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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) CASE NO.
SERVICE; (2) APPROVAL OF TARIFFS AND) 2020-00174
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)

VOLUME I

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

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ALSO PRESENT:
Ms. Candace Sacre, PSC Court Reporter

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

2 CHAIRMAN SCHMITT: And good morning.

3 MS. VINSEL: Good morning.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 CHAIRMAN SCHMITT: Okay. Thank you.

19 MR. FITZGERALD: Thank you.

20 CHAIRMAN SCHMITT: Sierra Club.

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

1 CHAIRMAN SCHMITT: SVWA Kentucky, LLC.

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

5 CHAIRMAN SCHMITT: Thank you. And for Staff.

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

9 CHAIRMAN SCHMITT: Thank you. And for Staff.

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

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

19 CHAIRMAN SCHMITT: Okay. Thank you.

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

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

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

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

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

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

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

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

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

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

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

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

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

16 CHAIRMAN SCHMITT: I'm sorry?

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

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

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

25 CHAIRMAN SCHMITT: Is that better? Can you

1 hear him now?

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

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

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

8 THE REPORTER: Yes.

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

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

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

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

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

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

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

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

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

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

12 CHAIRMAN SCHMITT: Anyone else?

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

20 CHAIRMAN SCHMITT: That the video would be --

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

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

1 what you're saying, sequestration of witnesses?

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

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

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

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

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

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

1 are in the process of testifying.

2 Is there anything else?

3 MS. VINSEL: No, Chairman.

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

12 Were you aware of that?

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

16 CHAIRMAN SCHMITT: All right. Thank you.

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

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

1 CHAIRMAN SCHMITT: Thank you.

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

7 THE WITNESS: Yes, sir; it is.

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

10 MS. BLEND: Thank you, Your Honor.

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

14 DIRECT EXAMINATION

15 By Ms. Blend:

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

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

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

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

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

1 A. Yes.

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

4 A. Yes.

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

6 A. Yes.

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

9 A. No changes.

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

13 A. Yes, they would.

14 Q. Thank you.

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

17 CHAIRMAN SCHMITT: Ms. Vinsel, questions?

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

19 CROSS-EXAMINATION

20 By Ms. Vinsel:

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

22 A. Good morning.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 Is that a correct or a fair statement?

21 A. Yes, that is a fair statement.

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

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

1 last case to this case; that is correct.

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

5 A. That's correct.

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

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

14 Q. And Intuit?

15 A. Yes.

16 Q. Which I --

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

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

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

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

24 A. Yes.

25 Q. Can you tell me the status --

1 A. The --

2 Q. I'm sorry.

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

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

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

25 Q. Skyes Enterprises.

1 A. Did you say Sky Enterprises?

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

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

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

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

20 A. That's correct.

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

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

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

4 Q. Okay. I will follow up with Mr. Vaughan.

5 And you talked about the 6.2 million. Can
6 you describe the proposal?

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

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

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

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

3 A. Yes.

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

6 A. That is correct.

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

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

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

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

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

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

6 MS. BLEND: No, no objection.

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

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

14 A. That's correct.

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

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

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

22 A. That is correct.

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

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

6 Are you familiar with that?

7 A. Yes, I am.

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

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

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

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

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

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

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

1 would be.

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

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

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

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

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

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

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

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

20 CHAIRMAN SCHMITT: Counsel for the Attorney
21 General.

22 CROSS-EXAMINATION

23 By Mr. Cook:

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

1 A. Good morning.

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

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

9 A. No.

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

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

22 Q. Okay. Thank you.

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

1 MS. VINSEL: Which data request?

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

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

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

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

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

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

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

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

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

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

1 A. That is correct.

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

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

8 A. Yes.

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

12 A. I believe that is correct.

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

16 A. Yes.

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

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

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

1 A. No.

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

4 A. I'm there.

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

8 Do you see that?

9 A. Yes.

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

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

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

22 A. That is correct.

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

1 A. What's that time frame?

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

4 MS. BLEND: Mr. Cook?

5 MR. COOK: Yes.

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

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

11 MS. BLEND: Thank you.

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

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

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

21 Q. Okay. Thank you.

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

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

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

3 MS. VINSEL: May I --

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

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

7 Yes, Ms. Vinsel. What?

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

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

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

15 CHAIRMAN SCHMITT: Okay.

16 MR. KURTZ: Thank you, Your Honor.

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

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

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

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

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

25 CHAIRMAN SCHMITT: Yes.

1 MR. KURTZ: Okay.

2 CROSS-EXAMINATION

3 By Mr. Kurtz:

4 Q. Good morning, Mr. Mattison.

5 A. Good morning.

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

9 THE REPORTER: I'm not understanding him.

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

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

16 (Simultaneous speakers.)

