whole lot here, your Honor.**

18 Q. Can --

19 **A. Go ahead.**

20 Q. We have an IRP hearing fairly soon --

21 **A. We do.**

22 Q. -- so I was hoping with 20 witnesses or 21
23 with Mr. Carlin, that we would be able to find
24 somebody who worked on the FRR plan in this hearing.

25 But at some point if you could make someone

1 available who was in charge of the FRR plan, I would
2 appreciate that.

3 **A. We will. And like I said, Mr. Vaughan has**
4 **the knowledge on the FRR plan.**

5 Q. Okay.

6 **A. Yes.**

7 Q. And then -- and then I think the very last
8 set of questions for you, Mr. West.

9 Do you remember me talking to Ms. Whitney
10 about the amortization of the capacity -- withdraw
11 that -- the amortization of the UPA deferrals?

12 **A. Yeah.**

13 Q. Okay.

14 **A. I believe so, yes.**

15 Q. And we talked about the -- Ms. Whitney
16 referred to the final -- it's not the final order,
17 but the January 18th order in case number 17-179 in
18 that regard?

19 **A. Yes.**

20 Q. Okay. And Ms. Whitney, do you remember her
21 testimony -- and I don't want to bring it up if I
22 don't have to. I want to save some time.

23 **A. Okay.**

24 Q. But that it said something about \$59 million
25 and then referred to a five-year amortization and

1 then a \$12 million -- annual \$12 million cost. Do
2 you remember that?

3 **A. I remember that. Yeah.**

4 Q. And would you agree, just to try to move this
5 quickly, that if -- if the company does what the
6 final order in the 2017 rate case allows it to,
7 which is to incur a carrying charge until the
8 complete amortization of that deferral, that the
9 ultimate amortization payments in that five-year
10 proposal will be more than \$12 million?

11 **A. That is correct. It would be.**

12 Q. And so that \$12 million may have just been an
13 oversimplification in her testimony, that's
14 perfectly fine.

15 But what I want to make sure that I
16 understand is the company is proposing to continue
17 to incur carrying charges or defer carrying charges,
18 whatever it may be -- but incur carrying charges
19 through that proposal on that entire five-year
20 amortization?

21 **A. Yes.**

22 Q. That's the company's proposal?

23 **A. I believe it was that way approved in the
24 order, and that would be the company's proposal --**

25 Q. Yeah. And I just want to make sure that the

1 company in this case is proposing the five-year
2 amortization, correct?

3 **A. We are. Yes.**

4 Q. And I just want to make sure I understand the
5 company's proposal in that regard.

6 So I thank you very much, Mr. West.

7 **A. Okay. Thank you.**

8 COMMISSIONER SCHMITT: Dr. Matthews,
9 questions?

10 COMMISSIONER MATTHEWS: I don't think there
11 are any questions left that can be asked -- that can
12 be asked of him, so no.

13 COMMISSIONER SCHMITT: Mr. Overstreet,
14 redirect?

15 MR. OVERSTREET: Thank you, Mr. Chairman, but
16 before I do so, could I ask a clarification of the
17 Vice Chairman concerning his request concerning an
18 FRR witness?

19 COMMISSIONER SCHMITT: Yes. Go ahead.

20 MR. OVERSTREET: Okay. Thank you.

21 Mr. Vice Chairman, you indicated you were --
22 you would like a witness who could testify
23 concerning the company's FRR plan. I understood
24 that to be in the December 10 IRP hearing.
25 Is that understanding correct?

1 VICE CHAIRMAN CHANDLER: Yeah. Thank you,
2 Mr. Overstreet. At the least.

3 I was actually hoping somebody in this case
4 would be able to, and that's okay if they can't. It
5 just would have been handy for a couple of the
6 questions I had on some of the company's proposals
7 as it relates to -- to the net metering.

8 MR. OVERSTREET: Well, Mr. Vaughan has agreed
9 to attempt to answer your questions today.

10 VICE CHAIRMAN CHANDLER: I very much
11 appreciate that. Thank you, Mr. Overstreet.

12 MR. OVERSTREET: Thank you.

13 COMMISSIONER SCHMITT: Mr. Overstreet?

14 MR. OVERSTREET: Mr. West --

15 COMMISSIONER SCHMITT: Mr. Overstreet?
16 Mr. Overstreet? Let me ask a question first.

17 MR. OVERSTREET: Yes, your Honor.

18 COMMISSIONER SCHMITT: At about 20 until
19 3:00, we're going to have a take a recess real quick
20 because the Commissioners have to attend to some
21 other business with another state agency, so we will
22 have to take a recess.

23 And I'm just wondering if you anticipate your
24 redirect examination will take more than five
25 minutes or so? We probably ought to just hold it

1 until we can recess and come back.

2 MR. OVERSTREET: Your Honor, I think if we
3 took the time, we could -- we could reduce the
4 amount of time it -- with further redirect. So may
5 I perhaps recess right now?

6 COMMISSIONER SCHMITT: Yeah. Let's just go
7 into recess. We hope to be back by -- by 3:00. And
8 if we get through sooner, maybe we'll -- we'll try.
9 But let's just go into recess until -- until 3:00
10 p.m.

11 MR. OVERSTREET: Thank you, your Honor.

12 (A DISCUSSION WAS HELD OFF THE RECORD.)

13 COMMISSIONER SCHMITT: I think we're now back
14 on the record. Mr. Overstreet, do you have redirect
15 examination for Mr. West?

16 MR. OVERSTREET: Yes, I do, your Honor. And
17 thank you for the opportunity to whittle it down. I
18 think I have very narrow topics.

19 REDIRECT EXAMINATION

20 By Mr. Overstreet:

21 Q. So, Mr. West, you were asked several
22 questions by the Vice Chairman concerning
23 late-payment fees. Do you remember those?

24 **A. I do.**

25 Q. And during the break, did you have the

1 opportunity to review the company's filings in this
2 case relating to late -- excuse me -- late-payment
3 fees?

4 **A. Yes. I did.**

5 Q. And could you direct the parties and the
6 Commission and the staff to the particular filing
7 that details those late-payment fees?

8 **A. I can. This was in the staff's sixth set of**
9 **data requests. It was item number 9. And this is**
10 **attachment one.**

11 Q. And for the test year, what was the amount of
12 the late-payment fees collected by Kentucky Power
13 Company?

14 **A. The late-payment fees collected during the**
15 **test year were \$4,066,116.73.**

16 Q. And if the late-payment fees were eliminated,
17 what effect would that have on the company's revenue
18 requirement?

19 **A. The revenue requirement would have to be**
20 **increased by like amount.**

21 Q. Okay. Thank you.

22 And you also discussed the -- at least in
23 part, the company's advertising expenses included in
24 its test year; is that correct?

25 **A. Yes.**

1 Q. And is that addressed in any company witness'
2 testimony?

3 **A. Yes, sir. During the break, it -- we were**
4 **able to locate that in Ms. Scott's testimony, and**
5 **that would be her direct testimony at page 10, work**
6 **paper 19.**

7 Q. And in rough figures, what percentage of the
8 advertising expenses were eliminated as a result of
9 the procedure described by Ms. Scott?

10 **A. I believe it was roughly 50 percent.**

11 MR. OVERSTREET: Your Honor, I have no
12 further questions.

13 COMMISSIONER SCHMITT: Let me -- let me just
14 ask one question. I just happened to pick up a
15 minute ago -- been here for a few days -- the Martin
16 County newspaper, The Mountain Citizen.

17 Anyway, the headline is "Community center
18 faced with \$51,350 electric bill," and here's what
19 it says: "The Roy F. Collier Community Center
20 continues to struggle just to keep the lights on.
21 The biggest bill the center is facing is for
22 electricity as the Kentucky Public Service
23 Commission did not approve a bill reduction of
24 \$38,000 per the request of Kentucky Power."

25 What's all that about? Is that the other case

1 you filed asking us to -- I don't know. Do you
2 know?

3 THE WITNESS: Mr. Chairman, I -- that's
4 probably a reference to our debt forgiveness filing
5 that we made on May 29th this year.

6 COMMISSIONER SCHMITT: Yeah. I thought
7 perhaps that's what it was. Well, I suppose -- I
8 guess they -- the newspaper must have contacted
9 Kentucky Power who told them that the reason they
10 had -- the bill was so high was because we didn't
11 agree to their -- I guess the way -- the way you
12 wanted the -- the ADIT money, unprotected money
13 redistributed.

14 But anyway, that's -- I just -- whatever
15 comment. I have nothing further.

16 MR. OVERSTREET: Thank you, Mr. Chairman.
17 May Mr. West be excused subject to recall?

18 COMMISSIONER SCHMITT: Yes. Yeah. Mr. West,
19 you may be excused, and we can -- everybody -- the
20 most anticipated witness at any and all Kentucky
21 Power hearings is Mr. Vaughan because he's always
22 the person who everybody relies upon to have the
23 answers that -- that are so elusive. Okay.

24 Ms. Blend, is this Mr. Vaughan?

25 MS. BLEND: It is, your Honor.

1 COMMISSIONER SCHMITT: Mr. Vaughan, I want to
2 say before I swear you in, I've just said that
3 you're the most anticipated witness in any Kentucky
4 Power case.

5 Over all the years that -- the three years, I
6 guess, that I was here with Vice Chairman Cicero at
7 the time, you were the only -- you received more
8 credit and praise from him than anybody that I think
9 has ever testified during the time he was here
10 because of your -- of your knowledge.

11 And you probably remember all of the good
12 things he said about you.

13 THE WITNESS: Yes, your Honor. I actually
14 attached them to my annual review.

15 COMMISSIONER SCHMITT: In fact, I think he
16 didn't understand why you weren't president of the
17 company. In any event, please raise your right
18 hand.

19 Do you solemnly swear or affirm under penalty
20 of perjury the testimony you're about to give will
21 be the truth, the whole truth, and nothing but the
22 truth?

23 THE WITNESS: I do.

24 COMMISSIONER SCHMITT: Counsel, you may ask.

25 MS. BLEND: Thank you, your Honor.

1 ALEX A. VAUGHAN, having been first duly
2 sworn, testified as follows:

3 DIRECT EXAMINATION

4 By Ms. Blend:

5 Q. Good afternoon, Mr. Vaughan. Will you please
6 state your name and business address for the record?

7 **A. Alex Vaughan, 1 Riverside Plaza, Columbus,**
8 **Ohio, 43215.**

9 Q. Thank you. By whom are you employed and what
10 position?

11 **A. American Electric Power Service Corporation.**
12 **I am the director of regulated pricing and**
13 **renewables.**

14 Q. Thank you. And did you cause to be filed in
15 this case testimony, direct testimony, and rebuttal
16 requests?

17 **A. I did.**

18 Q. Do you have any corrections?

19 **A. I do in my rebuttal testimony, the very last**
20 **section.**

21 Q. Page 43 of your rebuttal testimony?

22 **A. That sound right. There's quite a few of**
23 **them. Yes. It's the Q&A beginning at line 9. In**
24 **the answer in line 14, after "FERC order 872," we**
25 **need to insert "subject to FERC approval," and then**

1 after "company" we should insert "will," and then
2 change "has" to "have."

3 And then on line 16, after "company," "is"
4 should be changed to "will be." And then the entire
5 sentence beginning on line 13 should read: "Most
6 notable for the company's co-gen FTP tariffs is that
7 under FERC order 872, subject to FERC approval, the
8 company will no longer have a purchase obligation on
9 FERPA qualifying facilities, QFs, up to 20
10 megawatts. The new QF project purchase obligation
11 for the company will be 5 megawatt and less because
12 it is a member of an RTO."

13 Q. Thank you. Subject to those changes, if you
14 were asked the same questions here today would your
15 answers to your direct testimony, rebuttal
16 testimony, and data requests be the same?

17 **A. Yes, they would.**

18 Q. Thank you. And did you -- are you also
19 sponsoring Company Hearing Exhibit Number 1?

20 **A. I am.**

21 MS. BLEND: At this time, your Honor, could
22 staff please project Company Hearing Exhibit Number
23 1?

24 MS. VINSEL: Travis, did you get that?
25 Company Hearing Exhibit Number 1.

1 VICE CHAIRMAN CHANDLER: Ms. Blend, can I
2 ask, while staff is bringing that up, given the --
3 it negates a couple of my questions, but given the
4 significant change in regards to Mr. Vaughan's
5 rebuttal testimony on order 872, will the company
6 please file a copy of that amended rebuttal
7 testimony in the record?

8 MS. BLEND: We would be happy to, your Honor.

9 VICE CHAIRMAN CHANDLER: Thank you.

10 MS. BLEND: Would you -- just to clarify,
11 would you prefer that we file a corrected revision
12 of Mr. Vaughan's rebuttal testimony in its entirety
13 or would you prefer that we provide a redline on
14 page 43 of his rebuttal testimony, or does it
15 matter?

16 VICE CHAIRMAN CHANDLER: I'm indifferent.

17 MS. BLEND: Okay.

18 VICE CHAIRMAN CHANDLER: As long as the
19 corrections are reflected in the written portion of
20 the document, I would appreciate it.

21 MS. BLEND: Absolutely. Thank you.

22 BY MS. BLEND:

23 Q. Mr. Vaughan, you have before you the document
24 that has been identified as Company Hearing Exhibit
25 Number 1, which you just testified you're

1 sponsoring?

2 **A. Yes. I do.**

3 **Q. Can you please describe this document?**

4 **A. Yes. So what this is a -- a modified version**
5 **of what would be section 5, the summary, page 2, in**
6 **the filing documents, the filing requirements in**
7 **this case.**

8 **And basically, it is a summary of the revenue**
9 **-- overall revenue requirement and the various**
10 **pieces of it, and there are two revisions to that**
11 **that came up in discovery that we wanted to -- to**
12 **amend here in this hearing exhibit.**

13 **The first of which if you're looking at the**
14 **line numbers on this would be R1, and in response to**
15 **staff 6-18, there was an allocation direct**
16 **assignment issue with a purchase power account. It**
17 **should have been direct assigned to Kentucky**
18 **retail, and it was allocated. So that change would**
19 **reduce the requirement by that 211,279.**

20 **And then the next one is in response to a**
21 **revision to staff 4-65 on storm normalization, the**
22 **company found a revision was needed there, so**
23 **that -- in that adjustment W15. So that would**
24 **reduce the revenue requirement by \$97,437, taking**
25 **that into account.**

1 **So the bottom line total net increase was**
2 **originally just -- was \$65,001,789. The revised**
3 **amount is \$64,692,762.**

4 Q. Thank you.

5 MS. BLEND: Your Honor, Mr. Vaughan is
6 available for cross-examination.

7 COMMISSIONER SCHMITT: Ms. Vinsel,
8 cross-examination?

9 MS. VINSEL: Yes. Thank you.

10 CROSS-EXAMINATION

11 By Ms. Vinsel:

12 Q. Good afternoon, Mr. Vaughan.

13 **A. Good afternoon.**

14 Q. I think from what the Chairman just said, you
15 might have a second page to attach to your
16 performance reviews.

17 Do you recall in your response to Staff 6
18 Request, Item 1 -- and I can bring it up if you
19 would like me to, staff asked for a detailed list of
20 all rate-based expenses that Kentucky Power will no
21 longer incur following the termination of Rockport
22 UPA in December 2022.

23 **A. Yes. I recall that.**

24 Q. Okay. And in your response, you had said
25 that the company incurs only purchase power expenses

1 through Rockport UPA, which is recovered through
2 tariff PPA so there are no expenses in rate base
3 that the company will cease enduring when the UPA
4 terminates. Do you recall that?

5 **A. That's correct.**

6 Q. Okay. Thank you.

7 MS. VINSEL: Travis, can I have you bring up
8 -- it is -- I've got it written down so many
9 times -- excuse me. What I'm going to look for is
10 the application section V, Exhibit 2. Let me get
11 you that number. Travis, it's document number 12.
12 Can I have you scroll down to the list of
13 adjustments? Can you first go to adjustment 47?
14 And there's an embedded link there in that index.
15 Thank you.

16 BY MS. VINSEL:

17 Q. And, Mr. Vaughan, this is an adjustment, W47,
18 that -- excuse me, that you sponsored, correct?

19 **A. That's correct.**

20 Q. Okay. And this is adjusting the purchase
21 power expense to -- excuse me, I'm sorry -- to rate
22 base?

23 **A. No. It --**

24 Q. No?

25 **A. It's adjusting purchase power expense in base**

1 rates. There are no rate base or capitalized
2 amounts in -- the company's request for Rockport
3 UPA, in the company's base case here or the revenue
4 requirement because the UPA is billed to the company
5 by purchase power expense. It's all in 555.

6 I guess I'm not making the distinction between
7 rate base, which is assets, and base rates, which
8 are the company's base rates.

9 Q. I'm sorry. I should have said base rates.

10 Staff is -- staff is wondering why this
11 adjustment was necessary if it increases the
12 purchase power expense for changes to the Rockport
13 UPA bills, but why it would be necessary if the
14 Rockport UPA flows through the PPA as opposed to
15 base rates?

16 A. It's still in -- it's still in base rates
17 until UPA goes away. I guess that discovery request
18 asked about when the UPA terminates, and after that
19 there's no more base rate cost of service items for
20 Rockport because in the last rate case, the approved
21 stipulation in that case by the Commission has
22 already dealt with kind of the end of UPA costs.

23 When those go away, they flow through -- the
24 fixed cost savings flow through the rider PPA. And
25 then we begin to collect the Rockport deferral with

1 the carrying charge through the PPA.

2 So right now, until the UPA terminates, there
3 are base rate costs of Rockport that all shifts to
4 the PPA. In some portion the environmental
5 surcharges will be reduced when the UPA terminates.

6 Q. Okay. I think I'm following you, but if you
7 don't mind, I want to double-check.

8 There's essentially a difference between when
9 the Rockport UPA terminates and when those expenses
10 go away, correct?

11 A. There's -- we have deferred expenses from
12 Rockport, so those obviously don't go away. But the
13 billings from AEG company will stop when the
14 Rockport utility terminates in December 2022.

15 And the adjustment, W47 that we reference
16 here, I addressed the need for that in my direct
17 testimony on page 48 starting at line 9, and that --
18 that's because of the operating ratio in the billing
19 calculation.

20 The unit 2 SCR was not in service during the
21 test year, so there was a large amount of plant in
22 CWIP, which lowered the amount of return billed to
23 Kentucky Power Company through the UPA. That has
24 since gone into service increasing the operating
25 ratio and the billing calculation and increasing the

1 **amounts billed to Kentucky Power through the UPA.**

2 **And that is why we needed adjustment W47 to**
3 **increase base rate purchase power demand costs.**

4 Q. And adjustment -- and W53, which I know is
5 sponsored by Ms. Whitney, is that a similar
6 circumstance?

7 MS. VINSEL: Travis, can I have you scroll
8 down to W53?

9 THE WITNESS: No. I -- again, this was
10 sponsored by Company Witness Whitney, but my
11 recollection here is that there was a -- a one-time
12 bill credit in the test year that Company Witness
13 Whitney removed through this adjustment.

14 BY MS. VINSEL:

15 Q. And I know in Ms. Whitney's direct testimony,
16 I'll just say it's on page 30, lines 12 through 16,
17 she references that this adjustment also increases
18 purchase power expense.

19 **A. That's right. Because again, the -- some**
20 **portion of Rockport demand-- right now you have**
21 **Rockport demand costs -- excuse me, Rockport UPA**
22 **costs being billed to the company. The**
23 **environmental amounts are collected through the**
24 **environmental surcharge.**

25 **The rest of the costs are collected through**

1 purchase power expense. The demand portion of that
2 is in base rates, and you also have the deferral
3 kind of overlaid over top of that from the last rate
4 case order, and so the amount that isn't deferred or
5 collected through the environmental surcharge is
6 recovered in the company's base rates until the UPA
7 ends.

8 Q. Okay. I may have a follow-up on that. I'm
9 getting a question out to somebody, so I may have to
10 circle back to that.

11 Speaking of Rockport unit 2, SCR, and SCRs
12 selective catalytic reduction, when you talked about
13 going back to adjustment W47 --

14 MS. VINSEL: And, Travis, you can take that
15 off of the screen. Thank you. I'm sorry. I'm
16 getting some directions off screen. We have a
17 couple callers that we need to make sure are muted.

18 For those that are calling in on their phones,
19 please make sure your phones are muted. We're
20 getting feedback from that.

21 BY MS. VINSEL:

22 Q. Okay. I'm going to start over again,
23 Mr. Vaughan.

24 Going back to adjustment W47, also in a data
25 response, in that sixth data response from

1 Commission staff, item 12, you said that adjustment
2 W47 does not include the recovery of Rockport unit 2
3 SCR, and that the operating ratio essentially
4 removes construction work in progress, which is also
5 known as CWIP, from rate base calculation.

6 All of that is to get to my question. And do
7 you have it in front of you now?

8 **A. I do.**

9 Q. Okay. My question is: If the CWIP balance
10 was largely an environmental project that is
11 recovered separately through Kentucky Power's
12 environmental surcharge, why would there be a change
13 in the operating ratio that would affect the base
14 rate amount of purchase power expense related to
15 Rockport RPA?

16 **A. Yeah. I see where that's -- that can be**
17 **confusing.**

18 **The UPA -- not to sound harsh, but the**
19 **billing through, it doesn't care about how we**
20 **collect costs in Kentucky. It functions based on**
21 **the approved formula.**

22 **And so let's say the total plant's ten, and**
23 **three of that is CWIP, so it is reducing the**
24 **operating ratio, essentially, to 70 percent. So it**
25 **then bills total plant and service. It only keeps**

1 calculated return on 70 percent at that point.

2 So even though that's an environmental
3 project, it is lowering the return billed to
4 Kentucky Power while there's an environmental
5 project in CWIP on all plant in service, whether
6 it's environmental or not.

7 So what I say in this response to W47 doesn't
8 include environmental plants. When we calculated
9 the operation, we go back up to a more normal level,
10 post SCR going into service. We took the
11 environmental plant out of the amount of plant in
12 service we were calculating that increase on.

13 So the adjustment's just accounting for the
14 increase in return on non-environmental Rockport
15 plant because of the operation of that operating
16 ratio. That's redundant, but...

17 Q. I think I followed you. Again, I am going to
18 see if I get any directions off stage from my
19 co-workers.

20 I should explain, Mr. Vaughan, and you may
21 have seen my explanation earlier, because it's a
22 very small group allowed in the hearing room, many
23 of my co-workers are texting me with any follow-up
24 issues. So if I look down at my phone, I'm not --
25 it's not that I'm not paying attention.

1 VICE CHAIRMAN CHANDLER: Ms. Vinsel, can I
2 ask a clarifying question on that?

3 MS. VINSEL: Yes, please.

4 VICE CHAIRMAN CHANDLER: Mr. Vaughan, are you
5 just saying that you're normalizing the
6 non-environmental amounts of the operating ratio for
7 calculation in this case by grouping the
8 environmental portion of the plant?

9 THE WITNESS: No. So while the SCR was in
10 CWIP, it reduced the operating ratio that applied to
11 all plant in service at Rockport. So then the
12 operating ratio goes back to normal -- more normal
13 level after the if SCR went into service in June.
14 And so for purposes of calculating this adjustment,
15 we used the normal operating ratio compared to test
16 year, and we calculated the increase on total
17 return, but we excluded the environmental plant on
18 that.

19 So we're trying to get to the increase on base
20 rate purchase power demand cost, not what would be
21 going in to the environmental surcharge. That is
22 what W47 does.

23 VICE CHAIRMAN CHANDLER: Thanks.

24 MS. VINSEL: Thank you, Vice Chair.

25 BY MS. VINSEL:

1 Q. Just to give you a heads-up, Mr. Vaughan,
2 we'll be asking a post-hearing data request to get
3 some more support for the separating out. You'll
4 see --

5 **A. That's already been supplied.**

6 Q. Okay. Can you tell me where?

7 **A. It's in a staff set five request. I don't**
8 **have the exact number off the top of my head, but we**
9 **can get that request to you. But that work paper**
10 **has already been supplied.**

11 Q. Okay.

12 **A. I, unfortunately, printed my data requests in**
13 **too small of font because there was a lot of them.**
14 **I'm having a little bit of trouble going through**
15 **that right now.**

16 Q. I understand how that happens. And I've
17 actually got a summary. I'm going to see if I can
18 just pull it up quickly, if I can.

19 MS. BLEND: Ms. Vinsel, we're doing the same
20 thing here. We may be able to locate it in a
21 moment.

22 MS. VINSEL: Okay. I just want to -- I don't
23 want to take unnecessary time, but I want to make
24 sure that our team -- that we don't ask unnecessary
25 questions. I'm just going to rely on -- I think you

1 ought to look because I'm not seeing an obvious
2 response.

3 THE WITNESS: We'll provide the reference,
4 but, yeah.

5 BY MS. VINSEL:

6 Q. Oh, I've gotten a response from my co-worker,
7 that the work paper for the adjustment doesn't tie
8 this to the UPA expense.

9 So why don't -- why don't we -- we do this:
10 Commission staff will draft a post-hearing data
11 request, and if it refers to something that's
12 already in the record, you can point that to us. Is
13 that an acceptable compromise?

14 MS. BLEND: Sure. That would be fine. Thank
15 you.

16 MS. VINSEL: Thank you.

17 BY MS. VINSEL:

18 Q. I've really just got one last question. And
19 it really gets to that issue of whether the
20 Attorney General KIUC's witnesses had discussed
21 using rate base or capitalization for the return-on
22 component of base rate revenue requirement.

23 And in your rebuttal testimony, Mr. Vaughan,
24 you said -- I think this is a direct quote -- "when
25 done correctly, the two methods should reach,

1 materially, the same result."

2 Can you expand upon that?

3 **A. Certainly. So whether you're calculating**
4 **rate base or what -- excuse me.**

5 Whether you're calculating the basis for the
6 return-on component and rates, I'll describe rate
7 base as a -- you know, bottom-up kind of calculation
8 where you have to add things in, or whether using
9 capitalization as Kentucky Power has proposed in
10 this case, at the end of the day, you should get to
11 -- all of the electric utility assets that have been
12 financed should be the number.

13 And so what I'm saying is if you do it
14 correctly and you properly include all of the
15 electric utility assets that are providing service
16 and have been financed, you should get to the same
17 number one way or the other to calculate the
18 return-on components.

19 Q. So -- so I'm seeing if I -- I think we're
20 okay here.

21 MS. VINSEL: I think staff does not have any
22 further questions. Thank you, Mr. Vaughan.

23 THE WITNESS: Thank you.

24 COMMISSIONER SCHMITT: Mr. Cook, questions?

25 MR. WEST: It's actually Mr. West this time.

1 COMMISSIONER SCHMITT: Mr. West, questions?

2 MR. WEST: Yeah. Thank you.

3 CROSS-EXAMINATION

4 By Mr. West:

5 Q. How are you doing, Mr. Vaughan?

6 **A. Doing well.**

7 Q. I don't have too many questions for you.

8 Do you have a copy of your rebuttal testimony
9 handy there?

10 **A. I do.**

11 Q. Okay. Can you turn to page 7?

12 **A. Sorry, was that 7?**

13 Q. Yes. 7. Starting at line 12. Specifically,
14 I just want to talk a little bit about the Rockport
15 UPA demand expenses that you were just discussing
16 with Ms. Vinsel.

17 **A. I'm there.**

18 Q. Okay. Could you start at the question that's
19 posed in line 12 and just read the question and the
20 answer onto the next page at line 6?

21 **A. You want me to read it?**

22 Q. Yeah. And this is a question that's being
23 posed to you, correct?

24 **A. Yeah. Line 12: "Does the company agree with
25 AG KIUC Witness Carlin's proposal regarding the**

1 Rockport UPA base rate demand expense on page 33 of
2 his direct examination?

3 "ANSWER: Yes. Due to the various current
4 Commission issues in the company's service
5 territory, the company agrees that this is a
6 reasonable mitigation proposal in this case. The
7 \$1,695,513 included an adjustment in W47 would be
8 added to the existing Rockford referral regulatory
9 asset in 2021, and \$1,554,220 (11/12th of the annual
10 amount included in adjustment W47) would be added to
11 the Rockport regulatory asset in 2022.

12 "The Rockport deferral regulatory asset
13 including these additional amounts would accrue a
14 carrying charge of the company's approved weighted
15 average cost of capital until it is fully recovered
16 consistent with the Commission approved settlement
17 agreement in case number 2017-00179.

18 "As discussed in the direct testimony of
19 Company Witness West, the company is requesting to
20 amortize and recover the Rockford regulatory asset
21 as of September 8, 2022 (when the Rockport UPA
22 terminates) over five years through tariff PPA
23 beginning in December of 2022 consistent with the
24 approved settlement agreement filed in case until
25 number 2017-00179."

1 Q. Thank you. So has the company's proposal
2 been amended in any way to account for your
3 agreement with this proposal from Mr. Carlin?

4 **A. I guess what are you referring to?**

5 Q. Well, you said that you agreed with this
6 reasonable mitigation proposal.

7 Does that mean that you agree that this is
8 how the Commission should rule on this issue?

9 **A. Yes. That's exactly what my testimony is.**

10 Q. Okay. Thank you. I just have a few general
11 questions.

12 Given that the -- the pandemic that we're all
13 going through right now has put many families and
14 individuals in difficult financial circumstances,
15 did the company give any consideration to keeping
16 the monthly charge at \$14?

17 **A. Again, you have to take everything -- you
18 have to take all -- all the pieces of rates and all
19 the proposal in this case in its totality, and going
20 from \$14 to \$17.50 as we proposed, and I speak a lot
21 to this in my direct and rebuttal testimony, is
22 going to help reduce interclass subsidies at
23 certain-- certain high users like our electric
24 heating customers, and to a large extent, our home
25 energy assistance low-income customers are paying**

1 right now, so it will actually help in theory --
2 well, it will help them.

3 You know, and again, we have the first-year
4 mitigation that we've proposed in this case, so
5 those actual rates may or may not change until --
6 those rate components may not actually change for
7 billing purposes until 2022. So yeah, I think we
8 took everything into consideration when we made our
9 proposal in this case.

10 Q. Okay. Thank you.

11 Would you agree that if the customer charge
12 was increased and the energy charge decreased, all
13 else being equal, customers who use more energy will
14 benefit financially, at least beyond some break-even
15 point?

16 A. In simple math terms, yes, but that's not the
17 proposal in this case.

18 Q. Well, can you explain the proposal in this
19 case as it relates to that?

20 A. Well, and under the company's proposed rates,
21 the customer charge does go up by the \$3.50, but so
22 does the kilowatt hour charge. So -- and even after
23 that, the total bill is still 90 percent volumetric.
24 So an increase in usage equals an increase in your
25 bill, so there's still no -- there's no price signal

1 **asking customers to just use as much energy as they**
2 **can.**

3 Q. Okay. Thank you.

4 Has the company obtained any data indicating
5 how many of its customers are on fixed incomes?

6 **A. Not to my knowledge, no. I don't have**
7 **customer income data, you know, when I look at**
8 **customer account information.**

9 Q. Does someone else within the company look at
10 that type of data or ask for that type of data?

11 **A. I'm not aware that we have customers'**
12 **personal information like that and that that's being**
13 **studied. I mean, maybe on some high level based on,**
14 **you know, regional economics or something like that,**
15 **but not from a customer-to-customer standpoint, no.**

16 Q. Okay. So in a similar vein, do you know how
17 many of the company's customers are 65 or older and
18 rely on Social Security as their primary source of
19 income?

20 **A. No, I don't. I know general demographics**
21 **related to billing. You know, I know that over half**
22 **my customers are electric heating in nature. I know**
23 **that, you know, a lot of our -- the low-income**
24 **customers that I can identify through whether they**
25 **have heating assistance or some sort of federal**

1 **assistance, a lot of them are also electric heating.**

2 **That's generally the kind of demographics I**

3 **have from a customer account standpoint.**

4 Q. Okay. Thank you.

5 In general, the cost of-of-service study
6 doesn't take into account whether a customer is on a
7 fixed income or generally can't afford service to be
8 provided, does it?

9 **A. No. The cost of -- the cost of service study**
10 **is accounting and financial in nature coming up to**
11 **what the proper requested revenue requirement should**
12 **be. When we're talking about affordability, the**
13 **other proposals in this case speak to that, you**
14 **know, the things that Company President Mattison and**
15 **Mr. West and others have discussed at length this**
16 **week.**

17 Q. I understand. Thank you.

18 Do you know whether the company
19 representatives or anyone in particular with the
20 company reads the public comments that have been
21 filed in this PSC case or generally read the
22 comments that's filed in a case that's filed with
23 the Commission on behalf of the company?

24 **A. Yes. I have myself have read a great many of**
25 **them. I sat next to Mr. West last Friday as we**

1 watched the public hearing. I know Mr. Mattison's
2 reviewed them. Yeah. We -- we read them.

3 Q. Okay. So you're aware that a fair number of
4 the comments that have been submitted express
5 serious concern about the affordability of service,
6 correct?

7 A. Yeah. That's definitely the case. A lot of
8 them -- you know, the theme had been anti-bill
9 increase and anti-net metering.

10 You know, and one -- one piece of context I
11 would like to get out there from an affordability
12 standpoint, the company's average residential bill
13 has gone down over the last four years.

14 When we -- if you look at the company's filing
15 in 2017-00179, the current bill then I believe was
16 for customers using 1240 kilowatt hours, which is
17 our statistical average customer in this test year,
18 was \$162 on average.

19 Right now, if you look at the filing schedules
20 here, that's \$142. If the company were to receive
21 its entire rate increase that it's asked for, we
22 would get back to \$166, so -- and that would not hit
23 customers until 2022.

24 So you would have basically a five-year period
25 where the company's average bill to the average

1 **residential customers has not gone up.**

2 Q. I appreciate that information, and I don't
3 think I have any more questions. Thank you, sir.

4 COMMISSIONER SCHMITT: Mr. Kurtz, questions?

5 CROSS-EXAMINATION

6 By Mr. Kurtz:

7 Q. Good afternoon, Mr. Vaughan.

8 **A. Good afternoon.**

9 Q. That's the first I heard the statistics about
10 the average residential bill. I assume a lot of
11 that is the reduction in fuel costs, the AC
12 automatic flow-through?

13 **A. That's right. You had tax reform that
14 lowered -- lowered rates, essentially caused a zero
15 rate increase in the last base rate case, and you've
16 had reduction in fuel costs over time.**

17 **And then there was also a reduction in PPA
18 rates for a little over a year there while we were
19 receiving FERC settlement credits that were flowing
20 back to customers. I think there was a \$5 million
21 credit competitive rate embedded in that as well.**

22 Q. Let's talk about taxes a little bit. The
23 Chairman mentioned that.

24 In December of 2017, the President signed
25 into law the Tax Cut and Jobs Act, which would

1 reduce the federal corporate income tax rate from 35
2 percent to 25 percent, correct?

3 **A. That's correct.**

4 Q. I think it was December 21 or 22. That very
5 same day KIUC filed a complaint against all the
6 investor-own utilities in Kentucky asking for the
7 rates to be adjusted downward because of the
8 reduction in federal income tax. Do you recall
9 that?

10 **A. I do remember that, yes. You and every other
11 intervenor in every state that we have service in.**

12 Q. We were absolutely first. We had schedules
13 and reductions and we presented to this Commission
14 -- which we would have done it anyway, but we
15 presented to this Commission first and foremost in
16 the country the Tax Reform Act. We were ready to
17 go.

18 **A. You were on it. Yes.**

19 Q. Okay. Well, it's true.

20 In January -- on January 18, the Commission
21 used tax expense savings in a way that essentially
22 reduced the base rate case that was going into
23 effect at that time, correct?

24 **A. Yes. The federal tax rate of -- the 3521
25 change was incorporated in the company's base rate**

1 **increase from the 2017-00179 case, and then through**
2 **your -- the complaint case you were discussing, we**
3 **addressed the excess unprotected and excess**
4 **protected ADFIT.**

5 Q. I think we fooled around on the rehearing in
6 the rate case to get rate number for the tax
7 savings, and that's that -- I forget how it turned
8 out. Right?

9 **A. Yeah. I agree with that. Yeah.**

10 Q. Okay. But back to the protected excess ADIT,
11 in other words, customers have -- you collected from
12 customers rates based upon the assumption of
13 straight line depreciation that you would pay the
14 federal government 35 percent. But in reality you
15 were going to pay them 21 percent.

16 And so the ADIT balance was excess. Hence
17 you -- all the utilities, you owed customers money
18 for the pre-collection of taxes that would no longer
19 be paid to the federal government, correct?

20 **A. Yes. The book -- book tax difference leads**
21 **to the ADFIT, agreed.**

22 Q. Rates based on straight line depreciation
23 assumptions, but in reality the utility used --
24 accelerated depreciation -- post depreciation?

25 **A. Certain things for tax purposes, yeah.**

1 Q. And over time if the tax rate stays the same
2 -- and the prepayment of taxes, the ADIT is a rate
3 base offset so customers get a tariff charged
4 prepayment, correct?

5 **A. I think it's fair to characterize it that**
6 **way, yes. It's a rate base credit or cost-free**
7 **financing, yes.**

8 Q. So it all works out that when the tax rate
9 changes, and it may change again in the other
10 direction, who knows -- but that was the -- when tax
11 rates stay the same, it all works out, and it's
12 fine.

13 So we don't with -- the protected is
14 amortized by the IRS rules under what's ARAM
15 methodology, correct?

16 **A. That's right, for the protected.**

17 Q. Okay. The unprotected, the Commission has
18 discretion, and every Commission has discretion to
19 choose the amortization period that they think is
20 reasonable, correct?

21 **A. Yes. That's my understanding, and we saw a**
22 **lot of different applications of that in different**
23 **jurisdictions.**

24 Q. I want to ask you about that, but with
25 respect to Kentucky Power, we call it the retirement

1 of Big Sandy Two, the unprotected excess ADIT
2 balance was very large relative to Kentucky Power's
3 capitalization. Is that your recollection?

4 **A. Yeah. I think that's -- I think that's**
5 **correct. There was a lot of ADFIT on that rig**
6 **asset, and just in general. Yes.**

7 Q. Okay. And so the government -- which the
8 Commission approves is an 18-year amortization of
9 that, the unprotected excess ADIT, correct?

10 **A. That's correct.**

11 Q. Okay. What the Chairman was referring to is
12 midyear this year Kentucky Power made an application
13 -- complaint application to change the settlement
14 agreement that was approved with KIUC to use \$10.8
15 million for the -- what had --

16 **A. Debt forgiveness.**

17 Q. -- the debt forgiveness case. Okay.
18 Is that correct?

19 **A. Yeah. It's my understanding that Kentucky**
20 **Power along with the other party to that settlement**
21 **in the complaint case agreed to make that change to**
22 **the settlement agreement, to the 18 years.**

23 Q. No. After you guys filed the application, we
24 intervened and then entered into a settlement -- you
25 unilaterally asked to change the settlement

1 agreement. It's a matter of record, but you can
2 look at it.

3 **A. I will -- subject to check, I will agree with**
4 **that, but it's my understanding that you later**
5 **agreed through a settlement.**

6 Q. We did. And I want to -- I want to take a
7 little credit for that.

8 Because the \$10.8 million, that -- the
9 Commission deferred that entry to be dealt with
10 holistically in this case, correct?

11 **A. That is my understanding of the order in that**
12 **case, yes.**

13 Q. Okay. And the winners of that debt
14 forgiveness application and subsequent settlement
15 agreement would have been the people who are in
16 arrears because they would have their past bill dues
17 -- past-due bills forgiven in large or in whole,
18 correct?

19 **A. That's correct. And my reading of the order,**
20 **I think that was part of the issue, is the**
21 **Commission described perhaps a more equitable way to**
22 **pass those dollars back.**

23 Q. And who -- and the other -- who was going to
24 get the money?

25 Kentucky Power was going to get the \$10.8

1 million, correct?

2 **A. Kentucky Power was going to amortize those**
3 **dollars to relieve what would otherwise turn into**
4 **bad-debt expense, yes, from those customers' bills,**
5 **and essentially wipe the slate clean from those**
6 **customers and hopefully get them back on track.**

7 Q. And we agreed with that. And do you recall
8 the settlement agreement noted that KIUC who was not
9 past-due, or members, were actually going to take a
10 hit or contribution of \$2.37 million that we would
11 otherwise receive through the tax credit rider?

12 **A. I don't know the exact number, but that**
13 **sounds familiar.**

14 Q. Okay. So -- okay. So that was that, and
15 we'll deal with it in this case.

16 I want to talk about Rockport real quick, by
17 way of background. The Rockport unit power
18 agreements were originally entered into in 1984.
19 You weren't around then?

20 **A. I was in existence. I was not at Kentucky**
21 **Power.**

22 Q. You're sitting in -- well, currently sitting
23 in the Richard Raff Hearing Room, and Mr. Raff spent
24 a lot of time litigating it at FERC, Commission,
25 state court, federal court.

1 Do you know much about litigation that ended up
2 with the unit power agreements? Mr. Overstreet
3 does, I'm sure.

4 **A. I have a general understanding of the initial**
5 **litigation and then what happened in 2004 in the**
6 **extension.**

7 Q. So in 2004, the agreements to extend were
8 extended for 18 years until December 7th, 2022?

9 **A. Yes.**

10 Q. Okay. Kentucky Power buys 30 percent of AEP
11 generating company's 50 percent ownership in
12 Rockport unit 1 and unit 2, correct?

13 **A. That's correct.**

14 Q. Okay. And is AEP generating company an
15 unregulated affiliate of Kentucky Power?

16 **A. That's correct. It's not regulated by any**
17 **state jurisdictions.**

18 Q. Rockport unit 1 is essentially a straight
19 comfort of service, a declining rate base, model
20 versus Rockport unit 2, which is a levelized UPA
21 based upon the sale-leaseback agreement that AEP
22 generating company entered into with Wilmington Bank
23 and Trust back in the 1980s -- or 2004, I guess,
24 timeframe?

25 **A. I think that's a fair characterization. Yes.**

1 **And so -- and that billing -- that's all included in**
2 **the FERC approved UPA agreement.**

3 Q. Okay. So the Rockport clause goes to the
4 fuel adjustment clause, correct?

5 **A. Yes.**

6 Q. You forgot to mention that earlier, but I
7 know it was just an oversight. The environmental
8 costs, to the extent they're not rolled into the
9 base rates, go for the environmental surcharge,
10 correct?

11 **A. That's correct.**

12 Q. And the bulk of the account 555 purchase
13 power expense is recovered in base rates?

14 **A. Yes.**

15 Q. Okay. So when we talk about -- it will be a
16 good thing for Kentucky Power when the unit power
17 agreements expire, won't it?

18 **A. I'm sorry. I missed a little bit of your**
19 **question there. Can you repeat it?**

20 Q. It will be a good thing for Kentucky Power
21 and its customers when the Rockport unit power
22 agreements expire?

23 **A. Well, I guess time will tell what exactly it**
24 **will be, but I can say that it's -- it will be a**
25 **reduction in expense related to that agreement going**

1 **away. Right? We'll have to replace it at some**
2 **point with something, but right now we do expect**
3 **some savings, yes.**

4 Q. The Rockport power agreement is subject to
5 390 megawatts, 15 percent of two 1,300-megawatt
6 units?

7 **A. Yeah, I don't have the exact number, but ball**
8 **park that sounds about right.**

9 Q. The currently pending IRP, the Kentucky Power
10 case analysis was that 140 megawatts of the 390
11 megawatts would need to be replaced and that the
12 other -- what is that 250 would not need to be
13 replaced. Is that your understanding?

14 **A. I am not familiar with the IRP proceeding,**
15 **but I am generally familiar with our capacity**
16 **planning. And yes, the company is long capacity up**
17 **through the date of the UPA termination, and then**
18 **the company is short capacity starting on December**
19 **8th, 2022.**

20 Q. So 390 megawatts go away, and the estimate
21 was that 140 would need to be replaced, correct? I
22 don't know if you know or you need to look at that.

23 **A. I don't know the exact number, but, you know**
24 **-- and it would be a planning assumption at this**
25 **point, but yes, I believe it's over 100 megawatts**

1 **that you're short at that point.**

2 Q. And we've all done preCOVID pandemic
3 analysis, we don't know, right, that 140 megawatts
4 is still the right number?

5 **A. You never know what the exact number is when**
6 **you're planning these things because it's all based**
7 **on UCAP figures; so there's a unit performance**
8 **measure, and then there's also what the -- the load**
9 **and the 5 PT obligation will be when we get to the**
10 **actual delivery year.**

11 **And so the -- the delivery year in question**
12 **will be 2223 [sic], so yeah, those numbers move**
13 **around a little bit.**

14 Q. Staff -- and I wanted to ask you this too:
15 The fixed cost savings that are expected gross --
16 now, maybe some of them will have to be replaced
17 with something else, and then there's market
18 purchases for the first two years, is the plan
19 assumption, but the gross savings -- fixed cost
20 savings when the Rockport UPAs expire are
21 approximately what?

22 **A. I actually took a note of this from your**
23 **questions earlier in the week. It's included in the**
24 **test-year cost of service year, is 57.4 million in**
25 **account 5550027. That is the Rockport demand costs,**

1 **the fixed cost savings you're referring to.**

2 **And like you said, that's a total amount. Some**
3 **portion, like you referred to, is included in the**
4 **environmental surcharge. Some portion isn't.**

5 Q. Okay. Good. It's an important number.
6 \$57.4 million. That's a large number.

7 **A. It is.**

8 Q. Also by way of background, when the unit
9 powers were extended in 2004, KIUC and the
10 Attorney General agreed and the Commission approved
11 to the capacity charge -- I call it the equity
12 kicker, but it's the -- it's the amount -- in this
13 case, that's \$6.2 million above cost of service?

14 **A. I believe it is referred to as the**
15 **supplemental payment in that agreement.**

16 Q. Okay. But it's 6.2 million, correct?

17 **A. For 2021, yes.**

18 Q. And 2020?

19 **A. And in 2020. 2020, 2021, and then it goes**
20 **down a little in 2022.**

21 Q. To reflect that -- the December 7th
22 termination date?

23 **A. Correct.**

24 Q. Okay. That will come up later. All right.
25 So -- and there's -- okay. So let me just

1 sort of review the bidding. Oh, there you are.

2 Okay.

3 And I'm going from your original filing, and
4 I know there have been some slight adjustments, but
5 Kentucky Power's proposed a \$70 million base rate
6 increase?

7 **A. Yes. There's a \$70 million base rate**
8 **increase, a \$1.1 million increase from the proposed**
9 **grid modernization rider related to AMI, and then**
10 **there was the negative \$6.2 million decrease in the**
11 **capacity charge.**

12 Q. The \$70 million is a 13.1 percent base rate
13 increase? You've done the math?

14 **A. That's correct. That's on the section 5**
15 **summary in the filing schedules.**

16 Q. Okay. And when you add the 1.1 and subtract
17 the 6.2, the net rate increase has been noticed as
18 12.21 percent?

19 **A. That's correct.**

20 Q. Okay. Now, the company's proposal is to use
21 65 million of the unprotected excess ADIT for one
22 year to offset the first year base rate increase,
23 correct?

24 **A. Just a -- I guess a finer point on that would**
25 **be that we're proposing to use enough ADIT to offset**

1 **\$65 million in net revenue increase. So it's a**
2 **lesser amount of ADIT to gross it up for federal and**
3 **state taxes.**

4 Q. That's my point -- excuse me -- I think in
5 this record.

6 **A. Yeah.**

7 Q. So the revenue requirements -- the revenue
8 requirement fact of the excess ADIT would be used to
9 offset 65 million of base rate increase?

10 **A. Correct.**

11 Q. Okay. What is the revenue requirement that,
12 you know, applies to apples of unprotected excess
13 ADIT today, to the best that you know?

14 **A. Could you clarify?**

15 Q. Yeah. It was 13.5 million in April 2020, you
16 use up part of it every month with the tax credit
17 rider. Do you have any idea how much it is today?

18 **A. How much in rates for the federal tax credit**
19 **rider?**

20 Q. How much is in the bank? How much is left?

21 **A. Yeah. I have the exact amount, I believe.**

22 VICE CHAIRMAN CHANDLER: Mr. Kurtz, while
23 Mr. Vaughan's looking at that, can I just clarify,
24 are you asking the difference between the actual
25 amount and the revenue impact?

1 MR. KURTZ: Either one, but I want to know
2 how much is currently in the bank that the company
3 owes customers, either the revenue requirement
4 effect or the fee --

5 VICE CHAIRMAN CHANDLER: Just the November
6 number, is what you're kind of asking for?

7 MR. KURTZ: Yes, sir.

8 VICE CHAIRMAN CHANDLER: All right. Thank
9 you.

10 **A. So if you go to Company Witness West's**
11 **rebuttal testimony, page R3, there's a -- there's a**
12 **figure in there that shows what the -- what's left,**
13 **essentially, in the bank, as you referred, and what**
14 **the actual rate offset would be.**

15 So under our company's proposal, we would
16 amortize 48 million -- 48.3 million of excess ADIT
17 to offset the \$65 million of net increase. To that,
18 you also have the \$10.8 million the company's
19 proposed in the debt forgiveness measure. And then
20 you have roughly \$6.95 million of unprotected excess
21 running through the federal tax cut rider at this
22 time.

23 So I think -- I think based on all those --
24 and at the end of 2020, there would be approximately
25 I think about \$81-, \$82 million left in the bank, if

1 I'm looking at the schedule correct. We can give
2 you the compact number in a post-hearing data
3 request if that would help.

4 **BY MR. KURTZ:**

5 Q. I guess that would be a good idea. But we'll
6 submit it in writing, per the Chairman's
7 instructions.

8 So the excess -- unprotected excess ADIT is
9 money the company owes consumers?

10 **A. That's correct, as we discussed earlier.**

11 Q. Okay. And you are essentially paying
12 consumers through a weighted average cost of
13 carrying charge while you hold on to customer money?

14 **A. Yeah. That's right. It's reducing the**
15 **company's return-on component. And conversely, when**
16 **you amortize that and give it back to customers, the**
17 **capitalization or rate base, the return-on component**
18 **goes up when you amortize that because it's reducing**
19 **the rate credit.**

20 Q. So does that mean we are getting reduced in
21 the amount that you owe us?

22 **A. You're paying less in base rate, so yeah, I**
23 **think it's fair to say that you're getting it at a**
24 **WACC carrying charge.**

25 Q. That's what I thought.

1 You referred to other jurisdictions. What is
2 the other amortization period that other
3 jurisdictions have used?

4 We know Kentucky was originally 18 years, but
5 I know a lot has happened that it will probably be
6 less.

7 What are the other jurisdictions?

8 **A. There are various -- various answers to that**
9 **question I think I gave you -- I directly**
10 **participated in the company's response to that in**
11 **Virginia and West Virginia.**

12 **And I know generally our FERC schedules I guess like**
13 **for transmission, it was a ten-year schedule there**
14 **in all transmissions.**

15 **And then in West Virginia, oh, gosh, we did various**
16 **measures of mitigation, like we're discussing here.**
17 **We eliminated some portion of a rate increase.**

18 **We've reduced fuel deferrals with using excess ADIT**
19 **dollars, and then again we have something kind of**
20 **similar here at the FTC at the TRR here in West**
21 **Virginia.**

22 **And that's going to I think in 20 -- late '21, early**
23 **'22. So you're amortizing it over, you know, three,**
24 **four years there.**

25 **Virginia is a similar timeframe. We had -- we did**

1 **something similar there with we -- we offset a fuel**
2 **increase over one year of \$55 million in 2019, I**
3 **believe, and then we have a tax cut rider there as**
4 **well that ends next year.**

5 Q. Interesting. I thought all of the clever
6 uses of -- rate making uses of those moneys I heard
7 about -- certainly when I heard about the offset in
8 this case -- rate increase. Okay. But -- so.

9 Now, let's look at the AIG increase proposal.
10 It's a base rate increase of 43.242 million.

11 **A. That's Mr. Carlin's proposal?**

12 Q. Yeah. He's got the schedule on page 7.

13 **A. Bear with me for a second while I get that.**

14 **Thank you. I'm there.**

15 Q. I don't know if there's a line, but do you
16 see -- obviously rate of return and some
17 compensation, all these different adjustments, we're
18 proposing a 43.242 million base rate increase as
19 opposed to your 70 million?

20 **A. Yes. I see that.**

21 Q. Okay. And then what the Attorney General and
22 KIUC would do is also eliminate the 6.2 million
23 capacity charge premium?

24 **A. The supplemental payment in the --**

25 Q. We would eliminate that also for a net

1 increase on those items of 37.042 million. Is that
2 your understanding of Mr. Carlin's proposal?

3 **A. That is Mr. Carlin's proposal, yes.**

4 Q. So that would be a net rate increase of
5 approximately 7 percent. And piggybacking on what
6 AIG is, we said, "Good idea, first year net increase
7 of 37 million."

8 Is that your understanding of our proposal?

9 **A. I'm sorry. Can you say again?**

10 Q. We said, "Let's lower the base rate increase
11 and also use the tax money that the company owes
12 consumers to offset the first year full amount of
13 the base rate increase net of the 6.2 million
14 elimination of the capacity charge."

15 **A. Yeah. That's your proposal, as I understand
16 it, among other things regarding tracking of certain
17 costs and whatnot, yes.**

18 Q. Okay. So the first year we would do the
19 37 million revenue requirements basis, so the tax
20 money the company owes consumers compared to the
21 company's proposal using 65 million.

22 Is that your understanding -- let's focus on
23 the tax money.

24 **A. Sure.**

25 Q. Okay. And then our proposal is to use -- is

1 to offset 50 percent of the year two rate increase
2 or 18.5 million in year two by using tax money?

3 **A. Yeah. I think -- I think that's correct. I**
4 **mean, I understand what you're doing. We don't**
5 **agree with your proposed rate increase, but I**
6 **understand your concept, yes.**

7 Q. My only point on this one is this: In terms
8 of credit metrics and so on and so forth, we've been
9 talking about, we will only use 55.5 million of the
10 unprotected excess ADIT two years whereas the
11 company would use 55 million in one year?

12 **A. Yeah, that's the math, right, but when you**
13 **come out of it, there's a small increase as well**
14 **that would impact credit metrics.**

15 Q. I totally understand. The credit metrics of
16 the use of the tax money. We're actually proposing
17 less of it over two years than the company is in one
18 year?

19 **A. That is how the math works out. I agree.**

20 Q. Let's talk about the credit enhancement or
21 payment enhancement, the capacity charge, the
22 6.2 million. That was approved by the Commission,
23 agreed to by KIUC and the Attorney General back in
24 2004, is partial incentive for the company to extend
25 the unit power agreement for 18 years. Is that your

1 understanding?

2 **A. Yeah. That's my understanding. Based on the**
3 **facts at the time of that case, you know, the**
4 **company was going to forego a lot of market value on**
5 **that asset, and as part of the total economic**
6 **analysis in that case, the Commission, the parties**
7 **found it prudent to grant the company its**
8 **supplemental payments over the life of the**
9 **extension.**

10 Q. Would you agree that over the 2005-2020
11 period the company reflected on a nominal basis
12 97.3 million of that credit enhancement or payment
13 enhancement?

14 **A. I'm sorry. Didn't catch the beginning date.**
15 **What was -- from 2005, is that what you said?**

16 Q. Yes.

17 **A. Yeah. I mean, I haven't done the math on**
18 **that. So whatever's in the order, if that's how it**
19 **adds up, I would agree, you know, and I'll add this**
20 **isn't -- hasn't been included in base rates, you**
21 **know, it gets removed from every base rate case.**

22 **And even with the supplemental payment or**
23 **whatever you would like to characterize it as, the**
24 **company's receiving that today, it's still earning**
25 **its, you know, 5-ish percent ROE.**

1 Q. Okay. And I know you haven't done this math,
2 but subject to check or just -- would it surprise
3 you that if you add an 8 percent carrying charge to
4 the nominal payments over that period of time, that
5 16 years, Kentucky Power would have gotten 107
6 million of that present value expense?

7 **A. Yeah, I don't know what the number works out**
8 **there, but I also don't know what kind of market**
9 **revenues the company had foregone on that, the**
10 **company being AEGCO, or who would be selling that**
11 **during the 2000s, or think back in '07 or '08 when**
12 **L&Ps were \$70 to \$100 around the clock. That's a**
13 **lot of power. So, I don't think you can just look**
14 **at that in isolation.**

15 Q. That's fine. I don't think the L&Ps were
16 that high around the clock, but in the last -- this
17 the last -- in the last five or six or seven years,
18 you certainly couldn't make any money with Rockport
19 in the market, could you? Coal units have all been
20 big money losers?

21 **A. There's definitely a reduced energy value,**
22 **you know, on those units in recent years. No. Low**
23 **gas prices, low L&Ps, high amount of renewables.**
24 **Yeah. I agree with that.**

25 Q. All right. So do you agree that the -- that

1 the Commission has an independent duty to ensure
2 that settlement agreements it has approved remain
3 reasonable?

4 MS. BLEND: Objection to the extent that
5 Mr. Kurtz is asking Mr. Vaughan to provide a legal
6 opinion.

7 BY MR. KURTZ:

8 Q. Is your role as chief regulatory person -- I
9 don't want a legal opinion, but is that your
10 understanding from a regulatory basis?

11 **A. I'm not sure I'm chief of anything, but my
12 understanding is the Commission's duty is to make
13 sure that rates are just and reasonable, yes.**

14 Q. Vice Chairman Cicero thinks you should be
15 chief of something apparently, former Vice Chairman.

16 **A. He may be, but that's nice.**

17 Q. First of all, let me ask you. You said,
18 okay, we'll give up that 6.2 million but it's
19 contingent on us getting 100 percent of our rate
20 increase. That was your position, right?

21 **A. So yeah, let's talk about that.**

22 **The position there is that we took everything
23 -- you know, when my team worked with Kentucky
24 Power management to put together all the options for
25 this case, we had to view everything to get, and it**

1 was the balancing act of trying to fix the financial
2 health of Kentucky Power and try and mitigate the
3 rate impact on customers in any way we could.

4 And so when I make that proposal and say it's
5 conditioned upon us receiving our request, the thing
6 there is, you know, for instance, if you -- you give
7 us our -- let's say -- let's say we get everything
8 we ask for but you say we can't track OATT LSE
9 costs.

10 My position would be no, we can't give up the
11 6.2 million, and that's why I recommended Mr.
12 Mattison for him making that decision because we
13 still wouldn't have the opportunity to earn our
14 allowed return or near it. You know, if you're
15 giving up a certain amount, and you're getting a
16 certain amount, you -- everything's a balancing act
17 here.

18 So yes, it is a conditional mitigation. And I
19 think there are -- there are circumstances where we
20 would agree to something other than in full, and
21 there are circumstances where we wouldn't. And as
22 Mr. Mattison said, you know, whatever happens,
23 happens here, and then we'll do the financial
24 analysis and we'll make a -- we'll make the
25 recommendation to him, but at the end of the day,

1 **it's his call.**

2 Q. Have you ever been involved in a base rate
3 case anywhere where the AEP had gotten 100 percent
4 of its requests?

5 **A. Only in my dreams. No. No. I've never been**
6 **in one.**

7 Q. So was that -- was that sort of a false
8 offer?

9 **A. No. It absolutely was not. It was part of**
10 **that balanced consideration, as I said.**

11 Q. So you give us -- Kentucky Commission, you
12 give us something we've never ever gotten anywhere
13 else, and we'll kick in the 6.2 million. It almost
14 seems like it was a false -- false offer, maybe a
15 better description.

16 **A. I would disagree with that. I mean, we**
17 **are -- you know, I -- I know what Mr. Carlin has in**
18 **his revenue requirement proposal, but the -- the**
19 **company -- the company's position is there's --**
20 **besides the couple -- couple items that I identified**
21 **in Hearing Exhibit 1, there's not a lot of room for**
22 **us to move and have an opportunity to earn our --**
23 **near whatever our allowed return is. And that is**
24 **why we proposed things the way we did. It's not a**
25 **fake offer. It's definitely genuine or we wouldn't**

1 **have done it.**

2 Q. Okay. Didn't the 2004 settlement agreement
3 between the Attorney General, KIUC, and Kentucky
4 Power, which authorized this 6.2 million which was
5 approved by the Commission -- didn't that settlement
6 agreement anticipate and take into account what
7 would happen if the Commission ever rejected the
8 6.2 million for rate-making purposes?

9 I'll refer you to page 7 of the settlement
10 agreement, and I know you quote the settlement
11 agreement in your rebuttal.

12 Page 7 under procedural terms, paragraph 3.

13 MS. BLEND: Mr. Kurtz, do you have a copy of
14 the settlement agreement that you would like to
15 display or have staff display? I'm not sure that
16 Mr. Vaughan has a copy of it with him. It was not
17 --

18 MR. KURTZ: I would if --

19 MS. BLEND: -- an exhibit to his testimony.

20 MR. KURTZ: Christen, I would -- if I could
21 put it through the computer. It's attached to the
22 testimony 00420. The order was entered into on
23 December 13, 2004. Mr. Vaughan quotes from the
24 settlement agreement in his rebuttal.

25 MS. BLEND: And, Mike, Mr. Kurtz, I can

1 actually help. My co-counsel reminded me -- has
2 actually recommended that the order be marked as
3 Hearing Exhibit 2, or has been marked as such. So
4 that could be displayed as Hearing Exhibit Number 2,
5 and I'll provide it to Mr. Vaughan --

6 MR. KURTZ: Thank you.

7 MS. VINSEL: Travis, did you get that? We
8 need Kentucky Power's Hearing Exhibit Number 2.

9 THE WITNESS: Which page were you referring
10 to of the order?

11 BY MR. KURTZ:

12 Q. The settlement agreement, page 7,
13 paragraph 3.

14 **A. The one entitled "additional revenues"?**

15 Q. No. If at any time prior to the
16 expiration --

17 COMMISSIONER SCHMITT: Let's see if we can
18 get the page on the screen. I'm --

19 MS. VINSEL: Travis, that's on PDF page 17.

20 MR. KURTZ: That's it.

21 MS. VINSEL: And it's about halfway down the
22 page.

23 THE WITNESS: I was looking at the PDF page
24 number, not the order page number. Yeah, I'm there.

25 BY MR. KURTZ:

1 Q. Okay. I don't think you have it memorized,
2 but let me -- let me go through.

3 So the question is: Doesn't the settlement
4 agreement anticipate what the company's revenue
5 would be if the Commission changes the 6.2 million?
6 If at any time prior to the expiration of the
7 extension of the unit power agreement under this
8 stipulation, the Kentucky PSC or its successor
9 enters an order that prevents Kentucky Power from
10 charges rates consistent with the provisions of
11 section so and so, the 6.2 million, Kentucky Power
12 may, upon 120 days' notice to the Commission and
13 parties to the stipulation, begin legal or
14 regulatory proceedings necessary to terminate the
15 extension of the unit power agreement and withdraw
16 from all other obligations under the agreement.

17 So you have -- if the Kentucky Commission,
18 against your will, objection, says no, the
19 6.2 million goes away, you have the right to get out
20 of the unit power agreement.

21 **A. I think -- I agree that's what the words say.**
22 **I think we would have to -- again, I'm not sure what**
23 **the legal and regulatory requirements would be to**
24 **try to terminate the UPA early.**

25 Q. Well, financially you would never want to do

1 it. You wouldn't want to pour on this 390
2 megawatts-and-above market the -- you would lose
3 your 6.2 million, and you would lose money reselling
4 it to the wholesale markets.

5 **A. Kentucky Power would be short capacity too.**

6 Q. You could easily keep --

7 **A. No, sir, you can't.**

8 Q. But my point --

9 **A. We have committed through June of -- through**
10 **May 31st of 2022 in the companies or for our plan we**
11 **can't do that. That is already committed to serve**
12 **customers.**

13 Q. That's a good, point, but -- but your remedy
14 is to get out of the unit power agreement, which is
15 something you -- you obviously would not want to do,
16 but the settlement did anticipate and envision a
17 path where the 6.2 million would go away, you could
18 get out of the unit power agreement.

19 Now, that's problematic, no question, maybe
20 even unrealistic, but the settlement agreement
21 envisioned what would happen. That's what the words
22 say.

23 **A. Is that your question? Yeah. That's what**
24 **the words say. I don't --**

25 Q. Isn't that what the words say?

1 **A. That is -- the words say what they say. I**
2 **agree with that. Yes.**

3 Q. Okay. Okay. Let me ask you about rebuttal
4 testimony and -- and the transmission costs.

5 I know you remember this but obviously
6 transmission was the big issue. The company wants
7 -- thank you.

8 The company wants 100 percent of the
9 incremental OATT and LSE transmission costs
10 recovered in the PPA. Right now you're getting 80
11 percent, per the settlement of the last case, the
12 provision you got for the PPA, correct?

13 **A. Yes.**

14 Q. Okay. And the AIG KIUC says no, it should be
15 100 percent base rates?

16 **A. That's your position, yes.**

17 Q. Okay. In your rebuttal you say that if it's
18 going to be 100 percent base rates, our base rate
19 increase should be \$14 million higher?

20 **A. Yes, that's correct, based on the rates that**
21 **are on file for January 2021 that were on file I**
22 **think November 1st.**

23 Q. So that would be another 2.6 percent base
24 rate increase?

25 **A. Yeah.**

1 Q. 5.33 --

2 **A. \$5.34 million is a 13 percent increase.**

3 Q. So okay. So that would take the total base
4 rate increase to 15.8 percent?

5 **A. Yeah. All things being equal, the increase**
6 **percent goes up.**

7 Q. Okay. Now, you noticed the 13 percent, but
8 you're asking for 15 under these circumstances. I
9 don't know if that's legal, but let's -- let me just
10 say this: Does the \$14 million represent the rate
11 increase consumers would receive through the PPA if
12 100 percent of the incremental transmission expense
13 went through the PPA?

14 **A. Yeah. That's right. But it's done in**
15 **different ways. You're either going to see it in**
16 **base rates in these chunks or you're going to see it**
17 **over time through the deferral accounting and**
18 **incremental annual true-ups to the PPA.**

19 **And that's one of those things that have kept**
20 **rates, you know, flat or moving up and down over the**
21 **last three years since our last rate case. You've**
22 **got to recover that expense, either in, you know,**
23 **lump sums and base rate increases or you recover**
24 **that expense incrementally as it occurs, you know,**
25 **over time.**

1 Q. As you know from prior discussions we're not
2 all that thrilled with paying with incremental
3 increases in Michigan and Indiana on a real-time
4 basis through the PPA.

5 But if the rate -- if the transmission
6 increase to the PPA would be \$14 million in 2021, it
7 probably would be a similar if not greater amount in
8 2022?

9 **A. I don't have that number, but, you know,**
10 **that's -- the reason I have that number is because**
11 **we do -- the company does the formula rate filing**
12 **update by the end of October each year for the**
13 **following -- coming year, but yes.**

14 Q. So where we agree that there's a \$10.1
15 billion five-year CapEx budget for PJM transmission
16 and Kentucky Power gets 5.6, 5.7 percent of the
17 total.

18 So we know what rate increases in
19 transmission would automatically -- automatically
20 flow through the PPA \$14 million in '21, we don't
21 know how much in '22. It would be a lot, wouldn't it?

22 **A. I don't know the exact magnitude, right,**
23 **because those are capital dollars, not revenue**
24 **requirement dollars. You know, there's full costs**
25 **of service there, O&M and taxes and other things,**

1 but, you know, while that tax is going up in real
2 time, you may have reductions in fuel costs going
3 down.

4 As we mentioned, fuel or PPO have been fairly
5 low. You know, those kinds of reductions have been
6 flowing back in real time to customers at the same
7 time that we've been tracking 80 percent of the
8 incremental load costs. Yes.

