Do you know whether the company has considered reworking its rate design to align the ratepayers' interests in lower utility costs with the company's interest in staying whole and healthy? Because basing it on the viability of sales of increasingly expensive electronic industry and on technology intending to make people use less of that electricity doesn't seem to be a sustainable model.

A. I -- I don't know if any analysis has been done on that with respect to rate design.

Q. Okay. I'll check with Mr. Vaughan on that.

Net metering, you think I need to talk to Mr. Vaughan; right?

A. Yes. That's correct.

Q. Okay. Great. I'm just scrolling down here because we may be closer to being done here than I had anticipated.

A. Okay.

Q. Give me just a minute here.

Okay. And time of day rates, also Mr. Vaughan?

A. Yes, sir.

Q. Okay. And then the declining block was also him, right?

A. Yes. That's correct.

Q. Okay. Flex Pay. Do you know the raw number and percent of customers who have been disconnected during the test year for nonpaying bills?
A. Okay. So Kentucky Power test year, disconnected for non-pay. Is that right?
Q. Yeah.
A. I think for -- for total, it's just a shade under 11,000, and for residential I think it was around 10,400.
Q. Okay. Great. And am I correct in understanding that Kentucky Power has not, to date, performed any studies regarding the impact of a Flex Pay program on the incidence of disconnections?
A. Yeah. That would be right. We haven't done any studies.
What we did is talked to one of our sister companies, Public Service Company of Oklahoma, who has a -- I think they've had a Flex Pay -- it's in my testimony, but I think it's been since 2015 or 2016. They've had a lot of great things to say about that program. So we talked a lot with them when we were trying to put this together.
Q. Okay. And did I misunderstand the testimony that the program in Oklahoma actually started an increase in disconnections for customers who used

the Flex Pay option?

A. Yeah. Initially -- this is my understanding. Initially, it did, and they -- as far as I know they didn't do any studies on it either to determine why that was, but the popular thought -- and I tend to agree with this -- is that customers that -- it's sort of a -- a step change, if you will, from -- from the way that we normally do, you know, with post -- post-pay billing, where, you know, a customer is -- is more -- on the Flex Pay, they're more accustomed to paying, say, smaller amounts more frequently instead of paying a larger amount once a month.

And until they kind of get the hang of it, you know, there's -- there was a -- they saw an increase in those -- in those disconnections early on, until a customer kind of got accustomed to it.

But the great thing about that is that, you know, there's no reconnect fee, there's no late fees, there's no deposit charge, and all the customer has to do to get reconnected is pay enough to -- to get a positive balance on their account, and then they're reconnected within 15 minutes.

So I -- I would attribute it more to kind of an education issue of just kind of getting used to how the program works.

Q. Okay. If you -- that's the Oklahoma, that's why you saw an increase initially?

A. Yeah. And that -- like I said, that came from a conversation I had had with one of our folks out in -- out in Oklahoma.

Q. Okay. Two last areas I would like to ask about.

Are you the person to ask about the commercial customers and the -- of the delta three-phase service, the current service, or is that something for Mr. Vaughan?

A. Well, I did have something in my rebuttal testimony. Is that what you --

Q. You did. On page 14, I think.

A. Page 14.

Q. Yeah. And I just wanted to follow up on that if you're comfortable with it.

A. I'll -- I'll try to help you. I'm not an engineer, but I talked to a couple of folks to find out what -- you know, what your concern was.

Q. Okay.

A. And this -- this is -- this is what we came up with.

Q. Wonderful. Wonderful. I'm not an engineer either, and I didn't stay at the Holiday Inn Express last night either, so we'll try to muddle through together.

A. Okay.

Q. In your rebuttal testimony you mentioned that the Kentucky Power requirement is that commercial customers with a delta three-phase service are going to have to upgrade to a wye three-phase service; is that correct?

A. Yes. That's what the requirement is.

Q. Okay. And is the delta service available now to any new customers?

A. I apologize. I don't know the answer to that.

Q. Okay.

A. I just know that it's a safety concern, you know, for the customer system, for -- for our line personnel, and we take that pretty seriously, so we want to make sure that everything is -- is safe for the customer.

Q. Sure. Absolutely. I think safety is of paramount concern.

How many existing delta accounts are in the Kentucky Power territory now, do you know?

A. I do not know, sir.

Q. Okay. And do you know whether NMS -- the net metering customers to date have had to pay for the upgrade from delta to wye?
A. I do not know.
Q. Okay. All right. Well, then that's fair enough. I won't ask any more questions about that. Just the last couple of questions.
Mr. Mattison had discussed AEP's commitment to reducing carbon emissions by 80 percent by 2050 and aspires to even greater reduction, zero emissions.
Experts on the energy transition have identified the electrification of energy loads and the expansion of renewables as a key strategy for carbonization on a large scale.
Has the company evaluated the potential for increasing the customer load and accelerating Mr. Mattison's goals by incentivizing electrification of the customer loads?
A. What was that last word, sir, incentivization of customer?
Q. Customer loads.
A. Loads.
Q. Yes.
A. Okay. I'm not aware that any analysis or

study has been done in that respect.
Q. Okay. That's fair enough.
MR. FITZGERALD: Mr. Chairman, I appreciate your indulgence. Mr. West, thank you very much. It's been a good conversation. I've learned some things.
THE WITNESS: Thank you.
COMMISSIONER SCHMITT: Mr. Miller for Sierra Club, any cross-examination?
MR. MILLER: Yes, Mr. Chairman. Just a few questions.

CROSS-EXAMINATION

By Mr. Miller:
Q. Hi there, Mr. West. My name is Matt Miller with Sierra Club. How are you?
A. I'm good. How are you?
Q. Not too bad.
Just a few questions for you depending on whether you're able to answer them.
Have you -- do you oversee environmental regulatory compliance as part of your responsibilities?
A. I mean, with respect to filings of the Commission, I certainly would be involved in that, but the details behind it would be -- would be

another group.

Q. All right. I think that I -- let me try a couple questions, and I think that may be enough to answer, but let me try them out.

Mr. Mattison indicated earlier this week orally that Kentucky Power will initiate a docket with the Commission seeking approval of its ELGs compliance plan for Mitchell, and I recall him saying the first few months of 2021.

I'm just curious if you're involved in that and if you happen to know more precisely when that will be filed?

A. I have been on a few calls where we've talked about the potential for that filing. We are talking about sometime in -- in the first quarter, is my -- I -- sorry.

Q. No. That's perfectly fine.

So -- and -- and we won't get into the details, but I just want to ask, you know, we learned that apparently the company will be proposing to select from among other options to make capital investments at Mitchell to maintain the plant as coal-fired past 2028 and through the 2030s. At least that will be the proposal.

Is it safe to say that Kentucky Power's

analysis of the economics of that option featured some projected capacity factor as an assumption at which the coal-fired units would operate into the future?

A. Honestly, I can't speak to what was included in the analysis, sir. I apologize.

Q. That's all right.

The ELGs and CCR rule do not directly regulate carbon emissions, do they?

A. Again, I --

MR. OVERSTREET: Mr. Chairman, I'm going to object. This is far outside the scope of this rate case. He's asking about filing that has not even been made.

MR. MILLER: And I -- that was going to be my last question. I just wanted to get some clarity on a matter that was raised by a couple of the commissioners and that Mr. Mattison did speak to, and there wasn't an objection at that time.

COMMISSIONER SCHMITT: You can answer the question if you -- if you know.

THE WITNESS: Would you care to restate your question, Mr. Miller?

BY MR. MILLER:

Q. Sure. I'm just wondering can you confirm the

ELGs, the effluent limitation guideline, and the CRR rule do not directly regulate carbon emissions?

A. I honestly don't know, sir.

Q. I see. That's all I have. Thank you, Mr. West.

A. Thank you.

COMMISSIONER SCHMITT: Mr. Frye, any questions?

MR. FRYE: No questions, Mr. Chairman.

COMMISSIONER SCHMITT: Vice Chairman Chandler, questions?

VICE CHAIRMAN CHANDLER: Yeah, thank you, Chairman.

EXAMINATION

By Vice Chairman Chandler:

Q. Good afternoon, Mr. West.

A. Good afternoon.

Q. You have -- my desk is nothing but Post-it notes, and a couple of them have Mr. West on them where people have conferred questions to you, so apologies as they're going to be all over the place.

The first one I'm going to ask, I believe I asked Ms. Wiseman about it: Were your responses and supplemental responses on behalf of the company in case number 2020-00085 -- do you remember that?

That's the Commission's COVID docket.

A. Yeah. Sure.

Q. And do you remember the numbers -- in general, do you remember the numbers or the data we were looking at, Ms. Wiseman and I?

A. Was it around -- some percentages around customers paying on time?

Q. It was, for the residential, commercial, and industrial class.

A. Yes.

Q. Okay. And we were looking at those. As far as you remember, do you remember the -- 2017, there wasn't a complete 12 -- 12 months of data because of the archiving. Do you remember that?

A. I believe so. That's right.

Q. But there were full -- full data sets for the on-time pay percentage for 2018 and 2019 as a year.

Do you remember that?

A. I do.

Q. And then it provided each month January through August in that supplemental response?

A. That sounds correct. Yes.

Q. So do you remember that the -- that the on-time pay percentage January through August was -- was either at, a bit higher, or a bit lower than the previous two-year -- two- or three-year average. Do you remember that?

A. I actually don't remember those numbers specifically.

Q. Okay. And that's perfectly fine. And just to refresh your memory, I'll bring that Excel document up.

A. Okay.

Q. Just if you bear with me for a minute. And please let me know when you can see my screen, Mr. West.

A. Okay. Not yet.

Q. Should be coming.

A. Oh, there it is.

Q. Okay. And -- what we were looking at, Ms. Wiseman and I, were 1-9 of this supplemental attachment. Do you remember this? Zoom in.

A. Can you make it a little bigger?

Q. Certainly can.

A. There you go. There you go.

Q. All right. And do you see that the table is percent of customers that pay on time by class?

A. I do. I see that.

Q. Okay. And then there's the '17, '18, and '19 average. Do you see those?

A. Uh-huh.
Q. Subsequent then as we discussed, the '17 is not a complete data set because of the archive?
A. Correct.
Q. Okay. And so the -- at least the '18 to '19, the annual average on-time pay percentage for residential customers was 82.3 and 82.35 percent. Do you see that?
A. I do.
Q. And then do you see the figures January through August for the residential customers?
A. I do.
Q. Okay. And -- and do you remember Ms. Wiseman and I talking about -- about that -- that from the Commission's order in March, in response to COVID, you're aware that the Commission did not allow and does not through the end of the year -- in a subsequent order, allow the assessment of late -- late-payment fees for customers, residential customers?
A. That's correct.
Q. Okay. So for January and February, those months would -- would likely include -- or would include an on-time pay percentage for customers who would have been at least aware that the tariff -- or

paying with the understanding that the tariff includes a late-payment fee, right?
A. We could assume that some would, yes.
Q. Right. And then at least a portion of March but through August, there was no late-payment fee assessed or allowed to be assessed to those customers, correct?
A. That is correct.
Q. And would you agree that the on-time pay percentage did not materially change through those months when there were no -- when there was no late-payment fee assessed?
A. I would agree that it didn't seem to be move -- move around too much. And my take on it is that, you know, there's -- customers that like to pay on time will pay on time, and they don't -- they don't want to incur late fees.
And I'll -- I'll tell you right now, I'm married to someone like that. My wife would sooner poke her eye out than dare to incur a late fee. She'll mail a payment two weeks ahead of time to make sure that there is no chance that she'll incur a late fee.
So I think that the late fee for 80-some percent of our customers is -- is effective at

incenting them to pay on time and -- anecdotally.
Q. Well, if it -- if it affects behavior, then why in the absence of the late fee did behavior not change?
A. I think that that is probably because typically, you're not going to just stop what you've been doing for 50 years or the mindset you have that "I don't want to be late, I want to make sure that I'm paid on time."
I don't think that that would affect, you know, where somebody would just decide, "Well, I'm going to slack off these next so many months because the Commission says they're not going to, you know, charge me any, and then I'll start up again." It's my opinion that that's not likely.
Q. Okay. Do you know if that's the case for commercial and industrial customers in the company's territory?
A. I don't know.
Q. Okay. No, that's okay. We can just look and see at the data that we have, right, on that subject? Do you see the Excel spreadsheet?
A. I do.
Q. Do you see there was -- at least through August there was a -- I would call it a material

reduction in the on-time pay percentage for commercial and industrial customers?

A. And I think that -- that part of the -- you know, the effects of the pandemic I'm sure had effects on those customers, and I'm sure they wanted to pay on time. A lot of them wanted to pay on time and continue as they always had but probably found themselves in a situation where they couldn't.

Q. And you don't think that's the case for Kentucky Power's residential customers?

A. I think it could be. I'm just giving you my opinion on -- you know, based on personal knowledge. I'm sure there were some customers that wanted to pay on time, and -- and they could not for whatever reason.

But I -- I feel strongly that there are a lot of people that -- that it's in their mindset, and as long as they can -- they can do it, they will continue to pay on time.

Q. Okay. And -- and do you remember Ms. Wiseman's -- when she was -- the company's attorneys provided redirect to Ms. Wiseman where she was asked about -- I think it was Ms. Wiseman that said that -- that maybe she didn't think that it did have an impact, but that on redirect, she was asked specifically about the other uses for -- for having the late-payment fee.

Do you remember her being asked and answering that question?

A. Vaguely. I don't remember what her answer was.

Q. Well, she did mention that it reflect -- I believe -- goodness -- that it reflects account receivable -- that it reflects the company's accounts receivable?

A. I generally remember that question, yeah.

Q. Okay. So let me ask you this: In your opinion, and given your position at Kentucky Power, what's the purpose of a late-payment fee?

A. Well, I believe it does -- the purpose is to, one, incent customers to pay on time; and, two, to pay towards some of the fees that were referenced by Company Witness Wiseman.

Q. Okay. And do you know what the company does with its accounts receivables -- receivables?

A. We factor our accounts receivables, meaning we sell them to AEP credit.

Q. And when do you-all do that?

A. I think that those are done on a daily basis, since we -- you know, whenever we're reading meters, we're billing customers that night. I'm really not the expert on this.

I think that -- well, I'm not sure who is. I apologize. I don't have a whole lot of knowledge on that.

