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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY )  
POWER COMPANY FOR (1) A GENERAL )  
ADJUSTMENT OF ITS RATES FOR ELECTRIC )  
SERVICE; (2) APPROVAL OF TARIFFS AND )  
RIDERS; (3) APPROVAL OF ACCOUNTING )  
PRACTICES TO ESTABLISH REGULATORY )  
ASSETS AND LIABILITIES (4) APPROVAL )  
OF A CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY; AND (5) )  
ALL OTHER REQUIRED APPROVALS AND )  
RELIEF )

CASE NO.  
2020-00174

CONFIDENTIAL

VOLUME VI

Transcript of November 24, 2020, hearing  
before Chairman Michael J. Schmitt at the Kentucky  
Public Service Commission, 211 Sower Boulevard,  
Frankfort, Kentucky 40602-0615, with Vice Chairman  
Kent A. Chandler, Commissioner Talina R. Mathews,  
counsel, and witnesses attending via GoToMeeting.

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ALSO PRESENT:

Ms. Candace Sacre, PSC Court Reporter

1           CHAIRMAN SCHMITT: We're now on the record.  
2 I guess before -- is everybody here, all the  
3 lawyers -- are all the lawyers present?  
4 Mr. Spenard.

5           MR. SPENARD: Good morning, Mr. Chairman.

6           CHAIRMAN SCHMITT: All right. Mr. Miller?  
7 Is Mr. Miller here or Mr. Childers?

8           MR. CHILDERS: Good morning, your Honor.

9           CHAIRMAN SCHMITT: Good morning -- Good  
10 morning, Mr. Childers. Mr. Miller?

11          MR. MILLER: Good morning.

12          CHAIRMAN SCHMITT: Before we start, I wanted,  
13 I guess, to discuss a couple of things: One, you  
14 know, our time between now and the 13th and 14th of  
15 January, we have three holidays, and the holidays  
16 include the day before. So we've got Thanksgiving  
17 and the day before, Christmas and the day before,  
18 and New Year's and the day before. And the way it's  
19 scheduled, there's not -- there's not a lot of -- we  
20 only have, you know, 14, 15 days after any kind of  
21 reasonably even short scheduling order to -- to get  
22 a decision out in the case.

23                 So yesterday I started working on a -- on a  
24 procedural order on the dates for data requests,  
25 response, and briefs. And it's kind of short, but I



1 showed it to staff counsel who is going to be --  
2 staff counsel and the rest of the staff in terms of  
3 doing the work, and she suggested that it even be  
4 shortened a couple more days. So let me tell you  
5 what the scheduling order is going to be so that you  
6 can be thinking about it now.

7 Data requests will be -- must be filed by end  
8 of day, midnight, whatever, December 1st. Responses  
9 to data requests, December 9th. Okay? Now, because  
10 we're running into -- into time problems here, the  
11 day before those data responses must be filed by  
12 Kentucky Power, Kentucky Power's brief will be due  
13 on December 8th. All right? Briefs for the  
14 intervenors, December 14th. And then Kentucky Power  
15 will have through December 17th to file a reply  
16 brief.

17 I know Kentucky Power has, what, four or five,  
18 six lawyers and the others -- the attorney general  
19 has several, two at least. And the others, at least  
20 for the solars, joint intervenors, and Sierra Club,  
21 their interests are probably fairly well consistent.  
22 So in any event, that's -- if we don't do that, we  
23 won't have enough time to get an order out, and you  
24 know most of the time these orders in the  
25 electricity rate cases will go over 100 pages.

1           So that's -- I'm sorry. I wish there were  
2 more time, but there isn't. And the holiday season  
3 complicates it.

4           MS. BLEND: Your Honor, this is Ms. Blend.  
5 May I make one suggestion, if that would be all  
6 right? I noticed in the recent Duke rate case,  
7 which was also a fully litigated case, that the  
8 parties filed simultaneous briefs, and they had  
9 three or four days to file a reply brief.

10           CHAIRMAN SCHMITT: They may have filed  
11 simultaneous briefs with reply briefs. I don't -- I  
12 don't like simultaneous briefs, I mean, because  
13 somebody's always -- then there's something that  
14 somebody hasn't thought of and then you come back  
15 and you say, "Well, I've got to file a reply brief"  
16 and you don't have much time.

17           We're going to do it this way: The brief, the  
18 response, responsive briefs, and then reply brief,  
19 and that gives Kentucky Power the opportunity -- to  
20 have the last opportunity to make an argument on  
21 the -- on the briefs.

22           Other things this morning, I guess, were what  
23 will be -- after we finish with Mr. Vaughan, what  
24 will be the order of cross-examination for  
25 intervening witnesses. And the -- I thought about

1 that yesterday, and we'll just go down to the next  
2 party below the intervenor and do the -- and that --  
3 the counsel for that next party will cross-examine  
4 with the exception that Kentucky Power will always  
5 have the last attempt -- last opportunity to  
6 cross-examine the witnesses because that way they  
7 will be able to have heard everything that the other  
8 witnesses have said.

9 I think Mr. FitzGerald has a conflict or  
10 something this morning. Is that right,  
11 Mr. FitzGerald?

12 MR. FITZGERALD: Good morning, Mr. Chairman.  
13 I'm fine. So go ahead and manage this case as it  
14 needs to be managed, and I will make due if I need  
15 to multitask for a minute. I've just got a status  
16 conference and administrative hearing that is purely  
17 a scheduling matter, so I can do both at the same  
18 time.

19 CHAIRMAN SCHMITT: Okay. All right. You  
20 might have a -- an earpiece in each ear.

21 MR. FITZGERALD: Exactly. I will try --

22 CHAIRMAN SCHMITT: Almost talking on two  
23 telephones at the same -- same time.

24 MR. FITZGERALD: I will try to multitask  
25 without my head exploding.

1           CHAIRMAN SCHMITT: All right. Is there -- at  
2 this point, before we start, is there anything else  
3 anyone would like to bring to our attention before  
4 we begin? We would like to finish today, if  
5 possible. So let's see -- and my schedule is such  
6 that I can't go much beyond 5:00, so -- but if we  
7 can't, we'll just come back tomorrow and keep going.  
8 So at this time --

9           MS. GRUNDMANN: Commissioner, I had a  
10 question, briefly. This morning Ms. Vinsel asked  
11 the parties to provide feedback on whether there was  
12 any cross for certain witnesses and how much they  
13 expected. I don't know if she heard from everyone,  
14 but I was just curious if there were certain  
15 witnesses for whom no one had cross and we might  
16 just admit them into the record, and although it's  
17 not much time, it might dispense of a little bit of  
18 time to the extent there was anyone.

19           CHAIRMAN SCHMITT: I suspect,  
20 Ms. Grundmann, that no one will have cross for your  
21 witness. But why don't we see right now if any  
22 counsel has any cross-examination -- any  
23 cross-examination or intents to cross-examine  
24 Walmart's witness. And if not, does anyone have an  
25 objection if her witness, then, is excused and does

1 not have to appear?

2 MR. WEST: Your Honor, this is Mike West for  
3 Attorney General's Office. We just have a few  
4 questions.

5 CHAIRMAN SCHMITT: All right. Well,  
6 Ms. Grundmann, we'll have -- she'll get on -- she'll  
7 get on today one way or the other. Okay. All  
8 right. Okay. Ms. -- Ms. Blend, are you prepared  
9 for redirect of Mr. Vaughan?

10 MS. BLEND: I am, your Honor. Thank you.

11 CHAIRMAN SCHMITT: Thank you. You may -- may  
12 proceed.

13 MS. BLEND: Thank you. And if I could ask  
14 staff to please display Company Exhibit 2, Company  
15 Hearing Exhibit 2 at page 11 of 25. Mr. Vaughan, if  
16 you'll turn to that document as well, please.

17 MS. VINSEL: Ariel, that's Kentucky Power  
18 exhibit -- thank you.

19 MS. BLEND: Thank you.

20 ALEX E. VAUGHAN, having been previously  
21 sworn, testified as follows:

22 REDIRECT EXAMINATION

23 By Ms. Blend:

24 Q. Mr. Vaughan, good morning.

25 A. Good morning.

1 Q. Do you recognize this document?

2 A. Yes. I do.

3 Q. And what is it?

4 A. It is the Commission's order and settlement  
5 agreement from PSC Case Number 2004-00420, which we  
6 have been referring to as the -- words just escaped  
7 my -- the Rockport Unit Power Agreement Extension.

8 Q. Thank you. And were the AG and KIUC parties  
9 to this agreement?

10 A. Yes. They were.

11 Q. Thanks. And if you'll turn to page 14, and  
12 if staff will please navigate to page 14 of the  
13 document. Directing your attention to Section  
14 III.1.B, if you'll read that for yourself.

15 Is this a provision that relates to the \$6.2  
16 million annual additional revenue that the company  
17 is entitled to collect through the capacity charge  
18 in 2021 and 2022?

19 A. Yes. It is.

20 Q. Thank you. And if we can please navigate to  
21 page 15, and if we'll scroll to the bottom, Section  
22 III.F, as in Frank, begins at the bottom of page 15  
23 and carries on to page 16. Will you please read  
24 that provision?

25 A. Certainly. "This stipulation and settlement

1 agreement is made upon the express agreement by the  
2 parties that the receipt by Kentucky Power of the  
3 additional revenues called for by Section III.1.A  
4 and III.1.B shall be accorded the ratemaking  
5 treatment set out in this Section III, and any  
6 proceedings affecting the rates of Kentucky Power  
7 during the extension of the UPSA under this  
8 stipulation settlement agreement, the provisions of  
9 this Section III are an express exception to Section  
10 VI.4 of this stipulation and settlement agreement."

11 Q. Thank you. And will you please turn to page  
12 17, and if we could navigate to page 17.

13 Will you please read Section VI.4?

14 A. Yeah.

15 Q. It's at the bottom of that page.

16 A. "This stipulation and settlement agreement  
17 further is made upon the express understanding that  
18 it constitutes a negotiated settlement and except as  
19 otherwise expressly provided for herein to  
20 effectuate this stipulation and settlement  
21 agreement, no parties shall be deemed to have agreed  
22 to any ratemaking principle, precedent, or policy,  
23 nor shall any party be deemed to have agreed or  
24 consented to any matter not expressly stated in this  
25 stipulation and settlement agreement. Nothing in

1 this paragraph is intended to prevent the admission  
2 of this stipulation and settlement agreement as  
3 evidence in any proceeding in which it is relevant."

4 Q. Thank you. So taking these three pieces and  
5 putting them together, do I have it right that the  
6 6.2 -- we read III.1.F, and it says that the \$6.2  
7 million the company's entitled to collect for the  
8 capacity charge is an exception to Section VI.4  
9 which you just read?

10 A. Yes. That's my understanding of what the  
11 words say.

12 Q. And, you know, recognizing you're not a  
13 lawyer I'm not asking you for legal opinion  
14 testimony, but you have been questioned about this  
15 agreement by other counsel and the Vice Chairman in  
16 this case, I believe, definitely by other counsel,  
17 do I have it right that in other words, the AG and  
18 KIUC have expressly agreed to Kentucky Power's  
19 receipt of additional revenues collected through  
20 this capacity charge and to the ratemaking treatment  
21 of those revenues in the settlement?

22 A. Yes. That's my understanding as a ratemaking  
23 professional, that they have agreed to the receipt  
24 by Kentucky Power and the ratemaking treatment as we  
25 proposed in this case.



1 Q. And in your opinion as a ratemaking  
2 professional, is it appropriate for those parties to  
3 now argue against the company's receipt of the  
4 capacity charge revenues or the ratemaking treatment  
5 of those revenues in this case?

6 A. From a nonlegal standpoint, it would seem  
7 inappropriate.

8 Q. Thank you.

9 MS. BLEND: If staff could now please display  
10 Kentucky Power's application, Section II, Exhibit E,  
11 at page 208.

12 BY MS. BLEND:

13 Q. And while staff is pulling that up,  
14 Mr. Vaughan, do you recall questions from  
15 Mr. Spenard and Mr. FitzGerald yesterday regarding  
16 the company's tariff EDR?

17 A. Yes. I do.

18 Q. Is it your understanding, Mr. Vaughan -- and  
19 if we could please scroll to -- scroll down just a  
20 little bit to Item 3 under "Availability of  
21 service."

22 Mr. Vaughan, one of the requirements of  
23 service under tariff EDR is the customer  
24 demonstrates the company's satisfaction that as to  
25 the availability of the EDR or the qualifying new or

1 increased collectable demand would be located out of  
2 the company's service territory or wouldn't be  
3 placed in service?

4 A. That's right. They're stating that in order  
5 to get the EDR discount, they would not have  
6 otherwise sited in the company's territory but for  
7 the provisions of the EDR tariff.

8 Q. Thank you. And did the customer who was  
9 taking service under tariff EDR during the test  
10 period provide a statement to that effect to the  
11 company?

12 A. Yes. They did.

13 Q. And is it your understanding that Kentucky  
14 Power included the customer's application for  
15 service under the tariff, which included that  
16 statement and the company's application for approval  
17 of its tariff EDR agreement with that customer in  
18 Case Number 2018-387?

19 A. Yes. Yes. The company did, as well as the  
20 Marginal Cost of Service Study that is also a  
21 requirement of tariff EDR.

22 Q. And the company -- or the Commission approved  
23 that agreement based on the record in that case?

24 A. Yes. It did.

25 Q. Now, in your opinion, could a net metering

1 customer satisfy either the requirement under --  
2 Requirement 3 under "Availability of Service" or the  
3 marginal cost requirement?

4 A. No. They wouldn't be able to satisfy either.  
5 Obviously, they're already here as they're a  
6 residential customer. They're simply adding a  
7 system to their load, so they -- you know, that  
8 would not work for them.

9 And also, they would not pass the marginal  
10 cost of service standpoint, as I've testified and  
11 I've shown in my rebuttal testimony. It's the exact  
12 opposite. Their reduction in cost is less than the  
13 reduction revenues received from that customer when  
14 they add a system, so it's the exact opposite of an  
15 EDR customer where the addition in cost, by  
16 definition, has to be less than the additional  
17 revenues received from the additional load. Right?  
18 We're talking additional load versus reductions in  
19 load.

20 Q. Thank you for that clarification and  
21 explanation.

22 I want to turn now to EEI. There's been  
23 discussion over the last several days about the  
24 company's membership dues for its membership in EEI.  
25 Have you heard that discussion?

1 A. I have heard several discussions about that.  
2 Yes.

3 Q. Can you please describe your involvement on  
4 behalf of AEP in EEI?

5 A. Yeah. So on my team we have individuals that  
6 do various rate case filings and compliance filings  
7 and other things, and -- and all of the company's  
8 eastern states -- well, I guess all of our states,  
9 actually, take fuel into account, and I myself and  
10 some of my managers participate in the rates  
11 committee portion of EEI and a -- you know, when we  
12 go to those meetings, we -- it's a form of  
13 continuing education and training where we can  
14 discuss various ratemaking and cost of service  
15 issues with our industry peers.

16 So it's a valuable training tool. And in a  
17 normal year I like to send as many folks as I can  
18 from our teams at various levels of progression to  
19 the -- the various trainings that EEI provides, you  
20 know, as part of membership so we can -- we can  
21 continue to -- you know, continue the continuing  
22 education of our team and, you know, have  
23 well-trained individuals that are well-rounded and  
24 seek -- you know, get -- gain broader experience  
25 than just their work for the AEP companies.

1           You know, also it's my -- my understanding that  
2           EEI, you know, provides support to other  
3           professional organizations such as NARUC and some of  
4           the consumer advocate associations as well.

5           Q.       And is it your understanding that EEI  
6           members' dues, including AEP's dues, pay for those  
7           NARUC and other activities that are provided to  
8           regulators and consumer advocates?

9           A.       That's right. Our dues to EEI allows them to  
10          then financially support other -- other training  
11          opportunities. Correct.

12          Q.       Thank you.

13          MS. BLEND: And we can take down the  
14          company's application. I should have clarified that  
15          earlier. Thank you.

16          BY MS. BLEND:

17          Q.       Mr. Vaughan, do you recall questions from  
18          Mr. FitzGerald regarding the Net Metering Act KRS  
19          278-466?

20          A.       I do.

21          Q.       Specifically regarding whether the company's  
22          proposed bill credit in tariff NMS2 constitutes  
23          compensations to customer-generators, do you recall  
24          those questions?

25          A.       I do. Yes.

1 Q. And do you have in front of you a copy of KRS  
2 278-466?

3 A. I do.

4 Q. The first sentence of 278-466, Section III,  
5 provides that a retail electric supplier serving an  
6 eligible customer-generator shall compensate the  
7 customer for their generation; is that correct?

8 A. That is exactly what the words say.

9 Q. Can you please take a look at 278-466 Section  
10 IV and read the first sentence of that section?

11 A. Yes. "Each billing period, compensation  
12 provided to an eligible customer-generator shall be  
13 in the form of a dollar-denominated bill credit."

14 Q. And is that what the company is proposing in  
15 this case in tariff NMS2?

16 A. That is exactly what the company is proposing  
17 in NMS2 with the avoided cost rate.

18 Q. Recognizing that you're not a lawyer, is the  
19 word "shall" -- do you interpret the word "shall" in  
20 that sentence to be mandatory or permissive?

21 MR. FITZGERALD: Mr. Chairman, I'm going to  
22 propose an objection. If counsel wants to brief the  
23 issue, we can brief the issue, but this selective  
24 recitation of what the statute says is not  
25 appropriate for this witness. This is a matter of

1 statutory interpretation. That is a matter for  
2 lawyers and is a matter for this tribunal. It is  
3 better done during the briefing.

4 MS. BLEND: Well, your Honor, Mr. FitzGerald  
5 opened up this line of redirect with his questions  
6 to Mr. Vaughan about the meaning of the statute and  
7 what the statute required in terms of compensation  
8 in the discussion yesterday about a bill credit  
9 versus cash to a customer-generator.

10 Mr. Miller from Sierra Club specifically asked  
11 Mr. Vaughan yesterday whether "shall" in Subpart 1  
12 of 278-466 was mandatory or permissive -- or whether  
13 the language, I'm sorry, in that provision is  
14 mandatory or permissive, so I'm simply exploring  
15 those concepts on redirect.

16 MR. FITZGERALD: Mr. Chairman --

17 CHAIRMAN SCHMITT: Listen, for what it's  
18 worth, in reality, if Mr. Vaughan were the finest  
19 utility lawyer in the world, in testimony before any  
20 tribunal, I don't know of anybody that allows a  
21 witness to testify what the law is.

22 So I think the objection is well taken, but  
23 I'm going to let him answer the question in view of  
24 all of the other questions that he had to fend off  
25 for the last two days.

1 MR. FITZGERALD: Thank you, Mr. Chairman.

2 BY MS. BLEND:

3 Q. So, Mr. Vaughan, is the word "shall" in  
4 278-466 Subpart IV mandatory or permissive, in your  
5 nonlegal opinion?

6 A. In my nonlegal opinion, when someone tells me  
7 I shall do something, it's mandatory.

8 Q. Is this case, in your nonlegal opinion, a  
9 ratemaking process --

10 A. Yeah.

11 Q. -- during a proceeding initiated by a retail  
12 electric supplier?

13 A. Yeah. Absolutely. It's a ratemaking  
14 process --

15 Q. And it's one --

16 A. -- initiated by Kentucky Power Company.

17 Q. Would a general industry proceeding in an  
18 administrative case or a workshop type of  
19 document -- docket, rather, initiated by the  
20 Commission constitute a ratemaking process initiated  
21 by a retail electric supplier?

22 A. No. And it would be inappropriate in this  
23 sense. You know, as I discussed in my -- my  
24 rebuttal testimony, a lot of the electric suppliers  
25 in Kentucky are very nonsimilarly situated in



1 regards to what RTOs they belong to, what their  
2 avoided costs are. It's all very different and  
3 should be utility specific.

4 Q. And have you -- are you familiar with the  
5 Commission's docket last year regarding the  
6 implementation of the Net Metering Act?

7 A. Yes. In December. I actually participated.

8 Q. Is it your understanding that the Commission  
9 recognized in that proceeding that the determination  
10 of avoided cost rates for net metering customers  
11 needed to be done on a utility-specific basis?

12 A. That's my understanding of their order from  
13 that -- that case.

14 Q. Changing gears. You talked yesterday with  
15 the Vice Chairman about winter heating customers.  
16 Do you recall that discussion?

17 A. Yes.

18 Q. What is the company proposing in this case to  
19 benefit winter heating customers?

20 A. As I've discussed in direct and rebuttal  
21 testimony, the company proposed increase to the  
22 basic service charge, the winter -- the addition of  
23 the winter heating sale block will both benefit  
24 winter heating customers and the large bills they  
25 incur during those months.

1           In addition to that, the company has various  
2 assistance programs that it continues to maintain,  
3 as well as the -- what I've called the  
4 debt-forgiveness issue, the \$10.8 million that is  
5 still outstanding. You know, there's definitely --  
6 those accounts I think were as of May. So there's  
7 definitely some winter -- you know, winter bill  
8 default in there that could be included in the debt  
9 forgiveness.

10           And, you know, just in general, the company's  
11 proposal to put this rate increase off for another  
12 year with the first-year offset.

13           Q.     Thank you. Specifically regarding the  
14 company's winter heating declining block rate, if  
15 that rate reduced the customer's bill,  
16 hypothetically, from \$300 to \$200, would that help  
17 that customer, in your opinion?

18           A.     Yes. It's a smaller financial burden, and  
19 it's more in line with cost causation, as I  
20 discussed at length yesterday, and results in a  
21 reduced interclass subsidy to customers.

22           Q.     Now, you and the Vice Chairman briefly  
23 discussed whether DSM type of programs might be  
24 available to help high winter usage customers. Do  
25 you recall that discussion?

1 A. I do.

2 Q. Are you familiar with the Commission's  
3 January 18th, 2019, order in Case Number 2017-97?

4 A. I am. Yes.

5 Q. And can you please summarize your  
6 understanding of what the Commission directed with  
7 regard to DSM programs in that order?

8 A. Yeah. So in that order, besides the targeted  
9 energy efficiency program, the Commission ordered  
10 the company to cease all other EE and DSM programs  
11 and essentially barred the company from additional  
12 programs until they can show a capacity shortage or  
13 a capacity need in the future.

14 Q. Thank you. When does the company expect that  
15 its capacity position will next indicate a need for  
16 additional generation to serve the load?

17 A. Right now, we are anticipating that will  
18 happen after the Rockport UPA terminates in December  
19 of 2022.

20 Q. So practically speaking, under that 2017-97  
21 case order, nonlow-income DSM is not permitted until  
22 2023?

23 A. That's my understanding.

24 MS. BLEND: Could staff please display  
25 Company Hearing Exhibit Number 3 at page 85?

1 BY MS. BLEND:

2 Q. And, Mr. Vaughan, if you could also turn to  
3 that exhibit, please.

4 A. I have it.

5 Q. Thank you. In the interest of time, I'll  
6 represent that Company Exhibit 3 is the Commission's  
7 January 18th, 2018, order in Case Number 2017-179,  
8 which we have discussed multiple times over the last  
9 week and a half, and page 85 -- 122 is page 6 of the  
10 stipulation in that case.

11 Do you recognize this document as that,  
12 Mr. Vaughan?

13 A. I certainly do.

14 Q. Can you please read Section III.F, as in  
15 Frank, of the stipulation?

16 A. Yes. "If Kentucky Power elects not to extend  
17 the Rockport UPA, it will, beginning December 9,  
18 2022, credit the Rockport fixed cost savings through  
19 the demand component of tariff PPA until new base  
20 rates are set.

21 "However, for 2023 only, the Rockport fixed  
22 cost savings credit will be offset by the amounts,  
23 if any, necessary for the company to earn its  
24 Kentucky Commission authorized return on equity  
25 (ROE) for 2023 (Rockport offset.)

1           "An example of" this calculation -- "An example  
2 of the calculation of the Rockport offset is  
3 included as Exhibit 2."

4           Q.       Thank you.  Now, Exhibit 2 to the stipulation  
5 was filed with the stipulation in Case Number  
6 2017-179, but it does not appear to have been  
7 attached to the Commission's order in that case.

8                   Are you familiar with Exhibit 2 of the  
9 stipulation in that case?

10          A.       I am.  And I believe it's also included in  
11 the PPA forms that the company submits each year.

12          Q.       Thank you.  Can you please walk through how  
13 the ROE, as approved by the Commission and approved  
14 in this settlement, is to be calculated for 2023  
15 with respect to the Rockport fixed cost savings  
16 credit?

17          A.       Yes.  Certainly.  There's line letters, I  
18 guess, for this exhibit or form in the PPA forms.  
19 It's -- Line A is the 12-month GAAP net income, Line  
20 B is the 13-month average common equity, and C is  
21 the return on common equity, which is simply the  
22 12-month GAAP net income divided by the 13-month  
23 average common equity.

24          Q.       So the numerator in that equation is the  
25 company's GAAP net income?

1 A. Yes.

2 Q. Thank you. Do you recall discussions with  
3 the Vice Chairman about the company's earned ROE?

4 A. Absolutely.

5 Q. Is it your understanding -- do you have an  
6 understanding whether the company's earned ROE is  
7 calculated in accordance with GAAP and SEC rules?

8 A. Yes. That's my understanding, and I believe  
9 that's what we presented in Company Witness  
10 Mattison's rebuttal testimony.

11 Q. Now, there was discussion yesterday about  
12 expense items not included in the last test year or  
13 not included in a rate case test year expense and  
14 whether those were included in the calculation of  
15 earned ROE. Do you recall that discussion?