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

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

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

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

25 Q. Witness Vaughan? Okay.

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

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

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

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

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

18 A. Tim Kerns.

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

22 A. I'm not familiar with that.

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

1 income tax rate?

2 A. Yes. Absolutely.

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

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

9 Q. Yes. To change the settlement agreement.

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

13 Q. Yes.

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

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

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

22 Q. You heard me say --

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

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

1 opinion.

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

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

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

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

13 Q. Are you sure about --

14 A. That would be for them.

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

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

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

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

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

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

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

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

12 MS. VINSEL: Thank you.

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

15 MR. KURTZ: Thank you.

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

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

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

22 A. In general, that would be true.

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

25 A. I'm there.

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

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

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

13 A. Environment, societal, and governance.

14 Q. Why is that important?

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

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

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

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

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

7 A. I'm there.

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

13 A. I believe it could be a factor.

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

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

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

23 A. Approximately.

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

1 A. That is what it is today.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 A. That is correct.

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

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

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

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

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

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

6 A. Approximately two years.

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

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

12 Q. Fair enough. Last ten years?

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

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

18 Did I read that correctly?

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

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

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

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

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

8 Q. Okay.

9 A. But I'm not sure.

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

15 A. I would assume that to be true.

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

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

22 Q. 10.166 billion.

23 A. Yes, I see that.

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

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

2 A. That would be correct.

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

6 A. Yes.

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

10 A. It includes all growth in PJM.

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

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

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

19 Do you see those?

20 A. Yes.

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

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

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

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

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

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

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

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

5 A. No, I am not.

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

9 A. No, I am not.

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

13 A. No, I am not.

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

17 A. Not to my knowledge, no.

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

20 A. No, we have not.

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

23 A. It does.

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

1 A. Very similar.

2 Q. What?

3 A. Very similar in certain areas.

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

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

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

13 A. I see them.

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

19 A. No, I have not.

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

24 A. No, I am not.

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

1 Mr. Baron's testimony?

2 A. No, I am not.

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

9 A. Yes, we could.

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

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

13 A. Yes, I do.

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

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

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

19 A. Yes.

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

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

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

4 A. Yes.

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

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

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

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

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

22 A. At that percentage, yes.

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

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

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

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

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

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

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

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

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

1 MR. KURTZ: Page 58.

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

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

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

10 Q. Just a few more on this document.

11 MR. KURTZ: Okay. Page 79.

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

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

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

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

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

1 A. Yes.

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

5 A. Yes.

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

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

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

1 unfortunately.

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

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

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

1 numbers as it goes forward.

2 Q. And I think everyone would agree with that.
3 And I thought that example about the one shift
4 productivity equals three in Canada was fascinating.
5 So no one disputes that, I'm sure. But why -- if
6 you've got a shrinking business, why isn't your rate
7 base shrinking? Most businesses, if sales are down,
8 they downsize. Why are you upsizing in a shrinking
9 sales environment?

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

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

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

25 A. To grow --

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 A. That's correct.

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

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

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

4 A. Correct.

5 Q. A thousand megawatts?

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

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

11 A. I see it.

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

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

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

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

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

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

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

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

8 A. Mathematically, yes.

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

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

14 MS. VINSEL: Yes.

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

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

20 CROSS-EXAMINATION

21 By Ms. Grundmann:

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

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

24 Q. Are you having any difficulty hearing me?

25 A. No, I can hear you fine.

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

5 Do you recall that testimony?

6 A. Yes.

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

11 A. That is correct.

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

14 A. Approximately, yes.

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

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

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

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

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

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

11 A. That is correct.

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

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

17 Q. That's correct.

18 A. That would be true.

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

22 A. Yes, I believe he was.

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

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

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

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

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

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

13 A. That would be correct.

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

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

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

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

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

19 A. That is correct.

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

24 A. June the 29th.

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

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

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

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

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

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

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

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

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

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

22 A. I do.

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

25 CHAIRMAN SCHMITT: Thank you. Would counsel

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

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

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

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

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

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

15 CHAIRMAN SCHMITT: Are we on the record?

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

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

1 size room.

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

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

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

17 CHAIRMAN SCHMITT: I can.

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

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

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

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

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

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

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

17 CHAIRMAN SCHMITT: Yes. Yes.

18 MR. FITZGERALD: Okay. Wonderful.

19 CROSS-EXAMINATION

20 By Mr. Fitzgerald:

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

1 guess.