Q. Well, no, I -- I asked Ms. Wiseman about it, and she did defer to you.

And on redirect, the company's attorneys asked her questions about what other purposes it serves, and -- and she said that it -- paraphrasing here, it reflects the cost of the past-due receivables, but if the company settles their account receivables each day, then what is the cost of past-due receivables?

A. Then what is the cost of what?

Q. Well, she said something about past-due receivables. Right?

If somebody hasn't paid -- well, let me ask it this way: If somebody hasn't paid, right -- if you charge somebody for something -- not even talking about the company. You're a handyman. You charge -- you do a job for them, and you have done the job, and then you send them the bill, right?

You've already had the capital outlay -- or you've already done the work, right? And so every day it takes for them to pay you, you're effectively financing that, right? That's a real cost. Whether it's an opportunity cost or whatever it may be, it's a real -- it's a real economic cost to the person who has sent the invoice. Right?

A. Yeah, okay.

Q. Okay. But -- but imagine the day that that -- that person sends the invoice out, they immediately sell that account receivable to somebody else and they get paid. They don't have any -- any concern anymore how long it takes to get recovered, right? They don't have any economic cost going forward.

Wouldn't that be the case for the companies?

A. Well, what we've seen, though, is an increase in the amount of delinquencies, the increase in collectibles, and there's -- it's my understanding there is a collection experience fee that is charged, and I guess the -- the larger of outstandable -- of outstanding debt is in the bad debt expense, the uncollectibles, the higher that collection experience fee is.

So in a way that's like a carrying charge for a company that -- you know, for a company that factors their receivables, it's the equivalent --

that's how I think of it, anyway, the equivalent of a carrying charge.

Q. If a person is struggling to pay the bill at the due date, is it your experience that they're going to be able to pay their bill following the due date and after the assessment of additional fees?

A. I don't know. It depends on a lot of factors, I would think.

Q. And is it your experience that as rates go up, that as a general matter, people are more able to afford their bills?

A. Again, that depends on a lot of factors. One bill could go up, one bill could go down. There could be a change in any number of things that would affect whether a customer can -- can afford that bill or not.

Q. But -- but, Mr. West, holding all other things equal, the more expensive something is, the less affordable it is, right? That's intuitive.

A. Well, it depends on -- on the customer, I think, or the situation.

Q. Okay. So the only -- I guess the only other chance I have on the issue in terms of account receivables would be Mr. Vaughan. Is that -- is that a fair assessment?

A. And I -- I don't know if Mr. Vaughan knows a lot about that. I honestly don't know. But you can certainly ask.
Q. Okay. So staff -- Commission staff was asking you earlier about the EEI dues. Do you remember that?
A. I do.
Q. Okay. And the actual expenses -- you went through an Excel spreadsheet with Ms. Vinsel. Do you remember that?
A. Uh-huh. Yeah.
Q. And I think it was -- excuse me for a second -- response to an Excel spreadsheet -- attachment to it in response to KPSC2-47. And I'll bring it up here in a minute.
But is that what you remember it being, that attachment to?
A. Yes.
Q. And that's where that $88,000 sum was related to EEI dues. Do you remember that?
A. Yes.
Q. Okay. And -- and the reason I'm asking, big picture to start off with: The data there was provided by Ms. Scott and Ms. Whitney. I think they were the respondents to the data requests. Right?

My question is different. Rather than the people who were able to provide the data, who is supporting the reasonableness of recovering the expenses included in those Excel spreadsheets?
Does that question make sense?
A. I think so. Who supports the reasonableness of recovering the -- like the $88,000?
Q. Right. Because you addressed the $88,000 in your rebuttal testimony, so I take it as with the $88,000, you're the one supporting the reasonableness of the recovery, correct?
A. I would say that that's fair.
Q. Okay. And I'm just curious, the other expenses in that document, not in terms of -- you know, Ms. Whitney worked for AEPSC, correct?
A. Yes. That's correct.
Q. And she was able to provide the data in her role as an accountant on behalf of Kentucky Power, right?
A. That's right.
Q. And Ms. Scott works for you, correct?
A. Yes. She does.
Q. Okay. And your role in this case -- it's not your expectation that either of those two people are necessarily able to speak to the company's ability

to argue that the individual costs included in that are reasonable for recovery. Does that make sense?

A. It makes sense.

Q. So would you be the witness that would be available to discuss some of those -- the reasonableness of some of those expenses?

A. I can certainly try if you would like to.

Q. Well, I --

A. Well -- go ahead.

Q. No. No. Let's break -- if it's okay with you, instead of -- you know, I'm trying to make sure it's you, but we can bring it up, we can talk about it, and if you can talk about it specifically, that would be great.

But I'm trying to understand having seen them why it's reasonable for customers to pay them, and I assume that getting down to the nitty-gritty, it would be you or Mr. Vaughan that could speak to that. Is that fair?

A. It is. And I don't know that -- that I'm going to get down into the nitty-gritty, as you say. But, you know, we would -- we would be more than happy to work on any post-hearing data request if that would help too.

Q. Well, no, I appreciate that. But these are costs that you've proposed in your application for recovery, right?

A. Yes. They're -- it's my understanding they're costs that are normally included in the cost of service.

Q. Well, and that's -- that's what I wanted to ask about. So I'll share my screen here for some of them.

But some of them are business development costs. Please let me know when you can see my screen. And I will zoom in. I promise.

A. I can see it, but --

Q. Okay. So we'll go to -- maybe I zoomed in too much. Excuse me.

A. No. That's good.

Q. All right. So we'll go down here to -- sorry. Just let me scroll here for a minute to the line we were talking about earlier so we can get our bearings.

Like the 232, Edison Electric Institute, $88,361.34. Do you see that?

A. Yes, sir.

Q. Okay. So when we were talking about costs that were historically included in the company's cost of service, you mentioned earlier that

following the -- your -- following your reading of some of the intervenor testimony, you became aware that historically the Commission had denied a larger portion of, for instance, EEI dues than the company proposed in this case, right?
A. I remember reading that. Yes.
Q. Okay. And so when you say that these are the costs that were historically included in the company's cost of service, that may not necessarily be the case. Correct?
A. Honestly, it could be. And as I said, I -- I'm not -- I wasn't included in -- or involved in the last rate case to know that history.
Q. Okay. But, like, for instance, advertising expense, is it your understanding that advertising expense is ordinarily a recoverable expense for a monopoly utility regulated by the Public Service Commission?
A. Well, if it -- if it has to do with safety, it would.
Q. Okay. And -- and what -- what is that -- what is that assertion based on?
A. Assertion based on -- it's my understanding that safety-related messaging and advertising are recoverable in the cost of service and other types

of advertising are not.
Q. Perfect. And -- and so that would be your basis, then, for this particular advertising, that it's safety-based?
A. I honestly don't know what is included in this advertising line.
Q. Okay. And then down here for public opinion, do you see that -- that are Column G for these public opinion when described -- they're public opinion services completed by MSR group?
A. I do see it. And as I said, it -- it is my understanding that these were normal costs that were included in the cost of service.
Q. Okay. And then -- let's see down here. Additional advertising, more advertising in the Daily Independent Appalachian News.
Is it -- is it your testimony that this $59,000 in advertising is all safety related?
A. What are those? Those are, like, Kentucky Press Services?
Q. Right. Your company billing Daily Independent Appalachian News. This entire section here is $59,820.04.
A. Now, we had -- my team had gone through and eliminated all of the ones that we didn't feel -- I

keep getting -- I'm sorry. My team went through and did make the adjustment in this case for the advertising that we felt didn't -- didn't apply, and we took it out.

Q. Okay. But to the question I asked you about earlier about who was supporting the reasonableness of it, we -- could you understand that maybe the Commission never gets that distinction?

A. Well, I guess with respect to the -- the adjustment that we made in the case, whichever witness sponsored that -- if that was Witness Scott, then she was testifying as to the reasonableness for the ones that were still standing after we removed the ones that were not.

Q. Okay.

A. I've just got -- when it comes to the EEI stuff, I'm just not -- I'm not sure who would have that kind of, you know, specific knowledge of every advertising thing that they did and that was included in those -- that were included in -- in those line items.

Q. Okay. And -- and then -- I just want to go real quickly here.

So beyond the public opinion, then we have a number of things here, like between lines 225 and

229, there's the Kentucky Chamber of Commerce. There's a lot of stuff on here that's just AEP bills, intercompany billing. Southeastern Electric had changed.

And all of these are under the category of -- excuse me, to get through them -- there's quite a few of them to get through, of miscellaneous general expenses. Do you see that?

A. I do.

Q. Okay. And so do you know who would have supported these as being reasonable to recover from customers?

A. We included what we felt was reasonable to recover from customers.

And what I mean by that, your Honor, is we went through a list and removed all the ones that we thought were not appropriate to recover. So what remains on the list is what we thought -- now, we can certainly do some more research on those and digging if that will help.

Q. No, I -- what I want to ask is in the company case in chief, where did they -- where did you-all explain where these -- how these costs are appropriate for recovery?

A. I don't know that we addressed that

specifically in any Q&A or -- or discovery response. I don't remember if we did.

Q. Well, I -- and maybe it's unfair for me to ask you on the stand to point to a multi thousand -- 10, 15, 20 or however many thousand pages it is, but if the Commission asked -- if we asked staff in a post-hearing discovery response where in the record the company, you know, put forth the argument as to why the company expenses are reasonable or why these are appropriate and the other ones are not, could the company point us to those if it's in the record?

A. We can certainly look and see where it might be in the record. Yes.

Q. I appreciate that. And with the 24 percent and 13 percent that were discussed earlier in regards to the EEI dues, do you understand that -- is it your understanding that those are amounts or percentages required under IRS rules for deductibility purposes?

A. I honestly don't know, your Honor. I'm sorry.

Q. You don't remember reading that on the EEI invoice where it specifically said "this is for tax purposes"?

A. I don't really remember reading that.

Q. That's fine.

So why is the company proposing the first year offset, using the excess -- the accelerated amortization of the unprotected excess ADITs?

A. Primarily, we're offering that as a mitigation effort for customers to absorb that first-year increase, allowing more time for, you know, the economy to come back, and the effects of the pandemic to -- to die down.

It was a reasonable mitigation effort. It was one that we thought would be meaningful to customers and would help, honestly.

Q. So do you think that -- I just want to make sure I understand -- the proposal to offset a portion of the second year, then, is unreasonable?

A. Well, I had mentioned in my rebuttal testimony, and Witness Messner had talked about the extra pressure that the time length would put on -- on the company's credit metrics. I guess, you know, in general, if it's a shorter period of time, there's less of an effect.

And that's why we were -- we were pretty comfortable staying with the one year and willing to -- to take a little ping for that. We know that it may result in, you know, a little additional hurt on financial metrics for the company, but it -- I think it's the right thing to do for customers.

Q. Okay. And by the right thing, you just mean the first year offset. You don't agree that offsetting the second -- a portion of the second year is the right thing to do?

A. Well, just, it --I guess it's a level of tolerance, you know? Like I said, we're willing to do as much as we possibly can for our customers, and -- and they're the reason that we're in business, and we felt pretty comfortable at one year, just not any further than that.

Q. Well, and the willingness -- I do have a question on that, as it relates to the capacity charge.

Do you remember me asking Mr. Mattison about the company's proposal as it relates to the capacity charge?

A. I do.

Q. Okay. And -- and do you know -- Mr. Mattison's testimony is that the company is only willing to forego the capacity charge for the next I guess two years if the company's application as filed is accepted in total by the Public Service Commission.

Do you remember that?

A. I do. I remember.

Q. Okay. And is that -- does that continue through -- through this hearing, continue to be the company's position?

A. Let me -- let me ask you a clarifying question.

There were some other adjustments, I think, and -- where you may be referring to something in -- in our rebuttal testimony where Mr. Vaughan had made a couple of changes --

Q. Well, there's two questions.

A. -- is that the context of it?

Q. One -- two separate questions, then, based on that.

The first one is: Is it the company's proposal that -- that it's only going to offer this up if the Commission approves the application as filed, or is -- because that's what Mr. Mattison's testimony says, as filed. I think the rebuttal even says "as filed".

Or is it the company's proposal that they will only give it up if the Commission approves everything the company asked for as amended?

A. I understand the question, and I remember

Mr. Mattison saying "as filed."

I do believe that -- that we would have to take those amendments into consideration, though.

Q. Okay. So -- so you're saying that -- that due to the company's amendments in this case, the company no longer necessarily takes a position as it relates to the capacity charge?

A. No. I didn't say that. I said I think that we would have to take the amendments into consideration.

Q. Okay. Let me ask, then: Based on knowing that you-all made amendments, right, what is the company's position?

A. I think the company's position would be that instead of the "as filed" I believe was the way you asked it, the as filed or as amendment -- which one are you saying, that we would still be -- that the capacity charge would still be conditional on the "as amended" is the way...

Q. And that's a -- that's a 10 percent ROE, the grid modernization rider, a CPCN for AMI, the 10.-something million dollar excess -- accelerated amortization for the bills as of some point in June, the increase in the customer charge, and then the net metering tariffs as -- as filed -- oh, and avoided a cost rate as amended in Mr. Vaughan's rebuttal testimony.

Is that -- is that the company's proposal?

A. That sounds like a fairly comprehensive list. Yes.

Q. Okay. I was curious about -- do you remember the questions that Mr. Spenard was asking you earlier regarding the first-year offset?

A. Yes. Generally.

Q. Okay. But something you may be getting to -- and I'll try to ask this more directly. The purpose of the offset is to make customers as a whole indifferent to the increase, right?

A. That's right. It's to absorb that first-year increase.

Q. But because of the proposed change -- proposed change in the rate design, it may not hold each individual customer harmless. Is that fair?