9 Q. Fuel goes up and down, thanks goodness for
10 small favors.

11 The incremental reduction rider, are we going
12 to see a reduction in that income any time soon?

13 A. Yeah, based on Mr. Kerns's discussion the
14 other day, you know, once -- once the
15 decommissioning is done, right, so as we do the
16 actual decommissioning work per the settlement
17 agreement and establish the decommissioning rider,
18 the balance goes up as you do the actual work.

19 And then it gets re-levelized over the
20 remaining recovery period. So once the
21 decommissioning work is done, I think Mr. Kerns was
22 -- discussed that some, you will then start to see a
23 decrease in that over time in that as it's -- as the
24 balance is re-levelized and reduced over time.

25 Q. Okay. Is the decommissioning rider done on

1 an annual basis or is it changed --

2 **A. Yes.**

3 Q. -- monthly? Annual?

4 **A. Annual rate change. Yes. Once a year.**

5 Q. Do you know when it changes?

6 **A. I believe we file it in August, and it's**
7 **effective October.**

8 Q. Okay. So we're going to have to wait another
9 year to see any reduction?

10 **A. A reduction from what?**

11 Q. The \$21 million in the test year.

12 **A. I guess if decommissioning work is done and**
13 **the balance decreases, yeah, you'll see a change in**
14 **the rate next year, when we do the annual update.**

15 Q. Okay. Now I want to end with the fixed cost
16 savings of \$57.4 million of savings, the gross --
17 that's the 390 megawatts of Rockport fixed cost
18 savings will go away. Maybe 140 megawatts or a
19 lesser amount has to be replaced. The market -- the
20 gross amount is \$57.4 million of savings.

21 Part of it will go through the environmental
22 surcharge automatically, correct?

23 **A. That's correct. You're going to have -- we**
24 **have some embedded amount in the monthly**
25 **environmental surcharge base amounts, so when those**

1 **costs goes away, the difference flows through the --**
2 **the environmental surcharge.**

3 Q. Okay. The remainder, per the settlement
4 agreement in the last rate case, will go to Kentucky
5 Power to make sure that your -- you earn your
6 authorized return on equity in 2023, correct?

7 **A. Yes. In 2023, the company can use up to the**
8 **amount in base rates to earn its authorized ROE, and**
9 **the amount above that goes -- goes back through**
10 **customers through the PPA, and then the entirety of**
11 **the amount would -- of the fixed cost savings amount**
12 **in 2024 would go through the PPA.**

13 Q. And obviously at this point nobody knows how
14 much of the 57.4 -- we probably know how much is the
15 environmental surcharge, but of the
16 non-environmental surcharge \$57.4 million fixed cost
17 savings, nobody knows how much is going to be needed
18 by Kentucky Power to your authorized ROE and how
19 much will be left over for consumers?

20 **A. No idea. You're correct.**

21 Q. Mr. Vaughan, thank you very much.

22 MR. KURTZ: Mr. Chairman, no further
23 questions.

24 COMMISSIONER SCHMITT: Ms. Grundmann,
25 cross-examination?

1 MS. GRUNDMANN: Just briefly.

2 CROSS-EXAMINATION

3 By Ms. Grundmann:

4 Q. Good evening, Mr. Vaughan. How are you?

5 **A. It's evening. I guess good evening. Yes.**

6 Q. It's 4:45 so I guess afternoon still counts.

7 I have just a couple of really brief
8 questions.

9 You were involved in the APCO Virginia
10 triennial rate case, were you not?

11 **A. I certainly was.**

12 Q. Am I correct that in that case, APCO sought
13 to recover the costs from its 2017, 2018, and 2019
14 in its base rates?

15 **A. It did, yes.**

16 Q. Isn't it true that in Virginia there is
17 actually a statutory provision, the Grid
18 Transformation Security Act, that would have
19 authorized APCO to have sought to recover AMI
20 through a rider provision?

21 **A. Yeah. That's right. There's a lot of**
22 **statutory regulations and requirements from that,**
23 **and we like to learn from others, and Dominion**
24 **unsuccessfully filed twice through that mechanism,**
25 **and the company across the state line of Virginia**

1 was facing similar issues where meters were obsolete
2 and were failing. They had to do the replacement,
3 and they took that impact in base rates, yes.

4 Q. And so they're seeking in there to recover
5 through base rates as opposed to the proposal here
6 which is to recover it through a rider mechanism?

7 A. Yeah. And the big distinction there was APCO
8 Virginia was in a much different position than
9 Kentucky Power. It was in a position where it had
10 sufficient base rate earnings to be able to absorb
11 that investment and still earn around its authorized
12 return, whereas Kentucky Power -- again, let's just
13 say we don't need a CPCN because you didn't need one
14 in Virginia, but let's say you don't need one here
15 in Kentucky, Kentucky Power's not in a position
16 where it could just start deploying those meters and
17 absorb that capital and, you know, O&M expense to do
18 that.

19 Q. Well, so, Mr. Vaughan, I think in your direct
20 testimony, and I will give you the reference if I
21 can find it, it is page 4, you offer sort of a
22 discussion of when it's appropriate to recover costs
23 through a rider versus costs through base rates.

24 And so I guess I'm just trying to understand
25 that the way I understood your direct testimony is

1 that the -- the delineation has to do with whether
2 or not these costs are anticipated, whether they
3 have a tendency to really change from year to year.

4 But what I guess I am hearing you say now is
5 that -- how you're proposing to recover it is really
6 about the company's earnings?

7 **A. I'm distinguishing between why APCO Virginia**
8 **was able to do what they did in Virginia, again,**
9 **absent the different CPCN requirements because it's**
10 **a different state, you know, it was able to go just**
11 **replace its obsolete meters and absorb that impact**
12 **in its base rates.**

13 The company has other affiliates who are also
14 requesting riders for AMI deployments, you know, and
15 the circumstances are different here in Kentucky.
16 We do not have -- again, we needed a CPCN, so those
17 requirements are different.

18 But, you know, it's -- what the company is
19 proposing here is a flexible way to be able to do
20 this four-year deployment in Mr. Blankenship's
21 reports through the grid modernization rider, and
22 just to be clear, the proposal here isn't to always
23 collect it through the rider.

24 It would just be that incremental cost between
25 the base rate cases. So let's say we go two years

1 and then we have a base rate case. We would roll
2 that GMR amount into base rates. We're not asking
3 to be treated special always. We're looking for the
4 flexibility to help -- again all things being
5 considered, keeping Kentucky Power financially
6 healthy and give it the opportunity to make the
7 needed distribution grid investments that it needs
8 to make.

9 Q. So I want to come back to the statement that
10 you just made there about rolling it into base
11 rates, but I want to go back.

12 I think you indicated that in Virginia you
13 learned from the examples that were set by
14 Dominion's double attempts to get AMI approved
15 through the Grid Transformation Security Act
16 processes, and as you correctly noted, the Virginia
17 Commission denied them that.

18 And isn't it true that, to the extent that
19 you know, that in Virginia you have to go through
20 and prove sort of a cost-benefit analysis that the
21 deployment of AMI satisfies the statutory tests
22 through the cost-benefit analysis?

23 MS. BLEND: Your Honor, I would just object
24 at this point. We're talking about Mr. Vaughan's
25 interpretation of legal requirements in Virginia.

1 That's at least objectionable in terms of the
2 request for a legal opinion testimony, and I'll also
3 object on relevance grounds at this point.

4 MS. GRUNDMANN: Absolutely, your Honor. I
5 think the relevance is, is this Commission is being
6 asked to consider whether or not to provide the
7 company with cost recovery for AMI meters. I think
8 that the recent experience through the 2020
9 triennial rate case of APCO Virginia and its
10 decision to recover the cost of meters through base
11 rates -- I think all of that is just relevant to the
12 Commission's consideration of the proper way to
13 treat AMI deployment here in Kentucky.

14 COMMISSIONER SCHMITT: All right. Objection
15 overruled.

16 MS. BLEND: Thank you, your Honor.

17 BY MS. GRUNDMANN:

18 Q. Mr. Vaughan, do you know whether or not
19 Virginia required a cost-benefit analysis as part of
20 its decision when analyzing grid transformation
21 updates such as AMI?

22 **A. I think there's a distinction to be made**
23 **there. I believe there are additional hurdles such**
24 **as a cost-benefit analysis as well as other things**
25 **to get a grid modernization in Virginia to file**

1 under that recovery mechanism to get the resulting
2 RAC.

3 I think it's also grid modernization in
4 Virginia.

5 Q. It is.

6 A. Again, you have to go through those
7 collective -- the steps that are in the regulation,
8 and then you have to go through and file and get a
9 separate rate adjustment clause, RAC.
10 And the company -- the company I know considered
11 that, but again, because of the obsolescence and its
12 need to replace those meters, it chose a different
13 route because it was in a different financial place
14 than Kentucky Power.

15 Q. Understood.

16 A. That's my understanding of why APCO Virginia
17 acted in that matter.

18 Q. Understood. And I think that a moment ago
19 what you said is that the way this would sort of
20 work is that to the extent you filed a base rate
21 case in two years, AMI costs would be rolled into
22 base rates?

23 A. For, you know, whatever work -- let's say
24 it's still a four-year -- we're doing this four-year
25 deployment that we've done two years, and then we

1 **come in for a base rate case, our proposal is to**
2 **take those amounts that are being collected through**
3 **the GMR at that time, include them in base rates.**
4 **So you have a new base rate point for the new AMI**
5 **rollout and then continue to collect incremental AMI**
6 **costs at that time.**

7 Q. Understood. I guess it's really more of the
8 notion that if they came in in two years.

9 I think that the testimony from the company
10 in this case is really the hope that offering you
11 proposed with the grid modernization rider is that
12 it would really allow for longer periods of time
13 between base rate cases.

14 And you and I both understand it's been three
15 years since the last rate case. I understand the
16 company's statements as to the reasons for coming in
17 here in 2020, but it doesn't sound like there would
18 be much of an avoidance of a rate case if we're
19 talking about the company coming back in two years.

20 **A. That was just a hypothetical. I would like**
21 **to stay out of these myself, as much as possible.**

22 Q. Well, you've got a lot of time here, so
23 whether you want to stay out or not, you've got
24 celebrity status here in Kentucky.

25 **A. Mom always said I would be popular one day, I**

1 **just didn't think it would be here.**

2 Q. I understand.

3 **A. But yeah, that's -- so obviously all of the**
4 **company's proposals in this case are trying to,**
5 **again, strike that balance of mitigating rate**
6 **increases, at the same time getting the company's**
7 **financial health in the right place, and the grid**
8 **modernization rider is one of those proposals.**

9 Q. That's all the questions I have, Mr. Vaughan.
10 Thank you.

11 **A. Thank you.**

12 COMMISSIONER SCHMITT: Mr. Spenard,
13 cross-examination?

14 MR. SPENARD: Yes, Mr. Chairman, we do.

15 CROSS-EXAMINATION

16 By Mr. Spenard:

17 Q. Good afternoon, Mr. Vaughan. Can you hear
18 me?

19 **A. I can.**

20 Q. And if there's any difficulty hearing me or
21 you don't understand a question, just let me no
22 know. Okay?

23 **A. Certainly.**

24 Q. Okay. What I would like to do is -- is --
25 it's very -- a lot of moving parts to this

1 application. One of those moving parts is the
2 excess unprotected ADIT.

3 But for a moment, let's put the year-one
4 offset to the side for just a moment and talk about
5 the company's proposed rate increase.

6 With regard to the effective date of the new
7 rates, they're going to be January 14th, 2021; is
8 that correct?

9 **A. That's my understanding.**

10 Q. Okay. Now, a lot of different rate
11 schedules, but if we take a look at and focus just
12 on -- we'll focus just on the tariff RS for
13 residential service, there is a proposal -- the
14 company proposes to increase the service charge from
15 \$14 a month to \$17.50 a month; is that correct?

16 **A. That's correct.**

17 Q. Okay. And with regard to the energy charge,
18 March through November, there's going to be an
19 increase from \$9 -- \$9.81 per kilowatt hour to
20 \$12.265 per kilowatt hours. Is that correct?

21 **A. That sounds roughly correct, yeah.**

22 Q. Okay. Now, there are a lot of different
23 elements that go into the bill that -- the total
24 balance due for the bill that the customer receives.
25 And I'm not going to go through the entire list of

1 elements, but school TAPs, environmental adjustment,
2 fuel adjustment. A lot of different things go into
3 that bill, correct?

4 **A. Yeah. There's -- there's various surcharges**
5 **and whatnot, credits to the FTC that -- it's all**
6 **laid out in my direct testimony. Totally agree.**

7 Q. Sure. Sure. And on a very basic level, the
8 customer or -- the rate billing for that customer
9 for residential service, there's going to be the --
10 the monthly charges, and then that's the -- the
11 service charge they get unrelated to usage, and then
12 there's the energy usage charge. Actually, there
13 are -- there are two parts to that notion of the
14 rate billing; is that correct?

15 **A. There's actually three. Unfortunately, we**
16 **have fixed charge, we have the energy charges, and**
17 **then we have the percentage of revenue rider, such**
18 **the decommissioning rider and the environmental**
19 **surcharge.**

20 Q. Okay. Well, I was looking at -- I was
21 looking at one of your bills, and I -- and it takes
22 me a second to get on the same page, but the -- but
23 the basic notion is that you -- your effective
24 rates, January 14th, 2021, you're going to see
25 increases in the service charge, as well as the

1 energy charge?

2 **A. So here's the -- I think I know where you're**
3 **going, and maybe I can just short-circuit a lot of**
4 **this.**

5 So it depends how the year-one offset is
6 implemented. What happens kind of in the scenario
7 where the company filed, you know, where you look at
8 -- I have too many papers here. If you look at
9 section -- section 5, the summary page that gets
10 down to that \$65 million number, let's just assume
11 that's the scenario, right. Base rates go up \$70
12 million. Base rate charges go down 6.2. GRM is 1.1
13 million. We have a \$65 million net amount right
14 here.

15 The easiest way to implement that year-one
16 offset would be to leave rates unchanged for the
17 first year, so customer bills do not change, and
18 then the company would amortize 1/12th of the
19 associated excess ADFIT to income throughout the --
20 throughout the year.

21 So there's no rate-billing change, and the
22 company would receive the noncash earnings
23 associated with that rate increase. So that's the
24 simple version.

25 The more complicated version is if we start

1 incorporating other parties' proposals, such as
2 let's say AG KIUC's proposal to reduce the
3 environmental surcharge some amount based on the
4 length of recovery for the unit 2 FCO Rockport.

5 So you can no longer amortize just the net
6 rate increase because you would -- you also end up
7 with an overall net reduction in the company's
8 rates, so it would kind of be a double whammy on
9 cash from a metrics standpoint.

10 So what we would want to do at that scenario
11 is actually put the new base rate increase into
12 rates, and I think this is where you're going, and
13 you would want to offset that through the federal
14 tax credit rider, the net amount, so that we get to
15 that zero increase that we were looking to do in the
16 mitigation proposal, and I get your concern that the
17 FTC is a kilowatt hour base rider, and you'd have
18 some customers who obviously would not offset their
19 bill in total.

20 The way to fix that would be to -- you know,
21 however the rate components change, you then
22 allocate that offset by class in a similar manner
23 through the FTC so that you get a more -- more exact
24 bill. Actual results may vary a little bit, but you
25 would get a more neutral impact on customers,

1 **depending on how it's implemented.**

2 Q. Well -- and the record will speak for itself.

3 I believe in response to an earlier
4 cross-examination question, you said something to
5 the effect of rate components may not change for
6 billing purposes in describing the -- describing
7 the -- the first year -- the year-one application of
8 the excess unprotected accumulated deferred impact
9 tax, is that --

10 **A. That's right.**

11 Q. -- what you --

12 **A. Yeah.**

13 Q. Okay.

14 **A. If we can -- you know, let's -- perfect**
15 **world, everything's approved as we filed it and**
16 **we're offsetting that \$65 million net increase, you**
17 **know, again, we could leave rate -- the base rate**
18 **components the same until January 14th of 2022 and**
19 **instead just amortize that excess unprotected income**
20 **over that period of time so that customers get no**
21 **increase and the company gets its nonfinancial**
22 **earnings to bring its health up.**

23 Q. Okay. And I apologize for just -- confirm --
24 bear with me for just a second.

25 Under that scenario, you would leave -- you

1 literally would leave the customer charge at \$14 a
2 month for that year?

3 **A. Yes. Until you change overall rates in year**
4 **two.**

5 Q. Okay. All right. With regard to the
6 effective date of the proposed -- company's proposed
7 -- and I'm just going to use the -- the reference
8 NMS2 tariff, that's the effective date -- pardon?

9 **A. I said please do. Let's not spell it out**
10 **every time. Yeah.**

11 Q. Sure. The effective date is going to be
12 January 14th, 2021; is that correct?

13 **A. That's right. And so the underlying rates**
14 **for -- for a customer generator are whatever their**
15 **standard rate class would be. So however the rate**
16 **increase is implemented, that part is going to**
17 **affect everybody, whether you're a customer**
18 **generator or not.**

19 **The avoided cost rates, though, would change**
20 **on January 14th as -- you know, that's not a rate**
21 **billing, that's a different tariff mechanism there.**
22 **It doesn't have anything to do with the increase.**

23 **So still, new customer generators as of**
24 **January 14th would be subject to the avoided cost**
25 **rates under NMS2 and noted -- not the one-for-one**

1 **netting under NMS, and no, there's no offset to that**
2 **in the company's proposal.**

3 Q. Okay. So just to -- just to confirm and then
4 move on: The proposal associated with the use of
5 the -- of the ADIT, just to short-cut that, it is
6 not designed to have an impact to -- on the new
7 excess generation compensation rate; is that
8 correct?

9 **A. That's correct because those customers, by**
10 **definition, couldn't have been in service prior to**
11 **the rate change. So they're not losing or gaining**
12 **anything.**

13 Q. With regard to the effective date of the new
14 NMS2 tariff, how will the company determine on --
15 how will the company determine who is and who is not
16 falling under the new tariff, the NMS2?

17 Is it -- is it applications ending on January
18 1st? Is it facilities in operation on January 13th?
19 How are you -- how are you going to determine who is
20 grandfathered under the NMS1 tariff and who is going
21 to be falling under the NMS2?

22 **A. I think I addressed this in discovery. It's**
23 **not the company's choice. The law actually says the**
24 **customer generators -- I can't remember the exact**
25 **wording, but it's those that are operational --**

1 again, if it's going in tariff changes on January
2 14th, those customer generators that are operating
3 their systems -- you know, are operational by
4 January 13th, they are grandfathered under the law,
5 as I understand it as a nonlawyer, and anyone who
6 begins commercial -- or begins operation of their
7 customer generating system on January 14th or after
8 are tariff NMS2.

9 Q. And I'm not -- I'm not being flip about this.
10 It's that -- I'm not clear is that when we use this
11 term operational in terms of the company
12 establishing a bright-line test or a metric, will
13 the company -- does the company issue a customer
14 certificate? Does the customer make some notation
15 on the -- how does the customer know -- the customer
16 and the company together know that the system is
17 operational?

18 A. Well, the customer would need to have an
19 approved application and they would have to provide
20 the company with notice that their system is
21 producing power, you know, as of that date. You
22 know, I don't -- don't think there's going to be a
23 lot of -- a lot of cases. You know, we're talking
24 one day.

25 So I'm pretty sure that our distributive

1 **generation group can -- can dig into that if there's**
2 **any issues there.**

3 Q. Okay. Well, I -- and the way things work,
4 that's -- I understand what you're saying, but I --
5 let's move on.

6 Is it correct, in general terms, that cost of
7 service study contains information that's frequently
8 used as the foundation for designing rates?

9 **A. So cost of service is kind of generic, right?**
10 **In this case we have a jurisdictional cost of**
11 **service that we used to determine the overall Bevin**
12 **requirement, and you have a class cost of service**
13 **that, you know, functionalizes and categorizes costs**
14 **and provides guidance as to what the assignment of**
15 **those costs are to -- those costs in the proposed**
16 **revenues are to the various customer classes at a**
17 **higher level.**

18 **And yes, we -- we use all of those things when**
19 **we are designing rates, but they are informative.**
20 **They're not absolute.**

21 Q. Well, in -- in response or in some of your
22 prior testimony today, you were talking about costs
23 of service and -- and you -- you're the one who did
24 the testimony, but my notes said that, that it
25 contains financial -- information of an accounting

1 and financial nature that helps you develop the --
2 the proper amount to request.

3 Do you remember saying something along those
4 lines in terms of describing cost of service?

5 **A. Yeah, I did. In that instance, I am**
6 **referring to section 5, schedules 1 through 5, what**
7 **produces the requested rate increase in this rate**
8 **case, you know, and schedule 4 and adjusted 5 --**
9 **schedule 5 are a great example of that.**

10 You have a listing of FERC accounts, and how
11 those FERC accounts have cost revenues and assets
12 and liabilities are allocated to Kentucky retail and
13 how they affect the company's overall cost of
14 service, the bottom-line rate increase in the retail
15 jurisdiction.

16 Q. But in terms of the company's application
17 section 5, Exhibit 1 -- and that's the
18 jurisdictional cost of service -- it seemed as
19 though you're also distinguishing that a bit from
20 the notion of a class cost of service?

21 **A. Yeah. Absolutely. Class cost of service has**
22 **a bunch more -- you know, we step past the -- the**
23 **financial and accounting just having -- having those**
24 **-- large adjustment by that data, we get into a lot**
25 **of, again, total class level detail.**

1 We start -- just think of it as taking the
2 jurisdictional cost service and slicing it thinner
3 down to the classes and using that to attempt to
4 assign cost responsibility and how we spread the
5 revenue increase.

6 And then based on some of the information that
7 comes out of that, we use that as an informative way
8 of designing rates. It's not an absolute. If there
9 was an absolute, it would be a \$20, \$25 energy -- or
10 sorry. Kilowatt-hours here.

11 You know, you would have a 2 cent energy rate
12 in the residential class, and everything else would
13 be a demand and a customer base. That obviously
14 isn't the case. It's the case in tariff IGS. So
15 again, you know, it's informative.

16 Q. Well, isn't it correct that for a utility
17 such as Kentucky Power Company, not all customers
18 have the same characteristics?

19 A. That's exactly true for every utility. There
20 is -- there is no two customers that are exactly the
21 same all the time, and that's why rates are
22 averages. And you -- you generally put customers in
23 homogeneous groups when designing rates.

24 You know, look at general service, there's a
25 great deal of different customers in that, same as

1 the residential class. You know, you have -- you
2 have customers at various sizes of homes living in
3 different areas, some with electric heat, some with
4 gas heat, some with propane, some with different
5 lighting investments, some that are customer
6 generators.

7 Q. Well, I think you just answered three of my
8 next questions, and we'll move to something that --
9 that you may have partially answered, a fourth
10 question.

11 So you -- it is your testimony that customers
12 with distributed generation have different
13 characteristics than customers without distributed
14 generation?

15 A. Absolutely not. They're residential
16 customers. Their usage patterns are -- on average,
17 they are the same as every other residential
18 customer. They have just made the decision to place
19 generation behind their meters.

20 So that changes -- again, loads are the same
21 on average, those characteristics are; however, now
22 there's a net difference in terms of times of the
23 day when the customer's generator is running.

24 Q. But -- and I don't want to belabor the point
25 too much.

1 You're saying that they're the same except
2 for -- they're the same except for the extent that
3 they're different?

4 **A. Yeah, I'm not going to agree with you there.**
5 **Their load in general is the same. It's no**
6 **different than a customer that has a storage water**
7 **heater. You know, they charge up something -- or**
8 **any other time-of-use device.**

9 You know, maybe someone has their pool heater
10 running on a timer to change their load. Again,
11 rates are averages, and their load is the same.
12 **Right?**

13 **They have just chosen to interject generation**
14 **into their net billing, you know, because of**
15 **whatever their -- their reason for doing so is.**

16 **Q. In terms of rate design, in general terms**
17 **again, is it correct that rates are designed to**
18 **assign each customer class the portion of the**
19 **company's revenue requirement to be collected from**
20 **that customer class?**

21 **A. That's kind of done before rate design,**
22 **right? One, the general steps are you determine the**
23 **overall revenue requirement for the jurisdiction.**
24 **You then come up with some kind of revenue spread or**
25 **cost assignment.**

1 **That's generally informed by the class cost of**
2 **service. There's all kinds of detail there and how**
3 **you spread the revenue, how you eliminate subsidies**
4 **between classes, and then you -- then you design**
5 **rates.**

6 **So rate design is more described as how you**
7 **collect the class requirement from within that**
8 **class.**

9 Q. Okay. And the record will speak for itself
10 in terms of what that question was, but it's that
11 the rates are designed again as -- I think as you're
12 saying, that the rates are designed to collect from
13 each class a portion of the company's revenue
14 requirement?

15 **A. That's right.**

16 Q. Okay. So -- and you've touched upon this.
17 There can be a difference between the portion of the
18 company's revenue requirement assigned to the
19 customer class through rate design as compared to
20 the results of a cost of service study with regard
21 to that particular class.

22 **A. Again, your question's a little off. We're**
23 **not assigning class revenue requirements in rate**
24 **design. We've already done that when we get to rate**
25 **design. We're then deciding how to designate from**

1 **the class.**

2 **You've already determined what the class**
3 **should pay. You're then determining rate design to**
4 **collect that amount. You've already determined that**
5 **amount.**

6 Q. I think I understand that -- we're saying
7 something in a different way, but I think I
8 understand where you're coming from on that.

9 So in terms of your definition, a subsidy
10 occurs when the revenue requirement for a customer
11 class that's going to be collected through the rates
12 is less than the revenue requirement for that
13 customer class if the rates were based solely on the
14 results of a cost of service study?

15 A. Yeah. So we -- in the class cost of service
16 study, we determine what each class is earning, and
17 then we look at what they would be earning if we
18 equalized all the returns so. And the difference
19 there is -- is considered an interclass study.
20 Right?

21 So you have one class of customers paying more
22 than they would in an equalized rate of return in
23 lieu of another class paying that. So yeah, that's
24 a subsidy. Correct.

25 And an intraclass subsidy happens when,

1 **because of the rate design or other characteristics**
2 **in that class, you have -- you have customers paying**
3 **more within that class or less than their fair**
4 **share, so inter and intra. Yes.**

5 Q. So in your opinion, who benefits from a
6 subsidy?

7 **A. The party receiving it financially benefits.**

8 Q. So other parties -- do parties other than the
9 party receiving the financial benefit, do they gain
10 any benefits from a subsidy?

11 **A. Do you have a specific example?**

12 Q. Just in general.

13 **A. I'm not going to weigh in on that, no.**

14 Q. Okay. Kentucky Power has proposed a specific
15 rate design -- proposed specific rates to address an
16 alleged subsidy. But do you have a distributive
17 generation cost of service study that identifies
18 that subsidy?

19 **A. Two parts to your question there, and I**
20 **reject the premise of it.**

21 **We're not just designing the cost of service**
22 **rate for avoidance of a subsidy. It does help**
23 **reduce a subsidy, but we're -- we are proposing an**
24 **NMS2 and the avoided cost rate to comply with the**
25 **new law in Kentucky for how net metering works.**

1 Volumetric one to one net metering is no
2 longer under the law as I understand it how net
3 metering works. It states it is a financial netting
4 of the dollar value of the customer generator's
5 generation and the dollar value -- or the dollar
6 charges for that customer's load, the cost to serve
7 that. So that's the answer to the first part.

8 And can you repeat the second part of your
9 question?

10 Q. Did you have a distributed generation cost of
11 service study that's used as support for identifying
12 any alleged subsidy?

13 A. Yeah. Absolutely we do. We provided all
14 kinds of data on what that distributed generation is
15 worth from a -- a load reduction standpoint. That
16 is the cost of service. If you reduce one
17 kilowatt-hour of load, what is it worth?

18 And you -- you know, that's included in my
19 direct testimony, I think it's Exhibit 3, you know,
20 where we come up with those -- those net -- the
21 compensation rates, rate for energy, avoid capacity,
22 and -- you know, energy adjusted for distribution
23 losses and transmission losses, generation capacity
24 value, and then avoided fixed transmission cost.

25 And that is then modified by the updates I

1 **make in my rebuttal testimony, I think that's**
2 **Rebuttal Exhibit R5 and R6, but that is exactly what**
3 **that cost of that distributed generation is. It's**
4 **cost of service.**

5 Q. Okay. Well, with regard to part A of that
6 question, I'm going to ask you to interpret a
7 Kentucky statute.

8 In terms of a hypothetical question, for a
9 group of customers paying an effective rate of 10
10 cents per kilowatt-hour, if the cost of service
11 study showed that the cost to serve that customer
12 showed that it was 8 cents to serve that customer
13 per kilowatt-hour, under your definition, does that
14 create a subsidy?

15 **A. So, again, hypothetically, if a customer is**
16 **not paying its cost of service or it's being paid**
17 **for for something that's more value than what it's**
18 **worth. Yeah, generally, I'll agree that that's a**
19 **subsidy, and -- yeah. I'll just leave it at that.**

20 Q. Okay. And again, a very basic question:
21 There can be a difference -- and frequently is --
22 there can be a difference between average usage and
23 peak usage; is that correct?

24 **A. Yeah. There is. And, again, that has been**
25 **incorporated in everything we've done in this**

1 proposal and your residential rates, as well as your
2 other rates, they are -- they are based on averages
3 and billing units and test-year data to come up with
4 that.

5 And to the extent that there's, you know, peak
6 measures versus average measures in NMS2, we've
7 compensated for that through the evaluation of the
8 avoided-cost rate.

9 Q. Okay. With regard to the peak periods, is it
10 fair to characterize the peak period as the period
11 that corresponds with the highest usage on the
12 customer's system -- excuse me, the highest usage on
13 the company's system?

14 A. No. It's not. There's a lot of different
15 peak measures.

16 For example, the company has to -- has to
17 provide for a generation -- a generation capacity
18 obligation based on PJM's peak, you know, so it's
19 our -- our peak, the company's peak at the time of
20 that, you know, we've had a lot of 1CP, 12CP talk
21 here this week with transmission peak requirements.

22 And then you get down to the distribution
23 system, and then -- then you're looking at like a
24 class non-coincident peak. Again, at that point in
25 time, for the company, at least, in the residential

1 class, a lot of months that is early in the morning
2 as it is dark and cold, because we are an electric
3 heating peaking company.

4 So you can't just say that it is a time from a
5 cost of service standpoint and from a cost of
6 service standpoint when the company's loaded at its
7 highest because it has to be relative to something
8 that causes cost.

9 Q. Well, if we go back to something that you
10 said a little bit earlier in your testimony, you
11 were discussing the -- I believe one of the things
12 you identified was a pool heater. You're talking
13 about time of use.

14 If a customer shifts load away from peak
15 periods, is that one way that -- is that one way to
16 lower peak usage?

17 A. Yeah. Again, like I said, it depends on what
18 peak you're evaluating, if it's a distribution peak
19 or an evaluation peak or a transmission peak, but
20 yeah, that's the whole purpose of providing off-peak
21 tariffs or off-peak plug-ins for our electrical
22 vehicle charging payment tariff there, you know.
23 We're providing a rate schedule there for customers
24 to charge their -- their car off peak and those
25 hours in that tariff to avoid additional fixed costs

1 **on the, you know, cost-costing peaks.**

2 Q. When you see someone -- and again, we'll go
3 back to your example.

4 If you see someone who -- whether it's the
5 charging -- the electronic charging of a vehicle or
6 the heating of a pool, all other things equal, does
7 that shift in usage lower the cost to serve that
8 customer class if they're moving it away from peak
9 usage?

10 **A. No. Not necessarily. Again, it has -- it**
11 **depends on if it's the cost-causing peaks. Right?**
12 **You have peaks for cost allocation, and you have**
13 **cost-causing peaks.**

14 If you reduce a cost-causing peak, it saves
15 the company's cost of service money, it's all -- all
16 customers' money, and that -- that is what we have
17 valued in the NMS2 of weighted cost rate.

18 And then when you get to class cost of service
19 peaks, you do not avoid costs at that point. You
20 simply shift costs. And I've addressed that at
21 great length in the rebuttal testimony, and the
22 Commission addressed that in the recent LG&E and KU
23 special contract solar case, and I make reference to
24 that too.

25 So it's a big distinction. You can't just

1 **generalize there because there are certain peaks**
2 **that when you shift them, dollars do not go away.**
3 **They stay there. They just get pushed between**
4 **classes.**

5 MS. BLEND: Mr. Spenard, I don't mean to
6 interrupt your cross-examination. I apologize.
7 Your Honor, I just do want to note we have been
8 going for about two hours since our last break, and
9 it sounds like Mr. Vaughan needs to get some more
10 water.

11 I was just going to inquire of Mr. Spenard
12 about how much more cross-examination he thinks he
13 has and suggest that perhaps we could do the break
14 after his cross is concluded, unless he has, you
15 know, a significant amount more. And I'm not trying
16 to rush you, Mr. Spenard.

17 COMMISSIONER SCHMITT: Here's what I was
18 going to do, was to recess until Monday when -- when
19 Mr. Spenard completed his cross.

20 But if he has another 30 minutes or so of
21 cross-examination, we might as well just recess now
22 and come back because I expect that there will be
23 several more hours of cross-examination of
24 Mr. Vaughan before we're finished.

25 So, Mr. Spenard, how close are you to

1 completion?

2 MR. SPENARD: Mr. Chairman, I probably am not
3 halfway through, unfortunately, and that's --

4 COMMISSIONER SCHMITT: Well, that's -- that's
5 fine. I mean, everybody ought to take as much time
6 as you need, complete your cross-examinations and
7 all of that. But there's -- I mean, there's no
8 point in going any further at this point.

9 So let's just -- let's just recess at this
10 time, and then we'll come back into session at 9:00
11 a.m. on Monday morning and keep plowing along until
12 we're -- until we're finished. Okay?

13 So, Mr. Vaughan, you get rested up over the
14 weekend. I suspect that --

15 THE WITNESS: Okay. Thank you.

16 COMMISSIONER SCHMITT: -- your celebrity
17 status here has probably put you in the crosshairs
18 of all of these lawyers. All right. We'll be in
19 recess until 9:00 a.m. Monday morning. Thank you.

20 (PROCEEDINGS ADJOURNED AT 5:24 P.M.)

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1 STATE OF KENTUCKY)
)
 2) SS.
)
 3 COUNTY OF JEFFERSON)

4
 5 We, Laura J. Kogut and Dannielle Copeland,
 6 Notaries Public within and for the State at Large,
 7 with commissions expiring 25 July 2023 and 28
 8 September 2023 respectively, do hereby certify that
 9 the foregoing hearing was taken before us at the
 10 time and place and for the purpose in the caption
 11 stated; that witnesses were first duly sworn to tell
 12 the truth, the whole truth, and nothing but the
 13 truth; that the hearing was reduced by us to
 14 shorthand writing; that the foregoing is a full,
 15 true, and correct transcript of the hearing to the
 16 best of our ability; that the appearances were as
 17 stated in the caption.

18 WITNESS our hand this 22nd day of November
 19 2020.

20

21

Laura J. Kogut, RMR, CRR, CRC
 Notary Public, State at Large

22

23

24

Dannielle Copeland, RDR, CRR
 Notary Public, State at Large

25

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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

VOLUME V

Transcript of November 23, 2020, hearing
before Chairman Michael J. Schmitt at the Kentucky
Public Service Commission, 211 Sower Boulevard,
Frankfort, Kentucky 40602-0615, with Vice Chairman
Kent A. Chandler, Commissioner Talina R. Mathews,
counsel, and witnesses attending via GoToMeeting.

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* * *

1 (Hearing commenced at 9:09 a.m.)

2 CHAIRMAN SCHMITT: Good morning. We are now
3 back on the record.

4 And I think when we recessed Friday
5 afternoon, Mr. Spenard, you were in the midst of
6 your cross-examination of Mr. Vaughan; is that
7 correct?

8 MR. SPENARD: Yes, Mr. Chairman. Good
9 morning.

10 CHAIRMAN SCHMITT: Good morning. Do you
11 still have questions of Mr. Vaughan?

12 MR. SPENARD: Yes, Mr. Chairman.

13 CHAIRMAN SCHMITT: All right. Ms. Blend, are
14 you with us, and is Mr. Vaughan ready to retake the
15 witness stand?

16 MS. BLEND: Yes, Your Honor, we're here and
17 we're ready to resume. Thank you.

18 CHAIRMAN SCHMITT: Thank you.

19 Mr. Vaughan, you remain under oath and
20 Mr. Spenard will continue his cross-examination.

21 All right. Mr. Spenard, you may continue.

22 MR. SPENARD: Thank you.

23 * * *

24

25

1 ALEX E. VAUGHAN, having been reminded of his
2 oath, testified as follows:

3 CONTINUED CROSS-EXAMINATION

4 By Mr. Spenard:

5 Q. And welcome back, Mr. Vaughan. In terms of
6 trying to get on the same page again from our
7 discussion on Friday, there can be -- in your
8 opinion, there can be a difference between average
9 usage and peak usage for a residential customer; is
10 that correct?

11 **A. Yeah. Average is just the average amount**
12 **used over some period of time, the peak being the**
13 **most -- the highest amount used in some measure,**
14 **whether it's coincident, noncoincident, generation,**
15 **transmission, or distribution. It would be the**
16 **maximum figure versus an average.**

17 Q. And in terms of aggregating the customers
18 together in a class, using your -- using your
19 discussion, there could be a difference between the
20 average usage for the class and peak usage for the
21 class; is that correct?

22 **A. Could you say that again?**

23 Q. In terms of aggregating the customers within
24 a class, when you aggregate their numbers together,
25 there can be a difference between the average usage

1 for the class and the peak usage for the class?

2 **A. Of the individual customers in the class,**
3 **yes, but the average for the class and peak for the**
4 **class are just that, it's the figures for that**
5 **class, and you don't -- you don't aggregate**
6 **customers based on averages or peaks, generally.**
7 **Some industrial tariffs are load factor**
8 **differentiated, but generally you're taking**
9 **similarly-situated homogeneous customers, like all**
10 **the residential customers or all the small general**
11 **service or all the general service, and you're**
12 **putting those like customers in a class and then**
13 **using that as the basis for your class cost of**
14 **service.**

15 Q. Okay. And again, that was -- that was
16 actually the question. We're talking about average
17 usage for the class and peak usage for the class.

18 Is there a peak associated with generation
19 production, for example?

20 **A. Yes, as I -- as I mentioned, you have**
21 **generation production peaks. You have transmission**
22 **peaks. You have distribution peaks, primary and**
23 **secondary. I think that's most of them. And then**
24 **whether -- well, that's from the Company's**
25 **standpoint. And you also have PJM peaks that we**

1 **deal with. So there's a great, great number of**
2 **peaks that factor into cost causation and cost**
3 **assignment.**

4 Q. Sure. And that's fine. And I think the
5 Commission wants to have a comprehensive record, and
6 some of your answers are really things that need to
7 be focused upon, if they need to be focused upon at
8 all, redirect. And for purposes of
9 cross-examination, let's at least just highlight or
10 try to stay focused on the particular question I'm
11 asking than to anticipate what I might ask, because
12 it might go a little -- it might go a little faster
13 that way.

14 In terms of definition, is it fair to
15 characterize the peak period as the period that --
16 for generation production, is it fair to
17 characterize the peak period as the period that
18 corresponds with the highest iteration production on
19 the Company's system?

20 **A. No.**

21 Q. Okay. And why not?

22 **A. Well, it -- the generation peak is when the**
23 **Company's load is highest based on what is causing**
24 **the -- you know, well, what is the cost causer for**
25 **generation? You know, in our -- in the Company's**

1 **position, it would be the PJM summer 5CPs. It's not**
2 **when the most generation of the Company is running.**
3 **That's irrelevant. It's a matter of what causes**
4 **your generation capacity obligation or expense.**

5 Q. Okay. Well, in that comprehensive view, to
6 the extent that the peak usage associated with that
7 capacity is in excess of average usage associated
8 with that capacity, does that reflect an increase in
9 the cost of service for that customer class?

10 **A. Can you say it again? You're confusing me a**
11 **little bit with your peak and average discussion.**

12 Q. Okay. Well, my understanding of what we've
13 been talking about is that if you take a look at a
14 customer class, if you look at their results for the
15 class, for whatever period of time, you're going to
16 have -- you put them all together and then you can
17 derive an average of what their usage is, their
18 average usage for the period, but then also, when
19 you look at that customer class, you might have a
20 period that the average -- sometimes there are
21 observations below the average, sometimes
22 observations above the average. There's going to be
23 an observation that's above that average that's the
24 peak; is that correct?

25 **A. Yeah. By definition, the peak is higher than**

1 **the average, and the average takes into account all**
2 **hours in whatever period you're measuring.**

3 Q. So when we're talking about the impact of
4 that peak, how -- what -- how that peak of the many
5 things that that peak will do, and it might do a lot
6 of different things, but is one of the things that
7 that peak will do, will it actually reflect an
8 increase in the cost to serve that customer class?

9 **A. So it depends if you're -- if you're talking**
10 **marginally or from an incentive standpoint. It's**
11 **the basis for the overall cost, and it's only going**
12 **to be an increase in cost if the peak contribution**
13 **is large enough to cause the Company to have to**
14 **incur an additional incremental cost, whether that**
15 **be -- we're talking generation, so it might be we'd**
16 **have to go purchase some capacity from a sister**
17 **company or from the market or at an asset.**

18 Then you can look at that from a marginal
19 standpoint, say, look, that that incremental peak
20 caused incremental cost. Otherwise your -- if you
21 are capacity sufficient from a generation standpoint
22 and you are evaluating the peaks, it's generally how
23 you are then spreading those costs, but it's the
24 basis for cost and causation.

25 Q. With regard to when a customer -- when a

1 customer in a class shifts load away from peak
2 periods, is that one way to lower peak usage within
3 that class?

4 **A. Again, we have to go back to the discussion**
5 **we had on Friday. You have cost-causing, which is**
6 **in the overall revenue requirement. You know,**
7 **what -- are we avoiding something or are we adding**
8 **something from a cost standpoint? And then you have**
9 **to go look at cost assignment within the class.**

10 And so when a customer reduces its peak
11 load -- again, we'll just stay with the generation
12 concept. If a customer reduces the 5CPs, there is
13 potentially a reduction in generation capacity cost
14 for the Company, either through, you know, a
15 reduction in cost, or maybe, if the Company is long,
16 it can make an incremental sale of length into the
17 market. So there's some value there. And so that's
18 from an overall revenue-requirement/cost-of-service
19 standpoint.

20 Then once you get into that class, there is
21 no reduction in cost. Once you've established the
22 total basis of cost of service for the Kentucky
23 retail jurisdiction, you're then just shifting costs
24 between customer classes. There's no actual
25 decremental cost in your example.

1 Q. And is that for -- is that for one period or
2 is that for the long term, over the long run of,
3 say, whether you're talking about -- is that going
4 to hold for the next month or does that hold for the
5 next 12 months or does that hold for the next 12
6 years? Are you saying that there's never going to
7 be any shifts within the class over any period of
8 time?

9 **A. So your question mischaracterized my**
10 **statement. There will be shifts within the classes,**
11 **but you're not reducing overall costs. Once you**
12 **have reduced overall costs in the overall revenue**
13 **requirement, the overall cost of service -- we've**
14 **already established that in the ratemaking process.**
15 **Before we even move into the discussion of classes,**
16 **we're determining the total cost of service. And**
17 **what I'm saying is, when you have certain peak**
18 **reductions, you can lower the overall cost of**
19 **service, and that's what we've accounted for in our**
20 **avoided-cost rates in NMS II.**

21 So then after you -- you get past that, you
22 have a total amount of cost of service, which
23 includes the value of those peak reductions. You
24 then go to the class stand -- the class state of
25 rate design and this whole process. And at that

1 point there's no further reduction in cost, there's
2 only shifting.

3 You know, in this case, the base rate revenue
4 requirement was \$70 million, if you look at the
5 Section 5 summary schedules. And so once you have
6 your \$70 million, which includes cost decreases from
7 load reductions, if they were on the peaks, that
8 70 million stays 70 million in the class study, it's
9 just a matter of how it gets shifted between the
10 classes to recover it.

11 Q. Will the cost of service change from year to
12 year and, in turn, from case to case?

13 **A. Absolutely. And that's why we did the study**
14 **we did and proposed the avoided-cost rates that we**
15 **did. We're fully valuing those load reductions in**
16 **that.**

17 Q. With regard to the test year, did Kentucky
18 Power Company use time-of-use meters for customers
19 receiving service under the Net Metering Service I
20 tariff?

21 **A. No, we didn't. And kind of whatever happened**
22 **to the NMS I customers in the test year doesn't**
23 **really play into this, since they are grandfathered**
24 **under the Net Metering Act.**

25 Q. Well, that's fine. With regard to the test

1 period, did Kentucky Power Company support the test
2 period with a demand study or otherwise develop a
3 load study for its customers taking service under
4 the NMS I tariff?

5 **A. Yeah. It's in Mr. Stegall's -- excuse me.**
6 **Yes, it's in Mr. Stegall's work papers. Because**
7 **they are residential customers, they are part of the**
8 **residential class.**

9 And as I discussed in my rebuttal, you do not
10 need to have a separate load research study for
11 every component of a class we have with -- you know,
12 to make just and reasonable rates. You know, we do
13 not do separate load research for RS-TOD, for load
14 management, water heating customers. We don't do it
15 for general service athletic fields.

16 You know, you do the major class, because,
17 again, all of those customers, the underlying loads
18 are roughly the same. They're not special just
19 because -- from a load standpoint, because they
20 chose some behavior other than or different from the
21 rest of the class.

22 Q. Well, perhaps we can wrap this up with
23 just -- this particular section, with just a few
24 more questions, then, just so I can confirm my
25 understanding. Kentucky Power -- did Kentucky Power

1 Company study when the distributed generation
2 delivery is going into -- from the NMS tariff
3 customers, when their distributed generation
4 delivery is moving into the Kentucky Power system as
5 compared to when the Kentucky Power system is
6 hitting its peak?

7 **A. Bear with me for a moment.**

8 Q. Sure.

9 **A. So the answer to your question is yes. And**
10 **we looked at that both on -- in my direct testimony,**
11 **which would be AEP Exhibit 3 that shows the**
12 **residential customer -- residential class profile by**
13 **hour compared to the generation shape in the**
14 **Company's service territory for solar generation.**
15 **And that doesn't change. It's the same generation**
16 **shape there as it is across the state line in**
17 **Virginia as it is up in West Virginia. It's a**
18 **regional thing. The sun tracks across the sky in**
19 **roughly the same manner.**

20 And then again in rebuttal, on R38, I point
21 you to down there on line 18, we do -- Kentucky
22 Power's affiliate directly across the state line in
23 Virginia actually was ordered to do a study with
24 full interval meters on it, its distributed
25 generation solar customers in the residential class.

1 And what that study and those graphs show is that at
2 the peak time, the load shapes are exactly identical
3 between the load -- between a net metering customer
4 and its other residential customer, as you would
5 assume, because they're all residential customers.
6 The only difference is when that system is putting
7 generation, you know, either netting out the
8 customer's load behind the meter or putting
9 generation back out into the Company's distribution
10 system. And again, that is what we've accounted for
11 in our studies and analysis here, and that's what
12 we've included in the avoided-cost rates of NMS II.

13 Q. For the NMS II tariff, will the proposal
14 incentivize distributed generation customers to
15 lower their cost of service, so lower the activity
16 that they have that's leading to any peaks in the
17 Kentucky Power system?

18 **A. I don't -- I don't think so because it's the**
19 **same standard residential rate they would be paying**
20 **for their net load, you know, as any other**
21 **residential customer. So to the extent there is a**
22 **price signal there, it's the same for all**
23 **residential customers.**

24 The incentives with NMS II would be for
25 customers to, you know, maintain and keep their

1 systems running, because they're being paid for
2 their excess generation beyond what is actually
3 netting their load behind their meter at a -- at the
4 avoided-cost rate. You know, that's -- that would
5 be the price signal in that tariff.

6 Q. So with regard to that price signal, what is
7 the effective rate that a distributed generation
8 customer would pay under the proposed NMS II tariff?

9 **A. I have that. Just a moment. And so if you**
10 **look at Vaughan Rebuttal R41, starting on line 3,**
11 **there's a couple tables in here discussing what a**
12 **typical residential customer and system would see**
13 **and what a typical commercial customer in the DG**
14 **system would see. And so, like for residential, if**
15 **you follow across there, based on test year data, a**
16 **typical NMS bill would be \$35, where a standard**
17 **tariff for the same customer would be 166, and**
18 **then -- this is at proposed rates.**

19 And then under NMS II, the customer would be
20 charged a hundred dollars for their usage, and they
21 receive a \$19 excess energy credit, so they would
22 have a net bill of \$81. So at 1,240 kilowatt hours,
23 they're essentially -- you know, they're paying, all
24 in, seven cents a kilowatt hour versus, you know,
25 closer to 11, 12 there under retail.

1 Q. Okay. With the proposed rollout of AMI, if
2 that is approved, how will the NMS II tariff be
3 impacted by the rollout of AMI?

4 **A. Well, I don't think it would be impacted at**
5 **all right now. I mean, whatever the Commission**
6 **approves would be in place until the Company came in**
7 **and had another rate case. At that time you could**
8 **consider changes to whatever is approved at that**
9 **time. You know, the -- to leverage more off the AMI**
10 **meters or -- I mean, it's just metering. We have to**
11 **meter the customers. So whatever our prevailing**
12 **meter technology is, NMS II customers will have**
13 **that.**

14 Q. And -- okay. And just perhaps one more
15 question on that. If the AMI proposal is approved,
16 will that provide Kentucky Power Company with
17 additional data associated with customers receiving
18 service under the NMS II tariff?

19 **A. Oh, certainly. It'll provide all customers**
20 **more data, as Mr. Blankenship and Mr. West have**
21 **discussed previously.**

22 Q. Okay. On pages 40 and 41 of your prefiled
23 direct testimony, you discuss, among other things,
24 an Economic Development Rider, EDR; is that correct?

25 **A. Yes, sir.**

1 Q. Okay. And we have supplied Commission Staff
2 with an exhibit from the application. This is
3 Application Section III, Volume 1, Vaughan Direct
4 Exhibit AEV-9.

5 MR. SPENARD: And we would ask, if possible,
6 if the Commission Staff could have that displayed on
7 the screen.

8 MS. VINSEL: Mr. Spenard, this is Ms. Vinsel.
9 I want to make sure that -- could you tell me again,
10 this is an exhibit to Mr. Vaughan's direct
11 testimony?

12 MR. SPENARD: Yes, it is. And it's the --
13 the document page -- if that's helpful, the document
14 page from Section III, Volume 1 of the application,
15 the document page is 296 of 359.

16 MS. VINSEL: Okay. Ariel, we're looking
17 at -- oop. Thank you, Ariel. Ariel, is this -- is
18 this Document Number 8, which would include
19 Mr. Vaughan's direct testimony?

20 THE WITNESS: The very last exhibit attached
21 to my direct testimony.

22 MR. SPENARD: There. Okay. Thank you.

23 Q. And I have just a few questions about this
24 exhibit. Beginning at line 18 of page 40 of your
25 direct testimony, you state, in pertinent part,

1 (Reading) The marginal cost of service analysis
2 shows that the Company's sole EDR customer is
3 covering its variable cost of service and
4 contributing to the Company's fixed cost of service
5 while taking service under the discounted EDR rates.

6 Are you -- and if you want to take a second
7 to look at that discussion, again, it's page 40 of
8 your direct testimony beginning at line 18, the
9 answer beginning at line 18.

10 **A. I'm familiar with it.**

11 Q. Okay. And in support of your testimony, you
12 provided Exhibit AEV-9, and it contains information
13 that's relevant to that discussion in your direct
14 testimony; is that correct?

15 **A. Yeah, that's correct. This is a -- it's**
16 **actually a requirement of the EDR tariff. When we**
17 **come in for a base rate case, we have to show the**
18 **Commission that any EDR customer incremental load**
19 **is -- you know, existing discounted under the EDR**
20 **tariff, that it is, from a marginal cost standpoint,**
21 **actually contributing more to the fixed cost**
22 **recovery.**

23 So to say that in a more summarized manner,
24 by adding the EDR load, we're lowering overall cost
25 of service, and that's what this exhibit shows.

1 Q. Well, then in terms of your answers, and I
2 apologize for parsing words, did you say that it's
3 contributing more to the fixed cost, or did I
4 misunderstand that?

5 **A. Sorry. It should be contributing more to**
6 **fixed cost recovery, recovering its variable cost,**
7 **and then it is making a contribution to existing**
8 **fixed costs that other customers would otherwise be**
9 **paying.**

10 Q. Okay. Thank you. And I apologize if that --
11 the question was a little quirky on that point.

12 In terms of looking at the exhibit, the
13 marginal cost of energy is \$417,131; is -- am I
14 reading that correctly?

15 **A. Yes. It's kilowatt hour consumption times**
16 **LMP, correct.**

17 Q. So the marginal cost of distribution in the
18 next section is given as \$29,405; is that correct?

19 **A. That's correct. We had to do distribution**
20 **work to connect the customer to the system, so that**
21 **work order totaled the \$267,000. Then we applied a**
22 **levelized carrying cost factor to that, you know,**
23 **roughly equivalent to the useful life of that**
24 **equipment, coming up with an annual revenue**
25 **requirement of 29,405.**

1 Q. The incremental revenue that's listed on the
2 next-to-last line, the customer incremental revenue
3 amount is listed at \$978,909. Do you -- do you see
4 that?

5 **A. Yes, sir.**

6 Q. Okay. So then the net revenue amount,
7 \$243,476. And with regard to that amount, does that
8 amount represent a contribution to the Company's
9 fixed cost of service?

10 **A. Yeah. So what's going on here is, we're**
11 **totaling up all of the -- we're looking at this from**
12 **a purely marginal standpoint, so basically what do**
13 **we look like without this customer and what do we**
14 **look like with this customer.**

15 So by adding this load, even at a discounted
16 rate, all other customers are better off by, you
17 know, a little over -- roughly a quarter of a
18 million dollars there annually because we incur
19 \$735,000 in incremental costs and we gained 978,000
20 in incremental revenue.

21 Q. In terms of that -- in terms of that portion
22 associated with the fixed cost, is the amount of
23 contribution to the fixed costs greater than, equal
24 to, or lower than the contribution to the Company's
25 fixed cost of service that the customer would

1 otherwise pay in absence of the EDR?

2 **A. Could you say that one more time?**

3 Q. In terms of the contribution to the fixed
4 cost, is the contribution to the fixed cost greater
5 than, equal to, or lower than the contribution to
6 the Company's fixed cost of service that the
7 customer would otherwise pay in the absence of the
8 EDR?

9 **A. Yeah. So while it is recovering, it's --**
10 (Feedback).

11 **A. Sorry, a little feedback.**

12 Yeah. So it is covering its incremental
13 fixed cost and variable costs, then making an
14 additional fixed cost contribution. Because the EDR
15 rates are discounted under standard tariff, this
16 customer would have paid more over the discount
17 period, which, you know, could be five and up to ten
18 years, depending on the EDR contract.

19 The point you have to look at here, though,
20 from the EDR standpoint is, we're using this
21 economic development tariff to try and add more
22 billing units to the Company's service territory to
23 lower everyone's rates, and that's important from a
24 Kentucky Power standpoint, from a community
25 standpoint, from everyone's rate standpoint.

1 And the opposite is true when we look at our
2 NMS customers, where you're starting with someone
3 who is contributing at full retail rates, then they
4 add something, the distributed generation, which
5 reduces revenues more than it reduces the costs that
6 you avoid. So it's a big difference between what
7 we're looking at in a MATS and what we're looking at
8 in EDR.

9 Q. Okay.

10 **A. It's the exact opposite.**

11 Q. And when you say "the exact opposite," is it
12 your testimony that the EDR results in a subsidy?

13 **A. See, that's a hard one to say, because**
14 **they -- the customer -- the EDR customer is paying**
15 **less than it would under standard tariff, but, but**
16 **for the EDR, they may not have sited with us, so it**
17 **would -- everyone would be worse off by \$243,000 in**
18 **this example.**

19 MS. VINSEL: Chairman.

20 **A. That's a hard one to decide there. You know,**
21 **if it's -- and that's why the economic development**
22 **efforts are what they are.**

23 MS. VINSEL: Chairman. Chairman.

24 **A. If the customer was just going to show up in**
25 **standard tariff, that's great, and maybe they site**

1 for some other reason, but if they are price
2 sensitive and they need -- they need a discount to
3 maybe get their operations going in the first year,
4 the first couple years. You know, tools like this
5 help attract new loads, and it's hard to call that a
6 subsidy if it's actually making everyone else better
7 off by them being there --

8 CHAIRMAN SCHMITT: Okay. Mr. Spenard --

9 **A. -- from a financial rate standpoint.**

10 MR. SPENARD: Yep. Yes, Mr. Chairman.

11 CHAIRMAN SCHMITT: Can we stop just a second?
12 There's a -- I think, a problem hearing, and it may
13 be based on feedback from some source --

14 MR. SPENARD: Yes, Mr. Chairman.

15 CHAIRMAN SCHMITT: -- which we don't know at
16 present; is that correct?

17 MS. VINSEL: It -- I just wanted to -- this
18 is Ms. Vinsel. Ms. Blend, there's a certain amount
19 of feedback coming through on Mr. Vaughan's
20 testimony that makes -- it resolves itself over
21 time, but it makes it hard to hear parts of his
22 responses.

23 MS. BLEND: Okay. Our setup today is the
24 same that -- as it has been technologically for the
25 entire hearing. Is it possible that there's someone

1 who has joined by phone who has not muted themselves?

2 MS. VINSEL: That is quite possible. I'm
3 going to ask that everyone who is not either counsel
4 for Kentucky Power -- excuse me, counsel for
5 Kentucky Power, Mr. Vaughan, or Mr. Spenard, please
6 mute your connections, your audio.

7 Chairman. Why don't we try it again,
8 Chairman?

9 CHAIRMAN SCHMITT: Okay. You may continue
10 with your, either answer, Mr. Vaughan, or your
11 question, Mr. Spenard, and let's see if maybe the
12 problem has been resolved.

13 MR. SPENARD: Okay. Mr. Chairman, I believe
14 that Mr. Vaughan had completed his answer, but in
15 case he hadn't, I'll allow him to finish, or
16 otherwise I'm ready to move on to the next question.

17 CHAIRMAN SCHMITT: Let me ask, Mr. Vaughan --

18 THE WITNESS: I was done.

19 CHAIRMAN SCHMITT: -- have you completed your
20 answer, or do you have -- please go ahead and
21 complete your answer if you need to.

22 THE WITNESS: I was done, Your Honor.

23 CHAIRMAN SCHMITT: Okay. Thank you.

24 All right. Mr. Spenard, then we're ready for
25 your next question.

1 MR. SPENARD: Yes, sir.

2 Q. I want to talk for just a few minutes
3 hopefully, about residential fixed charges. And
4 again, in just very simple terms, for a residential
5 customer, is part of the bill -- and there are a lot
6 of billing elements that go into a residential
7 customer's bill; is that correct? Fuel
8 adjustments --

9 **A. Yeah, there's a number -- yeah, there's a**
10 **number of surcharges and riders and whatnot that**
11 **apply to all customers' bills.**

12 Q. What I'd like to focus on is the calculation
13 that's going to be associated with the customer
14 charge, fixed -- the customer charge and then the
15 variable, which is the energy charge. Okay?

16 **A. Certainly.**

17 Q. All right. So the total bill for a
18 residential customer for this portion will comprise
19 a fixed charge amount, and it's going to be combined
20 with a variable charge amount associated with the
21 amount of energy used by that customer; is that
22 correct?

23 **A. I think we -- I don't know if it was with you**
24 **or someone else, but on Friday we discussed that**
25 **there's really three categories of charges. You**

1 **have a fixed basic service charge, you have energy**
2 **charges, and then you have percentage of revenue**
3 **riders, such as the environmental surcharge and the**
4 **decommissioning rider. But yes, it's heavily**
5 **weighted towards energy.**

6 Q. Okay. For the residential class, Kentucky
7 Power is seeking to increase both -- the increases
8 that Kentucky Power is seeking will stand to
9 increase both the fixed portion of the residential
10 bill as well as the variable portion of the
11 residential bill; is that correct?

12 **A. Yes, sir. The two -- the two proposals in**
13 **concert would maintain that roughly 90 percent of**
14 **the bill would be volumetric.**

15 Q. And among other things, your rebuttal
16 testimony addresses fixed charges, and specifically
17 I'm looking at pages 16 and 17 of your rebuttal
18 testimony.

19 **A. I am there.**

20 Q. Okay. And in terms of the rebuttal
21 testimony, is it true that there has been a
22 reduction in normal (audio lost) Virginia and
23 Kentucky, even as the fixed charge has increased?

24 MS. BLEND: Mr. Spenard, I don't know if it
25 was on our end or your end, but your computer froze

1 and we didn't catch all of your audio. Would you
2 mind repeating your question?

3 MR. SPENARD: Oh. And thank you. And
4 anytime there's an issue, just tell me and I'll
5 repeat the question. And I'm looking at
6 Mr. Vaughan's rebuttal testimony. We're at pages 16
7 and 17 of the rebuttal.

8 Q. And the question is of whether it's true that
9 there has been a reduction in normalized residential
10 usage in (audio lost) as the fixed charge has
11 increased?

12 **A. You kind of froze again there. So is the**
13 **question that has there been a reduction in average**
14 **normal usage over the same time that the basic**
15 **service charge has been increasing in West Virginia**
16 **and Kentucky?**

17 Q. Yes, Mr. Vaughan.

18 **A. Yes, as the graph --**

19 Q. (Indiscernible).

20 **A. -- on page -- as the graphs on page 16, R16**
21 **and R17 show, you know, over the same period of**
22 **time, the basic service charge has been increasing**
23 **on residential customers' bills. The average**
24 **residential customer usage has been declining.**

25 Q. Okay. Does American Electric Power have

1 operations in Virginia?

2 **A. Yes, sir.**

3 Q. Okay. And this will be -- and we'll reduce
4 it to writing as necessary, but as a post-hearing
5 data request, KYSEIA would like for Kentucky Power
6 to provide an illustration for Virginia Power,
7 similar, the same format, same time period as the
8 figures AEV-R1 and AEV-R2 appearing on pages 16 and
9 17 of the rebuttal testimony.

10 **A. Well, we can certainly do that, but I can --**
11 **I can maybe help short circuit that a bit. The**
12 **customer charge, the basic service charge there has**
13 **been the same for over a decade, and you see the**
14 **exact same usage pattern, so it kind of makes my**
15 **point that customers are not, you know, using more**
16 **or less energy based on the basic service charge**
17 **level, they're using based on their lifestyle and**
18 **weather patterns. And when you take weather out of**
19 **it, you get this normal average -- you're getting a**
20 **lessening of average residential load over time.**

21 Q. Okay. And I appreciate the comprehensive
22 response, and that will certainly help, but with the
23 data request, we're going to ask, but do appreciate
24 the explanation.

25 In terms of --

1 **A. I just wanted to let you know that it's a**
2 **straight line. There's been no increase in the**
3 **service charge in that jurisdiction.**

4 Q. Okay. Well, that's helpful, and I appreciate
5 the information.

6 In terms of energy efficiency reductions that
7 you identify in your rebuttal testimony, if you
8 know, is any of the change attributable to
9 progressively increasing appliance energy efficiency
10 standards?

11 **A. Well, I think it's -- you know, when I talked**
12 **with our team that monitors load and for forecasting**
13 **and just general economic purposes, that's a lot of**
14 **what they say is what -- what we would call latent**
15 **EE, where it's household appliances and other things**
16 **that you use in your normal life just becoming more**
17 **energy efficient over time, such as, you know,**
18 **people going from the incandescent light bulb in**
19 **general to maybe CFLs, and then now maybe LEDs, you**
20 **know, there's a reduction in energy usage, you know,**
21 **based on those common technologies.**

22 Q. In addition to common technologies, are
23 building codes having any impact on the energy
24 efficiency reductions?

25 **A. They could.**

1 Q. Okay. Do you recall discussing caulking in
2 your rebuttal testimony?

3 **A. I did. I think it's on R16. I'm sorry, R18.**

4 Q. Okay. For caulking, in your opinion, do you
5 consider caulking a significant long-term investment
6 in energy efficiency?

7 **A. Well, I don't know if you've ever gotten that**
8 **stuff somewhere it shouldn't be, but it tends to**
9 **stay forever. So I'm not sure about how -- a term I**
10 **would quantify it as, but the example where I use**
11 **caulking, because it's a common weatherization,**
12 **energy efficiency measure, is just to provide that**
13 **simple payback example. And the same -- the same**
14 **simple payback math works out for more substantial,**
15 **longer, whatever term, investments you're making in**
16 **energy efficiency. The math's the same.**

17 Q. Well, in terms of an example of that longer
18 term -- that longer term effort, would a more
19 efficient HVAC unit be an example of one of those
20 longer-term steps for energy efficiency?

21 **A. Certainly. And it would have a much higher**
22 **up-front cost, and so generally a longer payback,**
23 **but the difference in payback is the same. It's --**
24 **this example is done in a vacuum, and the Company's**
25 **proposal in terms of the basic service charge does**

1 not affect the binary decision of whether you do or
2 don't do an energy efficiency measure.

3 Q. Does AEP study the price elasticity of demand
4 among its customers?

5 A. I do not, and what I have generally observed
6 is they are more -- they're more correlated to
7 weather than they are price, especially in our
8 Appalachian jurisdictions that have a high electric
9 heat penetration, and then again, air-conditioning
10 in the summer.

11 Q. With regard to electric heating customers,
12 you mention electric heating in your rebuttal
13 testimony, pages 19 and 20; is that correct?

14 A. I do.

15 Q. Okay. When are Kentucky Power Company's
16 winter peaks?

17 A. When customers are using their electric
18 heating. And the distinction is that that's a
19 distribution peak versus a cost-causing generation
20 or transmission peak. So, yeah, it's factored into
21 the distribution cost of service, right? We have
22 to -- Mr. Phillips builds his distribution grid to
23 handle that peak electric heating load that's
24 between 6:00 a.m. and 8:00 a.m. on a, you know,
25 January or February morning where it's very cold and

1 dark and customers are waking up and heating their
2 homes before they start their day, right? Versus,
3 you know, as we discussed earlier, you have
4 generation cost-causing peaks in the summertime,
5 which electric heat -- you know, PJM's July -- June,
6 July, August, September, five highest peaks, which
7 occur in the afternoon because of air-conditioning
8 load, so obviously electric heating is not
9 contributing to those.

10 Q. What percentage of the Company's residential
11 customers use electric heating?

12 A. It's over 50 percent. I think the exact
13 number is in one of my many pages of testimony
14 somewhere, if not in a discovery response, but
15 it's -- I want to say 61 percent. I know it's over
16 50.

17 Q. Okay. Hypothetically, if Kentucky Power had
18 no electric heating customers, what impact would
19 this have on peak loads for the winter peaks?

20 A. I don't think I can answer your hypothetical.

21 Q. Well, I'll take one step back, perhaps. If
22 Kentucky Power had no electric heating customers,
23 would that have an impact on the peak loads for the
24 winter peaks?

25 A. So you're saying if we didn't have a load,

1 **would it -- would the peak be less?**

2 Q. If you didn't have electric heating
3 customers, would that have an impact on the peak
4 loads for the winter peaks? Not trying to quantify
5 what the effect would be but whether or not there
6 would be an effect.