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

20 Do you recall those remarks?

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

24 Q. Yes. Yes.

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

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

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

4 A. I do remember that.

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

10 A. Yes, it is.

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

13 A. Yes, we do.

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

15 A. Not yet, but we came -- I hate to say it like
16 this, but we came very close at the beginning of the
17 year to having one down in the Pikeville area. We
18 had been working on it for quite some time. It was
19 going to be 20 megawatts that we were going to be
20 able to get online, and we had five parcels of land
21 that we were working with with a third party.
22 Everything was good except for the fifth parcel of
23 land that was required for the acreage for the solar
24 had not been mitigated properly from a coal
25 reclamation standpoint, and so we've gone back to

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19 Do you remember making that statement?

20 A. Yes.

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

25 Do you remember that as well?

1 A. Yes, I do.

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

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

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

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

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

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

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

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

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

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

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

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

25 So when you look at what we do for our

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 commonwealth?

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

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

8 A. Are you talking about --

9 Q. They --

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

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

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

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

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

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

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

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

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

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

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

1 concur with that.

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

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

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

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

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

21 MR. MILLER: Matthew Miller, Your Honor.

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

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

1 Thank you, very much.

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

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

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

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

11 MR. OVERSTREET: What about now?

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

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

15 CHAIRMAN SCHMITT: Redirect examination?

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

17 REDIRECT EXAMINATION

18 By Ms. Blend:

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

23 A. Yes, I do.

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

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

3 A. No, it's not.

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

8 A. Witness Whitney would be the one.

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

13 A. I'm there.

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

18 A. Yes, I do.

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

21 A. I'm there.

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

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

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

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

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

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

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

25 MS. VINSEL: Chairman?

1 CHAIRMAN SCHMITT: Yes.

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

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

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

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

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

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

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

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

6 May I proceed, Your Honor?

7 CHAIRMAN SCHMITT: Yes.

8 MS. BLEND: Thank you.

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

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

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

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

22 A. Correct.

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

25 MS. BLEND: And if Staff could please

1 navigate to page 53.

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

4 A. Yes, I do.

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

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

11 Q. Thank you.

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

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

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

18 CHAIRMAN SCHMITT: Yes.

19 EXAMINATION

20 By Vice Chairman Chandler:

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

25 VICE CHAIRMAN CHANDLER: Is there any way

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

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

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

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

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

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

22 A. That is correct.

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

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

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

12 Q. Right. But --

13 A. And I'm not --

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

20 A. That's correct.

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

23 A. Correct.

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

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

2 A. I would say that that is correct.

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

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

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

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

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

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

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

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

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

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

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

16 A. That's fine.

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

20 A. Yes.

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

1 answer is tomorrow.

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

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

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

14 A. No, I do not.

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

24 A. In 2022.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 A. Yes. I remember that.

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

9 A. Yes.

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

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

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

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

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

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

12 A. I think it does.

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

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

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

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

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

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

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

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

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

4 A. Well, you --

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

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

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

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

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

14 Do you see that? Do you remember that?

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

16 Q. I believe it was, yes.

17 A. Yes. I do recall that.

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

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

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

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

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

25 Do you remember that?

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

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

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

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

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

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

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

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

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

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

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

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

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

1 member of PJM?

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

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

10 A. Yes.

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

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

1 out?

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

6 Q. Yeah, and I --

7 A. -- (indiscernible).

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

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

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

22 A. I don't, no.

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

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

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

12 Q. Yeah, and --

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

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

25 A. I apologize. Since we're talking

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

3 Q. Yeah, that --

4 A. That has an influence.

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

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

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

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

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

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

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

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

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

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

25 A. Yes.

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

4 A. Yes.

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

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

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

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

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

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

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

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

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

15 A. Yes, he is.

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

18 A. Yes, he did.

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

21 A. Yes.

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

1 A. No, there has not.

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

7 A. No, I have not.

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

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

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

20 A. Whatever our --

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

1 A. The possibility exists, yes.

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

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

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

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

25 Q. But the Commission explicitly wanted Kentucky

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

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

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

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

14 A. Yes, I am.

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

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

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

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

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

4 A. That's correct.

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

7 A. Yes, it is.

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

12 A. Correct.

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

20 A. Yes.

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

24 A. As part of the mitigation --

25 Q. Okay.

1 A. -- thinking about the customer.

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

4 A. Correct.

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

8 A. That is correct.

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

11 A. That is true.

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

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

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

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

5 A. That is correct.

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

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

12 Q. Well, the testimony says, in the -- the
13 initial testimony says that you'll give up the
14 capacity charge for the next two years if the
15 Commission approves the application as filed.