A. It's possible. I think Mr. Vaughan needs to address that specifically with you.

Q. Okay. Just a couple more that people have pushed off to you, Mr. West.

A. Sure.

Q. Most of these say "Vaughan" beside them.

So I just want to make sure still -- the

Illinois and Michigan sales still -- those questions should still go to Mr. Vaughan?
A. Yes, sir.
Q. Okay. We talked about the late fees. Are you in charge of the company's FRR plan as it relates to -- as it relates to Kentucky Power?
A. I am not. Again, Witness Vaughan would know the most about the FRR plan.
Q. Okay. And as it relates to the IRP, though, are you-all planning your resources in the IRP for purposes of meeting your FRR plan or to serve your native load?
A. I think that Kentucky Power's IRP focuses on planning for its native load.
Q. Okay. So the wind -- forget the wind.
The solar, for instance, right, solar occurs -- solar as a generalization -- Mr. Horton and I were talking about this as a generalization. Solar is better in the summer and better when it's sunny outside, right, as a general matter?
A. I remember those -- yeah. I remember those questions, yes.
Q. Okay. And when Kentucky Power peaks, it's ordinarily in the winter, correct?
A. Yes. It's normally in the winter like in the

early morning.
Q. Early morning right after dark?
A. Yeah. Probably. Probably. We have a lot of electric heating customers.
Q. Okay. So as it relates to meeting Kentucky Power's peak demands, solar power would have little ability to -- to contribute, correct?
A. That's my understanding, yes.
Q. Okay. But Kentucky Power -- but PJM, do you understand PJM to be generally a summer peaking utility or a summer peaking RTO?
A. Generally, yes.
Q. Okay. And so for the FRR -- do you remember me and Mr. Horton talking about how the FRR plan is required to be planned for -- to meet PJM's peak?
A. I remember that discussion, but I'm afraid I can't offer a whole lot here, your Honor.
Q. Can --
A. Go ahead.
Q. We have an IRP hearing fairly soon --
A. We do.
Q. -- so I was hoping with 20 witnesses or 21 with Mr. Carlin, that we would be able to find somebody who worked on the FRR plan in this hearing.
But at some point if you could make someone

available who was in charge of the FRR plan, I would appreciate that.

A. We will. And like I said, Mr. Vaughan has the knowledge on the FRR plan.

Q. Okay.

A. Yes.

Q. And then -- and then I think the very last set of questions for you, Mr. West.

Do you remember me talking to Ms. Whitney about the amortization of the capacity -- withdraw that -- the amortization of the UPA deferrals?

A. Yeah.

Q. Okay.

A. I believe so, yes.

Q. And we talked about the -- Ms. Whitney referred to the final -- it's not the final order, but the January 18th order in case number 17-179 in that regard?

A. Yes.

Q. Okay. And Ms. Whitney, do you remember her testimony -- and I don't want to bring it up if I don't have to. I want to save some time.

A. Okay.

Q. But that it said something about $59 million and then referred to a five-year amortization and

then a $12 million -- annual $12 million cost. Do you remember that?
A. I remember that. Yeah.
Q. And would you agree, just to try to move this quickly, that if -- if the company does what the final order in the 2017 rate case allows it to, which is to incur a carrying charge until the complete amortization of that deferral, that the ultimate amortization payments in that five-year proposal will be more than $12 million?
A. That is correct. It would be.
Q. And so that $12 million may have just been an oversimplification in her testimony, that's perfectly fine.
But what I want to make sure that I understand is the company is proposing to continue to incur carrying charges or defer carrying charges, whatever it may be -- but incur carrying charges through that proposal on that entire five-year amortization?
A. Yes.
Q. That's the company's proposal?
A. I believe it was that way approved in the order, and that would be the company's proposal --
Q. Yeah. And I just want to make sure that the

company in this case is proposing the five-year amortization, correct?

A. We are. Yes.

Q. And I just want to make sure I understand the company's proposal in that regard.

So I thank you very much, Mr. West.

A. Okay. Thank you.

COMMISSIONER SCHMITT: Dr. Matthews, questions?

COMMISSIONER MATTHEWS: I don't think there are any questions left that can be asked -- that can be asked of him, so no.

COMMISSIONER SCHMITT: Mr. Overstreet, redirect?

MR. OVERSTREET: Thank you, Mr. Chairman, but before I do so, could I ask a clarification of the Vice Chairman concerning his request concerning an FRR witness?

COMMISSIONER SCHMITT: Yes. Go ahead.

MR. OVERSTREET: Okay. Thank you.

Mr. Vice Chairman, you indicated you were -- you would like a witness who could testify concerning the company's FRR plan. I understood that to be in the December 10 IRP hearing. Is that understanding correct?

VICE CHAIRMAN CHANDLER: Yeah. Thank you, Mr. Overstreet. At the least.

I was actually hoping somebody in this case would be able to, and that's okay if they can't. It just would have been handy for a couple of the questions I had on some of the company's proposals as it relates to -- to the net metering.

MR. OVERSTREET: Well, Mr. Vaughan has agreed to attempt to answer your questions today.

VICE CHAIRMAN CHANDLER: I very much appreciate that. Thank you, Mr. Overstreet.

MR. OVERSTREET: Thank you.

COMMISSIONER SCHMITT: Mr. Overstreet?

MR. OVERSTREET: Mr. West --

COMMISSIONER SCHMITT: Mr. Overstreet? Mr. Overstreet? Let me ask a question first.

MR. OVERSTREET: Yes, your Honor.

COMMISSIONER SCHMITT: At about 20 until 3:00, we're going to have a take a recess real quick because the Commissioners have to attend to some other business with another state agency, so we will have to take a recess.

And I'm just wondering if you anticipate your redirect examination will take more than five minutes or so? We probably ought to just hold it until we can recess and come back.

MR. OVERSTREET: Your Honor, I think if we took the time, we could -- we could reduce the amount of time it -- with further redirect. So may I perhaps recess right now?

COMMISSIONER SCHMITT: Yeah. Let's just go into recess. We hope to be back by -- by 3:00. And if we get through sooner, maybe we'll -- we'll try. But let's just go into recess until -- until 3:00 p.m.

MR. OVERSTREET: Thank you, your Honor.

(A DISCUSSION WAS HELD OFF THE RECORD.)

COMMISSIONER SCHMITT: I think we're now back on the record. Mr. Overstreet, do you have redirect examination for Mr. West?

MR. OVERSTREET: Yes, I do, your Honor. And thank you for the opportunity to whittle it down. I think I have very narrow topics.

REDIRECT EXAMINATION

By Mr. Overstreet:

Q. So, Mr. West, you were asked several questions by the Vice Chairman concerning late-payment fees. Do you remember those?

A. I do.

Q. And during the break, did you have the opportunity to review the company's filings in this case relating to late -- excuse me -- late-payment fees?

A. Yes. I did.

Q. And could you direct the parties and the Commission and the staff to the particular filing that details those late-payment fees?

A. I can. This was in the staff's sixth set of data requests. It was item number 9. And this is attachment one.

Q. And for the test year, what was the amount of the late-payment fees collected by Kentucky Power Company?

A. The late-payment fees collected during the test year were $4,066,116.73.

Q. And if the late-payment fees were eliminated, what effect would that have on the company's revenue requirement?

A. The revenue requirement would have to be increased by like amount.

Q. Okay. Thank you.

And you also discussed the -- at least in part, the company's advertising expenses included in its test year; is that correct?

A. Yes.

Q. And is that addressed in any company witness' testimony?
A. Yes, sir. During the break, it -- we were able to locate that in Ms. Scott's testimony, and that would be her direct testimony at page 10, work paper 19.
Q. And in rough figures, what percentage of the advertising expenses were eliminated as a result of the procedure described by Ms. Scott?
A. I believe it was roughly 50 percent.
MR. OVERSTREET: Your Honor, I have no further questions.
COMMISSIONER SCHMITT: Let me -- let me just ask one question. I just happened to pick up a minute ago -- been here for a few days -- the Martin County newspaper, The Mountain Citizen.
Anyway, the headline is "Community center faced with $51,350 electric bill," and here's what it says: "The Roy F. Collier Community Center continues to struggle just to keep the lights on. The biggest bill the center is facing is for electricity as the Kentucky Public Service Commission did not approve a bill reduction of $38,000 per the request of Kentucky Power."
What's all that about? Is that the other case

you filed asking us to -- I don't know. Do you know?

THE WITNESS: Mr. Chairman, I -- that's probably a reference to our debt forgiveness filing that we made on May 29th this year.

COMMISSIONER SCHMITT: Yeah. I thought perhaps that's what it was. Well, I suppose -- I guess they -- the newspaper must have contacted Kentucky Power who told them that the reason they had -- the bill was so high was because we didn't agree to their -- I guess the way -- the way you wanted the -- the ADIT money, unprotected money redistributed.

But anyway, that's -- I just -- whatever comment. I have nothing further.

MR. OVERSTREET: Thank you, Mr. Chairman. May Mr. West be excused subject to recall?

COMMISSIONER SCHMITT: Yes. Yeah. Mr. West, you may be excused, and we can -- everybody -- the most anticipated witness at any and all Kentucky Power hearings is Mr. Vaughan because he's always the person who everybody relies upon to have the answers that -- that are so elusive. Okay.

Ms. Blend, is this Mr. Vaughan?

MS. BLEND: It is, your Honor.

COMMISSIONER SCHMITT: Mr. Vaughan, I want to say before I swear you in, I've just said that you're the most anticipated witness in any Kentucky Power case.

Over all the years that -- the three years, I guess, that I was here with Vice Chairman Cicero at the time, you were the only -- you received more credit and praise from him than anybody that I think has ever testified during the time he was here because of your -- of your knowledge.

And you probably remember all of the good things he said about you.

THE WITNESS: Yes, your Honor. I actually attached them to my annual review.

COMMISSIONER SCHMITT: In fact, I think he didn't understand why you weren't president of the company. In any event, please raise your right hand.

Do you solemnly swear or affirm under penalty of perjury the testimony you're about to give will be the truth, the whole truth, and nothing but the truth?

THE WITNESS: I do.

COMMISSIONER SCHMITT: Counsel, you may ask.

MS. BLEND: Thank you, your Honor.

ALEX A. VAUGHAN, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Ms. Blend:

Q. Good afternoon, Mr. Vaughan. Will you please state your name and business address for the record?

A. Alex Vaughan, 1 Riverside Plaza, Columbus, Ohio, 43215.

Q. Thank you. By whom are you employed and what position?

A. American Electric Power Service Corporation. I am the director of regulated pricing and renewables.

Q. Thank you. And did you cause to be filed in this case testimony, direct testimony, and rebuttal requests?

A. I did.

Q. Do you have any corrections?

A. I do in my rebuttal testimony, the very last section.

Q. Page 43 of your rebuttal testimony?

A. That sound right. There's quite a few of them. Yes. It's the Q&A beginning at line 9. In the answer in line 14, after "FERC order 872," we need to insert "subject to FERC approval," and then after "company" we should insert "will," and then change "has" to "have."

And then on line 16, after "company," "is" should be changed to "will be." And then the entire sentence beginning on line 13 should read: "Most notable for the company's co-gen FTP tariffs is that under FERC order 872, subject to FERC approval, the company will no longer have a purchase obligation on FERPA qualifying facilities, QFs, up to 20 megawatts. The new QF project purchase obligation for the company will be 5 megawatt and less because it is a member of an RTO."

Q. Thank you. Subject to those changes, if you were asked the same questions here today would your answers to your direct testimony, rebuttal testimony, and data requests be the same?

A. Yes, they would.

Q. Thank you. And did you -- are you also sponsoring Company Hearing Exhibit Number 1?

A. I am.

MS. BLEND: At this time, your Honor, could staff please project Company Hearing Exhibit Number 1?

MS. VINSEL: Travis, did you get that? Company Hearing Exhibit Number 1.

VICE CHAIRMAN CHANDLER: Ms. Blend, can I ask, while staff is bringing that up, given the -- it negates a couple of my questions, but given the significant change in regards to Mr. Vaughan's rebuttal testimony on order 872, will the company please file a copy of that amended rebuttal testimony in the record?

MS. BLEND: We would be happy to, your Honor.

VICE CHAIRMAN CHANDLER: Thank you.

MS. BLEND: Would you -- just to clarify, would you prefer that we file a corrected revision of Mr. Vaughan's rebuttal testimony in its entirety or would you prefer that we provide a redline on page 43 of his rebuttal testimony, or does it matter?

VICE CHAIRMAN CHANDLER: I'm indifferent.

MS. BLEND: Okay.

VICE CHAIRMAN CHANDLER: As long as the corrections are reflected in the written portion of the document, I would appreciate it.

MS. BLEND: Absolutely. Thank you.

BY MS. BLEND:

Q. Mr. Vaughan, you have before you the document that has been identified as Company Hearing Exhibit Number 1, which you just testified you're sponsoring?

A. Yes. I do.

Q. Can you please describe this document?

A. Yes. So what this is a -- a modified version of what would be section 5, the summary, page 2, in the filing documents, the filing requirements in this case.

And basically, it is a summary of the revenue -- overall revenue requirement and the various pieces of it, and there are two revisions to that that came up in discovery that we wanted to -- to amend here in this hearing exhibit.

The first of which if you're looking at the line numbers on this would be R1, and in response to staff 6-18, there was an allocation direct assignment issue with a purchase power account. It should have been direct assigned to Kentucky retail, and it was allocated. So that change would reduce the requirement by that 211,279.

And then the next one is in response to a revision to staff 4-65 on storm normalization, the company found a revision was needed there, so that -- in that adjustment W15. So that would reduce the revenue requirement by $97,437, taking that into account.

So the bottom line total net increase was originally just -- was $65,001,789. The revised amount is $64,692,762.

Q. Thank you.

MS. BLEND: Your Honor, Mr. Vaughan is available for cross-examination.

COMMISSIONER SCHMITT: Ms. Vinsel, cross-examination?

MS. VINSEL: Yes. Thank you.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Vaughan.

A. Good afternoon.

Q. I think from what the Chairman just said, you might have a second page to attach to your performance reviews.

Do you recall in your response to Staff 6 Request, Item 1 -- and I can bring it up if you would like me to, staff asked for a detailed list of all rate-based expenses that Kentucky Power will no longer incur following the termination of Rockport UPA in December 2022.

A. Yes. I recall that.

Q. Okay. And in your response, you had said that the company incurs only purchase power expenses through Rockport UPA, which is recovered through tariff PPA so there are no expenses in rate base that the company will cease enduring when the UPA terminates. Do you recall that?

A. That's correct.

Q. Okay. Thank you.

MS. VINSEL: Travis, can I have you bring up -- it is -- I've got it written down so many times -- excuse me. What I'm going to look for is the application section V, Exhibit 2. Let me get you that number. Travis, it's document number 12. Can I have you scroll down to the list of adjustments? Can you first go to adjustment 47? And there's an embedded link there in that index. Thank you.