16 A. I do. The items that were agreed upon should  
17 not be included in rates in the last settlement  
18 agreement.

19 Q. Would revenues that differed from the test  
20 year level of revenues be included in the company's  
21 calculation of its earned ROE?

22 A. Yeah. Absolutely. Test year's point in time  
23 and rates are set based on a test year, and  
24 everything that happens after that is different.

25 Q. So if the company's revenues were below the

1 2017 test year levels, say due to load losses, due  
2 to economic conditions or post test year load losses  
3 or test year, in this case, load losses related to  
4 COVID, would those impacts be included in the  
5 company's earned ROE calculation?

6 A. Yeah. Those are exactly the things that are  
7 included in what Company Witness Mattison has  
8 represented in his rebuttal testimony.

9 Q. And I believe yesterday the Vice Chairman  
10 asked you about the company's recent storm deferral  
11 filings.

12 A. Yes.

13 Q. And in that case the company seeks authority  
14 to establish a regulatory asset for approximately  
15 just under \$9.5 million in incremental major  
16 storm-related expense.

17 Is that your understanding from the discussion  
18 yesterday?

19 A. That is what I recall. Yes.

20 Q. Okay. What impact on earned ROE does \$9.5  
21 million in expense have?

22 A. I believe it's roughly 100 basis points. I  
23 think that's included in that application as well.

24 Q. Thank you. So a \$10 million -- roughly \$10  
25 million swing in expense represents 100 basis points

1 in actual earned ROE for the company?

2 A. Yes.

3 Q. Are the expenses that you discussed with the  
4 Vice Chairman yesterday that were not included in  
5 test year expense in the last rate case significant  
6 enough to materially change the company's earned ROE  
7 calculations --

8 THE REPORTER: I didn't hear the end of the  
9 question.

10 CHAIRMAN SCHMITT: The court reporters are  
11 having difficulty understanding you.

12 MS. SACRE: She talks so fast.

13 CHAIRMAN SCHMITT: Could you maybe slow down  
14 on asking the questions and speak louder? The last  
15 question they found -- they couldn't interpret it.

16 MS. BLEND: I'm sorry, your Honor. Yes.  
17 This is, I believe, my last question, and I will  
18 slow down and speak directly into the microphone.  
19 Thank you.

20 BY MS. BLEND:

21 Q. Mr. Vaughan, are the expenses that you  
22 discussed with the Vice Chairman yesterday that were  
23 not included in the company's 2017 test year expense  
24 significant enough to materially change the  
25 calculation of the company's earned ROE as presented



1 in Mr. Mattison's testimony in this case?

2 A. No. They're not.

3 MS. BLEND: Thank you. I have no further  
4 questions at this time, your Honor.

5 CHAIRMAN SCHMITT: Okay. Thank you. All  
6 right. Mr. Vaughan, at long last you may step down.  
7 And since Mr. Mattison is the only other company  
8 witness that may be re-called, you're excused. And  
9 thank you for your testimony over the last, what,  
10 two and a half days, perhaps.

11 Ms. Blend, is Mr. Vaughan the last company  
12 witness?

13 MS. BLEND: He is the last company witness,  
14 your Honor. Thank you.

15 I do have a couple of items with regard to  
16 exhibits to address, if that -- if now would be an  
17 appropriate time for that.

18 CHAIRMAN SCHMITT: Now would be fine.

19 MS. BLEND: Thank you. The Commission  
20 previously admitted a document that was prefiled as  
21 Company Exhibit 8, but it was admitted into the  
22 record of this case as Company Hearing Exhibit  
23 Number 1.

24 So with respect to our other exhibits, we  
25 discussed with Mr. Vaughan the document that was

1 premarked Company Hearing Exhibit Number 1, which  
2 were the revisions to the revenue requirement that  
3 he walked through on direct. I think the cleanest  
4 way to handle that exhibit would be simply to make  
5 it Company Exhibit Number 8, just to swap it with  
6 the one that was -- that became Company Exhibit 1.

7 So could we redesignate what has been marked  
8 Company Hearing Exhibit 1 in Mr. Vaughan's direct  
9 testimony as Company Hearing Exhibit 8?

10 CHAIRMAN SCHMITT: Why don't we just mark it  
11 as Company Hearing Exhibit 1 and then in parentheses  
12 put, you know, Record Exhibit 8 or just Exhibit 8 on  
13 it. That way we can -- I don't know what else, you  
14 know, might be admitted, but I know -- you can refer  
15 to it either way, but there was always -- it seemed  
16 like a practice in past years of referring to  
17 exhibits in the record at the hearing but not  
18 putting them into evidence at the hearing, even  
19 though they were already in the record to be  
20 considered, but it became -- it's more -- it's  
21 easier sometimes, when you have a record, to be able  
22 just to have the exhibit there and -- and refer back  
23 to it.

24 So I think we ought to leave it Exhibit 1 but  
25 designate it as Record Exhibit 8 or something, so --

1 so that there won't be any confusion about it.

2 MS. BLEND: That would be fine, your Honor.  
3 Thank you.

4 So with that clarification, I'll move for  
5 admission of Company Hearing Exhibit 1, which is  
6 Record Exhibit 8.

7 CHAIRMAN SCHMITT: Sustained.

8 (COMPANY HEARING EXHIBIT 1/RECORD EXHIBIT 8  
9 WAS ADMITTED.)

10 MS. BLEND: And I would also like to move for  
11 admission of Company Hearing Exhibit Numbers 2 and  
12 3.

13 CHAIRMAN SCHMITT: Sustained. That's fine.

14 (COMPANY HEARING EXHIBITS 2 AND 3 WERE  
15 ADMITTED.)

16 MS. BLEND: And then finally, your Honor,  
17 Company Hearing Exhibit Number 7, which were 2019  
18 project specifics for PJM were discussed and  
19 utilized during the examination of Company Witness  
20 Pearce last week, I believe on the 18th, and we  
21 inadvertently did not seek that document's admission  
22 then, so I also move for admission of Company  
23 Hearing Exhibit Number 7.

24 CHAIRMAN SCHMITT: Sustained. They'll all be  
25 admitted as hearing exhibits.

1 (COMPANY HEARING EXHIBIT NUMBER 7 WAS  
2 ADMITTED.)

3 MS. BLEND: Thank you, your Honor. I have  
4 nothing further at this time.

5 CHAIRMAN SCHMITT: All right. Counsel for  
6 the Attorney General's Office, Mr. West, do you  
7 have -- I don't know if Mr. Cook's here, but,  
8 Mr. West, do you have witnesses?

9 MR. WEST: Yes, we do have witnesses. And  
10 our three witnesses are being shared with KIUC, and  
11 Mr. Kurtz is going to handle the introduction of our  
12 first, Mr. Kollen.

13 CHAIRMAN SCHMITT: Okay. Mr. Kurtz, who is  
14 your first witness?

15 MR. KURTZ: Lane Kollen, your Honor.

16 CHAIRMAN SCHMITT: Mr. Kollen, would you  
17 please raise your right hand? Do you solemnly swear  
18 or affirm under penalty of perjury that the  
19 testimony you're about to give will be the truth,  
20 the whole truth, and nothing but the truth.

21 MR. KOLLEN: I do.

22 CHAIRMAN SCHMITT: You may ask, Mr. Kurtz.

23 \* \* \*

24

25



1 On line 8, the amount 19.143 should be 2.107.

2 And then on line 11, the word "are" should be  
3 changed to "amounts net 2."

4 Those are all of the changes that I have on  
5 page 21 -- or 20.

6 Page 37, line 3, there's a percentage, 45.45  
7 percent. That should be 45.35 percent.

8 Page 45, line 17, insert the following: "\$57.4  
9 million fixed cost."

10 And on line 18, replace the word "ratemaking"  
11 with "per books."

12 And then finally, on line -- page 54, line 3,  
13 the year 2020 should be 2021.

14 And on line 5, the amounts should both be  
15 changed to 27.689. So instead of 19, it should be  
16 27.689, both references to that amount.

17 Q. Are those all the corrections?

18 A. Yes.

19 MR. KURTZ: Your Honor, I tender the witness  
20 for cross-examination.

21 CHAIRMAN SCHMITT: Thank you.

22 VICE CHAIRMAN CHANDLER: Mr. Chairman, before  
23 we move on, could I make a request of the AG and  
24 KIUC the same request I made to Ms. Blend for Mr. --  
25 that given the number for Mr. Vaughan's testimony,

1 could the company file -- or the AG and KIUC file an  
2 errata version reflecting those changes in the  
3 written record?

4 MR. WEST: We'll certainly make that happen.

5 VICE CHAIRMAN CHANDLER: Thank you. I  
6 apologize.

7 CHAIRMAN SCHMITT: Will Ms. Tina Frederick be  
8 doing the cross-examination for staff?

9 MS. VINSEL: Yes, Chairman. Ms. Frederick  
10 will do that.

11 CHAIRMAN SCHMITT: Ms. Frederick, good  
12 morning. It's good to see you.

13 MS. FREDERICK: Good morning, Mr. Chairman.  
14 Good to see you.

15 CHAIRMAN SCHMITT: Are you prepared to  
16 cross-examine?

17 MS. FREDERICK: Yes. I am.

18 CROSS-EXAMINATION

19 By Ms. Frederick:

20 Q. Thank you. Mr. Kollen, good morning?

21 A. Good morning, Ms. Frederick.

22 Q. In your testimony you proposed to allocate  
23 the Mitchell coal stock adjustment proportionally  
24 across the capital structure.

25 If Kentucky Power uses only short-term debt

1 for its coal purchases, how would you propose to  
2 allocate the Mitchell coal stock adjustment?

3 A. First of all, Mr. Vaughan said yesterday that  
4 the company's proposal was to allocate the Mitchell  
5 coal stock adjustment across all of the capital  
6 structure components. That isn't correct. So I  
7 want to first address that.

8 The company asserts that its coal stock is  
9 financed with short-term debt. There's no evidence  
10 of that. The company's financing is not painted; in  
11 other words, it doesn't borrow short-term debt  
12 solely for the purpose of acquiring coal inventory.  
13 We've addressed this in prior cases, and the company  
14 has, in the past, even sought to have a negative  
15 amount of short-term debt under that incorrect  
16 presumption.

17 But essentially, to respond to your question,  
18 if the company finances coal stock with short-term  
19 debt, it's simply not correct, and there's no  
20 evidence to that effect other than Mr. Vaughan's  
21 assertion to that effect. But if that were the  
22 case, then I think the Commission ought to consider  
23 what other costs are financed with short-term debt  
24 and whether or not there -- there should be a direct  
25 assignment of the short-term debt.



1           And, quite frankly, we -- "we," meaning KIUC,  
2           I don't believe that I represented the AG in some of  
3           the environmental cases, but KIUC in some of the  
4           environmental cases has argued that short-term debt  
5           should be reflected in the environmental surcharge,  
6           and the Commission has seen that on a preferential  
7           basis, and the Commission has determined that the  
8           company's financing cannot be segregated in that  
9           manner.

10           That was a little bit of a long answer, and I  
11           apologize for that, but I just wanted to respond to  
12           Mr. Vaughan's assertion and then his rationale for  
13           an adjustment that he apparently doesn't realize  
14           that the company made, which I'm a little surprised  
15           at. So anyway, I'll shut up now.

16           Q.       Thank you for your answer.

17           And you suggest adjusting the short-term debt  
18           balance to more accurately represent the short-term  
19           debt balances throughout the entire test year --

20           A.       Yes.

21           Q.       -- as a test period ending balance?

22           A.       Yes, that's correct, because I think that's  
23           more consistent with the reality of the test year --  
24           the historic test year. And -- and also, then I  
25           would propose using the current interest rate on

1 that short-term debt because that is what it  
2 currently costs the company, and that actually is a  
3 much lower cost. It's about a half percent right  
4 now compared to the cost of bank term loans or other  
5 long-term debt.

6 Q. If the short-term debt balance was adjusted  
7 as you proposed, would it be reasonable, then, to  
8 allocate the Mitchell coal stock adjustment  
9 proportionally?

10 A. Yes, proportionally, including the increase  
11 in the short-term debt. And remember, that's what  
12 the AG KIUC recommendation is, to allocate the  
13 Mitchell coal stock adjustment, which is an  
14 adjustment to reduce the amount of coal inventory  
15 included in rate base or in capitalization down to a  
16 target level. And it is the AG KIUC recommendation  
17 to do that across the board, across all capital --  
18 capitalization components.

19 Then if the short-term debt is greater, then it  
20 would have a larger proportion in the capital  
21 structure, but it doesn't. It's consistent with the  
22 overall principle of allocating it proportionally  
23 across the capital structure.

24 Q. Okay. Let's turn our attention now to  
25 interest rates.

1           Given the interest rate environment, do you  
2 still believe that 4 percent is an appropriate proxy  
3 for the cost of new debt in June 2021?

4           A.     I think a strong argument could be made for 3  
5 percent, based upon the present interest rates over  
6 a variety of tenors, meaning the duration of the  
7 debt issued, whether it would be 5-year debt, 7-year  
8 debt, 10-year debt or 30-year debt.  And I provided  
9 a response to staff data requests that provided a  
10 copy of a merchant bond record which provides the  
11 cost of a long-term 30-year debt for utilities at a  
12 Baa rating, which would be roughly consistent with  
13 what -- what Kentucky Power's debt rating is, and  
14 it's right around 3 percent, 3.1 percent or so.  
15 So it actually would be better than 4 percent, but  
16 anything in that range I think would be acceptable.

17           And then under the AG KIUC proposal, there  
18 would be a true-up to the actual cost when the debt  
19 is actually refinanced in July of this year -- or  
20 July of next year.

21           Q.     Thank you for your answer.

22           MS. FREDERICK:  Your Honor, I have no further  
23 questions for this witness.

24           CHAIRMAN SCHMITT:  Okay.  Ms. Grundmann,  
25 questions?

1 MS. GRUNDMANN: No questions, your Honor.

2 CHAIRMAN SCHMITT: Mr. Spenard?

3 MR. SPENARD: Good morning. No questions.

4 CHAIRMAN SCHMITT: Mr. FitzGerald?

5 MR. FITZGERALD: No questions, your Honor.

6 CHAIRMAN SCHMITT: Mr. Miller?

7 MR. MILLER: None from Sierra Club, your  
8 Honor. Thank you.

9 CHAIRMAN SCHMITT: Mr. Frye?

10 MR. FRYE: No questions, Chairman.

11 CHAIRMAN SCHMITT: Mr. Overstreet -- no. I  
12 suppose let me ask the Commissioners first, and then  
13 give Mr. Overstreet the last chance.

14 Vice Chairman Chandler, questions?

15 VICE CHAIRMAN CHANDLER: Thanks, Chairman.

16 EXAMINATION

17 By Vice Chairman Chandler:

18 Q. I do just have a question on a singular  
19 issue, Mr. Kollen. Good morning.

20 A. Good morning.

21 Q. On the issue of the pension and OPEB  
22 prepayments, have you read Ms. Whitney's rebuttal  
23 testimony in that regard?

24 A. Yes.

25 Q. Are you aware of her -- and I referred to it

1 the other day as an alternate argument, and  
2 Ms. Whitney didn't correct me that that was an  
3 alternate argument, but are you aware of her  
4 reference at the end of her rebuttal testimony where  
5 she discusses that if the Commission does remove  
6 pension and OPEB from rate base or doesn't include  
7 it in rate base, that the Commission should also  
8 remove the ADIT associated with those?

9 Do you remember her saying that?

10 A. I do. That was an issue that I raised in my  
11 direct testimony. It's an error in the company's  
12 filing, and one that Ms. Whitney conceded, actually,  
13 in response to discovery, to the AG and KIUC  
14 discovery, and then conceded it in her testimony.

15 And keep in mind that there's a positive  
16 amount in Account 165, you know, under the company's  
17 very atypical, highly unusual accounting, but they  
18 put a positive amount in and then an equivalent  
19 negative amount so that the two net to zero, and  
20 then there are related ADIT amounts.

21 So for the positive amount in Account 165,  
22 there's a negative ADIT, a liability ADIT. For the  
23 negative amount in 165, there's a positive ADIT.  
24 So if you're not going to include the negative  
25 amount in 165, then you need to take the positive

1 ADIT out. And the company agrees with that. So  
2 that would be a correction of an error.

3 Q. Okay. And that's what I want to make sure  
4 that I'm sort of clear on.

5 This that alternative -- we'll call it an  
6 alternative, and it may not be correct, but that  
7 mention at the end that if one is going to be  
8 excluded and the ADIT offset should be excluded,  
9 there is no difference in daylight between your  
10 recommendation or the AG KIUC's position on that  
11 issue and the company's. Is that fair?

12 A. That's correct if, in fact, the prepaid  
13 pension is left in rate base and the prepaid OPEB is  
14 left in rate base. If it's taken out, then the two  
15 ADIT amounts just net to zero, just like the  
16 positive and negative amounts in Account 165 net to  
17 zero.

18 So if you take out the 165 prepaid pension and  
19 prepaid OPEB misnomers, to say the least, if those  
20 are taken out of rate base because the negatives are  
21 not included by the company in rate base, then you  
22 don't really need to do anything with the ADIT  
23 because it just nets to zero anyway.

24 But if you leave the positive prepaid pension  
25 and OPEB amounts in rate base, then you need to take

1 out the positive ADIT associated with the negative  
2 amounts that are not included in rate base. So  
3 there's no daylight between us and the company if,  
4 in fact, you include the prepaid pension and prepaid  
5 OPEB in rate base.

6 Q. Let me ask -- the only other question I have  
7 is the sales of electricity in Illinois and Michigan  
8 and -- and the salary expenses in West Virginia.

9 If the company is allocated -- the company  
10 themselves, right, if they receive an actual  
11 expense, income tax expense for the sales of  
12 electricity in Illinois and Michigan and the 21  
13 percent, I think, of the -- 21 percent of that is  
14 the allocation or the income tax expense from West  
15 Virginia, do you agree or disagree with the company  
16 on that issue?

17 A. I don't agree. And I, first of all, haven't  
18 seen any evidence to that effect.

19 My understanding is that the income tax  
20 expense for Kentucky is based upon an income tax  
21 filing and income tax return in Kentucky that takes  
22 the Kentucky taxable income and applies a 5 percent  
23 Kentucky state income tax rate.

24 Any income tax expense in any other state is  
25 not allocated to Kentucky. There's no bill for it

1 or anything like that. In other words, this is a  
2 pro forma type of adjustment that is reflected in  
3 the company's filing, and I don't think it's  
4 consistent with reality.

5 VICE CHAIRMAN CHANDLER: Okay. Those are all  
6 the questions I have for Mr. Kollen. Thank you,  
7 Mr. Kollen.

8 THE WITNESS: You're welcome.

9 CHAIRMAN SCHMITT: Dr. Matthews, questions?

10 MS. MATTHEWS: I don't have any questions for  
11 this witness.

12 CHAIRMAN SCHMITT: Mr. Overstreet, redirect?

13 MR. OVERSTREET: How about cross-examination,  
14 your Honor?

15 CHAIRMAN SCHMITT: Or cross-examination. I'm  
16 sorry. You've been going for five days, so --

17 MR. OVERSTREET: I understand. I woke up  
18 this morning not quite sure where I was.  
19 Unfortunately, that's my growing experience as I  
20 merge into my dotage.

21 CROSS-EXAMINATION

22 By Mr. Overstreet:

23 Q. Good morning, Mr. Kollen.

24 A. Good morning, Mr. Overstreet.

25 Q. Would you please turn to pages 54 to 58 of



1 your testimony?

2 A. Yes.

3 Q. And those pages, that's where you recommend  
4 that the Commission terminate tariff CC, capacity  
5 charge, and the rates associated with it; is that  
6 correct?

7 A. You said pages 54?

8 Q. 54 to 58.

9 A. I think that actually starts page on 55, but  
10 yes.

11 Q. Okay. I'm sorry. The heading is on page 54,  
12 that's my bad.

13 A. You're right. That's the only reason it  
14 would start on page 54. Yes.

15 Q. But wherever it starts, you recommend that  
16 the Commission terminate tariff CC and the rate base  
17 established by that tariff; is that correct?

18 A. Yes. Essentially that's the company's  
19 proposal, you know, subject to the condition that  
20 the Commission makes no other changes to the  
21 company's filed case. But I essentially recommend  
22 that the company -- that the Commission reject the  
23 condition but accept the company's offer.

24 MR. OVERSTREET: And, Ms. Vinsel, could I ask  
25 staff to display Kentucky Power Hearing Exhibit 2,

1 which is the case order from the Case Number  
2 2004-004 -- thank you.

3 BY MR. OVERSTREET:

4 Q. Do you recognize that, Mr. Kollen?

5 A. I do.

6 Q. And attached to that or was Appendix A, which  
7 was the stipulation and settlement agreement entered  
8 into by your two clients in this proceeding: the  
9 attorney general of the commonwealth and KIUC; is  
10 that correct?

11 A. Yes. Yes. That's correct. And it was  
12 signed by the company too. And of course, the  
13 company is, in this case, proposing, unilaterally,  
14 to modify that settlement agreement and that  
15 particular term, which we agree with except for the  
16 condition that the company wishes to impose.

17 Q. Okay. And you would agree that the order  
18 itself, which was entered on December 13th, 2004,  
19 approved that stipulation and settlement agreement  
20 without modifications?

21 A. It did.

22 Q. Okay. Would you please turn to page 12 of  
23 the exhibit, which is page 2 of the stipulation and  
24 settlement agreement? I apologize. I need to get  
25 there myself.

1           And do you see the whereas clause that starts  
2 at the bottom of that page and continues onto the  
3 next page of the stipulation and settlement  
4 agreement?

5           A.     At the bottom of page 2?

6           Q.     Right. It starts off, "Whereas the  
7 Commission," and it's March 29, 2004 -- March 29,  
8 2004, orders in Administrative Case Number 387?

9           A.     I see that provision. Yes.

10          Q.     Okay. And isn't it true that that -- that in  
11 that whereas clause, your clients -- the attorney  
12 general of the commonwealth and KIUC -- recognize  
13 that the Commission had directed Kentucky Power,  
14 quote, To continue to seek extensions to Rockport  
15 Unit Number 1 and Rockport Unit Number 2"?

16          A.     I think those whereas paragraphs are intended  
17 to be a statement of facts that the parties agreed  
18 to.

19          Q.     Thank you. And then there's a whereas clause  
20 that if you scroll down a little bit more, it  
21 immediately follows the one we just discussed, where  
22 your clients agreed, quote, that the extension of  
23 the USPA for 195 megawatts of Rockport Unit Number 1  
24 and for 195 megawatts of Rockport Unit Number 2 is  
25 in the best interest of Kentucky Power's ratepayers

1 and will enable Kentucky Power to secure long-term,  
2 low-cost, coal-fired, base-load generation, end  
3 quote?

4 A. What's the question?

5 Q. Do you agree that that's what your clients  
6 agreed to as a statement of fact in the whereas  
7 clause?

8 A. That's what the clause reads.

9 Q. Okay. And then would you agree in the next  
10 whereas clause, which starts out "Whereas the  
11 parties agree that the additional revenues called  
12 for under this agreement are 'fair, just, and  
13 reasonable considerations for the extension of the  
14 UPSA for Rockport Unit Number 1 and Rockport Unit  
15 Number 2 and the resolution of the other matters  
16 resolved' through the agreement"?

17 A. I think you pretty much read that correctly.  
18 And, you know, the parties include the company -- I  
19 might add, I know that's risking some redundancy  
20 here, but the company was a party to this agreement  
21 and agreed with the statements as well, and yet it's  
22 offered in this proceeding to modify the terms of  
23 this stipulation and settlement agreement.

24 Q. So you would -- and you would agree that the  
25 company's -- in making that offer is giving up

1 approximately \$6.2 million a year until the end of  
2 the Rockport Unit Power Agreement?

3 A. It would forego its opportunity to recover  
4 \$6.2 million through the capacity rider.

5 Q. And your clients are giving up nothing  
6 through your position, right?

7 A. I don't think that's true. Our clients have  
8 conceded considerably, you know, increases in costs,  
9 there have been significant changes in the  
10 anticipated operation of the Rockport agreement  
11 where Kentucky Power has had -- taken no opportunity  
12 to stand for the customers in Kentucky while AEG Co.  
13 in Indiana and Michigan renegotiated the agreements  
14 pursuant to -- and entered into consent agreements  
15 and made the decisions to, for example, install an  
16 extremely expensive SCR and to modify other system  
17 operations at Rockport 2 and impose the costs on  
18 Kentucky Power.

19 So there have been really significant changes  
20 since this stipulation and settlement was entered  
21 into, and Kentucky Power has not at all protected  
22 its customers from the increased costs resulting  
23 from the decisions that other parties to the  
24 agreement have made.

25 Q. Well, would you look at the -- we were just

1 discussing the \$6.2 million that Kentucky Power was  
2 giving up through its conditional approval and the  
3 fact that your clients had agreed that those -- that  
4 the -- what became tariff CC and the resulting \$6.2  
5 million, your clients agreed that they were fair,  
6 just, and reasonable rates. Is that not correct?

7 A. What we're agreeing to is we accept the offer  
8 and we agree with it to concede the \$6.2 million.  
9 And part of that is, you know, we agree that there  
10 should be a rate increase in this case. We agree  
11 that the company -- we continue to agree that the  
12 company should retain some of the fixed cost savings  
13 when the Rockport UPA terminates in December of  
14 2022, so -- and the company, because of its inaction  
15 and in -- failure to really represent customers in  
16 its interaction with AEG Co. in Indiana and  
17 Michigan, we have had costs imposed on us,  
18 significant costs, through the environmental  
19 surcharge and through the base revenue requirement.  
20 So we've given up a lot, I think.