7 **A. Well, again, hypothetically, yes, if**
8 **they're -- if no one was heating in the wintertime,**
9 **all other things being equal, loads would be less in**
10 **the wintertime. And again, that wouldn't affect**
11 **the, you know, generation or transmission costs, but**
12 **it would -- it would theoretically -- and again, in**
13 **your hypothetical here, it would change how**
14 **Mr. Phillips designed the distribution system to**
15 **serve those customers.**

16 Q. So with regard to the change in design under
17 the hypothetical, would that cause a lower or a
18 higher or no impact to the allocation of cost to the
19 residential class?

20 **A. Again, you gotta differentiate between**
21 **causing of costs and allocating costs. Let's --**
22 **again, purely hypothetical, we could use smaller --**
23 **I don't even know if this is true, if smaller**
24 **transformers cost less, but theoretically for this**
25 **hypothetical, because we have no electric heat all**

1 of a sudden, Mr. Phillips used smaller, less
2 expensive primary and secondary distribution
3 transformers to design some distribution radials, so
4 you there would have a reduction in overall cost of
5 service, again the revenue requirement. Our plant
6 service would go down. The return noncomponent of
7 that would be less -- depreciation expense is less.

8 So the total pie which you need to split up
9 is smaller. However, you can't really say how that
10 affects the allocation of that cost, because other
11 customer classes use distribution equipment as well,
12 and it's all -- cost allocation is your peak
13 relative to everyone else's peak relative to the
14 peak you're measuring. So you can't definitively
15 say whether it is less cost to the residential class
16 or not. Under your -- the hypothetical, there's
17 less cost overall because, again, I made up
18 something that those transformers cost less now.

19 Q. With regard to the shifts that would take
20 place with regard -- with regard to what happens
21 when customers shift their loads away from peak
22 hours, and I apologize because you've -- we've asked
23 this question a little differently previously, but
24 with regard to what takes place when customers shift
25 their loads away from peak hours, does that impact

1 the cost-of-service study?

2 **A. So again, if it's a cost-causing peak and**
3 **when you're saying cost of service, you're saying**
4 **total cost of service, like what is the revenue**
5 **requirement, yes. And that's what we've studied in**
6 **this rate case and the avoided-cost rates for**
7 **NMS II, it's what we've looked at in the Company's**
8 **proposed DRS tariff, and it's what we looked at in**
9 **the AEV Exhibit 9 on that marginal cost-of-service**
10 **study for the EDR customers. So yes, there are**
11 **certain peak load reductions that have value, and**
12 **we've quantified those and we've included them in**
13 **the applicable tariffs.**

14 You know, back to your hypothetical, does it
15 actually change how costs are allocated, you can't
16 say because, you know, if you change that peak, the
17 peak hour may change, so the same customer may get
18 caught up in it later where their behavior is
19 different.

20 You see that -- you know, again, like if we
21 don't have electric heating load in the
22 hypothetical, the distribution peak isn't going to
23 be at 6:00 a.m. anymore, it's going to be some other
24 hour, and who knows what the customer that now isn't
25 hypothetically an electric heating customer, what

1 their load is at that time. You just -- you just
2 can't say.

3 Q. Okay. For the NMS II tariff proposal, is the
4 market value, as you use that phrase, is that a
5 long-term projection of value?

6 **A. So I don't like the term "value," because,**
7 **you know, it's either cost or it's revenue when**
8 **we're looking at things. Value gets too many**
9 **qualitatives into it.**

10 The test year study I did to show kind of
11 that independent power producer view of what a DG
12 system is worth from a revenue standpoint is a test
13 year, test year analysis, but that -- so, I mean,
14 it's not a long-term revenue study.

15 Anything -- you're looking out on commodity
16 prices, you do anything long-term, it's very
17 speculative, you know, because you get a lot of -- a
18 lot of different opinions as to what commodities
19 will be, you know, next year versus ten years down
20 the road.

21 Q. Well, with regard to cost and revenues
22 associated with these projections, does the NMS II
23 tariff proposal, does it -- does it incorporate or
24 otherwise attempt to capture the change to
25 ratepayers for, say, decreased utility investments

1 over time?

2 **A. Yes. It absolutely does. I discussed this**
3 **in my direct and my rebuttal. We've incorporated**
4 **the reduction in generation capacity costs, the**
5 **reduction in allocated fixed transmission**
6 **infrastructure costs, the avoidance of distribution**
7 **line losses, of course, energy transmission losses**
8 **that go with the marginal cost of energy. That's**
9 **all been incorporated.**

10 Q. For planning purposes, does Kentucky Power
11 Company base its investments on the short-term
12 market cost of capacity, or does it consider
13 long-term costs for various options for meeting its
14 load requirements?

15 **A. Yeah. So if you're looking at whether you're**
16 **going to add the next increment of capacity or not,**
17 **that's an IRP-type study, and, yeah, you evaluate**
18 **the entirety of the investment horizon that you're**
19 **looking at to find the theoretical least-cost option**
20 **for all customers.**

21 And that's distinctly different from what's
22 going on in NMS II, because you have -- you have
23 something that's come onto the grid and it's caused
24 a load reduction, and the value of that is what it
25 is. The Company is capacity sufficient, and thus --

1 therefore, the incremental value is either zero or
2 it's the value of what the next sale of link we can
3 make is. And the same is true in the Company's DRS
4 proposal, where we're valuing the -- what an
5 increment of load reduction is worth, and what you
6 would pay someone to interrupt their load. So it's
7 completely consistent.

8 Q. If Kentucky Power Company invests in
9 utility-scale solar, would the Company earn money
10 based only on its PJM costs, sale of capacity in
11 PJM, or would it earn based upon its fixed
12 investment cost of the resource?

13 **A. Yeah. Again, we're -- the Company is a**
14 **regulated utility. A customer putting DG on his**
15 **house is not a regulated utility. So, yes, we --**
16 **the construct here is we make an investment, as**
17 **approved by the Commission, and in terms of that --**
18 **and when we do that, we earn a return on our**
19 **investment, return on our investment, and we pass**
20 **through our costs of operating said investment, the**
21 **generation facility like utility-scale solar. You**
22 **know, and part of the evaluation of whether you make**
23 **that investment or not is you're going to stack it**
24 **up against other supply-side and demand-side**
25 **resources to see if it is the least-cost investment.**

1 And yeah, I can -- I can tell you it would
2 not come in at ten cents a kilowatt hour like what
3 we're paying customers during the test year for DG
4 net metering. That would not be the least cost of
5 our options.

6 Q. Well, if energy prices were to fall, would
7 Kentucky Power's return on investment in
8 utility-scale solar, would that return also fall?

9 **A. The Company's investment would not change
10 because of commodity prices, because there's no --
11 or there's no fuel component to solar. But the
12 thing to remember there is that customers' bills
13 also fall during that period because the overall
14 supply of energy became cheaper. The construct is
15 cost of providing service plus a reasonable return.**

16 Q. With regard to Kentucky Power Company's
17 capacity, is it sufficient throughout the time frame
18 of its current integrated resource plan?

19 **A. I am not in the IRP case, luckily, but no. I
20 mean, I think you're looking out 30 years and, you
21 know, after the Rockport unit goes away, Rockport
22 Unit Power Agreement goes away in December of 2022,
23 I think there is a deficiency, and that's part of
24 what they're discussing in that docket.**

25 Q. Well, and you've stated you're not in the IRP

1 case, and so if this isn't a question that you can
2 answer, then that's fine, but I'll go ahead and ask
3 it just to see if you do have the knowledge. Does
4 Kentucky Power's plan for its preferred plan and its
5 most recent integrated resource plan consider future
6 carbon costs, if you know?

7 **A. Don't know.**

8 Q. Okay. In your opinion -- if you have one, in
9 your opinion -- well, let me ask this question: Are
10 you aware of AEP's vision or strategy with regard to
11 future carbon costs?

12 **A. I don't (indiscernible) in terms of carbon
13 cost, but I'm aware of what Mr. --**

14 (Feedback).

15 CHAIRMAN SCHMITT: I don't know.

16 **A. -- Mr. Mattison discussed earlier this week,
17 or I guess last week, about the aspirational goals
18 of the Company, AEP in general. And I did address
19 carbon costs in my rebuttal testimony, in as when
20 there is a carbon cost -- and the Company doesn't
21 currently have a financial cost of carbon, but when
22 there is one, whether it's through some sort of a
23 load-based cost or tax or is included in the PJM LMP
24 through a carbon adder, that, you know, it's my
25 proposed -- you know, I think it would be consistent**

1 that the extended effects load or LMP prices, that
2 NMS II customers would receive that. But to include
3 that in the actual avoided-cost calculation before
4 anything exists I think is a bit premature.

5 Q. If customer-sited solar grows less under the
6 NMS II proposal, will Kentucky Power's cost for
7 carbon emissions increase?

8 A. Can you repeat that? I didn't get the first
9 part.

10 Q. Okay. I'm sorry. If customer-sited solar
11 grows less under the NMS II proposal, if it's
12 approved, will Kentucky Power's cost for carbon
13 emissions increase?

14 A. Well, you can't really say because you don't
15 know what the basis for carbon costs are going
16 forward. I mean, an example of that would be, look
17 across the state line into Virginia, where
18 Virginia's joining the Regional Greenhouse Gas
19 Initiative, or RGGI, and they are going to pay --
20 Appalachian Power is going to pay a cost based on
21 its Clinch River gas plant source. So you're going
22 to pay a carbon cost there. It doesn't matter what
23 the load is. So it's source based.

24 So you can't really say, whatever happens
25 with DG solar, it goes up, it goes down, if it has

1 any sort of impact on any actual out-of-pocket
2 carbon costs, because you don't know what the
3 construct is. We don't have a construct of what's
4 in Kentucky now.

5 Q. And I'm not -- I'm not asking for a legal
6 opinion on this; I'm asking for your understanding
7 as an expert in utility ratemaking.

8 In your view, does the Kentucky Public
9 Service Commission have the ability to adopt a
10 reasonably common approach for net metering the same
11 as it does for many other facets of ratemaking?

12 **A. My nonlegal, simple-ratemaking-guy opinion is**
13 **that the Commission has the ability to -- you know,**
14 **within the scope of the underlying statute, to apply**
15 **that statute. They're delegated authority to do so**
16 **in balancing the interests of customers and the**
17 **Company and all included parties. So, you know,**
18 **they can -- they can do what they're within their**
19 **rights to do.**

20 Q. Okay. For Kentucky Power Company, does it
21 allocate its primary distribution costs based upon
22 12CP?

23 **A. Yes.**

24 Q. Okay. So summer contributions to peak load
25 contribute to lower cost allocation to the

1 customer's respective class; is that correct?

2 **A. Not necessarily. You know, as we've**
3 **discussed several times, you can't look at just one**
4 **thing in isolation in a class cost-of-service study,**
5 **right? Because you have -- you have a number.**
6 **Again, in this case it's 70 million that's getting**
7 **allocated, and some of that could be allocated away**
8 **for a peak reduction of one class and allocated**
9 **right back to that class from peak reduction in a**
10 **neighboring class.**

11 So when you're talking primary distribution
12 costs, those are only being allocated amongst the
13 commercial and residential classes. And so to the
14 extent you have -- and I assume we're talking about
15 net metering here, so to the extent you have a
16 customer system reducing a peak in the summer 12CP
17 primary distribution peak in general service and
18 residential, you just push the two costs back and
19 forth and they don't go anywhere. It's the same
20 pie, it's just how you split it. There's no
21 reduction.

22 Q. Okay. And if you know, does the NMS II
23 proposal contain any price signal that would
24 incentivize the use of battery storage to mitigate
25 morning peaks in the residential class?

1 **A. Yeah, I think I discussed that in my rebuttal**
2 **testimony that -- you know, in response to Mr. Owens**
3 **saying that it is a -- NMS II's incentivizing people**
4 **to move their load on peak, and NMS II is not**
5 **providing a price signal by -- it's potentially**
6 **providing a price signal for customers to more**
7 **closely match their customer-generation profile with**
8 **their load profile. One way to do that would be**
9 **through energy storage.**

10 Q. And then I'm going to ask you some questions
11 regarding the Kentucky Power Company's residential
12 time-of-use tariffs. And hopefully we can do this
13 without -- hopefully we can do this without asking
14 them to be pulled up. But in terms of the schedule
15 RS-TOD, will you accept, subject to check, that it
16 has an on-peak period of 7:00 a.m. until 9:00 p.m.
17 on weekdays? Does that sound correct?

18 **A. That's correct, yeah.**

19 Q. Okay. And the daytime netting period
20 proposed under NMS II is from 8:00 a.m. to 6:00 p.m.
21 on weekdays; is that correct?

22 **A. Yeah, that's correct.**

23 Q. So with regard to the daytime netting period,
24 it's entirely within the peak period on weekdays; is
25 that -- is that correct?

1 **A. Can you say that again?**

2 Q. With regard to the daytime netting period
3 under NMS II, that period falls entirely within
4 the -- entirely within the on-peak period under
5 RS-TOD; is that correct?

6 **A. Yes, it -- yes, it does. But two things**
7 **we're trying to accomplish, two different -- two**
8 **different ends, right? The RS-TOD is a**
9 **noncost-based, just price signal trying to -- you**
10 **know, again, peak power is not -- is not worth -- it**
11 **does not cost what that on-peak rate is there. It**
12 **is trying to artificially incent customers to reduce**
13 **peak usage and shift some of their habits to**
14 **off-peak and weekend times, whereas NMS II is trying**
15 **to get net metering service closer to its cost of**
16 **service there and properly value the avoided cost of**
17 **net excess generation.**

18 So, yes, we -- the peak periods are different
19 because the sun doesn't shine at 9:00 p.m. at night,
20 generally, or 7:00 a.m. on January mornings. So
21 it's trying to match up solar generation and
22 customers' residential load.

23 Q. Okay. So with regard to a second schedule,
24 RS-TOD 2, you agree, subject to check, there's a
25 period on the schedule from November 1st to

1 March 31st where the on-peak period is from
2 7:00 a.m. until 10:00 a.m., and also there's an
3 on-peak period from 6:00 p.m. to 10:00 p.m. from
4 November 1st to March 31st? Does that sound
5 correct?

6 **A. Yes. It's looking at basically the -- if**
7 **you've ever looked at a residential winter load**
8 **shape, there's a bump up, a ramp in the morning when**
9 **customers are, again, preparing for their day, and**
10 **then usually -- you know, they stop heating as much**
11 **when they go to work, and then in the afternoons it**
12 **ramps back up as customers come home. So, yes,**
13 **there's -- it's just that rate schedule is just**
14 **another take on RS-TOD that we put in a number of**
15 **years ago. I don't know, probably ten or so.**

16 Q. And in terms of that summer period that's
17 appearing on the RS-TOD 2, from May 15th to
18 September 15th, the on-peak period is noon until
19 6:00 p.m. Do you agree to that, subject to check?

20 **A. Yeah. Sounds familiar. Again, the RS-TOD**
21 **tariffs have nothing to do with the netting period**
22 **that we are proposing in NMS II. Apples --**

23 Q. Well --

24 **A. -- to oranges.**

25 Q. Sure. But let's just talk about apples for

1 just a second, is that the summer peak period, noon
2 to 6:00 p.m., that reflects a time that's different
3 from the on-peak period from November 1st to
4 March 31st, of the 7:00 a.m. until 11:00 a.m. and
5 then 6:00 p.m. to 10:00 p.m.; is that -- they're
6 different time periods for the on-peak usage for
7 these two different periods; is that correct?

8 **A. That's correct, because we're trying to, in**
9 **RS-TOD 2 there, that summer period more closely**
10 **aligns with PJM's 5CPs, those generation**
11 **cost-causing peaks, so that that's what it's aligned**
12 **with.**

13 Q. Okay. For these peak periods, with regard to
14 the RS-TOD and RS-TOD 2, are these peak periods --
15 are the time frames when the peak loads on different
16 levels of the system might occur, even though a
17 seasonal peak or a monthly peak is a single-hour
18 issue?

19 **A. Yes. You're trying to capture a -- right, a**
20 **single monthly hour in some sort of a period of**
21 **time, and that's what -- why those tariffs are the**
22 **way they are.**

23 Q. Okay. And with regard to how the NMS II
24 tariff will operate -- and I'm going to use a
25 hypothetical, and this is for simplicity. If,

1 during a billing month, a customer produced
2 200 kilowatt hours of exports during the daytime
3 period and only used 100 kilowatts of that -- of
4 that available-for-export amount, the customer would
5 have 100 kilowatt hours of daytime use left over or
6 in the bank, so to speak, for netting periods; is
7 that correct?

8 **A. Your terminology is a little confusing there.**
9 **I'm going to assume all of those figures were**
10 **kilowatt hours, and I think you threw one "kilowatt"**
11 **in there, which is an instantaneous figure versus a**
12 **volumetric figure, and then if it -- that example is**
13 **over a month, there's no bank, it's you netted out**
14 **those 100 kilowatt hours of load, then the customer**
15 **was paid at the avoided-cost rate for the excess**
16 **100 kilowatt hours of that negative energy.**

17 Q. Well, and you're a very careful listener, and
18 I -- and I believe it's probably the case that I did
19 use quirky terminology, and I apologize for that,
20 but I want to go back and cover something else
21 again. In terms of the netting period, is that if
22 you have a customer who has reduction in excess of
23 their usage during a net -- during a netting period,
24 that -- on a single day I produce more than what I
25 use, as long as it's within the netting period, the

1 next day, if I use that amount of generation -- if I
2 use an amount of generation in excess of what I
3 produce, I do have -- do I have the ability to take
4 the prior day's excess during the netting period and
5 have that -- that's a really quirky question. Let
6 me try to back -- take one step back and ask that
7 again.

8 During the netting period I'm going to have
9 generation available for my own use, and what I
10 don't use I have available for export, is that
11 correct, in a very simple hypothetical?

12 **A. Yeah. Yes, sir. Within the billing period,**
13 **the kilowatt hours net within the netting period, so**
14 **if one day you have excess and the next day you're**
15 **negative, those two things net, but it's with --**
16 **it's within the netting period for the whole month.**
17 **And then the net, whether it's net load or net**
18 **negative energy or exports, that's accumulated**
19 **within each netting period for the entire billing**
20 **period.**

21 Q. Thank you. Thank you. With regard to the --
22 with regard to NMS II and what I'll refer to as the
23 compensation rate, the proposed -- and I'm going to
24 use an approximate amount. The proposed
25 compensation rate for excess that's exported is

1 approximately four cents; is that correct?

2 **A. Yeah, it's -- the avoided-cost rate as**
3 **amended in my rebuttal testimony is between three**
4 **and a half and four cents a kilowatt hour.**

5 Q. Okay. And you have two netting periods
6 during the day? During the 24-hour period, you have
7 two different periods?

8 **A. Yeah. Yes, sir. The day -- the day is**
9 **divided up in two netting periods.**

10 Q. Okay. So as a customer who shifts load from
11 the -- as a customer who shifts load from the
12 nondaytime period into the daytime period, is
13 that -- the customer would also -- could the
14 customer also shift the load associated with --
15 basically, let me take that question again. I
16 apologize. Let me ask that question again a little
17 differently.

18 With two periods during the 24-hour cycle,
19 with two periods, the customer has the ability to
20 shift load from the nondaytime period into the
21 daytime period; is that correct?

22 For example, if I wanted to run my air
23 conditioner at -- begin running my air conditioner
24 at 3:00 p.m. in the afternoon to cool my house, as
25 opposed to waiting until 7:00 p.m. in the afternoon

1 to cool my house, the customer has that ability; is
2 that correct?

3 **A. To the extent that there is discretionary**
4 **load that a customer can move around, yes, someone**
5 **could do that, but there's no underlying price**
6 **signal to do that. The rate that applies to the**
7 **load is the same. It's just a matter of whether --**
8 **you know, regardless of what netting period you're**
9 **in, it's just a matter of how we're dealing with the**
10 **compensation for the customer generator's output,**
11 **whether it's actually netting kilowatt hour or it's**
12 **been compensated at the avoided-cost rate.**

13 **Q. So the customer -- as a general rule, the**
14 **customer's incentive is to use the additional**
15 **on-peak power in the way that's going to generate**
16 **the most -- generate -- the way that's going to**
17 **result in the most financial benefits to that**
18 **customer; is that correct?**

19 **A. Yeah, I think you're looking at it backwards.**
20 **The customer's incentive is to match the generation**
21 **with its load, so if a customer isn't home -- you**
22 **gave the pre-cooling example, but you can't really**
23 **change how your sump pump runs or how your air**
24 **conditioner cools or if you have any lighting that's**
25 **going to happen during the day or whatever your HVAC**

1 is pulling during the day. Those things, they are
2 what they are, and like I said, there's no --
3 there's no underlying price signal from the rates
4 that apply to the load to make them want to shift.

5 Q. With regard to a customer, can a customer
6 utilize a programmable thermostat for the HVAC
7 system, if they had one?

8 A. Yeah, they sure can. I mean, you -- a lot of
9 customers, as you see in load profiles, they
10 generally keep the -- keep the home -- if they're
11 leaving for work in the morning, back when we used
12 to do things like that, you know, you would keep it
13 at a different temperature than when you were
14 actually at home. You know, so programmable
15 thermostats, absolutely.

16 But there's no price signal, no reason that a
17 customer would want to just, you know, for no
18 reason, cool their home more while they're not
19 there. You know, you still want to use the same
20 amount of energy overall, and the rate that applies
21 to that load, if it's net billing, is the same no
22 matter when it occurs.

23 Q. Well, but for NMS II customers, they're going
24 to have -- the 24-hour cycle comprises two periods,
25 basically, you have the daytime period and the

1 nondaytime period; is that correct?

2 **A. That's correct.**

3 Q. Okay. And then with regard to the customer's
4 usage patterns, there is a distinction between --
5 because there's a difference in the netting period,
6 there is a distinction between when the customers
7 use their energy? It can have a different
8 consequence depending on the time of day that that
9 customer receiving service under NMS II uses their
10 energy?

11 **A. Yeah, my point is that there's no difference**
12 **in the rate that applies to net load, whether it's**
13 **in netting period one or netting period two. You**
14 **have net billing load, it is -- net billing kilowatt**
15 **hours or units or kW, it's billed at the same**
16 **standard rate.**

17 And again, there's no -- if a customer was
18 going to use 1,000 kilowatt hours in a month or
19 1,240, the average in the case here, there's no
20 price signal that would say I am better off using
21 1,350 now, you know, to cool my home while I'm not
22 there, just to take advantage of the netting,
23 because you'd still be better off having that net
24 energy credited to you at the avoided-cost rate than
25 using extra energy.

1 And then if it's simply shifting some load
2 from one period into another and you're aligning
3 that with your behind-the-meter generation, you
4 know, the Company is not going to see any additional
5 cost from that because you're netting it at the
6 meter. So there's no net load there.

7 Q. I just have -- one second to look at my
8 notes.

9 MR. SPENARD: Mr. Vaughan, thank you for --
10 thank you for your patience and thank you for your
11 answers.

12 And, Mr. Chairman, with that, KYSEIA is
13 finished with its examination of Mr. Vaughan.

14 THE WITNESS: Thank you.

15 CHAIRMAN SCHMITT: Mr. FitzGerald, I assume
16 you have cross-examination?

17 MR. FITZGERALD: I do. I do, Your Honor, and
18 I didn't know whether you wanted to go ahead and
19 take a break. It's 10 --

20 CHAIRMAN SCHMITT: That's why -- usually we
21 would want to take one at 10:30, but since we don't
22 want to interrupt your cross, let's take a break or
23 go into recess now until 20 minutes until 11:00 --
24 hold on. Ms. Vinsel?

25 MS. VINSEL: Vice Chair Chandler had asked

1 that we take a 20- to 25-minute morning break.

2 CHAIRMAN SCHMITT: Okay. Well, that would
3 put us --

4 MS. VINSEL: Would you like me --

5 CHAIRMAN SCHMITT: -- 15 till. I understand,
6 basically, the Vice Chairman would like to take a
7 longer break, so let's take a break, 20 to
8 25 minutes, until 10 minutes until 11:00 o'clock,
9 and we'll come back then and you can begin your
10 cross-examination, Mr. FitzGerald.

11 MR. FITZGERALD: Thank you, Mr. Chairman.

12 CHAIRMAN SCHMITT: Thank you.

13 MS. BLEND: Thank you.

14 (Recess from 10:27 to 10:53 a.m.)

15 CHAIRMAN SCHMITT: Okay. I think we're now
16 back on the record. Is the witness and counsel for
17 all of the parties present?

18 Well, Mr. Vaughan, even you have to eat. I
19 understand. If you're prepared, if you're ready to
20 go, Mr. Vaughan, Mr. FitzGerald, you may commence
21 your cross-examination.

22 Mr. FitzGerald, we cannot hear you. You must
23 be on mute.

24 Can anyone hear Mr. Fitz -- you can? Well --

25 MS. VINSEL: We can't -- we couldn't hear

1 Mr. Vaughan.

2 CHAIRMAN SCHMITT: We can't hear either
3 Mr. Vaughan or Mr. FitzGerald, so we're going to
4 have to take a minute.

5 VICE CHAIRMAN CHANDLER: Can you hear me,
6 Mr. Chairman?

7 CHAIRMAN SCHMITT: I'm sorry?

8 VICE CHAIRMAN CHANDLER: Can you hear me?

9 CHAIRMAN SCHMITT: Yes. Can you hear
10 Mr. Vaughan and Mr. FitzGerald?

11 VICE CHAIRMAN CHANDLER: I can. Maybe we can
12 give it another try. Mr. FitzGerald.

13 MR. FITZGERALD: Okay. Absolutely. Your
14 Honor, can you hear me now?

15 CHAIRMAN SCHMITT: Yes.

16 MR. FITZGERALD: All right.

17 CHAIRMAN SCHMITT: Mr. Vaughan, would you
18 speak up?

19 THE WITNESS: Yes, sir.

20 CHAIRMAN SCHMITT: Okay. So -- all right.
21 So looks like we're okay. Now you may begin,
22 Mr. FitzGerald.

23 MR. FITZGERALD: It may be more merciful,
24 Mr. Chairman, if you can't hear me, I'm sure.

25 * * *

1 CROSS-EXAMINATION

2 By Mr. FitzGerald:

3 Q. Mr. Vaughan, I'd like to start out, if I
4 could, by following up on a few points from your --
5 what I think I heard you say in earlier -- in
6 questioning, but I'd like to clarify in case I got
7 it wrong. Okay?

8 Following up on your point regarding the
9 reduction in bills during the recent years, am I
10 right that part of that reduction is due to tax
11 reform and that the tax reform reduction ends at the
12 end of 2021?

13 **A. There's a couple different pieces to tax**
14 **reform.**

15 Q. Okay.

16 **A. One of the larger impacts being the 35**
17 **percent marginal rate going to 21 percent, so that**
18 **was incorporated into the Company's last base rate**
19 **increase. So that reduction was there, and then,**
20 **you know, as Mr. Kurtz and I discussed, based on the**
21 **KIUC complaint, we then instituted the Tariff FTC**
22 **here in Kentucky to pass that excess ADFIT protected**
23 **and unprotected. So the protected piece of that**
24 **will continue to go on. The unprotected, again,**
25 **depending on what happens in this case, could go on**

1 **for a few years, could go on for 18 years.**

2 Q. Okay.

3 **A. That's a portion of it. Fuel decrease is**
4 **a -- is a big chunk of the reduction in rates over**
5 **time, as well as the net credit that was flowing**
6 **through Tariff PPA for a little over a year.**

7 Q. Okay. You froze there for just a second.
8 Okay? Did you hear me okay?

9 **A. Yes, sir.**

10 Q. Okay. Great. Mr. Blankenship's testimony,
11 his written testimony, concluded with a note that
12 the anticipated cost of AMI is aided by the
13 experience gained from other AEP companies, and then
14 he deferred the rate issues to you. So it's like
15 everybody has, like, laid it on your desk, so the
16 buck stops here, or in this case 37 million bucks
17 stop here.

18 So I was wondering, do you know whether other
19 companies that have been noted as either having
20 deployed or deploying AMI, those being Kentucky
21 Power affiliate PSO, Ohio Power Company, Appalachian
22 Power Company, and AEP Texas, did formal
23 cost-benefit analyses when they were requesting
24 approval for AMI?

25 **A. I don't know whether or not they did**

1 **cost-benefit analyses -- well, all of them, anyways.**
2 **I know APCo did not. I was just involved in the**
3 **Virginia rate case there that addressed AMI. It was**
4 **very similar to Kentucky Power's request in that**
5 **current AMR meters are obsolete, past their useful**
6 **life, so AMI meters are going in --**

7 Q. Okay.

8 **A. -- to those customers. Three of those**
9 **companies you mentioned do recover AMI through a**
10 **rider, though, similar to what the Company is**
11 **requesting here.**

12 Q. Okay. And how many of the other ones are
13 recovering costs through part of rate base? Or base
14 rate. I'm sorry.

15 **A. Of the AMI companies, I believe APCo.**

16 Q. Okay. You responded to a question from
17 Mr. Spenard that the NMS II customer is being,
18 quote, unquote, paid for excess generation. You do
19 understand that the customer in Kentucky receives a
20 credit rather than a payment and that that credit is
21 not redeemable except against usage?

22 **A. However it's characterized, it is -- it is**
23 **compensation or a credit on the bill, and, you know,**
24 **the Net Metering Act states that -- prevailing law**
25 **states that net metering is the financial netting of**

1 **the cost of their load and the price paid for the**
2 **excess generation.**

3 Q. Well, I'm not going to ask you to
4 characterize the law, it speaks for itself, but you
5 do understand that the credit is not able to be
6 cashed out, that it is simply a credit against
7 future use -- future usage, and when the customer
8 ceases to be a customer, that credit stays with the
9 Company and not with the customer?

10 **A. I'm not aware of what happens at the end of**
11 **the -- end of a net metering contract, I guess, but,**
12 **you know, right now it would be cashed out every**
13 **month under NMS II per the law --**

14 Q. Well --

15 **A. -- in the form of a bill credit.**

16 Q. -- again -- yeah, in the form of a bill
17 credit. Okay. Thank you. So it is not cashed out
18 at all, it is credited against usage; is that
19 correct?

20 **A. I think we're splitting hairs here. The**
21 **customer is receiving compensation at some level on**
22 **its bill.**

23 Q. With all respect, Mr. Vaughan, we are
24 certainly not splitting hairs, and I won't go into
25 the distinctions between an independent generator

1 under PURPA and the tax consequences versus a credit
2 that is dollar denominated but is not a cash
3 payment. We'll just leave it at that.

4 As you understand it, does prevailing law,
5 that being Kentucky law, require KPC to propose
6 limiting the credit, or the use of those credits to
7 peak hours?

8 **A. Are you referring to the bill credits we were**
9 **just discussing?**

10 Q. Yes.

11 **A. No, I don't think there's anything in the law**
12 **that limits that, but the Company's proposal limits**
13 **that because the law does. It allows the Company to**
14 **recover its cost of service to serve those net**
15 **metering customers that use the Company's system**
16 **every day.**

17 Q. Okay. Thank you. And finally, you
18 indicate -- you seem to indicate -- and I was a
19 little concerned about this. You seemed to indicate
20 that the prevailing law required you to propose the
21 avoided cost as the compensatory credit rather than
22 some other value. Is that your testimony?

23 **A. Are you referring to how we have -- we have**
24 **characterized the avoided cost, how we have**
25 **calculated it?**

1 Q. I was referring to the fact that in response
2 to Mr. Spenard's questioning, you said there were
3 two reasons why you went to the avoided cost, and
4 one of them was because the law required it. Did I
5 misunderstand you?

6 **A. I don't think I said that, but --**

7 Q. Okay.

8 **A. But basically the Company is valuing an**
9 **avoided-cost rate based on what the actual avoided**
10 **costs are, so that when a customer's load is reduced**
11 **through net metering or excess net metering in that**
12 **interval, what is the total cost of service actually**
13 **realizing? And that is what is in that avoided-cost**
14 **rate.**

15 Q. Okay. So again, the law did not require you
16 to go with the avoided-cost rate, that was a
17 decision of the Company?

18 **A. Yeah, you're absolutely correct. And, you**
19 **know, as Witness -- KIUC AG Witness Baron stated, we**
20 **could have also proposed a straight buy/sell type**
21 **tariff and done it as LMP as other companies do, or**
22 **pick your cost base method. But, yes, I do believe**
23 **it needs to be cost based. But, no, we could have**
24 **done it another way.**

25 Q. Okay. We're going to shift gears a little

1 bit. How -- do you know how the costs of the
2 current generation of AMR meters were recovered from
3 customers in the Kentucky Power service area?

4 **A. It's part of the Company's base rates.**

5 Q. Okay. And are those meters fully paid off,
6 or are the residential and commercial ratepayers
7 still paying for them?

8 **A. By "paid off," do you mean are they fully
9 depreciated?**

10 Q. Yeah.

11 **A. It my understanding they are not fully
12 depreciated as the Company has not updated
13 depreciation rates in quite some time.**

14 Q. Okay. So do you know how much customers are
15 paying a month for the -- for that generation of
16 meters?

17 **A. I do not know specifically what the AMR costs
18 per month per customer is, no.**

19 Q. Okay. And under the proposed grid
20 modernization rider -- can we say GMR?

21 **A. That would be great.**

22 Q. Thank you. That would be used to pay for the
23 cost of this initiative. What will the customers
24 pay each year until the recovery of costs and the
25 return on investment are recovered? Do you recall

1 that offhand?

2 **A. I will actually point you to Exhibit AEV-8 --**

3 Q. Okay.

4 **A. -- in my direct testimony.**

5 Q. Okay. AEV-8?

6 **A. 8, yes.**

7 Q. Great. Thank you.

8 **A. It shows -- yeah, it shows in there, during**
9 **the four-year deployment and then out -- I think I**
10 **did this for ten years -- what the annual revenue**
11 **requirement is based on the current cost estimates**
12 **and associated operating expenses.**

13 So in that first year, it's the 1.1 million,
14 and just because we were implementing rates based on
15 that, if you go over to my -- it would be the third
16 page of that schedule, you can see that a
17 residential customer is going to pay 31 cents per
18 month in -- for a GMR rate associated with AMI.

19 Q. Okay. And that's year one, or is that -- is
20 that every year?

21 **A. That is year one. So obviously, that would**
22 **grow over time as the -- as the revenue requirement,**
23 **as you can see on page 1 of AEV-8, grows over time**
24 **as you deploy the meters.**

25 Q. Okay. Thanks. And did you consider -- or

1 did you compare the cost recovery if you had done it
2 through base rates rather than a rider?

3 **A. I mean, the -- so the revenue requirement**
4 **wouldn't change.**

5 Q. Right.

6 **A. It's the same whether you put it through the**
7 **rider or whether you put it in base rates. It's**
8 **just a matter of, you know, the flexibility of**
9 **recovery and, you know, as we've said a few times,**
10 **trying to balance all the -- all of the moving**
11 **pieces in this rate case, you know, customer bill**
12 **impacts, the Company's financial situation, you**
13 **know, that's why it went into the GMR rather than**
14 **base rates.**

15 Q. Okay. I understand the Company needs the
16 money, okay, but my question was: Did you look at
17 the comparative rate impact on ratepayers? They're
18 paying 31 cents a month in year one for the rider.
19 What would they have paid in year one per month if
20 you had gone with base rate?

21 **A. The same or more. And I say "more," because**
22 **if we were doing it in base rates, we would probably**
23 **try and propose some level of year two costs in that**
24 **as well as you forecast out, since it's not flexible**
25 **at all. And as you see, the current plan is to ramp**

1 up that spend over time as you do the installations.
2 So, you know, if you put it in base rates and you
3 freeze it at that year-one revenue, it would be
4 baked into the Company's base rates, it may change
5 operationally how Mr. Blankenship and Mr. Phillips
6 actually execute this.

7 Q. Do you know whether KPC considered a pilot
8 program to test the assumption that net -- that AMR
9 would be of interest or benefit to the customers?

10 A. I have no knowledge of a -- of a pilot
11 program. And again, the reason -- my understanding
12 behind that, is that, you know, we're looking at
13 this from an obsolescence standpoint.

14 Q. Right. Okay. So does Kentucky Power -- do
15 you know whether they currently report energy usage
16 by the customer on a monthly residential bill
17 separate from the meter charge?

18 A. Does the bill have monthly kilowatt hour
19 usage on it?

20 Q. Does it separate out what you're paid -- what
21 you're being billed for energy as opposed to your
22 meter charge?

23 A. I'm not certain what the current bill format
24 looks like. It may just have total charges. It may
25 have total rate billings, then taxes. I'm not a

1 **hundred percent certain.**

2 Q. That's a fair answer. Okay. If we could
3 shift again to time-of-day rates. This is the
4 voluntary buy-in -- or voluntary tariff that you
5 have for time of day. Is --

6 **A. Existing TOD rates?**

7 Q. Yes, that TOD 2, is that -- is that it?

8 **A. Well, no, we have a number of time-of-day**
9 **rates, and have for quite some time, residential,**
10 **commercial.**

11 Q. I'm sorry. This is the, quote, experimental
12 residential service time-of-day tariff.

13 **A. It's been experimental for a long time now, I**
14 **think, yes.**

15 Q. Got that. Got that. We've got a pilot going
16 on in Columbia Gas that has been flying around for a
17 long time.

18 Is Kentucky Power's cost of service, cost of
19 power the same at all times of the day in all
20 seasons?

21 **A. Can you repeat your question?**

22 Q. Yeah. Let me just -- the average customer
23 gets a kilowatt hour charge, right, a levelized
24 charge, but the actual cost of either producing or
25 acquiring electricity for sale changes over time,

1 does it not?

2 **A. It does, and rates do as well. When we look**
3 **at base rates here, they're fixed. Those are those**
4 **basic rates, right? They don't have the energy --**
5 **they don't account for what I would say the more**
6 **volatile costs are. Like we talk about energy**
7 **supply, that is true of every month, so that**
8 **customers do see -- you know, can see widely varying**
9 **rates through the -- through the FAC and other power**
10 **supply costs.**

11 Q. Okay. And are Kentucky Power's costs of
12 generating or acquiring electricity higher during
13 peak demand?

14 **A. It totally depends. Ten years ago, when I**
15 **was in more of the commercial business here, I would**
16 **say yes. Now, anybody's guess. I mean, it's highly**
17 **dependent upon, you know, market forces beyond just**
18 **what Kentucky Power is doing.**

19 And again, you know, our peak time may not
20 align with the peak time of PJM, so you may see very
21 little fluctuation in LMPs. It just depends.

22 Q. Okay. How many residential customers do you
23 know took service under the experimental time-of-day
24 tariff, residential tariff, during the test year?

25 **A. Very few. I don't have the exact number, but**

1 **it's in the -- it's in the test year schedules.**

2 Q. Okay. Roughly? 100? 200?

3 **A. So on RS-TOD 2, there are zero.**

4 Q. Okay.

5 **A. And on RS-TOD, we have six.**

6 Q. Okay. Very popular program, then?

7 **A. Very.**

8 Q. Okay. The -- is it true that with the
9 current net metering tariff -- we'll call that
10 NMS I.

11 **A. Sure.**

12 Q. The -- a customer could now choose to be a
13 customer generator and opt into the TOD rates?

14 **A. I think that's true.**

15 Q. Okay. Do you know whether they would be
16 able -- oh, I'm sorry. Go ahead.

17 **A. I'm not a hundred percent certain. I would
18 need to go back over the existing tariff, but, yeah,
19 that does -- sounds right.**

20 Q. Okay. Would they be able to under the
21 proposed NMS II?

22 **A. No, they can't, because of the overlying
23 netting periods.**

24 Q. Is the current voluntary TOD tariff available
25 to customers using the AMR meter technology, or do

1 you have to install a new meter to enable them to
2 use the TOD rates?

3 **A. The way I understand it is it's an AMR meter,**
4 **but there's essentially another piece of equipment**
5 **that gets plugged into it. There's a lot of -- a**
6 **lot of metering charges that I don't understand, but**
7 **there's other registers or something that happens**
8 **within that AMR meter to provide the billing, we'll**
9 **call them the buckets or netting period -- not**
10 **netting period. The period -- the billing period,**
11 **right? Because we have to accumulate usage by**
12 **period, then send it to our billing system to be**
13 **able to bill that tariff, but it's an AMR --**

14 Q. Okay. As --

15 **A. -- meter.**

16 Q. As I understand it, now, and I could be
17 wrong, the AMR meter is capable of producing that
18 information whether somebody is using energy or
19 electricity at peak times, as defined by the
20 Company, or off-peak times.

21 **A. Yes, that's how we bill the on-peak and**
22 **off-peak rates in the tariff.**

23 Q. Okay. And then does the customer under that
24 tariff get some information saying here are the
25 hours that are peak, here are the hours that are off

1 peak, so they know and can adjust their usage?

2 **A. Yeah, it's in the tariff.**

3 Q. Okay.

4 **A. So it's stated in the tariff they signed up**
5 **for.**

6 Q. Wonderful. And why would a person choose to
7 participate in a TOD rate program, do you know?

8 **A. I do not know what those six customers are**
9 **thinking, but generally it would be if you have some**
10 **sort of -- some sort of portion of your load that**
11 **is -- that I would characterize as discretionary and**
12 **easy for you to move from time period to time**
13 **period, such as, you know, an electric vehicle,**
14 **like, again, back to my EV tariff, it would be, you**
15 **know, some sort of discretionary load that you want**
16 **to -- you have the ability to move off of one**
17 **higher-priced-type time period to a lower price time**
18 **period, take some sort of financial advantage of**
19 **that.**

20 Q. Excellent. And does the Company benefit from
21 the customers doing this TOD program?

22 **A. Yeah. It's the same discussion as I had with**
23 **Mr. Spenard there on the -- you know, if we can**
24 **reduce load at certain cost-causing peaks, you know,**
25 **the overall cost of service benefits, and that's**

1 **what we have priced in NMS II and my other -- my**
2 **peak-shaving tariff, which I just lost my -- DRS --**

3 Q. Yeah.

4 **A. -- the DRS tariff.**

5 Q. Okay.

6 **A. Same concept.**

7 Q. Believe me, Mr. Vaughan, I have lots of those
8 moments, so -- and so as -- and just so I
9 understand, the benefits that somebody participating
10 in the TOD, although, you know, when there's six of
11 them within the entire system, we can assume they're
12 fairly marginal benefits, but those benefits to the
13 system are baked into the prices, right?

14 **A. That's right. It's baked into the effective**
15 **rate they get, you know, which is lower off peak**
16 **when they move. You know, let's say, for example,**
17 **their standard bill would have been ten cents and**
18 **now it's seven cents because they shifted some**
19 **portion of the load off peak, and there's some sort**
20 **of roughly commensurate reduction in the overall**
21 **cost of service. Cost of service went down,**
22 **customer's bill went down, same as any sort of**
23 **peak-shaving paradigm.**

24 Q. Got it. Got it. And do those participating
25 customers, assuming that they do have some

1 discretionary load that they can shift to a lower
2 peak, are they paying -- when they do shift that
3 load, are they paying as much of the fixed costs
4 that are embedded in the volumetric rates as they
5 would if they used all that energy on peak?

6 **A. It depends. When we design these TOD rates,**
7 **you design it so that the distribution costs are the**
8 **same in every component, because obviously,**
9 **distribution infrastructure doesn't move, doesn't**
10 **matter when you use -- when you use it, whether it's**
11 **on peak, off peak, or how much you use it, it has to**
12 **be there for you to receive service. So those rates**
13 **are constant across all the TOD period, the prices.**

14 And then you basically look at -- largely,
15 transmission is the same way, so the wires charges,
16 and then you kind of create that noncost-based price
17 differential on the generation portion of the bill.

18 Q. Okay. Okay. And the -- getting -- now,
19 this -- I think you've almost answered this question
20 too. Regarding the rates, what is the -- if you
21 could -- and if this is not something that you've
22 got in front of you, just say so. But can you break
23 down for me the components of the rate for on-peak
24 consumption, which I understand to be 15.7 cents per
25 kilowatt hour, as opposed to the off peak of 8.25

1 cents per kilowatt hour? What's the -- what's the
2 differential there, if you're -- if you're -- if
3 you're building in the distribution costs, you're
4 building in the transmission costs as being fairly
5 fixed, what floats between those two rates?

6 **A. Well, like I mentioned, the differential**
7 **isn't cost based. There also would be almost no**
8 **differential because there's very little difference**
9 **now in on-peak and off-peak prices. As I discuss in**
10 **my testimony, it's purely an incentive price signal**
11 **to move folks off. If it was cost based, it would**
12 **look exactly like the price signal in NMS II or DRS.**

13 Q. Okay. Okay. Thank you. Moving on. Do, do,
14 do.

15 Do you -- do customer-sited -- or let's say
16 rooftop energy, solar energy systems normally
17 generate energy during the RS-TOD on-peak periods,
18 which I think is 7:00 to 9:00 Monday to Friday?

19 **A. Yes, during the day.**

20 Q. Okay.

21 **A. When the sun is out.**

22 Q. Cool. And then do they normally generate
23 energy during the RS-TOD 2 on-peak periods, which
24 are noon to 6:00 May 15th-September 15th?

25 **A. They hit the summer one, they miss the --**

1 **they largely miss the winter peak.**

2 Q. Okay.

3 **A. On a large scale.**

4 Q. In determining the compensation rate offered
5 for excess generation from net metering customers,
6 how does the NMS II tariff account for the higher
7 value of energy during peak periods?

8 **A. It's baked into the avoided energy rate and**
9 **the avoided capacity and transmission cost rate.**
10 **Those are actually marginal costs. And again,**
11 **LMPs -- LMPs are almost flat. There's very -- very**
12 **little differentiation anymore between an LMP,**
13 **locational marginal price, being the Company's**
14 **marginal cost of energy, across on-peak and off-peak**
15 **periods. And so the avoided-cost rate in NMS is**
16 **weighted towards the on-peak production on a solar**
17 **facility. So they're getting that full compensation**
18 **there.**

19 Q. Full crediting?

20 **A. Certainly. Full credit in the avoided-cost**
21 **rate.**

22 Q. Okay. There are, as I understand it, roughly
23 30 or 40 current net metering customers, including
24 the residential and the commercial?

25 Just so you don't have to look, Mr. Vaughan,

1 the page 166 in Section III of the testimony in
2 Volume 1 says, (Reading) At the end of the test
3 year, there was 44 net metering customers.

4 Does that sound about right?

5 **A. Yeah. We updated that in Staff 4-82.**

6 **There's 46 installs in service, ten of which are**
7 **commercial, so 36 --**

8 Q. Okay. Right.

9 **A. -- residential.**

10 Q. And then the testimony, I think one of the
11 other witnesses said there's potentially 30 more
12 that are in the pipeline?

13 **A. I believe so. I think there's -- I confirmed**
14 **some. Roughly that number is between 23 and 30, I**
15 **think, applications out there.**

16 Q. Okay. And do you know how many RS customers
17 have submitted applications that are not yet
18 operational?

19 **A. I do not.**

20 Q. Okay. How many GS customers?

21 **A. That -- I don't know. It's hard to see --**
22 **even if I did see those applications, our**
23 **distribution generation group takes care of that.**
24 **That was part of the confusion in our initial**
25 **testimony and discovery answers is that you may have**

1 a commercial customer with a residential customer's
2 name on it, but it's for a commercial account.

3 Q. Gotcha. Gotcha. Is economic development and
4 job creation important to Kentucky Power?

5 A. Absolutely. As, you know, Company President
6 Mattison and as Company Witness Wiseman discussed,
7 that economic development, jobs in the service
8 territory and lowering rates for everyone is a big
9 goal of Kentucky Power.

10 Q. Okay. How many -- do you -- have you figured
11 out what the total financial impact of non -- on
12 nonparticipating customers of crediting your current
13 net metering customers at a one-to-one kilowatt, you
14 know, generator-to-use basis, what the rate impact
15 is on nonparticipating customers on a monthly or
16 annual basis?

17 A. I mean, those numbers are all in the record
18 here, especially when you look at -- I think my
19 tables there at the end of my rebuttal testimony, we
20 discussed what an NMS bill would be versus what a
21 NMS II bill would be versus what a standard bill
22 would be, and, you know, there is a subsidy there,
23 and it's not material currently, but again, that's
24 not one of the requirements for us to change our
25 rates, how we treat NMS, net metering customers.

1 Q. When you say it's not material, did you -- do
2 you dispute the suggestion from Mr. McDonald and
3 that which was given by Mr. Rabago during the
4 administrative case, which is part of the record of
5 this case, that the impact, current impact of the
6 one-to-one credit on nonparticipating customers is
7 about seven cents a year?

8 **A. I wouldn't say I agree with any of their**
9 **math, especially Mr. Rabago's in that case, but**
10 **it -- the subsidy is there, you're paying someone**
11 **three times -- three times the cost of a good for**
12 **said good, so that -- and we are availing ourselves**
13 **of the Net Metering Act in this application to**
14 **change our rates.**

15 And like I say in my rebuttal testimony,
16 there's no reason to wait until the problem is huge
17 to fix it. I don't know if you've looked at some of
18 those rate cases out West, in Arizona and Nevada,
19 but they become very contentious on all sides.
20 There's a lot -- there's a lot of money at stake
21 there, and, you know, the Company -- the Company was
22 prefer to fix something, send the correct price
23 signal, and do it now, before it is a larger subsidy
24 in rates, so that those new NMS II customers can
25 evaluate their investment on a more reasonable

1 footing.

2 Q. Okay. So getting back to it, you didn't
3 agree with the math, but do you have a number for
4 what is -- what is now a negligible or a minimal
5 impact? Have you priced out what the actual
6 supposed subsidy is that nonparticipating customers
7 are paying?

8 **A. In terms of cents per kilowatt hour, yes. In**
9 **terms of total dollars each year, it's irrelevant,**
10 **as I've discussed.**

11 Q. Well, if there's a subsidy that's occurring,
12 do we know what it is in terms of what -- if I'm a
13 nonparticipating customer, am I coughing up a penny,
14 a fraction of a penny, five cents? It's not
15 irrelevant to me as a nonparticipating customer if
16 there is such a subsidy. I'm just wondering if you
17 put a dollar value on it.

18 **A. Just a moment.**

19 Q. Sure.

20 **A. Yeah. So if you look at my rebuttal page 25,**
21 **customers are paying just over ten cents, 10.33**
22 **cents per kilowatt hour for a commodity they would**
23 **otherwise purchase for 3.85 cents. So the**
24 **difference there is what, per kilowatt hour -- it**
25 **grows volumetrically as you add more to it -- what**

1 **nonparticipating customers are paying versus**
2 **participating customers.**

3 Q. Okay. And have you multiplied that cost by
4 the -- or spread that cost among the number of
5 customers in the residential class, and can you tell
6 me what the annualized cost is for that
7 nonparticipating customer because of this supposed
8 subsidy?

9 **A. No, because as I stated earlier, it's**
10 **irrelevant.**

11 Q. Humor me. Have you made that calculation?

12 **A. No, sir.**

13 Q. Okay. And why is it irrelevant? If you're
14 so concerned that there's a subsidy occurring, that
15 the nonparticipating customers are being asked to
16 participate in the payment for something that --
17 let's assume it has no value to them. Why is it
18 irrelevant, that -- the amount that they are being
19 required to pay?

20 **A. So like I said here, it's kind of a multipart**
21 **answer. First off, current NMS customers are**
22 **grandfathered, so they're not losing anything on**
23 **their investment that they made under the old NMS**
24 **tariff, right? So they made some sort of decision**
25 **to put generation on their homes or their business,**

1 **and whether that was economic or otherwise, that is**
2 **the deal they struck, that's grandfathered under the**
3 **law.**

4 We want to provide the right price signals
5 for future potential NMS customers, and NMS II, so
6 that they can make the right decision. And the
7 Company's position is that nonparticipating
8 customers shouldn't be funding above what they
9 normally would have paid for electricity, that
10 NMS II customers' economic decision, you know,
11 their -- they can take into account if they're
12 getting a federal tax credit or some other state
13 program, whatever's out there, but we want to keep
14 that out of our electric rates so that our customers
15 aren't different.

16 Q. I'm going to try this one more time and then
17 we'll just move on.

18 Have you quantified, on a monthly and an
19 annual basis, what this supposed subsidy is that
20 nonparticipating customers are paying for those that
21 are taking --

22 MS. BLEND: Your Honor --

23 Q. -- net metering?

24 MS. BLEND: Your Honor, objection. This
25 question has been asked and answered by Mr. Vaughan

1 several times, he's explained his answer several
2 times, and the fact that Mr. FitzGerald doesn't like
3 that answer doesn't entitle him to keep asking.

4 MR. FITZGERALD: Listen, I can dance as well
5 as anybody. We've asked it several times, it's not
6 been answered. There is a claim that there is a
7 supposed subsidy, yet the Company seems incapable of
8 determining and reporting what that supposed subsidy
9 is.

10 MS. BLEND: And, Your Honor, Mr. Vaughan
11 explained that he hasn't calculated that subsidy,
12 and that it's not necessary to do so and he has
13 explained why.

14 CHAIRMAN SCHMITT: Yeah, I sustain.

15 MS. BLEND: We believe --

16 CHAIRMAN SCHMITT: Let's move on. I think we
17 understand.

18 MR. FITZGERALD: Thank you, Your Honor.

19 Q. Mr. Vaughan, you suggested that the time to
20 deal with this problem is now, before it becomes a
21 significant problem. You are familiar that there is
22 a statutory maximum cap of one percent?

23 **A. Yes, sir.**

24 Q. Have you calculated what the rate impact
25 would be on nonparticipating customers at one

1 percent penetration by net metering customers?

2 **A. Yeah, I have -- I have not, but again, that**
3 **6.2 cents per kilowatt hour in subsidy, as I just**
4 **discussed, the difference between 10.3 and 3.5, you**
5 **know, if we change it to NMS rate where**
6 **nonparticipating customers are different, there's no**
7 **need to calculate it because there is no subsidy**
8 **going forward, or a much-reduced subsidy.**

9 And again, my experience in other places,
10 every time something gets close to a statutory cap,
11 it tends to get pushed out to a larger statutory
12 number. We just saw that in Virginia, so -- and
13 again --

14 Q. Mr. Vaughan -- go ahead.

15 **A. -- my testimony is that we address that now**
16 **so we get the right framework for customers to make**
17 **their economic decisions based on.**

18 Q. You're familiar with the fact that in
19 Kentucky, we went from a flexible cap to a hard cap
20 of one percent and not the other way?

21 **A. I don't have the background on that, but --**

22 Q. Okay. So this concern about this subsidy,
23 these -- the indeterminate amount of this subsidy,
24 is it higher or lower than the \$3.48 a year that a
25 nonparticipating residential customer pays to

1 support the TEE program? Do you know that?

2 **A. The what program, sir?**

3 Q. The -- is it TEE, the energy efficiency --
4 Targeted Energy Efficiency program? We've
5 established that the nonparticipating residential
6 customer in Kentucky Power service territory pays
7 \$3.48 a year to support that program.

8 **A. Yeah.**

9 Q. Do you know, is that higher or lower than
10 this supposed subsidy from nonparticipating to
11 participating net metering customers?

12 **A. So again, the quantified subsidy is that
13 6.2 cents per kilowatt hour, but I do not know if
14 it's larger or greater than the amount billed for
15 the Company's Commission-approved energy efficiency
16 demand response programs --**

17 Q. Do you know whether it's higher --

18 **A. And that's --**

19 Q. -- oh, sorry?

20 **A. I was just going to say that, you know,
21 that's a program that the Commission approved, you
22 know, in our last rate case, or something very close
23 to it, the companion case, they eliminated the
24 remainder of the Company's programs and that that's
25 the one surviving program.**

1 Q. Okay. And do you know whether it's higher or
2 lower than the \$3.60 a year that nonparticipating
3 residents -- customers pay to support the Low Income
4 Energy Assistance programs?

5 **A. I don't know.**

6 Q. Okay. And for commercial net metering
7 customers, do you know whether the supposed subsidy
8 is higher or lower than \$12 a year that they pay to
9 support the K-PEGG program?

10 **A. Well, I'm -- I don't agree with your**
11 **characterization of the K-PEGG being a subsidy.**

12 Q. I appreciate that. Do you know whether it's
13 higher or lower than the amount that is being paid
14 by commercial customers to support that program
15 every year at \$12?

16 **A. I don't know, and I would testify that that's**
17 **irrelevant.**

18 Q. I appreciate that too.

19 Do you know whether, under the three programs
20 I mentioned, the Company gets a rate of return on
21 the management of those programs, the Targeted
22 Energy Efficiency, the Low Income Energy Assistance,
23 and the K-PEGG program?

24 **A. We definitely don't earn a rate of return on**
25 **the K-PEGG program. You know, as Ms. Wiseman said,**

1 that's a -- that's going into some of the Company's
2 economic development efforts, which, you know, if
3 you look at my Exhibit 9, those efforts are
4 increasing the amount of billing units on the
5 Company's service territory and helping to lower all
6 customers' rates.

7 On the energy efficiency programs, I believe
8 the Company receives a voided -- or, I'm sorry, lost
9 revenues associated with the reduction in load from
10 its energy efficiency efforts.

11 Q. Okay.

12 **A. You know, which is different from what
13 happens with, you know, net metering.**

14 Q. Okay. What happens to the electricity, then,
15 that the -- the excess generation that is fed into
16 the system by a net metering customer? Is that
17 energy resold by the utility?

18 **A. Resold? How so, sir?**

19 Q. Well, I -- does the -- does the electricity
20 from a net metering customer go any further than the
21 local grid?

22 **A. Generally, no. I'd say it's being consumed
23 on the distribution system, so it's netting the
24 Company's load.**

25 Q. Okay. And so is somebody else consuming that

1 electricity?

2 **A. Between line losses and some other customer,**
3 **yes.**

4 Q. Okay. How much are the line losses?

5 **A. Depends what customer, where they're sited on**
6 **our system. As we've talked a lot here in this**
7 **case, our system is very dispersed. It's not very**
8 **dense. It's not -- it's most likely not going from**
9 **one yard, you know, 30 feet over to the next house.**
10 **That's just not how our system is built.**

11 Q. Okay. So --

12 **A. So the line loss could be very significant.**

13 Q. Okay. So the part that's not lost to line
14 loss, some other customer is consuming?

15 **A. Yeah. As I said, it's reducing the Company's**
16 **distribution level load, and that's how we've**
17 **designed the avoided-cost rate.**

18 Q. Okay. And is that other customer getting
19 that electricity for the avoided cost, or are they
20 paying you a higher value for it?

21 **A. Customers are paying for service. And,**
22 **again, the only piece -- there's only certain pieces**
23 **that -- you're talking -- when a DG customer reduces**
24 **energy, you're only talking one portion of the**
25 **overall cost of service. You're talking energy**

1 **supply, you're not talking -- you know, those units**
2 **are not supplying regulation, other ancillary**
3 **services. They're not providing transmission**
4 **service and distribution service. You know, those**
5 **are all different parts of the Company's rates.**

6 So essentially, if you do price it at the
7 avoided-cost rate, then yes, it is exactly what that
8 customer would have paid for those electrons had it
9 not received them from some other DG customer.

10 Q. Okay. So that other customer is getting the
11 electricity for the same price that you are
12 compensating the net metering customer?

13 **A. Yes, because it's only part of the bill. You**
14 **can't -- I know net metering likes to wrap all of**
15 **the Company's services up and provide that credit to**
16 **the customer, but it doesn't change the fact that**
17 **there's distribution and transmission and other**
18 **infrastructure there that that customer still uses**
19 **every day.**

20 So what I'm saying is, electrons that are
21 flowing down the system to the next customer and
22 theoretically they're consuming them, by definition,
23 if it's an avoided-cost rate, they are receiving
24 those electrons at the same price as they would have
25 otherwise.

1 Q. Okay. And you -- have you credited any value
2 that having that distributed generation may have on
3 the local grid?

4 **A. Yes. I think I go through that -- well, let
5 me find the part of my --**

6 Q. No, I just -- I don't need the details. I'm
7 just asking whether you factored that into your --
8 the value that you assigned to the net metering --
9 net metered energy.

10 **A. Yeah, absolutely. As I walked through
11 rebutting Mr. Owen's comments, I think there's eight
12 different points, we address all of them. And
13 anyone that actually has an actual avoided cost is
14 absolutely included, including the load-based
15 ancillary costs that I had overlooked in my direct
16 testimony that he pointed out in his discussion that
17 I then later incorporated. And distributions losses
18 are also one of those that is included in the
19 avoided-cost rate.**

20 Q. Okay. Give me just a second here.
21 Mr. Vaughan, on page 25 of your rebuttal, you
22 describe solar energy as a commodity consisting of
23 energy capacity and renewable attributes.

24 Do you recall that?

25 **A. Yes, sir.**

1 Q. You describe the Company's test year average
2 capacity value and distribution value for a
3 residential system at \$515; is that correct?

4 **A. That would be the -- I think you said**
5 **"distribution," it would be energy and capacity.**

6 Q. Oh, okay. And the average system, this
7 average system is 8.84 kilowatts?

8 **A. Yes, for the residential class.**

9 Q. Okay. Producing 13,374 kilowatt hours of
10 energy?

11 **A. Yes, sir.**

12 Q. Okay. And representing about 3.36 kilowatts
13 of market capacity with the energy valued at the
14 hourly PJM LMP and the PJM RPM; is that correct?

15 **A. Yes. That table there on R25 could give you**
16 **that, essentially what the commodity value is, yes.**

17 Q. Okay. I'm trying to understand how it is
18 informative to consider the customer-invested
19 generation as a commodity to the PJM market,
20 particularly for NMS I customer generators, given
21 the very limited constructs granted to such
22 localized small-capacity systems operating under
23 statutory constraints and current PSC
24 interconnection guidelines and operating behind the
25 meter.

1 **A. Can you repeat your question, please?**

2 Q. Yeah. I'm trying to understand how
3 informative it is to consider customer-invested
4 generation as a commodity to the PJM market,
5 particularly for NMS I customers, given the very
6 limited constructs granted to such localized
7 small-capacity systems operating under statutory
8 constraints, PSC interconnection guidelines, and
9 operating in a fashion behind the meter.

10 **A. So again, NMS I customers are grandfathered,**
11 **but again, it's informative because we're talking**
12 **about a commodity here, and but for this DG -- the**
13 **DG electrons that under NMS II, or under any**
14 **construct, but for that, we're trying to come up**
15 **with what is the commodity price that customers**
16 **would have otherwise consumed that commodity at.**
17 **And when you're looking at it on a purely marginal**
18 **basis, that's what it is.**

19 Q. Okay. On page 25 of your rebuttal, it
20 appears that the NG capacity shown in the figure on
21 that page considered solar's total generation and
22 not the kilowatt hours that could be received by the
23 grid from that customer generator; is that correct?

24 **A. That's right. That's the full load shape.**
25 **It's not -- it's not discounted for what would be**

1 **consumed behind the meter. As I state here,**
2 **there's, like a generator view of that commodity.**

3 Q. Okay. And so you're -- are you suggesting
4 that the kilowatt hours that are generated by the
5 customer generators' systems are instantaneously
6 used behind the meter -- that aren't instantaneously
7 used behind the meter should be viewed as a
8 commodity and valued at commodity value as well?

9 **A. For the -- for the purpose of setting the**
10 **correct rates for net metering customers and how it**
11 **affects other customers, yes, any avoided costs**
12 **should be taken into account. The avoided cost is**
13 **the commodity price.**

14 Q. Okay. How do you square the revenue meter as
15 being the demarcation point where the kilowatt hours
16 suddenly become a commodity at the PJM hourly LMP
17 price?

18 **A. Well, again, when we -- when we produce the**
19 **avoided-cost rates, they account for things like**
20 **distribution losses. So you're grossing up what the**
21 **price would have otherwise been. You know, you're**
22 **getting a credit for distribution losses because you**
23 **do you travel from your regular net distribution,**
24 **that meter, up to a -- your -- the price from PJM is**
25 **a transmission-level price.**

1 So I'm not saying the customer is selling
2 some commodity or doing anything like that. It is
3 purely a marginal cost of service exercise when
4 you're looking at what an increment or decrement of
5 load or generation is worth. It's very standard.

6 Q. Okay. Shifting gears for a second. You are
7 familiar with the -- we -- getting back to the
8 K-PEGG program. You didn't like the word "subsidy,"
9 but can you tell me, in your understanding, what is
10 the justification for imposing a \$12 annual cost on
11 existing commercial customers to fund potential
12 economic development for future customers?

13 **A. Well, I think as Company Witness Wiseman and**
14 **Company Witness Mattison have discussed, you know,**
15 **our -- they discussed our economic development**
16 **efforts. And as I show in AEV Exhibit 9, when we**
17 **are successful there, and when those programs work,**
18 **we reduce everyone else's rates by attracting new**
19 **customers and increasing the denominator in the**
20 **billing equation. And so I hope our current**
21 **commercial customers are future commercial**
22 **customers, and these economic development programs**
23 **are trying to help encourage that.**

24 Q. Okay. And you're familiar with the TEE
25 program, the Targeted Energy Efficiency program and

1 the funding mechanism for that?

2 **A. Only at a high level.**

3 Q. Okay. Okay. I'm not going to ask you any
4 more about that, then.

5 The TEE program, the Low Income Energy
6 Assistance program, and the K-PEGG program seem to
7 have in common the idea that -- leaving aside
8 questions, particularly with Low Income Energy
9 Assistance, that we are a moral people who see the
10 importance of helping out those who are -- who are
11 less well-off than we, they seem to have a common
12 element, and that is that the cost of those programs
13 are spread across the entire customer class, but the
14 benefits may inure to a select number of people
15 within that class at a higher level than they are
16 generally benefitting the whole class; is that
17 correct?

18 **A. Again, setting the K-PEGG aside, the energy**
19 **efficiency programs there, to the extent --**
20 **definitely the people receiving those program**
21 **dollars and whatever benefits come with it, right,**
22 **they're receiving those benefits, but to the**
23 **extent -- to the extent you're lowering that load on**
24 **a cost-causing peak, cost of service is benefitting.**
25 **And no, I have no analysis showing any correlation**

1 **there, what the actual programs are.**

2 And then, you know, we talked about the
3 heating assistance, the low-income assistance
4 programs, right? That's funded with various ways,
5 through some shareholder dollars, through some
6 federal dollars, through some contributions from
7 customers, and that's just -- that is what it is.

8 Q. Okay. You know, it seem -- and the reason I
9 ask these questions is not just to be cute. Okay?
10 The reason I ask is because it seems that Kentucky
11 Power doesn't have a philosophical opposition to
12 having subsidies within a class of customers
13 provided that it believes that there's some value
14 gained from it. It doesn't even seem to have an
15 economic problem with interclass subsidies. And I'm
16 just trying to, for the life of me, figure out why
17 it is so obsessed with wanting to prevent a supposed
18 subsidy from a handful of residential customers that
19 are of negligible impact to the remaining members of
20 that customer class.

21 MS. BLEND: Your Honor, objection as
22 argumentative and because Mr. FitzGerald has now, it
23 appears, begun testifying through his
24 cross-examination.

25 CHAIRMAN SCHMITT: Sustained.

1 MS. BLEND: If Mr. FitzGerald could --

2 CHAIRMAN SCHMITT: Sustained. Sustained.

3 Q. If we could, Mr. Vaughan, I'd like to ask
4 questions about mechanism of the NMS II tariff.

5 The existing tariff, as I understand it, is a
6 one-to-one credit, one kilowatt hour generated and
7 fed into the grid, one used, they net out; is that
8 correct?