BY MS. VINSEL:

Q. And, Mr. Vaughan, this is an adjustment, W47, that -- excuse me, that you sponsored, correct?

A. That's correct.

Q. Okay. And this is adjusting the purchase power expense to -- excuse me, I'm sorry -- to rate base?

A. No. It --

Q. No?

A. It's adjusting purchase power expense in base rates. There are no rate base or capitalized amounts in -- the company's request for Rockport UPA, in the company's base case here or the revenue requirement because the UPA is billed to the company by purchase power expense. It's all in 555.

I guess I'm not making the distinction between rate base, which is assets, and base rates, which are the company's base rates.

Q. I'm sorry. I should have said base rates.

Staff is -- staff is wondering why this adjustment was necessary if it increases the purchase power expense for changes to the Rockport UPA bills, but why it would be necessary if the Rockport UPA flows through the PPA as opposed to base rates?

A. It's still in -- it's still in base rates until UPA goes away. I guess that discovery request asked about when the UPA terminates, and after that there's no more base rate cost of service items for Rockport because in the last rate case, the approved stipulation in that case by the Commission has already dealt with kind of the end of UPA costs.

When those go away, they flow through -- the fixed cost savings flow through the rider PPA. And then we begin to collect the Rockport deferral with the carrying charge through the PPA.

So right now, until the UPA terminates, there are base rate costs of Rockport that all shifts to the PPA. In some portion the environmental surcharges will be reduced when the UPA terminates.

Q. Okay. I think I'm following you, but if you don't mind, I want to double-check.

There's essentially a difference between when the Rockport UPA terminates and when those expenses go away, correct?

A. There's -- we have deferred expenses from Rockport, so those obviously don't go away. But the billings from AEG company will stop when the Rockport utility terminates in December 2022.

And the adjustment, W47 that we reference here, I addressed the need for that in my direct testimony on page 48 starting at line 9, and that -- that's because of the operating ratio in the billing calculation.

The unit 2 SCR was not in service during the test year, so there was a large amount of plant in CWIP, which lowered the amount of return billed to Kentucky Power Company through the UPA. That has since gone into service increasing the operating ratio and the billing calculation and increasing the amounts billed to Kentucky Power through the UPA.

And that is why we needed adjustment W47 to increase base rate purchase power demand costs.

Q. And adjustment -- and W53, which I know is sponsored by Ms. Whitney, is that a similar circumstance?

MS. VINSEL: Travis, can I have you scroll down to W53?

THE WITNESS: No. I -- again, this was sponsored by Company Witness Whitney, but my recollection here is that there was a -- a one-time bill credit in the test year that Company Witness Whitney removed through this adjustment.

BY MS. VINSEL:

Q. And I know in Ms. Whitney's direct testimony, I'll just say it's on page 30, lines 12 through 16, she references that this adjustment also increases purchase power expense.

A. That's right. Because again, the -- some portion of Rockport demand-- right now you have Rockport demand costs -- excuse me, Rockport UPA costs being billed to the company. The environmental amounts are collected through the environmental surcharge.

The rest of the costs are collected through purchase power expense. The demand portion of that is in base rates, and you also have the deferral kind of overlaid over top of that from the last rate case order, and so the amount that isn't deferred or collected through the environmental surcharge is recovered in the company's base rates until the UPA ends.

Q. Okay. I may have a follow-up on that. I'm getting a question out to somebody, so I may have to circle back to that.

Speaking of Rockport unit 2, SCR, and SCRs selective catalytic reduction, when you talked about going back to adjustment W47 --

MS. VINSEL: And, Travis, you can take that off of the screen. Thank you. I'm sorry. I'm getting some directions off screen. We have a couple callers that we need to make sure are muted.

For those that are calling in on their phones, please make sure your phones are muted. We're getting feedback from that.

BY MS. VINSEL:

Q. Okay. I'm going to start over again, Mr. Vaughan.

Going back to adjustment W47, also in a data response, in that sixth data response from

Commission staff, item 12, you said that adjustment W47 does not include the recovery of Rockport unit 2 SCR, and that the operating ratio essentially removes construction work in progress, which is also known as CWIP, from rate base calculation.

All of that is to get to my question. And do you have it in front of you now?

A. I do.

Q. Okay. My question is: If the CWIP balance was largely an environmental project that is recovered separately through Kentucky Power's environmental surcharge, why would there be a change in the operating ratio that would affect the base rate amount of purchase power expense related to Rockport RPA?

A. Yeah. I see where that's -- that can be confusing.

The UPA -- not to sound harsh, but the billing through, it doesn't care about how we collect costs in Kentucky. It functions based on the approved formula.

And so let's say the total plant's ten, and three of that is CWIP, so it is reducing the operating ratio, essentially, to 70 percent. So it then bills total plant and service. It only keeps calculated return on 70 percent at that point.

So even though that's an environmental project, it is lowering the return billed to Kentucky Power while there's an environmental project in CWIP on all plant in service, whether it's environmental or not.

So what I say in this response to W47 doesn't include environmental plants. When we calculated the operation, we go back up to a more normal level, post SCR going into service. We took the environmental plant out of the amount of plant in service we were calculating that increase on.

So the adjustment's just accounting for the increase in return on non-environmental Rockport plant because of the operation of that operating ratio. That's redundant, but...

Q. I think I followed you. Again, I am going to see if I get any directions off stage from my co-workers.

I should explain, Mr. Vaughan, and you may have seen my explanation earlier, because it's a very small group allowed in the hearing room, many of my co-workers are texting me with any follow-up issues. So if I look down at my phone, I'm not -- it's not that I'm not paying attention.

VICE CHAIRMAN CHANDLER: Ms. Vinsel, can I ask a clarifying question on that?

MS. VINSEL: Yes, please.

VICE CHAIRMAN CHANDLER: Mr. Vaughan, are you just saying that you're normalizing the non-environmental amounts of the operating ratio for calculation in this case by grouping the environmental portion of the plant?

THE WITNESS: No. So while the SCR was in CWIP, it reduced the operating ratio that applied to all plant in service at Rockport. So then the operating ratio goes back to normal -- more normal level after the if SCR went into service in June. And so for purposes of calculating this adjustment, we used the normal operating ratio compared to test year, and we calculated the increase on total return, but we excluded the environmental plant on that.

So we're trying to get to the increase on base rate purchase power demand cost, not what would be going in to the environmental surcharge. That is what W47 does.

VICE CHAIRMAN CHANDLER: Thanks.

MS. VINSEL: Thank you, Vice Chair.

BY MS. VINSEL:

Q. Just to give you a heads-up, Mr. Vaughan, we'll be asking a post-hearing data request to get some more support for the separating out. You'll see --

A. That's already been supplied.

Q. Okay. Can you tell me where?

A. It's in a staff set five request. I don't have the exact number off the top of my head, but we can get that request to you. But that work paper has already been supplied.

Q. Okay.

A. I, unfortunately, printed my data requests in too small of font because there was a lot of them. I'm having a little bit of trouble going through that right now.

Q. I understand how that happens. And I've actually got a summary. I'm going to see if I can just pull it up quickly, if I can.

MS. BLEND: Ms. Vinsel, we're doing the same thing here. We may be able to locate it in a moment.

MS. VINSEL: Okay. I just want to -- I don't want to take unnecessary time, but I want to make sure that our team -- that we don't ask unnecessary questions. I'm just going to rely on -- I think you ought to look because I'm not seeing an obvious response.

THE WITNESS: We'll provide the reference, but, yeah.

BY MS. VINSEL:

Q. Oh, I've gotten a response from my co-worker, that the work paper for the adjustment doesn't tie this to the UPA expense.

So why don't -- why don't we -- we do this: Commission staff will draft a post-hearing data request, and if it refers to something that's already in the record, you can point that to us. Is that an acceptable compromise?

MS. BLEND: Sure. That would be fine. Thank you.

MS. VINSEL: Thank you.

BY MS. VINSEL:

Q. I've really just got one last question. And it really gets to that issue of whether the Attorney General KIUC's witnesses had discussed using rate base or capitalization for the return-on component of base rate revenue requirement.

And in your rebuttal testimony, Mr. Vaughan, you said -- I think this is a direct quote -- "when done correctly, the two methods should reach, materially, the same result."

Can you expand upon that?

A. Certainly. So whether you're calculating rate base or what -- excuse me.

Whether you're calculating the basis for the return-on component and rates, I'll describe rate base as a -- you know, bottom-up kind of calculation where you have to add things in, or whether using capitalization as Kentucky Power has proposed in this case, at the end of the day, you should get to -- all of the electric utility assets that have been financed should be the number.

And so what I'm saying is if you do it correctly and you properly include all of the electric utility assets that are providing service and have been financed, you should get to the same number one way or the other to calculate the return-on components.

Q. So -- so I'm seeing if I -- I think we're okay here.

MS. VINSEL: I think staff does not have any further questions. Thank you, Mr. Vaughan.

THE WITNESS: Thank you.

COMMISSIONER SCHMITT: Mr. Cook, questions?

MR. WEST: It's actually Mr. West this time.

COMMISSIONER SCHMITT: Mr. West, questions?
MR. WEST: Yeah. Thank you.

CROSS-EXAMINATION

By Mr. West:
Q. How are you doing, Mr. Vaughan?
A. Doing well.
Q. I don't have too many questions for you.
Do you have a copy of your rebuttal testimony handy there?
A. I do.
Q. Okay. Can you turn to page 7?
A. Sorry, was that 7?
Q. Yes. 7. Starting at line 12. Specifically, I just want to talk a little bit about the Rockport UPA demand expenses that you were just discussing with Ms. Vinsel.
A. I'm there.
Q. Okay. Could you start at the question that's posed in line 12 and just read the question and the answer onto the next page at line 6?
A. You want me to read it?
Q. Yeah. And this is a question that's being posed to you, correct?
A. Yeah. Line 12: "Does the company agree with AG KIUC Witness Carlin's proposal regarding the

Rockport UPA base rate demand expense on page 33 of his direct examination?

"ANSWER: Yes. Due to the various current Commission issues in the company's service territory, the company agrees that this is a reasonable mitigation proposal in this case. The $1,695,513 included an adjustment in W47 would be added to the existing Rockford referral regulatory asset in 2021, and $1,554,220 (11/12th of the annual amount included in adjustment W47) would be added to the Rockport regulatory asset in 2022.

"The Rockport deferral regulatory asset including these additional amounts would accrue a carrying charge of the company's approved weighted average cost of capital until it is fully recovered consistent with the Commission approved settlement agreement in case number 2017-00179.

"As discussed in the direct testimony of Company Witness West, the company is requesting to amortize and recover the Rockford regulatory asset as of September 8, 2022 (when the Rockport UPA terminates) over five years through tariff PPA beginning in December of 2022 consistent with the approved settlement agreement filed in case until number 2017-00179."

Q. Thank you. So has the company's proposal been amended in any way to account for your agreement with this proposal from Mr. Carlin?
A. I guess what are you referring to?
Q. Well, you said that you agreed with this reasonable mitigation proposal.
Does that mean that you agree that this is how the Commission should rule on this issue?
A. Yes. That's exactly what my testimony is.
Q. Okay. Thank you. I just have a few general questions.
Given that the -- the pandemic that we're all going through right now has put many families and individuals in difficult financial circumstances, did the company give any consideration to keeping the monthly charge at $14?
A. Again, you have to take everything -- you have to take all -- all the pieces of rates and all the proposal in this case in its totality, and going from $14 to $17.50 as we proposed, and I speak a lot to this in my direct and rebuttal testimony, is going to help reduce interclass subsidies at certain-- certain high users like our electric heating customers, and to a large extent, our home energy assistance low-income customers are paying

right now, so it will actually help in theory -- well, it will help them.

You know, and again, we have the first-year mitigation that we've proposed in this case, so those actual rates may or may not change until -- those rate components may not actually change for billing purposes until 2022. So yeah, I think we took everything into consideration when we made our proposal in this case.

Q. Okay. Thank you.

Would you agree that if the customer charge was increased and the energy charge decreased, all else being equal, customers who use more energy will benefit financially, at least beyond some break-even point?

A. In simple math terms, yes, but that's not the proposal in this case.

Q. Well, can you explain the proposal in this case as it relates to that?

A. Well, and under the company's proposed rates, the customer charge does go up by the $3.50, but so does the kilowatt hour charge. So -- and even after that, the total bill is still 90 percent volumetric. So an increase in usage equals an increase in your bill, so there's still no -- there's no price signal asking customers to just use as much energy as they can.

Q. Okay. Thank you.

Has the company obtained any data indicating how many of its customers are on fixed incomes?

A. Not to my knowledge, no. I don't have customer income data, you know, when I look at customer account information.

Q. Does someone else within the company look at that type of data or ask for that type of data?

A. I'm not aware that we have customers' personal information like that and that that's being studied. I mean, maybe on some high level based on, you know, regional economics or something like that, but not from a customer-to-customer standpoint, no.

Q. Okay. So in a similar vein, do you know how many of the company's customers are 65 or older and rely on Social Security as their primary source of income?

A. No, I don't. I know general demographics related to billing. You know, I know that over half my customers are electric heating in nature. I know that, you know, a lot of our -- the low-income customers that I can identify through whether they have heating assistance or some sort of federal assistance, a lot of them are also electric heating.

That's generally the kind of demographics I have from a customer account standpoint.

Q. Okay. Thank you.

In general, the cost of-of-service study doesn't take into account whether a customer is on a fixed income or generally can't afford service to be provided, does it?

A. No. The cost of -- the cost of service study is accounting and financial in nature coming up to what the proper requested revenue requirement should be. When we're talking about affordability, the other proposals in this case speak to that, you know, the things that Company President Mattison and Mr. West and others have discussed at length this week.

Q. I understand. Thank you.

Do you know whether the company representatives or anyone in particular with the company reads the public comments that have been filed in this PSC case or generally read the comments that's filed in a case that's filed with the Commission on behalf of the company?

A. Yes. I have myself have read a great many of them. I sat next to Mr. West last Friday as we watched the public hearing. I know Mr. Mattison's reviewed them. Yeah. We -- we read them.

Q. Okay. So you're aware that a fair number of the comments that have been submitted express serious concern about the affordability of service, correct?

A. Yeah. That's definitely the case. A lot of them -- you know, the theme had been anti-bill increase and anti-net metering.

You know, and one -- one piece of context I would like to get out there from an affordability standpoint, the company's average residential bill has gone down over the last four years.

