

**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) **Case No. 2020-00174**
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)

POST-HEARING BRIEF OF SWVA KENTUCKY, LLC

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SWVA Kentucky, LLC (“SWVA”), an intervenor in the above captioned proceeding, by counsel, hereby submits this Post Hearing Brief (“Brief”) pursuant to the Order issued by the Public Service Commission of the Commonwealth of Kentucky (the “Commission”) on November 24, 2020, authorizing the filing of post-hearing briefs.

I. INTRODUCTION

On June 29, 2020, Kentucky Power Company (“Kentucky Power” or the “Company”) filed its application in this case seeking, among other things, to increase the Company’s base rates by approximately \$70 million in annual retail revenues.¹ An evidentiary hearing on the matter was held via videoconference before the Commission, beginning on November 17, 2020. At the conclusion of the evidentiary hearing, and by subsequent order, the Commission authorized the

¹ Application at 9, Case No. 2020-00174 (June 29, 2020). Kentucky Power also proposed to further increase revenues under its proposed Grid Modernization Rider by \$1.1 million and reduce revenues by \$6.2 million because of a reduced Capacity Charge. *Id.* The net effect of Kentucky Power’s request is an increase in revenues of approximately \$65 million. *Id.*; *see also* Post-Hearing Brief of Kentucky Power at 1 (seeking a net increase of \$64,692,762 (citing Company Hearing Ex.1/Record Ex. 8)).

filing of post-hearing briefs.² While SWVA did not file testimony in this case, SWVA reviewed filings, issued discovery requests and reviewed discovery responses. SWVA files this Brief to address a single issue, Kentucky Power's requested return on equity ("ROE").³

II. THE COMMISSION SHOULD ADOPT THE RECOMMENDATION OF THE ATTORNEY GENERAL AND KIUC TO AUTHORIZE AN ROE OF 9.0% FOR KENTUCKY POWER

Kentucky Power argues that the Commission should approve an ROE of 10.0%.⁴ The Company claims that its analyses demonstrate that an ROE of 10.3% is warranted, but the Company decided to request a lower ROE as a way "to mitigate the rate increase in this case."⁵ Company witness Adrien M. McKenzie concludes that a 10.3% ROE is warranted based on "Kentucky Power's specific risk exposures, capital market expectations, and the economic requirements necessary to maintain financial integrity and support additional capital investment."⁶ Witness McKenzie further finds that Kentucky Power's requested ROE of 10.0% understates investor expectations regarding the required ROE for the Company.⁷ Regardless of these concerns, as stated above, Kentucky Power requests the Commission approve an ROE of 10.0% to "mitigate" the rate increase requested in this proceeding.

In response to the Company's request, the Kentucky Office of the Attorney General ("AG") and Kentucky Industrial Utility Customers, Inc. ("KIUC," collectively "AG-KIUC") filed joint

² Order, Case No. 2020-00174 (Nov. 24, 2020).

³ SDI's silence on any issue should not be construed as support for, or opposition to, any such issues.

⁴ Kentucky Power Direct Testimony of D. Brett Mattison at 13, lines 4-8.

⁵ *See id.*; Kentucky Power Direct Testimony of Adrien M. McKenzie at 4, lines 7-9 (concluding that "an ROE of 10.3% is warranted for the Company").

⁶ Kentucky Power Direct Testimony of Adrien M. McKenzie at 10, lines 26-31.

⁷ *Id.* at 8, lines 19-22.

testimony criticizing the Company's request that the Commission approve an ROE of 10.0% in this case. AG-KIUC witness Richard A. Baudino finds that witness McKenzie's recommended 10.3% ROE "significantly overstates" the expected return required by investors for a low-risk utility like Kentucky Power.⁸ Furthermore, even though Kentucky Power requests a lower ROE than recommended by McKenzie, Baudino argues that a 10.0% ROE would "inflate the Company's revenue requirement and contribute to an unnecessary additional rate increase for Kentucky ratepayers" and is therefore too high.⁹ Based on Baudino's analyses, he recommends that the Commission adopt an ROE range of 8.93%-9.25%.¹⁰ AG-KIUC witness Lane Kollen uses Baudino's ROE range to determine that the Commission should adopt a 9.0% ROE for Kentucky Power.¹¹ Kollen reaches this conclusion by reducing the top of the range of reasonableness by 25 basis points, which is similar to Kentucky Power's proposal to reduce the top of McKenzie's range by 30 basis points.¹²