21 Q. But there's nothing in the agreement that  
22 makes those exceptions to -- of course I'll disagree  
23 with your characterization but, nevertheless, that  
24 makes those exceptions a get-out-of-free -- an  
25 exception to the statement that the \$6.2 million is

1 fair, just, and reasonable?

2 A. Well --

3 Q. Point to me in the agreement where it says  
4 that.

5 A. Yeah. There's no specific paragraph that  
6 allows any party to unilaterally change the  
7 agreement, but yet the company has come in in this  
8 case and proposed a change to the stipulation and  
9 settlement, which is beneficial to customers. And  
10 we agree with that.

11 Q. Okay.

12 A. But there's no specific provision that says  
13 the company is either required to or even allowed  
14 to, but the company has, and --

15 Q. So it's -- I'm sorry. I didn't mean to --

16 A. Yeah. I just was reiterating that point.  
17 That's all.

18 Q. So could you turn to -- and we're in the same  
19 document, but we're going back. It's page 6 of the  
20 order. So that would be page 6 of the PDF.

21 And, Mr. Kollen, do you see the paragraph  
22 that starts, "The Commission previously expressed  
23 serious concern" in the middle of that page?

24 A. I do see that. Yes.

25 Q. Okay. And it says -- if I may read it, "The

1 Commission previously expressed serious concern to  
2 what had been, for some time, Kentucky Power's  
3 intent to meet its native load requirements by  
4 purchasing power at market-based prices rather than  
5 extending the Rockport Unit Power Agreement."

6 Do you see that?

7 A. I believe that you read that correctly.

8 Q. And do you disagree -- or do you believe the  
9 Commission was wrong in its characterization of its  
10 serious concern?

11 A. I can only read what you read from that  
12 document. I don't know what the Commission's intent  
13 was or what its knowledge was at that time. I  
14 simply don't know.

15 Q. Okay. And then do you see right below it the  
16 Commission, in its own order, excerpts a portion  
17 from its order in Administrative Case Number 387?

18 Do you see that double-intended quotation?

19 A. I do see that. Yes.

20 Q. And that quotation says, "AEP Kentucky must  
21 plan to meet its load by securing sufficient  
22 capacity that is not subject to market price  
23 volatility. Only by doing so will AEP Kentucky be  
24 able to maintain reasonable electric rates while  
25 mitigating, to the extent possible, market price and



1 fuel price fluctuations."

2 Do you understand AEP Kentucky in that quote  
3 to be Kentucky Power?

4 A. I do understand that to be the case. And of  
5 course, that was before the rise of PJM and the  
6 market -- RPO market structure.

7 Q. And do you -- do you think that the  
8 Commission, when it wrote that in Administrative  
9 38 -- Administrative Case Number 387 was mistaken?

10 A. I don't know what the Commission thought at  
11 the time or what its intent was other than through  
12 the expressed wording of that order.

13 Q. If we could turn to the next page, which  
14 would be page 7 of the PDF and page 7 of the order.

15 And the paragraph about in the middle of the  
16 screen, it starts off -- "The Commission" -- thank  
17 you.

18 "The Commission further finds that the  
19 proposed modification" -- I'm sorry. I've gone too  
20 far. Yeah. All right.

21 And the next sentence starts, "Kentucky Power  
22 has previously indicated that it's unwilling to  
23 extend the Rockport unit power contract, and as a  
24 wholesale power sale the Commission has no  
25 jurisdiction to require the extension of that

1 contract."

2 Do you see that?

3 A. I do see that.

4 Q. And then below that excerpt -- I'm sorry.

5 Let's go back -- if we could scroll back up to page  
6 6 now. Right. Thank you.

7 Where it starts, "Consistent with these  
8 Commission findings," the Commission wrote,  
9 "Kentucky Power is now proposing a long-term  
10 extension of the Rockport unit power contract at a  
11 price that is not subject to market volatility."

12 Do you understand that?

13 A. I'm having a little trouble responding yes or  
14 no to that question, do I understand that. I can  
15 see that that's what the language in that order  
16 states.

17 Q. Thank you.

18 A. If I could somewhat --

19 Q. That's fine.

20 A. -- modify the question.

21 Q. And then it continues, "Although the price to  
22 be paid by retail customers for this power does  
23 reflect market prices since it's priced above the  
24 cost of service, the price now being fixed will  
25 insulate retail ratepayers from the price of future

1 market price volatility."

2 Do you understand the Commission to have  
3 found that?

4 A. Well, I can see that that's what's written in  
5 the order. And of course, the facts and  
6 circumstances have changed significantly with the  
7 rise of the PJM RTO and market pricing for capacity  
8 and energy.

9 Q. And I would like to ask you some questions  
10 about the settlement agreement itself.

11 Was AEP Generating Company a party to the  
12 settlement agreement signed by your clients?

13 A. I don't believe so.

14 Q. And is it not true that the amounts paid  
15 under tariff CC are paid to Kentucky Power and not  
16 AEP Generating?

17 A. Yes. That's correct.

18 Q. And that AEP --

19 A. With -- with -- of course, there is a  
20 relationship there; in other words, one of the  
21 paragraphs or one of the provisions of the  
22 settlement agreement addresses the eventuality -- or  
23 the possibility I think might be a better word, the  
24 possibility that the Kentucky Commission would not  
25 provide recovery in the future of the \$6.2 million.

1           In that case, Kentucky Power basically  
2 preserved its right to go back and extricate itself  
3 from the UPA. And so I think that that was a  
4 provision that has been overlooked in this hearing  
5 so far, but it's a --

6           Q.       Excuse me, Mr. Kollen. I didn't mean to cut  
7 you off. Are you finished?

8           A.       I'm finished. Thank you. Yes.

9           Q.       But my question was: Are the amounts paid to  
10 Kentucky Power?

11          A.       And I answered that yes.

12          Q.       And are Kentucky Power and AEP Generating  
13 legal entities?

14          A.       They are, but they're contractually bound  
15 together with respect to Rockport.

16          Q.       And does the Kentucky Public Service  
17 Commission regulate AEP Generating?

18          A.       It does not.

19          Q.       Can we turn to pages -- pages 31 to 33 of  
20 your testimony? That's where you address SERP. Let  
21 me know what you get there, Mr. Kollen.

22          A.       Yes. That's correct. I'm there.

23          Q.       SERP is an acronym for Supplemental Executive  
24 Retirement Plan?

25          A.       That's correct.

1 MR. OVERSTREET: Ms. Vinsel, can we call up  
2 Company Exhibit 3, which is the order -- 2018 order  
3 from Case Number 2017-00179?

4 MS. VINSEL: Yes. We can do that. Thank  
5 you, Mr. Overstreet.

6 BY MR. OVERSTREET:

7 Q. Now, before we turn to that, Mr. Kollen, I  
8 want to turn to your testimony.

9 As I read your testimony, you cite four  
10 cases, is that correct: Footnotes 46, 47, 48, and  
11 there's 49?

12 A. Yes. That's three companies with the fourth  
13 footnote referring to the third company a second  
14 time.

15 Q. And if we can turn to page 16 of the  
16 Commission's order now, did you review this before  
17 filing your testimony, Mr. Kollen?

18 A. I did, just as I reviewed the portions  
19 related to incentive compensation.

20 Q. All right. And isn't it true that the  
21 Commission approved the company's Supplemental  
22 Executive Retirement Plan expense in its last rate  
23 case?

24 A. It did. And of course it disallowed the  
25 incentive compensation expense tied to financial

1 performance, and that was not, apparently, an  
2 obstacle to the company coming in and requesting it  
3 again, even without a citation to this order in  
4 which it was denied.

5 Q. But you in you --

6 A. So to juxtapose, I think that all of these  
7 issues really are straight up on the table for  
8 consideration in this case. I don't think I'm under  
9 an obligation to ask the Commission for  
10 reconsideration. I'm asking them for consideration  
11 in this case for denial of the SERP expenses, just  
12 like the company's asking for consideration, didn't  
13 ask for reconsideration of the incentive  
14 compensation tied to financial performance, issue up  
15 front on the table in this case, regardless of the  
16 Commission's prior positions.

17 Q. And I understand your position, but you did  
18 find it relevant to cite a 30-year-old LG&E case,  
19 right?

20 A. I did because there's a mixed experience with  
21 the Commission, mixed decisions on this issue.

22 MR. OVERSTREET: Ms. Vinsel, can we now call  
23 up Ms. Kaiser's rebuttal testimony in this case,  
24 page 12?

25 MS. VINSEL: Yes, Mr. Overstreet. It may

1 take one minute. Thank you for your patience.

2 MR. OVERSTREET: I'm not going anywhere.

3 THE WITNESS: Mr. Overstreet, neither am I.

4 So we're aligned on one issue, right?

5 MR. OVERSTREET: That's right. Thank you.

6 BY MR. OVERSTREET:

7 Q. Mr. Kollen, may I direct your attention to  
8 line 12 of -- page 12 of Ms. Kaiser's rebuttal? And  
9 it's the sentence that starts, about halfway over,  
10 "The AEP system's." Thank you.

11 "The AEP system's nonqualified pension plan  
12 used the same benefit formulas as are used under the  
13 qualified retirement plan for each respective  
14 employee except that the nonqualified benefits are  
15 reduced by the amount of qualified benefits."

16 Do you see that statement?

17 A. I do.

18 Q. And you did not file any study or evidence to  
19 the contrary, did you?

20 A. I didn't have the opportunity for surrebuttal  
21 testimony. And I don't think it's relevant to the  
22 issue, in any event.

23 Q. You don't think it's relevant,  
24 notwithstanding the fact that the Commission pointed  
25 to the fact in its 2017 order?

1 A. What do you mean, "the fact"? I'm not sure  
2 what the reference is to "the fact."

3 Q. That's fine. In that order on line -- page  
4 16, the provision where Kentucky Power stated that  
5 the total benefit is revised under both disqualified  
6 and nonqualified --

7 THE REPORTER: I can't hear him.

8 CHAIRMAN SCHMITT: Mr. Overstreet.

9 Mr. Overstreet.

10 MR. OVERSTREET: Yes?

11 CHAIRMAN SCHMITT: The reporter said she  
12 could not understand you. Could you repeat the  
13 question and start from the beginning?

14 MR. OVERSTREET: I apologize. I am starting  
15 over now.

16 CHAIRMAN SCHMITT: Okay. Thank you.

17 BY MR. OVERSTREET:

18 Q. The Commission, in its 2017 order, wrote,  
19 "Kentucky Power stated that the total benefit it  
20 provides under both its qualified and nonqualified  
21 plan is equal to the benefit that would be produced  
22 by the formulas utilized under the qualified plan.  
23 These plans were not subject to the benefit  
24 limitations imposed on the qualified plans."

25 Then my question was: Mr. Kollen, did you



1 introduce any evidence to the contrary or do you  
2 have any evidence to the contrary today?

3 A. No. I did not address that particular aspect  
4 of either the Commission's order and certainly did  
5 not have the opportunity to respond to the company's  
6 rebuttal testimony.

7 But as I said, I don't think it's relevant  
8 because this is an issue of, essentially, an  
9 incentive compensation, in effect, for highly  
10 compensated executives where there is a benefit  
11 above and beyond the qualified -- the qualified  
12 plans.

13 If there wasn't something above and beyond  
14 that, based upon the -- the higher income levels,  
15 then there would be no SERP whatsoever. It's a plan  
16 that was created to bypass this particular  
17 limitation.

18 Q. But you agree the same formula is used --

19 A. I agree --

20 Q. -- qualified and not qualified?

21 A. I agree that that's what the Commission order  
22 said and that's what the company's rebuttal  
23 testimony said, but I don't have any personal  
24 knowledge of that, nor do I think it's relevant.

25 Q. Can we turn to page 13 of your testimony now,

1 Mr. Kollen?

2 A. I'm there.

3 Q. And starting about one-third of the way down,  
4 you discuss cash working capital, do you not?

5 A. Yes. That's correct. That's something that  
6 the Commission will need to address if it decides to  
7 proceed with rate base in lieu of capitalization as  
8 the approach to calculate the return-on component of  
9 the revenue requirement.

10 Q. And actually, you anticipated my question.

11 If the Commission decides to use  
12 capitalization, then this notion of cash working  
13 capital and lead-lag study, the Commission would not  
14 need to address that, would you agree?

15 A. Yes. That's correct. There are a series of  
16 other adjustments to capitalization that I proposed  
17 if the Commission does not decide to go forward with  
18 the rate base approach, but cash working capital is  
19 not one of those adjustments to capitalization that  
20 I have identified.

21 Q. Thank you, Mr. Kollen.

22 Did the Commission direct the company at any  
23 time prior to or during this case to perform a  
24 lead-lag study and calculation in connection with  
25 the calculation of rate base for this case?

1 A. Not to my knowledge.

2 Q. And if we can turn to pages 34 to 36.

3 A. Okay.

4 Q. And I believe you discussed this with  
5 Ms. Frederick of the Commission, the income tax  
6 rates and expense?

7 A. Yes. There were a couple of questions. Yes.

8 Q. Okay. And at page 35 of your testimony, you  
9 recommend, quote, "The Commission treat Kentucky  
10 Power as a standalone entity for the calculation of  
11 state income tax"; is that correct?

12 A. Yes. In the same manner that it treats the  
13 company as a standalone income -- standalone entity  
14 for federal income tax purposes.

15 For example, the Commission has rejected the  
16 use of consolidated tax savings, instead finding  
17 that the federal income tax expense should be  
18 calculated on a standalone basis. The Commission  
19 has rejected the use of an interest expense  
20 deduction from an upstream affiliate, including the  
21 parent company. The company -- the Commission has  
22 even rejected a -- a standalone -- a parent company  
23 loss allocation that is required under the AEP  
24 intercompany tax agreement that's recognized in West  
25 Virginia for APCO and has instead said, "Listen,

1 we're going to compute taxes on a federal -- for  
2 federal income tax purposes as if Kentucky Power  
3 were a standalone entity."

4           Given that there are none of these benefits  
5 from Kentucky Power's affiliation with AEP in the  
6 calculation of federal income tax expense, I think  
7 it's only appropriate and equitable that there not  
8 be any impact on the state income tax expense from  
9 factors outside of the state of Kentucky. It should  
10 be calculated on a standalone basis, just like the  
11 federal income tax.

12 Q.       So if -- you would agree, then, if the  
13 blended state tax rate of 5.845 percent used by  
14 Kentucky Power was based on the company's standalone  
15 operations, that it would be appropriate to use?

16 A.       I don't understand that question.

17 Q.       Well, you've indicated that the Kentucky  
18 state income tax rate that's applied should be --  
19 should take into account -- or should be calculated  
20 as if Kentucky Power were a standalone company,  
21 right?

22 A.       Yes. Which would mean 5 percent, not 5.85  
23 percent.

24 Q.       Do you disagree that Kentucky Power pays  
25 income tax to other states for its Kentucky Power

1 operations?

2 Is that your testimony?

3 A. I've seen no evidence of that fact. These  
4 are apportioned state income tax rates from other  
5 states, and then the Kentucky state income tax rate  
6 is apportioned downward in the company's  
7 calculation, and I -- there is -- the company does  
8 not, to my knowledge, pay income tax expense in any  
9 of these other states. It's domiciled exclusively  
10 in Kentucky.

11 Q. You agree that Kentucky Power has operations  
12 in West Virginia: The Mitchell plant?

13 A. Yeah. Kentucky Power has the two Mitchell  
14 units located in West Virginia, but its taxable  
15 income tax is not derived from West Virginia. Its  
16 taxable income is reflected in Kentucky taxable  
17 income.

18 In other words -- in other words, Kentucky  
19 Power does not have a legal entity in the state of  
20 West Virginia whereby it pays West Virginia income  
21 tax expense.

22 Q. And that's your belief, and that's the basis  
23 for your recommendation?

24 A. Well, there's no other evidence in the record  
25 to the contrary, and the company just simply

1 appORTIONED these rates from other states and then  
2 blended those multiple state rates into the state  
3 income tax rate that it used in this rate filing.

4 MR. OVERSTREET: One moment, your Honor. I  
5 need to take a second to consult. Would that be  
6 okay?

7 CHAIRMAN SCHMITT: That's fine.

8 MR. OVERSTREET: I have no further questions,  
9 your Honor.

10 CHAIRMAN SCHMITT: Redirect, Mr. Kurtz?

11 MR. KURTZ: Thank you, Chairman.

12 REDIRECT EXAMINATION

13 By Mr. Kurtz:

14 Q. Mr. Kollen, the Vice Chairman was asking you  
15 about the pension and the OPEB rate base issue. Do  
16 you recall that?

17 A. Yes. I do.

18 Q. You used the phrase "highly unusual" in  
19 describing this accounting treatment.

20 What did you mean by that?

21 A. To my knowledge -- and I've been in hundreds  
22 of utility rate proceedings -- I believe that the  
23 AEP operating utilities, including Kentucky Power  
24 Company, are the only ones that employ this  
25 memorandum accounting where they use Account 165,

1       which is a prepayment account, and put a positive  
2       dollar amount in whenever they pay something into  
3       the pension or the OPEB trust funds and then  
4       immediately -- simultaneously create a negative  
5       entry to take it right back out of the Account 165  
6       prepaid accounts.

7               And the company itself has described this as  
8       memorandum accounting; in other words, it's not  
9       required by GAAP, it's not required by the FERC  
10      uniform system of accounts, and it isn't used --  
11      this accounting is not used by any other utility  
12      other than the AEP utilities, to the best of my  
13      knowledge.

14      Q.       Also in that discussion with the Vice  
15      Chairman you used the term "misnomer." Do you  
16      recall that?

17      A.       I did. The reason I used that term is  
18      because I don't believe there's anything that's  
19      prepaid. Just because the company used Account 165  
20      to create both a positive and an equivalent negative  
21      entry does not establish, factually, that the  
22      company has prepaid anything.

23               And, you know, it's just simply a function of  
24      the -- where the company is using or recording this  
25      memorandum series of entries, but because whatever

1 positive amount is put into the account is then  
2 taken out with a negative amount, there is no  
3 prepayment. The prepayment, by definition under the  
4 company's accounting, is zero. And I cringe  
5 whenever I hear that term prepayment because it's  
6 not accurate.

7 Q. So there's no actual cash outlay, in your  
8 understanding?

9 A. Well, there is cash outlay through a fund,  
10 the pension trust fund and the OPEB trust fund, but  
11 the question is whether or not those require a  
12 return-on in rate base or whether or not there's any  
13 prepayment.

14 The company, without getting too far into the  
15 weeds, records its pension OPEB and trust fund  
16 assets on its balance sheet and also records the  
17 pension and OPEB liabilities on its balance sheet,  
18 and it is slightly over -- it's somewhat overfunded  
19 on one, the OPEB trust fund, and underfunded on the  
20 pension. And so the balance sheet has amounts in  
21 certain other accounts that show the funding status,  
22 but there is no amount in the prepaid when you  
23 consider the negative accounting entries that are  
24 made simultaneously with the positive accounting  
25 entries.



1 Q. Turning to the capacity charge discussion  
2 with Mr. Overstreet, you referred to a provision of  
3 the settlement agreement that envisioned that the  
4 Commission may disallow the \$6.2 million for  
5 ratemaking purposes and it was under the procedural  
6 terms on page 7 of the settlement agreement.

7 Do you remember your reference to that?

8 A. Yes. I don't have it in front of me, but I  
9 can probably pull it up or if -- let's see.

10 Q. Let me just ask you: Is it your  
11 understanding that the settlement agreement  
12 envisioned that the Commission would disallow the  
13 \$6.2 million and that the company's remedy was to  
14 start proceedings to pull out and terminate the unit  
15 power agreement?

16 A. Yes. That's my recollection.

17 Q. Okay. Why would the company not do that in  
18 today's world, if you know?

19 A. I don't know, quite frankly. But, you know,  
20 I will say this, that the company, according to the  
21 testimony of other witnesses, company witnesses in  
22 this proceeding, did not do anything to attempt to  
23 ensure that it was protected when the AEP and AEP  
24 Gen. Co. and Indiana and Michigan all decided that  
25 they would put a new SCR on Rockport Unit 2. The

1 company just simply apparently accepted that, and --  
2 go ahead, Mr. Kurtz.

3 Q. Was the FTR part of a settlement of the  
4 consent decree with the EPA and the Sierra Club as  
5 it involved litigation brought by the owner of  
6 Rockport Unit 2, the Wilmington Bank & Trust  
7 Company?

8 A. First of all, AEO entered into a consent  
9 decree with the EPA and the U.S. Justice Department,  
10 not with respect specifically to Rockport but with  
11 respect to all of its systemwide generating assets,  
12 but decided to put the new SCR on Rockport 2 to also  
13 address concerns and I believe litigation by the  
14 Wilmington Trust Bank and other lessors.

15 So it basically achieved, you know, its -- its  
16 obligations under the consent decree with the U.S.  
17 Department of Justice and also resolved litigation  
18 with the lessors. And Kentucky Power did nothing,  
19 to my knowledge, to participate in that process or  
20 to protect the interests of Kentucky customers.

21 Q. With respect to that SCR, the attorney  
22 general KIUC position is that it should be recovered  
23 in rates in Kentucky but over -- because it's a 20-  
24 or 30-year asset, the recovery should be over ten  
25 years rather than three years; is that correct?

1 A. Yes. That's correct. Indiana and Michigan,  
2 in a recent rate case in Indiana, proposed a  
3 ten-year amortization of the SCR costs for its share  
4 of the Rockport 2 unit. And the Commission in  
5 Indiana accepted that, and I think that -- you know,  
6 that that was a reasonable proposal by Indiana and  
7 Michigan, and Indiana won, that this Commission here  
8 could -- I think it would be reasonable to reflect  
9 that same ten-year amortization for Kentucky  
10 customers.

11 Q. And of course, Kentucky Power would be made  
12 whole because of the weighted average cost of  
13 capital carrying charge on deferral, is that --

14 A. Yes. That's correct. The company's  
15 environmental surcharge allows the company to  
16 include the cost of the SCR in rate base for the  
17 calculation of the surcharge. And so if the  
18 amortization expense was less over the next couple  
19 of years -- because there's only a couple of years  
20 left under the unit power agreement, it expires  
21 December 8, 2022 -- or actually December 7th, 2022.  
22 There's only about two more years to recover the  
23 remaining of the value of the SCR on Rockport 2.

24 If that were extended to ten years, then  
25 the -- the remaining net book value of the SCR as

1 it's being depreciated will continue to be recovered  
2 in the -- in the environmental surcharge. So the  
3 company would absolutely be made whole.

4 Q. On page 58 of your testimony with respect to  
5 this capacity charge, you determined that when you  
6 add the \$6.2 million amount of money to the 12.16  
7 percent return on equity that is fixed into the  
8 Rockport Unit Power Agreement that the effective  
9 return on equity that AEP would receive if it kept  
10 the \$6.2 million would be 33.81 percent return on  
11 equity?

12 A. That's correct.

13 Q. Did you have cause to -- to calculate the net  
14 present value of the capacity charge payments that  
15 have been received by Kentucky Power over and above  
16 cost of service?

17 A. Yes. I did. I took the nominal dollar  
18 amounts and then escalated them to 2020 dollars to  
19 reflect the payments that customers had made under  
20 this capacity cost rider, and the net present value  
21 of those payments is \$173 million.

22 Q. Without rendering a legal opinion, but is it  
23 your understanding that the Commission has an  
24 independent obligation to assure that current rates  
25 are reasonable, regardless of what a settlement

1 agreement between litigants may provide?

2 A. That is my understanding. And I would think,  
3 intuitively, that would be the case. And it appears  
4 as if the company might agree with that because it  
5 offered to terminate the \$6.2 million, which would  
6 be, you know, a change in the terms of the  
7 settlement agreement.

8 MR. OVERSTREET: Your Honor, I apologize. I  
9 tried to object to that question and answer in a  
10 timely fashion, but we had a technological problem.  
11 If I could please note my objection because  
12 Mr. Kollen can't answer that question without  
13 rendering --

14 CHAIRMAN SCHMITT: Yeah. We've had probably  
15 too much of witnesses who -- testifying about what  
16 the law says somebody can and can't do.  
17 Unfortunately, this cat is already out of the bag,  
18 Mr. Overstreet.

19 But you may continue, Mr. Kurtz, but I think  
20 we all understand what everybody's position is and  
21 what's going on here how and how this works out.

22 BY MR. KURTZ:

23 Q. One last question on the state income tax  
24 issue.

25 When you say that the state income tax was

1 apporportioned to Kentucky Power, what did you mean by  
2 that?

3 A. What the company did was it took the state  
4 income tax rates from all of the other AEP operating  
5 companies -- operating utilities, that is, and  
6 allocated a portion of that to Kentucky and reduced  
7 Kentucky from 100 percent to reflect the allocations  
8 from these other states. It isn't as if Kentucky  
9 pays the income tax in those other states, which is  
10 one of the reasons why I disagreed with that  
11 approach.

12 Q. Last question: If Kentucky has the lowest  
13 state income tax and it's apporportioned upward, does  
14 that mean the operating companies in other states  
15 that have higher income taxes are apporportioned  
16 downward; in other words, get the benefit of  
17 Kentucky's lower corporate income tax?

18 A. Presumably, that would be the case, but I  
19 have not reviewed what those other operating  
20 utilities do in those other states for ratemaking  
21 purposes.

