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**

CORRECTED PAGES

OF

DIRECT TESTIMONY

OF

LANE KOLLEN

ON BEHALF OF THE

ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

AND THE

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

Kentucky Power Company
Pension and OPEB Balances as of December 31, 2019

Account	Description	Pension	OPEB
1650010/ 1650035	Prepayment - Contributions	$45,500,106	$19,143,276
1650014/ 1650037	ASC 715 Prepayment Reclass	(45,500,106)	(19,143,276)
1290000/ 1290001	ASC 715 Trust Funded Positions (Assets)	-	23,421,499
2283016/ 2283006	ASC 715 Trust Funded Position (Liabilities)	(1,611,500)	-
1823165/ 1823166	ASC 715 - Regulatory Asset	45,940,166	(2,107,133)
1900010/ 1900011	ASC 715 - ADFIT Asset	246,002	(455,929)
2190006/ 2190007	ASC – 715 Other Comprehensive Income	925,438	(1,715,161)
	Total ASC 715 Entries	-	-
	Total Pension and OPEB Accounts	45,500,106	19,143,276
	Total Pension and OPEB Excluding 165 Accounts	$ 45,500,106	$ 19,143,276

This table reflects *all* of the pension and OPEB balance sheet amounts, not only the amounts in the four prepaid pension and prepaid OPEB accounts on a total Company basis as of December 31, 2019. As I previously addressed, the amounts in accounts 1650010 and 1650014 net to $0. The amounts in accounts 1650035 and 1650037 net to $0. However, the amounts in the other accounts ~~net to~~ reflect a regulatory asset of $45.~~500~~940 million for pension and a negative regulatory asset (essentially a regulatory liability recorded in a regulatory asset account) of ~~$19.143~~ 2.107 million for OPEB in excess of the net of the funded amounts (trust fund assets less present value of benefit obligation), net of minor ADIT amounts, and net of amounts in other comprehensive income (a component of common equity). These ~~are~~ amounts net to the same amounts as the prepaid pension asset and prepaid OPEB asset in accounts 1650010

Q. Describe the Commission's precedent regarding EEI Dues.

A. EEI is an electric utility lobbying organization, whose primary interest is the protection of utility shareholders. The Commission generally has disallowed 45.~~45~~% 35% of dues paid to EEI because a portion of the dues applied toward 1) legislative advocacy, 2) regulatory advocacy, and 3) public relations. Commission orders in a number of cases including Case Nos. 2003-00433[55] and 2003-00434[56] have referred to these types of costs as "covered expenses" relying upon a designation of such activities on former EEI invoices based on NARUC operating expense categories.

Q. Can you describe the EEI dues that were included in the test year costs?

A. Yes. The Company supplied a copy of the invoice submitted by EEI to American Electric Service Company ('AEPSC") in discovery[57] showing that a total of $2.637 million related to regular membership and industry issues. The Company's 4.02% allocated share of that amount was $0.106 million.[58] There is no indication that any of this amount was removed from test year costs.

Q. Did the invoice designate certain percentages of the activities that related to covered expenses?

A. Yes. The invoice included footnotes stating that 13% of membership dues and 24% of industry dues were related to "influencing legislation." There were no further

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[55] Louisville Gas & Electric Company Case No. 2003-00433 Order (KY-PSC dated June 30, 2004) at pages 51-52.

[56] Kentucky Utilities Company Case No. 2003-00434 Order (KY-PSC dated June 30, 2004) at pages 44-45.

[57] Response to AG-KIUC 2-44 Attachment 1 page 3 of 20. I have attached a copy of the applicable portion of that response as my Exhibit___(LK-16).

[58] The calculations are detailed in my electronic workpapers filed coincident with my testimony.

> Company Witness McKenzie's analysis demonstrates that an ROE of 10.3% is warranted for the Company. Although Mr. McKenzie's analysis supports a higher ROE, Kentucky Power is requesting an ROE of 10.0% as a third way to mitigate the rate increase in this case. Each of these measures represents a one-time proposal that Kentucky Power is making, without prejudice to the Company's positions in future rate cases, in recognition of the unique economic and financial challenges that customers in the Company's service territory are facing as a result of COVID-19.[67]

The AG and KIUC 9.0% return on equity represents a reduction of 25 basis points from the upper level of the range recommended by Mr. Baudino, approximately the same reduction proposed by the Company itself.

In addition to the economic and financial challenges that customers are facing, the Company will be guaranteed its authorized return in the base revenue requirement in 2023 pursuant to the settlement term approved by the Commission in Case No. 2017-00179. Under that settlement term, the Company will use the $57.4 fixed cost reduction in the Rockport UPA revenue requirement in 2023 to recover any earnings deficiency calculated on a ~~ratemaking~~ per books basis in 2023. After the Company meets its authorized return, the remainder will flow through to ratepayers in the PPA rider.

Further, the return on equity determined in this proceeding will be applied in the Company's riders that include rate base amounts, including the ES, Decommissioning Rider, and the PPA rider (return on deferral of Rockport UPA costs through December 7, 2022 and current return thereafter). These riders all provide the Company guaranteed recovery of approved costs and thus, have less regulatory and financial risk than the costs recovered through base rates.

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[67] Direct Testimony of D Brett Mattison at 8.

2014-00396) to the current case, KPC's allocated share of AEP net PJM LSE OATT charges and credits has increased by 80% from $53.8 million to $96.9 million. In ~~2020~~ 2021, the difference in total revenue requirements between KPC's actual transmission costs (including the Kentucky transco) and the amount allocated to it under the AEP Transmission Agreement is ~~$19~~ $27.689 million. That ~~$19~~ $27.689 million is about 25% above Kentucky Power's standalone transmission costs. Under AEP's 2020-2024 capital budget forecast, Kentucky Power will be allocated approximately $465 million in new AEP East system-wide transmission expenditures. That amounts to approximately 33% of the Company's as-filed rate base amount in this case of $1,408 million. Allowing pass-through recovery of transmission cost increases through the PPA would eliminate all incentive for Kentucky Power to control these costs.

Q. What is your recommendation?

A. I recommend that the Commission deny any recovery of incremental OATT LSE net expenses through the PPA Rider. Recovery should be solely through base rates. If this creates earnings erosion between rate cases, then Kentucky Power should address this issue with its affiliate utilities and affiliate state transcos. This is not a problem created by customers and should not be resolved by imposing increases in the expenses on customers through the PPA rider between base rate proceedings.

VIII. TERMINATION OF CAPACITY CHARGE TARIFF