When we -- if you look at the company's filing in 2017-00179, the current bill then I believe was for customers using 1240 kilowatt hours, which is our statistical average customer in this test year, was $162 on average.

Right now, if you look at the filing schedules here, that's $142. If the company were to receive its entire rate increase that it's asked for, we would get back to $166, so -- and that would not hit customers until 2022.

So you would have basically a five-year period where the company's average bill to the average residential customers has not gone up.

Q. I appreciate that information, and I don't think I have any more questions. Thank you, sir.

COMMISSIONER SCHMITT: Mr. Kurtz, questions?

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good afternoon, Mr. Vaughan.

A. Good afternoon.

Q. That's the first I heard the statistics about the average residential bill. I assume a lot of that is the reduction in fuel costs, the AC automatic flow-through?

A. That's right. You had tax reform that lowered -- lowered rates, essentially caused a zero rate increase in the last base rate case, and you've had reduction in fuel costs over time.

And then there was also a reduction in PPA rates for a little over a year there while we were receiving FERC settlement credits that were flowing back to customers. I think there was a $5 million credit competitive rate embedded in that as well.

Q. Let's talk about taxes a little bit. The Chairman mentioned that.

In December of 2017, the President signed into law the Tax Cut and Jobs Act, which would

reduce the federal corporate income tax rate from 35 percent to 25 percent, correct?
A. That's correct.
Q. I think it was December 21 or 22. That very same day KIUC filed a complaint against all the investor-own utilities in Kentucky asking for the rates to be adjusted downward because of the reduction in federal income tax. Do you recall that?
A. I do remember that, yes. You and every other intervenor in every state that we have service in.
Q. We were absolutely first. We had schedules and reductions and we presented to this Commission -- which we would have done it anyway, but we presented to this Commission first and foremost in the country the Tax Reform Act. We were ready to go.
A. You were on it. Yes.
Q. Okay. Well, it's true.
In January -- on January 18, the Commission used tax expense savings in a way that essentially reduced the base rate case that was going into effect at that time, correct?
A. Yes. The federal tax rate of -- the 3521 change was incorporated in the company's base rate

increase from the 2017-00179 case, and then through your -- the complaint case you were discussing, we addressed the excess unprotected and excess protected ADFIT.

Q. I think we fooled around on the rehearing in the rate case to get rate number for the tax savings, and that's that -- I forget how it turned out. Right?

A. Yeah. I agree with that. Yeah.

Q. Okay. But back to the protected excess ADIT, in other words, customers have -- you collected from customers rates based upon the assumption of straight line depreciation that you would pay the federal government 35 percent. But in reality you were going to pay them 21 percent.

And so the ADIT balance was excess. Hence you -- all the utilities, you owed customers money for the pre-collection of taxes that would no longer be paid to the federal government, correct?

A. Yes. The book -- book tax difference leads to the ADFIT, agreed.

Q. Rates based on straight line depreciation assumptions, but in reality the utility used -- accelerated depreciation -- post depreciation?

A. Certain things for tax purposes, yeah.

Q. And over time if the tax rate stays the same -- and the prepayment of taxes, the ADIT is a rate base offset so customers get a tariff charged prepayment, correct?

A. I think it's fair to characterize it that way, yes. It's a rate base credit or cost-free financing, yes.

Q. So it all works out that when the tax rate changes, and it may change again in the other direction, who knows -- but that was the -- when tax rates stay the same, it all works out, and it's fine.

So we don't with -- the protected is amortized by the IRS rules under what's ARAM methodology, correct?

A. That's right, for the protected.

Q. Okay. The unprotected, the Commission has discretion, and every Commission has discretion to choose the amortization period that they think is reasonable, correct?

A. Yes. That's my understanding, and we saw a lot of different applications of that in different jurisdictions.

Q. I want to ask you about that, but with respect to Kentucky Power, we call it the retirement

of Big Sandy Two, the unprotected excess ADIT balance was very large relative to Kentucky Power's capitalization. Is that your recollection?
A. Yeah. I think that's -- I think that's correct. There was a lot of ADFIT on that rig asset, and just in general. Yes.
Q. Okay. And so the government -- which the Commission approves is an 18-year amortization of that, the unprotected excess ADIT, correct?
A. That's correct.
Q. Okay. What the Chairman was referring to is midyear this year Kentucky Power made an application -- complaint application to change the settlement agreement that was approved with KIUC to use $10.8 million for the -- what had --
A. Debt forgiveness.
Q. -- the debt forgiveness case. Okay.
Is that correct?
A. Yeah. It's my understanding that Kentucky Power along with the other party to that settlement in the complaint case agreed to make that change to the settlement agreement, to the 18 years.
Q. No. After you guys filed the application, we intervened and then entered into a settlement -- you unilaterally asked to change the settlement

agreement. It's a matter of record, but you can look at it.

A. I will -- subject to check, I will agree with that, but it's my understanding that you later agreed through a settlement.

Q. We did. And I want to -- I want to take a little credit for that.

Because the $10.8 million, that -- the Commission deferred that entry to be dealt with holistically in this case, correct?

A. That is my understanding of the order in that case, yes.

Q. Okay. And the winners of that debt forgiveness application and subsequent settlement agreement would have been the people who are in arrears because they would have their past bill dues -- past-due bills forgiven in large or in whole, correct?

A. That's correct. And my reading of the order, I think that was part of the issue, is the Commission described perhaps a more equitable way to pass those dollars back.

Q. And who -- and the other -- who was going to get the money?

Kentucky Power was going to get the $10.8

million, correct?
A. Kentucky Power was going to amortize those dollars to relieve what would otherwise turn into bad-debt expense, yes, from those customers' bills, and essentially wipe the slate clean from those customers and hopefully get them back on track.
Q. And we agreed with that. And do you recall the settlement agreement noted that KIUC who was not past-due, or members, were actually going to take a hit or contribution of $2.37 million that we would otherwise receive through the tax credit rider?
A. I don't know the exact number, but that sounds familiar.
Q. Okay. So -- okay. So that was that, and we'll deal with it in this case.
I want to talk about Rockport real quick, by way of background. The Rockport unit power agreements were originally entered into in 1984. You weren't around then?
A. I was in existence. I was not at Kentucky Power.
Q. You're sitting in -- well, currently sitting in the Richard Raff Hearing Room, and Mr. Raff spent a lot of time litigating it at FERC, Commission, state court, federal court.

Do you know much about litigation that ended up with the unit power agreements? Mr. Overstreet does, I'm sure.

A. I have a general understanding of the initial litigation and then what happened in 2004 in the extension.

Q. So in 2004, the agreements to extend were extended for 18 years until December 7th, 2022?

A. Yes.

Q. Okay. Kentucky Power buys 30 percent of AEP generating company's 50 percent ownership in Rockport unit 1 and unit 2, correct?

A. That's correct.

Q. Okay. And is AEP generating company an unregulated affiliate of Kentucky Power?

A. That's correct. It's not regulated by any state jurisdictions.

Q. Rockport unit 1 is essentially a straight comfort of service, a declining rate base, model versus Rockport unit 2, which is a levelized UPA based upon the sale-leaseback agreement that AEP generating company entered into with Wilmington Bank and Trust back in the 1980s -- or 2004, I guess, timeframe?

A. I think that's a fair characterization. Yes.

And so -- and that billing -- that's all included in the FERC approved UPA agreement.

Q. Okay. So the Rockport clause goes to the fuel adjustment clause, correct?

A. Yes.

Q. You forgot to mention that earlier, but I know it was just an oversight. The environmental costs, to the extent they're not rolled into the base rates, go for the environmental surcharge, correct?

A. That's correct.

Q. And the bulk of the account 555 purchase power expense is recovered in base rates?

A. Yes.

Q. Okay. So when we talk about -- it will be a good thing for Kentucky Power when the unit power agreements expire, won't it?

A. I'm sorry. I missed a little bit of your question there. Can you repeat it?

Q. It will be a good thing for Kentucky Power and its customers when the Rockport unit power agreements expire?

A. Well, I guess time will tell what exactly it will be, but I can say that it's -- it will be a reduction in expense related to that agreement going away. Right? We'll have to replace it at some point with something, but right now we do expect some savings, yes.

Q. The Rockport power agreement is subject to 390 megawatts, 15 percent of two 1,300-megawatt units?

A. Yeah, I don't have the exact number, but ball park that sounds about right.

Q. The currently pending IRP, the Kentucky Power case analysis was that 140 megawatts of the 390 megawatts would need to be replaced and that the other -- what is that 250 would not need to be replaced. Is that your understanding?

A. I am not familiar with the IRP proceeding, but I am generally familiar with our capacity planning. And yes, the company is long capacity up through the date of the UPA termination, and then the company is short capacity starting on December 8th, 2022.

Q. So 390 megawatts go away, and the estimate was that 140 would need to be replaced, correct? I don't know if you know or you need to look at that.

A. I don't know the exact number, but, you know -- and it would be a planning assumption at this point, but yes, I believe it's over 100 megawatts that you're short at that point.

Q. And we've all done preCOVID pandemic analysis, we don't know, right, that 140 megawatts is still the right number?

A. You never know what the exact number is when you're planning these things because it's all based on UCAP figures; so there's a unit performance measure, and then there's also what the -- the load and the 5 PT obligation will be when we get to the actual delivery year.

And so the -- the delivery year in question will be 2223 [sic], so yeah, those numbers move around a little bit.

Q. Staff -- and I wanted to ask you this too: The fixed cost savings that are expected gross -- now, maybe some of them will have to be replaced with something else, and then there's market purchases for the first two years, is the plan assumption, but the gross savings -- fixed cost savings when the Rockport UPAs expire are approximately what?

A. I actually took a note of this from your questions earlier in the week. It's included in the test-year cost of service year, is 57.4 million in account 5550027. That is the Rockport demand costs, the fixed cost savings you're referring to. And like you said, that's a total amount. Some portion, like you referred to, is included in the environmental surcharge. Some portion isn't.

Q. Okay. Good. It's an important number. $57.4 million. That's a large number.

A. It is.

Q. Also by way of background, when the unit powers were extended in 2004, KIUC and the Attorney General agreed and the Commission approved to the capacity charge -- I call it the equity kicker, but it's the -- it's the amount -- in this case, that's $6.2 million above cost of service?

A. I believe it is referred to as the supplemental payment in that agreement.

Q. Okay. But it's 6.2 million, correct?

A. For 2021, yes.

Q. And 2020?

A. And in 2020. 2020, 2021, and then it goes down a little in 2022.

Q. To reflect that -- the December 7th termination date?

A. Correct.

Q. Okay. That will come up later. All right. So -- and there's -- okay. So let me just sort of review the bidding. Oh, there you are. Okay.

And I'm going from your original filing, and I know there have been some slight adjustments, but Kentucky Power's proposed a $70 million base rate increase?

A. Yes. There's a $70 million base rate increase, a $1.1 million increase from the proposed grid modernization rider related to AMI, and then there was the negative $6.2 million decrease in the capacity charge.

Q. The $70 million is a 13.1 percent base rate increase? You've done the math?

A. That's correct. That's on the section 5 summary in the filing schedules.

Q. Okay. And when you add the 1.1 and subtract the 6.2, the net rate increase has been noticed as 12.21 percent?

A. That's correct.

Q. Okay. Now, the company's proposal is to use 65 million of the unprotected excess ADIT for one year to offset the first year base rate increase, correct?

A. Just a -- I guess a finer point on that would be that we're proposing to use enough ADIT to offset

$65 million in net revenue increase. So it's a lesser amount of ADIT to gross it up for federal and state taxes.

Q. That's my point -- excuse me -- I think in this record.

A. Yeah.

Q. So the revenue requirements -- the revenue requirement fact of the excess ADIT would be used to offset 65 million of base rate increase?

A. Correct.

Q. Okay. What is the revenue requirement that, you know, apples to apples of unprotected excess ADIT today, to the best that you know?

A. Could you clarify?

Q. Yeah. It was 13.5 million in April 2020, you use up part of it every month with the tax credit rider. Do you have any idea how much it is today?

A. How much in rates for the federal tax credit rider?

Q. How much is in the bank? How much is left?

A. Yeah. I have the exact amount, I believe.

VICE CHAIRMAN CHANDLER: Mr. Kurtz, while Mr. Vaughan's looking at that, can I just clarify, are you asking the difference between the actual amount and the revenue impact?

MR. KURTZ: Either one, but I want to know how much is currently in the bank that the company owes customers, either the revenue requirement effect or the fee --

VICE CHAIRMAN CHANDLER: Just the November number, is what you're kind of asking for?

MR. KURTZ: Yes, sir.

VICE CHAIRMAN CHANDLER: All right. Thank you.

A. So if you go to Company Witness West's rebuttal testimony, page R3, there's a -- there's a figure in there that shows what the -- what's left, essentially, in the bank, as you referred, and what the actual rate offset would be.

So under our company's proposal, we would amortize 48 million -- 48.3 million of excess ADIT to offset the $65 million of net increase. To that, you also have the $10.8 million the company's proposed in the debt forgiveness measure. And then you have roughly $6.95 million of unprotected excess running through the federal tax cut rider at this time.

So I think -- I think based on all those -- and at the end of 2020, there would be approximately I think about $81-, $82 million left in the bank, if

I'm looking at the schedule correct. We can give you the compact number in a post-hearing data request if that would help.

BY MR. KURTZ:

Q. I guess that would be a good idea. But we'll submit it in writing, per the Chairman's instructions.

So the excess -- unprotected excess ADIT is money the company owes consumers?

A. That's correct, as we discussed earlier.

Q. Okay. And you are essentially paying consumers through a weighted average cost of carrying charge while you hold on to customer money?

A. Yeah. That's right. It's reducing the company's return-on component. And conversely, when you amortize that and give it back to customers, the capitalization or rate base, the return-on component goes up when you amortize that because it's reducing the rate credit.

Q. So does that mean we are getting reduced in the amount that you owe us?

A. You're paying less in base rate, so yeah, I think it's fair to say that you're getting it at a WACC carrying charge.

Q. That's what I thought.

You referred to other jurisdictions. What is the other amortization period that other jurisdictions have used?

We know Kentucky was originally 18 years, but I know a lot has happened that it will probably be less.

What are the other jurisdictions?

A. There are various -- various answers to that question I think I gave you -- I directly participated in the company's response to that in Virginia and West Virginia.