22 MR. KURTZ: Thank you, Mr. Kollen. No  
23 further questions, your Honor.

24 CHAIRMAN SCHMITT: Thank you. Mr. Kollen,  
25 you may step down. Thank you.

1 THE WITNESS: Okay. You're welcome.

2 CHAIRMAN SCHMITT: Let's -- I guess we've  
3 been going here for almost two hours. It's 15  
4 minutes until 11:00. Let's recess until 5 until  
5 11:00. That's a ten-minute break. And then we'll  
6 come back and -- I guess you can call your -- your  
7 next witness, Mr. Baudino. Is that correct?

8 MR. WEST: Yes, your Honor. Mr. Baudino will  
9 be next. Thank you.

10 CHAIRMAN SCHMITT: Okay. Thank you. We'll  
11 be in recess until five minutes until 11:00.

12 (A DISCUSSION WAS HELD OFF THE RECORD.)

13 CHAIRMAN SCHMITT: We're back on the  
14 record -- are we on the record?

15 MS. SACRE: Yes, sir.

16 CHAIRMAN SCHMITT: Mr. Garcia.

17 MR. GARCIA: Yes, your Honor.

18 CHAIRMAN SCHMITT: Are you ready to present  
19 Kentucky Power's next witness?

20 MR. GARCIA: I don't think so, your Honor.

21 CHAIRMAN SCHMITT: Oh, Mr. West, are you  
22 going to -- oh, you're the cross. I get this -- you  
23 guys have been on the stand so long. I apologize.  
24 I like your mask. You're kind of doubled up there,  
25 so you're protected.

1 MR. GARCIA: Always ready, though.

2 CHAIRMAN SCHMITT: Well, that's good.

3 Mr. West, are you ready to present your next  
4 witness?

5 MR. WEST: Yes, your Honor. We are. I see  
6 that the hearing room video is still paused. Is  
7 that how that's supposed to be?

8 CHAIRMAN SCHMITT: Is everyone on?

9 MR. WEST: There we go. I see you now.

10 MS. VINSEL: We're good now.

11 CHAIRMAN SCHMITT: Mr. Baudino, would you  
12 please raise your right hand. Do you solemnly swear  
13 or affirm under penalty of perjury that the  
14 testimony you're about to give is the truth, the  
15 whole truth, and nothing but the truth?

16 MR. BAUDINO: I do.

17 CHAIRMAN SCHMITT: Thank you. Mr. West.

18 MR. WEST: Thank you, your Honor.

19 RICHARD BAUDINO, having been first duly  
20 sworn, testified as follows:

21 DIRECT EXAMINATION

22 By Mr. West:

23 Q. Could you please state your name for the  
24 record?

25 A. Yes. My name is Richard Baudino.



1 Q. And what is your business address?

2 A. It's J. Kennedy & Associates, Inc., 570  
3 Colonial Park Drive, Suite 305, Roswell, Georgia.

4 Q. Okay. And what is your occupation?

5 A. I'm a consultant for J. Kennedy & Associates.

6 Q. Did you cause direct testimony to be filed in  
7 this case?

8 A. I did.

9 Q. Do you have any additions or corrections to  
10 that direct testimony?

11 A. I have two typos to correct, and that's on  
12 page 41 of my direct testimony. If you go to line  
13 8, it says "Table 5." That should be "Table 4."

14 And then the label of the Table 5 here, it  
15 says "McKenzie ROE," so that should be Table 4.

16 Those are the only corrections I have.

17 Q. Okay. Thank you. Did you sponsor any  
18 responses to data requests in this case?

19 A. Yes.

20 Q. If you were asked those same questions again  
21 today, would your answers be the same?

22 A. They would.

23 Q. Is it your intention to adopt the direct  
24 written testimony as your testimony in this matter?

25 A. Yes.

1 MR. WEST: Chairman, the witness is available  
2 for cross-examination.

3 CHAIRMAN SCHMITT: Thank you, Mr. West.  
4 Ms. Frederick, cross-examination.

5 MS. FREDERICK: Thank you, your Honor.

6 CROSS-EXAMINATION

7 By Ms. Frederick:

8 Q. Good morning, Mr. Baudino.

9 A. Good morning, Ms. Frederick.

10 Q. Your analysis incorporated an ROE of 8.93  
11 percent to 9.25 percent and you recommended an ROE  
12 of 9 percent; is that correct?

13 A. Yes. My -- actually, the -- just to be more  
14 precise about it, I recommended the range of 8.93 to  
15 9.25. It was actually Mr. Kollen who recommended a  
16 9.0 percent for AG and KIUC, and he set forth the  
17 reasons for that recommendation in his testimony.

18 Now, I do support that given that that  
19 recommendation falls in line with my recommendation.

20 Q. Thank you for that clarification.

21 And you included high- and low-end results  
22 when calculating the average model return; is that  
23 correct?

24 A. Now, is that the -- the DCS that you're  
25 referring to?

1 Q. Yes.

2 A. Yeah. My testimony and my exhibits show that  
3 I used just about all of the -- all of the values  
4 with the exception of one, and I'm going to just  
5 refresh my memory here a bit.

6 If we go to Exhibit Number RIG 4, page 1 of 2,  
7 you see here I used averages for all the values with  
8 the exception of the growth rate that I used there  
9 for Exelon. I substituted the exact growth rate for  
10 the average finance growth rates for Exelon, which  
11 was negative. So other than that, I used all of the  
12 values. I averaged those growth rates, and also  
13 presented the median value.

14 Q. Thank you. And do you believe that including  
15 those results skews the model?

16 A. I don't believe that it does. I think that  
17 you have a large enough group here, 21 utilities,  
18 with a variety of growth rates there, and I think  
19 what we're looking at is what can a reasonable  
20 expectation be for growth for this proxy group of  
21 companies.

22 So I presented the average as one measure of  
23 sort of sample tendency, if you will, or  
24 expectation for that group. I also presented median  
25 growth rates for each of the four sources that I

1 used as an another alternative view of sample  
2 tendencies.

3 So I think using those two certainly is a  
4 reasonable -- gives a reasonable confirmation that  
5 those -- both the averaged and medians are  
6 indicative of and give investor expectations of  
7 growth for this group.

8 Q. And can you explain, briefly, why you believe  
9 it's important to include those results?

10 A. Yes. This is something that I disagreed with  
11 Mr. McKenzie about. You start picking and choosing  
12 results on the low end to throw out because you  
13 think they're too low, and then it calls into  
14 question you didn't throw out the results that may  
15 be too high, and then you start arguing about what  
16 the standard should be for throwing out and  
17 including these numbers.

18 So again, I think with the -- with the size of  
19 the sample and with the averages and the medians  
20 being used, that's indicative and that's reasonable  
21 to -- to just go ahead and include all of those  
22 numbers.

23 Q. Okay. Thank you. We're going to turn our  
24 attention to beta values for just a moment.

25 A. Sure.

1 Q. And the company has recently seen an increase  
2 in utility beta values; is that correct?

3 A. Yes.

4 Q. And do you know if betas from most  
5 investments made an upward or a downward adjustment,  
6 or is this just occurring in the utility sector?

7 A. I haven't made that --

8 CHAIRMAN SCHMITT: I'm sorry. We cannot hear  
9 the witness. Ms. Frederick, can you hear us?

10 VICE CHAIRMAN CHANDLER: Yeah. So, Chairman,  
11 I believe that -- I believe that Mr. Baudino may be  
12 participating by phone for his audio. Is that  
13 right, Mr. Baudino? Yeah. And he was caller six,  
14 and I believe the IT staff may have just, in the  
15 middle of his response, muted caller six.

16 I don't know why I know that, but I just saw  
17 it, and it was simultaneous. So we'll see if that  
18 helps. Can you try again, Mr. Baudino?

19 THE WITNESS: Sure. Could you repeat the  
20 question, please?

21 BY MS. FREDERICK:

22 Q. Sure. We were discussing beta values, and I  
23 was asking you if betas for most investments were  
24 making an upward or a downward adjustment or if  
25 that's just occurring in the utility sector?

1           A.       Yeah, I haven't looked at all the different  
2           sectors.  It certainly was the case for the utility  
3           sector.  There was a lot of volatility for the  
4           entire market as a whole so, of course, the beta  
5           value would have been calculated based on weekly  
6           price changes of each of the companies in this group  
7           versus the weekly price changes of the New York  
8           Stock Exchange composites.  That's how the Value  
9           Line calculates those betas.

10                   And so, you know, the market was volatile  
11           also, and so apparently what happened from the time  
12           we saw the dates that Mr. McKenzie had filed his  
13           direct testimony originally and there was this huge  
14           increase in beta, and it was likely due to this  
15           premarket volatility that we saw earlier this year.  
16           And so, yes, the -- that certainly did increase the  
17           utility beta substantially, apparently, or at least  
18           made a -- or contributed to that change.  I was kind  
19           of surprised because the -- the beta values are  
20           based on five historical price changes, so I'm kind  
21           of surprised to see such a huge change within that  
22           sort of quarterly period.

23           Q.       And do you believe that this is a permanent  
24           adjustment or a reaction to the economic situation  
25           resulting from the pandemic?

1 A. Well, we'll see. I mean, I think --

2 CHAIRMAN SCHMITT: Mr. Baudino, I hate to  
3 interrupt, but I've gotten word here we need to stop  
4 for some reason.

5 MS. VINSEL: Yes, and I apologize,  
6 Ms. Frederick and Mr. Baudino.

7 Could I please have everyone who is not  
8 speaking mute the line? We have some noise coming  
9 through and it's interfering with our ability to  
10 hear the witness. I appreciate it. Perhaps  
11 Ms. Frederick should repeat the question.

12 CHAIRMAN SCHMITT: Yeah. Ms. Frederick,  
13 could you repeat the question, please?

14 MS. FREDERICK: Sure. Thank you so much.  
15 BY MS. FREDERICK:

16 Q. I was asking if you believe that this  
17 adjustment in betas is a reaction just to the  
18 economic situation resulting from the pandemic?

19 A. I think it contributed to it and, you know,  
20 we'll see if it's permanent or not or if it will go  
21 back more towards the historical relationship where,  
22 you know, beta was -- the beta for this industry was  
23 significantly lower than it is now.

24 And I think that the sort of red flag on the  
25 beta here is to look at the results from -- on the

1 CAPM that Mr. McKenzie reported from his direct  
2 testimony to his rebuttal testimony, there's just a  
3 huge change in the results for the -- for the CAPM  
4 and the ECAPM in his testimony from direct to  
5 rebuttal.

6 And so we will see what investors expect. I  
7 would kind of agree with what Mr. McKenzie said,  
8 which is we can't really know what the beta is in  
9 investors' minds. We can estimate it using  
10 historical betas, which he and I both have done.  
11 Whether that gets -- whether the currently high  
12 betas recede to more historical levels that they  
13 were this year and last year, we will just have to  
14 see.

15 Q. Thank you for that. And one last question  
16 on -- on betas.

17 There's recently been an uptick in the number  
18 of COVID-19 cases and states are again imposing  
19 restrictions.

20 Do you believe that betas will once again  
21 move; and if so, in what direction?

22 A. Well, that I don't know. I mean, we're --  
23 this is certainly an unusual time in the world and  
24 in the United States right now. We're kind of in  
25 uncharted waters. So, quite honestly, I don't have



1 a -- an expectation there one way or the other.  
2 We'll just have to see how it plays out.

3 MS. FREDERICK: Thank you very much. Your  
4 Honor, I have no further questions for this witness.

5 CHAIRMAN SCHMITT: Ms. Grundmann, questions  
6 for Walmart?

7 MS. GRUNDMANN: No questions for this  
8 witness, your Honor.

9 CHAIRMAN SCHMITT: Mr. Spenard?

10 MR. SPENARD: No questions, Mr. Chairman.

11 CHAIRMAN SCHMITT: Mr. FitzGerald?

12 MR. FITZGERALD: No questions, Mr. Chairman.  
13 Thank you.

14 CHAIRMAN SCHMITT: Mr. Miller?

15 MR. MILLER: Thank you, Mr. Chairman. No  
16 questions.

17 CHAIRMAN SCHMITT: Mr. Frye?

18 MR. FRYE: No questions, Mr. Chairman.

19 CHAIRMAN SCHMITT: Vice Chairman Chandler?

20 VICE CHAIRMAN CHANDLER: Just a few. Thank  
21 you, Chairman.

22 EXAMINATION

23 By Vice Chairman Chandler:

24 Q. Good morning, Mr. Baudino.

25 A. Good morning.

1 Q. Were you able to watch the portion of the  
2 hearing in which I cross-examined Mr. -- or asked  
3 questions of Mr. McKenzie?

4 A. Yes.

5 Q. Okay. And do you remember me asking  
6 questions about -- about his reference in his direct  
7 testimony to the Hope standard and the -- some of  
8 the language that's used in Hope, that the Supreme  
9 Court used in Hope?

10 A. Yes. I was there for that.

11 Q. Okay. And I just want to ask you, I guess,  
12 the same basic line of questioning.

13 Insofar as Hope discusses, under a just and  
14 reasonable standard, that -- that rates -- the  
15 ratemaking process requires a balancing of investor  
16 and consumer interests or ratepayer interests,  
17 did -- did your testimony necessarily take that  
18 balance into -- into consideration, or did your  
19 recommendation focus exclusively on the investor  
20 interests?

21 A. I would say, Vice Chair Chandler, that my --  
22 my analysis is really more towards what are  
23 investors requiring in the marketplace for low-risk  
24 electric utilities like Kentucky Power. So in that  
25 sense I pretty much focused on the investor side,

1 like what -- and also the market side: What is the  
2 market requiring for ROE for a utility like Kentucky  
3 Power?

4 So I didn't focus on, say, the ratepayer side,  
5 necessarily. I figure if the company's allowed to  
6 earn a market base rate of return, that sort of  
7 satisfies the balancing of interests.

8 Q. Okay. So I guess I understood the response  
9 until the final part of it.

10 So I would ask: Insofar as the Commission  
11 has to balance the two and is required to balance  
12 the two, does your recommendation -- does your  
13 recommendation and your opinion balance the two  
14 or -- or is it your position that the Commission  
15 should -- should balance it and that you've given  
16 the investor -- the investor piece of it?

17 A. Let me answer it this way: Normally, I just  
18 look at the investor piece of it. However, I also  
19 support Mr. Kollen's recommendation of 9.0 percent,  
20 and in that -- in that recommendation, Mr. Kollen,  
21 in his testimony, does take into account some of  
22 these other factors. And, you know, we have  
23 essentially followed the same path as the company in  
24 terms of rate mitigation, going down from the top of  
25 my range, which is 9.25, down to 9 percent as part

1 of rate mitigation, which would mitigate rates for  
2 the sort of economically distressed area in which  
3 Kentucky Power serves.

4 So my -- I formed the -- sort of the range  
5 that Mr. Kollen used, he recommended 9 percent --  
6 and I support that, by the way, as being within my  
7 range.

8 Q. So is it -- is it fair to say that insofar as  
9 you and Mr. Kollen balanced or intended to balance  
10 the consumer and the investor interests, it was --  
11 it's just -- it's merely a reflection of the  
12 lower -- the revenue requirement reduction from the  
13 lower ROE you proposed and as the company proposed,  
14 is that a fair --

15 A. Yes.

16 Q. Okay.

17 A. Sorry. Yes.

18 VICE CHAIRMAN CHANDLER: Okay. All right. I  
19 appreciate it, Mr. Baudino. Thank you.

20 CHAIRMAN SCHMITT: Dr. Matthews, questions?

21 MS. MATTHEWS: I do not have any.

22 CHAIRMAN SCHMITT: Mr. Garcia,  
23 cross-examination?

24 MR. GARCIA: Thank you, your Honor.

25 \* \* \*

## CROSS-EXAMINATION

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By Mr. Garcia:

Q. Good morning, Mr. Baudino.

A. Good morning.

Q. Can you hear me?

A. Yes. I can hear you fine.

Q. I'll try to go slowly. It's not only that I have an accent, but with the technology, I hope we can communicate without having periods where the court reporter cannot take it. But just if I say something that you cannot hear, it would be helpful for you to let us know maybe with the technology kind of stuff. Is that okay?

A. Okay. Sure.

Q. I will try to simplify my questions a little bit. If I refer to the Federal Reserve as the Fed, you will know what I'm referring to?

A. Yes.

Q. Okay. I'll try not to do it, but I have a tendency to.

Would you please turn to page 4 of your testimony?

A. I have that.

Q. There in line 7 -- and actually, in your testimony this morning already, you referred to

1 Kentucky Power as a low-risk regulated utility?

2 A. That's right.

3 Q. Is Kentucky Power's Moody's credit rating  
4 Baa3?

5 A. Yes. It is. And its S&P credit rating is  
6 A-.

7 Q. Yeah. Moody's rates Kentucky Power on a  
8 standalone basis; is that correct?

9 A. Yes. That's right.

10 Q. And just for the record, obvious that it may  
11 be, Baa3, it's a lower credit rating than, for  
12 example, Baa1?

13 A. Well, it's two notches lower, but it's still  
14 within that Baa rating and it's still an  
15 investment-grade rating.

16 Q. And Baa1 is lower than A3?

17 A. Baa1 is higher than Baa3.

18 Q. No. I'm sorry. Baa1 is lower than A3?

19 A. Yes. It is.

20 Q. Okay. And A3 is lower than A2?

21 A. Yes.

22 Q. Okay. Investors require a higher return for  
23 a higher investment -- higher-risk investment,  
24 correct?

25 A. That's generally correct, yes.

1 Q. Would you agree that from an investor's point  
2 of view, a higher credit rating implies a lower  
3 investment risk?

4 A. Lower investment risk, did you say?

5 Q. Yes. Higher -- the higher the credit rating,  
6 the lower the investment risk?

7 A. That's generally correct. I would agree with  
8 that.

9 Q. Okay. And the converse is also true: The  
10 lower credit rating implies a higher investment  
11 risk, correct?

12 A. Yeah. That's right.

13 Q. Okay. Do you recall Moody's credit rating  
14 for Duke Energy Kentucky?

15 A. That was a Baal.

16 Q. Okay. And for Kentucky Utilities?

17 A. Now, I -- I believe that was contained in the  
18 company's confidential hearing exhibits. And  
19 subject to check, I believe that was A3.

20 Q. And for Louisville Gas & Electric?

21 A. I believe that's A3 as well.

22 MR. GARCIA: Your Honor, in order to keep  
23 things smooth, I may be able to enter into the  
24 record Exhibits 4, 5, and 6 -- Company Hearing  
25 Exhibit 4, 5, and 6 which are -- each of the three

1 is confidential -- without showing them on the  
2 screen. So it's possible that we may not need to go  
3 to confidential session, if I can try.

4 CHAIRMAN SCHMITT: Yeah. We can -- we can do  
5 that. I mean, can you -- let me ask counsel: He  
6 wants to show it on the screen without going into  
7 confidential session or not --

8 MR. GARCIA: No, your Honor, I'm sorry, if I  
9 may. I don't want to show them on the screen. I  
10 think that I can ask the questions --

11 CHAIRMAN SCHMITT: All right.

12 MR. GARCIA: -- in the record.

13 CHAIRMAN SCHMITT: But you want to introduce  
14 exhibits at some point into the record?

15 MR. GARCIA: Correct.

16 CHAIRMAN SCHMITT: But we'll have to do it in  
17 the confidential record? Okay.

18 MR. GARCIA: Correct.

19 BY MR. GARCIA:

20 Q. So, Mr. Baudino, you made reference to the  
21 confidential exhibits of the company.

22 Are you familiar with the documents that have  
23 been identified confidential -- Company Confidential  
24 Hearing Exhibit 4 -- let me ask you one by one.

25 Are you familiar with that document?



1 A. Well, let me just make sure we're talking  
2 about -- yeah, just -- that's all right. I'm just  
3 going to -- I have these on my laptop here, and I  
4 just want to make sure we're referring to the same  
5 thing.

6 Did you say Number 4, Confidential Number 4?

7 Q. Yes.

8 A. Okay. And that would be Duke Energy  
9 Kentucky, Moody's credit opinion?

10 Q. That is correct. And that information is not  
11 confidential, I mean, that that's what it is.

12 A. Okay.

13 Q. So you're familiar with that document? You  
14 recognize it?

15 A. Yeah. Yes. I do.

16 Q. Okay. And let me ask you the same question  
17 for Confidential Company -- Company Hearing Exhibit  
18 Confidential Exhibit Number 5.

19 A. Okay. I have that.

20 Q. Okay. And what is that, without  
21 describing --

22 A. Sure. It's Moody's credit opinion for  
23 Kentucky Utilities Company, and that is dated  
24 October 23rd, 2020.

25 Q. Okay. And you are familiar with that

1 document?

2 A. You know, I have -- I haven't made a detailed  
3 review of it. I did review the first couple of  
4 pages of it just to generally familiarize myself  
5 with it.

6 Q. Okay. And then the same line of questions  
7 for Company Confidential Hearing Exhibit Number 6.

8 A. Okay. I have that one.

9 Q. Okay. And can you identify what the document  
10 is for the record without describing its contents,  
11 and whether you're familiar with it?

12 A. Sure. Again, this is Moody's credit opinion  
13 for Louisville Gas & Electric Company, and that is  
14 dated October 23rd, 2020.

15 MR. GARCIA: Your Honor, at this point I  
16 would like to move for the admission of -- of those  
17 three documents that have been identified into the  
18 confidential record.

19 CHAIRMAN SCHMITT: All right. Sustained.  
20 I'll let them be filed at, what, 4, 5, and 6?

21 (COMPANY CONFIDENTIAL EXHIBITS 4, 5 AND 6  
22 WERE ADMITTED.)

23 MR. GARCIA: Yes, your Honor. Confidential  
24 Exhibits 4, 5, and 6. Thank you. May I proceed?

25 CHAIRMAN SCHMITT: Yes. You may.

1 MR. GARCIA: Okay. We're not going to need  
2 to go into confidential session now that we have  
3 done that.

4 BY MR. GARCIA:

5 Q. So, Mr. Baudino, let me turn your attention  
6 to page 10 of your testimony, please.

7 A. Okay. I'm there.

8 Q. In your testimony, you make reference to the  
9 Federal Reserve's reaction to the economic effect of  
10 the COVID-19 pandemic in March of 2020.

11 A. That's right.

12 Q. If I understand correctly, the Federal  
13 Reserve lowered interest rates in March of 2020 in  
14 order to stimulate the U.S. economy?

15 A. Right. Yes.

16 Q. Okay. Do I understand correctly that in  
17 2019, prior to the coronavirus pandemic, there were  
18 disturbances to financial markets in the United  
19 States associated with international trade tensions  
20 involving the United States?

21 A. You know, I haven't looked at that. You  
22 know, I would -- I'm not sure exactly what you're  
23 talking about or what you're referring to in your  
24 question.

25 Q. Let me try to establish it in -- in bits.

1           Are you aware that in 2019, there were  
2           disturbances to financial markets associated with  
3           trade tensions involving the United States?

4           A.       Yes.

5           Q.       Is your understanding that in 2019 the Fed  
6           lowered federal fund rates three times?

7           A.       Yes.

8           Q.       Is your understanding that -- that lowering  
9           of interest rates by the Fed in 2019 was related to  
10          the financial market disturbances that resulted from  
11          international trade tensions involving the United  
12          States?

13          A.       Well, I -- you know, I did cite that in my  
14          testimony, the Fed lowered interest rates -- the  
15          Federal funds rate three times in 2019, and I think  
16          that was a contributing factor, as you mentioned.

17          Q.       Okay. Are you also aware that in 2018, there  
18          were increases to interest rates by the Federal  
19          Reserve?

20          A.       Yes.

21          Q.       Now, let's turn back to March of 2020.

22                 The Federal Reserve's reaction to the  
23          COVID-19 financial crisis was a significantly  
24          greater scale than the interest rate management of  
25          the Fed during 2018 and 2019, would you agree?

1 A. Absolutely. Yes.

2 Q. I'm sorry. Mr. Baudino, would you repeat  
3 that answer?

4 A. Yes. I said absolutely, yes, I would agree  
5 with that.

6 Q. Okay. Would you agree that once the levers  
7 that the Federal Reserve pulled, to use a metaphor,  
8 starting March of 2020 in addition to lowering  
9 interesting rates was to increase its holding of  
10 Treasury securities?

11 A. Yes. And it increased it substantially.

12 Q. Thank you, sir. And actually, you described  
13 it best, "substantially."

14 Wouldn't you say that the current Federal  
15 Reserve holding of Treasury securities is at an  
16 unprecedented level?

17 A. Yes. It's an all-time high.

18 Q. In fact, would you agree that it's about  
19 double of the holdings that the Federal Reserve had  
20 even at the highest point of the Federal Reserve's  
21 reaction to the 2008 financial crisis?

22 A. You know, I haven't made that calculation. I  
23 would say it's substantially higher, though. Yes.

24 Q. Okay. Mr. Baudino, would you please explain  
25 what the VIX index is?

1 A. That is the volatility index, and that -- I  
2 explained it beginning on page 12 of my testimony,  
3 and that is a -- an index that the Chicago Board of  
4 Options Exchange uses to sort of gauge the market  
5 expectations for price volatility over the next  
6 30-day period, and that's the formula CBOE uses.  
7 And like I said, it's called the fair gauge or the  
8 fair index.

9 Q. Thank you. In March of 2020, the VIX -- I  
10 will just refer to it as the VIX instead of VIX  
11 index.

12 In March of 2020, the VIX had its highest  
13 spike since the 20 -- I'm sorry, since the 2008  
14 Great Recession; is that correct?