16 The application has been amended throughout
17 this proceeding in response to discovery requests
18 and on rebuttal, correct?

19 A. True.

20 Q. So what is the Company's proposal as it
21 relates to the capacity charge now? Is it the
22 application as amended or the application as filed?
23 Because the direct testimony is very clear, it's as
24 filed.

25 A. At this moment, it's as filed.

1 Q. Okay. So the adjustments that Mr. Vaughan
2 agreed to and the responses and the mistakes, I
3 think there were a couple that were identified in
4 rebuttal testimony, the Commission now has to ignore
5 those mistakes and approve as filed; is that
6 correct?

7 A. No. No, that's not what I was saying. I was
8 talking only about the \$6.2 million, not the
9 adjustments that Mr. Vaughan, or any other witness,
10 for that matter, has filed.

11 Q. Do you understand what I -- you understand
12 the concern I have is that the proposal by the
13 Company is as filed. It has since been amended. So
14 is the Company saying that it will give up the
15 6.2 million as amended by the Company or that they
16 are only willing to give up the 6.2 million if the
17 Commission approves the application as initially
18 filed?

19 A. I'm going to refer you to Witness Vaughan on
20 that.

21 Q. I don't know -- Mr. -- I think Mr. Vaughan
22 knows a lot of things, but I don't know that he can
23 officially speak on behalf of the Company as to
24 whether you're willing to give up the \$6.2 million,
25 can he?

1 A. No, but he can do the analysis and tell us
2 what the mitigation may need to be or the financial
3 impacts it would have if we changed it.

4 Q. You've changed the application throughout the
5 case, right?

6 A. There have been changes made, yes.

7 Q. Okay. And they're things that the Company
8 agrees to, right? That, oh, yeah, we should have --
9 I don't know, we should have zigged when we should
10 have zagged when adding that thing. Like there were
11 small mistakes and small updates to the application
12 that have been made throughout the pendency,
13 correct?

14 A. As in any case, yes.

15 Q. So are you telling me if the Commission
16 approves everything that the Company is now
17 proposing, the Company is no longer proposing or
18 offering up the \$6.2 million mitigation?

19 A. That's not what I said. I said I would ask
20 Witness Vaughan to look at if that does not, as
21 filed, get approved, what is the mitigation of the
22 6.2 million? I don't know. Does it go down to 4.1?
23 I don't know that answer.

24 Q. Well, the 6.2 million is just the 6.2. It is
25 written in stone. It started at five something.

1 It's 6.2 this year. It's a little less than 6.2
2 next year, because, like we talked earlier, one of
3 the UPAs doesn't exactly run through the end of the
4 year. But the amount is the amount.

5 I want to know -- forget the number for a
6 second -- are you-all offering to -- for the entire
7 amount if the Commission approves the application as
8 currently proposed by the Company?

9 A. Yes.

10 Q. Okay. And that would include the Commission
11 approving the full 100 percent of the PPA and the
12 grid modernization rider, in addition to the CPCN
13 for smart meters you're replacing in the grid
14 modernization rider?

15 A. Yes.

16 Q. And that's the only time that the Company
17 will even offer up that mitigation impact is if the
18 Commission -- if the Commission gives the Company
19 everything they want?

20 A. That's how we have filed the case, yes.

21 Q. Well, I'm -- you could -- you're in charge
22 there. You can -- you're in charge of the whole
23 thing, so I'm asking you very specifically --

24 A. Well, I understand that, but you're asking me
25 to change things on the fly here, and I'm not

1 willing to do that.

2 Q. I'm not. I'm not. I want to clarify that
3 only if the Commission approves all of those things,
4 that is the only time you're offering up the
5 mitigation in relation to the capacity rider?

6 A. Yes.

7 Q. Okay.

8 VICE CHAIRMAN CHANDLER: All right. I
9 appreciate it, Mr. Mattison.

10 I apologize for going a little over lunch
11 here, Mr. Chairman. Thank you.

12 CHAIRMAN SCHMITT: Dr. Mathews, do you have
13 questions for the witness?

14 COMMISSIONER MATHEWS: Are you asking me,
15 sir?

16 CHAIRMAN SCHMITT: I'm sorry, I couldn't
17 hear. Do you have questions?

18 COMMISSIONER MATHEWS: Yes. Just a couple.
19 We'll get -- I promise we won't be late for lunch.

20 EXAMINATION

21 By Commissioner Mathews:

22 Q. Can you hear me?

23 A. Yes, I can.

24 Q. Okay. I'd like to go back to the questions
25 the Vice Chairman just asked you and maybe follow up

1 on the question about Mitchell and the 2040
2 retirement date that you said that's what it is
3 today.