9 **A. Over a period of time, yes, right. But it's**
10 **not instantaneous. It's -- they get to use their**
11 **bill as if it were a battery, and that is the old**
12 **volumetric construct that has been stricken from the**
13 **law.**

14 Q. Okay. And -- well, that's not for
15 grandfathered customers, right?

16 **A. I'm sorry. Can you say that again?**

17 Q. Not for grandfathered customers it hasn't
18 been stricken from the law?

19 **A. That's right. For the grandfathered**
20 **customers, it is still in place.**

21 Q. Okay. And are you proposing an instantaneous
22 tariff or are you proposing one that nets over a
23 period of time as well?

24 **A. Right now, this is a period of time. It's**
25 **just we're narrowing that period of time to keep it**

1 within actually when the systems are producing,
2 right? It's not -- it's not to instantaneous yet,
3 and, you know, we could potentially look at that in
4 the future, but right now we're just taking the
5 measured step from full volumetric, where a customer
6 could produce a kilowatt hour in the middle of the
7 afternoon then net it on a winter morning peak when
8 there's no sun out, to something that at least nets
9 within the solar production window.

10 Q. Okay. But it's still being netted over a
11 billing period?

12 A. It's being netted within the -- within the
13 netting period and accumulated for the billing
14 period.

15 Q. Okay.

16 A. Then start over.

17 Q. So am I correct that the NMS II requires
18 customers to redeem credits for any excess
19 generation within that same period during which the
20 kilowatt hours were generated? Is that what you
21 were mentioning? You termed it "narrowing."

22 A. Yes. It's going from all 730-ish hours in
23 the month to the solar production hours, the
24 majority of the solar production there that -- on
25 the daytime on-peak period there.

1 Q. Okay.

2 **A. Yes, they are netting within that. And as**
3 **you accumulate the net, net excess energy in that**
4 **period, at the end of the month they will receive a**
5 **bill credit for that amount.**

6 Q. Thank you. Thank you. We're on the same
7 page. That's excellent.

8 Let me ask, Mr. Vaughan: Those credits carry
9 forward, do they -- do they not, under your
10 proposal, from a month-to-month basis?

11 **A. No, they do not carry forward. They are on**
12 **the customer's bill each month.**

13 Q. Okay. So you're proposing that any excess
14 generation that is -- occurs within a month and is
15 not consumed within that same month would be
16 extinguished?

17 **A. It's not extinguished, it's being credited at**
18 **the avoided-cost rate, because you're accounting for**
19 **all the energy in that system each month, whether it**
20 **is netted in one of the netting periods or it is**
21 **excess energy -- net negative energy or excess**
22 **energy, it's then being credited. So it's a -- it**
23 **is a financial credit, as discussed in the statute,**
24 **on the customer's bill each month.**

25 Q. Okay. So --

1 **A. If you --**

2 Q. Go ahead.

3 **A. If you look at -- oh, man. A lot of**
4 **testimony pages here, sorry.**

5 Q. No, that's fine.

6 **A. If you look at my testimony, rebuttal**
7 **testimony, R41, that table, on the NMS II bill**
8 **example for that residential customer, there's a**
9 **hundred-dollar rate billing, and then there's excess**
10 **energy credit of 19 to a monthly bill of \$81 there.**
11 **And so at that point you've accounted for all system**
12 **generation in that billing period, and then you**
13 **start over in the following month at zero and you do**
14 **the same.**

15 Q. Okay. What if my generation within a billing
16 period exceeds my usage? Do I have a credit that
17 carries forward at that point?

18 **A. No. That's exactly what the 19 is there.**
19 **Whether it exceeded your energy in total or just**
20 **within that billing period, any net negative excess**
21 **energy is being compensated at the avoided-cost rate**
22 **each and every month.**

23 Q. Okay. Let's shift gears here. A couple of
24 more areas I wanted to talk about. Did you -- are
25 you familiar with the declining block rate proposal?

1 **A. Yes, sir. I proposed it.**

2 Q. Okay. Who is eligible for that rate under
3 your proposal?

4 **A. Who's eligible?**

5 Q. Uh-huh.

6 **A. All residential customers who have more than
7 1,100 kilowatt hours in the winter months will see
8 some sort of benefit from that proposal.**

9 Q. Okay. What's the effect of a customer's rate
10 when they reach that level?

11 **A. It's then reduced. There's a discount in
12 that tail block, you know --**

13 Q. Okay. So --

14 **A. -- I referred in my direct testimony, to --
15 to reduce the interclass subsidy that's overpaying
16 fixed costs that those customers are experiencing
17 currently.**

18 Q. Okay. So it cuts that party a break in terms
19 of their costs of electricity above that level; is
20 that correct?

21 **A. It, per cost-causation, is reducing the
22 interclass subsidy by reducing the applicable rate.**

23 Q. Okay. So has the Company projected how many
24 customers would benefit from the declining block
25 rate?

1 **A. I think -- I think it's in my -- it's in my**
2 **testimony or it's in discovery responses, but, yes,**
3 **it's a great number of customers.**

4 **Q. Okay. And have you calculated what effect**
5 **that lower rate would have in terms of whether that**
6 **customer, for the usage above that cutoff, whether**
7 **they would still be paying their fair share of the**
8 **fixed costs if they're getting a break on that**
9 **overall rate?**

10 **A. Yeah, absolutely. That's why I proposed it**
11 **that way. They're paying full distribution and**
12 **transmission costs and then they're lowering a piece**
13 **of the generation costs there that they're paying.**
14 **So again, when you have as much fixed cost and**
15 **volumetric rates as the Company does, you can see**
16 **very skewed bills when you have high load months**
17 **because of cold weather because that is**
18 **nondiscretionary load, so you'd see a customer who**
19 **is paying a very large piece of fixed cost because**
20 **it got very cold for an extended period of time and**
21 **their usage went way up, and that's what we're**
22 **attempting to rectify, in part, here through the**
23 **declining block in the winter.**

24 **Q. Okay. So where are they -- if you still are**
25 **recovering all the fixed costs, where are you giving**

1 them a break?

2 **A. We're reducing their fixed cost contribution**
3 **because they are overpaying to begin with. So we're**
4 **bringing it more in line with what they should be**
5 **paying. It's the opposite of the NMS proposal.**

6 Q. Okay. If I am a customer who has installed
7 energy efficiency measures in my house on my side of
8 the meter, and because of that I'm using less
9 electricity, am I contribute -- am I
10 undercontributing to the recovery of fixed costs
11 relative to these other customers?

12 **A. I can't answer your question with just that.**
13 **I mean, I need to know, like, how many billing**
14 **kilowatt hours you use and whatnot, right, because**
15 **it's all -- everything is based on averages, and,**
16 **you know, you look in my testimony, our electric**
17 **heating customers are using significantly above**
18 **average because of those high winter usage months,**
19 **and that's the issue.**

20 And, again, as I mentioned, we have
21 90 percent of our total revenues in the residential
22 class are in volumetric charges, so as you reduce
23 usage through any means, energy efficiency or
24 otherwise, you see some sort of reduction in bill
25 there and reduction in fixed cost contribution.

1 Q. Okay. I'm always, Mr. Vaughan, in the
2 unenviable position of standing between everyone and
3 lunch, so I'm going to try to wrap this up in the
4 next couple minutes.

5 **A. Can you hear me? I just received a new
6 microphone.**

7 Q. Mr. Vaughan, are you familiar with the --
8 with the AMI initiative, the proposal?

9 **A. Somewhat.**

10 Q. Okay. I had asked before, and I don't know
11 that the question was answered. Do you know if
12 there's an empirical basis, a study or a set of
13 studies, for assuming that getting energy
14 information on usage more frequently would be a
15 benefit to customers, and particularly low-income
16 customers?

17 **A. I don't know if there's any direct financial
18 benefit to customers from receiving any more or any
19 less information, but I think, you know, Company
20 Witness West and Blankenship and everyone else who
21 has discussed that AMI, you know, they all have
22 their reasons for it, and there's -- you know,
23 overall we need it because of the obsolescence of
24 the AMR meters, and I think if you wanted to look at
25 a direct benefit for potentially a low-income**

1 **customer, it's that flex pay program Mr. West**
2 **discussed.**

3 Q. Okay. And within the areas that you work,
4 are you familiar with any utilities that have
5 prepayment or split billing programs that don't use
6 AMI?

7 **A. I am not. I know Public Service Company of**
8 **Oklahoma worked for the better part of a decade to**
9 **try and implement a prepay program on AMR**
10 **technology, and it was very difficult. I don't**
11 **think it ever got across the finish line until we**
12 **did roll out AMI there.**

13 Q. Okay. Are you familiar with any studies
14 indicating that low- and fixed-income customers of
15 Kentucky Power have elasticity in their electricity
16 demand and have opportunities for further reduction
17 in usage based on that information?

18 **A. You kind of flipped out there as you put your**
19 **hand over your video. Could you repeat that?**

20 Q. Yeah. I'm sorry. Are you familiar -- aware
21 of any studies indicating that low- and fixed-income
22 customers of KPC have elasticity in their
23 electricity demand and have opportunities to further
24 reduce their electric usage in response to getting
25 more data about their usage?

1 **A. No, I don't have any studies like that. And**
2 **again, as I discussed earlier, I think a lot of the**
3 **Company's load with the amount of electric heating**
4 **customers we have is somewhat nondiscretionary.**

5 Q. Okay. Residential customers like Tariff RS
6 don't have demand charges and don't have time-of-day
7 rates unless they are using that voluntary tariff;
8 is that correct?

9 **A. That's correct. If they -- what we would**
10 **essentially call a two-part rate. You have a basic**
11 **service charge and you have an energy charge --**

12 Q. Right.

13 **A. -- and the percent of revenue on the end of**
14 **it, as we discussed with Mr. Spenard -- Mr. Spenard.**

15 Q. Okay. And you're not proposing any
16 time-of-day rates for all residential customers
17 under the AMI initiative; is that correct?

18 **A. No, sir.**

19 Q. Do you know whether the Company has
20 considered what an investment comparable to the cost
21 of AMI in weatherization, replacement of housing
22 stock with radiant heat, that has radiant heating,
23 or other measures that would assist the customers to
24 be able to use less would do in terms of actually
25 allowing customers to lower their costs and better

1 manage their budgets?

2 Has there been any -- the assumption of the
3 other witnesses, at least, is that, armed with this
4 information, people would be able to reduce their
5 usage, and you seem to suggest that's not
6 necessarily the case.

7 **A. Well, I think more customer information is**
8 **always good. I think if you have more, to the**
9 **extent you have discretionary load, you could make**
10 **those choices, if it exists, right? But**
11 **nondiscretionary load such as heating, cooling,**
12 **those are what they are. I'd like to focus more,**
13 **from a customer standpoint, on that flex pay program**
14 **where you can give customers more options in how**
15 **they are billed and how they pay for their bill.**

16 But, no, I mean, it also gives us the
17 opportunity to do more, if, in the future, you have
18 a lot of interest in some sort of peak-reduction
19 program or something, a smart thermostat program
20 that goes with some sort of EE investment in the
21 future, right, AMI helps enable those types of
22 technologies.

23 **Q. Oh, okay. And you're aware that all of the**
24 **EE programs that KPC had have now been eliminated,**
25 **other than the KT program?**

1 **A. Yes, sir.**

2 Q. Okay. And the -- Kentucky Power has provided
3 testimony that a formal cost-benefit analysis was
4 not performed. In part, the testimony was that,
5 quote, many of the benefits are not readily
6 quantifiable, but that the customer reliability and
7 cost-savings benefits are, quote, sufficient to
8 support AMI's implementation, end quote.

9 How, without conducting a formal cost-benefit
10 analysis, can the Commission be assured that the
11 benefits will exceed costs?

12 **A. Well, from my standpoint, I need billing**
13 **information to bill customers and make rates, and to**
14 **the extent that our meters are failing, we need**
15 **meters. And obsolescence is the basis for our AMI**
16 **proposal in this case, and, you know, as -- I'm not**
17 **the metering expert, Mr. Blankenship is, and he**
18 **discussed that our meters are obsolete. So**
19 **regardless of what the overall costs and benefits**
20 **are, we need meters to provide service. You know,**
21 **Mr. Phillips, I believe, did talk about reliability**
22 **improvements that could happen, you know, for faster**
23 **restoration times and all that.**

24 So if you -- if you're going to quantify
25 that, you have to go and do some sort of broad-based

1 economic study and say what is the value of the
2 Company's grid, how much does an interruption of
3 that service to the service territory reduce total
4 economy, and, you know, we haven't done anything
5 like that because, again, it's the Company's
6 position we did not need to because its
7 infrastructure is obsolete and needs to be replaced.

8 Q. Okay. But there are other alternatives to
9 going with AMI technology, are there not?

10 **A. I think there's that guaranteed most-cost**
11 **road that Mr. Blankenship discussed, where we could**
12 **upgrade to another breed of AMR and then**
13 **subsequently upgrade to AMI as it goes away.**

14 Q. Well, when you put AMI in place, you're going
15 to subsequently have to upgrade and replace it as
16 well, are you not?

17 MS. BLEND: Your Honor, at this point I'm
18 going to object. This is far outside the scope of
19 Mr. Vaughan's testimony in this case, and as he's
20 explained repeatedly now, he's not an expert with
21 regard to metering technology. That expert was
22 Company Witness Blankenship, who has previously
23 testified.

24 CHAIRMAN SCHMITT: How much longer do you
25 have, Mr. FitzGerald, before we --

1 MR. FITZGERALD: Actually, this is the last
2 question, Mr. Chairman.

3 CHAIRMAN SCHMITT: Well, can you answer the
4 question -- the last question, Mr. Vaughan?

5 **A. Can you repeat it?**

6 Q. Mr. Vaughan, the -- you referred back to
7 Mr. Blankenship's testimony as being -- the
8 high-cost alternative would be going to an -- the
9 AMR technology with the SCM Plus and then having to
10 upgrade to AMI. Is that fair?

11 **A. Yes, sir.**

12 Q. Okay. Do you know what the useful life of
13 the AMR with the SCM Plus meters are?

14 **A. I don't know the AMR SCM Plus, what the
15 useful life there is. I know we assumed from the
16 manufacturer a 15-year useful life of the AMI meters
17 and that's what was incorporated into my GMR revenue
18 requirement calculations from a depreciation
19 standpoint.**

20 Q. Okay. So at some point they will have to be
21 replaced too; is that correct?

22 **A. Yes, with whatever the next thing is, but
23 yes, we require metering infrastructure. I totally
24 agree.**

25 Q. Okay. And I will leave it at that.

1 MR. FITZGERALD: And, Mr. Chairman, I
2 appreciate your indulgence.

3 Mr. Vaughan, I'm sorry if I was testifying
4 when it was your turn up, but I appreciate you have
5 been the cleanup batter.

6 And I am no longer standing between everyone
7 and lunch. Thank you, Mr. Chairman.

8 CHAIRMAN SCHMITT: All right. We will now be
9 in recess until 1:00 p.m., at which time Mr. Miller
10 or Mr. Childers, on behalf of Sierra Club, will
11 be -- have the opportunity to cross-examine the
12 witness. So thank you.

13 (Recess began at 12:06 p.m.)

14 CHAIRMAN SCHMITT: Okay. Mr. Miller, you may
15 begin your cross-examination.

16 CROSS-EXAMINATION

17 By Mr. Miller:

18 Q. Good afternoon, Mr. Vaughan. How are you?

19 **A. Thank you. Doing well.**

20 Q. Great. Matt Miller with Sierra Club. I
21 don't have too many questions in light of extensive
22 lines that have been posed to you already.

23 First question, I just want to confirm did I
24 hear you right, when you were speaking with Spenard,
25 that if and when there is some form of carbon

1 pricing that's instituted, at that point the Company
2 would need to recalculate whatever the prevailing
3 net-metering tariff concerning generation costs
4 exists at that point?

5 **A. Yes. Again, it depends. It may be**
6 **automatically included, right? If there's a carbon**
7 **adder in PJM or some sort of a carbon tax that**
8 **affects the LMPs in PJM, you know, by essentially**
9 **creating a higher dispatch cost or fossil units not**
10 **flowing through the marginal cost of energy, I think**
11 **it would be automatically included.**

12 But, again, I'll go back to my RGGI example
13 earlier. If it is some sort of carbon cost that is
14 load-based versus source-based, yeah, I think
15 definitely we would want to -- the intention is to
16 fully include the actual financial avoided costs.

17 So, again, in that RGGI example I gave, in our
18 Virginia company, right? Doesn't matter what the
19 company is loading, matters what the sources are for
20 carbon tax or charge based on that. So the customer
21 reducing load doesn't reduce carbon cost. But, if
22 there was some sort of load-based carbon charge,
23 then, yes, you'd want to include that in the avoided
24 cost rating.

25 Q. Very good. I want to ask you if -- well,

1 I'll circle back to that.

2 You were discussing, I believe with
3 Mr. Fitzgerald, statutory provision that permits
4 utilities to cap new net-metering customers when
5 cumulative generating capacity of net-metering
6 systems hits 1 percent of the company's single-hour
7 peak load?

8 Is it your understanding that that is a
9 mandatory cap, or could a utility choose to offer
10 net metering beyond that 1 percent if it wished?
11 I'm not asking for a legal conclusion, but just your
12 understanding.

13 **A. Obviously, I don't have a legal opinion**
14 **there, but I believe the words say "the Company**
15 **shall have no further obligation."**

16 So, I mean, again, what one person may look at
17 that as we can do it on our own, the Company, and
18 some may say that the Commission has to approve that
19 or the Commission would weigh in on that, but --

20 Q. And that's totally fair. I'll just ask you
21 did you ever consider, or were you ever asked to
22 consider allowing to design a tariff or otherwise to
23 plan or consider what the Company's offerings would
24 be if the 1 percent cap were not imposed?

25 In other words, are you aware -- did you ever

1 consider or were you ever asked to consider what
2 differences in any there may be for the tariff if
3 the 1 percent cap were not imposed?

4 **A. Right. I think definitely consider that. I**
5 **think you can look to our current tariff book to see**
6 **what that might be. Right now a customer that puts**
7 **in a distributed solar resource doesn't have to be a**
8 **net-metering customer. They could sign up for a**
9 **cogen STD tariff as a coal power producer and sell**
10 **the output of a facility based on that.**

11 So, you know, essentially, as I mentioned in
12 my direct testimony, these are essentially PURPA QF
13 projects. You know, they're small power facilities,
14 and some sort of avoided cost rate like that of a
15 PURPA rate would make a lot of sense.

16 Q. Okay. What is your understanding of why the
17 1 percent cap is being imposed? Is it just that it
18 is permitted by the statute, or is there an
19 affirmative reason why that makes more sense for the
20 Company and its ratepayers?

21 **A. No idea why the legislators put that in**
22 **there.**

23 I was not in the room.

24 Q. And sorry. Just so I'm clear. Not why was
25 the statute passed by the legislators, but why is

1 the Company -- just assume for a moment -- and, you
2 know, not holding you to this interpretation, but
3 assume that it is a permissive, not a mandatory cap.
4 Are you aware of any reasons why the Company is
5 choosing to impose the cap apart from it being
6 allowed by the statute?

7 **A. Yeah, I get you. I mean, I think if**
8 **net-metering rate design evolved to the place where**
9 **everyone was truly indifferent, then there would be**
10 **no reason to, but if, you know, that's what we're**
11 **moving forward to with NMS II where you're**
12 **compensating at avoiding cost rates for that excess**
13 **generation.**

14 There's still some netting in there where
15 you're volumetrically netting billable kilowatt
16 hours, and there could still be some financial
17 inequalities there.

18 So in theory in the future, if you got to
19 where you're indifferent to whether a customer takes
20 service under NMS, whatever it is at that point, and
21 cogen SPP, I don't see why you would choose one or
22 the other.

23 Q. I see. So am I understanding your meaning
24 correctly, when you say "indifferent" and implying
25 that it's not indifferent now, that even when the

1 Commission approves -- you know, either approves or
2 institutes a new net-metering tariff under the
3 statute, is it your contention that there would
4 still be some subsidization that would still be
5 occurring?

6 You know, at the end of this case that means
7 the Company still wouldn't be indifferent even after
8 the Commission, you know, approves the new rate.
9 Does that make sense?

10 **A. I mean, it's -- you know, like we talk about**
11 **in all those high-level rate design principles --**
12 **gradualism and taking steps towards cost causation**
13 **and all that, we're taking steps to remove subsidy.**
14 **We're not getting all the way there. It depends on**
15 **whose subsidy you look at.**

16 Obviously, you look at AG KIUC Witness
17 Baron's -- what he thinks would be the way to skin
18 it would be to go at a buy all/sell all. Right?
19 Where you would sell at an avoided cost rate, like
20 QF PURPA rate, and then you would charge the
21 customer full retail load.

22 Ours is definitely between that and the old
23 volumetric 100 percent of the retail rate, and the
24 reasons I say there is -- ours being an NMS II
25 proposal or somewhere there in the middle.

1 And the reason I say there would still be
2 some -- there's still some level of subsidy there
3 because of the sheer amount of distribution, you
4 know, wires, fixed cost, infrastructure costs we
5 that including volumetric rates. Right? So maybe
6 rate design evolves over time, you know, and it
7 eliminates some of that as well, but as we sit here
8 today with 90 percent volumetric charge, you know, a
9 lot of fixed costs in there, there's still some
10 level.

11 Q. Thanks. So it sounds like you were listening
12 in when Mr. Mattison testified last week. He said
13 at one point -- great. Something along the lines of
14 Company's rates -- the Company taking into account
15 customer's ability to pay as well as AEP's carbon
16 goals and that the Company believes that its rates
17 should reflect these.

18 Do you recall that? Does that sound accurate
19 at a high level?

20 **A. I remember the discussion, yes.**

21 Q. Okay. I'm wondering -- well, first on -- on
22 jobs and customers' ability to pay and the local
23 public interest, is the EDR rider the only mechanism
24 for taking into account customers' ability, or does
25 the kind of the tariff in chief also meant to factor

1 that in? Do you know what I'm getting at?

2 **A. Factor what in?**

3 Q. Well, sensitivity to customers' ability to
4 pay. What I'm trying to get at is kind of an
5 analogy.

6 Were you listening when Witness McKenzie was
7 testifying about rate of return?

8 **A. I was listening, but there was --**

9 Q. And I don't mean to characterize that
10 testimony too much, but there was a discussion about
11 whether -- you know, his testimony kind of crunched
12 the numbers, so to speak, indifferent to
13 considerations that the Commission might take into
14 account in fashioning rates, including customers'
15 ability to pay.

16 And he said we're providing the numbers within
17 the confines of, you know, this market analysis, and
18 then the Commission can do what it will in
19 fashioning rates that might be more realistic or
20 take other things into account.

21 **A. I think his testimony was that he was**
22 **providing his expert view of what the cost of equity**
23 **capital is.**

24 Q. Very good. More precise.

25 And so I'm trying to get, analogously, in your

1 rate design, apart from -- you know, before getting
2 to the EDR rider, does -- is -- is the, you know,
3 cost-of-service analysis and then the rate that is
4 proposed, the tariff that's proposed based upon
5 that, is that strictly kind of based on, you know,
6 just the cold math about the classes and their
7 shares and subsidies and not, you know, what I might
8 call more public interest considerations, customers'
9 ability to pay, and that kind of thing?

10 **A. So I won't refer to it as cold math since I**
11 **math all day every day. It's very near and dear to**
12 **my heart.**

13 But, no, the revenue requirement is
14 statutorily driven, you know, minimum filing
15 requirement, accounting, financial-data type
16 calculation. You know, it is what it is.

17 And then I think when you look at customers'
18 ability to pay, you have to look at the total suite
19 of what we have proposed in this case between the
20 various mitigation measures, the first-year offset,
21 the discussion that I had earlier with several folks
22 about where our rates have gone down over time, and,
23 if we were to get our full ask in this case, we're
24 kind of getting back to where we were four years
25 ago, and that wouldn't go into effect for another

1 year.

2 So all those things are taken into account
3 when you're thinking about ability to pay and what's
4 going on right now in the territory and the world in
5 general with the pandemic.

6 And on top of that, you look at our rate
7 design, and I know we fundamentally disagree on a
8 lot of things like service charges, but we are
9 looking at all customers, and we have a lot of
10 customers that are paying more than their -- their
11 share of the fixed costs contribution for things
12 like distribution infrastructure, you know, with the
13 heavily weighted energy rates.

14 So moving -- moving the fixed charge up to
15 what -- the basic service charge increase to kind of
16 be in line more with our peers and the winter
17 declining block to help some of those electric
18 heating customers that are paying that
19 disproportionate share of fixed cost contribution in
20 the winter months when their usage spikes. I think
21 all those things in concert go into what we're
22 looking at from a cost-of-service rate,
23 affordability, everything.

24 Q. That makes sense. Now, I just want to see if
25 I have it right. Is it correct to say, then, that

1 -- so let's say we're thinking about in a local
2 economic impact -- oops.

3 Okay. You know, local economic challenges for
4 a class of customers, say, is it right to say that
5 the standard tariff in chief for residential
6 customers at large, let's say, does not factor that
7 in, but that there are other programs; there are,
8 you know, payment plans, there are DSM, there's the
9 EDR rider, that these things kind of come in on top
10 of that to get at that concern at the local economic
11 situation or -- is that -- is that fair to say?

12 **A. In part. Another -- another portability**
13 **measure we looked at here in Witness Baron, AG KIUC,**
14 **also discusses it, our class cost of service study**
15 **shows that there was a fairly large subsidy being**
16 **paid to the residential class, and that crops back**
17 **up in our -- that our industrial customers are**
18 **paying that.**

19 So would we have liked to have reduced that
20 subsidy in this rate case? Yes, we'd like to move
21 towards cost of service there, but because of the
22 affordability and the other issues we discussed, we
23 chose not to, and, you know, Witness Baron discusses
24 that. And he -- he had, you know, a similar
25 conclusion that now wasn't the time to do that.

1 You know, that's a hard decision, especially
2 when you have that higher cost in your industrial
3 rate as you're trying to attract more businesses,
4 service territory, and retain existing business that
5 provides jobs and a lot of economic benefits in the
6 service territory. You know, you got to look at all
7 those things. And that was a hard decision around
8 affordability that we made in this rate case.

9 And you are correct, there are other tariff
10 provisions that also try and address affordability,
11 your payment plans. And, hopefully, Mr. West's flex
12 pay in the future and, hopefully, the EDR tariff
13 keeps attracting new business, and that grows. But
14 yeah.

15 Q. Okay. Okay. Good. That helps me with
16 affordability and jobs.

17 Let's take another issue or two that, you
18 know, aren't as squarely in the traditional, you
19 know, obvious core of ratemaking perhaps. But let's
20 say the Company or the parent company wants to make
21 strides on public health. They have concerns about
22 children's asthma or our own climate. And they have
23 these goals, and they want to -- say they want to
24 move away incrementally from fossil-based
25 generation.

1 And then that can have, you know, a direct
2 financial calculation too in terms of the Company
3 attracting institutional investors. And we've heard
4 some testimony about that.

5 So let's say that they want -- the Company
6 wants to do this. Does that ever get built into
7 rate design as opposed to just -- I imagine it would
8 when the Company is making resource planning
9 decisions come into play. What do we do with this
10 fork in the road with a plan that we may have or our
11 needs for generation, but is it additionally ever
12 built into rate design, for instance, incentivizing
13 more clean distributed generation, or could it be?

14 That was a long-winded question.

15 **A. Yeah. Let me try and answer for you. So we**
16 **-- in rate design and cost of service we include**
17 **cost of service and rate design items, so if there**
18 **is a sort of fungible cost that is incurred or can**
19 **be avoided, that's always considered. Or like the**
20 **Company's affiliate outlets, PEBCO and PSO who are**
21 **going to -- they're putting a \$2 billion wind farm**
22 **to help serve their resources going forward.**
23 **Obviously, that -- all of the cost and benefits of**
24 **that are going to be in its rates, you know, follow**
25 **through in rate design, you know.**

1 And we don't -- in my experience, we don't
2 include things that are not a quantifiable cost of
3 service, you know. We generally would rely upon,
4 you know, state and federal folks to incent that
5 such as they do outside of our electricity rates,
6 you know, unless told otherwise.

7 Q. I see. And so things like public health or
8 climate benefits would not be, in your opinion, a
9 kind of quantifiable cost of service in that sense?

10 **A. We don't get a bill for what the residential**
11 **class incurred for X public health charge. You**
12 know --

13 Q. Right.

14 **A. -- that's not part of our electric service.**

15 Q. And is it right, though, also, that
16 affordability for customers or economic development,
17 job creation or job maintenance are not quantifiable
18 cost-of-service items either?

19 **A. No, that's totally incorrect. As I discussed**
20 **with Mr. Fitzgerald there, let's look at AEV**
21 Exhibit 9, you know, rates are lower by a quarter
22 million dollars a year because our EPR tariff
23 worked, and if we have more success there, rates
24 will continue to go down.

25 I've worked on -- we have, as was mentioned

1 with Mr. West, we have a federal contract to
2 preserve a customer that was a main off taker or
3 main feed dock to AK Steel to help keep them in the
4 service territory. And, you know, had we not done
5 that, customers would be paying millions of dollars
6 more for electric -- for their electric service
7 because there's fixed costs associated with that
8 load. And, as it goes away, we spread those over to
9 fewer people. (Indiscernible) quantifiable.

10 Q. I see. So insofar as you can quantify them
11 through something like that, like the additional
12 retention or loss of customers that affect -- of
13 electricity customers that affect rates, and that is
14 included, but not -- and you can confirm --
15 something that's a little -- it's perhaps not
16 quantifiable, but it's certainly a compelling thing,
17 like just general hardship among the population, you
18 know, the concern apart from its impact on the
19 customer base, things like job loss, that kind of
20 thing; is that correct?

21 **A. Nothing beyond what I've already discussed,**
22 **no.**

23 Q. I see. That's helpful.

24 MR. MILLER: I think that's all I have,
25 Mr. Vaughan. I appreciate you talking with me.

1 Have a great afternoon.

2 CHAIRMAN SCHMITT: Mr. Frye, any questions?

3 MR. FRYE: I have no questions, Mr. Chairman.

4 CHAIRMAN SCHMITT: Vice Chairman Chandler,
5 questions?

6 VICE CHAIRMAN CHANDLER: Yeah. Thanks,
7 Chairman. Can you hear me? Can anybody hear me?

8 EXAMINATION

9 By Vice Chairman Chandler:

10 Q. Mr. Vaughan, can you hear me?

11 **A. Yes.**

12 Q. Okay. Great. So it's been a long day. I
13 have a lot of things left over. I don't know if you
14 know this, Mr. Vaughan, but Post-it notes are made
15 almost exclusively in the state of Kentucky. And by
16 the look of my desk, I robbed them over the weekend.

17 So I have a lot of little notes that are left
18 over from questions I asked other people or leftover
19 follow-ups I have from where other people asked you
20 questions.

21 **A. I take scribbles.**

22 Q. It's about what mine look like. So I'm going
23 to jump around a little bit. So bear with me. If
24 you need -- you know, if you have no idea what I'm
25 talking about, that probably makes two of us.

1 So the first place is do you remember
2 Ms. Whitney's testimony earlier -- can't be earlier
3 this week -- last week on OPEB and pension
4 prepayments included in the cost of service in this
5 case?

6 **A. Yes.**

7 Q. Okay. And do you remember me asking her
8 questions about how, you know, that -- that there
9 was a prepayment in existence when the Company filed
10 its 2017 rate case? Do you remember that?

11 **A. I do remember that, yes.**

12 Q. Okay. And I think -- and correct me if your
13 memory is different, but as I remember it,
14 Ms. Whitney said that they were in existence in 2017
15 and that they would have been holistically
16 considered, both the pension and the OPEB, in the
17 capitalization, but not necessarily -- they weren't,
18 as I understand it, reflected in the rate base in
19 that case.

20 Is that your understanding as well?

21 **A. So the -- I believe that's correct. It's**
22 **holistically included in the capitalization. I do**
23 **believe the pension asset was included in the rate**
24 **base in that case, but the OPEB might not have been**
25 **explicitly due to it was fairly small at that point.**

1 **It would have been one of the differences between --**
2 **in total between the overall capitalization and the**
3 **overall illustrative rate base in that case.**

4 Q. And that's what I want to ask about, is the
5 difference between those two. So you're right. I
6 understood that pension was noted as a component of
7 rate base, but OPEB was not. Are we on the same
8 page with that?

9 **A. Yeah, I think that's fair.**

10 Q. Okay. So how is it that rate base and
11 capitalization reconciled in the 2017 case if the
12 OPEB was not identified as a rate base component in
13 that matter?

14 **A. When you say "reconciled," they didn't equal,**
15 **but when you then look at all the other balance**
16 **sheet amounts, there's something in there that**
17 **brings the two together. So it would have been a**
18 **reconciling item in that other balance sheet amount**
19 **to get you from capitalization of rate base, rate**
20 **base to capitalization.**

21 Q. Yeah. And I understand that they don't
22 necessarily equal, which is why you reconcile them,
23 right, you note the differences. My question is why
24 wasn't OPEB noted as a difference between the two?

25 **A. I would assume it's in a larger variance,**

1 **some other category of accounts that's in there and**
2 **noted as a variance.**

3 I mean, it's definitely part of the difference
4 if we didn't include it in rate base. They're both
5 capitalized cash assets on the company's books and
6 included in capitalization. So it just wasn't -- it
7 was pretty small at that point in time, so it was
8 probably not picked out as a subset of some other
9 balance sheet category that wasn't included in rate
10 base.

11 Q. I believe the pension remands were included
12 as a discrete rate base item. Is that your
13 understanding?

14 **A. That's -- that's right. They were much more**
15 **material. I can't remember how many millions, but**
16 **it was much larger.**

17 Q. Okay.

18 **A. I think OPEB started out small, and it's been**
19 **growing since that time.**

20 Q. Look at us, making progress already. Okay.

21 So second item. I just want to make sure that
22 I'm clear from, I think, a couple of questions you
23 were asked earlier about the only difference -- this
24 is what I'm understanding here -- the only -- as it
25 relates to base rates, the only change on

1 December 8th that will occur in terms of the costs
2 the Company incurs as it relates to the UPA is the
3 reduction of approximately \$57.4 million in expenses
4 in Account Number 5550027.

5 Is that your testimony?

6 **A. Yes, Your Honor. That's the adjusted test**
7 **year amount that's in our rates in this rate case.**
8 **That's the demand. That purchase power account**
9 **there you just quoted is the purchase power demand**
10 **portion of the UPA bill.**

11 So and again, just a quick distinction there,
12 that there's a portion of that in base rates and a
13 portion of that included in environmental surcharge
14 (indiscernible) point.

15 Q. Yeah. And what I want to make clear, the
16 environmental surcharge will true itself up, right?
17 That savings will fix itself.

18 I'm asking specific to if the Commission does
19 nothing, right, just lets things stay the way they
20 are, there will be that \$57.4 million reduction in
21 test year expense that the Company will no longer
22 incur. Correct?

23 **A. That's right, but it's already been fixed in**
24 **the settlement in the last rate case, the 2017-00179**
25 **to the fixed cost savings.**

1 Q. And that's what I want to get to. And so
2 correct me if I'm wrong, but as I understand it, to
3 the extent the Company is not earning its authorized
4 ROE in that following calendar -- is it that
5 following calendar year that it's related to or the
6 2020 -- 2022 that it's related to?

7 **A. It's just in 2023, the following calendar**
8 **year after the UPA expires.**

9 Q. Okay. So I guess the first question is that
10 doesn't speak to that -- let's call it 23 days,
11 right? That the Company will continue to recover
12 that cost, recover that amount through rates at a
13 23-out-of-365 rate, right, when they don't incur the
14 expense for 2022. Is that right?

15 **A. I don't think that's entirely true. I think**
16 **the way the words are in the settlement agreement is**
17 **that would begin going into the PPA deferral**
18 **calculation at that point. I think you get the --**
19 **right, you're going to be, oh, 20 -- 23/31st of that**
20 **there in December.**

21 Because there's deferral accounting balance of
22 PPA each month. So you're going to start accruing a
23 credit for that fixed cost reduction when it
24 happens, and the only difference is that there in
25 2023 there's that one-year provision for the Company

1 to use a portion of that fixed cost savings to earn
2 its Commission-approved ROE.

3 Q. Okay. That's what I want to get to. So
4 there will be a savings of \$57.4 million for the
5 calendar year 2023, assuming base rates stay the
6 same, right?

7 Assuming there's no change in 2021 or 2022,
8 the proposal from the case that was adopted, the
9 settlement, is that that 57.4 will be used by the
10 Company to earn its authorized ROE, and the
11 remainder, if it earns its ROE from -- let's say
12 they need 20 million of that amount to earn its ROE,
13 and there's excess, that will be flowed back to
14 customers through tariff PPA. Is that your
15 understanding?

16 **A. Again, taking the environmental surcharge**
17 **into account. I don't know how much of that is in**
18 **there, if that happens automatically, but yes,**
19 **during 2023, if the Company is \$5 million short of**
20 **earning its allowed ROE, the way that settlement and**
21 **the PPA forms are set up to work is that first 5**
22 **million, then, would go to increase the Company's**
23 **ROE, the authorized, and the remainder of the**
24 **fixed-cost savings would flow through the tariff PPA**
25 **to the customers as a credit.**

1 Q. Okay. So I want to come to the second part
2 of that which is -- sorry. I'm marking things off
3 as I ask them.

4 How does the Company calculate its earned ROE
5 in between rate cases?

6 **A. So it is -- for that purpose right there, you**
7 **have GAAP, and you have ongoing, and all the**
8 **reporting measures, but there's actually -- in the**
9 **Commission-approved forms for a tariff PPA, there's**
10 **already a calculation set out in there, and I do not**
11 **remember it offhand. We can (indiscernible).**

12 Q. Yeah, let me ask this question: If the
13 Company -- if the Company is denied cost recovery
14 for -- I'm just going to make up a number, right --
15 for -- well, the AG's office has proposed an
16 additional adjustment for EEI dues. You're aware of
17 that, right?

18 So just hypothetically the Commission denies
19 all EEI dues at some certain amount, a test year
20 amount, right? And in 2023 the Company actually
21 incurs its -- the entirety of EEI dues, right? They
22 continue to participate in EEI as a member with AEP,
23 they continue to get costs allocated to it, and they
24 write the check for it, right?

25 When the Company is calculating its actual

1 ROE, are they doing it on the basis of assuming the
2 amounts that were denied recovery from the
3 Commission, or do they include those in their
4 calculation?

5 **A. I'm not a hundred percent sure that that was**
6 **contemplated in that calculation. And, honestly, I**
7 **would need to go back and look at it, but I'm just**
8 **not certain at this time.**

9 It's in the forms that are approved by the
10 Commission. I would need to look at what that is
11 for tariff PPA. That actual calculation is already
12 laid out that, you know, based on the facts, that
13 settlement at that time, that was the deal going
14 forward.

15 Q. Do you understand the -- sort of the
16 background of my question is that --

17 **A. I get what you're saying, yes, sir.**

18 Q. -- 2023 it will be immaterial what the
19 Commission denied in recovery for this. It will
20 only matter what the Company actually incurred in
21 terms of costs.

22 **A. Yes, sir.**

23 Q. Okay. And on that note, you were throwing
24 out a 5 percent number earlier in terms of the
25 Company's actual earned ROE over a certain time

1 horizon.

2 Do you remember that?

3 **A. Yes. That's from Company Mattison's rebuttal**
4 **testimony.**

5 Q. Yeah, and does the Company calculate that on
6 the costs actually incurred or the costs allowed for
7 recovery by the Public Service Commission?

8 **A. I'd -- the basis for its calculation is -- I**
9 **did not do it, but I would assume it's like a GAAP**
10 **view. So it's going to be what the Company actually**
11 **has financed, you know, for providing utility**
12 **service and then what its actual costs and revenues**
13 **are, so it's an as-incurred as-received basis.**

14 Q. Okay. And that's an important distinction,
15 isn't it? Because if the Commission denies -- I'm
16 making another amount up here. If the Commission
17 denies some costs, right, whether it's a pension
18 cost or a somebody's salary, and the Company
19 continues to go ahead and incur it and just decides
20 that it's worth it for the Company to continue to
21 incur that cost even if you don't get base rate
22 recovery, is it your understanding that the Company
23 will continue to calculate their earned -- actual
24 earned ROE, including that cost, in the calculation?

25 **A. Yeah, it's actually the costs we're**

1 **incurring, so it would be included in the Company's**
2 **return.**

3 Q. Would you agree that that's a disconnect,
4 then, when the Company states what its earned ROE is
5 versus what its allowed ROE is, that one includes
6 costs that the Commission explicitly did not allow
7 for recovery of?

8 **A. I don't necessarily think it's a disconnect.**
9 **I think it's a compromise based on the facts in that**
10 **case and the amount of fixed costs from that UPA**
11 **that are in the base rates, right?**

12 I mean, if -- but for that settlement
13 agreement, the Company -- let's just assume -- let's
14 assume we're earning at our earned ROE and, for some
15 reason, we wanted to make a windfall going forward
16 at that point. We could just stay out until someone
17 complains and we come in.

18 With that settlement, customers get the
19 benefit of reduced costs from day one when that
20 happens. You know, everyone talks about regulatory
21 lag and drag. That's just the other side of it. In
22 this way, based on that settlement at that time, the
23 Commission approved at this point, the customers get
24 that benefit day one. So I hear what you're saying,
25 Your Honor. I don't -- I think it's a compromise.

1 Q. I just want to be clear. I'm not even asking
2 anymore about 2023. I was saying -- I was asking
3 about Mr. Mattison's testimony where he talks -- he
4 talks about specifically what the Company has earned
5 over the last year or two.

6 But you would agree that the Company is most
7 likely incurring expenses that the Commission found
8 unreasonable for recovery in rates, right?

9 **A. I totally disagree. I do not think we have**
10 **anything in our rates that has been disallowed in**
11 **the past.**

12 Q. So there was nothing in the last settlement
13 that was removed as an adjustment to test year
14 expenses that you think the Company has continued to
15 spend?

16 **A. Nothing that got removed in that settlement**
17 **agreement that was approved by the Commission at the**
18 **time was deemed to be unreasonable or imprudent. It**
19 **was just removed for purposes of that settlement,**
20 **and everyone that was a party to that settlement had**
21 **the opportunity to come and relitigate those issues**
22 **in the next rate case.**

23 Q. Yeah, but what I'm saying is those were
24 removed from rate recovery from customers, right?

25 **A. As part of the compromise in the settlement.**

1 Q. Yeah, and I'm not talking about any of that.
2 I'm saying that the Commission determined rates that
3 were calculated not including specific expenses,
4 correct?

5 **A. Yes, Your Honor. And a good example of that**
6 **is the Company, as part of the compromise, decided**
7 **to not -- you know, to essentially take to the**
8 **bottom line 20 percent of FERC-approved transmission**
9 **charges as part of the compromise. It doesn't mean**
10 **they're imprudent or shouldn't be incurred or that**
11 **we don't have to pay for them. It's just it was**
12 **part of the deal that got everyone, besides the AG's**
13 **office, to yes on that settlement agreement.**

14 Q. Yeah, but that's not what I'm talking about.
15 I'm saying in this case, let's say that the
16 Commission decides that the Company can't recover
17 the expenses to mow the yard at -- or the lawn at
18 AEP, Kentucky Power's headquarters, in Ashland,
19 right?

20 It's a \$50,000-a-year expense, and the Commission
21 says it's unreasonable, and you should let it grow,
22 right?

23 That is an expense that the Company is going
24 to continue to incur moving forward, right? If they
25 continue to mow it, that's 50 grand it will -- will

1 be a cost, but you would agree that the Commission
2 denied that for rate recovery, right?

3 **A. Certainly.**

4 Q. Okay. And so assume all things equal, right?
5 And that but for that \$50,000, the Company was going
6 to earn its authorized ROE in the next calendar
7 year, right, but they couldn't -- but I'm just
8 saying -- but I'm asking, when the Company
9 calculates on a GAAP basis their earned ROE, right,
10 are they taking out that 50,000 from the
11 calculation, or do the rates -- are their rates
12 insufficient to have a 9.5 percent ROE because it
13 was denied recovery from the Commission?

14 **A. Yeah, I think that hypothetical \$50,000 of**
15 **mowing expense is included. It's a drag on the ROE.**

16 Q. Okay. That's what I want to make sure. So
17 when a company says that it hasn't been able to meet
18 its ROE -- when Kentucky Power says it hasn't been
19 able to meet its ROE, I just want to make sure that
20 I'm clear that it's not removing from that
21 calculation those costs that the Commission denied
22 recovery for.

23 **A. I'm not aware of any costs the Commission has**
24 **denied recovery for, sir.**

25 Q. You're not --

1 **A. (Indiscernible.)**

2 Q. You're not aware of any expenses in the last
3 rate case that were removed pursuant to the
4 settlement?

5 **A. Sir, my -- Your Honor, my position is that**
6 **everyone compromised in that settlement, and certain**
7 **costs were removed. As part of the overall**
8 **compromise, certain costs were added, certain costs**
9 **were removed. And nothing was deemed imprudent.**
10 **Nothing was disallowed.**

11 Q. I'm not talking about anybody deeming things
12 imprudent. I'm specifically talking about costs not
13 being included in the determination of the revenue
14 requirement. Does that make sense?

15 **A. No, you're absolutely right. Rates were**
16 **lowered by those amounts because of the compromise,**
17 **yeah.**

18 Q. But insofar as the Company continued to incur
19 those costs, they were not reflected in the
20 Company-approved revenue requirement, right?

21 **A. Yeah. Absolutely. That's why it's one of**
22 **the reasons the ROE is low, and that's why we're**
23 **here talking last week and today.**

24 Q. And that's what I want to make sure of, is
25 that when you say a 5.something ROE, when Mr.

1 Mattison is discussing a 5.something ROE, that is
2 inherently -- insofar as the Company is incurring
3 costs that are not -- that were explicitly not
4 included in the Company's most recent revenue
5 requirements and thus not reflected in its rates,
6 would you agree there's a disconnect?

7 **A. Yeah, there's a small disconnect, like served**
8 **and whatever other items that were removed or**
9 **reduced in the last rate case. I think incentive**
10 **pay was reduced a little bit, again, to get all**
11 **parties in agreement there. Those aren't material**
12 **-- that isn't the \$70 million that we're here**
13 **looking -- looking for, you know, from the base rate**
14 **increase standpoint to get us up to the Company's**
15 **proposed authorized ROE.**

16 But yes, you're right to the extent,
17 everything else being equal, those costs were not in
18 the rates that the Company put in back in 2018, so
19 those revenues are not contributing towards the
20 earned ROE right now.

21 Q. I just want to -- I'm not asking about
22 anything specific or -- I'm trying to figure out how
23 the Company, in between rate cases, determines what
24 its earned ROE is and whether it relates back to the
25 approved rates, and so that is very helpful on that

1 issue.

2 **A. It also relates to the test year, you know,**
3 **level of sales and whatnot. You know, the Company**
4 **was hoping for more balance from economic**
5 **development between rate cases last time, and that**
6 **wouldn't have been included in our sales level. So**
7 **we took that risk hoping we were going to grow a**
8 **billion units, and not all of it panned out in time.**
9 **So --**

10 Q. I appreciate that. Again, I'm just trying to
11 figure out how it's calculated in the interim or
12 what's taken into account. Okay?

13 **A. Yes, (indiscernible).**

14 Q. Say that again?

15 **A. It's as earned, just like (indiscernible).**

16 Q. Just straight math. Okay.

17 And on that -- on that, are you aware that the
18 Company has proposed to the Commission a deferral of
19 storm expenses incurred in the year 2020?

20 **A. Tangentially. I was not involved in that**
21 **filing.**

22 Q. Okay. But I guess my question is -- and just
23 to relate it back -- insofar as the Company is
24 asking to defer storm expenses that were incurred in
25 a year, those are currently expenses until the

1 Commission defers them, correct? Or grants
2 deferral?

3 **A. Yeah, unless -- unless we have permission to**
4 **defer them, they are expenses on the books, you're**
5 **correct.**

6 Q. Okay. And so insofar as they're currently
7 expenses on the book, those would be a drag to ROE,
8 but that would -- a deferral order -- or an order
9 deferring those amounts would change that
10 calculation on a year-end basis, right?

11 **A. Yeah. All other things being equal, if you**
12 **defer costs, return should go up.**

13 Q. Okay. Do you remember -- and I think I've
14 asked -- maybe you're the third or fourth person
15 about this -- the electricity sales in other states?

16 **A. Yes.**

17 Q. Have you scribbled anything down or do you
18 have anything to refer me to on answering the
19 question of why did Kentucky Power explicitly incur
20 sales expense for sales of electricity to -- let me
21 find the reference here on my notes -- Michigan and
22 Illinois?

23 **A. Yes, Your Honor. So, first, if you look at**
24 **Section 5, Schedule 2, page 2 of 3, it shows the**
25 **computation and the weighting of that state tax**

1 **rate.**

2 And so just under 1 percent of the proposed
3 state tax rate from the test year is Illinois and
4 Michigan. 88 percent is Kentucky, and 21 is West
5 Virginia where the Mitchell Plant is located.

6 And that small piece of Illinois and Michigan
7 is based on sales the Company makes in PJM. And PJM
8 supplies the tax department with the information
9 there that they need to file those state -- income
10 tax returns in those states.

11 So it's information provided by PJM to the
12 Company that triggered that less than 1 percent
13 weighting of Illinois and Michigan tax in our state
14 tax rates.

15 Q. Specific to Kentucky Power?

16 **A. Yes, sir.**

17 Q. Okay. So if we ask for that, could you
18 provide that documentation, the billing from PJM?

19 **A. I can't, but someone in the tax department**
20 **can provide whatever guidance we received. So**
21 **there's no billing, right? We received information**
22 **that we then used as the basis for a state tax**
23 **return.**

24 Q. Well, so the other question I have on that is
25 do you know if sales tax is included, or is

1 includable, in Kentucky Power's energy bids at PJM,
2 the cost-based bids?

3 **A. These aren't sales taxes that we've been**
4 **discussing. These are income taxes based on sales.**

5 Q. Well, excuse me, income taxes based on sales
6 includable as a line item expense in cost-based
7 offers with PJM?

8 **A. It's been a long time since I have looked at**
9 **the -- the task force documents for cost-based**
10 **offers, so no, I do not know. You can certainly**
11 **include that in the market-based offer. I know that**
12 **for sure, but I do not know.**

13 I would assume if there is an applicable tax
14 on, you know, fuel supply, it would be includable in
15 a cost-based offer, but I guess I can't say with
16 certainty just generic sales taxes.

17 Q. Let me ask this: If we asked a posthearing
18 data request on that, could somebody at the Company
19 provide that?

20 **A. I'm pretty sure I could make Witness Stegall**
21 **provide one on that, yeah.**

22 Q. I appreciate it. Were you watching the
23 hearing when I talked to -- and I think it may have
24 been Witness Wiseman and Witness West -- about the
25 -- the Company's data request responses in Case

1 Number 2020-00085 on customers' on-time pay
2 percentage during the months of 2020 as compared to
3 those '17, '18, and '19 averages?

4 **A. Yes. And I think you're -- is that what**
5 **we've been referring to as the debt forgiveness**
6 **case?**

7 Q. No, that is the Commission's -- the
8 Commission's docket -- general docket on COVID where
9 the Company was asked to provide what the on-time
10 pay percentage for each class was in the past three
11 calendar years and each month of 2020.

12 And do you remember conversations with -- that
13 I had with -- not specifics -- that I had a
14 conversation with Ms. Wiseman and Mr. West on that
15 issue?

16 **A. Yes. More recently, Mr. West on Friday.**

17 Q. And that -- that conversation was -- or at
18 least the basis of a late payment fee was discussed
19 in twofold. One is to incent -- or disincent, I
20 guess, late payments, right, to change customer
21 behavior by imposing a penalty, and the other was to
22 reflect -- I think Mr. West said something along the
23 lines of -- just give me one second here -- the cost
24 could pass through receivables maybe?

25 **A. That's correct.**

1 Q. The cost of financing those? So can you tell
2 me what the Company does with past-due receivables?

3 Let me ask this.

4 **A. (Indiscernible.)**

5 Q. What does the Company do generally with
6 receivables -- accounts receivables?

7 **A. Right. So we factor with AEP credits, I**
8 **think as we discussed at great length, the last rate**
9 **case with the then-vice chair, but, yes, three**
10 **factors. (Indiscernible) receivables with AC credit,**
11 **and then there is a finance charge that comes back**
12 **based on the time value of money. And there's a**
13 **collection experience and bad debt that is all**
14 **rolled in there.**

15 So to the extent a customer does not pay on
16 time, there is a cost to the Company of -- it flows
17 through the financing, right? So you have -- you
18 receive less of your receivables back. That's the
19 cost.

20 So I think that's what Company Witness West
21 was referring to when he was saying that the late
22 payment charge or late fees are helping to cover the
23 -- you know, essentially the increase in cost of
24 late payments or bad debt collection through the
25 factoring.

1 Q. Is that cost already accounted for in the
2 proposed revenue requirement, absent the late
3 payment fee revenues?

4 **A. No. They're both in there. You have the**
5 **total cost of factoring is in there, and you also**
6 **have the total cost -- the total revenues received**
7 **in late payment fees.**

8 So I think what he said, there's over
9 \$4 million in late payment fees in the test year.
10 So if you remove those, theoretically -- you know,
11 if we can't charge a late fee going forward to cover
12 that cost, the cost of service here in the revenue
13 requirement would need to go up by 4 million.

14 Q. Yeah, and the question I have is is the cost
15 of the late payment fee reflective of the actual
16 costs incurred by the Company? Let me ask it
17 differently.

18 What's the support for the amount proposed in
19 the tariffs for the late payment fee, and how does
20 it relate to the cost of account receivables?

21 **A. I would need to look, but, offhand, I am not**
22 **sure if the amount of late fees in the test year is**
23 **equal to the amount of bad debt and higher financing**
24 **charges for the time value of money on the late**
25 **payments. I'm pretty sure we could give that to you**

1 **in a posthearing data request if you so wished.**

2 Q. Hopefully this will be an easy one. Have you
3 seen the chart on Mr. West's rebuttal? I think it's
4 his third page on the rebuttal or his Table R3. I'm
5 pretty sure it's his Table R3 in my scribbled-down
6 notes. That he discusses the amortization of excess
7 unprotected -- excess ADIT on a revenue requirement
8 basis and then on a -- some other type of basis.
9 I'm not quite sure how to refer to the other type of
10 basis.

11 **A. (Indiscernible) R3.**

12 Q. Yeah. So let me just ask. There are two
13 amounts -- for the Company's proposal, there are two
14 amounts of excess. Those two charts, would you
15 agree, or that table, the two things laid out in it
16 represent the exact same transaction? Would you
17 agree with that?

18 **A. Yes, Your Honor. The top part of that table**
19 **is actual ADFIT dollars as they sit on the balance**
20 **sheet. And so, as you amortize them, they have an**
21 **impact on income. And then to take that from the**
22 **income to what will be a revenue requirement you**
23 **gross up for state and federal taxes.**

24 So that's the difference going from an ADFIT
25 figure to a revenue number. So to offset \$65

1 million in revenue, you amortize the \$48 million of
2 ADFIT.

3 Q. That's what I wanted to -- I appreciate --
4 that's very simple, and this is going to be a very
5 good place in the record to reference at some point
6 in the order, I think, that the -- there's a
7 \$48 million number -- without me looking it up -- is
8 that right, on the top part of the chart?

9 **A. \$48,345,038.**

10 Q. And we want to talk apples to apples. You've
11 heard of the -- and it was the amount previously --
12 earlier this year, but that is apples to apples to
13 that \$113 million amount of the excess ADIT, right?
14 That was the balance earlier this year of the
15 unprotected excess ADIT?

16 **A. Yeah, I believe so. If it was talking in**
17 **terms of ADFIT, yes.**

18 Q. Yeah, and so when we're talking about that,
19 the actual revenue -- just so I'm clear, the revenue
20 requirement impact of ADIT is effectively grossed
21 up. So it has a greater impact on a revenue
22 requirement than it does on a books basis. Is that
23 fair?

24 **A. Yeah. Essentially, if you're trying to**
25 **offset \$1 of a revenue requirement, you amortize**

1 **70-ish cents of ADFIT.**

2 Q. Perfect. Thank you.

3 I wanted to ask -- and I think it's just -- I
4 think it's a mismatch in words, Mr. Vaughan, but I
5 wanted to make sure that we're on the same page
6 about something that I understand is yours and the
7 Company's position.

8 Earlier you were talking about -- let me find
9 this here. I apologize. It will come to me in a
10 minute. Oh, Mr. Fitzgerald, I believe, was asking
11 you a question about the kilowatt hours put back
12 onto the grid from a net-metering customer insofar
13 as they are producing in excess of demand. Do you
14 remember talking to him about that?

15 **A. We talked at great length about that, yes.**

16 Q. And do you remember you saying something
17 along the lines of -- that -- that kilowatt hour
18 will be going to serve someone else, effectively
19 netting the Company's demand -- or the Company's
20 load?

21 **A. That's right. If you look at the Company**
22 **from a billing standpoint, right, say the total**
23 **load-serving entity that is Kentucky Power, right,**
24 **its entire distribution load is lower at that point**
25 **when the excess energy is pushed onto the grid.**

1 Q. And I understand it that way too, because I
2 look at it as a behind the meter -- as if you get
3 one bill, and you have one meter from PJM, right?

4 Let me ask you about it. For some reason,
5 when you were talking about individual customers who
6 just so happened to be generating customers, right,
7 somebody who may have been a net meterer or may be a
8 new NMS customer or have some sort of
9 behind-the-meter generation, you were discussing
10 earlier that that person's load is effectively the
11 exact same as a residential -- as another
12 homogeneous customer, right?

13 **A. Yeah, what I was saying is their load shape**
14 **is generally the same across -- you know, a**
15 **residential customer is a residential customer is a**
16 **residential customer.**

17 So if you look at the underlying load, the
18 shapes are exactly the same across populations, the
19 difference being -- the only difference being is
20 when the customer's net-metered generation injects
21 generation there and nets in the meter to reduce
22 that load shape.

23 You can lay them over top of each other, and
24 the only difference is, you know, let's say you had
25 two meters on it, and you take -- you take the solar

1 generation meter off. The other one lays right over
2 top of the class average load shape. It's exactly
3 the same. So when you add it back, there's that dip
4 in the middle.

5 If you look at those graphs in my rebuttal
6 testimony towards the end, you can see that. So,
7 yeah, the net load, when it's generating, is
8 different, but the underlying load shape is the
9 same.

10 Q. Yeah, but why do you care about the
11 underlying load shape?

12 **A. For the basis of charging that customer a**
13 **retail rate. If their load is the same but for this**
14 **other thing, if I compensate you, the Company**
15 **provides the compensation rate or avoided cost rate**
16 **that accounts for all the value of that difference,**
17 **then the retail rate should be the same across the**
18 **customer class.**

19 Q. Right. But we're talking about two different
20 things here, right? We're talking about producing
21 your electricity behind the meter to the extent you
22 have demand, which is one side, and then we have
23 production in excess demand on the other side,
24 right? Those are distinct -- those are distinct
25 issues, correct?

1 **A. The whole thing shows up as a load reduction**
2 **either way, whether it's you reducing your load or**
3 **reducing the Company's overall distribution load.**

4 Q. Yeah. And I tend to agree that the overall
5 effect is the same, but my question is, if -- most
6 of these customers don't have two meters, right?
7 They just have one meter.

8 So let's just say hypothetically somebody put
9 a system on their home, right, a solar system on
10 their home and never put energy back onto the
11 system, right? They only reduce -- they only
12 produce electricity up to their own demand in any
13 given hour or any given one-minute increment, right?
14 You all, as a company on your meter, wouldn't see a
15 load profile materially different than the class
16 average, right?

17 **A. The underlying load profile would not be**
18 **different but for the generation. So the point of**
19 **that whole discussion is whether the appropriate**
20 **rate for charging the net load from NMS II**
21 **customers, whether that residential rate is**
22 **appropriate or not.**

23 And my testimony is because they are the same
24 load at the same basis for whatever net billing
25 kilowatt hours they have in a month under an NMS II,

1 the residential rate is appropriate.

2 So then under your scenario where they never
3 -- they never produce anything in excess, they are
4 still netting that load, and they're avoiding that
5 full retail rate in that netting period.

6 Q. They certainly are, but what I'm asking is,
7 insofar as they are avoiding being the average class
8 producer, right, or the average class customer, if
9 you continue to treat all those people identically,
10 they're all going to be on that low end of the class
11 average, right? They're all going to have a lower
12 demand than the class average.

13 **A. Here's the thing, though. If you look at the**
14 **net metering and NMS II, you have to look at in two**
15 **pieces. Do you have the correct rate for charging**
16 **billable kilowatt hours, which my position is we**
17 **absolutely do because the underlying load is the**
18 **same. Then you have to look at what is the value,**
19 **the financial dollar denominated value of the**
20 **avoided cost from that customer producing energy**
21 **from its system.**

22 And, like I said, it's between 3 and 4 cents a
23 kilowatt hour for all of that energy, whether it's
24 netting behind the meter or they're pushing it out
25 on the grid.

1 So they're getting far more than that avoided
2 cost of energy is worth when they're netting behind
3 their meter, and then if they're getting compensated
4 for the extra when it goes over, you know, their
5 load in that billing period.

6 Q. But let me ask it this way: In what other
7 tariffs does the Company look at what the customer's
8 ultimate usage is versus what their demanded load is
9 from the Company in determining what homogeneous
10 group they should be placed in for cost-of-service
11 purposes?

12 **A. Before I answer that, one more point on your**
13 **last question. The issue is, as I showed in my**
14 **rebuttal testimony, the load reduction from the net**
15 **metering generation is worth less than the loss of**
16 **billing kilowatt hours -- they don't offset one**
17 **another. So it actually adds costs from a marginal**
18 **standpoint.**

19 The reduction in fixed cost recovery from the
20 lost billing units is greater than the avoided cost
21 of that customer netting its energy supply behind
22 the meter.

23 And then to answer this -- this question you
24 just asked, every general service rate we have for
25 this TOD (indiscernible), all of those rates are

1 included in one overall class load shape -- I mean,
2 load research study when we do that.

3 So you look at very broad groups of
4 homogeneous customers for doing these statistical
5 analyses, and then you use that to allocate total
6 revenue requirements for the larger major classes,
7 and then you divide up how you recover that total
8 class revenue requirement in actual rate design,
9 right?

10 So I didn't run a separate load research study
11 for just general service athletic fields or for GS
12 time of day. You do it for GS, and then you piece
13 out the various parts of it when you're designing
14 rates. So it's very consistent with how we design
15 rates and always have.

16 Q. And I appreciate the insight into the
17 cost-of-service calculations, but I have a very
18 specific question. What other -- in doing cost of
19 service in Kentucky or any other AEP affiliate, when
20 does the Company look at what the actual usage is
21 versus what the demand and load from the Company is?

22 **A. Say again.**

23 Q. You keep saying that the load is the same for
24 a generator, that, heck, even if they don't push any
25 energy back onto the grid, that they just generate

1 enough to meet their demand in certain hours, right,
2 that that person -- that that person is homogeneous
3 to all the residential customers because their load
4 is exactly the same.

5 But you would agree that, as it relates to the
6 meter in which the Company serves that customer,
7 that is not the same, because you said earlier but
8 for that netting they'd be the same, but for that
9 netting. You know, but for a lot of things
10 everything would be the same.

11 So I'm asking specifically to -- yes, I get
12 that that customer may be using identically to what
13 another residential customer uses as an in-use,
14 right, the total number of kilowatt hours may be
15 used between two identical customers, but if one of
16 them is generating behind the meter, never
17 exporting, but generating behind the meter to meet
18 their own demand at certain times, as it relates to
19 the Company, in what other venue in cost of service
20 and in AEP's territory here in Kentucky or other
21 states does it look at the end usage of the customer
22 in totality or terms of demand instead of the load
23 or demand at the meter?

24 **A. Sorry, Your Honor. Your question is really**
25 **confusing me because the end-use energy -- the**

1 **billing energy is the same as what the other thing**
2 **you're describing, that the usage at the meter**
3 **there.**

4 Again, what I'm trying to differentiate here
5 is there are two pieces to NMS II, right? You're
6 trying to determine what is -- what is the
7 appropriate rate to charge any billable kilowatt
8 hours, and my testimony about the load shape is,
9 look, that customer is the same. Take the solar
10 system off their house, they're a residential
11 customer like everybody else.

12 So the residential rate for any billing
13 kilowatt hours is appropriate. Now you add that --
14 you add that solar system back on there, and again,
15 you're absolutely correct, you're netting there at
16 the meter instantaneously, and as long as you're
17 valuing -- from a billing standpoint you're valuing
18 that generation correctly, you get to the right spot
19 without having to divide them out into some other
20 (indiscernible) that is relevant.

21 They're getting the full retail rate when they
22 actually net in the netting period, and then they
23 are -- which, again, I think is generous, right?
24 There's distribution, transmission, and other fixed
25 costs in there that they use every day, and then you

1 have the avoided cost rate for the excess
2 generation.

3 You really have to look at it in two pieces,
4 and that's my answer there. The load shape
5 discussion is purely for what is the appropriate
6 rate to charge billable kilowatt hours.

7 Q. Let me ask if this is fair, then. They are a
8 residential customer because it's a home regardless
9 of their usage pattern. Is that your testimony?

10 **A. Absolutely, they're homogeneous to the rest**
11 **of the customers. Just like an industrial customer**
12 **that has some small cogen behind the meter, it's**
13 **homogeneous to other industrial customers, and they**
14 **get billed the same as everybody else.**

15 Q. Okay. So, like I said, I'm really trying to
16 mark things off here.

17 Let me ask a follow-up on accounts receivable.
18 I think on your page 6 of your rebuttal, you say
19 that if rate basis is used to calculate a revenue
20 requirement, then the accounts receivable financing
21 should be removed from the capital structure and the
22 resulting weighted average cost of capital
23 calculation.

24 Could you tell me why?

25 **A. It's kind of a two-parter there. If you do**

1 **decide to go to rate base, which it's fine, again,**
2 **as long as you include all of the properly financed**
3 **electric utility service amounts.**

4 So if you do make that jump to rate base, and
5 then my testimony is if you impute a lead lag study
6 on the Company where you're essentially reducing
7 rate base for AR financing, you know, in a cash rate
8 capital-type calculation, that you then take in
9 credit for that, those funds. That amount you
10 reduced the Company's rate base for it, you can't
11 then also reduce the cost of money as including it
12 as some form of capitalization.

13 So it's like ADFIT. Some jurisdictions across
14 the U.S. will include it as a rate base credit, some
15 will include it in the overall cost of capital as,
16 you know, cost-free capital. You can only recognize
17 the benefit in one place. Same concept.

18 Q. Okay. I'll save the confidential stuff for
19 last.

20 Let's just real quickly -- do you mind to go
21 to your direct testimony, Mr. Vaughan? And I'm
22 going to ask you to give me the Cliff notes part if
23 you can because, I'll just be honest, I read the
24 direct on the net-metering proposal, and I'm not
25 exactly clear. So I have a couple clarifying

1 questions. So let me know when you're on page 24.

2 **A. I'm there.**

3 Q. Okay. So you're proposing two time-of-use
4 periods, right? 8:00 a.m. to 6:00 p.m. and then
5 6:00 p.m. to 8:00 a.m., right?

6 **A. Yes, Your Honor.**

7 Q. Okay. And there are these two terms that you
8 use, net negative energy and net positive billing
9 energy and demand.

10 **A. Yes.**

11 Q. Okay. So net negative energy is when the
12 customer produces more than their demand and
13 exports, right?

14 **A. Yes, in the total accumulated over the month
15 and the total netting period. So, yeah, you can --
16 the net negative energy can be discussed in the same
17 way as we said, like excess generation or exports,
18 but again, it's that the accumulation of those
19 figures within each netting period across the whole
20 billing cycle.**

21 So if the customer had net exports or net
22 negative energy, some throughout the billing period,
23 they would then be compensated for that accumulated
24 net negative energy at the avoided cost rate.