15 A. I'm not sure if that's its high spike since  
16 then, but it certainly -- as it states here on page  
17 13, it shot up to 82.69 on March 16th. And  
18 obviously, that's a huge spike. As I said further  
19 on in my testimony, page 6 and -- I'm sorry, line 6  
20 and 7, if you compare that to the daily average of  
21 the VIX 2019, it was 16.39. So that gives you some  
22 order of magnitude about how large that spike was.

23 Q. Okay. You indicate, also, in your testimony,  
24 around page 13, that since March 2020, since that  
25 spike that you just described, the VIX has gone down

1 somewhat but remains at an elevated level, correct?

2 A. That's right. It's elevated -- let's see. I  
3 had the --

4 MR. CHILDERS: For the hearing that's going  
5 on in Frankfort, and that one is on the computer  
6 this (indiscernible.)

7 VICE CHAIRMAN CHANDLER: Mr. Childers.

8 MR. CHILDERS: It's very boring, yes.

9 MS. VINSEL: Mr. Childers. Mr. Childers,  
10 please mute your computer. We can hear the  
11 conversation.

12 MR. GARCIA: Thank you, your Honor. May I  
13 proceed?

14 CHAIRMAN SCHMITT: Yes.

15 MR. GARCIA: Thank you, your Honor.

16 BY MR. GARCIA:

17 Q. Mr. Baudino, let's have this a little bit  
18 comparative.

19 For these elevated levels of the VIX that we  
20 were talking about, would you agree that the current  
21 level is more than double than the approximate 11  
22 points VIX average level in 2017?

23 A. Yes. I would agree to that.

24 Q. Okay. In your testimony, you had a level of  
25 26.38 as of September 25 of 2020?

1 A. That's right.

2 Q. Okay. Are you aware that in late October,  
3 the VIX went over 40 points again, another very high  
4 spike?

5 A. I mean, I would accept that subject to check.  
6 You know, I don't have that data in front of me. I  
7 did check the VIX a day or two ago, and it was back  
8 at 22.

9 Q. I understand. Just for the record, since you  
10 said that you checked a couple days ago, last  
11 Friday, as of close of November 20 of 2020, it was  
12 above 23 points, but you know --

13 A. That sounds about right. That sounds about  
14 right. I would accept that, subject to check.

15 Q. Would you agree that during times of higher  
16 volatility, the risks that investors perceive, on  
17 face, is greater than at times when volatility is  
18 lower?

19 A. Other things being equal, yes, I would agree  
20 to that.

21 Q. Would you predict that the VIX will remain  
22 around 20 index points over the next two years?

23 A. I don't have a basis for that prediction.

24 Q. Right. You would agree with me that nobody  
25 could predict, for example, for the next two years



1 the VIX is going to remain at, say, the 11 index  
2 points that's -- where they averaged in 2017,  
3 correct?

4 A. I just -- I don't have a basis for the -- a  
5 prediction for the VIX for the next couple of years.  
6 We do know that it was -- I mean, I would accept  
7 your 2017 number as 11. I did -- it has gone up.  
8 You know, in 2019 it was higher than that, 15.39,  
9 and we expect it to be elevated -- I would expect it  
10 to be elevated from that level this year, for the  
11 rest of this year.

12 Q. Okay. Let me ask you something. Let me zero  
13 in on what I was asking you.

14 Nobody can predict the VIX for the next two  
15 years, correct?

16 A. I don't think anyone could predict it with  
17 any level of assurance or accuracy.

18 Q. Thank you. Let me ask you this:  
19 Hypothetically, if the VIX were to remain at a  
20 stable level, say at 11 index points or even at 20  
21 index points over an extended period of time, would  
22 you expect that at the same time, the betas for  
23 electric utilities would tend to move back lower to  
24 historical levels?

25 In other words, are these two measures

1 somewhat related?

2 A. Well, the VIX measures volatility as a whole.  
3 And with respect to, you know, the volatility of --  
4 of utilities, of regulating utilities, one thing we  
5 do know is that they are -- their price stability is  
6 greater than the market as a whole.

7 So if historical relationships were to  
8 condition with that, I would expect the prices of  
9 regulated utility companies to be lower in terms of  
10 price stability than the overall market.

11 Q. Right. But I was asking specifically about  
12 the beta for electric utilities, if the market had a  
13 period of stability as reflected by a lower level  
14 VIX, you would expect that the betas would tend to  
15 go down, correct?

16 A. They might. You know, that would be a  
17 reasonable guess. But again, we will just have to  
18 see what happens. I think the market -- the market  
19 will show us what happens in the future with regard  
20 to that.

21 Q. Definitely. Thank you. Mr. Baudino, would  
22 you turn to page 14 of your testimony again, please?

23 A. Okay. I have that.

24 Q. Are you aware that a significant portion of  
25 Kentucky Power's load is commercial and industrial?

1 A. Yes.

2 Q. Is the fact that a significant portion of  
3 Kentucky Power's load is commercial and industrial a  
4 risk factor for Kentucky Power's opportunity to earn  
5 its authorized borrowing?

6 A. It tends to elevate the perceived risks as  
7 far as the credit agencies are concerned. Both  
8 Standard & Poor's and Moody's did mention that.

9 Q. Okay. And from the point of an electric  
10 investor, the risk of Kentucky Power having more of  
11 its load be commercial and industrial tends to  
12 increase risk factors of investment in Kentucky  
13 Power as well; is that true?

14 A. Well, if -- other things being held equal,  
15 yes. But of course, you know, these credit analyses  
16 and opinions take in a variety of these risk factors  
17 as well as credit strength, so you can't really just  
18 isolate on one particular factor.

19 Q. Understood. With other things being equal,  
20 just like you indicated, it would be the case that  
21 the concentration of Kentucky Power's customers'  
22 loads in commercial and industrial customers tends  
23 to increase their risk of Kentucky Power, correct?

24 A. Well, according to S&P and Moody's, yes.

25 Q. Would you agree that Kentucky Power is not

1 one of some companies for which the problems  
2 associated with that concentration and with COVID-19  
3 weren't as severe as originally feared?

4 And I'm paraphrasing your words from the  
5 testimony on page 14.

6 A. Okay. I read that. Would you mind repeating  
7 your question? Because I'm not sure I quite  
8 followed it.

9 Q. Sure. Would you agree that Kentucky Power is  
10 not one of the companies that are described in your  
11 testimony as "Some companies for which the problems  
12 weren't as severe as originally feared"?

13 A. Well, that's -- yes. I would agree that  
14 Kentucky Power's not necessarily included in that.  
15 This was a -- so back on page 13, this is from a  
16 Value Line report on the electric utility central  
17 industry, and it was -- so it was sort of reporting  
18 on companies in that particular area, and I was  
19 making a more general statement. It didn't  
20 necessarily include or exclude Kentucky Power.

21 MR. GARCIA: Your Honor, at this point I  
22 would request to impose an -- ask to show Hearing  
23 Exhibit -- Company Hearing Exhibit 10.

24 MS. VINSEL: Thank you, Mr. Garcia.

25 MR. GARCIA: Are you able to --

1 MS. VINSEL: Kentucky Power Hearing Exhibit  
2 10.

3 MR. GARCIA: And hopefully I may be able to  
4 shortcut some of the questions that I had based on  
5 the answer that Mr. Baudino just provided.

6 MS. VINSEL: Sometimes it takes just a moment  
7 to be able to pull that up.

8 MR. GARCIA: Thank you.

9 MS. VINSEL: We have one slight issue. I  
10 will resolve it.

11 MR. GARCIA: Understood. And I actually can  
12 ask a few questions and probably make -- make it  
13 even shorter this way.

14 BY MR. GARCIA:

15 Q. Mr. Baudino, on page 14 of your testimony you  
16 make reference to regulatory proceedings associated  
17 with the coronavirus; is that correct?

18 A. On page 14?

19 Q. Correct.

20 A. Are you referring to lines 5 through 8?

21 Q. I am.

22 A. Okay. Yes. That's -- that was an excerpt  
23 from the Moody's -- from the Value Line report that  
24 I just -- we were just discussing.

25 Q. Understood. Are you familiar with the

1 Commission's docket Case Number 2020-00085, which is  
2 the Commission's docket regarding COVID-19?

3 A. I'm not familiar with that, sir.

4 Q. Okay. But are you familiar that the  
5 Commission has a COVID-19 docket?

6 A. Yes.

7 Q. Okay. And what's being shown right now, it's  
8 a publicly available data response in that docket.  
9 The questions that I'm going to ask do not require  
10 that you know the underlying information, but I'm  
11 just going to ask about the effects. And if you  
12 were to take the data, you know, just as a  
13 hypothetical, that may help us speed this up.

14 Would you agree that from a credit metrics  
15 point of view, it is negative for the company to  
16 have nearly double the bad debt expense level  
17 that -- as compared to the level authorized in base  
18 rate in the last case?

19 As a general proposition, you would agree  
20 that that's negative from a credit metrics point of  
21 view, correct?

22 A. Well, I'm not sure -- you know, I'm not  
23 really sure if I would agree that that would be a  
24 negative from a credit metrics point of view. I --  
25 it would depend what the Commission's treatment

1 ultimately of that bad debt expense is.

2 Q. I understand. Let me ask you about a  
3 particular credit metric called FFO to debt ratio.

4 You are familiar with that metric?

5 A. Yes.

6 Q. Okay. Would you agree that other things  
7 being equal, bad debt expense of \$1.6 million in --  
8 I'm sorry, in excess of a bad debt expense level  
9 currently reflected in rates would erode Kentucky  
10 Power's FFO to debt ratio?

11 A. Well, it may erode its current FFO to debt  
12 ratio; however, we're in a rate case now, and the  
13 Commission and company presumably would be -- you  
14 know, have ways of treating that -- that bad debt  
15 expense. And that would, you know, impact future  
16 FFO to debt ratios. And I don't -- I don't know how  
17 that particular issue is going to be resolved.  
18 That's really not my issue.

19 Q. Understood. Actually, that may then mean  
20 that I should move on to a different topic.

21 Let me ask you this: Would you agree that  
22 other factors being the same, poor credit metrics  
23 and an increase in bad debt expense would increase  
24 the investment risk of Kentucky Power?

25 A. Well, no. And the reason is because we're in

1 the midst of a rate case now, and, really, the  
2 credit agencies are going to look at, you know, what  
3 comes out of this case as to -- the credit  
4 supportiveness. And as far as we're concerned, and  
5 I -- this is -- again, we're getting back to bad  
6 debt expense, which is not my issue. Mr. Kollen is  
7 the one who addresses the company's revenue  
8 requirement.

9 I can say, in general, out of this case, the  
10 KIUC and AG position is credit supportive for the  
11 company. We're recommending roughly a \$43 million  
12 base rate increase, and that credit supportive from  
13 the company's current revenue level. Like I said,  
14 we're recommending a rate increase that is credit  
15 supportive. We're recommending ROE and allowed ROE  
16 that is significantly greater than the company's  
17 earned ROE over the past couple of years.

18 So -- so again, I don't think you can  
19 necessarily take out what needs to be left of the  
20 bad debt expense and say that because it's currently  
21 high, that's it's credit negative. The resolution  
22 of that will be part of the company's credit going  
23 forward, and Moody's and S&P will be making their  
24 own decisions based on whatever the Commission  
25 decides in this case going forward.



1           But I can say, generally, our position is  
2           credit supportive, and how Moody's and S&P will deal  
3           with that, will deal with the Commission's order, is  
4           up to them, and I don't want to speculate on it. I  
5           can't speculate on that. That would not be a  
6           responsible thing to do.

7           Q.       I understand. So let me see if I can try to  
8           summarize and refocus what you just told me. There  
9           is a risk for investors that Kentucky Power will not  
10          be able to earn its authorized return even after  
11          this case, correct?

12          A.       There's always that risk, and there's also  
13          the eventuality that if the company prudently  
14          manages its operations, that the company will earn  
15          its authorized ROE coming out of this case.

16                 What we have to do and what my understanding  
17          of what the Commission does is give the company the  
18          opportunity to earn a fair rate of return on its  
19          investment.

20          Q.       Right. But just to get back to the point,  
21          there's no guarantee that Kentucky Power will earn  
22          its authorized return, and that's a risk for  
23          investors, correct?

24          A.       Well, there's -- in regulation there's  
25          only -- the best the Commission can do and the best

1 any of us can do is provide an opportunity for the  
2 company to earn that allowed ROE. And as far as a  
3 guarantee, no, there's not an absolute guarantee  
4 that the company's going to earn that. That's going  
5 to be based on economic --

6 THE REPORTER: I'm sorry. I couldn't hear  
7 that. He broke up.

8 CHAIRMAN SCHMITT: The reporter cannot  
9 understand your answer, so you need to start over.

10 (A DISCUSSION WAS HELD OFF THE RECORD.)

11 MS. VINSEL: Chairman, I've been asked to  
12 double-check on something.

13 Mr. Baudino, this is Ms. Vinsel. I wanted to  
14 make sure, are you using only your computer's audio,  
15 or are you using a computer and a phone?

16 THE WITNESS: I'm using a computer and a  
17 phone and my audio is muted, and so is my -- my  
18 computer audio is muted, and so is my computer  
19 volume.

20 MS. VINSEL: And you came through loud and  
21 clear that time. We're just having -- we're just  
22 having some issues on echos, and we're trying to  
23 track down where it's originating. Thank you.

24 THE WITNESS: Okay.

25 CHAIRMAN SCHMITT: Okay. If you could -- to

1 the best you can go back to a couple of sentences,  
2 two or three or four and, you know, try to complete  
3 your answer.

4 THE WITNESS: Okay. Let's see. I guess I  
5 was making -- I hear some feedback.

6 CHAIRMAN SCHMITT: Well, it's unfortunate,  
7 but apparently people -- I don't know who they are,  
8 whether witnesses, lawyers, or somebody, they call  
9 in and they don't mute, and then as a result the  
10 court reporter can't hear and we have an issue with  
11 the record, and sometimes it's difficult for others  
12 to hear, but --

13 THE WITNESS: Okay.

14 CHAIRMAN SCHMITT: -- all we can do is try.  
15 And then of course we have other issues too. We've  
16 had technological problems here that have been part  
17 of -- part of the issues, you know, over the last  
18 six days too.

19 Ms. Vinsel has gone back to see if she can  
20 find staff and help resolve this issue. So if we  
21 can bear with her for just a second, we'll see what  
22 can be done, if anything.

23 THE WITNESS: All right.

24 CHAIRMAN SCHMITT: Ms. Vinsel, what have we  
25 found?

1 MS. VINSEL: We're going to try something a  
2 little different. We've tried muting part of this  
3 room to see because it appears that all of the  
4 participants who need to be muted are muted, so  
5 we're going to try another work-around.

6 CHAIRMAN SCHMITT: Okay. Are we ready to  
7 proceed or not?

8 MS. VINSEL: We are ready to proceed.

9 CHAIRMAN SCHMITT: Now, Mr. Baudino and  
10 Mr. Garcia, the court reporter can -- if you can  
11 hear her, she can tell you what she last was able  
12 to -- to understand and put down in shorthand or  
13 whatever from -- or type from what you said.

14 (TESTIMONY WAS READ BACK:

15 Q. RIGHT. BUT JUST TO GET BACK TO THE POINT,  
16 THERE'S NO GUARANTEE THAT KENTUCKY POWER WILL EARN  
17 ITS AUTHORIZED RETURN, AND THAT'S A RISK FOR  
18 INVESTORS, CORRECT?

19 A. WELL, THERE'S -- IN REGULATION THERE'S  
20 ONLY -- THE BEST THE COMMISSION CAN DO AND THE BEST  
21 ANY OF US CAN DO IS PROVIDE AN OPPORTUNITY FOR THE  
22 COMPANY TO EARN THAT ALLOWED ROE. AND AS FAR AS A  
23 GUARANTEE, NO, THERE'S NOT AN ABSOLUTE GUARANTEE  
24 THAT THE COMPANY'S GOING TO EARN THAT. THAT'S GOING  
25 TO BE BASED ON ECONOMIC --)

1 CHAIRMAN SCHMITT: Did you hear that,  
2 Mr. Baudino?

3 THE WITNESS: And think it would be helpful  
4 if Mr. Garcia could ask his question again, and  
5 maybe I'll answer it again. I think that will be  
6 helpful.

7 MR. GARCIA: I can certainly do that, your  
8 Honor, just to emphasize the point.

9 BY MR. GARCIA:

10 Q. Mr. Baudino, would you agree that other  
11 things being equal, there is a risk inherent for  
12 investors in the fact that Kentucky Power is not  
13 guaranteed to earn its authorized rate of return?

14 A. That -- yes. I can answer that one.

15 That is a risk that I would say all utilities  
16 face in that there's no absolute guarantee utilities  
17 will earn their authorized rate of returns. There's  
18 a lot of different factors that can cause  
19 underearning or overearning for utilities.

20 So is that a risk? Well, it's kind of a  
21 generalized risk for the sector, I would say, not  
22 just Kentucky Power.

23 MR. GARCIA: Your Honor, I only have, like,  
24 two or three more questions. I just want to make  
25 sure that we are good to proceed or do we need to

1       troubleshoot some more?

2               CHAIRMAN SCHMITT:   What did he say?

3               MS. VINSEL:   He wanted to know if we can  
4       proceed or if we were good to go.   And we're not  
5       having -- we're not having the sound issues right  
6       now.

7               CHAIRMAN SCHMITT:   Oh, yeah.   Apparently the  
8       sound issues are all right.   So do you have more  
9       questions?

10              MR. GARCIA:   Just -- just a very few, your  
11       Honor.   Thank you.

12       BY MR. GARCIA:

13       Q.       Mr. Baudino, in light of what you just told  
14       me, let me ask you this:   Other things being equal,  
15       would you agree that it's bad for customers if over  
16       an extended period of time the company earns an  
17       actual ROE that continues to be much lower than its  
18       authorized ROE?

19       A.       Did you say "if not for the customers" for  
20       that?

21       Q.       I'm sorry.   I'm having trouble --  
22       difficult -- difficulty hearing you, so I don't know  
23       what -- do you need me to clarify the question?   I  
24       can ask it again.

25       A.       Sure.   Please.

1 Q. Yeah. Would you agree with me that other  
2 things being equal, that it's bad for customers if  
3 over an extended period of time, the company earns  
4 an actual ROE that continues to be much lower than  
5 its authorized ROE?

6 A. Well, it's bad for customers and it's bad for  
7 the utility, is what -- and in that -- you know,  
8 there's really not much information to go on in that  
9 hypothetical question. However, I would -- I would  
10 ask why the utility has continued to, in that  
11 particular case, underearn its authorized ROE over  
12 this long period of time.

13 So if we apply this now to Kentucky Power,  
14 historically, since the last rate case, since the  
15 stipulation and the order from the Commission in the  
16 last rate case, the company's underearned its  
17 authorized ROE, and now we have the rate case and a  
18 chance for a reset to go forward and have -- have  
19 the company once again try to earn its authorized  
20 ROE. I mean, that's what we're trying to achieve in  
21 this case.

22 One of the things (indiscernible) is a fair  
23 chance for the company to earn its authorized ROE,  
24 and generally speaking, I would say that's what the  
25 AG and KIUC case is doing.

1 Q. Just to verify, I think you said at the  
2 beginning -- and I just wanted to make sure the  
3 record is clear.

4 So you would agree with me that it's bad for  
5 customers and bad for the company if for an extended  
6 period of time Kentucky Power is not able to earn  
7 its authorized ROE, correct?

8 Just to keep it simple. It's bad for  
9 customers and it's bad for the company?

10 A. Yes. That's right. And if that kind of  
11 situation occurred over a long period of time, I  
12 think the Commission -- that's something the  
13 Commission ought to investigate and find out what's  
14 responsible because, really, for regulatory purposes  
15 and for revenue requirement purposes, the company  
16 should be allowed a reasonable level of expenses and  
17 reasonable level of rate base to provide service to  
18 its customers. And if that's not happening over a  
19 period of time or a period of years, then rate cases  
20 are one way to correct that, and that's what we're  
21 here for now.

22 MR. GARCIA: Your Honor, if I can have a  
23 second.

24 CHAIRMAN SCHMITT: Sure.

25 MR. GARCIA: Thank you, Mr. Baudino. Thank



1 you, your Honor. Those are the questions that I  
2 have on cross-examination.

3 CHAIRMAN SCHMITT: Thank you. Mr. West, any  
4 redirect?

5 MR. WEST: Yes. Just briefly, your Honor.

6 REDIRECT EXAMINATION

7 By Mr. West:

8 Q. Mr. Baudino, just to reiterate, what was KIUC  
9 and AG's recommended ROE in this case?

10 A. Our recommended ROE is 9.0 percent based on  
11 my recommendation, based on 9.3 to 8.25.

12 Q. Okay. And as you just indicated, that was  
13 based on your analysis, correct?

14 A. Yes.

15 Q. Okay. And has anything that you've heard  
16 over the course of this hearing impacted that  
17 recommendation either higher -- or to either raise  
18 it or lower it?

19 A. No. In fact, really, after reading  
20 Mr. McKenzie's rebuttal and after, you know,  
21 listening to the hearing so far, nothing's changed  
22 my recommendation. I feel just as confident as I  
23 did when I filed my direct testimony.

24 MR. WEST: Thank you, Mr. Baudino. I have no  
25 further questions.

1           CHAIRMAN SCHMITT: Okay. Thank you. It's  
2 noon, so at this point we'll take a lunch recess  
3 until 1:00, at which time I guess we will have  
4 Mr. Baron. Is that correct, Mr. West?

5           MR. WEST: Yes. Mr. Baron will be our final  
6 witness. Thank you.

7           CHAIRMAN SCHMITT: Mr. Baudino, you may be  
8 excused. Thank you very much.

9           THE WITNESS: Thank you.

10          CHAIRMAN SCHMITT: Hearing will be in recess  
11 until 1:00 p.m.

12          (Lunch recess.)

13          CHAIRMAN SCHMITT: All right. Is everybody  
14 back? Mr. Kurtz, are you going to call the next  
15 witness for KIUC and the AG? Mr. Kurtz, can you  
16 hear?

17          MR. KURTZ: Now I can. Yes, thank you, sir.  
18 We call Stephen Baron.

19          CHAIRMAN SCHMITT: Mr. Baron, would you  
20 please raise your right hand?

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

25          THE WITNESS: Yes, I do.

1 CHAIRMAN SCHMITT: Mr. Kurtz, you may ask.

2 STEPHEN BARON, having been first duly sworn  
3 testified as follows:

4 DIRECT EXAMINATION

5 By Mr. Kurtz:

6 Q. Will you state your name and business address  
7 for the record?

8 A. Yes, Stephen J. Baron, and my business  
9 address is J, period, Kennedy & Associates, Inc.,  
10 570 Colonial Park Drive, Suite 305, Roswell,  
11 Georgia, 30075.

12 Q. Did you submit direct testimony, exhibits,  
13 and responses to data requests in this case?

14 A. Yes, I did.

15 Q. And also on November 12 did you submit in the  
16 record, or we submitted it for you, updates to some  
17 of your exhibits?

18 A. Yes, I did.

19 Q. Can you explain what those were, please?

20 A. The updates -- the updates consist of  
21 incorporating 2021 information that AG filed under  
22 their OATT for transmission revenue requirements.

23 Q. Okay. And you updated Figure 1 in your  
24 testimony to include that?

25 A. That's correct, yes. I updated Figure 1 and

1 some of -- couple of the numbers, which I can go  
2 through, and Table 3.

3 Q. Will you go through the numbers, please?

4 A. Yes, the updates are to references on pages  
5 16, 17, and 18 of my testimony. On page 16 I  
6 updated Figure 1 to add the year 2021 to the chart.  
7 On page 17, I updated the value on line 3, the 19  
8 million to 28 million for 2021, so the 19 million is  
9 still correct for the year 2020, but the updated  
10 value for 2021 is 28 million. At the end of that  
11 line 3 the  
12 25 percent for 2021 is 33 percent, and then on line  
13 13 the reference again to 19 million would be  
14 28 million.

15 On page 18, I updated the results of Table 3,  
16 and the values would be on line 8. The -- the  
17 14 percent value would be changed to 15 percent, and  
18 on line 10 the value .45 percent would be changed to  
19 2.75 percent, and those are the updated changes.

20 Q. With those changes, do you adopt this  
21 testimony?

22 A. Yes, I do.

23 MR. KURTZ: Chairman, I tender the witness  
24 for cross-examination.

25 CHAIRMAN SCHMITT: Mr. Chandler would

1 probably like an errata sheet when you can provide  
2 one. There were several changes. Would you be  
3 willing to do that, Mr. Kurtz?

4 MR. KURTZ: Yes.

5 VICE CHAIRMAN CHANDLER: Sorry, can you hear  
6 me, Mr. Chairman?

7 CHAIRMAN SCHMITT: Yes.

8 VICE CHAIRMAN CHANDLER: So I do, I was  
9 checking it when they were going off. I think that  
10 everything, the changes, the updates they made have  
11 been filed. I was just looking at that, so --

12 CHAIRMAN SCHMITT: Okay.

13 VICE CHAIRMAN CHANDLER: Thank you.

14 CHAIRMAN SCHMITT: All right. Ms. Frederick,  
15 cross-examination?

16 MS. FREDERICK: Thank you, Your Honor.

17 CROSS-EXAMINATION

18 By Ms. Frederick:

19 Q. Good afternoon, Mr. Baron.

20 A. Good afternoon.

21 Q. I just have one question for you this  
22 afternoon. Have you reviewed Mr. Vaughan's revised  
23 NMS II calculations, and do you still believe that  
24 Mr. Vaughan's revised calculations are reasonable?