4 And I think in your answer to him, you said
5 there was a filing due soon on CR and ELG, and
6 those -- that filing might have some bearing on the
7 life expectancy of that Mitchell -- of those
8 Mitchell units?

9 A. Well, I know that we're required by the end
10 of this month, November the 30th, to file with the
11 EPA if we are going to pursue doing CCR and ELG,
12 both, one or the other. And it's -- to the best of
13 my knowledge, we're filing that we are doing both
14 CCR and ELG and that the retirement date of Mitchell
15 remains unchanged.

16 Q. And then you will then come to the Commission
17 with an environmental compliance plan, then, that
18 involves the mitigation impact for CCR and ELG?

19 A. Yes, that is correct.

20 Q. Do you know how much, and I -- for lack of a
21 better word, mortgage balance is left on those
22 Mitchell units, how much has not been fully
23 depreciated?

24 A. Subject to check, it's around \$600 million, I
25 believe, but Witness Vaughan would be able to give

1 the precise number.

2 Q. I'm not going to say what the last question
3 was said about Witness Vaughan and knowing all the
4 answers to all the questions, because I expect he's
5 used that in every performance evaluation he's had
6 since the Vice Chairman said that he needed a raise,
7 he's the only that can answer a question.

8 So do you consider those -- the decision
9 being very discrete of you'll make a -- you'll make
10 a decision on CCR and ELG and then you'll look at
11 carbon, is that what you think, or do you look at
12 those together?

13 A. I'm not sure. I believe that we would look
14 at those separately. Right now there is no carbon
15 pricing that exists.

16 Q. There's no carbon pricing, but I heard you
17 say that there was a goal and a plan to be carbon
18 neutral, and you're starting at a hundred percent
19 fossil fuels, so you've got to get from a hundred to
20 zero.

21 A. Well, we're starting with the coal fleet is
22 where we're starting first, and have been starting
23 with the -- you know, AEP has reduced about
24 8,000 megawatts of coal generation over the last
25 several years, and continuing with that goal.

1 Q. Right. Mitchell units are coal-fired?

2 A. Correct.

3 Q. So how do they play into the carbon goals as
4 stated by you at the technical conference and by
5 your CEO around the country on earnings calls, in
6 the press, and so forth?

7 A. Well, in order to continue to operate
8 Mitchell, we've got to comply with environmental
9 rules with CCR and ELG. And once we make that
10 filing, that would be where we're headed with
11 Mitchell is to get it in compliance.

12 Q. Okay. So if the customers -- there's
13 \$600 million left on the mortgage, so to speak. Do
14 you have a ballpark for how much CCR and ELG will
15 cost?

16 A. I do not.

17 Q. And there are already some environmental --
18 when you tell me that there's \$600 million left,
19 does that include any of the environmental upgrades
20 that have been done to Mitchell since the Company --
21 since Kentucky Power took ownership of 50 percent of
22 it?

23 A. They would be included in that figure.

24 Q. Okay. Because it was a very different figure
25 based on how much it was purchased for and then how

1 much was added in the environmental upgrades.

2 And I guess what I'm saying is: Are you
3 factoring in the risk? And I don't think it's risk.
4 If you're saying you're going to reduce carbon, I
5 don't think it's a risk to say that there's a good
6 chance Mitchell won't make it till 2040.

7 A. I'm not going to say that it's not a
8 possibility, but I'm not sure.

9 Q. I'll save those questions, I guess, for the
10 environmental compliance plan hearing when those are
11 brought here.

12 Let's spend a little bit of time talking
13 about, you know, the impact of mortgages that are
14 left. How much is left on Big Sandy 2?

15 A. I'm not sure what's left on Big Sandy
16 Number 2, but witness Tim Kerns should be able to
17 answer that question.

18 Q. Okay. Let's talk about Big Sandy 1. Do you
19 have an idea, is it 200-something megawatts? Is
20 that correct?

21 A. Yes.

22 Q. Do you know what the -- I don't -- how much
23 that's used? Is it dispatched often? I mean, gas
24 is cheap.

25 A. I'm not sure exactly how often it runs, but I

1 do visit with the plant manager from time to time,
2 and it does run often, but I don't have a, you know,
3 specific answer as to exactly the run rate of that
4 plant.