And I know generally our FERC schedules I guess like for transmission, it was a ten-year schedule there in all transmissions.

And then in West Virginia, oh, gosh, we did various measures of mitigation, like we're discussing here.

We eliminated some portion of a rate increase.

We've reduced fuel deferrals with using excess ADIT dollars, and then again we have something kind of similar here at the FTC at the TRR here in West Virginia.

And that's going to I think in 20 -- late '21, early '22. So you're amortizing it over, you know, three, four years there.

Virginia is a similar timeframe. We had -- we did something similar there with we -- we offset a fuel increase over one year of $55 million in 2019, I believe, and then we have a tax cut rider there as well that ends next year.

Q. Interesting. I thought all of the clever uses of -- rate making uses of those moneys I heard about -- certainly when I heard about the offset in this case -- rate increase. Okay. But -- so.

Now, let's look at the AIG increase proposal. It's a base rate increase of 43.242 million.

A. That's Mr. Carlin's proposal?

Q. Yeah. He's got the schedule on page 7.

A. Bear with me for a second while I get that. Thank you. I'm there.

Q. I don't know if there's a line, but do you see -- obviously rate of return and some compensation, all these different adjustments, we're proposing a 43.242 million base rate increase as opposed to your 70 million?

A. Yes. I see that.

Q. Okay. And then what the Attorney General and KIUC would do is also eliminate the 6.2 million capacity charge premium?

A. The supplemental payment in the --

Q. We would eliminate that also for a net

increase on those items of 37.042 million. Is that your understanding of Mr. Carlin's proposal?
A. That is Mr. Carlin's proposal, yes.
Q. So that would be a net rate increase of approximately 7 percent. And piggybacking on what AIG is, we said, "Good idea, first year net increase of 37 million."
Is that your understanding of our proposal?
A. I'm sorry. Can you say again?
Q. We said, "Let's lower the base rate increase and also use the tax money that the company owes consumers to offset the first year full amount of the base rate increase net of the 6.2 million elimination of the capacity charge."
A. Yeah. That's your proposal, as I understand it, among other things regarding tracking of certain costs and whatnot, yes.
Q. Okay. So the first year we would do the 37 million revenue requirements basis, so the tax money the company owes consumers compared to the company's proposal using 65 million.
Is that your understanding -- let's focus on the tax money.
A. Sure.
Q. Okay. And then our proposal is to use -- is

to offset 50 percent of the year two rate increase or 18.5 million in year two by using tax money?

A. Yeah. I think -- I think that's correct. I mean, I understand what you're doing. We don't agree with your proposed rate increase, but I understand your concept, yes.

Q. My only point on this one is this: In terms of credit metrics and so on and so forth, we've been talking about, we will only use 55.5 million of the unprotected excess ADIT two years whereas the company would use 55 million in one year?

A. Yeah, that's the math, right, but when you come out of it, there's a small increase as well that would impact credit metrics.

Q. I totally understand. The credit metrics of the use of the tax money. We're actually proposing less of it over two years than the company is in one year?

A. That is how the math works out. I agree.

Q. Let's talk about the credit enhancement or payment enhancement, the capacity charge, the 6.2 million. That was approved by the Commission, agreed to by KIUC and the Attorney General back in 2004, is partial incentive for the company to extend the unit power agreement for 18 years. Is that your understanding?

A. Yeah. That's my understanding. Based on the facts at the time of that case, you know, the company was going to forego a lot of market value on that asset, and as part of the total economic analysis in that case, the Commission, the parties found it prudent to grant the company its supplemental payments over the life of the extension.

Q. Would you agree that over the 2005-2020 period the company reflected on a nominal basis 97.3 million of that credit enhancement or payment enhancement?

A. I'm sorry. Didn't catch the beginning date. What was -- from 2005, is that what you said?

Q. Yes.

A. Yeah. I mean, I haven't done the math on that. So whatever's in the order, if that's how it adds up, I would agree, you know, and I'll add this isn't -- hasn't been included in base rates, you know, it gets removed from every base rate case.

And even with the supplemental payment or whatever you would like to characterize it as, the company's receiving that today, it's still earning its, you know, 5-ish percent ROE.

Q. Okay. And I know you haven't done this math, but subject to check or just -- would it surprise you that if you add an 8 percent carrying charge to the nominal payments over that period of time, that 16 years, Kentucky Power would have gotten 107 million of that present value expense?

A. Yeah, I don't know what the number works out there, but I also don't know what kind of market revenues the company had foregone on that, the company being AEGCO, or who would be selling that during the 2000s, or think back in '07 or '08 when L&Ps were $70 to $100 around the clock. That's a lot of power. So, I don't think you can just look at that in isolation.

Q. That's fine. I don't think the L&Ps were that high around the clock, but in the last -- this the last -- in the last five or six or seven years, you certainly couldn't make any money with Rockport in the market, could you? Coal units have all been big money losers?

A. There's definitely a reduced energy value, you know, on those units in recent years. No. Low gas prices, low L&Ps, high amount of renewables. Yeah. I agree with that.

Q. All right. So do you agree that the -- that the Commission has an independent duty to ensure that settlement agreements it has approved remain reasonable?

MS. BLEND: Objection to the extent that Mr. Kurtz is asking Mr. Vaughan to provide a legal opinion.

BY MR. KURTZ:

Q. Is your role as chief regulatory person -- I don't want a legal opinion, but is that your understanding from a regulatory basis?

A. I'm not sure I'm chief of anything, but my understanding is the Commission's duty is to make sure that rates are just and reasonable, yes.

Q. Vice Chairman Cicero thinks you should be chief of something apparently, former Vice Chairman.

A. He may be, but that's nice.

Q. First of all, let me ask you. You said, okay, we'll give up that 6.2 million but it's contingent on us getting 100 percent of our rate increase. That was your position, right?

A. So yeah, let's talk about that.

The position there is that we took everything -- you know, when my team worked with Kentucky Power management to put together all the options for this case, we had to view everything to get, and it was the balancing act of trying to fix the financial health of Kentucky Power and try and mitigate the rate impact on customers in any way we could.

And so when I make that proposal and say it's conditioned upon us receiving our request, the thing there is, you know, for instance, if you -- you give us our -- let's say -- let's say we get everything we ask for but you say we can't track OATT LSE costs.

My position would be no, we can't give up the 6.2 million, and that's why I recommended Mr. Mattison for him making that decision because we still wouldn't have the opportunity to earn our allowed return or near it. You know, if you're giving up a certain amount, and you're getting a certain amount, you -- everything's a balancing act here.

So yes, it is a conditional mitigation. And I think there are -- there are circumstances where we would agree to something other than in full, and there are circumstances where we wouldn't. And as Mr. Mattison said, you know, whatever happens, happens here, and then we'll do the financial analysis and we'll make a -- we'll make the recommendation to him, but at the end of the day,

it's his call.
Q. Have you ever been involved in a base rate case anywhere where the AEP had gotten 100 percent of its requests?
A. Only in my dreams. No. No. I've never been in one.
Q. So was that -- was that sort of a false offer?
A. No. It absolutely was not. It was part of that balanced consideration, as I said.
Q. So you give us -- Kentucky Commission, you give us something we've never ever gotten anywhere else, and we'll kick in the 6.2 million. It almost seems like it was a false -- false offer, maybe a better description.
A. I would disagree with that. I mean, we are -- you know, I -- I know what Mr. Carlin has in his revenue requirement proposal, but the -- the company -- the company's position is there's -- besides the couple -- couple items that I identified in Hearing Exhibit 1, there's not a lot of room for us to move and have an opportunity to earn our -- near whatever our allowed return is. And that is why we proposed things the way we did. It's not a fake offer. It's definitely genuine or we wouldn't

have done it.

Q. Okay. Didn't the 2004 settlement agreement between the Attorney General, KIUC, and Kentucky Power, which authorized this 6.2 million which was approved by the Commission -- didn't that settlement agreement anticipate and take into account what would happen if the Commission ever rejected the 6.2 million for rate-making purposes?

I'll refer you to page 7 of the settlement agreement, and I know you quote the settlement agreement in your rebuttal.

Page 7 under procedural terms, paragraph 3.

MS. BLEND: Mr. Kurtz, do you have a copy of the settlement agreement that you would like to display or have staff display? I'm not sure that Mr. Vaughan has a copy of it with him. It was not --

MR. KURTZ: I would if --

MS. BLEND: -- an exhibit to his testimony.

MR. KURTZ: Christen, I would -- if I could put it through the computer. It's attached to the testimony 00420. The order was entered into on December 13, 2004. Mr. Vaughan quotes from the settlement agreement in his rebuttal.

MS. BLEND: And, Mike, Mr. Kurtz, I can

actually help. My co-counsel reminded me -- has actually recommended that the order be marked as Hearing Exhibit 2, or has been marked as such. So that could be displayed as Hearing Exhibit Number 2, and I'll provide it to Mr. Vaughan --

MR. KURTZ: Thank you.

MS. VINSEL: Travis, did you get that? We need Kentucky Power's Hearing Exhibit Number 2.

THE WITNESS: Which page were you referring to of the order?

BY MR. KURTZ:

Q. The settlement agreement, page 7, paragraph 3.

A. The one entitled "additional revenues"?

Q. No. If at any time prior to the expiration --

COMMISSIONER SCHMITT: Let's see if we can get the page on the screen. I'm --

MS. VINSEL: Travis, that's on PDF page 17.

MR. KURTZ: That's it.

MS. VINSEL: And it's about halfway down the page.

THE WITNESS: I was looking at the PDF page number, not the order page number. Yeah, I'm there.

BY MR. KURTZ:

Q. Okay. I don't think you have it memorized, but let me -- let me go through.

So the question is: Doesn't the settlement agreement anticipate what the company's revenue would be if the Commission changes the 6.2 million? If at any time prior to the expiration of the extension of the unit power agreement under this stipulation, the Kentucky PSC or its successor enters an order that prevents Kentucky Power from charges rates consistent with the provisions of section so and so, the 6.2 million, Kentucky Power may, upon 120 days' notice to the Commission and parties to the stipulation, begin legal or regulatory proceedings necessary to terminate the extension of the unit power agreement and withdraw from all other obligations under the agreement.

So you have -- if the Kentucky Commission, against your will, objection, says no, the 6.2 million goes away, you have the right to get out of the unit power agreement.

A. I think -- I agree that's what the words say. I think we would have to -- again, I'm not sure what the legal and regulatory requirements would be to try to terminate the UPA early.

Q. Well, financially you would never want to do it. You wouldn't want to pour on this 390 megawatts-and-above market the -- you would lose your 6.2 million, and you would lose money reselling it to the wholesale markets.

A. Kentucky Power would be short capacity too.

Q. You could easily keep --

A. No, sir, you can't.

Q. But my point --

A. We have committed through June of -- through May 31st of 2022 in the companies or for our plan we can't do that. That is already committed to serve customers.

Q. That's a good, point, but -- but your remedy is to get out of the unit power agreement, which is something you -- you obviously would not want to do, but the settlement did anticipate and envision a path where the 6.2 million would go away, you could get out of the unit power agreement.

Now, that's problematic, no question, maybe even unrealistic, but the settlement agreement envisioned what would happen. That's what the words say.

A. Is that your question? Yeah. That's what the words say. I don't --

Q. Isn't that what the words say?

A. That is -- the words say what they say. I agree with that. Yes.

Q. Okay. Okay. Let me ask you about rebuttal testimony and -- and the transmission costs.

I know you remember this but obviously transmission was the big issue. The company wants -- thank you.

The company wants 100 percent of the incremental OATT and LSE transmission costs recovered in the PPA. Right now you're getting 80 percent, per the settlement of the last case, the provision you got for the PPA, correct?

A. Yes.

Q. Okay. And the AIG KIUC says no, it should be 100 percent base rates?

A. That's your position, yes.

Q. Okay. In your rebuttal you say that if it's going to be 100 percent base rates, our base rate increase should be $14 million higher?

A. Yes, that's correct, based on the rates that are on file for January 2021 that were on file I think November 1st.

Q. So that would be another 2.6 percent base rate increase?

A. Yeah.

Q. 5.33 --
A. $5.34 million is a 13 percent increase.
Q. So okay. So that would take the total base rate increase to 15.8 percent?
A. Yeah. All things being equal, the increase percent goes up.
Q. Okay. Now, you noticed the 13 percent, but you're asking for 15 under these circumstances. I don't know if that's legal, but let's -- let me just say this: Does the $14 million represent the rate increase consumers would receive through the PPA if 100 percent of the incremental transmission expense went through the PPA?
A. Yeah. That's right. But it's done in different ways. You're either going to see it in base rates in these chunks or you're going to see it over time through the deferral accounting and incremental annual true-ups to the PPA.
And that's one of those things that have kept rates, you know, flat or moving up and down over the last three years since our last rate case. You've got to recover that expense, either in, you know, lump sums and base rate increases or you recover that expense incrementally as it occurs, you know, over time.

Q. As you know from prior discussions we're not all that thrilled with paying with incremental increases in Michigan and Indiana on a real-time basis through the PPA.

But if the rate -- if the transmission increase to the PPA would be $14 million in 2021, it probably would be a similar if not greater amount in 2022?

A. I don't have that number, but, you know, that's -- the reason I have that number is because we do -- the company does the formula rate filing update by the end of October each year for the following -- coming year, but yes.

Q. So where we agree that there's a $10.1 billion five-year CapEx budget for PJM transmission and Kentucky Power gets 5.6, 5.7 percent of the total.

So we know what rate increases in transmission would automatically -- automatically flow through the PPA $14 million in '21, we don't how much in '22. It would be a lot, wouldn't it?

A. I don't know the exact magnitude, right, because those are capital dollars, not revenue requirement dollars. You know, there's full costs of service there, O&M and taxes and other things, but, you know, while that tax is going up in real time, you may have reductions in fuel costs going down.

As we mentioned, fuel or PPO have been fairly low. You know, those kinds of reductions have been flowing back in real time to customers at the same time that we've been tracking 80 percent of the incremental load costs. Yes.

Q. Fuel goes up and down, thanks goodness for small favors.

The incremental reduction rider, are we going to see a reduction in that income any time soon?

A. Yeah, based on Mr. Kerns's discussion the other day, you know, once -- once the decommissioning is done, right, so as we do the actual decommissioning work per the settlement agreement and establish the decommissioning rider, the balance goes up as you do the actual work.