25 Q. Okay. So first question I have is, under

1 your proposal, if a customer has a net-metering
2 system and produces only enough energy to offset
3 their demand in any given hour, right? Let's just
4 make up something.

5 Let's just say that your net-metering tariff
6 is fuel -- I know that's not the right term -- but
7 fuel neutral. It's not just solar. Right? Could
8 be anything. And the customer produces enough
9 electricity in every hour of the day to meet its own
10 demand, right, and never exports any energy. Would
11 the customer's bill at the end of the month be the
12 customer charge?

13 **A. Yes. If the customer was able to offset all**
14 **of its hourly generation within those netting**
15 **periods, either netting period, the one at night,**
16 **with self-generation so that there are no billable**
17 **kilowatt hours, it would be the basic service**
18 **charge.**

19 Q. Because it effectively took no kilowatt hours
20 from the Company. That's a fair way to think about
21 it, right?

22 **A. If it produced zero billing kilowatt hours,**
23 **you're correct. And they will avoid paying for any**
24 **of the infrastructure in that scenario.**

25 Q. So what you're proposing is -- let me go to

1 the next thing. Page 25, I see that you tried to do
2 some average calculation here with 1240, right?

3 And you just said that (Reading) The Company
4 would expect a typical residential customer having a
5 typical solar net-metering installation to have
6 approximately 639 kilowatt hours of billing energy
7 and produce 783 kilowatt hours of excess generation
8 in a billing period.

9 Do you see that?

10 **A. Yes, Your Honor.**

11 Q. Okay. Is 783 the NNE in that period?

12 **A. The answer is I revised all these numbers for**
13 **rebuttal because of my initial, I guess, 4-82 where**
14 **we had the -- some commercial systems initially**
15 **included in the residential total because they had**
16 **residential customers' names on the application**
17 **rather than the commercial account, but essentially,**
18 **yes.**

19 If you're -- the difference between what is
20 netted in the netting period of the customer's 1,240
21 average kilowatt hours and what is produced by the
22 system is that net negative energy where the
23 average -- (indiscernible)

24 Q. What is the 639?

25 **A. So that's -- so right. When the solar system**

1 stops producing energy late in the afternoon, and
2 subsequently when the sun goes down, and customers
3 are using the Company's system, you're accumulating
4 billable kilowatt hours in that second netting
5 period.

6 So that 639 is what the portion of net load in
7 that second billing netting period under NMS II. So
8 it's the accumulation of billing kilowatt hours. So
9 in this example the customer is going to on its bill
10 pay for 639 kilowatt hours basic service charge, and
11 then it's going to receive a credit at the avoided
12 cost rate for all of the -- that negative energy.

13 Q. Yeah. And that's what I want to make sure.
14 I think this will help me understand it better.
15 Under the old net metering, we'll call it, right,
16 where it's a credit between the two, it would --
17 this customer in this billing period -- this average
18 customer, whatever -- would have effectively carried
19 forward a credit of -- do this on the fly -- 144
20 kilowatt hours onto the next month, right?

21 **A. Yes. So they would have wiped out all their**
22 **billable kilowatt hours even though they used them,**
23 **but there would still be more left over.**

24 And just to clarify something, I think
25 Mr. Fitzgerald and I were talking past each other.

1 So if the customer -- like in this example, if the
2 calculation resulted in a net bill credit in a
3 month, so they produce enough energy that it netted
4 their rate billings including the service charge to
5 a negative amount, went to zero, and there's \$10
6 left over of credit, that \$10 rolls to the next
7 month for use in that month.

8 So what I was trying to say is that you're
9 figuring it out each month, the rate credit and the
10 rate billings, but if there is a net negative, it
11 does roll over per the applicable law.

12 Q. Okay. That is -- that is very helpful
13 because I think I've read that 25 times. So -- so
14 let me just ask as the second question to follow up
15 with that is: How did the Company -- how did you
16 come up with the -- in your proposed kilowatt hour
17 compensation rate, you weighted for on- and off-peak
18 LMP, but that amount applies to both on- and
19 off-peak periods, right?

20 I say on- and off-peak periods. You know what
21 I mean, right? The 8:00 to 6:00 and then again from
22 the 6:00 to 8:00. That same kilowatt hour amount
23 applies to both periods; is that right?

24 **A. So it's highly unlikely you're going to see**
25 **any net negative energy in that second billing**

1 **period because the solar generation curve has fallen**
2 **off, right? Customers are picking up their normal**
3 **household activities in the evenings. Solar**
4 **generation really starts to fall off there in the**
5 **middle, late afternoon and into the evening. So**
6 **just based on the generation shape, you're going to**
7 **have those -- those credits.**

8 And again, that's why we designed the netting
9 periods the way we did, right? So you have the
10 majority of the solar within the netting period
11 that's actually producing energy, and, as such,
12 we've weighted that compensation rate, the avoided
13 cost rate, to track with that.

14 Q. Yeah. But aren't you discounting it, then,
15 since the majority -- if the Company expects the
16 entirety, effectively, right, the almost entirety of
17 the net generation to be produced between 8:00 and
18 6:00, and then it discounts it to provide -- I think
19 it was -- 2/7 of the energy, assuming that is not
20 actually the LMP at the time different than that
21 amount, then how do you take into account that the
22 majority or if not all of the energy being provided
23 is on peak energy to the Company?

24 **A. The 2/7 are weekends, Your Honor. They are**
25 **not on peak.**

1 Q. Okay. So --

2 **A. (Indiscernible).**

3 Q. (Indiscernible). And, literally, you're just
4 saying it's reflective of the weekend then?

5 **A. Yeah. Right? The 5/7 is your weekday**
6 **on-peak hours in total. So you're taking into**
7 **account, yeah, the sun is still shining on what we**
8 **would consider an on-peak hour, but from an energy**
9 **market standpoint, the weekend draw peak and the**
10 **prices track with off-peak, you know,**
11 **during-the-week prices.**

12 Q. So explain what data set you used as
13 described as "on peak"?

14 **A. I looked at the actual hourly LMPs from the**
15 **test year, and so -- I'd have to go back and**
16 **calculate it, but your weekday on-peak hours that**
17 **would match up with what the hours of sunshine and**
18 **producing.**

19 Q. So did you do weekday 8:00 to 6:00 average
20 LMP 50-minute increments 8:00 to 6:00 p.m. for a
21 certain time?

22 **A. It sounds about right. You're trying to get**
23 **to a number of hours in the year, which I think is**
24 **what the calculation did, because then we used**
25 **forward pricing based on the -- for the LMPs for our**

1 **avoided cost rate to try and track when the rates**
2 **would be in rate, and those were very close to what**
3 **we've been experiencing on a historical basis.**

4 So, yeah, the 2/7 is accounting for weekends,
5 right? I totally agree the sun is not shining or
6 producing energy in the evening and night off-peak
7 hours.

8 Q. Okay. And then, as it relates to capacity,
9 how did you calculate on a production basis?
10 Because I don't want to get into, not yet,
11 distribution transmission capacity consideration,
12 but on a production basis how did you calculate an
13 avoided capacity rate?

14 **A. So what we did there is we took the solar**
15 **shape, and we -- you know, month to month, you lay**
16 **it over when the PJM 5-CP generally occur, right,**
17 **because it's a load reducer; it's not a resource out**
18 **there facing the market.**

19 So you look at how does the solar load shape
20 reduce the 5-C -- how does it affect -- the 5-CP
21 hours in PJM? So you come up with, if you have a
22 1-megawatt resource, you weight it towards the 5-CP
23 contribution. All right? Well, it's actually
24 500-kw resource based on when those hours occurred.

25 You do that for a number of years, as I did,

1 and that shows up in AEV Exhibit 3 of my direct
2 testimony and my work papers. Has to do with that,
3 call it the 500-kW.

4 You have to get the peak reduction value of it
5 first, and then you apply it to what you think your
6 potential avoided cost is, and in this case it would
7 be -- if we lower the 5-CP, the Company will
8 potentially make an additional sale of length in the
9 RPM market so we avoided -- we priced it at that
10 (indiscernible) tariff.

11 Q. I'm getting some sort of feedback.

12 So let me ask, why is that the appropriate
13 capacity value when the Company's embedded megawatt
14 production value is significantly more?

15 **A. Because you're not avoiding those. You're**
16 **looking at it from an incremental or decremental**
17 **standpoint. There's no avoiding what we already**
18 **have. There's avoiding something in the future, or**
19 **there's adding in more revenues from an increase in**
20 **market sales.**

21 Q. Yeah. So on that, the Company is going to be
22 capacity-deficient in two years; is that right?

23 **A. Yes. It's my understanding we are**
24 **capacity-deficient of part of '22-'23 when the**
25 **Rockport EPA goes away.**

1 Q. So I guess I'll just say -- I'll make a
2 comment and see if you can respond with an answer.
3 I don't understand how using -- use the BRA clearing
4 prices from a previous delivery year or for the next
5 delivery year, is that the capacity rate you used?

6 **A. I used \$100 a megawatt day because the**
7 **previous delivery year was 70, and the one above it**
8 **was -- the next one was like 140, and the current**
9 **was 100. So it's actually right in the middle and**
10 **seemed very reasonable for the pricing points that**
11 **we have currently.**

12 And so just to, you know, kind of touch on
13 what you just addressed there, when the Company does
14 go short in '22-'23, it will purchase length through
15 the Company's FRR plan from its affiliates at the
16 avoided cost of -- or at what the companies would
17 have made sales at in the RPM had been, had they not
18 had to cover that length at Kentucky Power. So it
19 will be the BRA price then as well.

20 But whatever that is, whenever the option
21 clears next year sometime now. And, you know, then
22 after that, you know, the Company has an IRP case
23 pending and I assume will make some sort of proposal
24 for how we fix that capacity short in a more
25 long-term or medium-term basis than just purchasing

1 its needs from the other companies in the plan.

2 So --

3 Q. And that would be an embedded cost, right?

4 **A. No, no. You mean -- you mean how will we**
5 **decide to -- however we decide and the Commission**
6 **approves that we -- that we --**

7 Q. The future capacity deficit.

8 **A. The future capacity deficit, right. And that**
9 **is more like what you're looking at in cogen/SPP,**
10 **right? And, again, you're not avoiding that through**
11 **adding a DG system. You know, like 500 kW is not**
12 **avoiding 140-megawatt purchase, right? You're**
13 **avoiding some piece of that.**

14 If you're looking at a true -- it's a more
15 long-term calculation like that, it would be what we
16 have in cogen/SPP for like a PURPA rate where it's
17 like, again, my hypothetical CP or some sort of
18 dispatchable resource.

19 Q. So do you-all -- when you-all are doing DSM
20 programs, do you-all ignore incremental
21 1.5-megawatt, you know, capacity reductions as -- at
22 a -- some sort of reduced value because it's only
23 incremental instead of -- you know, instead avoiding
24 entire purchases or capacity additions?

25 **A. I do. You can see that in the DRS --**

1 proposed DRS rate schedule here when we're trying to
2 peak shape customers. We look at, right, what are
3 our circumstances right now? Capacity is
4 sufficient. If I can shave a megawatt of load
5 through DRS, my incremental revenue from that is
6 making the Company a little bit longer and making
7 another sale into the market and avoiding some other
8 fixed cost of transmission, which I've also included
9 in both DRS and in the avoided cost rate in NMS II.

10 You can use a variety of price signals when
11 you're doing economic analysis on a DSM measure or
12 EE program. It's kind of whatever -- you know,
13 whatever you're looking at, but no, you're not --
14 again, I totally agree you're not going to avoid
15 some sort of 400- or 100-megawatt increment of
16 capacity with EE measure in full or, you know,
17 rooftop solar. And, again, neither are
18 dispatchable.

19 You have to take all those things into account
20 when you're looking at how you're pricing something
21 on the margin.

22 Q. I guess what I would ask is, based on your
23 load duration -- I guess that's what you looked at
24 -- based on your load duration study on PP, right,
25 or distributed generation, I would assume that you

1 would ascribe some sort of in excess of 50 percent
2 capacity value to it because it's coincident with
3 PJM's 5-CP, which drives the FRR plan, right?

4 **A. Yes, exactly. We looked at how it affects**
5 **5-CP hours over -- I think I did three years, and**
6 **then get a three-year average of what the average**
7 **load reduction would be, and you catch that**
8 **variability in the hours of 15 through 18 that**
9 **generally happen in PJM for the 5-CP summer peaks,**
10 **and then 12-CP load reduction for, you know,**
11 **reducing load-based transmission costs.**

12 Q. And then based on that coincident value, you
13 ascribed the capacity value of 100 megawatts or \$100
14 a megawatt a day. Excuse me.

15 **A. Yeah. The generation portion was that, and**
16 **then the transmission portion was the, you know,**
17 **cost of transmission in the zone.**

18 Q. Okay. I have one more question with that
19 section if you'll bear with me.

20 Are you aware of the minimum size study used
21 in cost-of-service studies for a distribution plant?

22 **A. Minimum system?**

23 Q. Minimum system. Excuse me.

24 **A. I am aware of that. I provided a version of**
25 **that in Staff discovery.**

1 Q. Can you just very quickly, what's the basis
2 of the minimum system study?

3 **A. The minimum is kind of a misnomer. I**
4 **generally look at it as a typical, right, because**
5 **you don't -- and again, I'll split hairs here**
6 **because you don't -- you don't take the system down**
7 **to the very smallest you can use for a customer, you**
8 **take it down to the lowest economically common**
9 **infrastructure you put in, you know, where -- where**
10 **the 825 -- again, totally making up numbers here.**
11 **Mr. Phillips will now back me up that you can do any**
12 **of these things.**

13 But you can put a 20-foot pole and a 2-kV
14 transformer on customer A's house, but through
15 purchasing and just normal operations, we know that
16 a 35-foot pole and a 7-kV transformer is the least
17 cost for everybody to generally serve needs.

18 A true minimum system study would just look at
19 what would happen if you designed the system based
20 on (indiscernible) what your smallest possible is.

21 And what I did is that typical, so what is our
22 smallest typical installation that we use for the
23 various pieces of distribution equipment to serve
24 customers in general, and the theory behind the
25 whole study is that everything up to the typical

1 level of equipment is completely fixed in nature and
2 does not vary by anything other than the number of
3 customers on your system, which makes sense when
4 you're looking at, like, radial distribution
5 service, right?

6 If there weren't customers out there two miles
7 down this road, you wouldn't have run conductor and
8 poles and transformers there to serve them. And
9 then everything above -- size above that typical
10 installation is demand-based because, in theory,
11 there was a -- you know, if 7 kV is your typical
12 installation on this circuit, but you have 10 kV or
13 20 kV on this other circuit, you did that because
14 the demand on it required that.

15 So you're separating out the overall fixed
16 costs into what is fixed by number of customers and
17 what is varying by the demand on the system, the --
18 you know, kW demand.

19 Q. KW or kV. So --

20 **A. Yeah.**

21 Q. So let me ask -- and this is the -- something
22 I don't know if anybody ever addressed directly as
23 it relates to that.

24 We have in this case these marginal -- these
25 marginal conversations, right, marginal costs in

1 conversations, and then embedded costs in
2 conversations. And they're kind of fun for the
3 three of us. They're intermingled together, right?
4 So we've got to sort of -- where does it make most
5 sense to do either, if either.

6 So when it comes to this discussion -- and I
7 just want your perspective on it. When it comes to
8 this discussion on avoided distribution cost, right,
9 when the Company makes decisions -- rightfully --
10 right, wrong, doesn't matter -- I'm just saying
11 makes the decisions, to your point, to have this --
12 I know you don't like the minimum system, but the
13 minimum practical system, whatever it may be, does
14 that -- but we're never going to go get a 2-kV
15 transformer, we're just going to buy 5 kV because we
16 got a
17 15 percent discount on both, right, or whatever it
18 might be -- that -- would you agree that that
19 creates again some sort of inherent -- that insofar
20 as the Company is making a conscious decision to do
21 something this way, right, and it may be good
22 utility practice, whatever it may be, but because of
23 those other decisions, that negates the ability,
24 I'll even say, to determine avoided distribution
25 cost when we're talking about things like

1 distributed generation.

2 Because the Company's always going to have a
3 kV -- insofar as it's not higher, right, but lower
4 -- that the smallest transformer the Company is
5 going to put on a line is a 5-kV transformer because
6 that's the smallest they carry, right, even if a
7 distributed generation system reduces demand.

8 Does that create an inherent sort of
9 complication with calculating those figures?

10 **A. No, especially when you're looking at a**
11 **winter-peaking utility like Kentucky Power. We**
12 **would show it in the test year data, and all my**
13 **analyses, that net-metering customers are**
14 **contributing just like everyone else to the full**
15 **distribution peak when it happens at 6:00 a.m.**
16 **There's no sun up. It's dark and it's February, so**
17 **their load is just in that -- that highest**
18 **distribution hour like everyone else's, so no.**

19 I mean, even if they do reduce every other
20 month peak theoretically on the distribution system,
21 you still have to size it to handle their peak load,
22 which happens before the sun is up.

23 Q. Yeah, and I'm not asking specific to your
24 proposal in this case. I'm just saying the
25 distinction between the marginal costing and the

1 embedded cost-of-service studies, or even the
2 practical effect of utility planning, does one --
3 let me ask you this way: Do costing studies drive
4 expenses, or do the practical expenses and running
5 of the utility drive cost-of-service studies?

6 **A. Again?**

7 Q. Would you agree that the cost-of-service
8 study is just an attempt to put on paper, right, the
9 interaction of the things that have already been
10 done in the field or anticipated to be done in the
11 utilities practice, right?

12 **A. That's right. Mr. Phillips does not consult**
13 **me to come up with rates before he -- he provides**
14 **safe, reliable utility service. I am the back**
15 **office nerd that then takes care of whatever needs**
16 **to be done from a cost of service and rate design**
17 **perspective.**

18 Q. And with a marginal cost study, for instance,
19 it's just putting on paper reflecting what the
20 actual practice is going to be -- or what the
21 practice has already been, right?

22 **A. It depends, right? And when we look at the**
23 **marginal cost-of-service analysis I did, especially**
24 **with the basic service charge, I'm not proposing**
25 **that we use that. I'm using that as an informative**

1 **guide to what you could potentially move that charge**
2 **up to before you have to start considering larger**
3 **items, you know, other issues within distribution**
4 **and other cost of service as to whether you're going**
5 **too high on that basic service charge or not.**

6 But then if you're looking at something on a
7 marginal basis like EDR load, whether that meets all
8 the statutory rules, whether the Company should do a
9 peak shaving program like the DRS, or whether you're
10 compensating marginal injections into the
11 distribution grid from a customer generator, those
12 are all very valid uses of a marginal
13 cost-of-service study and that they should be used.
14 So the answer is (indiscernible).

15 Q. Yeah, I've found that here, doing this, it's
16 always -- the utility world -- there's a lot of
17 nuance, and it very much depends. And I can
18 appreciate that.

19 **A. All gray, yes.**

20 Q. On the EV proposal, real quick, you stated on
21 your direct in '19 that (Reading) The Company does
22 not propose an extra basic service charge for
23 customers that subscribe to the EV charging
24 provision because the cost of the separate second
25 meter for the customer is being offset by the

1 additional fixed-cost contributions from the on-peak
2 and off-peak energy charges.

3 So it's a big record. I may have missed it.
4 Where do you provide the cost-of-service support to
5 indicate that's the case, that the savings from the
6 use -- from the demand in energy offset the
7 fixed-cost savings that the other customers would
8 get from that person paying a meter charge?

9 **A. It is in one of the many Staff discovery**
10 **responses. We can provide that exact one, but I**
11 **don't have it offhand.**

12 But that's the theory. You're looking at it
13 just like I did in Exhibit 9, that EDR load. You
14 know, if you add this load, are you overcoming the
15 marginal costs of adding it and producing positive
16 fixed-cost contributions. So yes, it's somewhere in
17 Staff discovery, and we'll provide that.

18 Q. Let me ask this question: Is there a
19 disconnect -- that's the only word I know how to
20 come up with. Is there a disconnect between the
21 savings that you may -- would you agree that the
22 savings from that are going to be demand-related for
23 cost-of-service purposes?

24 **A. (Indiscernible).**

25 Q. What's that?

1 **A. I'm sorry. What savings are you referring**
2 **to?**

3 Q. Well, so you said that the fixed-cost
4 contributions -- let me get this right.

5 So (Reading) The Company does not propose an
6 extra basic charge for customers who subscribe to
7 the EV charging provision because the cost of the
8 separate second meter for the customer is being
9 offset by the additional fixed-cost contributions
10 from on-peak and off-peak energy charges.

11 So what I'm asking is would you agree there's
12 a disconnect between the cost of the meter -- which
13 I assume you're, in the cost-of-service study,
14 saying is customer-related costs -- and the
15 fixed-cost savings for the on-peak/off-peak energy
16 usage is production and demand, or demand-related?

17 **A. So it's not really a cost reduction, right?**

18 You got to look at it as we are trying to have
19 this -- think of it as you're incenting this
20 customer to charge in the off peak, you know, and so
21 you're adding off-peak billing kilowatt hours, and
22 you're giving them this separate meter time-of-use
23 rate so they don't have to put their entire life on
24 time-of-use rate at their billing address.

25 So what I show in that Staff data request is

1 that their additional fixed-cost contribution from
2 that rate, so everything above fuel, is enough to
3 offset that customer's cost of the meter, the
4 separate meter. Again, because that is
5 customer-related, I totally agree. And then you
6 provide incremental fixed-cost contributions.

7 So it's more of a -- I look at it more as
8 there's -- the incremental revenues from adding that
9 load is greater than the incremental cost of serving
10 it.

11 Q. Yeah, but the revenues being allocated are
12 being allocated in a cost-of-service study to
13 production and transmission and distribution-related
14 costs that are probably being allocated that are on
15 a demand basis, right?

16 **A. That would all stay within the class. So**
17 **it's residential class revenue. That would stay in**
18 **the class -- or general service, EV charging,**
19 **general service class. You're not allocating**
20 **revenue. The revenues stay within the class.**

21 Q. But you're driving -- you're increasing
22 customer-related costs for the entire class, right,
23 because you're adding in additional --

24 **A. To a lesser extent than you are adding**
25 **revenue, yes.**

1 Q. Okay. The other question about DRS, I just
2 want to make sure that I understand what DRS is.
3 Effectively, it's going to be the Company's own peak
4 shaving program so as to reduce its demand -- its
5 bill from PJM effectively, right?

6 That single meter, you're just attempting to
7 do it behind the meter, reduce your own demand
8 behind the meter so that your FRR plan is
9 continually lower and lower effectively, right?
10 That your demand for purposes of PJM's 5-CP is
11 lower?

12 **A. Yes, Your Honor. And kind of the impetus**
13 **behind this is we have -- we've been doing this in**
14 **special contracts in other jurisdictions, and,**
15 **hopefully, we proposed it in Virginia -- I proposed**
16 **it in Virginia. And, hopefully, it's approved here**
17 **very shortly, but the thought here is, when we talk**
18 **with industrial customers, they -- you know,**
19 **shockingly, customers are weary of PJM rule changes**
20 **in the demand-response market, right? They don't**
21 **like being exposed to capacity performance, which**
22 **became the only product for demand response starting**
23 **last June.**

24 It basically says, hey, if the system -- we
25 get, you know, the scarcity on the system, we can

1 call your demand-side resources whenever we want,
2 and if you don't respond, I'm going to hit you with
3 a penalty up to \$3,500 a megawatt hour, so that made
4 a lot of people shaky, and we have some very large
5 industrial loads in some other companies that were
6 also very interruptible.

7 So we started doing this concept to address
8 those. You have a customer that still provides the
9 demand-response service, but we're taking them out
10 of the market. We are exactly what you said, we're
11 putting them behind our meter and taking them from
12 the supply side of the equation, which always seems
13 weird with demand resources, and putting them on the
14 demand side, right?

15 But the difference is, though, that customer
16 is going to have to interrupt when we call them when
17 we think the 5-CPs and the 12-CPs are occurring so
18 we can actually reduce load versus they may have sat
19 there as a resource on a PJM program for years and
20 never had to interrupt other than annual testing.

21 So it's a trade-off, right? The customer is
22 avoiding risk of the RPM market or the capacity
23 performance charges, but they are going to probably
24 have to interrupt more under our peak shaving
25 program than they would under a PJM program.

1 Q. Okay.

2 VICE CHAIRMAN CHANDLER: And, Chairman, I
3 have, I think, two more short questions and then two
4 -- a little longer ones. So after the short ones,
5 would you like to take a break?

6 CHAIRMAN SCHMITT: You want to take a break
7 now?

8 VICE CHAIRMAN CHANDLER: Let me ask these two
9 short questions. If that's okay.

10 CHAIRMAN SCHMITT: Sure. Sure. Go ahead.

11 Q. There are two of them. The first is I seem
12 to be confused. Mr. Blankenship? Blankenbaker?
13 It's been a long week.

14 **A. Blankenship.**

15 Q. Blankenship, thank you, spoke and said that
16 the meters -- the AMR meters, talking about the ones
17 currently, were obsolete, I think is the word that
18 keeps getting thrown out. But I heard something in
19 your testimony I want to clarify. Are they fully
20 depreciated?

21 **A. To my knowledge, no, they are not, because I**
22 **don't think we've updated depreciation rates in**
23 **several rate cases.**

24 Q. Okay. So if the Staff asks for a posthearing
25 data request on the -- where the depreciation is on

1 those current meters, you can provide that? Maybe
2 not you, the Company.

3 **A. I think it's already in the record, but we**
4 **can definitely point you to that. I think the net**
5 **book value figure is in the record.**

6 Q. Okay. I appreciate that.

7 The other very short question -- and I'm
8 reading this from somebody else, so bear with me.
9 Do you have your response to Staff DR 6-7 regarding
10 the financing of those -- I believe those coal --
11 Mitchell coal purchases?

12 **A. I do.**

13 Q. Okay. In the test year does the Company
14 finance the purchases through short-term debt?

15 **A. Sorry. Bear with me. I'm rereading this.**
16 **I'm sorry. Can you repeat your question now?**

17 Q. Yeah. During the test year, did Kentucky
18 Power finance the coal purchases through short-term
19 debt -- with short-term debt?

20 **A. 6-7 says that the Company uses its working**
21 **capacity resources to pay for expenses from its**
22 **operations as they are incurred. All capitalized**
23 **items, including the Mitchell coal inventory, are**
24 **financed based upon the Company's overall capital**
25 **structure.**

1 And then it goes on to explain why I
2 adjusted -- or why we adjusted this Mitchell coal
3 short-term debt to zero because of the Mitchell coal
4 stock adjustment.

5 Q. So if there's a specific allocation -- there
6 may or may not be -- but if there's a specific
7 allocation to the way the Company finances that,
8 you-all could provide that in a posthearing data
9 request?

10 **A. Can you ask that again? If there's a**
11 **specific way we finance the coal stock?**

12 Q. Yeah, that those costs are allocated when
13 financing during a particular year or during the
14 test year?

15 **A. Allocated to one specific source of capital**
16 **versus another? Is that what you're trying to**
17 **distinguish?**

18 Q. Yes.

19 **A. Yeah, I (indiscernible), but I think we can.**

20 Q. Your answer -- yeah, your answer, you would
21 indicate that it's just part of overall financing,
22 so we do everything at the WACC.

23 **A. That's right. And the reason -- again,**
24 **there's some history behind this adjustment in the**
25 **way we've mechanically adjusted the cap structure**

1 **and the WACC through our filing schedules in Section**
2 **5 over time.**

3 Two rate cases ago in 2014, where -- because
4 we remove a lot of things from capitalization for
5 base rates because they're earning a return
6 elsewhere or they're nonutility or whatever, we
7 reduced -- you know, we proportionately reduced all
8 the components of capitalization.

9 And what happened is we actually ran
10 short-term debt zero because it was -- the balance
11 was so low when we removed everything, it went
12 negative. So then, to get back to 100 percent, the
13 function was to create fake equity and long-term
14 debt. No one thought that was the right answer, so
15 we agreed to zero out short-term debt.

16 And we have been doing that since to avoid
17 that issue when you remove things from the capital
18 structure and reduce all of the components,
19 long-term debt, equity, AR financing, everything
20 from a proportional basis. That's the reason behind
21 that -- that tranche there, but yes, Your Honor, we
22 can provide you with posthearing data request
23 stating how we finance that item.

24 VICE CHAIRMAN CHANDLER: A little
25 clarification real quick, Chairman, if you don't

1 mind.

2 Q. You just were talking about -- it just
3 reminded me. I know there's just a portion of it.

4 Insofar as the Company doesn't earn what it
5 expects in terms of its cost of service with the
6 nonjurisdictional portions of its revenues, right,
7 the -- we'll just say the nonjurisdictional portions
8 of its revenue requirement.

9 **A. (Indiscernible.)**

10 Q. What's that?

11 **A. Are you referring to like our small FERC
12 jurisdiction and (indiscernible) reserves?**

13 Q. Yeah. (Indiscernible). Insofar as the
14 Company isn't earning its ROE as it relates to
15 those, is that calculated in that, you know, GAAP
16 earnings in a given year, or is that on a
17 jurisdictional basis when the Company is talking
18 about its inability to earn its ROE?

19 **A. That's a total company ROE, but those
20 customers are served via a formula rate with a true
21 loss. So we're earning the ROE in a formula rate
22 there.**

23 Q. Right. But I guess what I'm asking is,
24 insofar as it's -- you're underearning for that
25 year, it may true up to the next year, but when

1 you're talking about currently a month in sort of
2 numbers, is that taken into account?

3 **A. No. It is what it is. So -- but, generally,**
4 **that is earning the allowed return in the formula.**

5 So all other things being equal, it's probably
6 pulling up the total Company ROE very minisculely,
7 right, because it's 1 percent, 1 1/2 percent of the
8 overall Kentucky Power.

9 VICE CHAIRMAN CHANDLER: Okay. Chairman, we
10 can take a break. I appreciate it.

11 CHAIRMAN SCHMITT: All right. We'll now be
12 in recess until ten minutes after 3:00.

13 (Recess from 2:57 p.m. to 3:18 p.m.)

14 CHAIRMAN SCHMITT: Okay. Are we all back on
15 the record?

16 VICE CHAIRMAN CHANDLER: Can you hear us,
17 Chairman?

18 MS. SACRE: I just got a note about a
19 recorder stop. Let me make sure.

20 CHAIRMAN SCHMITT: There's a question about
21 whether our system is properly working.

22 MS. SACRE: (Indiscernible). He'll come in
23 here if it's not.

24 CHAIRMAN SCHMITT: We think we're okay.
25 We're back on the record.

1 Ms. Gundermann, are you with us here this
2 afternoon? Maybe not. Is someone present from the
3 Attorney General's office? Do you think they can
4 hear anything I'm saying?

5 MS. SACRE: That might be the problem.

6 MS. VINSEL: I'll go back and double-check
7 with Jim.

8 CHAIRMAN SCHMITT: Vice Chairman, can you
9 hear me?

10 MS. SACRE: They can't hear us.

11 CHAIRMAN SCHMITT: They can't hear a thing?

12 MS. SACRE: That's what I meant, this message
13 I got.

14 MS. VINSEL: We need to go off the record for
15 a few minutes.

16 CHAIRMAN SCHMITT: Well, I can't say
17 anything, they can't hear me. Let's just go off the
18 record. Maybe they can. They can't hear a word
19 we're saying.

20 (Off-the-record discussion.)

21 CHAIRMAN SCHMITT: Are we back?

22 MS. SACRE: You're on the record, sir.

23 CHAIRMAN SCHMITT: Vice Chairman, can you
24 hear?

25 VICE CHAIRMAN CHANDLER: We can.

1 CHAIRMAN SCHMITT: We've had a technological
2 problem that caused us to -- caused a delay. Before
3 we recommence your cross-examination, however, I
4 would like to ask if Ms. Grundmann is present for
5 Kmart.

6 MS. GRUNDMANN: Yes, Your Honor, I'm present.

7 CHAIRMAN SCHMITT: I know we spoke Friday.
8 You, I thought, maybe had some concerns about your
9 witness, and I was positive that we would get
10 through with the Attorney General's witnesses today,
11 and I wanted to ask if you had a problem -- if your
12 witness had a problem being here tomorrow. And if
13 that was the case, assuming the Attorney General's
14 witnesses and KIUC's (indiscernible), I go ahead and
15 let your witness go first today, believing that
16 there probably will be little, if any,
17 cross-examination.

18 MS. GRUNDMANN: Your Honor, my witness is
19 flexible in terms of going late today, going
20 tomorrow. Her schedule can accommodate whatever you
21 desire.

22 CHAIRMAN SCHMITT: Well, I doubt there's any
23 point in going late today because we've got ten
24 witnesses left, and some of them, I'm sure, won't be
25 as long as others, but I can't see us getting

1 through by 5:00 or 6:00.

2 MS. GRUNDMANN: I tend to agree, Your Honor,
3 but she's fine with going tomorrow, but I appreciate
4 you remembering my scheduling discussion last week.

5 CHAIRMAN SCHMITT: Well, I just wanted to
6 make sure. I hate to see anybody have a witness
7 problem, so anyway, that's okay. Maybe today, maybe
8 tomorrow.

9 Ms. Blend? Ms. Blend?

10 MS. BLEND: Yes, Your Honor.

11 CHAIRMAN SCHMITT: In checking with our
12 people here, it would appear as follows: That none
13 of the Kentucky Power witnesses except Mr. Mattison
14 will be the subject of any additional questioning,
15 and I think one or more of the commissioners would
16 like to speak with Mr. Mattison after the
17 intervenors' witnesses have testified.

18 So if he can be available by video, all of
19 your other witnesses can be excused. And I'm sorry
20 that you had to have them there today, but we just
21 didn't know, and so -- but, anyway, I wanted to let
22 you know now.

23 MS. BLEND: Thank you, Your Honor. We
24 appreciate that. We'll make sure that the witnesses
25 know, and Mr. Mattison will be available tomorrow

1 after cross-examination and questioning of the
2 intervenor witnesses has concluded.

3 CHAIRMAN SCHMITT: All right. Thank you.

4 At this time, Vice Chairman, are you ready to
5 complete your cross-examination?

6 VICE CHAIRMAN CHANDLER: Yes. Thanks,
7 Chairman.

8 Q. Mr. Vaughan, you can hear me okay?

9 **A. I can. And before you ask your next**
10 **question, could I provide you some references from**
11 **our last conversation?**

12 Q. Sure, but before we do that, can I ask you
13 another question?

14 Can you provide additional color in a
15 posthearing data request to your basis and
16 assumptions for KPSC 4-72? I think it's Attachment
17 1, which is, I think, probably one of the things
18 you're going to refer me to, which is the
19 calculation of your EV information; is that right?

20 **A. Yes. You one-up referenced me there. I was**
21 **going to reference you to that.**

22 Q. Okay. So KPSC 4-72, all I have is a Excel
23 with a couple of lines that just have one- or
24 two-word descriptions to them, and there's no
25 narrative in the DR response.

1 So, if we asked for the assumptions and the
2 calculations and the assumptions for the
3 calculations, you'd be able to provide more color
4 around your calculation?

5 **A. Yes, Your Honor. There was a lot of data**
6 **requests attached to that, so yeah.**

7 Q. Okay. No. Sorry. Go ahead.

8 **A. On the net book value of the meters, going to**
9 **refer you to AG KIUC 1-65. And for -- yeah, 1-65,**
10 **and then the preliminary depreciation analysis was**
11 **AG KIUC 1-61.**

12 Q. And let me ask that 1-65. I know that Staff
13 had said something to me in the interim about that.
14 Does it have in it what the assumed -- what the --
15 what curve they're using, what depreciable life that
16 the current meters are being depreciated over? Or
17 does it just have the net book value remaining of
18 the meters in that account?

19 **A. I think the meter account -- the life being**
20 **assumed for the meter account is what you'll find in**
21 **1-61, the number of years used.**

22 Q. Okay. And the actual net book value would be
23 in 1-65?

24 **A. That's right.**

25 Q. Correct? Perfect.

1 **A. Yeah.**

2 Q. Okay. Can I get Staff to bring up the
3 Company's response to Staff's 7-2? That's the
4 wrong -- the wrong document. There we go. Okay.

5 And have you seen this document before,
6 Mr. Vaughan?

7 **A. Yes. I prepared it.**

8 Q. Okay. And this is a distribution, or at
9 least a data set, indicating the bills of all the
10 Kentucky Power's residential customers for a certain
11 time period, right? I think it's April of '19 until
12 now. Is that right?

13 **A. Yes, Your Honor, being the test year through
14 our last current load billing information from
15 September, yes.**

16 Q. So the first question I'm going to ask in the
17 posthearing data request is to run this with
18 consistent X axis. Do you see that? I think that's
19 the right axis. I didn't do very well in high
20 school math, but I think that the distribution at
21 the bottom runs in 100-kilowatt hour increments, and
22 then beginning at 2000 runs in 500-kilowatt hour
23 increments. Do you see that?

24 **A. Yes.**

25 Q. Okay. And you see how that kind of -- I'll

1 say it this way -- messes up how pretty the bell
2 curve can be or how pretty the figure is?

3 **A. Because there's a lot of bills in those ones,**
4 **but, yeah --**

5 Q. Yeah. It effectively makes it look like it's
6 real noisy, but, ultimately, it's that the data set
7 prior to it on that axis is only 100-kilowatt hour
8 increments, and that one is all of a sudden
9 500-kilowatt hour increments?

10 **A. Yes. That's a programmatic report, so I will**
11 **see if we can change those -- those increments. And**
12 **if we can, we will provide that information.**

13 Q. Okay. And even if it's, you know, instead of
14 100-kilowatt hour increments, if it's 125 or 150 to
15 try to make the figure smaller, because, ultimately,
16 you know, it's -- the left-hand side of it is always
17 going to be zero, and then to the right it's going
18 to be whatever the highest number is, but I know the
19 tail is going to always probably go for a while when
20 you get over 500-kilowatt hours. So we're mindful
21 of that.

22 So the average usage is something like, for
23 residential Kentucky Power customers, is 1,239
24 hour -- 1,239-kilowatt hours a month, correct?

25 **A. I think rounded up, it was 1,240 on the**

1 **button for the test year is what we've been using.**

2 Q. Okay. All right. And in last case it was
3 something like -- I remember it was around that same
4 area, 1,213 --

5 **A. (Indiscernible).**

6 Q. Yeah. So the highest number of bills,
7 ignoring, you know, that weird 2,025 amount, the
8 highest number of bills, the highest distribution of
9 100-kilowatt hour increments is -- well, let me see
10 if it will let me zoom here. Bear with me. Is, I
11 believe, 800- to 900-kilowatt hours a month. Do you
12 see that?

13 **A. Yeah. It's (indiscernible) that number of**
14 **bills. It's right there, just shy of a thousand**
15 **kilowatt hours. That's right.**

16 Q. And so the largest number of observation, the
17 100-kilowatt hour bills a month is right there in
18 the 7 to 800, and then the average, though, is
19 1,240.

20 So I guess my question is, is the Company
21 concerned by the vast number of observations
22 significantly in excess of the Company's average
23 residential bill usage?

24 **A. Again, this is a product of the Company's**
25 **service territory in the penetration of electric**

1 heat. You get very large usage in cold weather
2 months. Someone -- someone who could be -- you
3 know, I think the -- I can't remember if it's
4 Exhibit J, but the billing analysis, kind of typical
5 billing analysis shows the shape of a residential
6 customer's bill from month to month, and you can
7 have someone that averages 700 kilowatt hours most
8 months, and then uses 2,000, 3,000 kilowatt hours on
9 a cold winter month.

10 And that's how you're getting that, that much
11 higher average kilowatt-hour usage than what you'd
12 see in the average bucket of bills. It's the
13 extreme winter billings.

14 Q. So I've asked you about the EV, right, the
15 tariff EV that you've proposed, the DRS. We've
16 talked about load and DRs behind-the-meter
17 generation. The only thing we haven't talked about
18 is Order 2222 in correlation to all the different
19 things that can happen.

20 So let me ask this: In the cumulation of all
21 those things, at least we'll just say the EV and the
22 DRS, we're talking about proposals where the Company
23 is going out of their way making a proposal to ask
24 customers to change their behavior where whatever
25 costs the Company incurs in asking them to change

1 their behavior is more than offset by the customer's
2 response. Is that fair?

3 **A. I think that's typically fair. If we're**
4 **going to incent someone to do something, compensate**
5 **someone for a change in behavior, we want to make**
6 **sure that all of the customers are at least no worse**
7 **off for us doing that.**

8 So, yeah, we want the cost-of-service benefit
9 to be equal to or greater than the compensation paid
10 to the customer.

11 Q. And I remember talking about avoided
12 distribution costs, right, with you a minute ago
13 with minimum system study, and you were discussing
14 how it's your testimony that a lot of the costs on
15 the distribution system in terms of sizing and
16 demand-related costs are driven by the Company's
17 winter peak and those demands that residential and
18 commercial customers put on the Company when it
19 comes to those winter peaks, right?

20 **A. That's right. To the extent that it deviates**
21 **from typical, which I would say is customer-based in**
22 **cost assignment, that increments over that would be**
23 **demand-related.**

24 Q. All right. So I go back to the vast number
25 of observations in excess of 2,000, 2,500 bills a

1 year. You know, we're talking about, let's say, in
2 excess of 2,000, right? This is April to --
3 actually, I don't know what the end of this data set
4 is -- April to August of this year, maybe September
5 of this year?

6 **A. September, yes.**

7 Q. So September of this year. So April, so
8 that's 12, 13, 16 months; is that right? 17 months?

9 **A. Yes, that's right.**

10 Q. We have observations in excess of
11 2,000-kilowatt hours a month. 10, 15 -- you know,
12 coming up on 20,000 bills in Kentucky Power's
13 territory in excess of 2,000-kilowatt hours a month,
14 right?

15 **A. Yes, absolutely. Look at December, January,**
16 **February, and March. March can cause a lot of**
17 **heating load too there in the early part. I mean,**
18 **you look at the 2,000 to 3,000 segment, there are a**
19 **lot of bills in there. Absolutely.**

20 Q. Right. And that's what I was going to say.
21 A lot of those are -- you know, there aren't -- it's
22 not an insignificant number of bills when you start
23 looking at 2,000-plus, particularly in the winter,
24 right?

25 **A. Absolutely.**

1 Q. (Indiscernible). Go ahead.

2 **A. I was just going to say, that's one of the**
3 **impetuses for our -- the winter heating tail block**
4 **we proposed.**

5 Q. Well, like -- so about that. So like let's
6 look at the -- I think it's the -- goodness
7 gracious, is it really, the 2,500 to 3,000 kilowatt
8 hours a month. And the one before that in January,
9 February -- or December, January, and February, do
10 you see that? Some of those are in 17 and 18,000
11 observations in those individual months.

12 Do you see that?

13 **A. Yes, Your Honor.**

14 Q. Okay. So of all the things that the Company
15 can do in terms of proposals in front of the
16 Commission, why propose merely a declining block
17 schedule instead of something that addresses those
18 particular customers who have that demand that drive
19 those costs?

20 **A. So here's the issue: Your heating load**
21 **isn't -- isn't discretionary, right? I can't -- I**
22 **don't really want to determine at what price a**
23 **customer will choose to freeze, you know, rather**
24 **than turn their heat to a comfortable level. That's**
25 **definitely not what I'm doing here.**

1 And, you know, the issue is with these large
2 bills, these large -- these large usage categories.
3 You see we have a lot of bills they throw based on
4 the current rate design that has a large part of our
5 fixed costs in the volumetric rate, it
6 disproportionately impacts these electric heating
7 customers.

8 And, again, cost causation, I agree, they
9 contribute to distribution peaks, but they are not
10 -- that incremental heating load -- and that's how
11 we design the tail block, so that it's targeting the
12 incremental usage over the same customers'
13 nonheating average usage for the discount. That
14 incremental heating usage is not contributing to
15 like, say, a generation peak in the summertime, and
16 it's not contributing to -- I don't know -- 8 of the
17 12 transmission CPs.

18 So we're trying to unburden the -- those
19 disproportionately affected customers. You know,
20 and, again, people say why don't you just put them
21 on amp? Well, that just spreads that high bill out
22 over more months. What we're trying to do here is
23 actually lower that high bill on a cost causation
24 basis, and the distribution portion of that rate is
25 the same, whether it's in the first part of the

1 usage or in the winter tail block.

2 We're just moving around some of the
3 generation costs there, you know, from a fixed-cost
4 standpoint. It's my opinion these customers are
5 contributing more than their fair share. So we're
6 trying -- based on the rate design that's in
7 existence, you know, between the kilowatt-hour
8 charges and the percentage of revenue riders.

9 So we're trying to reduce that. And the same
10 customers pay a little bit of that back over time
11 because they are consuming, you know, first block
12 kilowatt hours the rest of the year, but it is
13 flattening out those really high winter bills that
14 you see on these disproportionately large usage
15 months, and it's trying to address the problem we
16 have.

17 Q. Let's talk about that for a second. There's
18 an observation January of 2020, there's 18,559
19 observations for customers who use between 2,000 and
20 2,500. Do you see that?

21 **A. Yes, Your Honor.**

22 Q. So let's just assume that those are weighted
23 towards the bottom of that range, and that the
24 average of those is 2,200, right? 2,200 kilowatt
25 hours that month. That's a fair assumption, right?

1 We filled the bell curve. I mean, it's going
2 to be pulled -- it's going to be pulled to the low
3 range when we start talking about average, right?
4 There's going to be less observations as you grow.
5 We know that from data, correct?

6 **A. Yeah. It could be somewhere in the middle,**
7 **but yeah.**

8 Q. Yeah. So let's just say 2,200. So what is
9 the residential kilowatt-hour charge that's being
10 proposed in this case, the first block?

11 **A. I'll have to go to my schedule. I don't --**
12 **unfortunately, don't have everything offhand.**
13 **Sorry. Bear with me here for a moment.**

14 Q. That's okay. Don't forget to lean into the
15 microphone just when you make comments, for the
16 benefit of the court reporter.

17 **A. The proposed residential block 1 rate for the**
18 **whole year is 12.265 cents per kilowatt hour. The**
19 **winter heating block is 6.265 cents per kilowatt**
20 **hours.**

21 Q. 6-point what? Excuse me.

22 **A. 6.265.**

23 Q. 6.265, and the ordinary is 12.265; is that
24 right?

25 **A. That's correct. There's a 6-cent difference.**

1 Q. Okay. And the ordinary one, when does the
2 winter block kick in? 1,100?

3 **A. Yes.**

4 Q. Okay.

5 **A. In December, January, and February.**

6 Q. So for, like, an ordinary -- so for the
7 average customer in this block, those 18,000
8 observations, under the current, it's 2,200 times
9 .12265. That would be a \$269 volumetric bill,
10 right? Does that sound right? It's the average
11 times -- it's the average times 12.265, right?

12 **A. Sure, yes. I'm not following along with the
13 math here in my calculator.**

14 Q. So we just said 2,200 kilowatt hours a month,
15 right? We said that was a reasonable average of
16 that 2,000 to 2,500 range, right?

17 So a person using 2,200 kilowatt hours a month
18 in the winter under a nonblock schedule would pay
19 12.265 cents; is that correct?

20 **A. No. If you didn't have a block rate, the
21 rate would be lower.**

22 Q. Rate would be lower. Do you know what it
23 would be without the block rate?

24 **A. Not offhand, but maybe to help out your --
25 under your example, the 2,200-kilowatt hour customer**

1 in that month and the heating block kick in at
2 1,100, they're receiving a \$66 bill reduction under
3 my proposal of the tail block because of the block
4 discount is 6 cents per kilowatt hour.

5 Q. Okay. Great. So \$66 reduction on an
6 approximately \$260 original bill. Is that fair?
7 2,200 times 12.625?

8 A. Again, if you didn't have it, it would be --
9 it's circular. The 12.265 is only there because you
10 have the reduction in the tail block.

11 Q. Okay. I guess my question is with some of
12 the bills that we see, especially for people that
13 use in excess of 2,000 kilowatt hours a month,
14 right, the Commission gets 2,000-
15 3,000-kilowatt-hour-a-month bills all the way up,
16 right? Some of them 7, 8, \$900.

17 When you get an \$800 bill, and you can't
18 afford an \$800 bill, what good does a \$500 bill, if
19 you can't afford a \$500 bill, do you?

20 A. I mean, it's \$300 less. I mean, we're trying
21 to take steps towards this. And, again, I'll
22 piggyback on what Company Witness West discussed.
23 You know, maybe with the AMI infrastructure this
24 customer gets 3 or 4 days into the billing cycle and
25 gets a high bill alert, and they can maybe make

1 their home less warm and cut down a little bit on
2 that.

3 So, I mean, it's --

4 Q. Is the heating load discretionary or
5 nondiscretionary?

6 **A. In my opinion it's nondiscretionary. But,**
7 **again, you know, I don't know what a typical**
8 **customer, heating customer, is willing to do, you**
9 **know, if they have more information or not. And,**
10 **you know, again, gradualism here. We can't just**
11 **take that \$800 bill down to a hundred. There's cost**
12 **impacts on that.**

13 In this proposal, the winter heating block, if
14 you look in Exhibit AEV1, which is the rate design
15 for all the tariffs, but if you look at the
16 residential line, essentially it's providing a
17 \$14.6 million discount to heating customers during
18 the heating months, and that's being recovered
19 partially, you know, from those same customers
20 throughout the other months.

21 So you're levelizing a bunch, but you're
22 lowering -- you're absolutely lowering those winter
23 bills.

24 Q. And I guess my question is what is the
25 Company going to do or what -- the Company's other

1 proposals is not to charge a different amount
2 necessarily, right, and assume that people can't
3 change their behavior. That's not your proposal for
4 DSR; it's not your proposal for EV.

5 It's to offer them an incentive to do
6 something different, right? To change their
7 behavior. Here you're proposing that they won't
8 change their behavior; you're making the rate less.

9 So I'm asking in terms of DSM or other options
10 that the Company has at its discretion, what can the
11 Company do to help people use less electricity in
12 these extreme situations?

13 **A. Just to be clear, Your Honor, my testimony is**
14 **that this winter heating block discount is based on**
15 **cost causation because of the disproportionate**
16 **fixed-cost collection in the winter months and these**
17 **high bills because of the underlying rate structure**
18 **being too volumetric.**

19 You know, we don't have these issues in a
20 class like IGS or GS where you have more
21 cost-of-service base rates that have demand charges,
22 have kilowatt-hour rates, and then a service charge.

23 So that's the reason why we're doing this
24 differently than we are looking at DRS or the EV
25 rate. You know, these customer -- again, we're

1 coming at it just from a different direction.

2 To answer the second part of your question
3 there, I don't have a solution, as I sit here today,
4 for how I can help these customers heat their homes
5 more efficiently. You know, I just don't have one
6 for you.

7 Q. Would you agree that these extreme usage
8 patterns in the winter do drive additional costs for
9 the customers, for customers as a whole?
10 Distribution expenses, for instance?

11 **A. Yeah. Again, I'll agree on a distribution**
12 **basis that it's sized to meet our peak load. That**
13 **happens in the winter. Again, when you look at**
14 **retail rates has distribution, generation, and**
15 **transmission in it.**

16 And again, if you go through the cost -- not
17 the cost of service -- if you go through the rate
18 design, kind of the distribution portion of that is
19 the same whether it's in the -- recovering full
20 distribution costs in that winter heating block, the
21 6.265 cents there, it's trying to lessen, you know,
22 some of the cost contribution to those generation
23 and transmission fixed costs that they're overpaying
24 for, in my opinion.

25 Because, again, that heating load does not --

1 it's not there to power a 5-CP. It's not there for
2 probably 8 of the 12, maybe 7, 8 of the 12 --
3 12-CPs. Again, you got to look at all three
4 cost-causing peaks.

5 But I absolutely agree, they are the reason
6 that the distribution system is sized the way it is.
7 That is our largest peak.

8 Q. Bear with me just for one second, Mr.
9 Vaughan. I'm checking all my notes here.

10 Can I ask, then, with regard to -- I believe
11 your testimony talks about the benefit from the
12 Company's perspective of the declining block rate
13 for lower-income customers. Do you remember that?

14 **A. Yes.**

15 Q. And it's the Company's position that this
16 declining block schedule is a benefit to
17 lower-income customers. And would you agree the
18 Company's basis of that is the usage for LIHEAP
19 customers?

20 **A. It is. Those are the customers that I have**
21 **direct insight into from a billing standpoint where**
22 **I can flag those as these are the billing accounts**
23 **for LIHEAP, and that, you know, versus any other**
24 **economic measure of low income. Like that's the**
25 **consistent thing I can see when we create a billing**

1 **system.**

2 And that same pattern holds true in the
3 Company's other Appalachian jurisdictions. You see
4 the exact same pattern with electric heating and low
5 income in Virginia and in West Virginia.

6 Q. Okay. And then you were asked in Staff 7-1
7 on this particular issue, right? The correlation
8 between income and usage, correct?

9 **A. I was asked to do a great many things in**
10 **Staff 7-1.**

11 Q. Well, and with all due respect, very little
12 was done, so that's why I'm asking about it. So
13 it's your position that the LIHEAP customers are
14 effectively representative of lower-income customers
15 as a whole for the Kentucky Power territory, right?

16 **A. I'd say they're representative, yes.**

17 Q. Okay. But when asked to actually compare the
18 Company's data to, for instance, income information
19 on a census basis, you were unable to.

20 **A. Well, again, as the Company's response talks**
21 **about, what was asked of the Company would have**
22 **taken about -- oh, gosh, I can't remember -- many**
23 **weeks to complete from a manual entry standpoint,**
24 **and I'll be honest with you, I couldn't find the**
25 **income data on the census website for my own census**

1 **track. So it was a bit of a struggle there.**

2 Q. Okay. So instead of clarifying, for
3 instance -- did you go to the website that was
4 provided where it stated that you could put
5 information in 10,000 observations at a time?

6 **A. Many of us did, yes.**

7 Q. Okay. But I just want to make clear, and
8 it's really understanding this, is the Company's
9 conclusion that lower-income customers use more
10 electricity based exclusively in this case, right,
11 the evidence in this case based exclusively off of
12 the LIHEAP data?

13 **A. Yes. My testimony is that our LIHEAP**
14 **comparison that includes thousands of customers --**
15 **again, across multiple jurisdictions, not just**
16 **Kentucky. I only used Kentucky in this case, but I**
17 **see this in multiple jurisdictions -- is**
18 **representative of low-income customers, and I'd**
19 **rather look at actual observations than census track**
20 **ten-year-old estimates.**

21 VICE CHAIRMAN CHANDLER: Mr. Chairman, I
22 think we need to move on to the confidential session
23 for the last part of the questions that I have.

24 CHAIRMAN SCHMITT: Let's see. Candace, can
25 we get into confidential session now?

1 MS. SACRE: The button that I usually push is
2 not letting me.

3 CHAIRMAN SCHMITT: Initially we're having
4 some problems. So just hold on, and we'll continue
5 to work on it.

6 MS. VINSEL: Chairman, this would also be a
7 point for Mr. Frye to leave the hearing temporarily.
8 I can let him know when he can come back in. This
9 is a Kentucky Power document, and Mr. Frye has not
10 signed an agreement with Kentucky Power.

11 CHAIRMAN SCHMITT: Okay. All right.

12 MR. FRYE: That's correct, Your Honor. So
13 you want me just to dump out of the meeting
14 completely?

15 CHAIRMAN SCHMITT: Yes, if you would.

16 MR. FRYE: I will do so, and if someone can
17 just let me know when it's time to come back, I
18 would appreciate it.

19 CHAIRMAN SCHMITT: Okay. Thank you.

20 MS. SACRE: Jim is going to check to see if
21 he can do it manually from back there, but my
22 confidential button --

23 CHAIRMAN SCHMITT: We're still working on it
24 to see if we can get into confidential session.

25 MR. RHODES: The system is not letting us go

1 into confidential mode.

2 (Indiscernible conversation.)

3 CHAIRMAN SCHMITT: All right. Here's --
4 here's -- we have a technological problem which
5 prohibits us from going into confidential session at
6 this time. Our IT person is making a telephone call
7 to see what can be done. So we can wait and do
8 that, or we can move on.

9 I don't know exactly how we do that because I
10 know counsel for Kentucky Power was going to want to
11 conduct a redirect, but apparently something
12 happened to the technology here that we no longer
13 have an option to go into confidential session until
14 something is fixed.

15 VICE CHAIRMAN CHANDLER: Chairman, can I
16 propose -- I believe that I can ask the majority of
17 my questions. As long as Mr. Vaughan has the
18 document in front of him, his personal document in
19 front of him, I think that I could ask the
20 majority -- I think I can ask all of them on the
21 nonconfidential session because I won't get into the
22 actual numbers, if that's something we'd like to
23 try.

24 And then Ms. Blend can correct us if we veer
25 off course. We can always go back and edit the film

1 and take something out if need be.

2 CHAIRMAN SCHMITT: Why don't we try to do
3 that and see what -- see if we can. And if it
4 doesn't work, we'll just stop and -- till we get it
5 repaired.

6 Q. So, Mr. Vaughan, let me ask, do you have --
7 can you get in your possession the Company's
8 response -- confidential response to KPSC 5-6?

9 **A. Probably. Just a moment.**

10 Q. That's okay.

11 VICE CHAIRMAN CHANDLER: And for Counsel's
12 benefit, your benefit, Mr. Vaughan, on the document,
13 there were tabs at the bottom, and I just would like
14 to talk about the summary page, if we could.

15 MS. BLEND: Your Honor, this is Ms. Blend.
16 We are pulling up a copy of the document, which is
17 an Excel spreadsheet, electronically. And we'll
18 just need a moment to do so.

19 VICE CHAIRMAN CHANDLER: That's okay.

20 MS. BLEND: I'll let you know once we have
21 pulled it up. Thank you.

22 And while we are pulling up that document,
23 Your Honor, I did just want to mention, in terms of
24 confidentiality, there is the YouTube stream, I
25 believe, that is currently going, and so I will

1 express some reservation regarding the ability to
2 put confidential information -- or eliminate
3 confidential information from that record inasmuch
4 as some confidential information, you know, if
5 observed by someone on YouTube, cannot be --
6 (indiscernible).

7 CHAIRMAN SCHMITT: Once it's on YouTube,
8 there's not much hope of expunging anything. So if
9 we get close to something, I mean, I think it's up
10 to the Vice Chairman and Mr. Vaughan and you, Ms.
11 Blend, if we're getting close to an issue where you
12 think something might be revealed, if you'll let me
13 know or object, I'll stop it immediately, and we'll
14 just wait until we get some other expertise in here
15 to see if we can get the system fixed.

16 Apparently, it just went off on its own, and
17 the button that would allow us to go into
18 confidentiality -- confidential session disappeared.
19 So we're trying to work on that now, but so -- we
20 can try to go forward, but if there's an issue, we
21 absolutely won't compromise confidentiality.

22 MS. BLEND: Thank you, Your Honor. I'll just
23 ask is it possible to turn off the YouTube stream
24 just to avoid that particular concern such that we
25 would only need to deal with -- within the video

1 record?

2 CHAIRMAN SCHMITT: I don't know. We're
3 sending a runner back now to see if that is
4 possible.

5 MS. BLEND: Okay. Thank you.

6 So I'll just remind Mr. Vaughan to be very
7 judicious and careful in his answers to ensure that
8 we don't disclose any confidential information.

9 VICE CHAIRMAN CHANDLER: Yeah, and I'll just
10 ask, as an initial matter, Ms. Blend, are the -- let
11 me get this right. The rows on the left, the one,
12 two, three, four, five, six, seven different
13 classifications on the left, are those -- just
14 referring to those, never referring to the numbers,
15 confidential in and of themselves?

16 THE WITNESS: I don't believe so, no.

17 MS. BLEND: They're not.

18 VICE CHAIRMAN CHANDLER: Okay. That's
19 primarily what I'm going to be asking about. I'm
20 fairly indifferent to the numbers because I can see
21 them, and I know what they are, and they're in the
22 record. I just need to understand what each one of
23 the rows specifically means as it relates to those
24 numbers.

25 MS. BLEND: Sure.

1 THE WITNESS: I have the spreadsheet up at
2 the summary tab.

3 CHAIRMAN SCHMITT: Is there a ruling on that?

4 MS. VINSEL: We've got a couple options,
5 Chairman.

6 Yes, our IT department is able to turn off the
7 YouTube stream and audio, and he's doing that now
8 and checking it. The other option is, if we take a
9 10-minute recess, he can reboot the system, and,
10 ideally, the ability to go into confidential session
11 would be there.

12 CHAIRMAN SCHMITT: Were you able to hear
13 Ms. Vinsel? You were?

14 MS. BLEND: Yes, sir, I was able to hear
15 Ms. Vinsel.

16 CHAIRMAN SCHMITT: Okay. Well, here's the
17 situation: We can either cut off YouTube audio and
18 video, or we're told that if we can take a 10-minute
19 break we can reboot, and we should be able to get
20 the system back in order.

21 My suggestion is that we just take a 10-minute
22 break and then see if we can get the system fixed
23 and come back. And then, if we can't, if it doesn't
24 work, then we just, you know, delete YouTube. Okay?

25 MS. BLEND: Thank you.

1 CHAIRMAN SCHMITT: That's the best. And,
2 that way, you can go into confidential session. And
3 if not, we can fix it another way. So we'll now be
4 in recess until 12 minutes after 4:00.

5 MS. BLEND: Thank you, Your Honor.

6 (Recess from 4:04 p.m. to 4:18 p.m.)

7 CHAIRMAN SCHMITT: Okay. We're back on the
8 record, and the system has been fixed. Jim Rhodes
9 has managed to get us back to where we could be in
10 confidential session. So if you still want to go
11 into confidential session, Vice Chairman, let me
12 know, and we'll do that right now.

13 VICE CHAIRMAN CHANDLER: I'd certainly like
14 to try to. If Mr. Frye -- we'll let him speak up
15 for a second.

16 MR. FRYE: I was just going to say, if we're
17 going to do this, then I will dump back out of the
18 meeting once again.

19 CHAIRMAN SCHMITT: Oh, I guess that's right.
20 Apparently, your client didn't sign a
21 confidentiality order or something. Is that the --

22 MR. FRYE: That's correct.

23 CHAIRMAN SCHMITT: Or agreement, I assume?
24 All right. Well, I'm sorry, Mr. Frye, but if you
25 can drop off one more time, we'll see if we can get

1 through this.

2 MR. FRYE: I will do that right now,
3 Mr. Chairman.

4 CHAIRMAN SCHMITT: All right, Candace. Can
5 we go into confidential session?

6 MS. SACRE: Okay. We are in confidential.

7 CHAIRMAN SCHMITT: All right. We're now in
8 confidential session.

9 (Confidential testimony of Mr. Vaughan heard
10 from 4:19 p.m. through 4:49 p.m.)

11 CHAIRMAN SCHMITT: Okay. We're now back in
12 public session.

13 Dr. Mathews, questions?

14 VICE CHAIRMAN CHANDLER: Chairman, I have one
15 more question.

16 CHAIRMAN SCHMITT: Oh, I'm sorry.

17 COMMISSIONER MATHEWS: Vice Chairman isn't
18 done.

19 CHAIRMAN SCHMITT: I didn't want to interfere
20 with your objection. Go ahead.

21 Q. Last question I have, Mr. Vaughan, is on the
22 weather normalization adjustment you made as a test
23 year adjustment. Are you aware of what I mean when
24 I say that?

25 **A. I am.**

1 Q. And what is the basis of that? I'm unaware,
2 and I'll plead my ignorance, if the Commission has
3 ever approved that as it relates to an electric
4 utility.

5 So I'm just curious. Is this something that
6 you've offered in the past, that you've done in
7 other states? Is this something that maybe Kentucky
8 Power has done in previous cases I'm unaware of?

9 I'm just curious if you can speak to that
10 normal weatherization -- weather normalization
11 adjustment.

12 **A. Yes, certainly. We did include this in at**
13 **least the last base rate case, potentially the one**
14 **before that as well, but this is a common adjustment**
15 **we make in our retail jurisdictions where, right,**
16 **weather can drive, negatively or positively, drive**
17 **sales.**

18 And so when you're trying to set rates, you
19 want to use billing units, you know, as the basis
20 for that, those rates that are, in theory,
21 weather-normal, right? So you're indifferent to
22 weather.

23 And our load forecasting group does a lot of
24 studies around this, and they are the ones that
25 provide us with, you know, heating degree days and

1 cooling degree days and come up with what the actual
2 impact of weather was on our sales over any period
3 of time. And they use 30-year normal weather
4 measure as the basis for that.

5 So this -- this adjustment in this rate case
6 increased revenues by \$4.2 million because our
7 weather was below normal from the test year. And
8 so, again, with that you -- you don't just look at
9 revenues in -- because it really, underneath it,
10 you're adjusting sales units, and so you also look
11 at the variable cost of those sales units.

12 So there's kind of two parts to it. You
13 increase or decrease retail sales revenues, and you
14 increase or decrease to some percent variable
15 operating expenses that go with them. So the net
16 effect of this adjustment is about a \$1.2 million
17 reduction in the revenue requirement.

18 Q. So I guess I'm confused. What's the
19 \$4.2 million amount, and what's the 1.2 million you
20 said?

21 **A. If you look at page 46 of my direct testimony**
22 **where I discuss this adjustment, retail revenues**
23 **increased by 4.2 million, but then, accordingly, you**
24 **also adjust operation and maintenance expense for**
25 **variable -- variable O&M you would have incurred,**

1 **which is energy supply costs, as you adjust the**
2 **level in sales by 2.8 million.**

3 So revenues go up by 4.2, expense goes up by
4 2.8, the net effect is \$1.2 million, essentially a
5 decrease in the revenue requirement.

6 VICE CHAIRMAN CHANDLER: Okay. All right.
7 Thank you very much.

8 Sorry, Commissioner Mathews. I apologize.

9 CHAIRMAN SCHMITT: Commissioner Mathews,
10 questions?

11 COMMISSIONER MATHEWS: I can't imagine
12 there's anything that has been not asked, so I have
13 no questions.

14 CHAIRMAN SCHMITT: All right. Ms. Blend, I
15 suspect that you have redirect; is that correct?

16 MS. BLEND: That's correct, Your Honor.

17 CHAIRMAN SCHMITT: Your client was on the
18 stand for a couple hours or so yesterday and all day
19 today. Would you like -- we can recess and come
20 back in the morning, especially if you'd like some
21 time to talk to your witness in view of the
22 examination, or we can -- you can go forward now.
23 It's up to you.

24 MS. BLEND: Your Honor, we'll take your offer
25 and plan to conduct redirect first thing tomorrow

1 morning.

2 CHAIRMAN SCHMITT: Okay. All right. We'll
3 be in recess until 9:00 in the morning, and,
4 hopefully, we can finish this case tomorrow. We'll
5 see everybody at 9:00 a.m.

6 MS. BLEND: Thank you, Your Honor.

7 (Hearing adjourned at 4:53 p.m.)

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1 STATE OF KENTUCKY)
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 2) SS.
)
 3 COUNTY OF JEFFERSON)

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 5 We, Laura J. Kogut and Jennifer R. Janes,
 6 Notaries Public within and for the State at Large,
 7 with commissions expiring 25 July 2023 and 1 May
 8 2023 respectively, do hereby certify that the
 9 foregoing hearing was taken before us at the time
 10 and place and for the purpose in the caption stated;
 11 that witnesses were first duly sworn to tell the
 12 truth, the whole truth, and nothing but the truth;
 13 that the hearing was reduced by us to shorthand
 14 writing; that the foregoing is a full, true, and
 15 correct transcript of the hearing to the best of our
 16 ability; that the appearances were as stated in the
 17 caption.