5 Q. Okay.

6 A. And gas -- and gas is cheap, to your point.

7 Q. Yeah. I'm going to do what the Vice Chairman
8 did. The benefit of going last is a lot of
9 questions have been answered; the detriment of going
10 last is that I follow up on random things.

11 So do you have an idea of how much the AMI
12 cost will be per customer?

13 A. In the first year, it would be about
14 31 cents.

15 Q. Okay.

16 A. Because it would be implemented, as far as I
17 know, in phases over a four-year period of time.

18 Q. Okay. What's the second, third, and fourth
19 year?

20 A. Witness Blankenship and Witness West would be
21 able to answer those specific questions, what that
22 buildout would be over time, over that four-year
23 installation period.

24 Q. And I will agree with the Vice Chairman that
25 it -- we must have misunderstood you when you

1 responded to Mr. FitzGerald about the benefits to
2 the low-income customers in your service territory
3 who are challenged in that AMI buildout.

4 I will give the Vice Chairman credit that I
5 heard a similar response that he did, that the best
6 thing you could do would be the AMI.

7 A. Well, if I said that, it was out of context.
8 It was my response into his question about why would
9 you get rid of perfectly good meters and go to AMI
10 meters, and so I was using it in that context with
11 my answer.

12 Q. So have you thought of -- about how much
13 depreciation -- how much useful life is left on
14 those existing meters that you have?

15 A. Some of them have -- and again, Witness
16 Blankenship can tell us exactly, but some of them
17 have no useful life left on those meters. Some of
18 them are obsolete as we speak.

19 Q. Okay. Have you -- do you have a warehouse
20 with some sitting in that still have a life
21 expectancy in them?

22 A. We do have, and in talking with Witness
23 Blankenship yesterday, that is a very small number
24 of what I would call inventory of AMR meters.

25 Q. Okay. So the benefits to the AMI, you said,

1 involved the potential for flex pay, the potential
2 for time-of-day rates, some things that will be more
3 down the pike?

4 A. Well, once we get the installation in, we can
5 do flex pay. We come with a tariff. And the other
6 things, the benefits that I talked about, in an
7 outage situation or reconnection, or a -- for a
8 disconnect for nonpay for an initial connection when
9 you're requesting service, all of that can be done
10 in an initial installation.

11 Q. Which for some customers would be four years?

12 A. For the full buildout, it would be, phasing
13 it in.

14 Q. And the cost of the education that would be
15 necessary for that, do you -- did I read the amount
16 for that in the record?

17 A. I'm not sure if there was a cost that Witness
18 Wiseman put in her testimony for what that would
19 cost.

20 Q. Okay. I didn't recall having seen it, but --

21 A. I don't recall either.

22 Q. Would it be significant for some of your
23 customers?

24 A. I'm sorry, I didn't hear the first part.

25 Q. I said it might be a significant cost for

1 some of your customers?

2 A. You're talking about for the education piece
3 of it?

4 Q. The education component.

5 A. I don't think it's going to be a significant
6 cost for some of our customers to go through the
7 process of learning how those meters function.

8 Q. Okay. I would caution you to look at
9 Glasgow, Kentucky, before you roll out a time-of-day
10 rate. Just saying.

11 A. Thank you.

12 Q. The education component was very important
13 there.

14 Just to follow up on some of the economic
15 development activities, what's the status of the,
16 what was formerly known as Braidy?

17 A. Yes. It's now called Unity. About six weeks
18 or so ago, I met with the CEO, Don Foster, the new
19 CEO of the company. They're, in fact, moving dirt
20 as we speak, doing some preliminary work. And it's
21 his indication that they're closer now than they
22 ever have been before to get full financing. He
23 indicated it would be within the first or second
24 quarter of 2021. And that's all I know, just from
25 what he shared.

1 Q. And if they go forward, I believe there's
2 some transmission upgrades that would have to be
3 done that you would have to come back to the PPP in
4 because that one expired?

5 A. That is -- we would have to come, and there
6 is transmission and substation upgrades for sure to
7 serve that facility.

8 Q. Okay. And that's the -- some of this is just
9 filling in blanks for me.

10 The whole conversation about the benefits of
11 being in an RTO. It seemed that your answer to that
12 was not -- there was no middle ground. There -- it
13 was AEP being in an RTO or not being -- or not being
14 in an RTO. There was -- could you -- could you --
15 were you having the discussion with the Vice
16 Chairman about Kentucky Power independently being in
17 an RTO?

18 A. Well, I -- just from my experience, being
19 independent and as an island does not appear to be a
20 good opportunity for the Kentucky Power customers.
21 It puts -- I believe it puts us at risk.