And then it gets re-levelized over the remaining recovery period. So once the decommissioning work is done, I think Mr. Kerns was -- discussed that some, you will then start to see a decrease in that over time in that as it's -- as the balance is re-levelized and reduced over time.

Q. Okay. Is the decommissioning rider done on

an annual basis or is it changed --
A. Yes.
Q. -- monthly? Annual?
A. Annual rate change. Yes. Once a year.
Q. Do you know when it changes?
A. I believe we file it in August, and it's effective October.
Q. Okay. So we're going to have to wait another year to see any reduction?
A. A reduction from what?
Q. The $21 million in the test year.
A. I guess if decommissioning work is done and the balance decreases, yeah, you'll see a change in the rate next year, when we do the annual update.
Q. Okay. Now I want to end with the fixed cost savings of $57.4 million of savings, the gross -- that's the 390 megawatts of Rockport fixed cost savings will go away. Maybe 140 megawatts or a lesser amount has to be replaced. The market -- the gross amount is $57.4 million of savings.
Part of it will go through the environmental surcharge automatically, correct?
A. That's correct. You're going to have -- we have some embedded amount in the monthly environmental surcharge base amounts, so when those

costs goes away, the difference flows through the -- the environmental surcharge.

Q. Okay. The remainder, per the settlement agreement in the last rate case, will go to Kentucky Power to make sure that your -- you earn your authorized return on equity in 2023, correct?

A. Yes. In 2023, the company can use up to the amount in base rates to earn its authorized ROE, and the amount above that goes -- goes back through customers through the PPA, and then the entirety of the amount would -- of the fixed cost savings amount in 2024 would go through the PPA.

Q. And obviously at this point nobody knows how much of the 57.4 -- we probably know how much is the environmental surcharge, but of the non-environmental surcharge $57.4 million fixed cost savings, nobody knows how much is going to be needed by Kentucky Power to your authorized ROE and how much will be left over for consumers?

A. No idea. You're correct.

Q. Mr. Vaughan, thank you very much.

MR. KURTZ: Mr. Chairman, no further questions.

COMMISSIONER SCHMITT: Ms. Grundmann, cross-examination?

MS. GRUNDMANN: Just briefly.

CROSS-EXAMINATION

By Ms. Grundmann:

Q. Good evening, Mr. Vaughan. How are you?

A. It's evening. I guess good evening. Yes.

Q. It's 4:45 so I guess afternoon still counts.

I have just a couple of really brief questions.

You were involved in the APCO Virginia triennial rate case, were you not?

A. I certainly was.

Q. Am I correct that in that case, APCO sought to recover the costs from its 2017, 2018, and 2019 in its base rates?

A. It did, yes.

Q. Isn't it true that in Virginia there is actually a statutory provision, the Grid Transformation Security Act, that would have authorized APCO to have sought to recover AMI through a rider provision?

A. Yeah. That's right. There's a lot of statutory regulations and requirements from that, and we like to learn from others, and Dominion unsuccessfully filed twice through that mechanism, and the company across the state line of Virginia was facing similar issues where meters were obsolete and were failing. They had to do the replacement, and they took that impact in base rates, yes.

Q. And so they're seeking in there to recover through base rates as opposed to the proposal here which is to recover it through a rider mechanism?

A. Yeah. And the big distinction there was APCO Virginia was in a much different position than Kentucky Power. It was in a position where it had sufficient base rate earnings to be able to absorb that investment and still earn around its authorized return, whereas Kentucky Power -- again, let's just say we don't need a CPCN because you didn't need one in Virginia, but let's say you don't need one here in Kentucky, Kentucky Power's not in a position where it could just start deploying those meters and absorb that capital and, you know, O&M expense to do that.

Q. Well, so, Mr. Vaughan, I think in your direct testimony, and I will give you the reference if I can find it, it is page 4, you offer sort of a discussion of when it's appropriate to recover costs through a rider versus costs through base rates.

And so I guess I'm just trying to understand that the way I understood your direct testimony is that the -- the delineation has to do with whether or not these costs are anticipated, whether they have a tendency to really change from year to year.

But what I guess I am hearing you say now is that -- how you're proposing to recover it is really about the company's earnings?

A. I'm distinguishing between why APCO Virginia was able to do what they did in Virginia, again, absent the different CPCN requirements because it's a different state, you know, it was able to go just replace its obsolete meters and absorb that impact in its base rates.

The company has other affiliates who are also requesting riders for AMI deployments, you know, and the circumstances are different here in Kentucky. We do not have -- again, we needed a CPCN, so those requirements are different.

But, you know, it's -- what the company is proposing here is a flexible way to be able to do this four-year deployment in Mr. Blankenship's reports through the grid modernization rider, and just to be clear, the proposal here isn't to always collect it through the rider.

It would just be that incremental cost between the base rate cases. So let's say we go two years and then we have a base rate case. We would roll that GMR amount into base rates. We're not asking to be treated special always. We're looking for the flexibility to help -- again all things being considered, keeping Kentucky Power financially healthy and give it the opportunity to make the needed distribution grid investments that it needs to make.

Q. So I want to come back to the statement that you just made there about rolling it into base rates, but I want to go back.

I think you indicated that in Virginia you learned from the examples that were set by Dominion's double attempts to get AMI approved through the Grid Transformation Security Act processes, and as you correctly noted, the Virginia Commission denied them that.

And isn't it true that, to the extent that you know, that in Virginia you have to go through and prove sort of a cost-benefit analysis that the deployment of AMI satisfies the statutory tests through the cost-benefit analysis?

MS. BLEND: Your Honor, I would just object at this point. We're talking about Mr. Vaughan's interpretation of legal requirements in Virginia.

That's at least objectionable in terms of the request for a legal opinion testimony, and I'll also object on relevance grounds at this point.

MS. GRUNDMANN: Absolutely, your Honor. I think the relevance is, is this Commission is being asked to consider whether or not to provide the company with cost recovery for AMI meters. I think that the recent experience through the 2020 triennial rate case of APCO Virginia and its decision to recover the cost of meters through base rates -- I think all of that is just relevant to the Commission's consideration of the proper way to treat AMI deployment here in Kentucky.

COMMISSIONER SCHMITT: All right. Objection overruled.

MS. BLEND: Thank you, your Honor.

BY MS. GRUNDMANN:

Q. Mr. Vaughan, do you know whether or not Virginia required a cost-benefit analysis as part of its decision when analyzing grid transformation updates such as AMI?

A. I think there's a distinction to be made there. I believe there are additional hurdles such as a cost-benefit analysis as well as other things to get a grid modernization in Virginia to file under that recovery mechanism to get the resulting RAC.

I think it's also grid modernization in Virginia.

Q. It is.

A. Again, you have to go through those collective -- the steps that are in the regulation, and then you have to go through and file and get a separate rate adjustment clause, RAC. And the company -- the company I know considered that, but again, because of the obsolescence and its need to replace those meters, it chose a different route because it was in a different financial place than Kentucky Power.

Q. Understood.

A. That's my understanding of why APCO Virginia acted in that matter.

Q. Understood. And I think that a moment ago what you said is that the way this would sort of work is that to the extent you filed a base rate case in two years, AMI costs would be rolled into base rates?

A. For, you know, whatever work -- let's say it's still a four-year -- we're doing this four-year deployment that we've done two years, and then we come in for a base rate case, our proposal is to take those amounts that are being collected through the GMR at that time, include them in base rates. So you have a new base rate point for the new AMI rollout and then continue to collect incremental AMI costs at that time.

Q. Understood. I guess it's really more of the notion that if they came in in two years.

I think that the testimony from the company in this case is really the hope that offering you proposed with the grid modernization rider is that it would really allow for longer periods of time between base rate cases.

And you and I both understand it's been three years since the last rate case. I understand the company's statements as to the reasons for coming in here in 2020, but it doesn't sound like there would be much of an avoidance of a rate case if we're talking about the company coming back in two years.

A. That was just a hypothetical. I would like to stay out of these myself, as much as possible.

Q. Well, you've got a lot of time here, so whether you want to stay out or not, you've got celebrity status here in Kentucky.

A. Mom always said I would be popular one day, I

just didn't think it would be here.
Q. I understand.
A. But yeah, that's -- so obviously all of the company's proposals in this case are trying to, again, strike that balance of mitigating rate increases, at the same time getting the company's financial health in the right place, and the grid modernization rider is one of those proposals.
Q. That's all the questions I have, Mr. Vaughan. Thank you.
A. Thank you.
COMMISSIONER SCHMITT: Mr. Spenard, cross-examination?
MR. SPENARD: Yes, Mr. Chairman, we do.

CROSS-EXAMINATION

By Mr. Spenard:
Q. Good afternoon, Mr. Vaughan. Can you hear me?
A. I can.
Q. And if there's any difficulty hearing me or you don't understand a question, just let me no know. Okay?
A. Certainly.
Q. Okay. What I would like to do is -- is -- it's very -- a lot of moving parts to this

application. One of those moving parts is the excess unprotected ADIT.

But for a moment, let's put the year-one offset to the side for just a moment and talk about the company's proposed rate increase.

With regard to the effective date of the new rates, they're going to be January 14th, 2021; is that correct?

A. That's my understanding.

Q. Okay. Now, a lot of different rate schedules, but if we take a look at and focus just on -- we'll focus just on the tariff RS for residential service, there is a proposal -- the company proposes to increase the service charge from $14 a month to $17.50 a month; is that correct?

A. That's correct.

Q. Okay. And with regard to the energy charge, March through November, there's going to be an increase from $9 -- $9.81 per kilowatt hour to $12.265 per kilowatt hours. Is that correct?

A. That sounds roughly correct, yeah.

Q. Okay. Now, there are a lot of different elements that go into the bill that -- the total balance due for the bill that the customer receives. And I'm not going to go through the entire list of elements, but school TAPs, environmental adjustment, fuel adjustment. A lot of different things go into that bill, correct?

A. Yeah. There's -- there's various surcharges and whatnot, credits to the FTC that -- it's all laid out in my direct testimony. Totally agree.

Q. Sure. Sure. And on a very basic level, the customer or -- the rate billing for that customer for residential service, there's going to be the -- the monthly charges, and then that's the -- the service charge they get unrelated to usage, and then there's the energy usage charge. Actually, there are -- there are two parts to that notion of the rate billing; is that correct?

A. There's actually three. Unfortunately, we have fixed charge, we have the energy charges, and then we have the percentage of revenue rider, such the decommissioning rider and the environmental surcharge.

Q. Okay. Well, I was looking at -- I was looking at one of your bills, and I -- and it takes me a second to get on the same page, but the -- but the basic notion is that you -- your effective rates, January 14th, 2021, you're going to see increases in the service charge, as well as the energy charge?

A. So here's the -- I think I know where you're going, and maybe I can just short-circuit a lot of this.

So it depends how the year-one offset is implemented. What happens kind of in the scenario where the company filed, you know, where you look at -- I have too many papers here. If you look at section -- section 5, the summary page that gets down to that $65 million number, let's just assume that's the scenario, right. Base rates go up $70 million. Base rate charges go down 6.2. GRM is 1.1 million. We have a $65 million net amount right here.

The easiest way to implement that year-one offset would be to leave rates unchanged for the first year, so customer bills do not change, and then the company would amortize 1/12th of the associated excess ADFIT to income throughout the -- throughout the year.

So there's no rate-billing change, and the company would receive the noncash earnings associated with that rate increase. So that's the simple version.

The more complicated version is if we start incorporating other parties' proposals, such as let's say AG KIUC's proposal to reduce the environmental surcharge some amount based on the length of recovery for the unit 2 FCO Rockport.

So you can no longer amortize just the net rate increase because you would -- you also end up with an overall net reduction in the company's rates, so it would kind of be a double whammy on cash from a metrics standpoint.

So what we would want to do at that scenario is actually put the new base rate increase into rates, and I think this is where you're going, and you would want to offset that through the federal tax credit rider, the net amount, so that we get to that zero increase that we were looking to do in the mitigation proposal, and I get your concern that the FTC is a kilowatt hour base rider, and you'd have some customers who obviously would not offset their bill in total.

The way to fix that would be to -- you know, however the rate components change, you then allocate that offset by class in a similar manner through the FTC so that you get a more -- more exact bill. Actual results may vary a little bit, but you would get a more neutral impact on customers, depending on how it's implemented.

Q. Well -- and the record will speak for itself.

I believe in response to an earlier cross-examination question, you said something to the effect of rate components may not change for billing purposes in describing the -- describing the -- the first year -- the year-one application of the excess unprotected accumulated deferred impact tax, is that --

A. That's right.

Q. -- what you --

A. Yeah.

Q. Okay.

A. If we can -- you know, let's -- perfect world, everything's approved as we filed it and we're offsetting that $65 million net increase, you know, again, we could leave rate -- the base rate components the same until January 14th of 2022 and instead just amortize that excess unprotected income over that period of time so that customers get no increase and the company gets its nonfinancial earnings to bring its health up.

Q. Okay. And I apologize for just -- confirm -- bear with me for just a second.

Under that scenario, you would leave -- you literally would leave the customer charge at $14 a month for that year?

A. Yes. Until you change overall rates in year two.

Q. Okay. All right. With regard to the effective date of the proposed -- company's proposed -- and I'm just going to use the -- the reference NMS2 tariff, that's the effective date -- pardon?

A. I said please do. Let's not spell it out every time. Yeah.

Q. Sure. The effective date is going to be January 14th, 2021; is that correct?

A. That's right. And so the underlying rates for -- for a customer generator are whatever their standard rate class would be. So however the rate increase is implemented, that part is going to affect everybody, whether you're a customer generator or not.

The avoided cost rates, though, would change on January 14th as -- you know, that's not a rate billing, that's a different tariff mechanism there. It doesn't have anything to do with the increase.

So still, new customer generators as of January 14th would be subject to the avoided cost rates under NMS2 and noted -- not the one-for-one netting under NMS, and no, there's no offset to that in the company's proposal.

Q. Okay. So just to -- just to confirm and then move on: The proposal associated with the use of the -- of the ADIT, just to short-cut that, it is not designed to have an impact to -- on the new excess generation compensation rate; is that correct?

A. That's correct because those customers, by definition, couldn't have been in service prior to the rate change. So they're not losing or gaining anything.