18 WITNESS our hand this 30th day of November
 19 2020.

20

21

Laura J. Kogut, RMR, CRR, CRC
 Notary Public, State at Large

22

23

24

Jennifer R. Janes, RPR, CRR, CRC
 Notary Public, State at Large

25

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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

VOLUME VI

Transcript of November 24, 2020, hearing
before Chairman Michael J. Schmitt at the Kentucky
Public Service Commission, 211 Sower Boulevard,
Frankfort, Kentucky 40602-0615, with Vice Chairman
Kent A. Chandler, Commissioner Talina R. Mathews,
counsel, and witnesses attending via GoToMeeting.

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* * *

1 CHAIRMAN SCHMITT: We're now on the record.
2 I guess before -- is everybody here, all the
3 lawyers -- are all the lawyers present?
4 Mr. Spenard.

5 MR. SPENARD: Good morning, Mr. Chairman.

6 CHAIRMAN SCHMITT: All right. Mr. Miller?
7 Is Mr. Miller here or Mr. Childers?

8 MR. CHILDERS: Good morning, your Honor.

9 CHAIRMAN SCHMITT: Good morning -- Good
10 morning, Mr. Childers. Mr. Miller?

11 MR. MILLER: Good morning.

12 CHAIRMAN SCHMITT: Before we start, I wanted,
13 I guess, to discuss a couple of things: One, you
14 know, our time between now and the 13th and 14th of
15 January, we have three holidays, and the holidays
16 include the day before. So we've got Thanksgiving
17 and the day before, Christmas and the day before,
18 and New Year's and the day before. And the way it's
19 scheduled, there's not -- there's not a lot of -- we
20 only have, you know, 14, 15 days after any kind of
21 reasonably even short scheduling order to -- to get
22 a decision out in the case.

23 So yesterday I started working on a -- on a
24 procedural order on the dates for data requests,
25 response, and briefs. And it's kind of short, but I

1 showed it to staff counsel who is going to be --
2 staff counsel and the rest of the staff in terms of
3 doing the work, and she suggested that it even be
4 shortened a couple more days. So let me tell you
5 what the scheduling order is going to be so that you
6 can be thinking about it now.

7 Data requests will be -- must be filed by end
8 of day, midnight, whatever, December 1st. Responses
9 to data requests, December 9th. Okay? Now, because
10 we're running into -- into time problems here, the
11 day before those data responses must be filed by
12 Kentucky Power, Kentucky Power's brief will be due
13 on December 8th. All right? Briefs for the
14 intervenors, December 14th. And then Kentucky Power
15 will have through December 17th to file a reply
16 brief.

17 I know Kentucky Power has, what, four or five,
18 six lawyers and the others -- the attorney general
19 has several, two at least. And the others, at least
20 for the solars, joint intervenors, and Sierra Club,
21 their interests are probably fairly well consistent.
22 So in any event, that's -- if we don't do that, we
23 won't have enough time to get an order out, and you
24 know most of the time these orders in the
25 electricity rate cases will go over 100 pages.

1 So that's -- I'm sorry. I wish there were
2 more time, but there isn't. And the holiday season
3 complicates it.

4 MS. BLEND: Your Honor, this is Ms. Blend.
5 May I make one suggestion, if that would be all
6 right? I noticed in the recent Duke rate case,
7 which was also a fully litigated case, that the
8 parties filed simultaneous briefs, and they had
9 three or four days to file a reply brief.

10 CHAIRMAN SCHMITT: They may have filed
11 simultaneous briefs with reply briefs. I don't -- I
12 don't like simultaneous briefs, I mean, because
13 somebody's always -- then there's something that
14 somebody hasn't thought of and then you come back
15 and you say, "Well, I've got to file a reply brief"
16 and you don't have much time.

17 We're going to do it this way: The brief, the
18 response, responsive briefs, and then reply brief,
19 and that gives Kentucky Power the opportunity -- to
20 have the last opportunity to make an argument on
21 the -- on the briefs.

22 Other things this morning, I guess, were what
23 will be -- after we finish with Mr. Vaughan, what
24 will be the order of cross-examination for
25 intervening witnesses. And the -- I thought about

1 that yesterday, and we'll just go down to the next
2 party below the intervenor and do the -- and that --
3 the counsel for that next party will cross-examine
4 with the exception that Kentucky Power will always
5 have the last attempt -- last opportunity to
6 cross-examine the witnesses because that way they
7 will be able to have heard everything that the other
8 witnesses have said.

9 I think Mr. FitzGerald has a conflict or
10 something this morning. Is that right,
11 Mr. FitzGerald?

12 MR. FITZGERALD: Good morning, Mr. Chairman.
13 I'm fine. So go ahead and manage this case as it
14 needs to be managed, and I will make due if I need
15 to multitask for a minute. I've just got a status
16 conference and administrative hearing that is purely
17 a scheduling matter, so I can do both at the same
18 time.

19 CHAIRMAN SCHMITT: Okay. All right. You
20 might have a -- an earpiece in each ear.

21 MR. FITZGERALD: Exactly. I will try --

22 CHAIRMAN SCHMITT: Almost talking on two
23 telephones at the same -- same time.

24 MR. FITZGERALD: I will try to multitask
25 without my head exploding.

1 CHAIRMAN SCHMITT: All right. Is there -- at
2 this point, before we start, is there anything else
3 anyone would like to bring to our attention before
4 we begin? We would like to finish today, if
5 possible. So let's see -- and my schedule is such
6 that I can't go much beyond 5:00, so -- but if we
7 can't, we'll just come back tomorrow and keep going.
8 So at this time --

9 MS. GRUNDMANN: Commissioner, I had a
10 question, briefly. This morning Ms. Vinsel asked
11 the parties to provide feedback on whether there was
12 any cross for certain witnesses and how much they
13 expected. I don't know if she heard from everyone,
14 but I was just curious if there were certain
15 witnesses for whom no one had cross and we might
16 just admit them into the record, and although it's
17 not much time, it might dispense of a little bit of
18 time to the extent there was anyone.

19 CHAIRMAN SCHMITT: I suspect,
20 Ms. Grundmann, that no one will have cross for your
21 witness. But why don't we see right now if any
22 counsel has any cross-examination -- any
23 cross-examination or intents to cross-examine
24 Walmart's witness. And if not, does anyone have an
25 objection if her witness, then, is excused and does

1 not have to appear?

2 MR. WEST: Your Honor, this is Mike West for
3 Attorney General's Office. We just have a few
4 questions.

5 CHAIRMAN SCHMITT: All right. Well,
6 Ms. Grundmann, we'll have -- she'll get on -- she'll
7 get on today one way or the other. Okay. All
8 right. Okay. Ms. -- Ms. Blend, are you prepared
9 for redirect of Mr. Vaughan?

10 MS. BLEND: I am, your Honor. Thank you.

11 CHAIRMAN SCHMITT: Thank you. You may -- may
12 proceed.

13 MS. BLEND: Thank you. And if I could ask
14 staff to please display Company Exhibit 2, Company
15 Hearing Exhibit 2 at page 11 of 25. Mr. Vaughan, if
16 you'll turn to that document as well, please.

17 MS. VINSEL: Ariel, that's Kentucky Power
18 exhibit -- thank you.

19 MS. BLEND: Thank you.

20 ALEX E. VAUGHAN, having been previously
21 sworn, testified as follows:

22 REDIRECT EXAMINATION

23 By Ms. Blend:

24 Q. Mr. Vaughan, good morning.

25 A. **Good morning.**

1 Q. Do you recognize this document?

2 **A. Yes. I do.**

3 Q. And what is it?

4 **A. It is the Commission's order and settlement**
5 **agreement from PSC Case Number 2004-00420, which we**
6 **have been referring to as the -- words just escaped**
7 **my -- the Rockport Unit Power Agreement Extension.**

8 Q. Thank you. And were the AG and KIUC parties
9 to this agreement?

10 **A. Yes. They were.**

11 Q. Thanks. And if you'll turn to page 14, and
12 if staff will please navigate to page 14 of the
13 document. Directing your attention to Section
14 III.1.B, if you'll read that for yourself.

15 Is this a provision that relates to the \$6.2
16 million annual additional revenue that the company
17 is entitled to collect through the capacity charge
18 in 2021 and 2022?

19 **A. Yes. It is.**

20 Q. Thank you. And if we can please navigate to
21 page 15, and if we'll scroll to the bottom, Section
22 III.F, as in Frank, begins at the bottom of page 15
23 and carries on to page 16. Will you please read
24 that provision?

25 **A. Certainly. "This stipulation and settlement**

1 agreement is made upon the express agreement by the
2 parties that the receipt by Kentucky Power of the
3 additional revenues called for by Section III.1.A
4 and III.1.B shall be accorded the ratemaking
5 treatment set out in this Section III, and any
6 proceedings affecting the rates of Kentucky Power
7 during the extension of the UPSA under this
8 stipulation settlement agreement, the provisions of
9 this Section III are an express exception to Section
10 VI.4 of this stipulation and settlement agreement."

11 Q. Thank you. And will you please turn to page
12 17, and if we could navigate to page 17.

13 Will you please read Section VI.4?

14 A. Yeah.

15 Q. It's at the bottom of that page.

16 A. "This stipulation and settlement agreement
17 further is made upon the express understanding that
18 it constitutes a negotiated settlement and except as
19 otherwise expressly provided for herein to
20 effectuate this stipulation and settlement
21 agreement, no parties shall be deemed to have agreed
22 to any ratemaking principle, precedent, or policy,
23 nor shall any party be deemed to have agreed or
24 consented to any matter not expressly stated in this
25 stipulation and settlement agreement. Nothing in

1 **this paragraph is intended to prevent the admission**
2 **of this stipulation and settlement agreement as**
3 **evidence in any proceeding in which it is relevant."**

4 Q. Thank you. So taking these three pieces and
5 putting them together, do I have it right that the
6 6.2 -- we read III.1.F, and it says that the \$6.2
7 million the company's entitled to collect for the
8 capacity charge is an exception to Section VI.4
9 which you just read?

10 **A. Yes. That's my understanding of what the**
11 **words say.**

12 Q. And, you know, recognizing you're not a
13 lawyer I'm not asking you for legal opinion
14 testimony, but you have been questioned about this
15 agreement by other counsel and the Vice Chairman in
16 this case, I believe, definitely by other counsel,
17 do I have it right that in other words, the AG and
18 KIUC have expressly agreed to Kentucky Power's
19 receipt of additional revenues collected through
20 this capacity charge and to the ratemaking treatment
21 of those revenues in the settlement?

22 **A. Yes. That's my understanding as a ratemaking**
23 **professional, that they have agreed to the receipt**
24 **by Kentucky Power and the ratemaking treatment as we**
25 **proposed in this case.**

1 Q. And in your opinion as a ratemaking
2 professional, is it appropriate for those parties to
3 now argue against the company's receipt of the
4 capacity charge revenues or the ratemaking treatment
5 of those revenues in this case?

6 **A. From a nonlegal standpoint, it would seem**
7 **inappropriate.**

8 Q. Thank you.

9 MS. BLEND: If staff could now please display
10 Kentucky Power's application, Section II, Exhibit E,
11 at page 208.

12 BY MS. BLEND:

13 Q. And while staff is pulling that up,
14 Mr. Vaughan, do you recall questions from
15 Mr. Spenard and Mr. FitzGerald yesterday regarding
16 the company's tariff EDR?

17 **A. Yes. I do.**

18 Q. Is it your understanding, Mr. Vaughan -- and
19 if we could please scroll to -- scroll down just a
20 little bit to Item 3 under "Availability of
21 service."

22 Mr. Vaughan, one of the requirements of
23 service under tariff EDR is the customer
24 demonstrates the company's satisfaction that as to
25 the availability of the EDR or the qualifying new or

1 increased collectable demand would be located out of
2 the company's service territory or wouldn't be
3 placed in service?

4 **A. That's right. They're stating that in order**
5 **to get the EDR discount, they would not have**
6 **otherwise sited in the company's territory but for**
7 **the provisions of the EDR tariff.**

8 Q. Thank you. And did the customer who was
9 taking service under tariff EDR during the test
10 period provide a statement to that effect to the
11 company?

12 **A. Yes. They did.**

13 Q. And is it your understanding that Kentucky
14 Power included the customer's application for
15 service under the tariff, which included that
16 statement and the company's application for approval
17 of its tariff EDR agreement with that customer in
18 Case Number 2018-387?

19 **A. Yes. Yes. The company did, as well as the**
20 **Marginal Cost of Service Study that is also a**
21 **requirement of tariff EDR.**

22 Q. And the company -- or the Commission approved
23 that agreement based on the record in that case?

24 **A. Yes. It did.**

25 Q. Now, in your opinion, could a net metering

1 customer satisfy either the requirement under --
2 Requirement 3 under "Availability of Service" or the
3 marginal cost requirement?

4 **A. No. They wouldn't be able to satisfy either.**
5 **Obviously, they're already here as they're a**
6 **residential customer. They're simply adding a**
7 **system to their load, so they -- you know, that**
8 **would not work for them.**

9 **And also, they would not pass the marginal**
10 **cost of service standpoint, as I've testified and**
11 **I've shown in my rebuttal testimony. It's the exact**
12 **opposite. Their reduction in cost is less than the**
13 **reduction revenues received from that customer when**
14 **they add a system, so it's the exact opposite of an**
15 **EDR customer where the addition in cost, by**
16 **definition, has to be less than the additional**
17 **revenues received from the additional load. Right?**
18 **We're talking additional load versus reductions in**
19 **load.**

20 **Q. Thank you for that clarification and**
21 **explanation.**

22 **I want to turn now to EEI. There's been**
23 **discussion over the last several days about the**
24 **company's membership dues for its membership in EEI.**
25 **Have you heard that discussion?**

1 A. I have heard several discussions about that.

2 Yes.

3 Q. Can you please describe your involvement on
4 behalf of AEP in EEI?

5 A. Yeah. So on my team we have individuals that
6 do various rate case filings and compliance filings
7 and other things, and -- and all of the company's
8 eastern states -- well, I guess all of our states,
9 actually, take fuel into account, and I myself and
10 some of my managers participate in the rates
11 committee portion of EEI and a -- you know, when we
12 go to those meetings, we -- it's a form of
13 continuing education and training where we can
14 discuss various ratemaking and cost of service
15 issues with our industry peers.

16 So it's a valuable training tool. And in a
17 normal year I like to send as many folks as I can
18 from our teams at various levels of progression to
19 the -- the various trainings that EEI provides, you
20 know, as part of membership so we can -- we can
21 continue to -- you know, continue the continuing
22 education of our team and, you know, have
23 well-trained individuals that are well-rounded and
24 seek -- you know, get -- gain broader experience
25 than just their work for the AEP companies.

1 **You know, also it's my -- my understanding that**
2 **EEI, you know, provides support to other**
3 **professional organizations such as NARUC and some of**
4 **the consumer advocate associations as well.**

5 Q. And is it your understanding that EEI
6 members' dues, including AEP's dues, pay for those
7 NARUC and other activities that are provided to
8 regulators and consumer advocates?

9 **A. That's right. Our dues to EEI allows them to**
10 **then financially support other -- other training**
11 **opportunities. Correct.**

12 Q. Thank you.

13 MS. BLEND: And we can take down the
14 company's application. I should have clarified that
15 earlier. Thank you.

16 BY MS. BLEND:

17 Q. Mr. Vaughan, do you recall questions from
18 Mr. FitzGerald regarding the Net Metering Act KRS
19 278-466?

20 **A. I do.**

21 Q. Specifically regarding whether the company's
22 proposed bill credit in tariff NMS2 constitutes
23 compensations to customer-generators, do you recall
24 those questions?

25 **A. I do. Yes.**

1 Q. And do you have in front of you a copy of KRS
2 278-466?

3 **A. I do.**

4 Q. The first sentence of 278-466, Section III,
5 provides that a retail electric supplier serving an
6 eligible customer-generator shall compensate the
7 customer for their generation; is that correct?

8 **A. That is exactly what the words say.**

9 Q. Can you please take a look at 278-466 Section
10 IV and read the first sentence of that section?

11 **A. Yes. "Each billing period, compensation
12 provided to an eligible customer-generator shall be
13 in the form of a dollar-denominated bill credit."**

14 Q. And is that what the company is proposing in
15 this case in tariff NMS2?

16 **A. That is exactly what the company is proposing
17 in NMS2 with the avoided cost rate.**

18 Q. Recognizing that you're not a lawyer, is the
19 word "shall" -- do you interpret the word "shall" in
20 that sentence to be mandatory or permissive?

21 MR. FITZGERALD: Mr. Chairman, I'm going to
22 propose an objection. If counsel wants to brief the
23 issue, we can brief the issue, but this selective
24 recitation of what the statute says is not
25 appropriate for this witness. This is a matter of

1 statutory interpretation. That is a matter for
2 lawyers and is a matter for this tribunal. It is
3 better done during the briefing.

4 MS. BLEND: Well, your Honor, Mr. FitzGerald
5 opened up this line of redirect with his questions
6 to Mr. Vaughan about the meaning of the statute and
7 what the statute required in terms of compensation
8 in the discussion yesterday about a bill credit
9 versus cash to a customer-generator.

10 Mr. Miller from Sierra Club specifically asked
11 Mr. Vaughan yesterday whether "shall" in Subpart 1
12 of 278-466 was mandatory or permissive -- or whether
13 the language, I'm sorry, in that provision is
14 mandatory or permissive, so I'm simply exploring
15 those concepts on redirect.

16 MR. FITZGERALD: Mr. Chairman --

17 CHAIRMAN SCHMITT: Listen, for what it's
18 worth, in reality, if Mr. Vaughan were the finest
19 utility lawyer in the world, in testimony before any
20 tribunal, I don't know of anybody that allows a
21 witness to testify what the law is.

22 So I think the objection is well taken, but
23 I'm going to let him answer the question in view of
24 all of the other questions that he had to fend off
25 for the last two days.

1 MR. FITZGERALD: Thank you, Mr. Chairman.

2 BY MS. BLEND:

3 Q. So, Mr. Vaughan, is the word "shall" in
4 278-466 Subpart IV mandatory or permissive, in your
5 nonlegal opinion?

6 **A. In my nonlegal opinion, when someone tells me
7 I shall do something, it's mandatory.**

8 Q. Is this case, in your nonlegal opinion, a
9 ratemaking process --

10 **A. Yeah.**

11 Q. -- during a proceeding initiated by a retail
12 electric supplier?

13 **A. Yeah. Absolutely. It's a ratemaking
14 process --**

15 Q. And it's one --

16 **A. -- initiated by Kentucky Power Company.**

17 Q. Would a general industry proceeding in an
18 administrative case or a workshop type of
19 document -- docket, rather, initiated by the
20 Commission constitute a ratemaking process initiated
21 by a retail electric supplier?

22 **A. No. And it would be inappropriate in this
23 sense. You know, as I discussed in my -- my
24 rebuttal testimony, a lot of the electric suppliers
25 in Kentucky are very nonsimilarly situated in**

1 **regards to what RTOs they belong to, what their**
2 **avoided costs are. It's all very different and**
3 **should be utility specific.**

4 Q. And have you -- are you familiar with the
5 Commission's docket last year regarding the
6 implementation of the Net Metering Act?

7 **A. Yes. In December. I actually participated.**

8 Q. Is it your understanding that the Commission
9 recognized in that proceeding that the determination
10 of avoided cost rates for net metering customers
11 needed to be done on a utility-specific basis?

12 **A. That's my understanding of their order from**
13 **that -- that case.**

14 Q. Changing gears. You talked yesterday with
15 the Vice Chairman about winter heating customers.
16 Do you recall that discussion?

17 **A. Yes.**

18 Q. What is the company proposing in this case to
19 benefit winter heating customers?

20 **A. As I've discussed in direct and rebuttal**
21 **testimony, the company proposed increase to the**
22 **basic service charge, the winter -- the addition of**
23 **the winter heating sale block will both benefit**
24 **winter heating customers and the large bills they**
25 **incur during those months.**

1 **In addition to that, the company has various**
2 **assistance programs that it continues to maintain,**
3 **as well as the -- what I've called the**
4 **debt-forgiveness issue, the \$10.8 million that is**
5 **still outstanding. You know, there's definitely --**
6 **those accounts I think were as of May. So there's**
7 **definitely some winter -- you know, winter bill**
8 **default in there that could be included in the debt**
9 **forgiveness.**

10 **And, you know, just in general, the company's**
11 **proposal to put this rate increase off for another**
12 **year with the first-year offset.**

13 Q. Thank you. Specifically regarding the
14 company's winter heating declining block rate, if
15 that rate reduced the customer's bill,
16 hypothetically, from \$300 to \$200, would that help
17 that customer, in your opinion?

18 **A. Yes. It's a smaller financial burden, and**
19 **it's more in line with cost causation, as I**
20 **discussed at length yesterday, and results in a**
21 **reduced interclass subsidy to customers.**

22 Q. Now, you and the Vice Chairman briefly
23 discussed whether DSM type of programs might be
24 available to help high winter usage customers. Do
25 you recall that discussion?

1 **A. I do.**

2 Q. Are you familiar with the Commission's
3 January 18th, 2019, order in Case Number 2017-97?

4 **A. I am. Yes.**

5 Q. And can you please summarize your
6 understanding of what the Commission directed with
7 regard to DSM programs in that order?

8 **A. Yeah. So in that order, besides the targeted**
9 **energy efficiency program, the Commission ordered**
10 **the company to cease all other EE and DSM programs**
11 **and essentially barred the company from additional**
12 **programs until they can show a capacity shortage or**
13 **a capacity need in the future.**

14 Q. Thank you. When does the company expect that
15 its capacity position will next indicate a need for
16 additional generation to serve the load?

17 **A. Right now, we are anticipating that will**
18 **happen after the Rockport UPA terminates in December**
19 **of 2022.**

20 Q. So practically speaking, under that 2017-97
21 case order, nonlow-income DSM is not permitted until
22 2023?

23 **A. That's my understanding.**

24 MS. BLEND: Could staff please display
25 Company Hearing Exhibit Number 3 at page 85?

1 BY MS. BLEND:

2 Q. And, Mr. Vaughan, if you could also turn to
3 that exhibit, please.

4 **A. I have it.**

5 Q. Thank you. In the interest of time, I'll
6 represent that Company Exhibit 3 is the Commission's
7 January 18th, 2018, order in Case Number 2017-179,
8 which we have discussed multiple times over the last
9 week and a half, and page 85 -- 122 is page 6 of the
10 stipulation in that case.

11 Do you recognize this document as that,
12 Mr. Vaughan?

13 **A. I certainly do.**

14 Q. Can you please read Section III.F, as in
15 Frank, of the stipulation?

16 **A. Yes. "If Kentucky Power elects not to extend
17 the Rockport UPA, it will, beginning December 9,
18 2022, credit the Rockport fixed cost savings through
19 the demand component of tariff PPA until new base
20 rates are set.**

21 **"However, for 2023 only, the Rockport fixed
22 cost savings credit will be offset by the amounts,
23 if any, necessary for the company to earn its
24 Kentucky Commission authorized return on equity
25 (ROE) for 2023 (Rockport offset.)**

1 **"An example of" this calculation -- "An example**
2 **of the calculation of the Rockport offset is**
3 **included as Exhibit 2."**

4 Q. Thank you. Now, Exhibit 2 to the stipulation
5 was filed with the stipulation in Case Number
6 2017-179, but it does not appear to have been
7 attached to the Commission's order in that case.

8 Are you familiar with Exhibit 2 of the
9 stipulation in that case?

10 **A. I am. And I believe it's also included in**
11 **the PPA forms that the company submits each year.**

12 Q. Thank you. Can you please walk through how
13 the ROE, as approved by the Commission and approved
14 in this settlement, is to be calculated for 2023
15 with respect to the Rockport fixed cost savings
16 credit?

17 **A. Yes. Certainly. There's line letters, I**
18 **guess, for this exhibit or form in the PPA forms.**
19 **It's -- Line A is the 12-month GAAP net income, Line**
20 **B is the 13-month average common equity, and C is**
21 **the return on common equity, which is simply the**
22 **12-month GAAP net income divided by the 13-month**
23 **average common equity.**

24 Q. So the numerator in that equation is the
25 company's GAAP net income?

1 **A. Yes.**

2 Q. Thank you. Do you recall discussions with
3 the Vice Chairman about the company's earned ROE?

4 **A. Absolutely.**

5 Q. Is it your understanding -- do you have an
6 understanding whether the company's earned ROE is
7 calculated in accordance with GAAP and SEC rules?

8 **A. Yes. That's my understanding, and I believe**
9 **that's what we presented in Company Witness**
10 **Mattison's rebuttal testimony.**

11 Q. Now, there was discussion yesterday about
12 expense items not included in the last test year or
13 not included in a rate case test year expense and
14 whether those were included in the calculation of
15 earned ROE. Do you recall that discussion?

16 **A. I do. The items that were agreed upon should**
17 **not be included in rates in the last settlement**
18 **agreement.**

19 Q. Would revenues that differed from the test
20 year level of revenues be included in the company's
21 calculation of its earned ROE?

22 **A. Yeah. Absolutely. Test year's point in time**
23 **and rates are set based on a test year, and**
24 **everything that happens after that is different.**

25 Q. So if the company's revenues were below the

1 2017 test year levels, say due to load losses, due
2 to economic conditions or post test year load losses
3 or test year, in this case, load losses related to
4 COVID, would those impacts be included in the
5 company's earned ROE calculation?

6 **A. Yeah. Those are exactly the things that are**
7 **included in what Company Witness Mattison has**
8 **represented in his rebuttal testimony.**

9 Q. And I believe yesterday the Vice Chairman
10 asked you about the company's recent storm deferral
11 filings.

12 **A. Yes.**

13 Q. And in that case the company seeks authority
14 to establish a regulatory asset for approximately
15 just under \$9.5 million in incremental major
16 storm-related expense.

17 Is that your understanding from the discussion
18 yesterday?

19 **A. That is what I recall. Yes.**

20 Q. Okay. What impact on earned ROE does \$9.5
21 million in expense have?

22 **A. I believe it's roughly 100 basis points. I**
23 **think that's included in that application as well.**

24 Q. Thank you. So a \$10 million -- roughly \$10
25 million swing in expense represents 100 basis points

1 in actual earned ROE for the company?

2 **A. Yes.**

3 Q. Are the expenses that you discussed with the
4 Vice Chairman yesterday that were not included in
5 test year expense in the last rate case significant
6 enough to materially change the company's earned ROE
7 calculations --

8 THE REPORTER: I didn't hear the end of the
9 question.

10 CHAIRMAN SCHMITT: The court reporters are
11 having difficulty understanding you.

12 MS. SACRE: She talks so fast.

13 CHAIRMAN SCHMITT: Could you maybe slow down
14 on asking the questions and speak louder? The last
15 question they found -- they couldn't interpret it.

16 MS. BLEND: I'm sorry, your Honor. Yes.
17 This is, I believe, my last question, and I will
18 slow down and speak directly into the microphone.
19 Thank you.

20 BY MS. BLEND:

21 Q. Mr. Vaughan, are the expenses that you
22 discussed with the Vice Chairman yesterday that were
23 not included in the company's 2017 test year expense
24 significant enough to materially change the
25 calculation of the company's earned ROE as presented

1 in Mr. Mattison's testimony in this case?

2 **A. No. They're not.**

3 MS. BLEND: Thank you. I have no further
4 questions at this time, your Honor.

5 CHAIRMAN SCHMITT: Okay. Thank you. All
6 right. Mr. Vaughan, at long last you may step down.
7 And since Mr. Mattison is the only other company
8 witness that may be re-called, you're excused. And
9 thank you for your testimony over the last, what,
10 two and a half days, perhaps.

11 Ms. Blend, is Mr. Vaughan the last company
12 witness?

13 MS. BLEND: He is the last company witness,
14 your Honor. Thank you.

15 I do have a couple of items with regard to
16 exhibits to address, if that -- if now would be an
17 appropriate time for that.

18 CHAIRMAN SCHMITT: Now would be fine.

19 MS. BLEND: Thank you. The Commission
20 previously admitted a document that was prefiled as
21 Company Exhibit 8, but it was admitted into the
22 record of this case as Company Hearing Exhibit
23 Number 1.

24 So with respect to our other exhibits, we
25 discussed with Mr. Vaughan the document that was

1 premarked Company Hearing Exhibit Number 1, which
2 were the revisions to the revenue requirement that
3 he walked through on direct. I think the cleanest
4 way to handle that exhibit would be simply to make
5 it Company Exhibit Number 8, just to swap it with
6 the one that was -- that became Company Exhibit 1.

7 So could we redesignate what has been marked
8 Company Hearing Exhibit 1 in Mr. Vaughan's direct
9 testimony as Company Hearing Exhibit 8?

10 CHAIRMAN SCHMITT: Why don't we just mark it
11 as Company Hearing Exhibit 1 and then in parentheses
12 put, you know, Record Exhibit 8 or just Exhibit 8 on
13 it. That way we can -- I don't know what else, you
14 know, might be admitted, but I know -- you can refer
15 to it either way, but there was always -- it seemed
16 like a practice in past years of referring to
17 exhibits in the record at the hearing but not
18 putting them into evidence at the hearing, even
19 though they were already in the record to be
20 considered, but it became -- it's more -- it's
21 easier sometimes, when you have a record, to be able
22 just to have the exhibit there and -- and refer back
23 to it.

24 So I think we ought to leave it Exhibit 1 but
25 designate it as Record Exhibit 8 or something, so --

1 so that there won't be any confusion about it.

2 MS. BLEND: That would be fine, your Honor.

3 Thank you.

4 So with that clarification, I'll move for
5 admission of Company Hearing Exhibit 1, which is
6 Record Exhibit 8.

7 CHAIRMAN SCHMITT: Sustained.

8 (COMPANY HEARING EXHIBIT 1/RECORD EXHIBIT 8
9 WAS ADMITTED.)

10 MS. BLEND: And I would also like to move for
11 admission of Company Hearing Exhibit Numbers 2 and
12 3.

13 CHAIRMAN SCHMITT: Sustained. That's fine.

14 (COMPANY HEARING EXHIBITS 2 AND 3 WERE
15 ADMITTED.)

16 MS. BLEND: And then finally, your Honor,
17 Company Hearing Exhibit Number 7, which were 2019
18 project specifics for PJM were discussed and
19 utilized during the examination of Company Witness
20 Pearce last week, I believe on the 18th, and we
21 inadvertently did not seek that document's admission
22 then, so I also move for admission of Company
23 Hearing Exhibit Number 7.

24 CHAIRMAN SCHMITT: Sustained. They'll all be
25 admitted as hearing exhibits.

1 (COMPANY HEARING EXHIBIT NUMBER 7 WAS
2 ADMITTED.)

3 MS. BLEND: Thank you, your Honor. I have
4 nothing further at this time.

5 CHAIRMAN SCHMITT: All right. Counsel for
6 the Attorney General's Office, Mr. West, do you
7 have -- I don't know if Mr. Cook's here, but,
8 Mr. West, do you have witnesses?

9 MR. WEST: Yes, we do have witnesses. And
10 our three witnesses are being shared with KIUC, and
11 Mr. Kurtz is going to handle the introduction of our
12 first, Mr. Kollen.

13 CHAIRMAN SCHMITT: Okay. Mr. Kurtz, who is
14 your first witness?

15 MR. KURTZ: Lane Kollen, your Honor.

16 CHAIRMAN SCHMITT: Mr. Kollen, would you
17 please raise your right hand? Do you solemnly swear
18 or affirm under penalty of perjury that the
19 testimony you're about to give will be the truth,
20 the whole truth, and nothing but the truth.

21 MR. KOLLEN: I do.

22 CHAIRMAN SCHMITT: You may ask, Mr. Kurtz.

23 * * *

24

25

1 LANE KOLLEN, having been first duly sworn,
2 testified as follows:

3 DIRECT EXAMINATION

4 By Mr. Kurtz:

5 Q. Mr. Kollen, would you state your name and
6 business address, please?

7 **A. My name is Lane Kollen. My business address**
8 **is J. Kennedy & Associates, Incorporated, 570**
9 **Colonial Park Drive, Suite 305, Roswell, Georgia**
10 **30075.**

11 Q. Did you file direct testimony and exhibits in
12 this case, as well as data responses?

13 **A. I did.**

14 Q. If I were to ask you the same questions,
15 would your answers be the same?

16 **A. Yes, with certain exceptions.**

17 Q. Well, do you have some corrections or
18 additions to your testimony?

19 **A. Yes. I do. On page 20, lines 6, 7, 8, and**
20 **11, I have changes. I'll wait just a few seconds**
21 **until people get to that page. Page 20.**

22 **Page 20, line 6, the term "Net 2" should be changed**
23 **to reflect the word "reflect."**

24 **On line 7, the amount of 45.500 should be**
25 **45.900.**

1 On line 8, the amount 19.143 should be 2.107.

2 And then on line 11, the word "are" should be
3 changed to "amounts net 2."

4 Those are all of the changes that I have on
5 page 21 -- or 20.

6 Page 37, line 3, there's a percentage, 45.45
7 percent. That should be 45.35 percent.

8 Page 45, line 17, insert the following: "\$57.4
9 million fixed cost."

10 And on line 18, replace the word "ratemaking"
11 with "per books."

12 And then finally, on line -- page 54, line 3,
13 the year 2020 should be 2021.

14 And on line 5, the amounts should both be
15 changed to 27.689. So instead of 19, it should be
16 27.689, both references to that amount.

17 Q. Are those all the corrections?

18 A. Yes.

19 MR. KURTZ: Your Honor, I tender the witness
20 for cross-examination.

21 CHAIRMAN SCHMITT: Thank you.

22 VICE CHAIRMAN CHANDLER: Mr. Chairman, before
23 we move on, could I make a request of the AG and
24 KIUC the same request I made to Ms. Blend for Mr. --
25 that given the number for Mr. Vaughan's testimony,

1 could the company file -- or the AG and KIUC file an
2 errata version reflecting those changes in the
3 written record?

4 MR. WEST: We'll certainly make that happen.

5 VICE CHAIRMAN CHANDLER: Thank you. I
6 apologize.

7 CHAIRMAN SCHMITT: Will Ms. Tina Frederick be
8 doing the cross-examination for staff?

9 MS. VINSEL: Yes, Chairman. Ms. Frederick
10 will do that.

11 CHAIRMAN SCHMITT: Ms. Frederick, good
12 morning. It's good to see you.

13 MS. FREDERICK: Good morning, Mr. Chairman.
14 Good to see you.

15 CHAIRMAN SCHMITT: Are you prepared to
16 cross-examine?

17 MS. FREDERICK: Yes. I am.

18 CROSS-EXAMINATION

19 By Ms. Frederick:

20 Q. Thank you. Mr. Kollen, good morning?

21 **A. Good morning, Ms. Frederick.**

22 Q. In your testimony you proposed to allocate
23 the Mitchell coal stock adjustment proportionally
24 across the capital structure.

25 If Kentucky Power uses only short-term debt

1 for its coal purchases, how would you propose to
2 allocate the Mitchell coal stock adjustment?

3 **A. First of all, Mr. Vaughan said yesterday that**
4 **the company's proposal was to allocate the Mitchell**
5 **coal stock adjustment across all of the capital**
6 **structure components. That isn't correct. So I**
7 **want to first address that.**

8 The company asserts that its coal stock is
9 financed with short-term debt. There's no evidence
10 of that. The company's financing is not painted; in
11 other words, it doesn't borrow short-term debt
12 solely for the purpose of acquiring coal inventory.
13 We've addressed this in prior cases, and the company
14 has, in the past, even sought to have a negative
15 amount of short-term debt under that incorrect
16 presumption.

17 But essentially, to respond to your question,
18 if the company finances coal stock with short-term
19 debt, it's simply not correct, and there's no
20 evidence to that effect other than Mr. Vaughan's
21 assertion to that effect. But if that were the
22 case, then I think the Commission ought to consider
23 what other costs are financed with short-term debt
24 and whether or not there -- there should be a direct
25 assignment of the short-term debt.

1 And, quite frankly, we -- "we," meaning KIUC,
2 I don't believe that I represented the AG in some of
3 the environmental cases, but KIUC in some of the
4 environmental cases has argued that short-term debt
5 should be reflected in the environmental surcharge,
6 and the Commission has seen that on a preferential
7 basis, and the Commission has determined that the
8 company's financing cannot be segregated in that
9 manner.

10 That was a little bit of a long answer, and I
11 apologize for that, but I just wanted to respond to
12 Mr. Vaughan's assertion and then his rationale for
13 an adjustment that he apparently doesn't realize
14 that the company made, which I'm a little surprised
15 at. So anyway, I'll shut up now.

16 Q. Thank you for your answer.

17 And you suggest adjusting the short-term debt
18 balance to more accurately represent the short-term
19 debt balances throughout the entire test year --

20 A. Yes.

21 Q. -- as a test period ending balance?

22 A. Yes, that's correct, because I think that's
23 more consistent with the reality of the test year --
24 the historic test year. And -- and also, then I
25 would propose using the current interest rate on

1 that short-term debt because that is what it
2 currently costs the company, and that actually is a
3 much lower cost. It's about a half percent right
4 now compared to the cost of bank term loans or other
5 long-term debt.

6 Q. If the short-term debt balance was adjusted
7 as you proposed, would it be reasonable, then, to
8 allocate the Mitchell coal stock adjustment
9 proportionally?

10 A. Yes, proportionally, including the increase
11 in the short-term debt. And remember, that's what
12 the AG KIUC recommendation is, to allocate the
13 Mitchell coal stock adjustment, which is an
14 adjustment to reduce the amount of coal inventory
15 included in rate base or in capitalization down to a
16 target level. And it is the AG KIUC recommendation
17 to do that across the board, across all capital --
18 capitalization components.

19 Then if the short-term debt is greater, then it
20 would have a larger proportion in the capital
21 structure, but it doesn't. It's consistent with the
22 overall principle of allocating it proportionally
23 across the capital structure.

24 Q. Okay. Let's turn our attention now to
25 interest rates.

1 Given the interest rate environment, do you
2 still believe that 4 percent is an appropriate proxy
3 for the cost of new debt in June 2021?

4 **A. I think a strong argument could be made for 3**
5 **percent, based upon the present interest rates over**
6 **a variety of tenors, meaning the duration of the**
7 **debt issued, whether it would be 5-year debt, 7-year**
8 **debt, 10-year debt or 30-year debt. And I provided**
9 **a response to staff data requests that provided a**
10 **copy of a merchant bond record which provides the**
11 **cost of a long-term 30-year debt for utilities at a**
12 **Baa rating, which would be roughly consistent with**
13 **what -- what Kentucky Power's debt rating is, and**
14 **it's right around 3 percent, 3.1 percent or so.**
15 **So it actually would be better than 4 percent, but**
16 **anything in that range I think would be acceptable.**

17 And then under the AG KIUC proposal, there
18 would be a true-up to the actual cost when the debt
19 is actually refinanced in July of this year -- or
20 July of next year.

21 **Q. Thank you for your answer.**

22 MS. FREDERICK: Your Honor, I have no further
23 questions for this witness.

24 CHAIRMAN SCHMITT: Okay. Ms. Grundmann,
25 questions?

1 MS. GRUNDMANN: No questions, your Honor.

2 CHAIRMAN SCHMITT: Mr. Spenard?

3 MR. SPENARD: Good morning. No questions.

4 CHAIRMAN SCHMITT: Mr. FitzGerald?

5 MR. FITZGERALD: No questions, your Honor.

6 CHAIRMAN SCHMITT: Mr. Miller?

7 MR. MILLER: None from Sierra Club, your
8 Honor. Thank you.

9 CHAIRMAN SCHMITT: Mr. Frye?

10 MR. FRYE: No questions, Chairman.

11 CHAIRMAN SCHMITT: Mr. Overstreet -- no. I
12 suppose let me ask the Commissioners first, and then
13 give Mr. Overstreet the last chance.

14 Vice Chairman Chandler, questions?

15 VICE CHAIRMAN CHANDLER: Thanks, Chairman.

16 EXAMINATION

17 By Vice Chairman Chandler:

18 Q. I do just have a question on a singular
19 issue, Mr. Kollen. Good morning.

20 **A. Good morning.**

21 Q. On the issue of the pension and OPEB
22 prepayments, have you read Ms. Whitney's rebuttal
23 testimony in that regard?

24 **A. Yes.**

25 Q. Are you aware of her -- and I referred to it

1 the other day as an alternate argument, and
2 Ms. Whitney didn't correct me that that was an
3 alternate argument, but are you aware of her
4 reference at the end of her rebuttal testimony where
5 she discusses that if the Commission does remove
6 pension and OPEB from rate base or doesn't include
7 it in rate base, that the Commission should also
8 remove the ADIT associated with those?

9 Do you remember her saying that?

10 **A. I do. That was an issue that I raised in my**
11 **direct testimony. It's an error in the company's**
12 **filing, and one that Ms. Whitney conceded, actually,**
13 **in response to discovery, to the AG and KIUC**
14 **discovery, and then conceded it in her testimony.**

15 **And keep in mind that there's a positive**
16 **amount in Account 165, you know, under the company's**
17 **very atypical, highly unusual accounting, but they**
18 **put a positive amount in and then an equivalent**
19 **negative amount so that the two net to zero, and**
20 **then there are related ADIT amounts.**

21 **So for the positive amount in Account 165,**
22 **there's a negative ADIT, a liability ADIT. For the**
23 **negative amount in 165, there's a positive ADIT.**
24 **So if you're not going to include the negative**
25 **amount in 165, then you need to take the positive**

1 **ADIT out. And the company agrees with that. So**
2 **that would be a correction of an error.**

3 Q. Okay. And that's what I want to make sure
4 that I'm sort of clear on.

5 This that alternative -- we'll call it an
6 alternative, and it may not be correct, but that
7 mention at the end that if one is going to be
8 excluded and the ADIT offset should be excluded,
9 there is no difference in daylight between your
10 recommendation or the AG KIUC's position on that
11 issue and the company's. Is that fair?

12 **A. That's correct if, in fact, the prepaid**
13 **pension is left in rate base and the prepaid OPEB is**
14 **left in rate base. If it's taken out, then the two**
15 **ADIT amounts just net to zero, just like the**
16 **positive and negative amounts in Account 165 net to**
17 **zero.**

18 So if you take out the 165 prepaid pension and
19 prepaid OPEB misnomers, to say the least, if those
20 are taken out of rate base because the negatives are
21 not included by the company in rate base, then you
22 don't really need to do anything with the ADIT
23 because it just nets to zero anyway.

24 But if you leave the positive prepaid pension
25 and OPEB amounts in rate base, then you need to take

1 out the positive ADIT associated with the negative
2 amounts that are not included in rate base. So
3 there's no daylight between us and the company if,
4 in fact, you include the prepaid pension and prepaid
5 OPEB in rate base.

6 Q. Let me ask -- the only other question I have
7 is the sales of electricity in Illinois and Michigan
8 and -- and the salary expenses in West Virginia.

9 If the company is allocated -- the company
10 themselves, right, if they receive an actual
11 expense, income tax expense for the sales of
12 electricity in Illinois and Michigan and the 21
13 percent, I think, of the -- 21 percent of that is
14 the allocation or the income tax expense from West
15 Virginia, do you agree or disagree with the company
16 on that issue?

17 A. I don't agree. And I, first of all, haven't
18 seen any evidence to that effect.

19 My understanding is that the income tax
20 expense for Kentucky is based upon an income tax
21 filing and income tax return in Kentucky that takes
22 the Kentucky taxable income and applies a 5 percent
23 Kentucky state income tax rate.

24 Any income tax expense in any other state is
25 not allocated to Kentucky. There's no bill for it

1 or anything like that. In other words, this is a
2 pro forma type of adjustment that is reflected in
3 the company's filing, and I don't think it's
4 consistent with reality.

5 VICE CHAIRMAN CHANDLER: Okay. Those are all
6 the questions I have for Mr. Kollen. Thank you,
7 Mr. Kollen.

8 THE WITNESS: You're welcome.

9 CHAIRMAN SCHMITT: Dr. Matthews, questions?

10 MS. MATTHEWS: I don't have any questions for
11 this witness.

12 CHAIRMAN SCHMITT: Mr. Overstreet, redirect?

13 MR. OVERSTREET: How about cross-examination,
14 your Honor?

15 CHAIRMAN SCHMITT: Or cross-examination. I'm
16 sorry. You've been going for five days, so --

17 MR. OVERSTREET: I understand. I woke up
18 this morning not quite sure where I was.
19 Unfortunately, that's my growing experience as I
20 merge into my dotage.

21 CROSS-EXAMINATION

22 By Mr. Overstreet:

23 Q. Good morning, Mr. Kollen.

24 **A. Good morning, Mr. Overstreet.**

25 Q. Would you please turn to pages 54 to 58 of

1 your testimony?

2 **A. Yes.**

3 Q. And those pages, that's where you recommend
4 that the Commission terminate tariff CC, capacity
5 charge, and the rates associated with it; is that
6 correct?

7 **A. You said pages 54?**

8 Q. 54 to 58.

9 **A. I think that actually starts page on 55, but**
10 **yes.**

11 Q. Okay. I'm sorry. The heading is on page 54,
12 that's my bad.

13 **A. You're right. That's the only reason it**
14 **would start on page 54. Yes.**

15 Q. But wherever it starts, you recommend that
16 the Commission terminate tariff CC and the rate base
17 established by that tariff; is that correct?

18 **A. Yes. Essentially that's the company's**
19 **proposal, you know, subject to the condition that**
20 **the Commission makes no other changes to the**
21 **company's filed case. But I essentially recommend**
22 **that the company -- that the Commission reject the**
23 **condition but accept the company's offer.**

24 MR. OVERSTREET: And, Ms. Vinsel, could I ask
25 staff to display Kentucky Power Hearing Exhibit 2,

1 which is the case order from the Case Number
2 2004-004 -- thank you.

3 BY MR. OVERSTREET:

4 Q. Do you recognize that, Mr. Kollen?

5 **A. I do.**

6 Q. And attached to that or was Appendix A, which
7 was the stipulation and settlement agreement entered
8 into by your two clients in this proceeding: the
9 attorney general of the commonwealth and KIUC; is
10 that correct?

11 **A. Yes. Yes. That's correct. And it was**
12 **signed by the company too. And of course, the**
13 **company is, in this case, proposing, unilaterally,**
14 **to modify that settlement agreement and that**
15 **particular term, which we agree with except for the**
16 **condition that the company wishes to impose.**

17 Q. Okay. And you would agree that the order
18 itself, which was entered on December 13th, 2004,
19 approved that stipulation and settlement agreement
20 without modifications?

21 **A. It did.**

22 Q. Okay. Would you please turn to page 12 of
23 the exhibit, which is page 2 of the stipulation and
24 settlement agreement? I apologize. I need to get
25 there myself.

1 And do you see the whereas clause that starts
2 at the bottom of that page and continues onto the
3 next page of the stipulation and settlement
4 agreement?

5 **A. At the bottom of page 2?**

6 Q. Right. It starts off, "Whereas the
7 Commission," and it's March 29, 2004 -- March 29,
8 2004, orders in Administrative Case Number 387?

9 **A. I see that provision. Yes.**

10 Q. Okay. And isn't it true that that -- that in
11 that whereas clause, your clients -- the attorney
12 general of the commonwealth and KIUC -- recognize
13 that the Commission had directed Kentucky Power,
14 quote, To continue to seek extensions to Rockport
15 Unit Number 1 and Rockport Unit Number 2"?

16 **A. I think those whereas paragraphs are intended**
17 **to be a statement of facts that the parties agreed**
18 **to.**

19 Q. Thank you. And then there's a whereas clause
20 that if you scroll down a little bit more, it
21 immediately follows the one we just discussed, where
22 your clients agreed, quote, that the extension of
23 the USPA for 195 megawatts of Rockport Unit Number 1
24 and for 195 megawatts of Rockport Unit Number 2 is
25 in the best interest of Kentucky Power's ratepayers

1 and will enable Kentucky Power to secure long-term,
2 low-cost, coal-fired, base-load generation, end
3 quote?

4 **A. What's the question?**

5 Q. Do you agree that that's what your clients
6 agreed to as a statement of fact in the whereas
7 clause?

8 **A. That's what the clause reads.**

9 Q. Okay. And then would you agree in the next
10 whereas clause, which starts out "Whereas the
11 parties agree that the additional revenues called
12 for under this agreement are 'fair, just, and
13 reasonable considerations for the extension of the
14 UPSA for Rockport Unit Number 1 and Rockport Unit
15 Number 2 and the resolution of the other matters
16 resolved' through the agreement"?

17 **A. I think you pretty much read that correctly.
18 And, you know, the parties include the company -- I
19 might add, I know that's risking some redundancy
20 here, but the company was a party to this agreement
21 and agreed with the statements as well, and yet it's
22 offered in this proceeding to modify the terms of
23 this stipulation and settlement agreement.**

24 Q. So you would -- and you would agree that the
25 company's -- in making that offer is giving up

1 approximately \$6.2 million a year until the end of
2 the Rockport Unit Power Agreement?

3 **A. It would forego its opportunity to recover**
4 **\$6.2 million through the capacity rider.**

5 Q. And your clients are giving up nothing
6 through your position, right?

7 **A. I don't think that's true. Our clients have**
8 **conceded considerably, you know, increases in costs,**
9 **there have been significant changes in the**
10 **anticipated operation of the Rockport agreement**
11 **where Kentucky Power has had -- taken no opportunity**
12 **to stand for the customers in Kentucky while AEG Co.**
13 **in Indiana and Michigan renegotiated the agreements**
14 **pursuant to -- and entered into consent agreements**
15 **and made the decisions to, for example, install an**
16 **extremely expensive SCR and to modify other system**
17 **operations at Rockport 2 and impose the costs on**
18 **Kentucky Power.**

19 **So there have been really significant changes**
20 **since this stipulation and settlement was entered**
21 **into, and Kentucky Power has not at all protected**
22 **its customers from the increased costs resulting**
23 **from the decisions that other parties to the**
24 **agreement have made.**

25 Q. Well, would you look at the -- we were just

1 discussing the \$6.2 million that Kentucky Power was
2 giving up through its conditional approval and the
3 fact that your clients had agreed that those -- that
4 the -- what became tariff CC and the resulting \$6.2
5 million, your clients agreed that they were fair,
6 just, and reasonable rates. Is that not correct?

7 **A. What we're agreeing to is we accept the offer**
8 **and we agree with it to concede the \$6.2 million.**
9 **And part of that is, you know, we agree that there**
10 **should be a rate increase in this case. We agree**
11 **that the company -- we continue to agree that the**
12 **company should retain some of the fixed cost savings**
13 **when the Rockport UPA terminates in December of**
14 **2022, so -- and the company, because of its inaction**
15 **and in -- failure to really represent customers in**
16 **its interaction with AEG Co. in Indiana and**
17 **Michigan, we have had costs imposed on us,**
18 **significant costs, through the environmental**
19 **surcharge and through the base revenue requirement.**
20 **So we've given up a lot, I think.**

21 Q. But there's nothing in the agreement that
22 makes those exceptions to -- of course I'll disagree
23 with your characterization but, nevertheless, that
24 makes those exceptions a get-out-of-free -- an
25 exception to the statement that the \$6.2 million is

1 fair, just, and reasonable?

2 **A. Well --**

3 Q. Point to me in the agreement where it says
4 that.

5 **A. Yeah. There's no specific paragraph that**
6 **allows any party to unilaterally change the**
7 **agreement, but yet the company has come in in this**
8 **case and proposed a change to the stipulation and**
9 **settlement, which is beneficial to customers. And**
10 **we agree with that.**

11 Q. Okay.

12 **A. But there's no specific provision that says**
13 **the company is either required to or even allowed**
14 **to, but the company has, and --**

15 Q. So it's -- I'm sorry. I didn't mean to --

16 **A. Yeah. I just was reiterating that point.**
17 **That's all.**

18 Q. So could you turn to -- and we're in the same
19 document, but we're going back. It's page 6 of the
20 order. So that would be page 6 of the PDF.

21 And, Mr. Kollen, do you see the paragraph
22 that starts, "The Commission previously expressed
23 serious concern" in the middle of that page?

24 **A. I do see that. Yes.**

25 Q. Okay. And it says -- if I may read it, "The

1 Commission previously expressed serious concern to
2 what had been, for some time, Kentucky Power's
3 intent to meet its native load requirements by
4 purchasing power at market-based prices rather than
5 extending the Rockport Unit Power Agreement."

6 Do you see that?

7 **A. I believe that you read that correctly.**

8 Q. And do you disagree -- or do you believe the
9 Commission was wrong in its characterization of its
10 serious concern?

11 **A. I can only read what you read from that**
12 **document. I don't know what the Commission's intent**
13 **was or what its knowledge was at that time. I**
14 **simply don't know.**

15 Q. Okay. And then do you see right below it the
16 Commission, in its own order, excerpts a portion
17 from its order in Administrative Case Number 387?

18 Do you see that double-intended quotation?

19 **A. I do see that. Yes.**

20 Q. And that quotation says, "AEP Kentucky must
21 plan to meet its load by securing sufficient
22 capacity that is not subject to market price
23 volatility. Only by doing so will AEP Kentucky be
24 able to maintain reasonable electric rates while
25 mitigating, to the extent possible, market price and

1 fuel price fluctuations."

2 Do you understand AEP Kentucky in that quote
3 to be Kentucky Power?

4 **A. I do understand that to be the case. And of**
5 **course, that was before the rise of PJM and the**
6 **market -- RPO market structure.**

7 Q. And do you -- do you think that the
8 Commission, when it wrote that in Administrative
9 38 -- Administrative Case Number 387 was mistaken?

10 **A. I don't know what the Commission thought at**
11 **the time or what its intent was other than through**
12 **the expressed wording of that order.**

13 Q. If we could turn to the next page, which
14 would be page 7 of the PDF and page 7 of the order.

15 And the paragraph about in the middle of the
16 screen, it starts off -- "The Commission" -- thank
17 you.

18 "The Commission further finds that the
19 proposed modification" -- I'm sorry. I've gone too
20 far. Yeah. All right.

21 And the next sentence starts, "Kentucky Power
22 has previously indicated that it's unwilling to
23 extend the Rockport unit power contract, and as a
24 wholesale power sale the Commission has no
25 jurisdiction to require the extension of that

1 contract."

2 Do you see that?

3 **A. I do see that.**

4 Q. And then below that excerpt -- I'm sorry.

5 Let's go back -- if we could scroll back up to page

6 6 now. Right. Thank you.

7 Where it starts, "Consistent with these
8 Commission findings," the Commission wrote,
9 "Kentucky Power is now proposing a long-term
10 extension of the Rockport unit power contract at a
11 price that is not subject to market volatility."

12 Do you understand that?

13 **A. I'm having a little trouble responding yes or
14 no to that question, do I understand that. I can
15 see that that's what the language in that order
16 states.**

17 Q. Thank you.

18 **A. If I could somewhat --**

19 Q. That's fine.

20 **A. -- modify the question.**

21 Q. And then it continues, "Although the price to
22 be paid by retail customers for this power does
23 reflect market prices since it's priced above the
24 cost of service, the price now being fixed will
25 insulate retail ratepayers from the price of future

1 market price volatility."

2 Do you understand the Commission to have
3 found that?

4 **A. Well, I can see that that's what's written in**
5 **the order. And of course, the facts and**
6 **circumstances have changed significantly with the**
7 **rise of the PJM RTO and market pricing for capacity**
8 **and energy.**

9 Q. And I would like to ask you some questions
10 about the settlement agreement itself.

11 Was AEP Generating Company a party to the
12 settlement agreement signed by your clients?

13 **A. I don't believe so.**

14 Q. And is it not true that the amounts paid
15 under tariff CC are paid to Kentucky Power and not
16 AEP Generating?

17 **A. Yes. That's correct.**

18 Q. And that AEP --

19 **A. With -- with -- of course, there is a**
20 **relationship there; in other words, one of the**
21 **paragraphs or one of the provisions of the**
22 **settlement agreement addresses the eventuality -- or**
23 **the possibility I think might be a better word, the**
24 **possibility that the Kentucky Commission would not**
25 **provide recovery in the future of the \$6.2 million.**

1 **In that case, Kentucky Power basically**
2 **preserved its right to go back and extricate itself**
3 **from the UPA. And so I think that that was a**
4 **provision that has been overlooked in this hearing**
5 **so far, but it's a --**

6 Q. Excuse me, Mr. Kollen. I didn't mean to cut
7 you off. Are you finished?

8 **A. I'm finished. Thank you. Yes.**

9 Q. But my question was: Are the amounts paid to
10 Kentucky Power?

11 **A. And I answered that yes.**

12 Q. And are Kentucky Power and AEP Generating
13 legal entities?

14 **A. They are, but they're contractually bound**
15 **together with respect to Rockport.**

16 Q. And does the Kentucky Public Service
17 Commission regulate AEP Generating?

18 **A. It does not.**

19 Q. Can we turn to pages -- pages 31 to 33 of
20 your testimony? That's where you address SERP. Let
21 me know what you get there, Mr. Kollen.

22 **A. Yes. That's correct. I'm there.**

23 Q. SERP is an acronym for Supplemental Executive
24 Retirement Plan?

25 **A. That's correct.**

1 MR. OVERSTREET: Ms. Vinsel, can we call up
2 Company Exhibit 3, which is the order -- 2018 order
3 from Case Number 2017-00179?

4 MS. VINSEL: Yes. We can do that. Thank
5 you, Mr. Overstreet.

6 BY MR. OVERSTREET:

7 Q. Now, before we turn to that, Mr. Kollen, I
8 want to turn to your testimony.

9 As I read your testimony, you cite four
10 cases, is that correct: Footnotes 46, 47, 48, and
11 there's 49?

12 **A. Yes. That's three companies with the fourth**
13 **footnote referring to the third company a second**
14 **time.**

15 Q. And if we can turn to page 16 of the
16 Commission's order now, did you review this before
17 filing your testimony, Mr. Kollen?

18 **A. I did, just as I reviewed the portions**
19 **related to incentive compensation.**

20 Q. All right. And isn't it true that the
21 Commission approved the company's Supplemental
22 Executive Retirement Plan expense in its last rate
23 case?

24 **A. It did. And of course it disallowed the**
25 **incentive compensation expense tied to financial**

1 performance, and that was not, apparently, an
2 obstacle to the company coming in and requesting it
3 again, even without a citation to this order in
4 which it was denied.

5 Q. But you in you --

6 A. So to juxtapose, I think that all of these
7 issues really are straight up on the table for
8 consideration in this case. I don't think I'm under
9 an obligation to ask the Commission for
10 reconsideration. I'm asking them for consideration
11 in this case for denial of the SERP expenses, just
12 like the company's asking for consideration, didn't
13 ask for reconsideration of the incentive
14 compensation tied to financial performance, issue up
15 front on the table in this case, regardless of the
16 Commission's prior positions.

17 Q. And I understand your position, but you did
18 find it relevant to cite a 30-year-old LG&E case,
19 right?

20 A. I did because there's a mixed experience with
21 the Commission, mixed decisions on this issue.

22 MR. OVERSTREET: Ms. Vinsel, can we now call
23 up Ms. Kaiser's rebuttal testimony in this case,
24 page 12?

25 MS. VINSEL: Yes, Mr. Overstreet. It may

1 take one minute. Thank you for your patience.

2 MR. OVERSTREET: I'm not going anywhere.

3 THE WITNESS: Mr. Overstreet, neither am I.
4 So we're aligned on one issue, right?

5 MR. OVERSTREET: That's right. Thank you.

6 BY MR. OVERSTREET:

7 Q. Mr. Kollen, may I direct your attention to
8 line 12 of -- page 12 of Ms. Kaiser's rebuttal? And
9 it's the sentence that starts, about halfway over,
10 "The AEP system's." Thank you.

11 "The AEP system's nonqualified pension plan
12 used the same benefit formulas as are used under the
13 qualified retirement plan for each respective
14 employee except that the nonqualified benefits are
15 reduced by the amount of qualified benefits."

16 Do you see that statement?

17 **A. I do.**

18 Q. And you did not file any study or evidence to
19 the contrary, did you?

20 **A. I didn't have the opportunity for surrebuttal
21 testimony. And I don't think it's relevant to the
22 issue, in any event.**

23 Q. You don't think it's relevant,
24 notwithstanding the fact that the Commission pointed
25 to the fact in its 2017 order?

1 **A. What do you mean, "the fact"? I'm not sure**
2 **what the reference is to "the fact."**

3 Q. That's fine. In that order on line -- page
4 16, the provision where Kentucky Power stated that
5 the total benefit is revised under both disqualified
6 and nonqualified --

7 THE REPORTER: I can't hear him.

8 CHAIRMAN SCHMITT: Mr. Overstreet.
9 Mr. Overstreet.

10 MR. OVERSTREET: Yes?

11 CHAIRMAN SCHMITT: The reporter said she
12 could not understand you. Could you repeat the
13 question and start from the beginning?

14 MR. OVERSTREET: I apologize. I am starting
15 over now.

16 CHAIRMAN SCHMITT: Okay. Thank you.

17 BY MR. OVERSTREET:

18 Q. The Commission, in its 2017 order, wrote,
19 "Kentucky Power stated that the total benefit it
20 provides under both its qualified and nonqualified
21 plan is equal to the benefit that would be produced
22 by the formulas utilized under the qualified plan.
23 These plans were not subject to the benefit
24 limitations imposed on the qualified plans."

25 Then my question was: Mr. Kollen, did you

1 introduce any evidence to the contrary or do you
2 have any evidence to the contrary today?

3 **A. No. I did not address that particular aspect**
4 **of either the Commission's order and certainly did**
5 **not have the opportunity to respond to the company's**
6 **rebuttal testimony.**

7 **But as I said, I don't think it's relevant**
8 **because this is an issue of, essentially, an**
9 **incentive compensation, in effect, for highly**
10 **compensated executives where there is a benefit**
11 **above and beyond the qualified -- the qualified**
12 **plans.**

13 **If there wasn't something above and beyond**
14 **that, based upon the -- the higher income levels,**
15 **then there would be no SERP whatsoever. It's a plan**
16 **that was created to bypass this particular**
17 **limitation.**

18 Q. But you agree the same formula is used --

19 **A. I agree --**

20 Q. -- qualified and not qualified?

21 **A. I agree that that's what the Commission order**
22 **said and that's what the company's rebuttal**
23 **testimony said, but I don't have any personal**
24 **knowledge of that, nor do I think it's relevant.**

25 Q. Can we turn to page 13 of your testimony now,

1 Mr. Kollen?

2 **A. I'm there.**

3 Q. And starting about one-third of the way down,
4 you discuss cash working capital, do you not?

5 **A. Yes. That's correct. That's something that**
6 **the Commission will need to address if it decides to**
7 **proceed with rate base in lieu of capitalization as**
8 **the approach to calculate the return-on component of**
9 **the revenue requirement.**

10 Q. And actually, you anticipated my question.

11 If the Commission decides to use
12 capitalization, then this notion of cash working
13 capital and lead-lag study, the Commission would not
14 need to address that, would you agree?

15 **A. Yes. That's correct. There are a series of**
16 **other adjustments to capitalization that I proposed**
17 **if the Commission does not decide to go forward with**
18 **the rate base approach, but cash working capital is**
19 **not one of those adjustments to capitalization that**
20 **I have identified.**

21 Q. Thank you, Mr. Kollen.

22 Did the Commission direct the company at any
23 time prior to or during this case to perform a
24 lead-lag study and calculation in connection with
25 the calculation of rate base for this case?

1 **A. Not to my knowledge.**

2 Q. And if we can turn to pages 34 to 36.

3 **A. Okay.**

4 Q. And I believe you discussed this with
5 Ms. Frederick of the Commission, the income tax
6 rates and expense?

7 **A. Yes. There were a couple of questions. Yes.**

8 Q. Okay. And at page 35 of your testimony, you
9 recommend, quote, "The Commission treat Kentucky
10 Power as a standalone entity for the calculation of
11 state income tax"; is that correct?

12 **A. Yes. In the same manner that it treats the
13 company as a standalone income -- standalone entity
14 for federal income tax purposes.**

15 **For example, the Commission has rejected the
16 use of consolidated tax savings, instead finding
17 that the federal income tax expense should be
18 calculated on a standalone basis. The Commission
19 has rejected the use of an interest expense
20 deduction from an upstream affiliate, including the
21 parent company. The company -- the Commission has
22 even rejected a -- a standalone -- a parent company
23 loss allocation that is required under the AEP
24 intercompany tax agreement that's recognized in West
25 Virginia for APCO and has instead said, "Listen,**

1 we're going to compute taxes on a federal -- for
2 federal income tax purposes as if Kentucky Power
3 were a standalone entity."

4 Given that there are none of these benefits
5 from Kentucky Power's affiliation with AEP in the
6 calculation of federal income tax expense, I think
7 it's only appropriate and equitable that there not
8 be any impact on the state income tax expense from
9 factors outside of the state of Kentucky. It should
10 be calculated on a standalone basis, just like the
11 federal income tax.

12 Q. So if -- you would agree, then, if the
13 blended state tax rate of 5.845 percent used by
14 Kentucky Power was based on the company's standalone
15 operations, that it would be appropriate to use?

16 **A. I don't understand that question.**

17 Q. Well, you've indicated that the Kentucky
18 state income tax rate that's applied should be --
19 should take into account -- or should be calculated
20 as if Kentucky Power were a standalone company,
21 right?

22 **A. Yes. Which would mean 5 percent, not 5.85**
23 **percent.**

24 Q. Do you disagree that Kentucky Power pays
25 income tax to other states for its Kentucky Power

1 operations?

2 Is that your testimony?

3 **A. I've seen no evidence of that fact. These**
4 **are apportioned state income tax rates from other**
5 **states, and then the Kentucky state income tax rate**
6 **is apportioned downward in the company's**
7 **calculation, and I -- there is -- the company does**
8 **not, to my knowledge, pay income tax expense in any**
9 **of these other states. It's domiciled exclusively**
10 **in Kentucky.**

11 Q. You agree that Kentucky Power has operations
12 in West Virginia: The Mitchell plant?

13 **A. Yeah. Kentucky Power has the two Mitchell**
14 **units located in West Virginia, but its taxable**
15 **income tax is not derived from West Virginia. Its**
16 **taxable income is reflected in Kentucky taxable**
17 **income.**

18 In other words -- in other words, Kentucky
19 Power does not have a legal entity in the state of
20 West Virginia whereby it pays West Virginia income
21 tax expense.

22 Q. And that's your belief, and that's the basis
23 for your recommendation?

24 **A. Well, there's no other evidence in the record**
25 **to the contrary, and the company just simply**

1 **apportioned these rates from other states and then**
2 **blended those multiple state rates into the state**
3 **income tax rate that it used in this rate filing.**

4 MR. OVERSTREET: One moment, your Honor. I
5 need to take a second to consult. Would that be
6 okay?

7 CHAIRMAN SCHMITT: That's fine.

8 MR. OVERSTREET: I have no further questions,
9 your Honor.

10 CHAIRMAN SCHMITT: Redirect, Mr. Kurtz?

11 MR. KURTZ: Thank you, Chairman.

12 REDIRECT EXAMINATION

13 By Mr. Kurtz:

14 Q. Mr. Kollen, the Vice Chairman was asking you
15 about the pension and the OPEB rate base issue. Do
16 you recall that?