25 A. Yes, I do. I have reviewed it, and I believe

1 it's reasonable, the changes that he made,  
2 consistent with my direct testimony.

3 MS. FREDERICK: Thank you very much. I have  
4 no further questions, Your Honor.

5 CHAIRMAN SCHMITT: Okay. Ms. Grundmann,  
6 questions?

7 MS. GRUNDMANN: No questions for this  
8 witness, Your Honor.

9 CHAIRMAN SCHMITT: Mr. Spenard?

10 MR. SPENARD: No questions, Mr. Chairman.

11 CHAIRMAN SCHMITT: Mr. FitzGerald?

12 MR. FITZGERALD: No questions, Mr. Chairman.  
13 Thank you.

14 CHAIRMAN SCHMITT: Mr. Miller?

15 MR. MILLER: No, Mr. Chairman. Thanks very  
16 much.

17 CHAIRMAN SCHMITT: Mr. Frye?

18 MR. FRYE: No questions, Mr. Chairman. Thank  
19 you.

20 CHAIRMAN SCHMITT: Vice Chairman Chandler?

21 VICE CHAIRMAN CHANDLER: Yeah. Thanks,  
22 Chairman.

23 EXAMINATION

24 By Vice Chairman Chandler:

25 Q. Good afternoon, Mr. Baron.

1 A. Good afternoon.

2 Q. And I think I'll have very little for you, so  
3 congratulations. The question that I want to ask is  
4 you provided in your testimony a \$19 million sum in  
5 regards to the difference between, I think it was  
6 the Kentucky revenue requirement for transmission  
7 versus what Kentucky Power customers are paying  
8 pursuant to their allocation under the -- well,  
9 under not only the transmission agreement, but also  
10 the OATT for the transcos. Is that a fair  
11 characterization?

12 A. Yes, yes, and I based that analysis on the  
13 reported transmission revenue requirements, so --  
14 but yes, that is -- that is correct.

15 Q. And what I want to clarify, is that the  
16 difference between Kentucky Power Operating  
17 Company's transmission revenue requirement and the  
18 amount that's the test year amount of OATT LSE  
19 expense, or is it the operating company amount plus  
20 the AEP Kentucky Transmission Company revenue  
21 requirement combined and the difference of those two  
22 amounts versus what the Company is paying under the  
23 LSE OATT expense for the test year?

24 A. It's the latter, and so for all of the  
25 companies, including the value for AG LSE, which I

1 used to allocate sort of the base case, it includes  
2 both for each operating company and, in particular,  
3 Kentucky, it includes the individual operating  
4 company revenue requirements and the corresponding  
5 state transco for that company or associate --  
6 relative to the geography of that company.

7 Q. Okay. So the difference when you filed your  
8 direct is 19 million. Did that include the October  
9 filing for the transmission revenue requirements for  
10 either, if Kentucky Power Operating Company filed  
11 theirs, but at least the (indiscernible) cost for  
12 the Kentucky transco?

13 A. The 19 million did not. It reflected the  
14 2020 projected data, and so this update that I just  
15 went through with Mr. Kurtz was the corresponding  
16 analysis using for 2021. So that's why it increased  
17 to  
18 28 million.

19 Q. Okay. And that's what I want to make sure  
20 that we have. So the -- so the information provided  
21 -- okay, that's fair.

22 So the -- the difference between the revenue  
23 requirement amount for Kentucky Power Company plus  
24 the revenue requirement for AEP Kentucky Transco,  
25 both of those for transmission costs is \$28 million



1 lower than the amount that will be allocated of LSE  
2 OATT expense under the different PJM and FERC  
3 tariffs?

4 A. Yes, that's -- that's -- that was the basis  
5 for the calculation, and it's based on an assumption  
6 -- all of the assumptions that are used in the  
7 transmission agreement, basically a 12 coincident  
8 peak allocation, so I basically took the revenue  
9 requirements as reported for each year, including  
10 2021, and then I adjusted those for the affiliate  
11 allocations -- excuse me, the nonaffiliate  
12 allocations, so I removed that, and then allocated  
13 the total on 12-CP and compared that to the  
14 individual operating company values.

15 Q. And just so that I'm clear, when you  
16 allocated on a 12-CP, did you allocate it on the  
17 most recent 12-CP calculation?

18 A. I used the -- for the 12-CP I used the values  
19 that I had used for 2020, so I did not update that,  
20 but I believe that it's -- the reasonable  
21 expectation is that it's going to be very, very  
22 close.

23 Q. So the assumption is that, whatever the 12-CP  
24 allocation of the AG bill was this last time around,  
25 that you just applied that amount to the revenue

1 requirement, or to the bill, effectively, that you  
2 expect AG to get for transmission costs next year.  
3 Is that fair?

4 A. Correct, yes. It's roughly the 5.7 percent  
5 that we've been talking, that has been talked about  
6 in the case thus far.

7 Q. Okay. All right. And there would be --  
8 that's, I guess, an estimate because we don't know  
9 what the 1-CP and 12-CP will be the next year; is  
10 that -- is that again fair?

11 A. That's correct, and I think that relative to  
12 the dollars that we're talking about, in terms of  
13 the dollar differences between an allocation of the  
14 entire AG east share versus the stand-alone  
15 calculation, I don't believe that any -- the slight  
16 differences in allocation factor would be material  
17 in terms of the dollars.

18 Q. So the only update from the change in  
19 19 million to 28 million is the update in the FERC  
20 filed revenue requirements.

21 A. That is correct, and it's primarily as we had  
22 seen the INM investment, and I believe Ohio Power as  
23 well, but in particular INM. Yes, Ohio Power as  
24 well, or the Ohio region as well.

25 Q. Right, between the transco and the operating

1 company.

2 A. Correct, and most of it is the transcos.

3 Q. Okay. All right.

4 VICE CHAIRMAN CHANDLER: That's all the  
5 questions I have. Thank you, Mr. Baron.

6 THE WITNESS: Thank you.

7 CHAIRMAN SCHMITT: Dr. Mathews, questions?

8 COMMISSIONER MATHEWS: I don't have any.

9 CHAIRMAN SCHMITT: Okay. Redirect, Ms.  
10 Glass?

11 MS. GLASS: Cross-examination, Your Honor?

12 CHAIRMAN SCHMITT: Cross-examination, I'm  
13 sorry.

14 MS. GLASS: That's all right. Yes, I have  
15 just a few questions.

16 CROSS-EXAMINATION

17 By Ms. Glass:

18 Q. Mr. Baron, can you hear me all right?

19 A. I can, yes.

20 Q. Okay.

21 MS. BLEND: Could I please have Staff put up  
22 on the screen a document filed in the record as in  
23 connection with the AG and KIUC supplemental update  
24 to Mr. Baron's testimony? It was filed on  
25 November 12, 2020, and it's titled Figure 1, Table

1 3, 2021 Update Supporting Data.

2 MS. VINSEL: One moment. Ariel, did you get  
3 that?

4 MS. GLASS: That's it. Thank you.

5 Q. Can you see this document, Mr. Baron?

6 A. Yes, and I have the original in front of me  
7 as well.

8 Q. Okay. Great. Did you prepare this document?

9 A. I did.

10 Q. And this document reflects the underlying  
11 data that you used to prepare Figure 1 and Table 3  
12 in your direct testimony, correct?

13 A. That's correct, as well as the addition of  
14 2021.

15 Q. Yes, okay, thank you. And I want to draw  
16 your attention to the highlighted figure in the top  
17 right of the document. It reads, 2.276 billion, do  
18 you see that?

19 A. Yes.

20 Q. And this number represents your calculation  
21 of the AG projected transmission revenue requirement  
22 for 2021, correct?

23 A. Yes. I mean, it comes directly from the OATT  
24 filings that the Company puts on its website, but  
25 yes, it's a summation of the individual operating

1 company and transcos revenue requirements.

2 Q. Okay. Thank you. And just as a side matter,  
3 do you know what I'm referring to when I refer to  
4 RTEP, Regional Transmission Expansion Plan,  
5 projects?

6 A. I do.

7 Q. Okay. So in that highlighted number that I  
8 just pointed out, that highlighted number includes  
9 in it the revenue requirement for RTEP projects  
10 built by AG, correct?

11 A. That is correct, and the individual company  
12 values include the RTEP amounts as well.

13 Q. Okay. So does that number include the  
14 revenue requirement for RTEP projects only built by  
15 AG?

16 A. It does, that's correct.

17 Q. Okay. And does it include 100 percent of the  
18 cost for RTEP projects that only AG built?

19 A. Yes. I have to make an assumption in this  
20 analysis as to whether I would use the total  
21 investment that included -- or the total revenue  
22 requirements that included RTEP, some of which,  
23 admittedly, is going to be allocated outside the AG  
24 zone, but -- or the net that excluded the RTEP, and  
25 for this purpose the assumption I made was to

1 include, or the analysis was to include the RTEP  
2 values, and that is how I got the -- calculated the  
3 28 million.

4 I also actually did the analysis for 2021  
5 without excluding RTEP where none of it was  
6 included, and in that case the 28 million would drop  
7 to about 23 million, so it's still a significant  
8 difference.

9 In other words, that's the amount that  
10 Kentucky stand-alone versus allocated under the  
11 transmission agreement, that's the difference.  
12 That's the additional -- that's the so-called  
13 subsidy, even without any RTEP expenditures at all.

14 Some of those RTEP amounts would -- you know,  
15 are probably predominant amount of it would probably  
16 stay in the zone anyway.

17 Q. Okay. And so does that number include the  
18 cost for any RTEP projects built by other  
19 transmission owners, not AG?

20 A. No, it does not, and of course the assumption  
21 is that those costs -- let's say, for example, that  
22 Kentucky Power were -- excuse me. Let's say  
23 Kentucky Power were its own zone. In that case it  
24 would get allocated a share based on the formula in  
25 the OATT Schedule 12, it would get allocated a share

1 of other RTEP costs that are being socialized, 50  
2 percent on load responsibility, 50 percent on DFAX.

3 Q. Okay.

4 MS. GLASS: Thank you. That is all the  
5 questions that I have.

6 CHAIRMAN SCHMITT: Okay. Mr. Kurtz,  
7 redirect?

8 MR. KURTZ: Mr. Chairman, no redirect,  
9 please.

10 CHAIRMAN SCHMITT: Okay. Thank you.

11 Thank you, Mr. Baron. You may step down, and  
12 you're excused.

13 THE WITNESS: Thank you, Mr. Chairman.

14 CHAIRMAN SCHMITT: Okay. Now for Walmart.

15 MS. GRUNDMANN: Good afternoon, Your Honor.  
16 Walmart calls Lisa Perry.

17 CHAIRMAN SCHMITT: All right. Please raise  
18 your right hand, Ms. Perry.

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

23 THE WITNESS: Yes, I do.

24 CHAIRMAN SCHMITT: Counsel, you may ask.

25 MS. GRUNDMANN: Thank you.

1           LISA PERRY, having been first duly sworn,  
2 testified as follows:

3                           DIRECT EXAMINATION

4 By Ms. Grundmann:

5 Q.       Would you please state your name and business  
6 address for the record?

7 A.       Sure, my name is Lisa Perry, and my business  
8 address is 2608 Southeast J Street, Bentonville,  
9 Arkansas, 72716.

10 Q.       And by whom are you employed, and in what  
11 capacity?

12 A.       I am employed by Walmart, Incorporated, as  
13 senior manager in the energy department.

14 Q.       And, Ms. Perry, are you the same Lisa Perry  
15 that caused to be filed in this docket on October 7,  
16 2020, the direct testimony of Lisa Perry consisting  
17 of 17 pages of typed question and answers and two  
18 exhibits entitled LVP-1 and LVP-2?

19 A.       Yes, I am.

20 Q.       And do you have any corrections or revisions  
21 to that testimony?

22 A.       I have one update and one small correction of  
23 a typo. The update is actually the update of the  
24 address, which is found on page 1. I need to update  
25 that to my current address, which is the one I just



1 gave, 2608 Southeast J Street, also in Bentonville,  
2 the rest of that's correct, and then 72716, I'm not  
3 sure about the 0550 at the end, so I would strike  
4 that.

5 And then on page, page 5, line 20, the  
6 sentence that starts with "In light," an "of" should  
7 be inserted between the "light" and the "an" so that  
8 it reads, "In light of an upward adjustment."

9 Q. And do you have any other revisions to your  
10 testimony?

11 A. No, I do not.

12 Q. If you were asked -- was this testimony  
13 prepared by you or under your supervision?

14 A. Yes, it was.

15 Q. And would you -- if you were asked those same  
16 questions today, would your answers be the same or  
17 substantially the same?

18 A. Yes, they would be.

19 Q. And would you like to sponsor this as your  
20 direct testimony in this matter?

21 A. Yes.

22 MS. GRUNDMANN: Your Honor, I'd ask that the  
23 direct testimony of Lisa Perry be marked for the  
24 record and admitted into evidence, and she is  
25 available for cross-exam.

1 CHAIRMAN SCHMITT: Okay. Sustained. It will  
2 be admitted into evidence.

3 And at this time, Ms. Frederick, do you have  
4 cross-examination?

5 MS. FREDERICK: No, Your Honor, not for this  
6 witness.

7 CHAIRMAN SCHMITT: Okay. Mr. West or Mr.  
8 Cook, questions?

9 MR. WEST: Yes, Your Honor, just a couple  
10 questions, three or four questions actually.

11 CROSS-EXAMINATION

12 By Mr. West:

13 Q. Hi, Ms. Perry, how you doing?

14 A. I'm good, thank you.

15 Q. Do you have your testimony available to you  
16 there?

17 A. Yes, I do.

18 Q. Okay. Can you turn to page 11, and starting  
19 at line 11, can you read the question and answer  
20 that's posed there?

21 A. Do you want me to read the entire question  
22 and answer?

23 Q. Yes, please.

24 A. Okay. (Reading) If the Commission ultimately  
25 approves a revenue requirement less than that

1 proposed by the Company, what is Walmart's  
2 recommendation on revenue allocation? If the  
3 Commission ultimately approves a revenue requirement  
4 less than that proposed by the Company, the  
5 reduction in the revenue requirement increase should  
6 be used for the dual purpose of, one, further  
7 reducing the currently existing class subsidies by  
8 apportioning a portion of the redaction only to  
9 subsidizing rate classes, and, two, reducing the  
10 impact to all customers by apportioning the  
11 remainder to all rate classes. This approach is  
12 supported by the Company.

13 And then it says see Vaughan Direct, page 9,  
14 lines 10 through 12.

15 Q. Okay. So based on that, if the Commission  
16 were to approve a revenue requirement that was less  
17 than what was proposed by the Company, how would  
18 Walmart propose that that difference be allocated?

19 A. You mean other than what I cite? Are you  
20 asking for like a specific numerical suggestion or  
21 just a (indiscernible).

22 Q. Do you have a specific number in mind?

23 A. No, no, we don't. (Indiscernible).

24 Q. Would it be fair -- I'm sorry, I didn't mean  
25 to cut you off.

1 A. No, that's fine. I was just saying that's  
2 why I'm trying to clarify.

3 Q. Okay. But would it be fair to say that  
4 Walmart proposes that if there's a difference  
5 between a proposal and what's granted, it and other  
6 members of its class should receive a greater  
7 percentage of the difference than residential  
8 customers?

9 A. Yes, this is consistent with Walmart's  
10 general support of moving rates closer to cost of  
11 service.

12 Q. Okay. Many of Walmart's customers and  
13 employees are also residential ratepayers of  
14 Kentucky Power, are they not?

15 A. Yes, that is correct.

16 Q. Okay. So Walmart's proposal then would in  
17 effect shift costs that could potentially be borne  
18 by it to its customers and employees, correct?

19 A. This can be the case, yes, when you move  
20 closer to cost of service.

21 Q. Okay.

22 MR. WEST: Thank you. That's the only  
23 questions I have.

24 CHAIRMAN SCHMITT: Mr. Kurtz,  
25 cross-examination?

1 MR. KURTZ: Yeah, I just want to pick up on  
2 Mr. West.

3 CROSS-EXAMINATION

4 By Mr. Kurtz:

5 Q. The Company proposed a \$70 million base rate  
6 increase; is that correct? Do you know how much it  
7 was?

8 A. Yes. I'm sorry.

9 MS. GRUNDMANN: Mr. Kurtz, I don't think  
10 you're on video right now.

11 MR. KURTZ: Oh, thank you. You couldn't see  
12 me.

13 MS. GRUNDMANN: (Indiscernible).

14 THE WITNESS: (Indiscernible).

15 Q. The Company proposed a \$70 million base rate  
16 increase?

17 A. Yes, that's my understanding.

18 Q. The AG and KIUC proposed 43 million  
19 approximately?

20 A. Yes. That's my understanding.

21 Q. Of that \$27 million difference, how much  
22 would you not give to the residential class,  
23 specific number?

24 A. You know, I don't have -- let me back up for  
25 a moment. In my recommendation I intentionally did

1 not attach a specific number to my recommendation  
2 because we recognize that the Commission is going to  
3 consider a variety of factors when determining how  
4 much movement should be made towards cost of  
5 service, and these factors can include, you know,  
6 factors that are very specific to Kentucky and its  
7 residents and the times within which we find  
8 ourselves.

9 Q. (Indiscernible)?

10 A. I guess to finish that thought, if I didn't  
11 finish, so basically I'm not attaching numbers  
12 because I recognize that the Commission is going to  
13 into consideration many factors, some of which I may  
14 not even be privy to.

15 Q. Well, what value is your recommendation if  
16 there's no specificity?

17 A. Basically it's a recommendation as a  
18 principle, as an additional way to move closer to  
19 cost of service. I did not feel that a specific  
20 number was necessary because, like I said, I believe  
21 that the Commission will be taking into  
22 consideration factors, some of which that I may not  
23 even be aware of, and I did not want to put out a  
24 number where I did not necessarily have all those  
25 factors, if that makes sense.

1 Q. Well, I don't think it does. You make this  
2 recommendation all around the country, don't you,  
3 same basic testimony?

4 A. It has a lot of the same elements, but  
5 certainly we review each case individually and make  
6 our recommendations based on that review.

7 Q. Well, individually in this case, but you  
8 don't have a recommendation, other than the general  
9 premise.

10 A. Right.

11 Q. Okay.

12 MR. KURTZ: Thank you, Mr. Chairman.

13 CHAIRMAN SCHMITT: Mr. Spenard, questions?

14 MR. SPENARD: No questions, Mr. Chairman.

15 CHAIRMAN SCHMITT: Mr. FitzGerald?

16 MR. FITZGERALD: Mr. Chairman, no questions  
17 for this witness. Thank you.

18 CHAIRMAN SCHMITT: Okay. Mr. Miller?

19 MR. MILLER: None. Thank you, Mr. Chairman.

20 CHAIRMAN SCHMITT: Mr. Frye?

21 MR. FRYE: No questions.

22 CHAIRMAN SCHMITT: Vice Chairman Chandler?

23 VICE CHAIRMAN CHANDLER: No questions, thank  
24 you.

25 CHAIRMAN SCHMITT: Dr. Mathews?

1 COMMISSIONER MATHEWS: No questions, thank  
2 you.

3 CHAIRMAN SCHMITT: Okay. Ms. Glass,  
4 cross-examination?

5 MS. GLASS: We don't have any questions.  
6 Thank you, Your Honor.

7 CHAIRMAN SCHMITT: Okay. Ms. Grundmann, any  
8 redirect?

9 MS. GRUNDMANN: No, Your Honor.

10 CHAIRMAN SCHMITT: All right. Thank you,  
11 Ms. Perry, you may stand down and be excused.

12 THE WITNESS: Thank you.

13 CHAIRMAN SCHMITT: So I guess that's the case  
14 for Walmart or all the witnesses for Walmart.

15 Next is, what, Kentucky Solar? Mr. Spenard?  
16 I understand you wanted to call another witness out  
17 of the listed order, and that would be fine.

18 MR. SPENARD: Thank you, Mr. Chairman. We  
19 appreciate that accommodation. KYSEIA calls Justin  
20 Barnes as its first witness. Mr. Barnes will join  
21 the webcast.

22 CHAIRMAN SCHMITT: Mr. Barnes, would you  
23 please raise your right hand?

24 Do you solemnly swear or affirm under penalty  
25 of perjury that the testimony you're about to give



1 will be the truth, the whole truth, and nothing but  
2 the truth?

3 I think you may be on mute, Mr. Barnes. We  
4 couldn't hear you.

5 THE WITNESS: Is that better? Can you hear  
6 me now?

7 CHAIRMAN SCHMITT: Yeah, I can.

8 THE WITNESS: I do.

9 CHAIRMAN SCHMITT: I read your lips, and they  
10 said "I do," so that's fine.

11 Mr. Spenard you may ask.

12 MR. SPENARD: Thank you, Mr. Chairman.

13 JUSTIN BARNES, having been first duly sworn,  
14 testified as follows:

15 DIRECT EXAMINATION

16 By Mr. Spenard:

17 Q. Please state your name and your business  
18 address.

19 A. My name is Justin Barnes. My business  
20 address is 1155 Kildaire Farm Road, Suite 202, Cary,  
21 North Carolina.

22 Q. And by whom are you employed in connection  
23 with this proceeding?

24 A. I'm the director of research at EQ Research,  
25 LLC.

1 Q. And on behalf of Kentucky Solar Industries  
2 Association, Inc., did you prepare prefiled direct  
3 testimony and responses to requests for information  
4 that have been filed into the record in this  
5 proceeding?

6 A. I did.

7 Q. And did you prepare an errata sheet for your  
8 direct testimony containing two corrections and  
9 changes to your direct testimony that was filed into  
10 this proceeding on November 12th?

11 A. I did.

12 Q. And is the information in the errata sheet  
13 true and correct, to the best of your information,  
14 belief, and knowledge, on reasonable inquiry?

15 A. It is.

16 Q. And if I were to ask you the same questions  
17 today that are in your prefiled direct testimony, as  
18 corrected by the errata sheet, and the same  
19 questions in your responses to requests for  
20 information, would your answers be the same today?

21 A. They would be the same.

22 Q. Thank you.

23 MR. SPENARD: And, Mr. Chairman, at this time  
24 KYSEIA tenders the witness for cross-examination.

25 CHAIRMAN SCHMITT: Ms. Frederick,

1 cross-examination?

2 MS. FREDERICK: Yes, Your Honor.

3 CROSS-EXAMINATION

4 By Ms. Frederick:

5 Q. Good afternoon, Mr. Barnes.

6 A. Good afternoon.

7 Q. In your direct testimony you recommended a  
8 minimum contract term of 10 years for qualifying  
9 facilities. Can you explain why you believe a  
10 minimum term of 10 years is appropriate?

11 A. Well, there's a couple reasons. One, a  
12 minimum contract term helps implement what I call  
13 the rate payer indifference principle; that is that,  
14 you know, ratepayers are indifferent to whether a  
15 utility is making an investment to secure capacity  
16 and energy to meet its load needs, or whether it's,  
17 you know, buying that basically from another party  
18 like a QF.

19 And the reason a long-term commitment is  
20 appropriate is because, you know, when a utility  
21 like Kentucky Power is building a facility, you  
22 know, once that facility gets placed in service, you  
23 know, it's effectively a long-term commitment, and,  
24 you know, Kentucky Power is not going to be subject  
25 to, say, variations in energy costs into PJM the way

1 a QF would be if you were to not include a long-term  
2 contract requirement.

3 Another reason is that, you know, one of the  
4 basic underlying principles of PURPA was to support,  
5 you know, some level of certainty in investments,  
6 and a long-term contract, you know, be it of 10  
7 years or 15 years or 20 years, as you see in some  
8 states, is a way to do that because, you know,  
9 without that kind of commitment it's very difficult  
10 for a qualifying facility to obtain financing  
11 without kind of a guarantee of revenue, or some  
12 level anyway.

13 MS. FREDERICK: Thank you very much for your  
14 answer.

15 Mr. Chairman, I have no further questions for  
16 this witness. Thank you.

17 CHAIRMAN SCHMITT: Mr. West, any questions?  
18 Mr. West, are you there?

19 MR. WEST: Yes, I am, Your Honor. Mr. Horne  
20 will be handling the cross for this witness. Thank  
21 you.

22 CHAIRMAN SCHMITT: Thank you.

23 MR. HORNE: I apologize for being tardy, Your  
24 Honor. I was pushing the wrong button. We do not  
25 have any questions for this witness, thank you.

1 CHAIRMAN SCHMITT: Mr. Kurtz, questions?

2 MR. KURTZ: Chairman, no questions.

3 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

4 MS. GRUNDMANN: No questions, Your Honor.

5 CHAIRMAN SCHMITT: Mr. FitzGerald?

6 MR. FITZGERALD: No questions, Your Honor.

7 Thank you.

8 CHAIRMAN SCHMITT: Mr. Miller?

9 MR. MILLER: No questions. Thank you,

10 Mr. Chairman.

11 CHAIRMAN SCHMITT: Mr. Frye?

12 MR. FRYE: No questions, Mr. Chairman.

13 CHAIRMAN SCHMITT: Vice Chairman Chandler?

14 VICE CHAIRMAN CHANDLER: No, I have nothing

15 for Mr. Barnes. Thank you, Mr. Barnes.

16 CHAIRMAN SCHMITT: Dr. Mathews?

17 COMMISSIONER MATHEWS: I don't have any

18 questions for this witness. Thank you.

19 CHAIRMAN SCHMITT: Cross-examination,

20 Ms. Blend?

21 MS. BLEND: No cross-examination, Your Honor.

22 Thank you.

23 CHAIRMAN SCHMITT: Okay. Mr. Spenard, any

24 redirect of this witness?