22 Q. Could you elaborate on that being in an
23 island?

24 A. Well, what I refer to as an island, if we
25 were stand-alone and we were not in an RTO --

1 Q. But that --

2 A. -- Kentucky Power --

3 Q. You're missing that middle ground of if
4 Kentucky Power were a member of PJM separate from
5 AEP East.

6 A. Okay. So you're asking me if we were -- just
7 Kentucky Power was a member as an island, not an
8 island in and to ourself?

9 Q. Correct.

10 A. I follow you. Well, I would think that would
11 need to have some study done to see the effects.
12 And I know Vice Chairman Chandler talked about me
13 staying up at night. What keeps me up at night is
14 keeping people's lights on and safety. So I think
15 that was something we would have to look at.

16 I'm not abstinent that there is no middle
17 ground, I'm just -- from what I know today being a
18 member of PJM. I don't know the implications of
19 being a sole member of an RTO, what the implications
20 of that would be.

21 Q. Okay. There have been some studies that have
22 been released out there in the public, and I'm not
23 going to name -- I'm not going to name specifics, so
24 I don't feel that I need to bring them up, that say
25 companies who belong to RTOs with functioning

1 markets that continue to self-supply may have a
2 higher cost to their customers than they would if
3 they sold their own plants or didn't run their own
4 plants and leaned on the market a little more.

5 Have you done any analysis to see if Kentucky
6 Power might benefit from market purchases and less
7 self-supply?

8 A. I have not done any studies, Commissioner.

9 Q. Okay. Would Mr. Vaughan be the person who
10 could answer that question?

11 A. I don't believe he would. I would refer to
12 Kelly Pearce.

13 Q. Okay. All right. You mentioned that
14 investment decisions are based on expected returns.
15 That's a generalization, but --

16 A. Yes, I agree with that.

17 Q. To what degree -- and you say you stay up at
18 night worrying about reliability and safety. To
19 what degree does reliability and safety drive those
20 investment concerns?

21 A. Well, we're always going to do everything we
22 can to provide safe, reliable electricity on the
23 systems that we maintain and build. But when you
24 look at our ROE and look at further buildout and
25 aged infrastructure, it's just difficult to compete,

1 quite honestly, for capital funding whenever you've
2 got such a low ROE.

3 Q. But -- and let's talk about those words,
4 "further buildout." Does further buildout mean you
5 would be building something that's not -- that
6 doesn't impact reliability and safety?

7 A. Not at all. What I mean, "further buildout,"
8 I would take maybe a Hazard and a Wooton. That's a
9 further buildout to me, making a more robust system,
10 not necessarily a further buildout to build a line
11 in hopes that someone connects to the end of it.
12 Sorry I misspoke on that. That's not what I meant.

13 Q. Okay. And that may be a -- you know, a gas
14 versus electric sort of nomenclature there.
15 Buildout for, you know, gas would be building a
16 line.

17 I guess that comes back again to the aging
18 infrastructure for which customers have paid the
19 depreciation on over the years. Would you not -- I
20 mean, to what degree does the return impact the
21 decision on whether or not you replace that
22 infrastructure and how much of it is aging and it no
23 longer is reliable?

24 A. Well, we do studies on that, and Witness
25 Everett Phillips can give the detail of, you know,

1 how many times we go by and check poles, X number of
2 times every other year and find out that, you know,
3 by industry standards and criteria they need to be
4 replaced. He has very specific data on how many
5 poles we replace every year, how much conductor we
6 put up to that point of aged infrastructure. And
7 you're going to start with the worst to, you know,
8 the best, start with the worst first.

9 Q. But what impact does expected return impact
10 the -- your ability to maintain that system, then?

11 A. Well, there's --

12 Q. I could --

13 A. -- there comes --

14 Q. I -- I -- go ahead.

15 A. There comes a point financially that you can
16 only take on so much investment based on the
17 financial metrics of your company, and you can only
18 do so much with that investment that you've got. So
19 taking on too much puts the Company in a financial
20 bad situation. So earnings, ROEs, if you will,
21 drive how much investment you can make on an
22 annualized basis.

23 Q. As do requirements for reliability and safety
24 imposed --

25 A. I agree.

1 Q. -- by the Kentucky Public Service Commission
2 and by NERC.

3 A. I agree.

4 Q. One more follow-up on the carbon question.
5 What was the goal that has been -- what year does
6 AEP want to be carbon free or -- it is a carbon free
7 goal, it's not a renewable goal, correct?