17 **A. Yes. I do.**

18 Q. You used the phrase "highly unusual" in
19 describing this accounting treatment.

20 What did you mean by that?

21 **A. To my knowledge -- and I've been in hundreds**
22 **of utility rate proceedings -- I believe that the**
23 **AEP operating utilities, including Kentucky Power**
24 **Company, are the only ones that employ this**
25 **memorandum accounting where they use Account 165,**

1 which is a prepayment account, and put a positive
2 dollar amount in whenever they pay something into
3 the pension or the OPEB trust funds and then
4 immediately -- simultaneously create a negative
5 entry to take it right back out of the Account 165
6 prepaid accounts.

7 And the company itself has described this as
8 memorandum accounting; in other words, it's not
9 required by GAAP, it's not required by the FERC
10 uniform system of accounts, and it isn't used --
11 this accounting is not used by any other utility
12 other than the AEP utilities, to the best of my
13 knowledge.

14 Q. Also in that discussion with the Vice
15 Chairman you used the term "misnomer." Do you
16 recall that?

17 A. I did. The reason I used that term is
18 because I don't believe there's anything that's
19 prepaid. Just because the company used Account 165
20 to create both a positive and an equivalent negative
21 entry does not establish, factually, that the
22 company has prepaid anything.

23 And, you know, it's just simply a function of
24 the -- where the company is using or recording this
25 memorandum series of entries, but because whatever

1 positive amount is put into the account is then
2 taken out with a negative amount, there is no
3 prepayment. The prepayment, by definition under the
4 company's accounting, is zero. And I cringe
5 whenever I hear that term prepayment because it's
6 not accurate.

7 Q. So there's no actual cash outlay, in your
8 understanding?

9 A. Well, there is cash outlay through a fund,
10 the pension trust fund and the OPEB trust fund, but
11 the question is whether or not those require a
12 return-on in rate base or whether or not there's any
13 prepayment.

14 The company, without getting too far into the
15 weeds, records its pension OPEB and trust fund
16 assets on its balance sheet and also records the
17 pension and OPEB liabilities on its balance sheet,
18 and it is slightly over -- it's somewhat overfunded
19 on one, the OPEB trust fund, and underfunded on the
20 pension. And so the balance sheet has amounts in
21 certain other accounts that show the funding status,
22 but there is no amount in the prepaid when you
23 consider the negative accounting entries that are
24 made simultaneously with the positive accounting
25 entries.

1 Q. Turning to the capacity charge discussion
2 with Mr. Overstreet, you referred to a provision of
3 the settlement agreement that envisioned that the
4 Commission may disallow the \$6.2 million for
5 ratemaking purposes and it was under the procedural
6 terms on page 7 of the settlement agreement.

7 Do you remember your reference to that?

8 **A. Yes. I don't have it in front of me, but I**
9 **can probably pull it up or if -- let's see.**

10 Q. Let me just ask you: Is it your
11 understanding that the settlement agreement
12 envisioned that the Commission would disallow the
13 \$6.2 million and that the company's remedy was to
14 start proceedings to pull out and terminate the unit
15 power agreement?

16 **A. Yes. That's my recollection.**

17 Q. Okay. Why would the company not do that in
18 today's world, if you know?

19 **A. I don't know, quite frankly. But, you know,**
20 **I will say this, that the company, according to the**
21 **testimony of other witnesses, company witnesses in**
22 **this proceeding, did not do anything to attempt to**
23 **ensure that it was protected when the AEP and AEP**
24 **Gen. Co. and Indiana and Michigan all decided that**
25 **they would put a new SCR on Rockport Unit 2. The**

1 **company just simply apparently accepted that, and --**
2 **go ahead, Mr. Kurtz.**

3 Q. Was the FTR part of a settlement of the
4 consent decree with the EPA and the Sierra Club as
5 it involved litigation brought by the owner of
6 Rockport Unit 2, the Wilmington Bank & Trust
7 Company?

8 **A. First of all, AEO entered into a consent**
9 **decree with the EPA and the U.S. Justice Department,**
10 **not with respect specifically to Rockport but with**
11 **respect to all of its systemwide generating assets,**
12 **but decided to put the new SCR on Rockport 2 to also**
13 **address concerns and I believe litigation by the**
14 **Wilmington Trust Bank and other lessors.**

15 So it basically achieved, you know, its -- its
16 obligations under the consent decree with the U.S.
17 Department of Justice and also resolved litigation
18 with the lessors. And Kentucky Power did nothing,
19 to my knowledge, to participate in that process or
20 to protect the interests of Kentucky customers.

21 Q. With respect to that SCR, the attorney
22 general KIUC position is that it should be recovered
23 in rates in Kentucky but over -- because it's a 20-
24 or 30-year asset, the recovery should be over ten
25 years rather than three years; is that correct?

1 **A. Yes. That's correct. Indiana and Michigan,**
2 **in a recent rate case in Indiana, proposed a**
3 **ten-year amortization of the SCR costs for its share**
4 **of the Rockport 2 unit. And the Commission in**
5 **Indiana accepted that, and I think that -- you know,**
6 **that that was a reasonable proposal by Indiana and**
7 **Michigan, and Indiana won, that this Commission here**
8 **could -- I think it would be reasonable to reflect**
9 **that same ten-year amortization for Kentucky**
10 **customers.**

11 Q. And of course, Kentucky Power would be made
12 whole because of the weighted average cost of
13 capital carrying charge on deferral, is that --

14 **A. Yes. That's correct. The company's**
15 **environmental surcharge allows the company to**
16 **include the cost of the SCR in rate base for the**
17 **calculation of the surcharge. And so if the**
18 **amortization expense was less over the next couple**
19 **of years -- because there's only a couple of years**
20 **left under the unit power agreement, it expires**
21 **December 8, 2022 -- or actually December 7th, 2022.**
22 **There's only about two more years to recover the**
23 **remaining of the value of the SCR on Rockport 2.**

24 If that were extended to ten years, then
25 the -- the remaining net book value of the SCR as

1 **it's being depreciated will continue to be recovered**
2 **in the -- in the environmental surcharge. So the**
3 **company would absolutely be made whole.**

4 Q. On page 58 of your testimony with respect to
5 this capacity charge, you determined that when you
6 add the \$6.2 million amount of money to the 12.16
7 percent return on equity that is fixed into the
8 Rockport Unit Power Agreement that the effective
9 return on equity that AEP would receive if it kept
10 the \$6.2 million would be 33.81 percent return on
11 equity?

12 **A. That's correct.**

13 Q. Did you have cause to -- to calculate the net
14 present value of the capacity charge payments that
15 have been received by Kentucky Power over and above
16 cost of service?

17 **A. Yes. I did. I took the nominal dollar**
18 **amounts and then escalated them to 2020 dollars to**
19 **reflect the payments that customers had made under**
20 **this capacity cost rider, and the net present value**
21 **of those payments is \$173 million.**

22 Q. Without rendering a legal opinion, but is it
23 your understanding that the Commission has an
24 independent obligation to assure that current rates
25 are reasonable, regardless of what a settlement

1 agreement between litigants may provide?

2 **A. That is my understanding. And I would think,**
3 **intuitively, that would be the case. And it appears**
4 **as if the company might agree with that because it**
5 **offered to terminate the \$6.2 million, which would**
6 **be, you know, a change in the terms of the**
7 **settlement agreement.**

8 MR. OVERSTREET: Your Honor, I apologize. I
9 tried to object to that question and answer in a
10 timely fashion, but we had a technological problem.
11 If I could please note my objection because
12 Mr. Kollen can't answer that question without
13 rendering --

14 CHAIRMAN SCHMITT: Yeah. We've had probably
15 too much of witnesses who -- testifying about what
16 the law says somebody can and can't do.
17 Unfortunately, this cat is already out of the bag,
18 Mr. Overstreet.

19 But you may continue, Mr. Kurtz, but I think
20 we all understand what everybody's position is and
21 what's going on here how and how this works out.

22 BY MR. KURTZ:

23 Q. One last question on the state income tax
24 issue.

25 When you say that the state income tax was

1 apportioned to Kentucky Power, what did you mean by
2 that?

3 **A. What the company did was it took the state**
4 **income tax rates from all of the other AEP operating**
5 **companies -- operating utilities, that is, and**
6 **allocated a portion of that to Kentucky and reduced**
7 **Kentucky from 100 percent to reflect the allocations**
8 **from these other states. It isn't as if Kentucky**
9 **pays the income tax in those other states, which is**
10 **one of the reasons why I disagreed with that**
11 **approach.**

12 Q. Last question: If Kentucky has the lowest
13 state income tax and it's apportioned upward, does
14 that mean the operating companies in other states
15 that have higher income taxes are apportioned
16 downward; in other words, get the benefit of
17 Kentucky's lower corporate income tax?

18 **A. Presumably, that would be the case, but I**
19 **have not reviewed what those other operating**
20 **utilities do in those other states for ratemaking**
21 **purposes.**

22 MR. KURTZ: Thank you, Mr. Kollen. No
23 further questions, your Honor.

24 CHAIRMAN SCHMITT: Thank you. Mr. Kollen,
25 you may step down. Thank you.

1 THE WITNESS: Okay. You're welcome.

2 CHAIRMAN SCHMITT: Let's -- I guess we've
3 been going here for almost two hours. It's 15
4 minutes until 11:00. Let's recess until 5 until
5 11:00. That's a ten-minute break. And then we'll
6 come back and -- I guess you can call your -- your
7 next witness, Mr. Baudino. Is that correct?

8 MR. WEST: Yes, your Honor. Mr. Baudino will
9 be next. Thank you.

10 CHAIRMAN SCHMITT: Okay. Thank you. We'll
11 be in recess until five minutes until 11:00.

12 (A DISCUSSION WAS HELD OFF THE RECORD.)

13 CHAIRMAN SCHMITT: We're back on the
14 record -- are we on the record?

15 MS. SACRE: Yes, sir.

16 CHAIRMAN SCHMITT: Mr. Garcia.

17 MR. GARCIA: Yes, your Honor.

18 CHAIRMAN SCHMITT: Are you ready to present
19 Kentucky Power's next witness?

20 MR. GARCIA: I don't think so, your Honor.

21 CHAIRMAN SCHMITT: Oh, Mr. West, are you
22 going to -- oh, you're the cross. I get this -- you
23 guys have been on the stand so long. I apologize.
24 I like your mask. You're kind of doubled up there,
25 so you're protected.

1 MR. GARCIA: Always ready, though.

2 CHAIRMAN SCHMITT: Well, that's good.

3 Mr. West, are you ready to present your next
4 witness?

5 MR. WEST: Yes, your Honor. We are. I see
6 that the hearing room video is still paused. Is
7 that how that's supposed to be?

8 CHAIRMAN SCHMITT: Is everyone on?

9 MR. WEST: There we go. I see you now.

10 MS. VINSEL: We're good now.

11 CHAIRMAN SCHMITT: Mr. Baudino, would you
12 please raise your right hand. Do you solemnly swear
13 or affirm under penalty of perjury that the
14 testimony you're about to give is the truth, the
15 whole truth, and nothing but the truth?

16 MR. BAUDINO: I do.

17 CHAIRMAN SCHMITT: Thank you. Mr. West.

18 MR. WEST: Thank you, your Honor.

19 RICHARD BAUDINO, having been first duly
20 sworn, testified as follows:

21 DIRECT EXAMINATION

22 By Mr. West:

23 Q. Could you please state your name for the
24 record?

25 A. Yes. My name is Richard Baudino.

1 Q. And what is your business address?

2 **A. It's J. Kennedy & Associates, Inc., 570**
3 **Colonial Park Drive, Suite 305, Roswell, Georgia.**

4 Q. Okay. And what is your occupation?

5 **A. I'm a consultant for J. Kennedy & Associates.**

6 Q. Did you cause direct testimony to be filed in
7 this case?

8 **A. I did.**

9 Q. Do you have any additions or corrections to
10 that direct testimony?

11 **A. I have two typos to correct, and that's on**
12 **page 41 of my direct testimony. If you go to line**
13 **8, it says "Table 5." That should be "Table 4."**

14 **And then the label of the Table 5 here, it**
15 **says "McKenzie ROE," so that should be Table 4.**

16 **Those are the only corrections I have.**

17 Q. Okay. Thank you. Did you sponsor any
18 responses to data requests in this case?

19 **A. Yes.**

20 Q. If you were asked those same questions again
21 today, would your answers be the same?

22 **A. They would.**

23 Q. Is it your intention to adopt the direct
24 written testimony as your testimony in this matter?

25 **A. Yes.**

1 MR. WEST: Chairman, the witness is available
2 for cross-examination.

3 CHAIRMAN SCHMITT: Thank you, Mr. West.
4 Ms. Frederick, cross-examination.

5 MS. FREDERICK: Thank you, your Honor.

6 CROSS-EXAMINATION

7 By Ms. Frederick:

8 Q. Good morning, Mr. Baudino.

9 **A. Good morning, Ms. Frederick.**

10 Q. Your analysis incorporated an ROE of 8.93
11 percent to 9.25 percent and you recommended an ROE
12 of 9 percent; is that correct?

13 **A. Yes. My -- actually, the -- just to be more**
14 **precise about it, I recommended the range of 8.93 to**
15 **9.25. It was actually Mr. Kollen who recommended a**
16 **9.0 percent for AG and KIUC, and he set forth the**
17 **reasons for that recommendation in his testimony.**

18 **Now, I do support that given that that**
19 **recommendation falls in line with my recommendation.**

20 Q. Thank you for that clarification.

21 And you included high- and low-end results
22 when calculating the average model return; is that
23 correct?

24 **A. Now, is that the -- the DCS that you're**
25 **referring to?**

1 Q. Yes.

2 A. Yeah. My testimony and my exhibits show that
3 I used just about all of the -- all of the values
4 with the exception of one, and I'm going to just
5 refresh my memory here a bit.

6 If we go to Exhibit Number RIG 4, page 1 of 2,
7 you see here I used averages for all the values with
8 the exception of the growth rate that I used there
9 for Exelon. I substituted the exact growth rate for
10 the average finance growth rates for Exelon, which
11 was negative. So other than that, I used all of the
12 values. I averaged those growth rates, and also
13 presented the median value.

14 Q. Thank you. And do you believe that including
15 those results skews the model?

16 A. I don't believe that it does. I think that
17 you have a large enough group here, 21 utilities,
18 with a variety of growth rates there, and I think
19 what we're looking at is what can a reasonable
20 expectation be for growth for this proxy group of
21 companies.

22 So I presented the average as one measure of
23 sort of sample tendency, if you will, or
24 expectation for that group. I also presented median
25 growth rates for each of the four sources that I

1 used as an another alternative view of sample
2 tendencies.

3 So I think using those two certainly is a
4 reasonable -- gives a reasonable confirmation that
5 those -- both the averaged and medians are
6 indicative of and give investor expectations of
7 growth for this group.

8 Q. And can you explain, briefly, why you believe
9 it's important to include those results?

10 A. Yes. This is something that I disagreed with
11 Mr. McKenzie about. You start picking and choosing
12 results on the low end to throw out because you
13 think they're too low, and then it calls into
14 question you didn't throw out the results that may
15 be too high, and then you start arguing about what
16 the standard should be for throwing out and
17 including these numbers.

18 So again, I think with the -- with the size of
19 the sample and with the averages and the medians
20 being used, that's indicative and that's reasonable
21 to -- to just go ahead and include all of those
22 numbers.

23 Q. Okay. Thank you. We're going to turn our
24 attention to beta values for just a moment.

25 A. Sure.

1 Q. And the company has recently seen an increase
2 in utility beta values; is that correct?

3 **A. Yes.**

4 Q. And do you know if betas from most
5 investments made an upward or a downward adjustment,
6 or is this just occurring in the utility sector?

7 **A. I haven't made that --**

8 CHAIRMAN SCHMITT: I'm sorry. We cannot hear
9 the witness. Ms. Frederick, can you hear us?

10 VICE CHAIRMAN CHANDLER: Yeah. So, Chairman,
11 I believe that -- I believe that Mr. Baudino may be
12 participating by phone for his audio. Is that
13 right, Mr. Baudino? Yeah. And he was caller six,
14 and I believe the IT staff may have just, in the
15 middle of his response, muted caller six.

16 I don't know why I know that, but I just saw
17 it, and it was simultaneous. So we'll see if that
18 helps. Can you try again, Mr. Baudino?

19 THE WITNESS: Sure. Could you repeat the
20 question, please?

21 BY MS. FREDERICK:

22 Q. Sure. We were discussing beta values, and I
23 was asking you if betas for most investments were
24 making an upward or a downward adjustment or if
25 that's just occurring in the utility sector?

1 A. Yeah, I haven't looked at all the different
2 sectors. It certainly was the case for the utility
3 sector. There was a lot of volatility for the
4 entire market as a whole so, of course, the beta
5 value would have been calculated based on weekly
6 price changes of each of the companies in this group
7 versus the weekly price changes of the New York
8 Stock Exchange composites. That's how the Value
9 Line calculates those betas.

10 And so, you know, the market was volatile
11 also, and so apparently what happened from the time
12 we saw the dates that Mr. McKenzie had filed his
13 direct testimony originally and there was this huge
14 increase in beta, and it was likely due to this
15 premarket volatility that we saw earlier this year.
16 And so, yes, the -- that certainly did increase the
17 utility beta substantially, apparently, or at least
18 made a -- or contributed to that change. I was kind
19 of surprised because the -- the beta values are
20 based on five historical price changes, so I'm kind
21 of surprised to see such a huge change within that
22 sort of quarterly period.

23 Q. And do you believe that this is a permanent
24 adjustment or a reaction to the economic situation
25 resulting from the pandemic?

1 **A. Well, we'll see. I mean, I think --**

2 CHAIRMAN SCHMITT: Mr. Baudino, I hate to
3 interrupt, but I've gotten word here we need to stop
4 for some reason.

5 MS. VINSEL: Yes, and I apologize,
6 Ms. Frederick and Mr. Baudino.

7 Could I please have everyone who is not
8 speaking mute the line? We have some noise coming
9 through and it's interfering with our ability to
10 hear the witness. I appreciate it. Perhaps
11 Ms. Frederick should repeat the question.

12 CHAIRMAN SCHMITT: Yeah. Ms. Frederick,
13 could you repeat the question, please?

14 MS. FREDERICK: Sure. Thank you so much.

15 BY MS. FREDERICK:

16 Q. I was asking if you believe that this
17 adjustment in betas is a reaction just to the
18 economic situation resulting from the pandemic?

19 **A. I think it contributed to it and, you know,**
20 **we'll see if it's permanent or not or if it will go**
21 **back more towards the historical relationship where,**
22 **you know, beta was -- the beta for this industry was**
23 **significantly lower than it is now.**

24 **And I think that the sort of red flag on the**
25 **beta here is to look at the results from -- on the**

1 CAPM that Mr. McKenzie reported from his direct
2 testimony to his rebuttal testimony, there's just a
3 huge change in the results for the -- for the CAPM
4 and the ECAPM in his testimony from direct to
5 rebuttal.

6 And so we will see what investors expect. I
7 would kind of agree with what Mr. McKenzie said,
8 which is we can't really know what the beta is in
9 investors' minds. We can estimate it using
10 historical betas, which he and I both have done.
11 Whether that gets -- whether the currently high
12 betas recede to more historical levels that they
13 were this year and last year, we will just have to
14 see.

15 Q. Thank you for that. And one last question
16 on -- on betas.

17 There's recently been an uptick in the number
18 of COVID-19 cases and states are again imposing
19 restrictions.

20 Do you believe that betas will once again
21 move; and if so, in what direction?

22 A. Well, that I don't know. I mean, we're --
23 this is certainly an unusual time in the world and
24 in the United States right now. We're kind of in
25 uncharted waters. So, quite honestly, I don't have

1 **a -- an expectation there one way or the other.**

2 **We'll just have to see how it plays out.**

3 MS. FREDERICK: Thank you very much. Your
4 Honor, I have no further questions for this witness.

5 CHAIRMAN SCHMITT: Ms. Grundmann, questions
6 for Walmart?

7 MS. GRUNDMANN: No questions for this
8 witness, your Honor.

9 CHAIRMAN SCHMITT: Mr. Spenard?

10 MR. SPENARD: No questions, Mr. Chairman.

11 CHAIRMAN SCHMITT: Mr. FitzGerald?

12 MR. FITZGERALD: No questions, Mr. Chairman.
13 Thank you.

14 CHAIRMAN SCHMITT: Mr. Miller?

15 MR. MILLER: Thank you, Mr. Chairman. No
16 questions.

17 CHAIRMAN SCHMITT: Mr. Frye?

18 MR. FRYE: No questions, Mr. Chairman.

19 CHAIRMAN SCHMITT: Vice Chairman Chandler?

20 VICE CHAIRMAN CHANDLER: Just a few. Thank
21 you, Chairman.

22 EXAMINATION

23 By Vice Chairman Chandler:

24 Q. Good morning, Mr. Baudino.

25 **A. Good morning.**

1 Q. Were you able to watch the portion of the
2 hearing in which I cross-examined Mr. -- or asked
3 questions of Mr. McKenzie?

4 **A. Yes.**

5 Q. Okay. And do you remember me asking
6 questions about -- about his reference in his direct
7 testimony to the Hope standard and the -- some of
8 the language that's used in Hope, that the Supreme
9 Court used in Hope?

10 **A. Yes. I was there for that.**

11 Q. Okay. And I just want to ask you, I guess,
12 the same basic line of questioning.

13 Insofar as Hope discusses, under a just and
14 reasonable standard, that -- that rates -- the
15 ratemaking process requires a balancing of investor
16 and consumer interests or ratepayer interests,
17 did -- did your testimony necessarily take that
18 balance into -- into consideration, or did your
19 recommendation focus exclusively on the investor
20 interests?

21 **A. I would say, Vice Chair Chandler, that my --**
22 **my analysis is really more towards what are**
23 **investors requiring in the marketplace for low-risk**
24 **electric utilities like Kentucky Power. So in that**
25 **sense I pretty much focused on the investor side,**

1 like what -- and also the market side: What is the
2 market requiring for ROE for a utility like Kentucky
3 Power?

4 So I didn't focus on, say, the ratepayer side,
5 necessarily. I figure if the company's allowed to
6 earn a market base rate of return, that sort of
7 satisfies the balancing of interests.

8 Q. Okay. So I guess I understood the response
9 until the final part of it.

10 So I would ask: Insofar as the Commission
11 has to balance the two and is required to balance
12 the two, does your recommendation -- does your
13 recommendation and your opinion balance the two
14 or -- or is it your position that the Commission
15 should -- should balance it and that you've given
16 the investor -- the investor piece of it?

17 A. Let me answer it this way: Normally, I just
18 look at the investor piece of it. However, I also
19 support Mr. Kollen's recommendation of 9.0 percent,
20 and in that -- in that recommendation, Mr. Kollen,
21 in his testimony, does take into account some of
22 these other factors. And, you know, we have
23 essentially followed the same path as the company in
24 terms of rate mitigation, going down from the top of
25 my range, which is 9.25, down to 9 percent as part

1 of rate mitigation, which would mitigate rates for
2 the sort of economically distressed area in which
3 Kentucky Power serves.

4 So my -- I formed the -- sort of the range
5 that Mr. Kollen used, he recommended 9 percent --
6 and I support that, by the way, as being within my
7 range.

8 Q. So is it -- is it fair to say that insofar as
9 you and Mr. Kollen balanced or intended to balance
10 the consumer and the investor interests, it was --
11 it's just -- it's merely a reflection of the
12 lower -- the revenue requirement reduction from the
13 lower ROE you proposed and as the company proposed,
14 is that a fair --

15 **A. Yes.**

16 Q. Okay.

17 **A. Sorry. Yes.**

18 VICE CHAIRMAN CHANDLER: Okay. All right. I
19 appreciate it, Mr. Baudino. Thank you.

20 CHAIRMAN SCHMITT: Dr. Matthews, questions?

21 MS. MATTHEWS: I do not have any.

22 CHAIRMAN SCHMITT: Mr. Garcia,
23 cross-examination?

24 MR. GARCIA: Thank you, your Honor.

25 * * *

1 CROSS-EXAMINATION

2 By Mr. Garcia:

3 Q. Good morning, Mr. Baudino.

4 **A. Good morning.**

5 Q. Can you hear me?

6 **A. Yes. I can hear you fine.**

7 Q. I'll try to go slowly. It's not only that I
8 have an accent, but with the technology, I hope we
9 can communicate without having periods where the
10 court reporter cannot take it. But just if I say
11 something that you cannot hear, it would be helpful
12 for you to let us know maybe with the technology
13 kind of stuff. Is that okay?

14 **A. Okay. Sure.**

15 Q. I will try to simplify my questions a little
16 bit. If I refer to the Federal Reserve as the Fed,
17 you will know what I'm referring to?

18 **A. Yes.**

19 Q. Okay. I'll try not to do it, but I have a
20 tendency to.

21 Would you please turn to page 4 of your
22 testimony?

23 **A. I have that.**

24 Q. There in line 7 -- and actually, in your
25 testimony this morning already, you referred to

1 Kentucky Power as a low-risk regulated utility?

2 **A. That's right.**

3 Q. Is Kentucky Power's Moody's credit rating
4 Baa3?

5 **A. Yes. It is. And its S&P credit rating is
6 A-.**

7 Q. Yeah. Moody's rates Kentucky Power on a
8 standalone basis; is that correct?

9 **A. Yes. That's right.**

10 Q. And just for the record, obvious that it may
11 be, Baa3, it's a lower credit rating than, for
12 example, Baa1?

13 **A. Well, it's two notches lower, but it's still
14 within that Baa rating and it's still an
15 investment-grade rating.**

16 Q. And Baa1 is lower than A3?

17 **A. Baa1 is higher than Baa3.**

18 Q. No. I'm sorry. Baa1 is lower than A3?

19 **A. Yes. It is.**

20 Q. Okay. And A3 is lower than A2?

21 **A. Yes.**

22 Q. Okay. Investors require a higher return for
23 a higher investment -- higher-risk investment,
24 correct?

25 **A. That's generally correct, yes.**

1 Q. Would you agree that from an investor's point
2 of view, a higher credit rating implies a lower
3 investment risk?

4 **A. Lower investment risk, did you say?**

5 Q. Yes. Higher -- the higher the credit rating,
6 the lower the investment risk?

7 **A. That's generally correct. I would agree with**
8 **that.**

9 Q. Okay. And the converse is also true: The
10 lower credit rating implies a higher investment
11 risk, correct?

12 **A. Yeah. That's right.**

13 Q. Okay. Do you recall Moody's credit rating
14 for Duke Energy Kentucky?

15 **A. That was a Ba1.**

16 Q. Okay. And for Kentucky Utilities?

17 **A. Now, I -- I believe that was contained in the**
18 **company's confidential hearing exhibits. And**
19 **subject to check, I believe that was A3.**

20 Q. And for Louisville Gas & Electric?

21 **A. I believe that's A3 as well.**

22 MR. GARCIA: Your Honor, in order to keep
23 things smooth, I may be able to enter into the
24 record Exhibits 4, 5, and 6 -- Company Hearing
25 Exhibit 4, 5, and 6 which are -- each of the three

1 is confidential -- without showing them on the
2 screen. So it's possible that we may not need to go
3 to confidential session, if I can try.

4 CHAIRMAN SCHMITT: Yeah. We can -- we can do
5 that. I mean, can you -- let me ask counsel: He
6 wants to show it on the screen without going into
7 confidential session or not --

8 MR. GARCIA: No, your Honor, I'm sorry, if I
9 may. I don't want to show them on the screen. I
10 think that I can ask the questions --

11 CHAIRMAN SCHMITT: All right.

12 MR. GARCIA: -- in the record.

13 CHAIRMAN SCHMITT: But you want to introduce
14 exhibits at some point into the record?

15 MR. GARCIA: Correct.

16 CHAIRMAN SCHMITT: But we'll have to do it in
17 the confidential record? Okay.

18 MR. GARCIA: Correct.

19 BY MR. GARCIA:

20 Q. So, Mr. Baudino, you made reference to the
21 confidential exhibits of the company.

22 Are you familiar with the documents that have
23 been identified confidential -- Company Confidential
24 Hearing Exhibit 4 -- let me ask you one by one.

25 Are you familiar with that document?

1 **A. Well, let me just make sure we're talking**
2 **about -- yeah, just -- that's all right. I'm just**
3 **going to -- I have these on my laptop here, and I**
4 **just want to make sure we're referring to the same**
5 **thing.**

6 **Did you say Number 4, Confidential Number 4?**

7 Q. Yes.

8 **A. Okay. And that would be Duke Energy**
9 **Kentucky, Moody's credit opinion?**

10 Q. That is correct. And that information is not
11 confidential, I mean, that that's what it is.

12 **A. Okay.**

13 Q. So you're familiar with that document? You
14 recognize it?

15 **A. Yeah. Yes. I do.**

16 Q. Okay. And let me ask you the same question
17 for Confidential Company -- Company Hearing Exhibit
18 Confidential Exhibit Number 5.

19 **A. Okay. I have that.**

20 Q. Okay. And what is that, without
21 describing --

22 **A. Sure. It's Moody's credit opinion for**
23 **Kentucky Utilities Company, and that is dated**
24 **October 23rd, 2020.**

25 Q. Okay. And you are familiar with that

1 document?

2 **A. You know, I have -- I haven't made a detailed**
3 **review of it. I did review the first couple of**
4 **pages of it just to generally familiarize myself**
5 **with it.**

6 Q. Okay. And then the same line of questions
7 for Company Confidential Hearing Exhibit Number 6.

8 **A. Okay. I have that one.**

9 Q. Okay. And can you identify what the document
10 is for the record without describing its contents,
11 and whether you're familiar with it?

12 **A. Sure. Again, this is Moody's credit opinion**
13 **for Louisville Gas & Electric Company, and that is**
14 **dated October 23rd, 2020.**

15 MR. GARCIA: Your Honor, at this point I
16 would like to move for the admission of -- of those
17 three documents that have been identified into the
18 confidential record.

19 CHAIRMAN SCHMITT: All right. Sustained.
20 I'll let them be filed at, what, 4, 5, and 6?

21 (COMPANY CONFIDENTIAL EXHIBITS 4, 5 AND 6
22 WERE ADMITTED.)

23 MR. GARCIA: Yes, your Honor. Confidential
24 Exhibits 4, 5, and 6. Thank you. May I proceed?

25 CHAIRMAN SCHMITT: Yes. You may.

1 MR. GARCIA: Okay. We're not going to need
2 to go into confidential session now that we have
3 done that.

4 BY MR. GARCIA:

5 Q. So, Mr. Baudino, let me turn your attention
6 to page 10 of your testimony, please.

7 **A. Okay. I'm there.**

8 Q. In your testimony, you make reference to the
9 Federal Reserve's reaction to the economic effect of
10 the COVID-19 pandemic in March of 2020.

11 **A. That's right.**

12 Q. If I understand correctly, the Federal
13 Reserve lowered interest rates in March of 2020 in
14 order to stimulate the U.S. economy?

15 **A. Right. Yes.**

16 Q. Okay. Do I understand correctly that in
17 2019, prior to the coronavirus pandemic, there were
18 disturbances to financial markets in the United
19 States associated with international trade tensions
20 involving the United States?

21 **A. You know, I haven't looked at that. You
22 know, I would -- I'm not sure exactly what you're
23 talking about or what you're referring to in your
24 question.**

25 Q. Let me try to establish it in -- in bits.

1 Are you aware that in 2019, there were
2 disturbances to financial markets associated with
3 trade tensions involving the United States?

4 **A. Yes.**

5 Q. Is your understanding that in 2019 the Fed
6 lowered federal fund rates three times?

7 **A. Yes.**

8 Q. Is your understanding that -- that lowering
9 of interest rates by the Fed in 2019 was related to
10 the financial market disturbances that resulted from
11 international trade tensions involving the United
12 States?

13 **A. Well, I -- you know, I did cite that in my
14 testimony, the Fed lowered interest rates -- the
15 Federal funds rate three times in 2019, and I think
16 that was a contributing factor, as you mentioned.**

17 Q. Okay. Are you also aware that in 2018, there
18 were increases to interest rates by the Federal
19 Reserve?

20 **A. Yes.**

21 Q. Now, let's turn back to March of 2020.

22 The Federal Reserve's reaction to the
23 COVID-19 financial crisis was a significantly
24 greater scale than the interest rate management of
25 the Fed during 2018 and 2019, would you agree?

1 **A. Absolutely. Yes.**

2 Q. I'm sorry. Mr. Baudino, would you repeat
3 that answer?

4 **A. Yes. I said absolutely, yes, I would agree**
5 **with that.**

6 Q. Okay. Would you agree that once the levers
7 that the Federal Reserve pulled, to use a metaphor,
8 starting March of 2020 in addition to lowering
9 interesting rates was to increase its holding of
10 Treasury securities?

11 **A. Yes. And it increased it substantially.**

12 Q. Thank you, sir. And actually, you described
13 it best, "substantially."

14 Wouldn't you say that the current Federal
15 Reserve holding of Treasury securities is at an
16 unprecedented level?

17 **A. Yes. It's an all-time high.**

18 Q. In fact, would you agree that it's about
19 double of the holdings that the Federal Reserve had
20 even at the highest point of the Federal Reserve's
21 reaction to the 2008 financial crisis?

22 **A. You know, I haven't made that calculation. I**
23 **would say it's substantially higher, though. Yes.**

24 Q. Okay. Mr. Baudino, would you please explain
25 what the VIX index is?

1 **A. That is the volatility index, and that -- I**
2 **explained it beginning on page 12 of my testimony,**
3 **and that is a -- an index that the Chicago Board of**
4 **Options Exchange uses to sort of gauge the market**
5 **expectations for price volatility over the next**
6 **30-day period, and that's the formula CBOE uses.**
7 **And like I said, it's called the fair gauge or the**
8 **fair index.**

9 Q. Thank you. In March of 2020, the VIX -- I
10 will just refer to it as the VIX instead of VIX
11 index.

12 In March of 2020, the VIX had its highest
13 spike since the 20 -- I'm sorry, since the 2008
14 Great Recession; is that correct?

15 **A. I'm not sure if that's its high spike since**
16 **then, but it certainly -- as it states here on page**
17 **13, it shot up to 82.69 on March 16th. And**
18 **obviously, that's a huge spike. As I said further**
19 **on in my testimony, page 6 and -- I'm sorry, line 6**
20 **and 7, if you compare that to the daily average of**
21 **the VIX 2019, it was 16.39. So that gives you some**
22 **order of magnitude about how large that spike was.**

23 Q. Okay. You indicate, also, in your testimony,
24 around page 13, that since March 2020, since that
25 spike that you just described, the VIX has gone down

1 somewhat but remains at an elevated level, correct?

2 **A. That's right. It's elevated -- let's see. I**
3 **had the --**

4 MR. CHILDERS: For the hearing that's going
5 on in Frankfort, and that one is on the computer
6 this (indiscernible.)

7 VICE CHAIRMAN CHANDLER: Mr. Childers.

8 MR. CHILDERS: It's very boring, yes.

9 MS. VINSEL: Mr. Childers. Mr. Childers,
10 please mute your computer. We can hear the
11 conversation.

12 MR. GARCIA: Thank you, your Honor. May I
13 proceed?

14 CHAIRMAN SCHMITT: Yes.

15 MR. GARCIA: Thank you, your Honor.

16 BY MR. GARCIA:

17 Q. Mr. Baudino, let's have this a little bit
18 comparative.

19 For these elevated levels of the VIX that we
20 were talking about, would you agree that the current
21 level is more than double than the approximate 11
22 points VIX average level in 2017?

23 **A. Yes. I would agree to that.**

24 Q. Okay. In your testimony, you had a level of
25 26.38 as of September 25 of 2020?

1 **A. That's right.**

2 Q. Okay. Are you aware that in late October,
3 the VIX went over 40 points again, another very high
4 spike?

5 **A. I mean, I would accept that subject to check.**
6 **You know, I don't have that data in front of me. I**
7 **did check the VIX a day or two ago, and it was back**
8 **at 22.**

9 Q. I understand. Just for the record, since you
10 said that you checked a couple days ago, last
11 Friday, as of close of November 20 of 2020, it was
12 above 23 points, but you know --

13 **A. That sounds about right. That sounds about**
14 **right. I would accept that, subject to check.**

15 Q. Would you agree that during times of higher
16 volatility, the risks that investors perceive, on
17 face, is greater than at times when volatility is
18 lower?

19 **A. Other things being equal, yes, I would agree**
20 **to that.**

21 Q. Would you predict that the VIX will remain
22 around 20 index points over the next two years?

23 **A. I don't have a basis for that prediction.**

24 Q. Right. You would agree with me that nobody
25 could predict, for example, for the next two years

1 the VIX is going to remain at, say, the 11 index
2 points that's -- where they averaged in 2017,
3 correct?

4 **A. I just -- I don't have a basis for the -- a**
5 **prediction for the VIX for the next couple of years.**
6 **We do know that it was -- I mean, I would accept**
7 **your 2017 number as 11. I did -- it has gone up.**
8 **You know, in 2019 it was higher than that, 15.39,**
9 **and we expect it to be elevated -- I would expect it**
10 **to be elevated from that level this year, for the**
11 **rest of this year.**

12 Q. Okay. Let me ask you something. Let me zero
13 in on what I was asking you.

14 Nobody can predict the VIX for the next two
15 years, correct?

16 **A. I don't think anyone could predict it with**
17 **any level of assurance or accuracy.**

18 Q. Thank you. Let me ask you this:
19 Hypothetically, if the VIX were to remain at a
20 stable level, say at 11 index points or even at 20
21 index points over an extended period of time, would
22 you expect that at the same time, the betas for
23 electric utilities would tend to move back lower to
24 historical levels?

25 In other words, are these two measures

1 somewhat related?

2 **A. Well, the VIX measures volatility as a whole.**
3 **And with respect to, you know, the volatility of --**
4 **of utilities, of regulating utilities, one thing we**
5 **do know is that they are -- their price stability is**
6 **greater than the market as a whole.**

7 **So if historical relationships were to**
8 **condition with that, I would expect the prices of**
9 **regulated utility companies to be lower in terms of**
10 **price stability than the overall market.**

11 **Q. Right. But I was asking specifically about**
12 **the beta for electric utilities, if the market had a**
13 **period of stability as reflected by a lower level**
14 **VIX, you would expect that the betas would tend to**
15 **go down, correct?**

16 **A. They might. You know, that would be a**
17 **reasonable guess. But again, we will just have to**
18 **see what happens. I think the market -- the market**
19 **will show us what happens in the future with regard**
20 **to that.**

21 **Q. Definitely. Thank you. Mr. Baudino, would**
22 **you turn to page 14 of your testimony again, please?**

23 **A. Okay. I have that.**

24 **Q. Are you aware that a significant portion of**
25 **Kentucky Power's load is commercial and industrial?**

1 **A. Yes.**

2 Q. Is the fact that a significant portion of
3 Kentucky Power's load is commercial and industrial a
4 risk factor for Kentucky Power's opportunity to earn
5 its authorized borrowing?

6 **A. It tends to elevate the perceived risks as
7 far as the credit agencies are concerned. Both
8 Standard & Poor's and Moody's did mention that.**

9 Q. Okay. And from the point of an electric
10 investor, the risk of Kentucky Power having more of
11 its load be commercial and industrial tends to
12 increase risk factors of investment in Kentucky
13 Power as well; is that true?

14 **A. Well, if -- other things being held equal,
15 yes. But of course, you know, these credit analyses
16 and opinions take in a variety of these risk factors
17 as well as credit strength, so you can't really just
18 isolate on one particular factor.**

19 Q. Understood. With other things being equal,
20 just like you indicated, it would be the case that
21 the concentration of Kentucky Power's customers'
22 loads in commercial and industrial customers tends
23 to increase their risk of Kentucky Power, correct?

24 **A. Well, according to S&P and Moody's, yes.**

25 Q. Would you agree that Kentucky Power is not

1 one of some companies for which the problems
2 associated with that concentration and with COVID-19
3 weren't as severe as originally feared?

4 And I'm paraphrasing your words from the
5 testimony on page 14.

6 **A. Okay. I read that. Would you mind repeating**
7 **your question? Because I'm not sure I quite**
8 **followed it.**

9 Q. Sure. Would you agree that Kentucky Power is
10 not one of the companies that are described in your
11 testimony as "Some companies for which the problems
12 weren't as severe as originally feared"?

13 **A. Well, that's -- yes. I would agree that**
14 **Kentucky Power's not necessarily included in that.**
15 **This was a -- so back on page 13, this is from a**
16 **Value Line report on the electric utility central**
17 **industry, and it was -- so it was sort of reporting**
18 **on companies in that particular area, and I was**
19 **making a more general statement. It didn't**
20 **necessarily include or exclude Kentucky Power.**

21 MR. GARCIA: Your Honor, at this point I
22 would request to impose an -- ask to show Hearing
23 Exhibit -- Company Hearing Exhibit 10.

24 MS. VINSEL: Thank you, Mr. Garcia.

25 MR. GARCIA: Are you able to --

1 MS. VINSEL: Kentucky Power Hearing Exhibit
2 10.

3 MR. GARCIA: And hopefully I may be able to
4 shortcut some of the questions that I had based on
5 the answer that Mr. Baudino just provided.

6 MS. VINSEL: Sometimes it takes just a moment
7 to be able to pull that up.

8 MR. GARCIA: Thank you.

9 MS. VINSEL: We have one slight issue. I
10 will resolve it.

11 MR. GARCIA: Understood. And I actually can
12 ask a few questions and probably make -- make it
13 even shorter this way.

14 BY MR. GARCIA:

15 Q. Mr. Baudino, on page 14 of your testimony you
16 make reference to regulatory proceedings associated
17 with the coronavirus; is that correct?

18 **A. On page 14?**

19 Q. Correct.

20 **A. Are you referring to lines 5 through 8?**

21 Q. I am.

22 **A. Okay. Yes. That's -- that was an excerpt**
23 **from the Moody's -- from the Value Line report that**
24 **I just -- we were just discussing.**

25 Q. Understood. Are you familiar with the

1 Commission's docket Case Number 2020-00085, which is
2 the Commission's docket regarding COVID-19?

3 **A. I'm not familiar with that, sir.**

4 Q. Okay. But are you familiar that the
5 Commission has a COVID-19 docket?

6 **A. Yes.**

7 Q. Okay. And what's being shown right now, it's
8 a publicly available data response in that docket.
9 The questions that I'm going to ask do not require
10 that you know the underlying information, but I'm
11 just going to ask about the effects. And if you
12 were to take the data, you know, just as a
13 hypothetical, that may help us speed this up.

14 Would you agree that from a credit metrics
15 point of view, it is negative for the company to
16 have nearly double the bad debt expense level
17 that -- as compared to the level authorized in base
18 rate in the last case?

19 As a general proposition, you would agree
20 that that's negative from a credit metrics point of
21 view, correct?

22 **A. Well, I'm not sure -- you know, I'm not**
23 **really sure if I would agree that that would be a**
24 **negative from a credit metrics point of view. I --**
25 **it would depend what the Commission's treatment**

1 **ultimately of that bad debt expense is.**

2 Q. I understand. Let me ask you about a
3 particular credit metric called FFO to debt ratio.

4 You are familiar with that metric?

5 **A. Yes.**

6 Q. Okay. Would you agree that other things
7 being equal, bad debt expense of \$1.6 million in --
8 I'm sorry, in excess of a bad debt expense level
9 currently reflected in rates would erode Kentucky
10 Power's FFO to debt ratio?

11 **A. Well, it may erode its current FFO to debt**
12 **ratio; however, we're in a rate case now, and the**
13 **Commission and company presumably would be -- you**
14 **know, have ways of treating that -- that bad debt**
15 **expense. And that would, you know, impact future**
16 **FFO to debt ratios. And I don't -- I don't know how**
17 **that particular issue is going to be resolved.**
18 **That's really not my issue.**

19 Q. Understood. Actually, that may then mean
20 that I should move on to a different topic.

21 Let me ask you this: Would you agree that
22 other factors being the same, poor credit metrics
23 and an increase in bad debt expense would increase
24 the investment risk of Kentucky Power?

25 **A. Well, no. And the reason is because we're in**

1 the midst of a rate case now, and, really, the
2 credit agencies are going to look at, you know, what
3 comes out of this case as to -- the credit
4 supportiveness. And as far as we're concerned, and
5 I -- this is -- again, we're getting back to bad
6 debt expense, which is not my issue. Mr. Kollen is
7 the one who addresses the company's revenue
8 requirement.

9 I can say, in general, out of this case, the
10 KIUC and AG position is credit supportive for the
11 company. We're recommending roughly a \$43 million
12 base rate increase, and that credit supportive from
13 the company's current revenue level. Like I said,
14 we're recommending a rate increase that is credit
15 supportive. We're recommending ROE and allowed ROE
16 that is significantly greater than the company's
17 earned ROE over the past couple of years.

18 So -- so again, I don't think you can
19 necessarily take out what needs to be left of the
20 bad debt expense and say that because it's currently
21 high, that's it's credit negative. The resolution
22 of that will be part of the company's credit going
23 forward, and Moody's and S&P will be making their
24 own decisions based on whatever the Commission
25 decides in this case going forward.

1 **But I can say, generally, our position is**
2 **credit supportive, and how Moody's and S&P will deal**
3 **with that, will deal with the Commission's order, is**
4 **up to them, and I don't want to speculate on it. I**
5 **can't speculate on that. That would not be a**
6 **responsible thing to do.**

7 Q. I understand. So let me see if I can try to
8 summarize and refocus what you just told me. There
9 is a risk for investors that Kentucky Power will not
10 be able to earn its authorized return even after
11 this case, correct?

12 **A. There's always that risk, and there's also**
13 **the eventuality that if the company prudently**
14 **manages its operations, that the company will earn**
15 **its authorized ROE coming out of this case.**

16 **What we have to do and what my understanding**
17 **of what the Commission does is give the company the**
18 **opportunity to earn a fair rate of return on its**
19 **investment.**

20 Q. Right. But just to get back to the point,
21 there's no guarantee that Kentucky Power will earn
22 its authorized return, and that's a risk for
23 investors, correct?

24 **A. Well, there's -- in regulation there's**
25 **only -- the best the Commission can do and the best**

1 any of us can do is provide an opportunity for the
2 company to earn that allowed ROE. And as far as a
3 guarantee, no, there's not an absolute guarantee
4 that the company's going to earn that. That's going
5 to be based on economic --

6 THE REPORTER: I'm sorry. I couldn't hear
7 that. He broke up.

8 CHAIRMAN SCHMITT: The reporter cannot
9 understand your answer, so you need to start over.

10 (A DISCUSSION WAS HELD OFF THE RECORD.)

11 MS. VINSEL: Chairman, I've been asked to
12 double-check on something.

13 Mr. Baudino, this is Ms. Vinsel. I wanted to
14 make sure, are you using only your computer's audio,
15 or are you using a computer and a phone?

16 THE WITNESS: I'm using a computer and a
17 phone and my audio is muted, and so is my -- my
18 computer audio is muted, and so is my computer
19 volume.

20 MS. VINSEL: And you came through loud and
21 clear that time. We're just having -- we're just
22 having some issues on echos, and we're trying to
23 track down where it's originating. Thank you.

24 THE WITNESS: Okay.

25 CHAIRMAN SCHMITT: Okay. If you could -- to

1 the best you can go back to a couple of sentences,
2 two or three or four and, you know, try to complete
3 your answer.

4 THE WITNESS: Okay. Let's see. I guess I
5 was making -- I hear some feedback.

6 CHAIRMAN SCHMITT: Well, it's unfortunate,
7 but apparently people -- I don't know who they are,
8 whether witnesses, lawyers, or somebody, they call
9 in and they don't mute, and then as a result the
10 court reporter can't hear and we have an issue with
11 the record, and sometimes it's difficult for others
12 to hear, but --

13 THE WITNESS: Okay.

14 CHAIRMAN SCHMITT: -- all we can do is try.
15 And then of course we have other issues too. We've
16 had technological problems here that have been part
17 of -- part of the issues, you know, over the last
18 six days too.

19 Ms. Vinsel has gone back to see if she can
20 find staff and help resolve this issue. So if we
21 can bear with her for just a second, we'll see what
22 can be done, if anything.

23 THE WITNESS: All right.

24 CHAIRMAN SCHMITT: Ms. Vinsel, what have we
25 found?

1 MS. VINSEL: We're going to try something a
2 little different. We've tried muting part of this
3 room to see because it appears that all of the
4 participants who need to be muted are muted, so
5 we're going to try another work-around.

6 CHAIRMAN SCHMITT: Okay. Are we ready to
7 proceed or not?

8 MS. VINSEL: We are ready to proceed.

9 CHAIRMAN SCHMITT: Now, Mr. Baudino and
10 Mr. Garcia, the court reporter can -- if you can
11 hear her, she can tell you what she last was able
12 to -- to understand and put down in shorthand or
13 whatever from -- or type from what you said.

14 (TESTIMONY WAS READ BACK:

15 Q. RIGHT. BUT JUST TO GET BACK TO THE POINT,
16 THERE'S NO GUARANTEE THAT KENTUCKY POWER WILL EARN
17 ITS AUTHORIZED RETURN, AND THAT'S A RISK FOR
18 INVESTORS, CORRECT?

19 A. WELL, THERE'S -- IN REGULATION THERE'S
20 ONLY -- THE BEST THE COMMISSION CAN DO AND THE BEST
21 ANY OF US CAN DO IS PROVIDE AN OPPORTUNITY FOR THE
22 COMPANY TO EARN THAT ALLOWED ROE. AND AS FAR AS A
23 GUARANTEE, NO, THERE'S NOT AN ABSOLUTE GUARANTEE
24 THAT THE COMPANY'S GOING TO EARN THAT. THAT'S GOING
25 TO BE BASED ON ECONOMIC --)

1 CHAIRMAN SCHMITT: Did you hear that,
2 Mr. Baudino?

3 THE WITNESS: And think it would be helpful
4 if Mr. Garcia could ask his question again, and
5 maybe I'll answer it again. I think that will be
6 helpful.

7 MR. GARCIA: I can certainly do that, your
8 Honor, just to emphasize the point.

9 BY MR. GARCIA:

10 Q. Mr. Baudino, would you agree that other
11 things being equal, there is a risk inherent for
12 investors in the fact that Kentucky Power is not
13 guaranteed to earn its authorized rate of return?

14 **A. That -- yes. I can answer that one.**

15 **That is a risk that I would say all utilities**
16 **face in that there's no absolute guarantee utilities**
17 **will earn their authorized rate of returns. There's**
18 **a lot of different factors that can cause**
19 **underearning or overearning for utilities.**

20 **So is that a risk? Well, it's kind of a**
21 **generalized risk for the sector, I would say, not**
22 **just Kentucky Power.**

23 MR. GARCIA: Your Honor, I only have, like,
24 two or three more questions. I just want to make
25 sure that we are good to proceed or do we need to

1 troubleshoot some more?

2 CHAIRMAN SCHMITT: What did he say?

3 MS. VINSEL: He wanted to know if we can
4 proceed or if we were good to go. And we're not
5 having -- we're not having the sound issues right
6 now.

7 CHAIRMAN SCHMITT: Oh, yeah. Apparently the
8 sound issues are all right. So do you have more
9 questions?

10 MR. GARCIA: Just -- just a very few, your
11 Honor. Thank you.

12 BY MR. GARCIA:

13 Q. Mr. Baudino, in light of what you just told
14 me, let me ask you this: Other things being equal,
15 would you agree that it's bad for customers if over
16 an extended period of time the company earns an
17 actual ROE that continues to be much lower than its
18 authorized ROE?

19 **A. Did you say "if not for the customers" for**
20 **that?**

21 Q. I'm sorry. I'm having trouble --
22 difficult -- difficulty hearing you, so I don't know
23 what -- do you need me to clarify the question? I
24 can ask it again.

25 **A. Sure. Please.**

1 Q. Yeah. Would you agree with me that other
2 things being equal, that it's bad for customers if
3 over an extended period of time, the company earns
4 an actual ROE that continues to be much lower than
5 its authorized ROE?

6 A. Well, it's bad for customers and it's bad for
7 the utility, is what -- and in that -- you know,
8 there's really not much information to go on in that
9 hypothetical question. However, I would -- I would
10 ask why the utility has continued to, in that
11 particular case, underearn its authorized ROE over
12 this long period of time.

13 So if we apply this now to Kentucky Power,
14 historically, since the last rate case, since the
15 stipulation and the order from the Commission in the
16 last rate case, the company's underearned its
17 authorized ROE, and now we have the rate case and a
18 chance for a reset to go forward and have -- have
19 the company once again try to earn its authorized
20 ROE. I mean, that's what we're trying to achieve in
21 this case.

22 One of the things (indiscernible) is a fair
23 chance for the company to earn its authorized ROE,
24 and generally speaking, I would say that's what the
25 AG and KIUC case is doing.

1 Q. Just to verify, I think you said at the
2 beginning -- and I just wanted to make sure the
3 record is clear.

4 So you would agree with me that it's bad for
5 customers and bad for the company if for an extended
6 period of time Kentucky Power is not able to earn
7 its authorized ROE, correct?

8 Just to keep it simple. It's bad for
9 customers and it's bad for the company?

10 **A. Yes. That's right. And if that kind of**
11 **situation occurred over a long period of time, I**
12 **think the Commission -- that's something the**
13 **Commission ought to investigate and find out what's**
14 **responsible because, really, for regulatory purposes**
15 **and for revenue requirement purposes, the company**
16 **should be allowed a reasonable level of expenses and**
17 **reasonable level of rate base to provide service to**
18 **its customers. And if that's not happening over a**
19 **period of time or a period of years, then rate cases**
20 **are one way to correct that, and that's what we're**
21 **here for now.**

22 MR. GARCIA: Your Honor, if I can have a
23 second.

24 CHAIRMAN SCHMITT: Sure.

25 MR. GARCIA: Thank you, Mr. Baudino. Thank

1 you, your Honor. Those are the questions that I
2 have on cross-examination.

3 CHAIRMAN SCHMITT: Thank you. Mr. West, any
4 redirect?

5 MR. WEST: Yes. Just briefly, your Honor.

6 REDIRECT EXAMINATION

7 By Mr. West:

8 Q. Mr. Baudino, just to reiterate, what was KIUC
9 and AG's recommended ROE in this case?

10 **A. Our recommended ROE is 9.0 percent based on**
11 **my recommendation, based on 9.3 to 8.25.**

12 Q. Okay. And as you just indicated, that was
13 based on your analysis, correct?

14 **A. Yes.**

15 Q. Okay. And has anything that you've heard
16 over the course of this hearing impacted that
17 recommendation either higher -- or to either raise
18 it or lower it?

19 **A. No. In fact, really, after reading**
20 **Mr. McKenzie's rebuttal and after, you know,**
21 **listening to the hearing so far, nothing's changed**
22 **my recommendation. I feel just as a confident as I**
23 **did when I filed my direct testimony.**

24 MR. WEST: Thank you, Mr. Baudino. I have no
25 further questions.

1 CHAIRMAN SCHMITT: Okay. Thank you. It's
2 noon, so at this point we'll take a lunch recess
3 until 1:00, at which time I guess we will have
4 Mr. Baron. Is that correct, Mr. West?

5 MR. WEST: Yes. Mr. Baron will be our final
6 witness. Thank you.

7 CHAIRMAN SCHMITT: Mr. Baudino, you may be
8 excused. Thank you very much.

9 THE WITNESS: Thank you.

10 CHAIRMAN SCHMITT: Hearing will be in recess
11 until 1:00 p.m.

12 (Lunch recess.)

13 CHAIRMAN SCHMITT: All right. Is everybody
14 back? Mr. Kurtz, are you going to call the next
15 witness for KIUC and the AG? Mr. Kurtz, can you
16 hear?

17 MR. KURTZ: Now I can. Yes, thank you, sir.
18 We call Stephen Baron.

19 CHAIRMAN SCHMITT: Mr. Baron, would you
20 please raise your right hand?

21 Do you solemnly swear or affirm under penalty
22 of perjury that the testimony you're about to give
23 will be the truth, the whole truth, and nothing but
24 the truth?

25 THE WITNESS: Yes, I do.

1 CHAIRMAN SCHMITT: Mr. Kurtz, you may ask.

2 STEPHEN BARON, having been first duly sworn
3 testified as follows:

4 DIRECT EXAMINATION

5 By Mr. Kurtz:

6 Q. Will you state your name and business address
7 for the record?

8 **A. Yes, Stephen J. Baron, and my business**
9 **address is J, period, Kennedy & Associates, Inc.,**
10 **570 Colonial Park Drive, Suite 305, Roswell,**
11 **Georgia, 30075.**

12 Q. Did you submit direct testimony, exhibits,
13 and responses to data requests in this case?

14 **A. Yes, I did.**

15 Q. And also on November 12 did you submit in the
16 record, or we submitted it for you, updates to some
17 of your exhibits?

18 **A. Yes, I did.**

19 Q. Can you explain what those were, please?

20 **A. The updates -- the updates consist of**
21 **incorporating 2021 information that AG filed under**
22 **their OATT for transmission revenue requirements.**

23 Q. Okay. And you updated Figure 1 in your
24 testimony to include that?

25 **A. That's correct, yes. I updated Figure 1 and**

1 some of -- couple of the numbers, which I can go
2 through, and Table 3.

3 Q. Will you go through the numbers, please?

4 A. Yes, the updates are to references on pages
5 16, 17, and 18 of my testimony. On page 16 I
6 updated Figure 1 to add the year 2021 to the chart.
7 On page 17, I updated the value on line 3, the 19
8 million to 28 million for 2021, so the 19 million is
9 still correct for the year 2020, but the updated
10 value for 2021 is 28 million. At the end of that
11 line 3 the

12 25 percent for 2021 is 33 percent, and then on line
13 13 the reference again to 19 million would be
14 28 million.

15 On page 18, I updated the results of Table 3,
16 and the values would be on line 8. The -- the
17 14 percent value would be changed to 15 percent, and
18 on line 10 the value .45 percent would be changed to
19 2.75 percent, and those are the updated changes.

20 Q. With those changes, do you adopt this
21 testimony?

22 A. Yes, I do.

23 MR. KURTZ: Chairman, I tender the witness
24 for cross-examination.

25 CHAIRMAN SCHMITT: Mr. Chandler would

1 probably like an errata sheet when you can provide
2 one. There were several changes. Would you be
3 willing to do that, Mr. Kurtz?

4 MR. KURTZ: Yes.

5 VICE CHAIRMAN CHANDLER: Sorry, can you hear
6 me, Mr. Chairman?

7 CHAIRMAN SCHMITT: Yes.

8 VICE CHAIRMAN CHANDLER: So I do, I was
9 checking it when they were going off. I think that
10 everything, the changes, the updates they made have
11 been filed. I was just looking at that, so --

12 CHAIRMAN SCHMITT: Okay.

13 VICE CHAIRMAN CHANDLER: Thank you.

14 CHAIRMAN SCHMITT: All right. Ms. Frederick,
15 cross-examination?

16 MS. FREDERICK: Thank you, Your Honor.

17 CROSS-EXAMINATION

18 By Ms. Frederick:

19 Q. Good afternoon, Mr. Baron.

20 **A. Good afternoon.**

21 Q. I just have one question for you this
22 afternoon. Have you reviewed Mr. Vaughan's revised
23 NMS II calculations, and do you still believe that
24 Mr. Vaughan's revised calculations are reasonable?

25 **A. Yes, I do. I have reviewed it, and I believe**

1 **it's reasonable, the changes that he made,**
2 **consistent with my direct testimony.**

3 MS. FREDERICK: Thank you very much. I have
4 no further questions, Your Honor.

5 CHAIRMAN SCHMITT: Okay. Ms. Grundmann,
6 questions?

7 MS. GRUNDMANN: No questions for this
8 witness, Your Honor.

9 CHAIRMAN SCHMITT: Mr. Spenard?

10 MR. SPENARD: No questions, Mr. Chairman.

11 CHAIRMAN SCHMITT: Mr. FitzGerald?

12 MR. FITZGERALD: No questions, Mr. Chairman.
13 Thank you.

14 CHAIRMAN SCHMITT: Mr. Miller?

15 MR. MILLER: No, Mr. Chairman. Thanks very
16 much.

17 CHAIRMAN SCHMITT: Mr. Frye?

18 MR. FRYE: No questions, Mr. Chairman. Thank
19 you.

20 CHAIRMAN SCHMITT: Vice Chairman Chandler?

21 VICE CHAIRMAN CHANDLER: Yeah. Thanks,
22 Chairman.

23 EXAMINATION

24 By Vice Chairman Chandler:

25 Q. Good afternoon, Mr. Baron.

1 **A. Good afternoon.**

2 Q. And I think I'll have very little for you, so
3 congratulations. The question that I want to ask is
4 you provided in your testimony a \$19 million sum in
5 regards to the difference between, I think it was
6 the Kentucky revenue requirement for transmission
7 versus what Kentucky Power customers are paying
8 pursuant to their allocation under the -- well,
9 under not only the transmission agreement, but also
10 the OATT for the transcos. Is that a fair
11 characterization?

12 **A. Yes, yes, and I based that analysis on the**
13 **reported transmission revenue requirements, so --**
14 **but yes, that is -- that is correct.**

15 Q. And what I want to clarify, is that the
16 difference between Kentucky Power Operating
17 Company's transmission revenue requirement and the
18 amount that's the test year amount of OATT LSE
19 expense, or is it the operating company amount plus
20 the AEP Kentucky Transmission Company revenue
21 requirement combined and the difference of those two
22 amounts versus what the Company is paying under the
23 LSE OATT expense for the test year?

24 **A. It's the latter, and so for all of the**
25 **companies, including the value for AG LSE, which I**

1 used to allocate sort of the base case, it includes
2 both for each operating company and, in particular,
3 Kentucky, it includes the individual operating
4 company revenue requirements and the corresponding
5 state transco for that company or associate --
6 relative to the geography of that company.

7 Q. Okay. So the difference when you filed your
8 direct is 19 million. Did that include the October
9 filing for the transmission revenue requirements for
10 either, if Kentucky Power Operating Company filed
11 theirs, but at least the (indiscernible) cost for
12 the Kentucky transco?

13 A. The 19 million did not. It reflected the
14 2020 projected data, and so this update that I just
15 went through with Mr. Kurtz was the corresponding
16 analysis using for 2021. So that's why it increased
17 to
18 28 million.

19 Q. Okay. And that's what I want to make sure
20 that we have. So the -- so the information provided
21 -- okay, that's fair.

22 So the -- the difference between the revenue
23 requirement amount for Kentucky Power Company plus
24 the revenue requirement for AEP Kentucky Transco,
25 both of those for transmission costs is \$28 million

1 lower than the amount that will be allocated of LSE
2 OATT expense under the different PJM and FERC
3 tariffs?

4 **A. Yes, that's -- that's -- that was the basis**
5 **for the calculation, and it's based on an assumption**
6 **-- all of the assumptions that are used in the**
7 **transmission agreement, basically a 12 coincident**
8 **peak allocation, so I basically took the revenue**
9 **requirements as reported for each year, including**
10 **2021, and then I adjusted those for the affiliate**
11 **allocations -- excuse me, the nonaffiliate**
12 **allocations, so I removed that, and then allocated**
13 **the total on 12-CP and compared that to the**
14 **individual operating company values.**

15 Q. And just so that I'm clear, when you
16 allocated on a 12-CP, did you allocate it on the
17 most recent 12-CP calculation?

18 **A. I used the -- for the 12-CP I used the values**
19 **that I had used for 2020, so I did not update that,**
20 **but I believe that it's -- the reasonable**
21 **expectation is that it's going to be very, very**
22 **close.**

23 Q. So the assumption is that, whatever the 12-CP
24 allocation of the AG bill was this last time around,
25 that you just applied that amount to the revenue

1 requirement, or to the bill, effectively, that you
2 expect AG to get for transmission costs next year.
3 Is that fair?

4 **A. Correct, yes. It's roughly the 5.7 percent**
5 **that we've been talking, that has been talked about**
6 **in the case thus far.**

7 Q. Okay. All right. And there would be --
8 that's, I guess, an estimate because we don't know
9 what the 1-CP and 12-CP will be the next year; is
10 that -- is that again fair?

11 **A. That's correct, and I think that relative to**
12 **the dollars that we're talking about, in terms of**
13 **the dollar differences between an allocation of the**
14 **entire AG east share versus the stand-alone**
15 **calculation, I don't believe that any -- the slight**
16 **differences in allocation factor would be material**
17 **in terms of the dollars.**

18 Q. So the only update from the change in
19 19 million to 28 million is the update in the FERC
20 filed revenue requirements.

21 **A. That is correct, and it's primarily as we had**
22 **seen the INM investment, and I believe Ohio Power as**
23 **well, but in particular INM. Yes, Ohio Power as**
24 **well, or the Ohio region as well.**

25 Q. Right, between the transco and the operating

1 company.

2 **A. Correct, and most of it is the transcos.**

3 Q. Okay. All right.

4 VICE CHAIRMAN CHANDLER: That's all the
5 questions I have. Thank you, Mr. Baron.

6 THE WITNESS: Thank you.

7 CHAIRMAN SCHMITT: Dr. Mathews, questions?

8 COMMISSIONER MATHEWS: I don't have any.

9 CHAIRMAN SCHMITT: Okay. Redirect, Ms.
10 Glass?

11 MS. GLASS: Cross-examination, Your Honor?

12 CHAIRMAN SCHMITT: Cross-examination, I'm
13 sorry.

14 MS. GLASS: That's all right. Yes, I have
15 just a few questions.

16 CROSS-EXAMINATION

17 By Ms. Glass:

18 Q. Mr. Baron, can you hear me all right?

19 **A. I can, yes.**

20 Q. Okay.

21 MS. BLEND: Could I please have Staff put up
22 on the screen a document filed in the record as in
23 connection with the AG and KIUC supplemental update
24 to Mr. Baron's testimony? It was filed on
25 November 12, 2020, and it's titled Figure 1, Table

1 3, 2021 Update Supporting Data.

2 MS. VINSEL: One moment. Ariel, did you get
3 that?

4 MS. GLASS: That's it. Thank you.

5 Q. Can you see this document, Mr. Baron?

6 **A. Yes, and I have the original in front of me**
7 **as well.**

8 Q. Okay. Great. Did you prepare this document?

9 **A. I did.**

10 Q. And this document reflects the underlying
11 data that you used to prepare Figure 1 and Table 3
12 in your direct testimony, correct?

13 **A. That's correct, as well as the addition of**
14 **2021.**

15 Q. Yes, okay, thank you. And I want to draw
16 your attention to the highlighted figure in the top
17 right of the document. It reads, 2.276 billion, do
18 you see that?

19 **A. Yes.**

20 Q. And this number represents your calculation
21 of the AG projected transmission revenue requirement
22 for 2021, correct?

23 **A. Yes. I mean, it comes directly from the OATT**
24 **filings that the Company puts on its website, but**
25 **yes, it's a summation of the individual operating**

1 **company and transcós revenue requirements.**

2 Q. Okay. Thank you. And just as a side matter,
3 do you know what I'm referring to when I refer to
4 RTEP, Regional Transmission Expansion Plan,
5 projects?

6 **A. I do.**

7 Q. Okay. So in that highlighted number that I
8 just pointed out, that highlighted number includes
9 in it the revenue requirement for RTEP projects
10 built by AG, correct?