25 MR. SPENARD: No, Mr. Chairman.

1 CHAIRMAN SCHMITT: Okay. Thank you.

2 Mr. Barnes, you may step down, and you're  
3 excused.

4 Mr. Spenard, will you call your next witness?

5 MR. SPENARD: Yes, Mr. Chairman, the KYSEIA  
6 calls James M. VanNostrand to the stand.

7 CHAIRMAN SCHMITT: Mr. VanNostrand, would you  
8 please raise your right hand?

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

13 THE WITNESS: I do.

14 CHAIRMAN SCHMITT: Mr. Spenard, you may ask.

15 JAMES VANNOSTRAND, having been first duly  
16 sworn, testified as follows:

17 DIRECT EXAMINATION

18 By Mr. Spenard:

19 Q. Thank you. Please state your name and your  
20 business address.

21 A. James N. VanNostrand. West Virginia  
22 University College of Law, 101 Law School Drive,  
23 Morgantown, West Virginia, 26506.

24 Q. And by whom are you employed in connection  
25 with this proceeding?

1 A. I'm employed as an energy policy expert by EQ  
2 Research.

3 Q. And on behalf of Kentucky Solar Industries  
4 Association, Inc., did you prepare prefiled direct  
5 testimony and responses to requests for information  
6 that have been filed into the record in this  
7 proceeding?

8 A. I did.

9 Q. And did you prepare an errata sheet for your  
10 direct testimony containing two corrections and  
11 changes to your direct testimony and that has been  
12 filed into the record in this proceeding?

13 A. I did.

14 Q. And is the information contained in the  
15 errata sheet true and correct, to the best of your  
16 information, belief, and knowledge upon reasonable  
17 inquiry?

18 A. Yes, it is.

19 Q. And if I were to ask you the same questions  
20 in your prefiled direct testimony, as corrected by  
21 the errata sheet, and the same questions and your  
22 responses to the requests for information, would  
23 your answers be the same today?

24 A. Yes, they would.

25 MR. SPENARD: Thank you.

1 With that, Mr. Chairman, Mr. VanNostrand is  
2 tendered for cross-examination.

3 CHAIRMAN SCHMITT: Mr. Frederick,  
4 cross-examination?

5 MS. FREDERICK: No questions for this  
6 witness, Your Honor. Thank you.

7 CHAIRMAN SCHMITT: Mr. Horne, Mr. West?  
8 Cross-examination?

9 MR. HORNE: Yes, Your Honor, we have two  
10 questions.

11 CROSS-EXAMINATION

12 By Mr. Horne:

13 Q. Good afternoon, Mr. VanNostrand. How are you  
14 doing?

15 A. Good afternoon.

16 Q. Would you agree that a utility customer with  
17 installed solar generation gains a benefit  
18 regardless if a utility purchases any of their  
19 excess power?

20 A. I missed that question. Did you say confers  
21 a benefit?

22 Q. Well, if a utility customer has installed  
23 solar generation, do they get a benefit regardless  
24 if the utility purchases any of their excess power?

25 A. They have the benefit and the extra liability



1 of providing themselves with a power supply, yes.

2 Q. Thank you. Do you agree that there's a cost  
3 to utilities in providing a service to a customer  
4 with solar generation?

5 A. To the extent the solar generation does not  
6 meet the customer's entire needs all the time, yeah,  
7 to some extent the customer will be leaning on the  
8 utility, and those costs associated with doing that  
9 need to be supported by -- the rates to provide that  
10 service need to be supported by a cost-of-service  
11 study.

12 Q. Do you agree that there's a cost to utilities  
13 in receiving and using excess power generated from a  
14 customer with a solar installation?

15 A. I suppose there are some costs. It seems to  
16 me the benefits probably exceed the cost, but yes,  
17 there are some costs.

18 Q. Well, putting aside for a moment the  
19 political and public relation reasons a utility  
20 would offer net metering, if we just looked at net  
21 metering from a purely economic approach, what is  
22 the benefit to a utility in offering net metering to  
23 a customer?

24 A. Well, the policy decision made by  
25 legislatures over the last ten years supporting net

1 metering was basically to discourage customer side  
2 to generation, and net metering was a fairly simple  
3 and elegant way of doing that by tying the  
4 compensation to the retail rate.

5 The grid receives substantial benefits from a  
6 net-metered customer: Capacity, energy, locational  
7 benefits that might reduce loads in a certain  
8 constrained area, environmental benefits to the  
9 extent they're displacing carbon-emitting resources,  
10 potential just load reduction in transmission  
11 distribution infrastructure to the extent the  
12 generation is being produced closer to the load, so  
13 you don't have to transmit it over longer distances.

14 There's substantial benefits. There's also  
15 the resilience value to the grid, which I've written  
16 a couple articles about. There's no question that  
17 the distributed energy resources confer value to the  
18 grid.

19 Q. Okay. Do you agree that under net metering  
20 that nonparticipants in solar generation are  
21 subsidizing those customers that are net-metering  
22 participants?

23 A. I think that depends on whether the  
24 cost-of-service studies substantiate that. I know  
25 that's an allegation made by (indiscernible) utility

1 industry, but that usually termed cost  
2 subsidization, but I think you need to determine  
3 what are the values that the DRs provide to the grid  
4 and compare that to the compensation they receive  
5 and see if there's a match.

6 If they provide benefits that correspond to  
7 the level of contributions, no, there's no cost  
8 subsidization by definition.

9 MR. HORNE: That's the only questions I have,  
10 Mr. Chairman.

11 Thank you, Mr. VanNostrand, for your answers.  
12 I appreciate your time.

13 THE WITNESS: Thank you.

14 CHAIRMAN SCHMITT: Mr. Kurtz,  
15 cross-examination?

16 MR. KURTZ: Yeah, I guess so.

17 CROSS-EXAMINATION

18 By Mr. Kurtz:

19 Q. Good afternoon.

20 A. Good afternoon, Mr. Kurtz.

21 Q. How much is the investment tax credit that  
22 the Federal government gives to rooftop solar  
23 installations?

24 A. I believe it's 22 percent, and it's ramping  
25 down.

1 Q. So that would be a -- an incentive that the  
2 Federal government already gives to rooftop solar to  
3 encourage the installation of those facilities?

4 A. That's -- that's an incentive that was  
5 determined to be necessary by Congress in connection  
6 with promoting the production of renewable energy,  
7 yes.

8 Q. How much does a typical rooftop solar  
9 residential installation cost?

10 A. It varies substantially from state to state,  
11 depending upon the penetration, depending upon the  
12 number of solar developers within the state. Those  
13 costs have declined 90 percent over the last ten  
14 years, but I don't -- it would depend on the number  
15 of kilowatts of a particular installation.

16 Q. Give me a typical eastern Kentucky  
17 installation.

18 A. I'd have to defer to Mr. Barnes on that. The  
19 specifics of the cost, I defer to Mr. Barnes on  
20 that.

21 Q. It's thousands of dollars, isn't it?

22 A. It sounds what?

23 Q. It's thousands of dollars?

24 A. Yes.

25 Q. I've heard numbers 8,000, 9,000, 10,000,

1 12,000. Is it in that range?

2 A. Yeah, I think it depends on the number of  
3 kilowatts, and of course the availability of power  
4 purchase agreements would ease those upfront costs  
5 for customers choosing to install solar, but I don't  
6 believe those are allowed in Kentucky.

7 Q. So to the extent, if, if the rooftop solar is  
8 getting subsidized by other ratepayers, make that  
9 assumption, you know, then it would be a subsidy to  
10 relatively wealthy ratepayers because only  
11 relatively wealthy ratepayers can afford a \$10,000  
12 solar installation. Do you agree with that?

13 A. I don't know the Company's presented any  
14 evidence to that effect. There are not that many  
15 installations on Kentucky Power's system, so I don't  
16 know that they've done a study in terms of what the  
17 economic characteristics are of the customers that  
18 have solar installations.

19 Q. Somebody living in a mobile home is not  
20 likely to have an extra \$10,000 lying around to  
21 invest in rooftop solar, are they?

22 A. I'm in no position to make a guess about  
23 that, Mr. Kurtz.

24 MR. KURTZ: Thank you, sir.

25 CHAIRMAN SCHMITT: Ms. Grundmann, questions?

1 MS. GRUNDMANN: No, Your Honor.

2 CHAIRMAN SCHMITT: Mr. FitzGerald?

3 MR. FITZGERALD: No questions for this  
4 witness. Thank you.

5 CHAIRMAN SCHMITT: Mr. Miller?

6 MR. MILLER: Thank you. No, Your Honor.

7 CHAIRMAN SCHMITT: Mr. Frye?

8 MR. FRYE: No questions, Mr. Chairman.

9 CHAIRMAN SCHMITT: Vice Chairman Chandler?

10 VICE CHAIRMAN CHANDLER: Yeah, just a couple.  
11 Thank you, Chairman.

12 EXAMINATION

13 By Vice Chairman Chandler:

14 Q. Can you hear me, Mr. VanNostrand?

15 A. Yes, I can, Vice Chairman Chandler.

16 Q. Can I just ask how closely have you read the  
17 FERC's PURPA NOPR docket?

18 A. Order 872, all the proceedings there.

19 Q. Okay.

20 A. Yeah.

21 Q. So did you read -- did you read Kentucky's --  
22 the Kentucky Public Service Commission's comments on  
23 the proposed, I guess proposed is redundant, but on  
24 FERC's NOPR?

25 A. I'm sorry, Vice Chair, I did not.

1 Q. Okay. So as it relates to the change, I  
2 guess it's technically a change, or at least  
3 specific direction on the subject of whether or not  
4 LMP is a reasonable measure for the avoided cost of  
5 energy, you're aware generally of FERC's comments  
6 and conclusions on that, right?

7 A. Yeah, and Commissioner Glick's dissent on  
8 this point as well, yeah.

9 Q. So can I ask, do you have a position, or does  
10 KYSEIA, I think that's right, have a position on if  
11 a commission decides to use LMP as an avoided energy  
12 cost, whether it's appropriate to use the generator  
13 LMP or the load LMP?

14 A. I think one of the clear take-aways from  
15 order 872 and the way PURPA has been implemented  
16 since its inception in '78 is that states have  
17 considerable discretion in terms how they want to  
18 define avoided cost, and there's very little  
19 recourse to challenge what a state does. It's --  
20 much discretion is granted to the states in terms of  
21 how they want to set avoided cost.

22 Q. Yeah, I mean, as I understand it, FERC said  
23 that the commission can set -- any commission can  
24 set it as generator or load LMP. I'm just curious  
25 if you have a perspective as to -- I mean, you spoke

1 to the avoided costs and particularly the  
2 Commission's change on PURPA, so I'm just curious if  
3 you have a recommendation or position, given the  
4 organization's concerns about Kentucky Power's cogen  
5 tariffs?

6 A. Well, I think I would -- I want to reiterate  
7 some of the points that were made by Mr. Barnes with  
8 respect to the use of short-term marginal costs and  
9 LMP, is that you don't have a rate payer  
10 indifference in that situation because you're not  
11 treating them similarly with respect to not  
12 recognizing the longer-term costs, so I think -- no,  
13 I don't think the LMP is -- it's a short-term cost,  
14 it doesn't capture all the benefits the DERs confer  
15 on the grid.

16 Q. Okay. The organization, is it okay if I  
17 refer to KYSEIA as "the organization"?

18 A. Sure.

19 Q. Okay. The organization also took a position  
20 that you referenced in your testimony regarding  
21 Kentucky Power's proposed tariff, the SPP/cogen  
22 tariff, when there's a legally enforceable  
23 obligation. Have you reviewed Kentucky's  
24 regulations on -- on small power production, which  
25 is 807 KAR 5054?



1 A. Yes, I have.

2 Q. Okay. So when you were talking about that  
3 specifically, were you referring to the sections  
4 that talk about how rates for power offered on all  
5 -- I'm shortening here -- but all LEOs shall be  
6 based at the option of the QF on either avoided cost  
7 at the time of the delivery or avoided cost at the  
8 time the legally enforceable obligation is incurred?

9 A. Yes.

10 Q. So let me ask this, and this is something I'm  
11 trying to get my hands around. If the Commission  
12 determines that -- if the Commission determines that  
13 LMP is a reasonable measure of avoided energy cost,  
14 and a utility has a LEO, right, and the minimum  
15 contract term is ten years, what is the  
16 organization's recommendation as to the appropriate  
17 energy cost if the entity wants to choose it at  
18 the -- at the time the LEO is incurred?

19 How do we grapple those two -- those two what  
20 would otherwise seem to be opposite considerations?

21 A. I don't know that I've discussed this  
22 particular issue with the organization. I think  
23 consistent with -- with Mr. Barnes's testimony as  
24 far as rate payer indifference, you want to treat --  
25 you want to treat the cogens the same that you would

1 he treat the utility.

2 I don't know that the utility would build  
3 something based on the LMP. There's a longer-term  
4 aspect of it, so it needs to be something higher  
5 than the LMP to make it consistent with the ten-year  
6 contractual commitment.

7 I think that's the point Mr. Barnes was making  
8 that I agree with, that the importance of a legally  
9 enforceable obligation is it recognizes the  
10 long-term aspects of distributed energy resources.

11 It also recognizes, and that's a practical  
12 matter, the financeability of those resources if you  
13 have a long-term commitment. I don't think LMP  
14 captures that.

15 Q. Okay. And the last question I have is as it  
16 relates to LMP versus -- I think you quote the  
17 Commission's, let's say the 1980 something  
18 investigation into avoided cost rates. Do you  
19 remember the portion of your testimony that --

20 A. Yeah, June 28, case 8566, yeah.

21 Q. Let me find what page that's on.

22 A. It's on page 13 of my testimony.

23 Q. Perfect. The last sentence of that, I think  
24 it starts on line 10, (Reading) With respect to  
25 avoided energy cost, the order states that such

1 rates, quote, would be equal to the cost of  
2 operating the most expensive unit online and the  
3 relevant time period.

4 So, and correct me if I'm wrong, I think of  
5 LMP as the prevailing rate, right? It's the next  
6 kilowatt hour served would be most likely at  
7 whatever the load LMP is.

8 My question is, is it your all's position that  
9 there is a distinction between the avoided energy  
10 cost for the highest unit available and the energy  
11 cost to serve the next kilowatt hour of demand?

12 A. I mean, I think your question presumes that  
13 the utility is going to get its next kilowatt hour  
14 of electricity from the wholesale market, and  
15 therefore LMP is the relevant reference point, and I  
16 think the point of that reference to that case, and  
17 I -- I put together avoided cost filing when I first  
18 started practicing law back in the '80s in terms of  
19 the duty of the utility to show where would you get  
20 your incremental cost of energy but for this  
21 resource.

22 I think it's a fact-specific situation, and  
23 the Commission here was giving some guidance, at  
24 least as conditions consisted in 1984, in terms of  
25 how that calculation should be done.

1           But again, I go back to the rate payer  
2           indifference, that you need to treat the cogen  
3           facility in a manner similar to if a utility were  
4           building its own facility to acquire -- to acquire  
5           that next unit of energy, and LMP does not capture  
6           that.

7           Q.       The Commission is not going to build -- the  
8           Commission is not going to build generating capacity  
9           or a generator to serve the next unit of energy,  
10          right? The presumption of avoided energy cost is  
11          that it has the capacity available to serve its  
12          current system and what the cost of the avoided  
13          energy cost is. Looking at the next generator built  
14          would be the avoided capacity cost, right?

15          A.       Yes.

16          Q.       Okay.

17                 VICE CHAIRMAN CHANDLER: That's all the  
18          questions I have. I appreciate it, Mr. VanNostrand.

19                 Thanks, Chairman.

20                 CHAIRMAN SCHMITT: Dr. Mathews?

21                 COMMISSIONER MATHEWS: I don't have any.

22                 CHAIRMAN SCHMITT: Ms. Blend,  
23          cross-examination?

24                         \*                         \*                         \*

25

## 1 CROSS-EXAMINATION

2 By Ms. Blend:

3 Q. Thank you, Your Honor.

4 Good afternoon, Mr. VanNostrand.

5 A. Good afternoon.

6 Q. You would agree that net-metering customer  
7 generators in Kentucky Power service territory  
8 connect behind the meter?

9 A. Yes.

10 Q. And similarly, PURPA QF in the Company  
11 service territory connects behind the meter?

12 A. Yes.

13 Q. Under those circumstances, when you're  
14 talking about behind the meter, interconnection, is  
15 there a difference between the point of generation  
16 and the point of load for purposes of, you know,  
17 thinking about the avoided cost of energy under the  
18 Commission's order 877, the FERC's order 877?19 A. Between the point of interconnection and --  
20 what was the question? I'm sorry, could you repeat  
21 the question for me?22 Q. Sure. I'll state it more clearly. You  
23 recall your discussion with the Vice Chairman about  
24 the LMP at the generator versus the LMP at the LSE?

25 A. Yes.

1 Q. The load? Aren't those two points the same  
2 point when we're talking about behind the meter  
3 PURPA QF facilities or behind the meter net  
4 metering?  
5 Isn't the point of generation the same as the point  
6 of the load?

7 A. I believe that's generally true, yes.

8 Q. Is there a distinction between energy and  
9 capacity in terms of avoided costs under PURPA?

10 A. Yes.

11 MS. BLEND: I have no further questions.  
12 Thank you.

13 CHAIRMAN SCHMITT: Mr. Spenard, redirect?

14 MR. SPENARD: No, Mr. Chairman. No redirect.

15 CHAIRMAN SCHMITT: Okay. Thank you,  
16 Mr. VanNostrand. You may step down, and you're  
17 excused.

18 THE WITNESS: Thank you.

19 CHAIRMAN SCHMITT: Mr. Spenard, you have  
20 another witness?

21 MR. SPENARD: Yes, Mr. Chairman, KYSEIA calls  
22 Benjamin Inskeep.

23 CHAIRMAN SCHMITT: Mr. Inskeep, are you with  
24 us?

25 MR. SPENARD: He was on earlier today. There

1 we go.

2 THE WITNESS: Apologies.

3 CHAIRMAN SCHMITT: All right. Mr. Inskeep,  
4 please raise your right hand.

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

9 THE WITNESS: I do.

10 CHAIRMAN SCHMITT: Okay. You may ask,  
11 Counsel.

12 MR. SPENARD: Thank you.

13 BENJAMIN INSKEEP, having been first duly  
14 sworn, testified as follows:

15 DIRECT EXAMINATION

16 By Mr. Spenard:

17 Q. Please state your name and your business  
18 address.

19 A. Benjamin D. Inskeep, 1155 Kildaire Farm Road,  
20 Suite 202, Cary, North Carolina, 27511.

21 Q. And by whom are you employed in connection  
22 with this proceeding?

23 A. I am a principal energy policy analyst at EQ  
24 Research, LLC.

25 Q. And on behalf of Kentucky Solar Industries

1 Association, Inc., did you prepare prefiled direct  
2 testimony and responses to request for information  
3 that have been filed into the record in this  
4 proceeding?

5 A. Yes, I did.

6 Q. If I were to ask you the same questions in  
7 your prefiled direct testimony and the same  
8 questions in your responses to requests for  
9 information, would your answers be the same today?

10 A. Yes, they would.

11 MR. SPENARD: With that, Mr. Chairman, KYSEIA  
12 tenders Mr. Inskeep for examination.

13 CHAIRMAN SCHMITT: Okay. Thank you.

14 Ms. Frederick, cross-examination?

15 MS. FREDERICK: No questions for this  
16 witness, Your Honor. Thank you.

17 CHAIRMAN SCHMITT: Okay. Mr. Horne,  
18 questions?

19 MR. HORNE: No questions, Your Honor. Thank  
20 you.

21 CHAIRMAN SCHMITT: Mr. Kurtz?

22 MR. KURTZ: No questions.

23 CHAIRMAN SCHMITT: Ms. Grundmann?

24 MS. GRUNDMANN: No questions.

25 CHAIRMAN SCHMITT: Mr. FitzGerald?



1 MR. FITZGERALD: Mr. Chairman, no questions  
2 from this witness, thank you.

3 CHAIRMAN SCHMITT: Mr. Miller?

4 MR. MILLER: No questions from Sierra Club,  
5 Mr. Chairman, thank you.

6 CHAIRMAN SCHMITT: Mr. Frye?

7 MR. FRYE: No questions.

8 CHAIRMAN SCHMITT: Vice Chairman Chandler?

9 VICE CHAIRMAN CHANDLER: Yeah, I have nothing  
10 for Mr. Inskeep. Thank you.

11 CHAIRMAN SCHMITT: Dr. Mathews?

12 COMMISSIONER MATHEWS: I don't have any  
13 questions for this witness.

14 CHAIRMAN SCHMITT: Ms. Blend,  
15 cross-examination?

16 MS. BLEND: No questions, thank you.

17 CHAIRMAN SCHMITT: I would say ask Mr.  
18 Spenard if there was any redirect, but since there  
19 was no cross, I assume you have nothing to add.

20 MR. SPENARD: That's correct.

21 CHAIRMAN SCHMITT: Thank you, Mr. Inskeep.  
22 You may step down, and you're excused.

23 I guess that brings us to Mr. FitzGerald's  
24 case on behalf of Joint Intervenors. Mr.  
25 FitzGerald, are you ready to call a witness?

1 MR. FITZGERALD: I am, Mr. Chairman. I will  
2 call Joshua Bills.

3 CHAIRMAN SCHMITT: Okay, thank you.

4 Mr. Bills? Oh, I think I --

5 THE WITNESS: (Indiscernible)?

6 CHAIRMAN SCHMITT: Mr. Bills, are you there?  
7 Okay. Good. Please raise your right hand.

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

12 THE WITNESS: I do. I just muted my phone,  
13 and that's why you couldn't hear me, and now I've  
14 got my computer (indiscernible).

15 CHAIRMAN SCHMITT: All right. That's fine.  
16 You're fine.

17 Mr. FitzGerald, you may ask.

18 MR. FITZGERALD: Thank you, Your Honor.

19 JOSHUA BILLS, having been first duly sworn,  
20 testified as follows:

21 DIRECT EXAMINATION

22 By Mr. FitzGerald:

23 Q. Would you state your full name, your place of  
24 employment, and your business address, please?

25 A. Okay. Let's see if I can hear you now.

1 Q. Would you state your full name, your place of  
2 employment, and your business address, please?

3 A. My full name is Joshua Daniel Bills, and my  
4 place of employment is Mountain Association, and  
5 that address is 433 Chestnut Street, Berea,  
6 Kentucky, (indiscernible).

7 Q. Okay. Thanks. Mr. Bills, did you cause  
8 prefiled direct testimony to be filed in this case?

9 A. I did, yes.

10 Q. Okay. And did you also answer data requests  
11 that were served upon the joint intervenors?

12 A. Yes.

13 Q. If I asked you the same questions as were  
14 asked in your prefiled testimony, and if I asked you  
15 the same data requests, would your answers be the  
16 same?

17 A. They would be the same. I wanted to  
18 apologize because my testimony wasn't paginated, and  
19 so I have numbered it now. If we come up to have  
20 any questions by page, I'll be able to reference  
21 that, so --

22 Q. Thank you.

23 MR. FITZGERALD: Your Honor, if the  
24 Commission or Staff would want so, we could submit a  
25 corrected paginated version of this testimony at the

1 conclusion of the hearing.

2 CHAIRMAN SCHMITT: Okay.

3 MS. VINSEL: Chairman, yes, Staff would --  
4 would request that a paginated version be filed.

5 MR. FITZGERALD: Absolutely. Absolutely,  
6 Ms. Vinsel. Thank you.

7 With that, Your Honor, I tender the witness.

8 CHAIRMAN SCHMITT: Ms. Frederick,  
9 cross-examination?

10 MS. FREDERICK: No questions for this  
11 witness, Your Honor. Thank you.

12 CHAIRMAN SCHMITT: Mr. Horne?

13 MR. HORNE: No questions for this witness,  
14 Your Honor. Thank you.

15 CHAIRMAN SCHMITT: Mr. Kurtz?

16 MR. KURTZ: No questions, Your Honor.

17 CHAIRMAN SCHMITT: Ms. Grundmann?

18 MS. GRUNDMANN: No questions, Your Honor.

19 CHAIRMAN SCHMITT: Mr. Spenard?

20 MR. SPENARD: No questions, Mr. Chairman.

21 CHAIRMAN SCHMITT: Mr. Miller?

22 MR. MILLER: Mr. Chairman, no questions.  
23 Thank you.

24 CHAIRMAN SCHMITT: Mr. Frye?

25 MR. FRYE: No questions, Mr. Chairman.

1 CHAIRMAN SCHMITT: Vice Chairman Chandler?

2 VICE CHAIRMAN CHANDLER: I just have one  
3 question, thank you, Chairman, or one set of  
4 questioning.

5 EXAMINATION

6 By Vice Chairman Chandler:

7 Q. Can you hear me, Mr. Bills?

8 A. Yeah, I can hear you.

9 Q. I wanted to ask specifically you raised a  
10 concern in your direct testimony in this case around  
11 the issue surrounding delta 3-phase customers and  
12 interconnecting generation equipment, and then  
13 service upgrades to those 3-phased meters. Do you  
14 know what I'm talking about?

15 A. I do, yeah, and yes, I do know what you're  
16 talking about.

17 Q. Could you, I'll just be honest, not being an  
18 engineer and not knowing my way, I don't like  
19 getting shocked, so I just stay away from anything  
20 with current.

21 Could you explain what your concern is, and  
22 then -- and then as it relates to your concern, what  
23 the reference to the increase in cost was. I think  
24 it was like \$5,000 increase in cost that you  
25 referenced in your direct testimony?