The Commission should consider the rate impact of the ROE on Kentucky Power's ratepayers, especially given the uncertainty and impact of the COVID-19 pandemic. As explained by witness Kollen, the Commission has found that the use of an ROE near the lower end of a range of reasonableness is consistent with Commission precedent.¹³ In Kentucky Power's last rate case, the Commission found that "given the adverse economic situation of the service territory of high unemployment, low earnings, and high poverty rates, the Commission finds a lower ROE will allow Kentucky Power to earn a fair return while reflecting the economic situation of its

⁸ AG-KIUC Direct Testimony of Richard A. Baudino at 4, lines 2-7, & 37, lines 6-10.

⁹ *Id.* at 4, lines 9-15.

¹⁰ *Id.* at 3, lines 2-4, & 35, lines 2-5.

¹¹ *See* AG-KIUC Direct Testimony of Lane Kollen at 44, line 17, to 45, line 12.

¹² *Id.*

¹³ *See id.* at 46, lines 1-14.

customers.”¹⁴ According to Kollen, since the last rate case, “economic conditions in Eastern Kentucky have deteriorated further.”¹⁵ Other witnesses in this case also recognize the economic hardship facing eastern Kentucky, including Kentucky Power’s own witnesses.¹⁶ Witness Kollen calculates that adopting an ROE of 9.0% for Kentucky Power, instead of 10.0%, would decrease the Company’s base rate revenue requirement by approximately \$7.5 million, which would help defray the cost of the remainder of the rate increase.¹⁷ Therefore, given the Commission’s historical preference for adopting “a lower ROE,” in recognition of the economic situation in Kentucky Power’s service territory, and given that a 9.0% ROE would still allow Kentucky Power to earn a reasonable return, the Commission should find that an ROE of 9.0% is appropriate in this proceeding.

III. CONCLUSION

Wherefore, based on the foregoing, SWVA respectfully requests that given the current economic situation facing customers in Kentucky Power’s service territory, the Commission adopt an ROE of 9.0% for Kentucky Power.

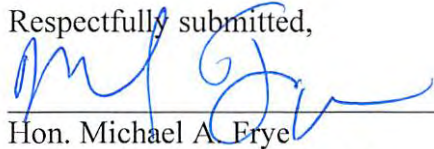
¹⁴ Order at 29, Case No. 2017-00179 (Jan. 18, 2018).

¹⁵ AG-KIUC Direct Testimony of Lane Kollen at 46, lines 13-14.

¹⁶ See AG-KIUC Direct Testimony of Stephen J. Baron at 10, lines 16-18 (discussing subsidies in current rates and noting that “this case occurs during an unprecedented pandemic and economic disruption that the U.S. and Kentucky have not experienced since the 1930’s”); Joint Intervenor’s Direct Testimony of James Owen at 7, lines 1-4 (describing the economic situation in Kentucky Power’s service territory as “challenging” and that it “would only be exacerbated by increased rates” and that the situation “will only worsen over the next few years as a result of the impact of COVID-19”); Kentucky Power Direct Testimony of D. Brett Mattison at 4, lines 3-4 (“Kentucky Power’s service territory includes some of the most economically challenged and geographically challenging territory in the Commonwealth.”).

¹⁷ AG-KIUC Direct Testimony of Lane Kollen at 46, lines 16-19.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that SWVA's December 14, 2020, electronic filing is a true and accurate copy of the *Post-Hearing Brief of SWVA Kentucky, LLC*; and that on December 14, 2020, the electronic filing has been transmitted to the Commission. Pursuant to the Commission's Orders dated March 16, 2020 and March 24, 2020, in Case No. 2020-00085, and in accordance with all other applicable law, counsel certifies that an electronic copy of the foregoing was served by email to the following. SWVA, by and through its counsel, will serve a physical copy of this filing with the Commission within 30 days after the Governor lifts the current State of Emergency.

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