11 **A. That is correct, and the individual company
12 values include the RTEP amounts as well.**

13 Q. Okay. So does that number include the
14 revenue requirement for RTEP projects only built by
15 AG?

16 **A. It does, that's correct.**

17 Q. Okay. And does it include 100 percent of the
18 cost for RTEP projects that only AG built?

19 **A. Yes. I have to make an assumption in this
20 analysis as to whether I would use the total
21 investment that included -- or the total revenue
22 requirements that included RTEP, some of which,
23 admittedly, is going to be allocated outside the AG
24 zone, but -- or the net that excluded the RTEP, and
25 for this purpose the assumption I made was to**

1 **include, or the analysis was to include the RTEP**
2 **values, and that is how I got the -- calculated the**
3 **28 million.**

4 I also actually did the analysis for 2021
5 without excluding RTEP where none of it was
6 included, and in that case the 28 million would drop
7 to about 23 million, so it's still a significant
8 difference.

9 In other words, that's the amount that
10 Kentucky stand-alone versus allocated under the
11 transmission agreement, that's the difference.
12 That's the additional -- that's the so-called
13 subsidy, even without any RTEP expenditures at all.

14 Some of those RTEP amounts would -- you know,
15 are probably predominant amount of it would probably
16 stay in the zone anyway.

17 Q. Okay. And so does that number include the
18 cost for any RTEP projects built by other
19 transmission owners, not AG?

20 **A. No, it does not, and of course the assumption**
21 **is that those costs -- let's say, for example, that**
22 **Kentucky Power were -- excuse me. Let's say**
23 **Kentucky Power were its own zone. In that case it**
24 **would get allocated a share based on the formula in**
25 **the OATT Schedule 12, it would get allocated a share**

1 **of other RTEP costs that are being socialized, 50**
2 **percent on load responsibility, 50 percent on DFAX.**

3 Q. Okay.

4 MS. GLASS: Thank you. That is all the
5 questions that I have.

6 CHAIRMAN SCHMITT: Okay. Mr. Kurtz,
7 redirect?

8 MR. KURTZ: Mr. Chairman, no redirect,
9 please.

10 CHAIRMAN SCHMITT: Okay. Thank you.
11 Thank you, Mr. Baron. You may step down, and
12 you're excused.

13 THE WITNESS: Thank you, Mr. Chairman.

14 CHAIRMAN SCHMITT: Okay. Now for Walmart.

15 MS. GRUNDMANN: Good afternoon, Your Honor.
16 Walmart calls Lisa Perry.

17 CHAIRMAN SCHMITT: All right. Please raise
18 your right hand, Ms. Perry.

19 Do you solemnly swear or affirm under penalty
20 of perjury that the testimony you're about to give
21 will be the truth, the whole truth, and nothing but
22 the truth?

23 THE WITNESS: Yes, I do.

24 CHAIRMAN SCHMITT: Counsel, you may ask.

25 MS. GRUNDMANN: Thank you.

1 LISA PERRY, having been first duly sworn,
2 testified as follows:

3 DIRECT EXAMINATION

4 By Ms. Grundmann:

5 Q. Would you please state your name and business
6 address for the record?

7 **A. Sure, my name is Lisa Perry, and my business**
8 **address is 2608 Southeast J Street, Bentonville,**
9 **Arkansas, 72716.**

10 Q. And by whom are you employed, and in what
11 capacity?

12 **A. I am employed by Walmart, Incorporated, as**
13 **senior manager in the energy department.**

14 Q. And, Ms. Perry, are you the same Lisa Perry
15 that caused to be filed in this docket on October 7,
16 2020, the direct testimony of Lisa Perry consisting
17 of 17 pages of typed question and answers and two
18 exhibits entitled LVP-1 and LVP-2?

19 **A. Yes, I am.**

20 Q. And do you have any corrections or revisions
21 to that testimony?

22 **A. I have one update and one small correction of**
23 **a typo. The update is actually the update of the**
24 **address, which is found on page 1. I need to update**
25 **that to my current address, which is the one I just**

1 **gave, 2608 Southeast J Street, also in Bentonville,**
2 **the rest of that's correct, and then 72716, I'm not**
3 **sure about the 0550 at the end, so I would strike**
4 **that.**

5 And then on page, page 5, line 20, the
6 sentence that starts with "In light," an "of" should
7 be inserted between the "light" and the "an" so that
8 it reads, "In light of an upward adjustment."

9 Q. And do you have any other revisions to your
10 testimony?

11 **A. No, I do not.**

12 Q. If you were asked -- was this testimony
13 prepared by you or under your supervision?

14 **A. Yes, it was.**

15 Q. And would you -- if you were asked those same
16 questions today, would your answers be the same or
17 substantially the same?

18 **A. Yes, they would be.**

19 Q. And would you like to sponsor this as your
20 direct testimony in this matter?

21 **A. Yes.**

22 MS. GRUNDMANN: Your Honor, I'd ask that the
23 direct testimony of Lisa Perry be marked for the
24 record and admitted into evidence, and she is
25 available for cross-exam.

1 CHAIRMAN SCHMITT: Okay. Sustained. It will
2 be admitted into evidence.

3 And at this time, Ms. Frederick, do you have
4 cross-examination?

5 MS. FREDERICK: No, Your Honor, not for this
6 witness.

7 CHAIRMAN SCHMITT: Okay. Mr. West or Mr.
8 Cook, questions?

9 MR. WEST: Yes, Your Honor, just a couple
10 questions, three or four questions actually.

11 CROSS-EXAMINATION

12 By Mr. West:

13 Q. Hi, Ms. Perry, how you doing?

14 **A. I'm good, thank you.**

15 Q. Do you have your testimony available to you
16 there?

17 **A. Yes, I do.**

18 Q. Okay. Can you turn to page 11, and starting
19 at line 11, can you read the question and answer
20 that's posed there?

21 **A. Do you want me to read the entire question
22 and answer?**

23 Q. Yes, please.

24 **A. Okay. (Reading) If the Commission ultimately
25 approves a revenue requirement less than that**

1 proposed by the Company, what is Walmart's
2 recommendation on revenue allocation? If the
3 Commission ultimately approves a revenue requirement
4 less than that proposed by the Company, the
5 reduction in the revenue requirement increase should
6 be used for the dual purpose of, one, further
7 reducing the currently existing class subsidies by
8 apportioning a portion of the redaction only to
9 subsidizing rate classes, and, two, reducing the
10 impact to all customers by apportioning the
11 remainder to all rate classes. This approach is
12 supported by the Company.

13 And then it says see Vaughan Direct, page 9,
14 lines 10 through 12.

15 Q. Okay. So based on that, if the Commission
16 were to approve a revenue requirement that was less
17 than what was proposed by the Company, how would
18 Walmart propose that that difference be allocated?

19 A. You mean other than what I cite? Are you
20 asking for like a specific numerical suggestion or
21 just a (indiscernible).

22 Q. Do you have a specific number in mind?

23 A. No, no, we don't. (Indiscernible).

24 Q. Would it be fair -- I'm sorry, I didn't mean
25 to cut you off.

1 **A. No, that's fine. I was just saying that's**
2 **why I'm trying to clarify.**

3 Q. Okay. But would it be fair to say that
4 Walmart proposes that if there's a difference
5 between a proposal and what's granted, it and other
6 members of its class should receive a greater
7 percentage of the difference than residential
8 customers?

9 **A. Yes, this is consistent with Walmart's**
10 **general support of moving rates closer to cost of**
11 **service.**

12 Q. Okay. Many of Walmart's customers and
13 employees are also residential ratepayers of
14 Kentucky Power, are they not?

15 **A. Yes, that is correct.**

16 Q. Okay. So Walmart's proposal then would in
17 effect shift costs that could potentially be borne
18 by it to its customers and employees, correct?

19 **A. This can be the case, yes, when you move**
20 **closer to cost of service.**

21 Q. Okay.

22 MR. WEST: Thank you. That's the only
23 questions I have.

24 CHAIRMAN SCHMITT: Mr. Kurtz,
25 cross-examination?

1 MR. KURTZ: Yeah, I just want to pick up on
2 Mr. West.

3 CROSS-EXAMINATION

4 By Mr. Kurtz:

5 Q. The Company proposed a \$70 million base rate
6 increase; is that correct? Do you know how much it
7 was?

8 **A. Yes. I'm sorry.**

9 MS. GRUNDMANN: Mr. Kurtz, I don't think
10 you're on video right now.

11 MR. KURTZ: Oh, thank you. You couldn't see
12 me.

13 MS. GRUNDMANN: (Indiscernible).

14 THE WITNESS: (Indiscernible).

15 Q. The Company proposed a \$70 million base rate
16 increase?

17 **A. Yes, that's my understanding.**

18 Q. The AG and KIUC proposed 43 million
19 approximately?

20 **A. Yes. That's my understanding.**

21 Q. Of that \$27 million difference, how much
22 would you not give to the residential class,
23 specific number?

24 **A. You know, I don't have -- let me back up for**
25 **a moment. In my recommendation I intentionally did**

1 not attach a specific number to my recommendation
2 because we recognize that the Commission is going to
3 consider a variety of factors when determining how
4 much movement should be made towards cost of
5 service, and these factors can include, you know,
6 factors that are very specific to Kentucky and its
7 residents and the times within which we find
8 ourselves.

9 Q. (Indiscernible)?

10 A. I guess to finish that thought, if I didn't
11 finish, so basically I'm not attaching numbers
12 because I recognize that the Commission is going to
13 into consideration many factors, some of which I may
14 not even be privy to.

15 Q. Well, what value is your recommendation if
16 there's no specificity?

17 A. Basically it's a recommendation as a
18 principle, as an additional way to move closer to
19 cost of service. I did not feel that a specific
20 number was necessary because, like I said, I believe
21 that the Commission will be taking into
22 consideration factors, some of which that I may not
23 even be aware of, and I did not want to put out a
24 number where I did not necessarily have all those
25 factors, if that makes sense.

1 Q. Well, I don't think it does. You make this
2 recommendation all around the country, don't you,
3 same basic testimony?

4 **A. It has a lot of the same elements, but**
5 **certainly we review each case individually and make**
6 **our recommendations based on that review.**

7 Q. Well, individually in this case, but you
8 don't have a recommendation, other than the general
9 premise.

10 **A. Right.**

11 Q. Okay.

12 MR. KURTZ: Thank you, Mr. Chairman.

13 CHAIRMAN SCHMITT: Mr. Spenard, questions?

14 MR. SPENARD: No questions, Mr. Chairman.

15 CHAIRMAN SCHMITT: Mr. FitzGerald?

16 MR. FITZGERALD: Mr. Chairman, no questions
17 for this witness. Thank you.

18 CHAIRMAN SCHMITT: Okay. Mr. Miller?

19 MR. MILLER: None. Thank you, Mr. Chairman.

20 CHAIRMAN SCHMITT: Mr. Frye?

21 MR. FRYE: No questions.

22 CHAIRMAN SCHMITT: Vice Chairman Chandler?

23 VICE CHAIRMAN CHANDLER: No questions, thank
24 you.

25 CHAIRMAN SCHMITT: Dr. Mathews?

1 COMMISSIONER MATHEWS: No questions, thank
2 you.

3 CHAIRMAN SCHMITT: Okay. Ms. Glass,
4 cross-examination?

5 MS. GLASS: We don't have any questions.
6 Thank you, Your Honor.

7 CHAIRMAN SCHMITT: Okay. Ms. Grundmann, any
8 redirect?

9 MS. GRUNDMANN: No, Your Honor.

10 CHAIRMAN SCHMITT: All right. Thank you,
11 Ms. Perry, you may stand down and be excused.

12 THE WITNESS: Thank you.

13 CHAIRMAN SCHMITT: So I guess that's the case
14 for Walmart or all the witnesses for Walmart.

15 Next is, what, Kentucky Solar? Mr. Spenard?
16 I understand you wanted to call another witness out
17 of the listed order, and that would be fine.

18 MR. SPENARD: Thank you, Mr. Chairman. We
19 appreciate that accommodation. KYSEIA calls Justin
20 Barnes as its first witness. Mr. Barnes will join
21 the webcast.

22 CHAIRMAN SCHMITT: Mr. Barnes, would you
23 please raise your right hand?

24 Do you solemnly swear or affirm under penalty
25 of perjury that the testimony you're about to give

1 will be the truth, the whole truth, and nothing but
2 the truth?

3 I think you may be on mute, Mr. Barnes. We
4 couldn't hear you.

5 THE WITNESS: Is that better? Can you hear
6 me now?

7 CHAIRMAN SCHMITT: Yeah, I can.

8 THE WITNESS: I do.

9 CHAIRMAN SCHMITT: I read your lips, and they
10 said "I do," so that's fine.

11 Mr. Spenard you may ask.

12 MR. SPENARD: Thank you, Mr. Chairman.

13 JUSTIN BARNES, having been first duly sworn,
14 testified as follows:

15 DIRECT EXAMINATION

16 By Mr. Spenard:

17 Q. Please state your name and your business
18 address.

19 **A. My name is Justin Barnes. My business**
20 **address is 1155 Kildaire Farm Road, Suite 202, Cary,**
21 **North Carolina.**

22 Q. And by whom are you employed in connection
23 with this proceeding?

24 **A. I'm the director of research at EQ Research,**
25 **LLC.**

1 Q. And on behalf of Kentucky Solar Industries
2 Association, Inc., did you prepare prefiled direct
3 testimony and responses to requests for information
4 that have been filed into the record in this
5 proceeding?

6 **A. I did.**

7 Q. And did you prepare an errata sheet for your
8 direct testimony containing two corrections and
9 changes to your direct testimony that was filed into
10 this proceeding on November 12th?

11 **A. I did.**

12 Q. And is the information in the errata sheet
13 true and correct, to the best of your information,
14 belief, and knowledge, on reasonable inquiry?

15 **A. It is.**

16 Q. And if I were to ask you the same questions
17 today that are in your prefiled direct testimony, as
18 corrected by the errata sheet, and the same
19 questions in your responses to requests for
20 information, would your answers be the same today?

21 **A. They would be the same.**

22 Q. Thank you.

23 MR. SPENARD: And, Mr. Chairman, at this time
24 KYSEIA tenders the witness for cross-examination.

25 CHAIRMAN SCHMITT: Ms. Frederick,

1 cross-examination?

2 MS. FREDERICK: Yes, Your Honor.

3 CROSS-EXAMINATION

4 By Ms. Frederick:

5 Q. Good afternoon, Mr. Barnes.

6 **A. Good afternoon.**

7 Q. In your direct testimony you recommended a
8 minimum contract term of 10 years for qualifying
9 facilities. Can you explain why you believe a
10 minimum term of 10 years is appropriate?

11 **A. Well, there's a couple reasons. One, a**
12 **minimum contract term helps implement what I call**
13 **the rate payer indifference principle; that is that,**
14 **you know, ratepayers are indifferent to whether a**
15 **utility is making an investment to secure capacity**
16 **and energy to meet its load needs, or whether it's,**
17 **you know, buying that basically from another party**
18 **like a QF.**

19 And the reason a long-term commitment is
20 appropriate is because, you know, when a utility
21 like Kentucky Power is building a facility, you
22 know, once that facility gets placed in service, you
23 know, it's effectively a long-term commitment, and,
24 you know, Kentucky Power is not going to be subject
25 to, say, variations in energy costs into PJM the way

1 a QF would be if you were to not include a long-term
2 contract requirement.

3 Another reason is that, you know, one of the
4 basic underlying principles of PURPA was to support,
5 you know, some level of certainty in investments,
6 and a long-term contract, you know, be it of 10
7 years or 15 years or 20 years, as you see in some
8 states, is a way to do that because, you know,
9 without that kind of commitment it's very difficult
10 for a qualifying facility to obtain financing
11 without kind of a guarantee of revenue, or some
12 level anyway.

13 MS. FREDERICK: Thank you very much for your
14 answer.

15 Mr. Chairman, I have no further questions for
16 this witness. Thank you.

17 CHAIRMAN SCHMITT: Mr. West, any questions?
18 Mr. West, are you there?

19 MR. WEST: Yes, I am, Your Honor. Mr. Horne
20 will be handling the cross for this witness. Thank
21 you.

22 CHAIRMAN SCHMITT: Thank you.

23 MR. HORNE: I apologize for being tardy, Your
24 Honor. I was pushing the wrong button. We do not
25 have any questions for this witness, thank you.

1 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

2 MR. KURTZ: Chairman, no questions.

3 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

4 MS. GRUNDMANN: No questions, Your Honor.

5 CHAIRMAN SCHMITT: Mr. FitzGerald?

6 MR. FITZGERALD: No questions, Your Honor.

7 Thank you.

8 CHAIRMAN SCHMITT: Mr. Miller?

9 MR. MILLER: No questions. Thank you,
10 Mr. Chairman.

11 CHAIRMAN SCHMITT: Mr. Frye?

12 MR. FRYE: No questions, Mr. Chairman.

13 CHAIRMAN SCHMITT: Vice Chairman Chandler?

14 VICE CHAIRMAN CHANDLER: No, I have nothing
15 for Mr. Barnes. Thank you, Mr. Barnes.

16 CHAIRMAN SCHMITT: Dr. Mathews?

17 COMMISSIONER MATHEWS: I don't have any
18 questions for this witness. Thank you.

19 CHAIRMAN SCHMITT: Cross-examination,
20 Ms. Blend?

21 MS. BLEND: No cross-examination, Your Honor.
22 Thank you.

23 CHAIRMAN SCHMITT: Okay. Mr. Spenard, any
24 redirect of this witness?

25 MR. SPENARD: No, Mr. Chairman.

1 CHAIRMAN SCHMITT: Okay. Thank you.

2 Mr. Barnes, you may step down, and you're
3 excused.

4 Mr. Spenard, will you call your next witness?

5 MR. SPENARD: Yes, Mr. Chairman, the KYSEIA
6 calls James M. VanNostrand to the stand.

7 CHAIRMAN SCHMITT: Mr. VanNostrand, would you
8 please raise your right hand?

9 Do you solemnly swear or affirm under penalty
10 of perjury that the testimony you're about to give
11 will be the truth, the whole truth, and nothing but
12 the truth?

13 THE WITNESS: I do.

14 CHAIRMAN SCHMITT: Mr. Spenard, you may ask.

15 JAMES VANNOSTRAND, having been first duly
16 sworn, testified as follows:

17 DIRECT EXAMINATION

18 By Mr. Spenard:

19 Q. Thank you. Please state your name and your
20 business address.

21 **A. James N. VanNostrand. West Virginia**
22 **University College of Law, 101 Law School Drive,**
23 **Morgantown, West Virginia, 26506.**

24 Q. And by whom are you employed in connection
25 with this proceeding?

1 **A. I'm employed as an energy policy expert by EQ**
2 **Research.**

3 Q. And on behalf of Kentucky Solar Industries
4 Association, Inc., did you prepare prefiled direct
5 testimony and responses to requests for information
6 that have been filed into the record in this
7 proceeding?

8 **A. I did.**

9 Q. And did you prepare an errata sheet for your
10 direct testimony containing two corrections and
11 changes to your direct testimony and that has been
12 filed into the record in this proceeding?

13 **A. I did.**

14 Q. And is the information contained in the
15 errata sheet true and correct, to the best of your
16 information, belief, and knowledge upon reasonable
17 inquiry?

18 **A. Yes, it is.**

19 Q. And if I were to ask you the same questions
20 in your prefiled direct testimony, as corrected by
21 the errata sheet, and the same questions and your
22 responses to the requests for information, would
23 your answers be the same today?

24 **A. Yes, they would.**

25 MR. SPENARD: Thank you.

1 With that, Mr. Chairman, Mr. VanNostrand is
2 tendered for cross-examination.

3 CHAIRMAN SCHMITT: Mr. Frederick,
4 cross-examination?

5 MS. FREDERICK: No questions for this
6 witness, Your Honor. Thank you.

7 CHAIRMAN SCHMITT: Mr. Horne, Mr. West?
8 Cross-examination?

9 MR. HORNE: Yes, Your Honor, we have two
10 questions.

11 CROSS-EXAMINATION

12 By Mr. Horne:

13 Q. Good afternoon, Mr. VanNostrand. How are you
14 doing?

15 **A. Good afternoon.**

16 Q. Would you agree that a utility customer with
17 installed solar generation gains a benefit
18 regardless if a utility purchases any of their
19 excess power?

20 **A. I missed that question. Did you say confers
21 a benefit?**

22 Q. Well, if a utility customer has installed
23 solar generation, do they get a benefit regardless
24 if the utility purchases any of their excess power?

25 **A. They have the benefit and the extra liability**

1 **of providing themselves with a power supply, yes.**

2 Q. Thank you. Do you agree that there's a cost
3 to utilities in providing a service to a customer
4 with solar generation?

5 **A. To the extent the solar generation does not**
6 **meet the customer's entire needs all the time, yeah,**
7 **to some extent the customer will be leaning on the**
8 **utility, and those costs associated with doing that**
9 **need to be supported by -- the rates to provide that**
10 **service need to be supported by a cost-of-service**
11 **study.**

12 Q. Do you agree that there's a cost to utilities
13 in receiving and using excess power generated from a
14 customer with a solar installation?

15 **A. I suppose there are some costs. It seems to**
16 **me the benefits probably exceed the cost, but yes,**
17 **there are some costs.**

18 Q. Well, putting aside for a moment the
19 political and public relation reasons a utility
20 would offer net metering, if we just looked at net
21 metering from a purely economic approach, what is
22 the benefit to a utility in offering net metering to
23 a customer?

24 **A. Well, the policy decision made by**
25 **legislatures over the last ten years supporting net**

1 **metering was basically to discourage customer side**
2 **to generation, and net metering was a fairly simple**
3 **and elegant way of doing that by tying the**
4 **compensation to the retail rate.**

5 The grid receives substantial benefits from a
6 net-metered customer: Capacity, energy, locational
7 benefits that might reduce loads in a certain
8 constrained area, environmental benefits to the
9 extent they're displacing carbon-emitting resources,
10 potential just load reduction in transmission
11 distribution infrastructure to the extent the
12 generation is being produced closer to the load, so
13 you don't have to transmit it over longer distances.

14 There's substantial benefits. There's also
15 the resilience value to the grid, which I've written
16 a couple articles about. There's no question that
17 the distributed energy resources confer value to the
18 grid.

19 Q. Okay. Do you agree that under net metering
20 that nonparticipants in solar generation are
21 subsidizing those customers that are net-metering
22 participants?

23 **A. I think that depends on whether the**
24 **cost-of-service studies substantiate that. I know**
25 **that's an allegation made by (indiscernible) utility**

1 **industry, but that usually termed cost**
2 **subsidization, but I think you need to determine**
3 **what are the values that the DRs provide to the grid**
4 **and compare that to the compensation they receive**
5 **and see if there's a match.**

6 If they provide benefits that correspond to
7 the level of contributions, no, there's no cost
8 subsidization by definition.

9 MR. HORNE: That's the only questions I have,
10 Mr. Chairman.

11 Thank you, Mr. VanNostrand, for your answers.
12 I appreciate your time.

13 THE WITNESS: Thank you.

14 CHAIRMAN SCHMITT: Mr. Kurtz,
15 cross-examination?

16 MR. KURTZ: Yeah, I guess so.

17 CROSS-EXAMINATION

18 By Mr. Kurtz:

19 Q. Good afternoon.

20 **A. Good afternoon, Mr. Kurtz.**

21 Q. How much is the investment tax credit that
22 the Federal government gives to rooftop solar
23 installations?

24 **A. I believe it's 22 percent, and it's ramping**
25 **down.**

1 Q. So that would be a -- an incentive that the
2 Federal government already gives to rooftop solar to
3 encourage the installation of those facilities?

4 **A. That's -- that's an incentive that was**
5 **determined to be necessary by Congress in connection**
6 **with promoting the production of renewable energy,**
7 **yes.**

8 Q. How much does a typical rooftop solar
9 residential installation cost?

10 **A. It varies substantially from state to state,**
11 **depending upon the penetration, depending upon the**
12 **number of solar developers within the state. Those**
13 **costs have declined 90 percent over the last ten**
14 **years, but I don't -- it would depend on the number**
15 **of kilowatts of a particular installation.**

16 Q. Give me a typical eastern Kentucky
17 installation.

18 **A. I'd have to defer to Mr. Barnes on that. The**
19 **specifics of the cost, I defer to Mr. Barnes on**
20 **that.**

21 Q. It's thousands of dollars, isn't it?

22 **A. It sounds what?**

23 Q. It's thousands of dollars?

24 **A. Yes.**

25 Q. I've heard numbers 8,000, 9,000, 10,000,

1 12,000. Is it in that range?

2 **A. Yeah, I think it depends on the number of**
3 **kilowatts, and of course the availability of power**
4 **purchase agreements would ease those upfront costs**
5 **for customers choosing to install solar, but I don't**
6 **believe those are allowed in Kentucky.**

7 Q. So to the extent, if, if the rooftop solar is
8 getting subsidized by other ratepayers, make that
9 assumption, you know, then it would be a subsidy to
10 relatively wealthy ratepayers because only
11 relatively wealthy ratepayers can afford a \$10,000
12 solar installation. Do you agree with that?

13 **A. I don't know the Company's presented any**
14 **evidence to that effect. There are not that many**
15 **installations on Kentucky Power's system, so I don't**
16 **know that they've done a study in terms of what the**
17 **economic characteristics are of the customers that**
18 **have solar installations.**

19 Q. Somebody living in a mobile home is not
20 likely to have an extra \$10,000 lying around to
21 invest in rooftop solar, are they?

22 **A. I'm in no position to make a guess about**
23 **that, Mr. Kurtz.**

24 MR. KURTZ: Thank you, sir.

25 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

1 MS. GRUNDMANN: No, Your Honor.

2 CHAIRMAN SCHMITT: Mr. FitzGerald?

3 MR. FITZGERALD: No questions for this
4 witness. Thank you.

5 CHAIRMAN SCHMITT: Mr. Miller?

6 MR. MILLER: Thank you. No, Your Honor.

7 CHAIRMAN SCHMITT: Mr. Frye?

8 MR. FRYE: No questions, Mr. Chairman.

9 CHAIRMAN SCHMITT: Vice Chairman Chandler?

10 VICE CHAIRMAN CHANDLER: Yeah, just a couple.
11 Thank you, Chairman.

12 EXAMINATION

13 By Vice Chairman Chandler:

14 Q. Can you hear me, Mr. VanNostrand?

15 **A. Yes, I can, Vice Chairman Chandler.**

16 Q. Can I just ask how closely have you read the
17 FERC's PURPA NOPR docket?

18 **A. Order 872, all the proceedings there.**

19 Q. Okay.

20 **A. Yeah.**

21 Q. So did you read -- did you read Kentucky's --
22 the Kentucky Public Service Commission's comments on
23 the proposed, I guess proposed is redundant, but on
24 FERC's NOPR?

25 **A. I'm sorry, Vice Chair, I did not.**

1 Q. Okay. So as it relates to the change, I
2 guess it's technically a change, or at least
3 specific direction on the subject of whether or not
4 LMP is a reasonable measure for the avoided cost of
5 energy, you're aware generally of FERC's comments
6 and conclusions on that, right?

7 **A. Yeah, and Commissioner Glick's dissent on**
8 **this point as well, yeah.**

9 Q. So can I ask, do you have a position, or does
10 KYSEIA, I think that's right, have a position on if
11 a commission decides to use LMP as an avoided energy
12 cost, whether it's appropriate to use the generator
13 LMP or the load LMP?

14 **A. I think one of the clear take-aways from**
15 **order 872 and the way PURPA has been implemented**
16 **since its inception in '78 is that states have**
17 **considerable discretion in terms how they want to**
18 **define avoided cost, and there's very little**
19 **recourse to challenge what a state does. It's --**
20 **much discretion is granted to the states in terms of**
21 **how they want to set avoided cost.**

22 Q. Yeah, I mean, as I understand it, FERC said
23 that the commission can set -- any commission can
24 set it as generator or load LMP. I'm just curious
25 if you have a perspective as to -- I mean, you spoke

1 to the avoided costs and particularly the
2 Commission's change on PURPA, so I'm just curious if
3 you have a recommendation or position, given the
4 organization's concerns about Kentucky Power's cogen
5 tariffs?

6 **A. Well, I think I would -- I want to reiterate**
7 **some of the points that were made by Mr. Barnes with**
8 **respect to the use of short-term marginal costs and**
9 **LMP, is that you don't have a rate payer**
10 **indifference in that situation because you're not**
11 **treating them similarly with respect to not**
12 **recognizing the longer-term costs, so I think -- no,**
13 **I don't think the LMP is -- it's a short-term cost,**
14 **it doesn't capture all the benefits the DERs confer**
15 **on the grid.**

16 Q. Okay. The organization, is it okay if I
17 refer to KYSEIA as "the organization"?

18 **A. Sure.**

19 Q. Okay. The organization also took a position
20 that you referenced in your testimony regarding
21 Kentucky Power's proposed tariff, the SPP/cogen
22 tariff, when there's a legally enforceable
23 obligation. Have you reviewed Kentucky's
24 regulations on -- on small power production, which
25 is 807 KAR 5054?

1 **A. Yes, I have.**

2 Q. Okay. So when you were talking about that
3 specifically, were you referring to the sections
4 that talk about how rates for power offered on all
5 -- I'm shortening here -- but all LEOs shall be
6 based at the option of the QF on either avoided cost
7 at the time of the delivery or avoided cost at the
8 time the legally enforceable obligation is incurred?

9 **A. Yes.**

10 Q. So let me ask this, and this is something I'm
11 trying to get my hands around. If the Commission
12 determines that -- if the Commission determines that
13 LMP is a reasonable measure of avoided energy cost,
14 and a utility has a LEO, right, and the minimum
15 contract term is ten years, what is the
16 organization's recommendation as to the appropriate
17 energy cost if the entity wants to choose it at
18 the -- at the time the LEO is incurred?

19 How do we grapple those two -- those two what
20 would otherwise seem to be opposite considerations?

21 **A. I don't know that I've discussed this**
22 **particular issue with the organization. I think**
23 **consistent with -- with Mr. Barnes's testimony as**
24 **far as rate payer indifference, you want to treat --**
25 **you want to treat the cogens the same that you would**

1 **he treat the utility.**

2 I don't know that the utility would build
3 something based on the LMP. There's a longer-term
4 aspect of it, so it needs to be something higher
5 than the LMP to make it consistent with the ten-year
6 contractual commitment.

7 I think that's the point Mr. Barnes was making
8 that I agree with, that the importance of a legally
9 enforceable obligation is it recognizes the
10 long-term aspects of distributed energy resources.

11 It also recognizes, and that's a practical
12 matter, the financeability of those resources if you
13 have a long-term commitment. I don't think LMP
14 captures that.

15 Q. Okay. And the last question I have is as it
16 relates to LMP versus -- I think you quote the
17 Commission's, let's say the 1980 something
18 investigation into avoided cost rates. Do you
19 remember the portion of your testimony that --

20 **A. Yeah, June 28, case 8566, yeah.**

21 Q. Let me find what page that's on.

22 **A. It's on page 13 of my testimony.**

23 Q. Perfect. The last sentence of that, I think
24 it starts on line 10, (Reading) With respect to
25 avoided energy cost, the order states that such

1 rates, quote, would be equal to the cost of
2 operating the most expensive unit online and the
3 relevant time period.

4 So, and correct me if I'm wrong, I think of
5 LMP as the prevailing rate, right? It's the next
6 kilowatt hour served would be most likely at
7 whatever the load LMP is.

8 My question is, is it your all's position that
9 there is a distinction between the avoided energy
10 cost for the highest unit available and the energy
11 cost to serve the next kilowatt hour of demand?

12 **A. I mean, I think your question presumes that**
13 **the utility is going to get its next kilowatt hour**
14 **of electricity from the wholesale market, and**
15 **therefore LMP is the relevant reference point, and I**
16 **think the point of that reference to that case, and**
17 **I -- I put together avoided cost filing when I first**
18 **started practicing law back in the '80s in terms of**
19 **the duty of the utility to show where would you get**
20 **your incremental cost of energy but for this**
21 **resource.**

22 I think it's a fact-specific situation, and
23 the Commission here was giving some guidance, at
24 least as conditions consisted in 1984, in terms of
25 how that calculation should be done.

1 But again, I go back to the rate payer
2 indifference, that you need to treat the cogen
3 facility in a manner similar to if a utility were
4 building its own facility to acquire -- to acquire
5 that next unit of energy, and LMP does not capture
6 that.

7 Q. The Commission is not going to build -- the
8 Commission is not going to build generating capacity
9 or a generator to serve the next unit of energy,
10 right? The presumption of avoided energy cost is
11 that it has the capacity available to serve its
12 current system and what the cost of the avoided
13 energy cost is. Looking at the next generator built
14 would be the avoided capacity cost, right?

15 **A. Yes.**

16 Q. Okay.

17 VICE CHAIRMAN CHANDLER: That's all the
18 questions I have. I appreciate it, Mr. VanNostrand.

19 Thanks, Chairman.

20 CHAIRMAN SCHMITT: Dr. Mathews?

21 COMMISSIONER MATHEWS: I don't have any.

22 CHAIRMAN SCHMITT: Ms. Blend,
23 cross-examination?

24 * * *

25

1 CROSS-EXAMINATION

2 By Ms. Blend:

3 Q. Thank you, Your Honor.

4 Good afternoon, Mr. VanNostrand.

5 **A. Good afternoon.**

6 Q. You would agree that net-metering customer
7 generators in Kentucky Power service territory
8 connect behind the meter?

9 **A. Yes.**

10 Q. And similarly, PURPA QF in the Company
11 service territory connects behind the meter?

12 **A. Yes.**

13 Q. Under those circumstances, when you're
14 talking about behind the meter, interconnection, is
15 there a difference between the point of generation
16 and the point of load for purposes of, you know,
17 thinking about the avoided cost of energy under the
18 Commission's order 877, the FERC's order 877?

19 **A. Between the point of interconnection and --**
20 **what was the question? I'm sorry, could you repeat**
21 **the question for me?**

22 Q. Sure. I'll state it more clearly. You
23 recall your discussion with the Vice Chairman about
24 the LMP at the generator versus the LMP at the LSE?

25 **A. Yes.**

1 Q. The load? Aren't those two points the same
2 point when we're talking about behind the meter
3 PURPA QF facilities or behind the meter net
4 metering?

5 Isn't the point of generation the same as the point
6 of the load?

7 **A. I believe that's generally true, yes.**

8 Q. Is there a distinction between energy and
9 capacity in terms of avoided costs under PURPA?

10 **A. Yes.**

11 MS. BLEND: I have no further questions.
12 Thank you.

13 CHAIRMAN SCHMITT: Mr. Spenard, redirect?

14 MR. SPENARD: No, Mr. Chairman. No redirect.

15 CHAIRMAN SCHMITT: Okay. Thank you,
16 Mr. VanNostrand. You may step down, and you're
17 excused.

18 THE WITNESS: Thank you.

19 CHAIRMAN SCHMITT: Mr. Spenard, you have
20 another witness?

21 MR. SPENARD: Yes, Mr. Chairman, KYSEIA calls
22 Benjamin Inskeep.

23 CHAIRMAN SCHMITT: Mr. Inskeep, are you with
24 us?

25 MR. SPENARD: He was on earlier today. There

1 we go.

2 THE WITNESS: Apologies.

3 CHAIRMAN SCHMITT: All right. Mr. Inskeep,
4 please raise your right hand.

5 Do you solemnly swear or affirm under penalty
6 of perjury that the testimony you're about to give
7 will be the truth, the whole truth, and nothing but
8 the truth?

9 THE WITNESS: I do.

10 CHAIRMAN SCHMITT: Okay. You may ask,
11 Counsel.

12 MR. SPENARD: Thank you.

13 BENJAMIN INSKEEP, having been first duly
14 sworn, testified as follows:

15 DIRECT EXAMINATION

16 By Mr. Spenard:

17 Q. Please state your name and your business
18 address.

19 **A. Benjamin D. Inskeep, 1155 Kildaire Farm Road,**
20 **Suite 202, Cary, North Carolina, 27511.**

21 Q. And by whom are you employed in connection
22 with this proceeding?

23 **A. I am a principal energy policy analyst at EQ**
24 **Research, LLC.**

25 Q. And on behalf of Kentucky Solar Industries

1 Association, Inc., did you prepare prefiled direct
2 testimony and responses to request for information
3 that have been filed into the record in this
4 proceeding?

5 **A. Yes, I did.**

6 Q. If I were to ask you the same questions in
7 your prefiled direct testimony and the same
8 questions in your responses to requests for
9 information, would your answers be the same today?

10 **A. Yes, they would.**

11 MR. SPENARD: With that, Mr. Chairman, KYSEIA
12 tenders Mr. Inskeep for examination.

13 CHAIRMAN SCHMITT: Okay. Thank you.

14 Ms. Frederick, cross-examination?

15 MS. FREDERICK: No questions for this
16 witness, Your Honor. Thank you.

17 CHAIRMAN SCHMITT: Okay. Mr. Horne,
18 questions?

19 MR. HORNE: No questions, Your Honor. Thank
20 you.

21 CHAIRMAN SCHMITT: Mr. Kurtz?

22 MR. KURTZ: No questions.

23 CHAIRMAN SCHMITT: Ms. Grundmann?

24 MS. GRUNDMANN: No questions.

25 CHAIRMAN SCHMITT: Mr. FitzGerald?

1 MR. FITZGERALD: Mr. Chairman, no questions
2 from this witness, thank you.

3 CHAIRMAN SCHMITT: Mr. Miller?

4 MR. MILLER: No questions from Sierra Club,
5 Mr. Chairman, thank you.

6 CHAIRMAN SCHMITT: Mr. Frye?

7 MR. FRYE: No questions.

8 CHAIRMAN SCHMITT: Vice Chairman Chandler?

9 VICE CHAIRMAN CHANDLER: Yeah, I have nothing
10 for Mr. Inskip. Thank you.

11 CHAIRMAN SCHMITT: Dr. Mathews?

12 COMMISSIONER MATHEWS: I don't have any
13 questions for this witness.

14 CHAIRMAN SCHMITT: Ms. Blend,
15 cross-examination?

16 MS. BLEND: No questions, thank you.

17 CHAIRMAN SCHMITT: I would say ask Mr.
18 Spenard if there was any redirect, but since there
19 was no cross, I assume you have nothing to add.

20 MR. SPENARD: That's correct.

21 CHAIRMAN SCHMITT: Thank you, Mr. Inskip.
22 You may step down, and you're excused.

23 I guess that brings us to Mr. FitzGerald's
24 case on behalf of Joint Intervenors. Mr.
25 FitzGerald, are you ready to call a witness?

1 MR. FITZGERALD: I am, Mr. Chairman. I will
2 call Joshua Bills.

3 CHAIRMAN SCHMITT: Okay, thank you.
4 Mr. Bills? Oh, I think I --

5 THE WITNESS: (Indiscernible)?

6 CHAIRMAN SCHMITT: Mr. Bills, are you there?
7 Okay. Good. Please raise your right hand.

8 Do you solemnly swear or affirm under penalty
9 of perjury that the testimony you're about to give
10 will be the truth, the whole truth, and nothing but
11 the truth?

12 THE WITNESS: I do. I just muted my phone,
13 and that's why you couldn't hear me, and now I've
14 got my computer (indiscernible).

15 CHAIRMAN SCHMITT: All right. That's fine.
16 You're fine.

17 Mr. FitzGerald, you may ask.

18 MR. FITZGERALD: Thank you, Your Honor.

19 JOSHUA BILLS, having been first duly sworn,
20 testified as follows:

21 DIRECT EXAMINATION

22 By Mr. FitzGerald:

23 Q. Would you state your full name, your place of
24 employment, and your business address, please?

25 **A. Okay. Let's see if I can hear you now.**

1 Q. Would you state your full name, your place of
2 employment, and your business address, please?

3 **A. My full name is Joshua Daniel Bills, and my**
4 **place of employment is Mountain Association, and**
5 **that address is 433 Chestnut Street, Berea,**
6 **Kentucky, (indiscernible).**

7 Q. Okay. Thanks. Mr. Bills, did you cause
8 prefiled direct testimony to be filed in this case?

9 **A. I did, yes.**

10 Q. Okay. And did you also answer data requests
11 that were served upon the joint intervenors?

12 **A. Yes.**

13 Q. If I asked you the same questions as were
14 asked in your prefiled testimony, and if I asked you
15 the same data requests, would your answers be the
16 same?

17 **A. They would be the same. I wanted to**
18 **apologize because my testimony wasn't paginated, and**
19 **so I have numbered it now. If we come up to have**
20 **any questions by page, I'll be able to reference**
21 **that, so --**

22 Q. Thank you.

23 MR. FITZGERALD: Your Honor, if the
24 Commission or Staff would want so, we could submit a
25 corrected paginated version of this testimony at the

1 conclusion of the hearing.

2 CHAIRMAN SCHMITT: Okay.

3 MS. VINSEL: Chairman, yes, Staff would --
4 would request that a paginated version be filed.

5 MR. FITZGERALD: Absolutely. Absolutely,
6 Ms. Vinsel. Thank you.

7 With that, Your Honor, I tender the witness.

8 CHAIRMAN SCHMITT: Ms. Frederick,
9 cross-examination?

10 MS. FREDERICK: No questions for this
11 witness, Your Honor. Thank you.

12 CHAIRMAN SCHMITT: Mr. Horne?

13 MR. HORNE: No questions for this witness,
14 Your Honor. Thank you.

15 CHAIRMAN SCHMITT: Mr. Kurtz?

16 MR. KURTZ: No questions, Your Honor.

17 CHAIRMAN SCHMITT: Ms. Grundmann?

18 MS. GRUNDMANN: No questions, Your Honor.

19 CHAIRMAN SCHMITT: Mr. Spenard?

20 MR. SPENARD: No questions, Mr. Chairman.

21 CHAIRMAN SCHMITT: Mr. Miller?

22 MR. MILLER: Mr. Chairman, no questions.
23 Thank you.

24 CHAIRMAN SCHMITT: Mr. Frye?

25 MR. FRYE: No questions, Mr. Chairman.

1 CHAIRMAN SCHMITT: Vice Chairman Chandler?

2 VICE CHAIRMAN CHANDLER: I just have one
3 question, thank you, Chairman, or one set of
4 questioning.

5 EXAMINATION

6 By Vice Chairman Chandler:

7 Q. Can you hear me, Mr. Bills?

8 **A. Yeah, I can hear you.**

9 Q. I wanted to ask specifically you raised a
10 concern in your direct testimony in this case around
11 the issue surrounding delta 3-phase customers and
12 interconnecting generation equipment, and then
13 service upgrades to those 3-phased meters. Do you
14 know what I'm talking about?

15 **A. I do, yeah, and yes, I do know what you're**
16 **talking about.**

17 Q. Could you, I'll just be honest, not being an
18 engineer and not knowing my way, I don't like
19 getting shocked, so I just stay away from anything
20 with current.

21 Could you explain what your concern is, and
22 then -- and then as it relates to your concern, what
23 the reference to the increase in cost was. I think
24 it was like \$5,000 increase in cost that you
25 referenced in your direct testimony?

1 **A. Yes. I know of two applicants that applied**
2 **for net-metering service in Kentucky Power territory**
3 **that were not granted interconnection without**
4 **upgrading their delta service to a Y service, and**
5 **the cost for one was that, it was right at about**
6 **5,000 subject to check, and the other was around**
7 **4,000, also subject to (indiscernible).**

8 Q. Can I ask you, Mr. Bills, what is Y service?

9 **A. So that's a transformer service where the**
10 **connections on the 3-phase service are wired in such**
11 **a way that you will get 240, 277 volts or higher**
12 **voltage. With a delta you get a 120 TOA voltage.**

13 Q. Okay.

14 **A. So it's a different type of (indiscernible).**

15 Q. So let me ask, are these -- I'll ask this
16 clearly again. These are not residential customers;
17 is that right?

18 **A. I do know of one residential class customer**
19 **that has applied for service that is a 3-phase**
20 **customer. I've been trying to get (indiscernible)**
21 **operational, and they fortunately do have a Y**
22 **service, so this issue hasn't come up for them.**

23 Q. Okay. Are these -- is this issue generally
24 reserved, though, for commercial customers general
25 service or for other commercial customers?

1 **A. I think in the grand scheme of things, yes.**
2 **I don't know how many 3-phase residential service**
3 **customers Kentucky Power has, but, you know,**
4 **somebody has a home shop, they may have a 3-phase**
5 **service if they've got an equipment shop serving**
6 **their residential account service.**

7 Q. Okay. And your experience, or the concern
8 that has been conveyed to you on this particular
9 issue, is exclusive to Kentucky Power, do I
10 understand your testimony right?

11 **A. I haven't experienced this with any other**
12 **utility installs. I am aware that some utilities**
13 **outside of Kentucky Power that have a customer**
14 that's -- that's has a delta service can satisfy the
15 grounding requirement by having a grounding
16 conductor to serve that -- the inverter that's
17 attached to that service, so instead of replacing
18 the delta transformer service, it would just be a
19 grounded conductor added from the transformer bank
20 on the high side to the -- to the ground component
21 of the inverter.

22 Q. Boy, that's a lot of words that I don't use
23 every day.

24 **A. I imagine this will come up in the**
25 **interconnection guidelines case, and it just -- you**

1 **know, my reason for highlighting it was there are**
2 **aspects to the interconnection guidelines case that**
3 **I think come to play when we're considering what an**
4 **appropriate compensation rate should be for a**
5 **net-metered customer.**

6 VICE CHAIRMAN CHANDLER: I appreciate that,
7 Mr. Bills. Thank you very much.

8 THE WITNESS: Okay.

9 CHAIRMAN SCHMITT: Dr. Mathews, questions?

10 COMMISSIONER MATHEWS: I don't have a
11 question.

12 CHAIRMAN SCHMITT: Okay. Ms. Blend,
13 cross-examination?

14 MS. BLEND: Yes, Your Honor. Thank you.

15 CROSS-EXAMINATION

16 By Ms. Blend:

17 Q. Good afternoon, Mr. Bills.

18 **A. Good afternoon.**

19 Q. Mr. Bills, have you reviewed the rebuttal
20 testimony of Company Witness West with regard to the
21 issue you were just discussing with the Vice
22 Chairman, delta 3-phase service versus Y 3-phase
23 service?

24 **A. Yes.**

25 Q. Do you dispute that there is a safety issue

1 that is related to the utilization of delta 3-phase
2 service for 120 to 240 interconnection, net-metering
3 customers?

4 **A. I don't dispute it, but I also don't agree**
5 **that it requires a change in the transformer bank to**
6 **satisfy that safety concern.**

7 Q. Okay. And you indicated that you read
8 Mr. West's rebuttal testimony. Do you dispute his
9 statement on page 15 at line 3 that no other AG
10 operating company allows interconnection of any
11 customer generator facilities to a 120/240 delta
12 secondary service?

13 **A. Can you repeat the last part of that?**

14 Q. Sure. On page 15 of Mr. West's rebuttal
15 testimony, he states, (Reading) At present, no other
16 AG operating company allows interconnection of any
17 customer generator facilities to a 120 to 240 delta
18 secondary service.

19 Do you dispute that fact?

20 **A. I do not.**

21 Q. Now, you just discussed the case number
22 2020-302, which relates to updating the Commission's
23 net-metering interconnection guidelines, and on
24 unnumbered page 7 of your direct testimony you urged
25 the Commission to hold off on implementation of the

1 Company's net-metering NMS II tariff until that case
2 is complete; is that correct?

3 **A. That's correct.**

4 Q. So is your recommendation in this case that
5 the Commission delay implementation of the
6 net-metering act to Kentucky Power's application
7 until that 2020-302 case has completed?

8 **A. Say that again?**

9 Q. Is it your recommendation in this case that
10 the Commission delay implementation of the
11 net-metering act with regard to Kentucky Power's
12 proposed tariff on NMS II until the -- until case
13 number 2020-302 --

14 MR. FITZGERALD: Your Honor, I want to pose
15 an objection. I'm going to pose on objection, Your
16 Honor. Mr. Bills is not an attorney, he's not
17 holding himself out to be an attorney, and the
18 construction and interpretation of what is required
19 or not required under the net-metering act is a
20 matter of law and a matter for briefing, not a
21 matter for asking a witness who is not an attorney.

22 CHAIRMAN SCHMITT: Sustained. We've had a
23 lot of that. Ultimately it ought to be briefed, and
24 the Commission will say what the law is.

25 MS. BLEND: No problem, Your Honor. I wasn't

1 intending to ask a legal question. I'll ask it
2 differently.

3 Q. Mr. Bills, your recommendation is that the
4 Commission not implement a new net-metering service
5 tariff for Kentucky Power Company until the
6 conclusion of case number 2020-302, as stated on
7 page 7 of your testimony, correct?

8 **A. Yeah, I would suggest not implementing NMS II**
9 **as defined.**

10 MS. BLEND: Thank you. I have no further
11 questions.

12 CHAIRMAN SCHMITT: Mr. FitzGerald, redirect?

13 MR. FITZGERALD: No, Your Honor. Thank you.

14 CHAIRMAN SCHMITT: Okay. Thank you.

15 Mr. Bills. You're excused.

16 Mr. FitzGerald, call your next witness.

17 MR. FITZGERALD: Thank you, Your Honor. I'd
18 like to call Andrew McDonald, please.

19 CHAIRMAN SCHMITT: Mr. McDonald, please raise
20 your right hand.

21 Do you solemnly swear or affirm under penalty
22 of perjury that the testimony you're about to give
23 will be the truth, the whole truth, and nothing but
24 the truth?

25 THE WITNESS: Yes.

1 CHAIRMAN SCHMITT: Okay. Mr. FitzGerald, you
2 may ask.

3 ANDREW MCDONALD, having been first duly
4 sworn, testified as follows:

5 DIRECT EXAMINATION

6 By Mr. FitzGerald:

7 MR. FITZGERALD: Thank you, Your Honor.

8 Q. Would you state your full name, your place of
9 employment, and your business address, please?

10 **A. Andrew Scott McDonald. I work for Earth**
11 **Tools, Incorporated, and our address is 1525 Kays**
12 **Branch Road, Owenton, Kentucky.**

13 Q. Thank you. Mr. McDonald, did you cause
14 prefiled direct testimony to be filed in this case?

15 **A. Yes.**

16 Q. And did you also answer some of the data
17 requests that were addressed to the Joint
18 Intervenors?

19 **A. Yes.**

20 Q. If I were to ask you those same questions and
21 pose those same data requests to you, would your
22 answers today be the same?

23 **A. Yes.**

24 MR. FITZGERALD: Your Honor, the witness is
25 available for cross-examination. Thank you.

1 CHAIRMAN SCHMITT: Thank you.

2 Ms. Frederick, questions?

3 MS. FREDERICK: No questions for this
4 witness, Your Honor. Thank you.

5 CHAIRMAN SCHMITT: Mr. Horne?

6 MR. HORNE: Yes, Your Honor, couple
7 questions.

8 CROSS-EXAMINATION

9 By Mr. Horne:

10 Q. Good afternoon, Mr. McDonald. How are you
11 doing?

12 **A. Fine, thank you.**

13 Q. Just a few questions. If you were listening
14 to Mr. VanNostrand's testimony it will sound quite
15 familiar. Do you agree that a utility customer with
16 installed solar generation gains a benefit
17 regardless if a utility purchases any excess power
18 from them?

19 **A. Yes.**

20 Q. Do you agree that there's a cost to utilities
21 in providing service to a customer with solar
22 generation?

23 **A. Yes, I agree that there is a cost and that**
24 **there are also benefits, so whether that cost is a**
25 **net cost is subject to evaluation.**

1 Q. I understand. Do you agree that there's a
2 cost to the utilities in receiving and using any
3 excess power generated from a customer with a solar
4 installation?

5 **A. Not necessarily.**

6 Q. Well, putting aside for a moment political
7 and public relation reasons a utility might offer
8 net metering, if we just looked at it from a purely
9 economic standpoint, what is the benefit to a
10 utility in offering net metering to a customer?

11 **A. Well, there are multiple potential benefits
12 of net metering and distributed generation.**

13 Mr. VanNostrand listed some of those benefits. It
14 provides energy capacity, transmission value,
15 offsetting transmission costs, has resiliency value,
16 offsets environmental compliance costs. There is
17 future potential value in offsetting potential
18 carbon costs in the future.

19 Those are just some of those benefits, and the
20 numerous studies and reports have detailed the
21 benefits that accrue to the utility. I have cited a
22 number of those in my testimony.

23 Q. Thank you. Last question, do you agree that
24 under net metering, that nonparticipants in solar
25 generation are subsidizing those customers that are

1 net metering participants?

2 **A. No, I do not. That question is subject to a**
3 **detailed benefit cost analysis.**

4 Q. Okay.

5 MR. HORNE: Thank you very much, Mr.
6 McDonald. That's all the questions I have.

7 CHAIRMAN SCHMITT: Mr. Kurtz?

8 MR. KURTZ: No questions, Your Honor.

9 CHAIRMAN SCHMITT: Ms. Grundmann?

10 MS. GRUNDMANN: No questions, Your Honor.

11 CHAIRMAN SCHMITT: Mr. Spenard?

12 MR. SPENARD: Yes, Mr. Chairman, we just have
13 a few.

14 CROSS-EXAMINATION

15 By Mr. Spenard:

16 Q. Mr. McDonald, currently under NMS I,
17 residential solar electricity exported to the grid
18 is credited at a 1-to-1 rate; is that correct?

19 **A. Yes.**

20 Q. And in approximate terms, the current
21 Kentucky Power Company residential energy rate is
22 approximately 9.8 cents per kilowatt hour; is that
23 correct?

24 **A. Yes.**

25 Q. And under the application, Kentucky Power

1 proposes a new residential credit rate of
2 approximately 3.66 cents per kilowatt hour, and that
3 will be part of the proposed NMS II tariff; is that
4 correct?

5 **A. Yes.**

6 Q. Okay. And in terms of the testimony and in
7 terms of your understanding, Kentucky Power Company
8 describes or characterizes the current 1-to-1 rate
9 under NMS I as creating a subsidy. Is that your
10 understanding?

11 **A. That is how Kentucky Power characterizes it,**
12 **yes.**

13 Q. And in rough terms, approximate terms, the
14 what's described as a subsidy is approximately 6.1
15 to 6.2 cents per kilowatt hour. Does that sound
16 right?

17 **A. Yes.**

18 Q. Okay. Have you performed any calculation for
19 the test year of the monthly cost to
20 nonparticipating residential customers associated
21 with this so-called subsidy?

22 **A. Yes, I have, and it's provided in my**
23 **testimony.**

24 Q. Okay. And for the purposes of the hearing,
25 what is the monthly cost to nonparticipating

1 residential customers?

2 MS. BLEND: Objection, Your Honor. Mr.
3 Spenard is engaging in friendly cross-examination,
4 which I don't believe is appropriate for this
5 proceeding.

6 Mr. McDonald and Mr. -- Mr. McDonald's
7 organization that he's representing in KYSEIA, which
8 Mr. Spenard represents, share a common interest and
9 goal in this case.

10 The Company opposed the intervention of
11 multiple groups representing solar interests earlier
12 in this proceeding, and that motion was overruled
13 and denied. However, I don't believe it's
14 appropriate for one solar interest to supplement the
15 record or support another solar interest's testimony
16 through -- under the guise of cross-examination.

17 CHAIRMAN SCHMITT: Yeah, I understand your
18 position, and but the motion is overruled.

19 You may ask, Mr. Spenard.

20 MR. SPENARD: Thank you, Mr. Chairman.

21 Q. And the record, try to get back to the
22 record. What we would like to do is put in context
23 what is the approximate monthly cost to a
24 nonparticipating residential customer?

25 **A. My analysis determined that the monthly cost**

1 **of this alleged subsidy would be 4/10 of a cent per**
2 **month to each residential customer.**

3 Q. And as a final question, what does that, if
4 you know, what does that calculate to, out to on
5 annualized basis?

6 **A. That would work out to approximately 5 cents**
7 **per year per customer.**

8 MR. SPENARD: Thank you, Mr. McDonald, and
9 with that, KYSEIA has no further questions for this
10 witness.

11 CHAIRMAN SCHMITT: Thank you. Mr. Miller?

12 MR. MILLER: Thank you, Your Honor. Sierra
13 Club has no questions.

14 CHAIRMAN SCHMITT: Mr. Frye?

15 MR. FRYE: Thank you, Mr. Chairman. No
16 questions at this time.

17 CHAIRMAN SCHMITT: Vice Chairman Chandler?

18 VICE CHAIRMAN CHANDLER: I have no questions.
19 Thank you, Mr. McDonald.

20 CHAIRMAN SCHMITT: Dr. Mathews?

21 COMMISSIONER MATHEWS: I have no questions.
22 Thank you.

23 CHAIRMAN SCHMITT: Ms. Blend,
24 cross-examination?

25 MS. BLEND: Yes, Your Honor.

1 CROSS-EXAMINATION

2 By Ms. Blend:

3 Q. Mr. McDonald, the study that you just
4 referenced during the friendly cross-examination by
5 Mr. Spenard, was that an analysis that you performed
6 or one that Karl Rabago performed in connection with
7 a 2019 case before the Commission?

8 **A. Karl Rabago provided that study in his**
9 **testimony, and I updated the figures in it based on**
10 **the data that was provided by Kentucky Power in**
11 **the -- in this case.**

12 Q. Mr. Rabago is not a witness for any party
13 testifying in this proceeding; is that correct?

14 **A. That's correct.**

15 MS. BLEND: I have no further questions.

16 Thank you.

17 CHAIRMAN SCHMITT: Mr. FitzGerald, redirect?

18 MR. FITZGERALD: No, Your Honor. Thank you
19 very much.

20 CHAIRMAN SCHMITT: Okay. Thank you,
21 Mr. McDonald. You may be excused.

22 Mr. FitzGerald, why don't you call your next
23 witness.

24 MR. FITZGERALD: Mr. Chairman, at the risk of
25 getting us out of here at a reasonable hour, I am

1 going to call our last witness, James Owen.

2 CHAIRMAN SCHMITT: Okay. Thank you.

3 Mr. Owen?

4 Mr. FitzGerald, in a court, you know, somebody
5 would ask -- the judge would ask the bailiff to go
6 out in the hall and see if he could find the
7 witness. We'll wait a few minutes.

8 MR. FITZGERALD: Your Honor, I was just
9 thinking of Joe Pesci in "My Cousin Vinny." I'm
10 going to run out in the hall and see if he's on the
11 phone somewhere. The last I heard he is available
12 to testify.

13 CHAIRMAN SCHMITT: Okay.

14 MR. FITZGERALD: So I will send him an email
15 right now and ask him to make himself present.

16 CHAIRMAN SCHMITT: Why don't we -- it's 20
17 after 2:00. Why don't we take a ten-minute break or
18 so and give you time to see if you can find him.
19 Okay?

20 MR. FITZGERALD: That is very gracious of
21 you, Mr. Chairman. Thank you very much.

22 CHAIRMAN SCHMITT: We'll be back about 2:30.

23 (Recess from 2:22 p.m. to 2:34 p.m.)

24 CHAIRMAN SCHMITT: Okay. Looks like we're
25 back on the record.

1 Mr. FitzGerald, looks like you found Mr. Owen,
2 correct?

3 MR. FITZGERALD: Yeah, after great searching.
4 We have several dog sleds out looking for him, and
5 we were able to track him down.

6 CHAIRMAN SCHMITT: You got him treed out
7 there in the back, okay.

8 MR. FITZGERALD: Absolutely.

9 CHAIRMAN SCHMITT: All right. Mr. Owen,
10 please raise your right hand.

11 Do you solemnly swear or affirm under penalty
12 of perjury that the testimony you're about to give
13 will be the truth, the whole truth, and nothing but
14 the truth?

15 THE WITNESS: I do.

16 CHAIRMAN SCHMITT: Mr. FitzGerald?

17 JAMES OWEN, having been first duly sworn,
18 testified as follows:

19 DIRECT EXAMINATION

20 By Mr. FitzGerald:

21 Q. Would you state your full name, your place of
22 employment, and your business address, please?

23 **A. Sure, my name is James Matthew Owen, O-W-E-N.**

24 I am the executive director of Renew Missouri
25 Advocates. We are located at 409 Vandiver Drive,

1 that's V-A-N-D-I-V-E-R, in Columbia, Missouri, with
2 a zip code of 65202.

3 Q. Thank you. Mr. Owen, did you cause prefilled
4 direct testimony to be filed in this case on behalf
5 of the Joint Intervenors?

6 **A. I did.**

7 Q. And did you also answer some data requests
8 that were posed to the Joint Intervenors?

9 **A. I did.**

10 Q. And if I were to ask you those same questions
11 and pose those same data requests to you today,
12 would your answers be the same?

13 **A. They would.**

14 MR. FITZGERALD: Your Honor, I tender the
15 witness for cross-examination. Thank you.

16 CHAIRMAN SCHMITT: Thank you.

17 Ms. Frederick, questions? Ms. Frederick?

18 MS. FREDERICK: Sorry, Your Honor, I was
19 having a little bit of technical difficulty. No
20 questions for this witness, thank you.

21 CHAIRMAN SCHMITT: That's fine.

22 Mr. Horne?

23 MR. HORNE: No questions for this witness,
24 Your Honor. Thank you.

25 CHAIRMAN SCHMITT: Thank you. Mr. Kurtz?

1 MR. KURTZ: No questions, Your Honor.

2 CHAIRMAN SCHMITT: Ms. Grundmann?

3 MS. GRUNDMANN: No questions, Your Honor.

4 CHAIRMAN SCHMITT: Mr. Spenard?

5 MR. SPENARD: No questions, Mr. Chairman.

6 CHAIRMAN SCHMITT: Mr. Miller?

7 MR. MILLER: No questions. Thank you,
8 Mr. Chairman.

9 CHAIRMAN SCHMITT: Mr. Frye?

10 MR. FRYE: No questions, Mr. Chairman. Thank
11 you.

12 CHAIRMAN SCHMITT: Vice Chairman Chandler?

13 VICE CHAIRMAN CHANDLER: Yeah, thanks,
14 Chairman. I have no questions for Mr. Owen. I
15 appreciate it.

16 CHAIRMAN SCHMITT: Dr. Mathews?

17 COMMISSIONER MATHEWS: I have no questions
18 for Mr. Owen. Thank you.

19 CHAIRMAN SCHMITT: Okay. Ms. Blend,
20 cross-examination?

21 MS. BLEND: No questions, Your Honor. Thank
22 you.

23 CHAIRMAN SCHMITT: Okay. I guess,
24 Mr. FitzGerald, that makes it a pretty easy direct
25 exam and no redirect.

1 Thank you, Mr. Owen.

2 MR. FITZGERALD: Thank you, Your Honor.

3 THE WITNESS: Thank you, Your Honor. Sorry
4 about not being on line earlier.

5 CHAIRMAN SCHMITT: That's no problem.
6 Believe me. You've been excused.

7 Now, is that the case, that's all the
8 witnesses for Joint Intervenors, correct?

9 MR. FITZGERALD: Yes, Mr. Chairman. I just
10 move their direct testimony into evidence, and I
11 appreciate very much giving us the break that you
12 did so that we could finish our case.

13 CHAIRMAN SCHMITT: Well, that's sustained.
14 Just one person who was not a witness who had, I
15 guess, some, I don't know, testimony may not have
16 been sworn to, Mr. Rabago, his testimony is not into
17 evidence because he was not a witness. What he said
18 is filed and is subject to consideration, but he's
19 not -- is not formally a witness.

20 Now, that brings us to, I guess, Vice Chairman
21 Chandler wanted to the opportunity to recall
22 Mr. Mattison, and if -- is that still the case,
23 Mr. Chandler?

24 VICE CHAIRMAN CHANDLER: I think that with
25 the testimony we've had today, I don't think that I

1 have any questions for Mr. Mattison based off of
2 what we heard from AG KIUC's witnesses, as well as
3 Joint Intervenors and Walmart, and, as Mr. Spenard
4 has helped me out a little bit, KYSEIA.

5 CHAIRMAN SCHMITT: Well, I guess that
6 concludes.

7 VICE CHAIRMAN CHANDLER: It's easier than
8 saying KYSEIA every time. So I appreciate that, Mr.
9 Spenard.

10 But I don't have any follow-up questions based
11 on today's testimony from Mr. Mattison.

12 CHAIRMAN SCHMITT: Thank you, Mr. Mattison.
13 I'm sorry you had to be available, but that's the
14 way it is in legal proceedings. Sometimes a party
15 or a lawyer doesn't know whether you need somebody
16 or not until all the testimony is completed, so you
17 may be excused, and thank you for being here and for
18 your testimony.

19 MR. MATTISON: (Indiscernible).

20 CHAIRMAN SCHMITT: That concludes all the
21 testimony, but Ms. Vinsel, I think, had a motion to
22 make for the record. Is that correct: And if so,
23 would you do so now?

24 MS. VINSEL: Yes. Thank you, Chairman.

25 Staff would like to move that the record from

1 case number 2019-00256, this is the electronic
2 consideration of the implementation of the
3 net-metering act, that that be incorporated into the
4 record of this proceeding by reference.

5 Several of the parties have referenced this.
6 In the final order in 2019-256, we indicated that
7 that -- the record from that proceeding would be
8 incorporated into all initial net-metering
9 ratemaking cases.

10 CHAIRMAN SCHMITT: Your motion is sustained,
11 and the record in that case will be incorporated
12 into the record in this.

13 Is there anything else that -- any other
14 matter that Counsel would like to bring up?

15 Mr. Spenard?

16 MR. SPENARD: Yes, Mr. Chairman. I
17 apologize.

18 I believe I missed this point earlier. To
19 the KYSEIA witnesses have been tendered for
20 examination, and to the extent that we need to move
21 for their testimony and their responses to be -- to
22 be admitted, to be accepted by the Commission, we so
23 move.

24 CHAIRMAN SCHMITT: All witnesses will be --
25 have been accepted and admitted. There hasn't been

1 any -- no one has contested, no one has asked for a
2 Daubert hearing, and of course the direct testimony
3 was already filed.

4 So all of the witnesses who have been listed
5 are properly before the Commission, and their
6 testimony is accepted for what it is. Okay?

7 MR. SPENARD: Thank you, Mr. Chairman.

8 CHAIRMAN SCHMITT: Anything else that anyone
9 would like to bring up before we adjourn?

10 Ms. Blend, anything?

11 MS. BLEND: Not for the Company, Your Honor.
12 Thank you very much.

13 CHAIRMAN SCHMITT: Okay. Any of the other
14 parties? No?

15 MR. FITZGERALD: Mr. Chairman, just wishing
16 everyone a Happy Thanksgiving, and appreciate being
17 able to participate in this proceeding.

18 CHAIRMAN SCHMITT: Okay. Thank you. The
19 order, we only have probably less than a half a
20 dozen people in the office. I have the order typed
21 up on the scheduling, but we've now gotten to the
22 point where we can't sign paper, we only sign on the
23 computer screen, so I'll see if we can get that out
24 by tomorrow at any rate, but I've given you-all the
25 dates, and if you'd like for me to read them again,

1 I'd be happy to.

2 Data requests due by the end of the day
3 December 1st. Responses due December 9th. Kentucky
4 Power's brief December 8th. Brief for the
5 Intervenors due December 14th with a reply brief by
6 Kentucky Power on December 17th. And the case will
7 stand submitted 12:01 a.m. on December 18, 2020, and
8 we'll be working as hard as we can to get a
9 decision.

10 All right. Ms. Grundmann, it's good to see
11 your cocounsel. It's always good to have
12 experienced cocounsel to assist in these things, so.

13 MS. GRUNDMANN: He wanted to thank you for
14 your hard work on this hearing and wanted to wish
15 everybody a Happy Thanksgiving.

16 CHAIRMAN SCHMITT: All right. Same to
17 you-all.

18 All right. With that, then, this hearing is
19 adjourned. Thank you.

20 (Hearing concluded at 2:43 p.m.)

21 * * *

22

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24

25

A	accorded 1478:4	add 1482:14	1575:7	admittedly
A- 1557:6	account 1483:9	1515:19	ADIT 1508:8,20	1596:23
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