1 A. Yes. I know of two applicants that applied  
2 for net-metering service in Kentucky Power territory  
3 that were not granted interconnection without  
4 upgrading their delta service to a Y service, and  
5 the cost for one was that, it was right at about  
6 5,000 subject to check, and the other was around  
7 4,000, also subject to (indiscernible).

8 Q. Can I ask you, Mr. Bills, what is Y service?

9 A. So that's a transformer service where the  
10 connections on the 3-phase service are wired in such  
11 a way that you will get 240, 277 volts or higher  
12 voltage. With a delta you get a 120 TOA voltage.

13 Q. Okay.

14 A. So it's a different type of (indiscernible).

15 Q. So let me ask, are these -- I'll ask this  
16 clearly again. These are not residential customers;  
17 is that right?

18 A. I do know of one residential class customer  
19 that has applied for service that is a 3-phase  
20 customer. I've been trying to get (indiscernible)  
21 operational, and they fortunately do have a Y  
22 service, so this issue hasn't come up for them.

23 Q. Okay. Are these -- is this issue generally  
24 reserved, though, for commercial customers general  
25 service or for other commercial customers?

1 A. I think in the grand scheme of things, yes.  
2 I don't know how many 3-phase residential service  
3 customers Kentucky Power has, but, you know,  
4 somebody has a home shop, they may have a 3-phase  
5 service if they've got an equipment shop serving  
6 their residential account service.

7 Q. Okay. And your experience, or the concern  
8 that has been conveyed to you on this particular  
9 issue, is exclusive to Kentucky Power, do I  
10 understand your testimony right?

11 A. I haven't experienced this with any other  
12 utility installs. I am aware that some utilities  
13 outside of Kentucky Power that have a customer  
14 that's -- that's has a delta service can satisfy the  
15 grounding requirement by having a grounding  
16 conductor to serve that -- the inverter that's  
17 attached to that service, so instead of replacing  
18 the delta transformer service, it would just be a  
19 grounded conductor added from the transformer bank  
20 on the high side to the -- to the ground component  
21 of the inverter.

22 Q. Boy, that's a lot of words that I don't use  
23 every day.

24 A. I imagine this will come up in the  
25 interconnection guidelines case, and it just -- you

1 know, my reason for highlighting it was there are  
2 aspects to the interconnection guidelines case that  
3 I think come to play when we're considering what an  
4 appropriate compensation rate should be for a  
5 net-metered customer.

6 VICE CHAIRMAN CHANDLER: I appreciate that,  
7 Mr. Bills. Thank you very much.

8 THE WITNESS: Okay.

9 CHAIRMAN SCHMITT: Dr. Mathews, questions?

10 COMMISSIONER MATHEWS: I don't have a  
11 question.

12 CHAIRMAN SCHMITT: Okay. Ms. Blend,  
13 cross-examination?

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

15 CROSS-EXAMINATION

16 By Ms. Blend:

17 Q. Good afternoon, Mr. Bills.

18 A. Good afternoon.

19 Q. Mr. Bills, have you reviewed the rebuttal  
20 testimony of Company Witness West with regard to the  
21 issue you were just discussing with the Vice  
22 Chairman, delta 3-phase service versus Y 3-phase  
23 service?

24 A. Yes.

25 Q. Do you dispute that there is a safety issue



1 that is related to the utilization of delta 3-phase  
2 service for 120 to 240 interconnection, net-metering  
3 customers?

4 A. I don't dispute it, but I also don't agree  
5 that it requires a change in the transformer bank to  
6 satisfy that safety concern.

7 Q. Okay. And you indicated that you read  
8 Mr. West's rebuttal testimony. Do you dispute his  
9 statement on page 15 at line 3 that no other AG  
10 operating company allows interconnection of any  
11 customer generator facilities to a 120/240 delta  
12 secondary service?

13 A. Can you repeat the last part of that?

14 Q. Sure. On page 15 of Mr. West's rebuttal  
15 testimony, he states, (Reading) At present, no other  
16 AG operating company allows interconnection of any  
17 customer generator facilities to a 120 to 240 delta  
18 secondary service.

19 Do you dispute that fact?

20 A. I do not.

21 Q. Now, you just discussed the case number  
22 2020-302, which relates to updating the Commission's  
23 net-metering interconnection guidelines, and on  
24 unnumbered page 7 of your direct testimony you urged  
25 the Commission to hold off on implementation of the

1 Company's net-metering NMS II tariff until that case  
2 is complete; is that correct?

3 A. That's correct.

4 Q. So is your recommendation in this case that  
5 the Commission delay implementation of the  
6 net-metering act to Kentucky Power's application  
7 until that 2020-302 case has completed?

8 A. Say that again?

9 Q. Is it your recommendation in this case that  
10 the Commission delay implementation of the  
11 net-metering act with regard to Kentucky Power's  
12 proposed tariff on NMS II until the -- until case  
13 number 2020-302 --

14 MR. FITZGERALD: Your Honor, I want to pose  
15 an objection. I'm going to pose an objection, Your  
16 Honor. Mr. Bills is not an attorney, he's not  
17 holding himself out to be an attorney, and the  
18 construction and interpretation of what is required  
19 or not required under the net-metering act is a  
20 matter of law and a matter for briefing, not a  
21 matter for asking a witness who is not an attorney.

22 CHAIRMAN SCHMITT: Sustained. We've had a  
23 lot of that. Ultimately it ought to be briefed, and  
24 the Commission will say what the law is.

25 MS. BLEND: No problem, Your Honor. I wasn't

1 intending to ask a legal question. I'll ask it  
2 differently.

3 Q. Mr. Bills, your recommendation is that the  
4 Commission not implement a new net-metering service  
5 tariff for Kentucky Power Company until the  
6 conclusion of case number 2020-302, as stated on  
7 page 7 of your testimony, correct?

8 A. Yeah, I would suggest not implementing NMS II  
9 as defined.

10 MS. BLEND: Thank you. I have no further  
11 questions.

12 CHAIRMAN SCHMITT: Mr. FitzGerald, redirect?

13 MR. FITZGERALD: No, Your Honor. Thank you.

14 CHAIRMAN SCHMITT: Okay. Thank you.

15 Mr. Bills. You're excused.

16 Mr. FitzGerald, call your next witness.

17 MR. FITZGERALD: Thank you, Your Honor. I'd  
18 like to call Andrew McDonald, please.

19 CHAIRMAN SCHMITT: Mr. McDonald, please raise  
20 your right hand.

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

25 THE WITNESS: Yes.

1 CHAIRMAN SCHMITT: Okay. Mr. FitzGerald, you  
2 may ask.

3 ANDREW MCDONALD, having been first duly  
4 sworn, testified as follows:

5 DIRECT EXAMINATION

6 By Mr. FitzGerald:

7 MR. FITZGERALD: Thank you, Your Honor.

8 Q. Would you state your full name, your place of  
9 employment, and your business address, please?

10 A. Andrew Scott McDonald. I work for Earth  
11 Tools, Incorporated, and our address is 1525 Kays  
12 Branch Road, Owenton, Kentucky.

13 Q. Thank you. Mr. McDonald, did you cause  
14 prefiled direct testimony to be filed in this case?

15 A. Yes.

16 Q. And did you also answer some of the data  
17 requests that were addressed to the Joint  
18 Intervenors?

19 A. Yes.

20 Q. If I were to ask you those same questions and  
21 pose those same data requests to you, would your  
22 answers today be the same?

23 A. Yes.

24 MR. FITZGERALD: Your Honor, the witness is  
25 available for cross-examination. Thank you.

1 CHAIRMAN SCHMITT: Thank you.

2 Ms. Frederick, questions?

3 MS. FREDERICK: No questions for this  
4 witness, Your Honor. Thank you.

5 CHAIRMAN SCHMITT: Mr. Horne?

6 MR. HORNE: Yes, Your Honor, couple  
7 questions.

8 CROSS-EXAMINATION

9 By Mr. Horne:

10 Q. Good afternoon, Mr. McDonald. How are you  
11 doing?

12 A. Fine, thank you.

13 Q. Just a few questions. If you were listening  
14 to Mr. VanNostrand's testimony it will sound quite  
15 familiar. Do you agree that a utility customer with  
16 installed solar generation gains a benefit  
17 regardless if a utility purchases any excess power  
18 from them?

19 A. Yes.

20 Q. Do you agree that there's a cost to utilities  
21 in providing service to a customer with solar  
22 generation?

23 A. Yes, I agree that there is a cost and that  
24 there are also benefits, so whether that cost is a  
25 net cost is subject to evaluation.

1 Q. I understand. Do you agree that there's a  
2 cost to the utilities in receiving and using any  
3 excess power generated from a customer with a solar  
4 installation?

5 A. Not necessarily.

6 Q. Well, putting aside for a moment political  
7 and public relation reasons a utility might offer  
8 net metering, if we just looked at it from a purely  
9 economic standpoint, what is the benefit to a  
10 utility in offering net metering to a customer?

11 A. Well, there are multiple potential benefits  
12 of net metering and distributed generation.  
13 Mr. VanNostrand listed some of those benefits. It  
14 provides energy capacity, transmission value,  
15 offsetting transmission costs, has resiliency value,  
16 offsets environmental compliance costs. There is  
17 future potential value in offsetting potential  
18 carbon costs in the future.

19 Those are just some of those benefits, and the  
20 numerous studies and reports have detailed the  
21 benefits that accrue to the utility. I have cited a  
22 number of those in my testimony.

23 Q. Thank you. Last question, do you agree that  
24 under net metering, that nonparticipants in solar  
25 generation are subsidizing those customers that are

1 net metering participants?

2 A. No, I do not. That question is subject to a  
3 detailed benefit cost analysis.

4 Q. Okay.

5 MR. HORNE: Thank you very much, Mr.  
6 McDonald. That's all the questions I have.

7 CHAIRMAN SCHMITT: Mr. Kurtz?

8 MR. KURTZ: No questions, Your Honor.

9 CHAIRMAN SCHMITT: Ms. Grundmann?

10 MS. GRUNDMANN: No questions, Your Honor.

11 CHAIRMAN SCHMITT: Mr. Spenard?

12 MR. SPENARD: Yes, Mr. Chairman, we just have  
13 a few.

14 CROSS-EXAMINATION

15 By Mr. Spenard:

16 Q. Mr. McDonald, currently under NMS I,  
17 residential solar electricity exported to the grid  
18 is credited at a 1-to-1 rate; is that correct?

19 A. Yes.

20 Q. And in approximate terms, the current  
21 Kentucky Power Company residential energy rate is  
22 approximately 9.8 cents per kilowatt hour; is that  
23 correct?

24 A. Yes.

25 Q. And under the application, Kentucky Power

1 proposes a new residential credit rate of  
2 approximately 3.66 cents per kilowatt hour, and that  
3 will be part of the proposed NMS II tariff; is that  
4 correct?

5 A. Yes.

6 Q. Okay. And in terms of the testimony and in  
7 terms of your understanding, Kentucky Power Company  
8 describes or characterizes the current 1-to-1 rate  
9 under NMS I as creating a subsidy. Is that your  
10 understanding?

11 A. That is how Kentucky Power characterizes it,  
12 yes.

13 Q. And in rough terms, approximate terms, the  
14 what's described as a subsidy is approximately 6.1  
15 to 6.2 cents per kilowatt hour. Does that sound  
16 right?

17 A. Yes.

18 Q. Okay. Have you performed any calculation for  
19 the test year of the monthly cost to  
20 nonparticipating residential customers associated  
21 with this so-called subsidy?

22 A. Yes, I have, and it's provided in my  
23 testimony.

24 Q. Okay. And for the purposes of the hearing,  
25 what is the monthly cost to nonparticipating



1 residential customers?

2 MS. BLEND: Objection, Your Honor. Mr.  
3 Spenard is engaging in friendly cross-examination,  
4 which I don't believe is appropriate for this  
5 proceeding.

6 Mr. McDonald and Mr. -- Mr. McDonald's  
7 organization that he's representing in KYSEIA, which  
8 Mr. Spenard represents, share a common interest and  
9 goal in this case.

10 The Company opposed the intervention of  
11 multiple groups representing solar interests earlier  
12 in this proceeding, and that motion was overruled  
13 and denied. However, I don't believe it's  
14 appropriate for one solar interest to supplement the  
15 record or support another solar interest's testimony  
16 through -- under the guise of cross-examination.

17 CHAIRMAN SCHMITT: Yeah, I understand your  
18 position, and but the motion is overruled.

19 You may ask, Mr. Spenard.

20 MR. SPENARD: Thank you, Mr. Chairman.

21 Q. And the record, try to get back to the  
22 record. What we would like to do is put in context  
23 what is the approximate monthly cost to a  
24 nonparticipating residential customer?

25 A. My analysis determined that the monthly cost

1 of this alleged subsidy would be 4/10 of a cent per  
2 month to each residential customer.

3 Q. And as a final question, what does that, if  
4 you know, what does that calculate to, out to on  
5 annualized basis?

6 A. That would work out to approximately 5 cents  
7 per year per customer.

8 MR. SPENARD: Thank you, Mr. McDonald, and  
9 with that, KYSEIA has no further questions for this  
10 witness.

11 CHAIRMAN SCHMITT: Thank you. Mr. Miller?

12 MR. MILLER: Thank you, Your Honor. Sierra  
13 Club has no questions.

14 CHAIRMAN SCHMITT: Mr. Frye?

15 MR. FRYE: Thank you, Mr. Chairman. No  
16 questions at this time.

17 CHAIRMAN SCHMITT: Vice Chairman Chandler?

18 VICE CHAIRMAN CHANDLER: I have no questions.  
19 Thank you, Mr. McDonald.

20 CHAIRMAN SCHMITT: Dr. Mathews?

21 COMMISSIONER MATHEWS: I have no questions.  
22 Thank you.

23 CHAIRMAN SCHMITT: Ms. Blend,  
24 cross-examination?

25 MS. BLEND: Yes, Your Honor.

## 1 CROSS-EXAMINATION

2 By Ms. Blend:

3 Q. Mr. McDonald, the study that you just  
4 referenced during the friendly cross-examination by  
5 Mr. Spenard, was that an analysis that you performed  
6 or one that Karl Rabago performed in connection with  
7 a 2019 case before the Commission?8 A. Karl Rabago provided that study in his  
9 testimony, and I updated the figures in it based on  
10 the data that was provided by Kentucky Power in  
11 the -- in this case.12 Q. Mr. Rabago is not a witness for any party  
13 testifying in this proceeding; is that correct?

14 A. That's correct.

15 MS. BLEND: I have no further questions.

16 Thank you.

17 CHAIRMAN SCHMITT: Mr. FitzGerald, redirect?

18 MR. FITZGERALD: No, Your Honor. Thank you  
19 very much.20 CHAIRMAN SCHMITT: Okay. Thank you,  
21 Mr. McDonald. You may be excused.22 Mr. FitzGerald, why don't you call your next  
23 witness.24 MR. FITZGERALD: Mr. Chairman, at the risk of  
25 getting us out of here at a reasonable hour, I am

1 going to call our last witness, James Owen.

2 CHAIRMAN SCHMITT: Okay. Thank you.

3 Mr. Owen?

4 Mr. FitzGerald, in a court, you know, somebody  
5 would ask -- the judge would ask the bailiff to go  
6 out in the hall and see if he could find the  
7 witness. We'll wait a few minutes.

8 MR. FITZGERALD: Your Honor, I was just  
9 thinking of Joe Pesci in "My Cousin Vinny." I'm  
10 going to run out in the hall and see if he's on the  
11 phone somewhere. The last I heard he is available  
12 to testify.

13 CHAIRMAN SCHMITT: Okay.

14 MR. FITZGERALD: So I will send him an email  
15 right now and ask him to make himself present.

16 CHAIRMAN SCHMITT: Why don't we -- it's 20  
17 after 2:00. Why don't we take a ten-minute break or  
18 so and give you time to see if you can find him.  
19 Okay?

20 MR. FITZGERALD: That is very gracious of  
21 you, Mr. Chairman. Thank you very much.

22 CHAIRMAN SCHMITT: We'll be back about 2:30.

23 (Recess from 2:22 p.m. to 2:34 p.m.)

24 CHAIRMAN SCHMITT: Okay. Looks like we're  
25 back on the record.

1           Mr. FitzGerald, looks like you found Mr. Owen,  
2 correct?

3           MR. FITZGERALD: Yeah, after great searching.  
4 We have several dog sleds out looking for him, and  
5 we were able to track him down.

6           CHAIRMAN SCHMITT: You got him treed out  
7 there in the back, okay.

8           MR. FITZGERALD: Absolutely.

9           CHAIRMAN SCHMITT: All right. Mr. Owen,  
10 please raise your right hand.

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

15           THE WITNESS: I do.

16           CHAIRMAN SCHMITT: Mr. FitzGerald?

17           JAMES OWEN, having been first duly sworn,  
18 testified as follows:

19                           DIRECT EXAMINATION

20           By Mr. FitzGerald:

21           Q.       Would you state your full name, your place of  
22 employment, and your business address, please?

23           A.       Sure, my name is James Matthew Owen, O-W-E-N.  
24 I am the executive director of Renew Missouri  
25 Advocates. We are located at 409 Vandiver Drive,

1 that's V-A-N-D-I-V-E-R, in Columbia, Missouri, with  
2 a zip code of 65202.

3 Q. Thank you. Mr. Owen, did you cause prefiled  
4 direct testimony to be filed in this case on behalf  
5 of the Joint Intervenors?

6 A. I did.

7 Q. And did you also answer some data requests  
8 that were posed to the Joint Intervenors?

9 A. I did.

10 Q. And if I were to ask you those same questions  
11 and pose those same data requests to you today,  
12 would your answers be the same?

13 A. They would.

14 MR. FITZGERALD: Your Honor, I tender the  
15 witness for cross-examination. Thank you.

16 CHAIRMAN SCHMITT: Thank you.

17 Ms. Frederick, questions? Ms. Frederick?

18 MS. FREDERICK: Sorry, Your Honor, I was  
19 having a little bit of technical difficulty. No  
20 questions for this witness, thank you.

21 CHAIRMAN SCHMITT: That's fine.

22 Mr. Horne?

23 MR. HORNE: No questions for this witness,  
24 Your Honor. Thank you.

25 CHAIRMAN SCHMITT: Thank you. Mr. Kurtz?

1 MR. KURTZ: No questions, Your Honor.

2 CHAIRMAN SCHMITT: Ms. Grundmann?

3 MS. GRUNDMANN: No questions, Your Honor.

4 CHAIRMAN SCHMITT: Mr. Spenard?

5 MR. SPENARD: No questions, Mr. Chairman.

6 CHAIRMAN SCHMITT: Mr. Miller?

7 MR. MILLER: No questions. Thank you,

8 Mr. Chairman.

9 CHAIRMAN SCHMITT: Mr. Frye?

10 MR. FRYE: No questions, Mr. Chairman. Thank  
11 you.

12 CHAIRMAN SCHMITT: Vice Chairman Chandler?

13 VICE CHAIRMAN CHANDLER: Yeah, thanks,  
14 Chairman. I have no questions for Mr. Owen. I  
15 appreciate it.

16 CHAIRMAN SCHMITT: Dr. Mathews?

17 COMMISSIONER MATHEWS: I have no questions  
18 for Mr. Owen. Thank you.

19 CHAIRMAN SCHMITT: Okay. Ms. Blend,  
20 cross-examination?

21 MS. BLEND: No questions, Your Honor. Thank  
22 you.

23 CHAIRMAN SCHMITT: Okay. I guess,  
24 Mr. FitzGerald, that makes it a pretty easy direct  
25 exam and no redirect.

1 Thank you, Mr. Owen.

2 MR. FITZGERALD: Thank you, Your Honor.

3 THE WITNESS: Thank you, Your Honor. Sorry  
4 about not being on line earlier.

5 CHAIRMAN SCHMITT: That's no problem.  
6 Believe me. You've been excused.

7 Now, is that the case, that's all the  
8 witnesses for Joint Intervenors, correct?

9 MR. FITZGERALD: Yes, Mr. Chairman. I just  
10 move their direct testimony into evidence, and I  
11 appreciate very much giving us the break that you  
12 did so that we could finish our case.

13 CHAIRMAN SCHMITT: Well, that's sustained.  
14 Just one person who was not a witness who had, I  
15 guess, some, I don't know, testimony may not have  
16 been sworn to, Mr. Rabago, his testimony is not into  
17 evidence because he was not a witness. What he said  
18 is filed and is subject to consideration, but he's  
19 not -- is not formally a witness.

20 Now, that brings us to, I guess, Vice Chairman  
21 Chandler wanted to the opportunity to recall  
22 Mr. Mattison, and if -- is that still the case,  
23 Mr. Chandler?

24 VICE CHAIRMAN CHANDLER: I think that with  
25 the testimony we've had today, I don't think that I



1 have any questions for Mr. Mattison based off of  
2 what we heard from AG KIUC's witnesses, as well as  
3 Joint Intervenors and Walmart, and, as Mr. Spenard  
4 has helped me out a little bit, KYSEIA.

5 CHAIRMAN SCHMITT: Well, I guess that  
6 concludes.

7 VICE CHAIRMAN CHANDLER: It's easier than  
8 saying KYSEIA every time. So I appreciate that, Mr.  
9 Spenard.

10 But I don't have any follow-up questions based  
11 on today's testimony from Mr. Mattison.

12 CHAIRMAN SCHMITT: Thank you, Mr. Mattison.  
13 I'm sorry you had to be available, but that's the  
14 way it is in legal proceedings. Sometimes a party  
15 or a lawyer doesn't know whether you need somebody  
16 or not until all the testimony is completed, so you  
17 may be excused, and thank you for being here and for  
18 your testimony.

19 MR. MATTISON: (Indiscernible).

20 CHAIRMAN SCHMITT: That concludes all the  
21 testimony, but Ms. Vinsel, I think, had a motion to  
22 make for the record. Is that correct: And if so,  
23 would you do so now?

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

25 Staff would like to move that the record from

1 case number 2019-00256, this is the electronic  
2 consideration of the implementation of the  
3 net-metering act, that that be incorporated into the  
4 record of this proceeding by reference.

5 Several of the parties have referenced this.  
6 In the final order in 2019-256, we indicated that  
7 that -- the record from that proceeding would be  
8 incorporated into all initial net-metering  
9 ratemaking cases.

10 CHAIRMAN SCHMITT: Your motion is sustained,  
11 and the record in that case will be incorporated  
12 into the record in this.

13 Is there anything else that -- any other  
14 matter that Counsel would like to bring up?

15 Mr. Spenard?

16 MR. SPENARD: Yes, Mr. Chairman. I  
17 apologize.

18 I believe I missed this point earlier. To the  
19 KYSEIA witnesses have been tendered for examination,  
20 and to the extent that we need to move for their  
21 testimony and their responses to be -- to be  
22 admitted, to be accepted by the Commission, we so  
23 move.

24 CHAIRMAN SCHMITT: All witnesses will be --  
25 have been accepted and admitted. There hasn't been

1 any -- no one has contested, no one has asked for a  
2 Daubert hearing, and of course the direct testimony  
3 was already filed.

4 So all of the witnesses who have been listed  
5 are properly before the Commission, and their  
6 testimony is accepted for what it is. Okay?

7 MR. SPENARD: Thank you, Mr. Chairman.

8 CHAIRMAN SCHMITT: Anything else that anyone  
9 would like to bring up before we adjourn?

10 Ms. Blend, anything?

11 MS. BLEND: Not for the Company, Your Honor.  
12 Thank you very much.

13 CHAIRMAN SCHMITT: Okay. Any of the other  
14 parties? No?

15 MR. FITZGERALD: Mr. Chairman, just wishing  
16 everyone a Happy Thanksgiving, and appreciate being  
17 able to participate in this proceeding.

18 CHAIRMAN SCHMITT: Okay. Thank you. The  
19 order, we only have probably less than a half a  
20 dozen people in the office. I have the order typed  
21 up on the scheduling, but we've now gotten to the  
22 point where we can't sign paper, we only sign on the  
23 computer screen, so I'll see if we can get that out  
24 by tomorrow at any rate, but I've given you-all the  
25 dates, and if you'd like for me to read them again,

1 I'd be happy to.

2 Data requests due by the end of the day  
3 December 1st. Responses due December 9th. Kentucky  
4 Power's brief December 8th. Brief for the  
5 Intervenors due December 14th with a reply brief by  
6 Kentucky Power on December 17th. And the case will  
7 stand submitted 12:01 a.m. on December 18, 2020, and  
8 we'll be working as hard as we can to get a  
9 decision.

10 All right. Ms. Grundmann, it's good to see  
11 your cocounsel. It's always good to have  
12 experienced cocounsel to assist in these things, so.

13 MS. GRUNDMANN: He wanted to thank you for  
14 your hard work on this hearing and wanted to wish  
15 everybody a Happy Thanksgiving.

16 CHAIRMAN SCHMITT: All right. Same to  
17 you-all.

18 All right. With that, then, this hearing is  
19 adjourned. Thank you.

20 (Hearing concluded at 2:43 p.m.)

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STATE OF KENTUCKY        )  
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COUNTY OF JEFFERSON    ).

We, Dannielle Copeland, and Jennifer R. Janes, Notaries Public within and for the State at Large, with commissions expiring 28 September 2023 and 1 May 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 30th day of November 2020.

*Dannielle Copeland*

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Dannielle Copeland, RMR, CRR, CRC  
Notary Public, State at Large

*Jennifer Janes*

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Jennifer R. Janes  
Notary Public, State at Large