Q. With regard to the effective date of the new NMS2 tariff, how will the company determine on -- how will the company determine who is and who is not falling under the new tariff, the NMS2?

Is it -- is it applications ending on January 1st? Is it facilities in operation on January 13th? How are you -- how are you going to determine who is grandfathered under the NMS1 tariff and who is going to be falling under the NMS2?

A. I think I addressed this in discovery. It's not the company's choice. The law actually says the customer generators -- I can't remember the exact wording, but it's those that are operational --

again, if it's going in tariff changes on January 14th, those customer generators that are operating their systems -- you know, are operational by January 13th, they are grandfathered under the law, as I understand it as a nonlawyer, and anyone who begins commercial -- or begins operation of their customer generating system on January 14th or after are tariff NMS2.

Q. And I'm not -- I'm not being flip about this. It's that -- I'm not clear is that when we use this term operational in terms of the company establishing a bright-line test or a metric, will the company -- does the company issue a customer certificate? Does the customer make some notation on the -- how does the customer know -- the customer and the company together know that the system is operational?

A. Well, the customer would need to have an approved application and they would have to provide the company with notice that their system is producing power, you know, as of that date. You know, I don't -- don't think there's going to be a lot of -- a lot of cases. You know, we're talking one day.

So I'm pretty sure that our distributive generation group can -- can dig into that if there's any issues there.

Q. Okay. Well, I -- and the way things work, that's -- I understand what you're saying, but I -- let's move on.

Is it correct, in general terms, that cost of service study contains information that's frequently used as the foundation for designing rates?

A. So cost of service is kind of generic, right? In this case we have a jurisdictional cost of service that we used to determine the overall Bevin requirement, and you have a class cost of service that, you know, functionalizes and categorizes costs and provides guidance as to what the assignment of those costs are to -- those costs in the proposed revenues are to the various customer classes at a higher level.

And yes, we -- we use all of those things when we are designing rates, but they are informative. They're not absolute.

Q. Well, in -- in response or in some of your prior testimony today, you were talking about costs of service and -- and you -- you're the one who did the testimony, but my notes said that, that it contains financial -- information of an accounting and financial nature that helps you develop the -- the proper amount to request.

Do you remember saying something along those lines in terms of describing cost of service?

A. Yeah, I did. In that instance, I am referring to section 5, schedules 1 through 5, what produces the requested rate increase in this rate case, you know, and schedule 4 and adjusted 5 -- schedule 5 are a great example of that.

You have a listing of FERC accounts, and how those FERC accounts have cost revenues and assets and liabilities are allocated to Kentucky retail and how they affect the company's overall cost of service, the bottom-line rate increase in the retail jurisdiction.

Q. But in terms of the company's application section 5, Exhibit 1 -- and that's the jurisdictional cost of service -- it seemed as though you're also distinguishing that a bit from the notion of a class cost of service?

A. Yeah. Absolutely. Class cost of service has a bunch more -- you know, we step past the -- the financial and accounting just having -- having those -- large adjustment by that data, we get into a lot of, again, total class level detail.

We start -- just think of it as taking the jurisdictional cost service and slicing it thinner down to the classes and using that to attempt to assign cost responsibility and how we spread the revenue increase.

And then based on some of the information that comes out of that, we use that as an informative way of designing rates. It's not an absolute. If there was an absolute, it would be a $20, $25 energy -- or sorry. Kilowatt-hours here.

You know, you would have a 2 cent energy rate in the residential class, and everything else would be a demand and a customer base. That obviously isn't the case. It's the case in tariff IGS. So again, you know, it's informative.

Q. Well, isn't it correct that for a utility such as Kentucky Power Company, not all customers have the same characteristics?

A. That's exactly true for every utility. There is -- there is no two customers that are exactly the same all the time, and that's why rates are averages. And you -- you generally put customers in homogeneous groups when designing rates.

You know, look at general service, there's a great deal of different customers in that, same as the residential class. You know, you have -- you have customers at various sizes of homes living in different areas, some with electric heat, some with gas heat, some with propane, some with different lighting investments, some that are customer generators.

Q. Well, I think you just answered three of my next questions, and we'll move to something that -- that you may have partially answered, a fourth question.

So you -- it is your testimony that customers with distributed generation have different characteristics than customers without distributed generation?

A. Absolutely not. They're residential customers. Their usage patterns are -- on average, they are the same as every other residential customer. They have just made the decision to place generation behind their meters.

So that changes -- again, loads are the same on average, those characteristics are; however, now there's a net difference in terms of times of the day when the customer's generator is running.

Q. But -- and I don't want to belabor the point too much.

You're saying that they're the same except for -- they're the same except for the extent that they're different?

A. Yeah, I'm not going to agree with you there. Their load in general is the same. It's no different than a customer that has a storage water heater. You know, they charge up something -- or any other time-of-use device.

You know, maybe someone has their pool heater running on a timer to change their load. Again, rates are averages, and their load is the same. Right?

They have just chosen to interject generation into their net billing, you know, because of whatever their -- their reason for doing so is.

Q. In terms of rate design, in general terms again, is it correct that rates are designed to assign each customer class the portion of the company's revenue requirement to be collected from that customer class?

A. That's kind of done before rate design, right? One, the general steps are you determine the overall revenue requirement for the jurisdiction. You then come up with some kind of revenue spread or cost assignment.

That's generally informed by the class cost of service. There's all kinds of detail there and how you spread the revenue, how you eliminate subsidies between classes, and then you -- then you design rates.

So rate design is more described as how you collect the class requirement from within that class.

Q. Okay. And the record will speak for itself in terms of what that question was, but it's that the rates are designed again as -- I think as you're saying, that the rates are designed to collect from each class a portion of the company's revenue requirement?

A. That's right.

Q. Okay. So -- and you've touched upon this. There can be a difference between the portion of the company's revenue requirement assigned to the customer class through rate design as compared to the results of a cost of service study with regard to that particular class.

A. Again, your question's a little off. We're not assigning class revenue requirements in rate design. We've already done that when we get to rate design. We're then deciding how to designate from the class.

You've already determined what the class should pay. You're then determining rate design to collect that amount. You've already determined that amount.

Q. I think I understand that -- we're saying something in a different way, but I think I understand where you're coming from on that.

So in terms of your definition, a subsidy occurs when the revenue requirement for a customer class that's going to be collected through the rates is less than the revenue requirement for that customer class if the rates were based solely on the results of a cost of service study?

A. Yeah. So we -- in the class cost of service study, we determine what each class is earning, and then we look at what they would be earning if we equalized all the returns so. And the difference there is -- is considered an interclass study. Right?

So you have one class of customers paying more than they would in an equalized rate of return in lieu of another class paying that. So yeah, that's a subsidy. Correct.

And an intraclass subsidy happens when,

because of the rate design or other characteristics in that class, you have -- you have customers paying more within that class or less than their fair share, so inter and intra. Yes.

Q. So in your opinion, who benefits from a subsidy?

A. The party receiving it financially benefits.

Q. So other parties -- do parties other than the party receiving the financial benefit, do they gain any benefits from a subsidy?

A. Do you have a specific example?

Q. Just in general.

A. I'm not going to weigh in on that, no.

Q. Okay. Kentucky Power has proposed a specific rate design -- proposed specific rates to address an alleged subsidy. But do you have a distributive generation cost of service study that identifies that subsidy?

A. Two parts to your question there, and I reject the premise of it.

We're not just designing the cost of service rate for avoidance of a subsidy. It does help reduce a subsidy, but we're -- we are proposing an NMS2 and the avoided cost rate to comply with the new law in Kentucky for how net metering works.

Volumetric one to one net metering is no longer under the law as I understand it how net metering works. It states it is a financial netting of the dollar value of the customer generator's generation and the dollar value -- or the dollar charges for that customer's load, the cost to serve that. So that's the answer to the first part.

And can you repeat the second part of your question?

Q. Did you have a distributed generation cost of service study that's used as support for identifying any alleged subsidy?

A. Yeah. Absolutely we do. We provided all kinds of data on what that distributed generation is worth from a -- a load reduction standpoint. That is the cost of service. If you reduce one kilowatt-hour of load, what is it worth?

And you -- you know, that's included in my direct testimony, I think it's Exhibit 3, you know, where we come up with those -- those net -- the compensation rates, rate for energy, avoid capacity, and -- you know , energy adjusted for distribution losses and transmission losses, generation capacity value, and then avoided fixed transmission cost.

And that is then modified by the updates I make in my rebuttal testimony, I think that's Rebuttal Exhibit R5 and R6, but that is exactly what that cost of that distributed generation is. It's cost of service.

Q. Okay. Well, with regard to part A of that question, I'm going to ask you to interpret a Kentucky statute.

In terms of a hypothetical question, for a group of customers paying an effective rate of 10 cents per kilowatt-hour, if the cost of service study showed that the cost to serve that customer showed that it was 8 cents to serve that customer per kilowatt-hour, under your definition, does that create a subsidy?

A. So, again, hypothetically, if a customer is not paying its cost of service or it's being paid for for something that's more value than what it's worth. Yeah, generally, I'll agree that that's a subsidy, and -- yeah. I'll just leave it at that.

Q. Okay. And again, a very basic question: There can be a difference -- and frequently is -- there can be a difference between average usage and peak usage; is that correct?

A. Yeah. There is. And, again, that has been incorporated in everything we've done in this proposal and your residential rates, as well as your other rates, they are -- they are based on averages and billing units and test-year data to come up with that.

And to the extent that there's, you know, peak measures versus average measures in NMS2, we've compensated for that through the evaluation of the avoided-cost rate.

Q. Okay. With regard to the peak periods, is it fair to characterize the peak period as the period that corresponds with the highest usage on the customer's system -- excuse me, the highest usage on the company's system?

A. No. It's not. There's a lot of different peak measures.

For example, the company has to -- has to provide for a generation -- a generation capacity obligation based on PJM's peak, you know, so it's our -- our peak, the company's peak at the time of that, you know, we've had a lot of 1CP, 12CP talk here this week with transmission peak requirements.

And then you get down to the distribution system, and then -- then you're looking at like a class non-coincident peak. Again, at that point in time, for the company, at least, in the residential class, a lot of months that is early in the morning as it is dark and cold, because we are an electric heating peaking company.

So you can't just say that it is a time from a cost of service standpoint and from a cost of service standpoint when the company's loaded at its highest because it has to be relative to something that causes cost.

Q. Well, if we go back to something that you said a little bit earlier in your testimony, you were discussing the -- I believe one of the things you identified was a pool heater. You're talking about time of use.

If a customer shifts load away from peak periods, is that one way that -- is that one way to lower peak usage?

A. Yeah. Again, like I said, it depends on what peak you're evaluating, if it's a distribution peak or an evaluation peak or a transmission peak, but yeah, that's the whole purpose of providing off-peak tariffs or off-peak plug-ins for our electrical vehicle charging payment tariff there, you know. We're providing a rate schedule there for customers to charge their -- their car off peak and those hours in that tariff to avoid additional fixed costs

on the, you know, cost-costing peaks.
Q. When you see someone -- and again, we'll go back to your example.
If you see someone who -- whether it's the charging -- the electronic charging of a vehicle or the heating of a pool, all other things equal, does that shift in usage lower the cost to serve that customer class if they're moving it away from peak usage?
A. No. Not necessarily. Again, it has -- it depends on if it's the cost-causing peaks. Right? You have peaks for cost allocation, and you have cost-causing peaks.
If you reduce a cost-causing peak, it saves the company's cost of service money, it's all -- all customers' money, and that -- that is what we have valued in the NMS2 of weighted cost rate.
And then when you get to class cost of service peaks, you do not avoid costs at that point. You simply shift costs. And I've addressed that at great length in the rebuttal testimony, and the Commission addressed that in the recent LG&E and KU special contract solar case, and I make reference to that too.
So it's a big distinction. You can't just

generalize there because there are certain peaks that when you shift them, dollars do not go away. They stay there. They just get pushed between classes.

MS. BLEND: Mr. Spenard, I don't mean to interrupt your cross-examination. I apologize. Your Honor, I just do want to note we have been going for about two hours since our last break, and it sounds like Mr. Vaughan needs to get some more water.

I was just going to inquire of Mr. Spenard about how much more cross-examination he thinks he has and suggest that perhaps we could do the break after his cross is concluded, unless he has, you know, a significant amount more. And I'm not trying to rush you, Mr. Spenard.

COMMISSIONER SCHMITT: Here's what I was going to do, was to recess until Monday when -- when Mr. Spenard completed his cross.

But if he has another 30 minutes or so of cross-examination, we might as well just recess now and come back because I expect that there will be several more hours of cross-examination of Mr. Vaughan before we're finished.

So, Mr. Spenard, how close are you to

completion?

MR. SPENARD: Mr. Chairman, I probably am not halfway through, unfortunately, and that's --

COMMISSIONER SCHMITT: Well, that's -- that's fine. I mean, everybody ought to take as much time as you need, complete your cross-examinations and all of that. But there's -- I mean, there's no point in going any further at this point.

So let's just -- let's just recess at this time, and then we'll come back into session at 9:00 a.m. on Monday morning and keep plowing along until we're -- until we're finished. Okay?

So, Mr. Vaughan, you get rested up over the weekend. I suspect that --

THE WITNESS: Okay. Thank you.

COMMISSIONER SCHMITT: -- your celebrity status here has probably put you in the crosshairs of all of these lawyers. All right. We'll be in recess until 9:00 a.m. Monday morning. Thank you.

(PROCEEDINGS ADJOURNED AT 5:24 P.M.)

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STATE OF KENTUCKY)
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COUNTY OF JEFFERSON)

We, Laura J. Kogut and Dannielle Copeland, Notaries Public within and for the State at Large, with commissions expiring 25 July 2023 and 28 September 2023 respectively, do hereby certify that the foregoing hearing was taken before us at the time and place and for the purpose in the caption stated; that witnesses were first duly sworn to tell the truth, the whole truth, and nothing but the truth; that the hearing was reduced by us to shorthand writing; that the foregoing is a full, true, and correct transcript of the hearing to the best of our ability; that the appearances were as stated in the caption.

WITNESS our hand this 22nd day of November 2020.

Laura J. Kogut
Laura J. Kogut, RMR, ~~CRR~~, CRC
Notary Public, State at Large

Dannielle Copeland
Dannielle Copeland, RDR, CRR
Notary Public, State at Large