8 A. Well, the goal is in 2050 to reduce by
9 80 percent, and it is an aspirational goal is to be
10 carbon free, carbon neutral. There is no carbon
11 neutral specific date of a goal, it's an
12 aspirational goal by 2050.

13 Q. And have you -- I know the Company, the big
14 Company, the big AEP had some carbon capture
15 equipment on the Mountaineer Plant at one point.
16 Has that been completely abandoned, that initiative?

17 A. To my knowledge -- sorry, there's something
18 going on.

19 Q. Yeah.

20 A. To my knowledge, and subject to check, I
21 think you're referring to carbon sequestration at
22 the Mountaineer Plant. And to the best of my
23 knowledge, that has been abandoned, did not work
24 out.

25 Q. Okay. So by 2050, 80 percent reduction.

1 80 percent reduction starting from what? From
2 what --

3 A. It's just the baseline that we started, I
4 believe it was in -- I think it was 2012, I believe
5 is when those numbers were first --

6 Q. Okay. And I know some companies use a 2005,
7 some companies I've seen have a 1990 level that they
8 are starting as their baseline, so I just was trying
9 to check there.

10 A. Okay.

11 COMMISSIONER MATHEWS: Okay. I think that is
12 all that I have, Mr. Chairman.

13 CHAIRMAN SCHMITT: Okay. Thank you.

14 THE WITNESS: Thanks, Commissioner.

15 CHAIRMAN SCHMITT: I guess, Ms. Blend, in all
16 fairness, I hadn't thought about it, but after the
17 questions by Vice Chairman Chandler and Dr. Mathews,
18 you ought to have an opportunity to redirect, I
19 mean, if there's anything you'd like to explain or
20 ask the witness to.

21 But before we do, it's now about 20 minutes
22 until 1:00 o'clock, so let's take a lunch break
23 until 1:30. That'll give us 50 minutes. And then
24 if you choose not to ask any further questions, then
25 we'll go to the next witness.

1 I will say this: I think that Staff Counsel
2 has advised that at some point, and I don't know if
3 we'll get to it today, but after the testimony of
4 Mr. Satterwhite, Mr. Pearce, and Mr. Ali, that Staff
5 would like to speak to Mr. Mattison again, I guess
6 to follow up on some additional questions. Okay?
7 All right.

8 MR. BLAND: Thank you, Your Honor.

9 CHAIRMAN SCHMITT: All right. So we'll be in
10 recess until 1:30.

11 (Lunch recess began at 12:40 p.m.)

12 CHAIRMAN SCHMITT: Okay. We're back on the
13 record.

14 Ms. Blend, before I ask you if you want to
15 conduct any redirect, apparently Mr. Cook from the
16 Attorney General's Office asked a question, and
17 Mr. Mattison referred to another witness, but no one
18 can recall or got down exactly who that witness was.

19 Can we find out from Mr. Mattison and -- I
20 don't know. Mr. Cook is on the line, I suspect.

21 Mr. Cook, are you there?

22 MR. COOK: Yes, I am, Mr. Chairman.

23 CHAIRMAN SCHMITT: Well, could you tell us --
24 do you have a recollection of the question that
25 resulted in Mr. Mattison's response about referring

1 the answer to someone else?

2 MR. COOK: Yes. I was asking questions
3 regarding money that was identified in PSC 2 -- I
4 forget the exact question number. But, at any rate,
5 it was about lobbying expense, and I believe it was
6 counsel for the Company that stated that another
7 witness could address those questions, but I did not
8 catch the last name of the witness that she
9 identified.

10 MR. MATTISON: I believe that witness was
11 Brian West.

12 MR. COOK: Yes.

13 MS. BLEND: Let me clarify, if that's okay
14 with Your Honor.

15 Mr. Cook, is your question about which witness
16 is best able to testify regarding the exclusion of
17 federal lobbying expense from the Company's cost of
18 service?

19 MR. COOK: Yes, as identified in response to
20 PSC 2-42.

21 MS. BLEND: I believe Mr. Mattison referred
22 to Ms. Whitney, Company Witness Whitney, as being
23 able to provide any further detail regarding the
24 actual adjustment and cost of service.

25 MR. COOK: Okay. Well, I thank you very

1 much, then.

2 CHAIRMAN SCHMITT: Referred to a Mr. -- is
3 that person listed as a witness?

4 MS. BLEND: Yes. Heather M. Whitney.
5 Ms. Whitney.

6 CHAIRMAN SCHMITT: Okay. At this time,
7 Ms. Blend, do you have any redirect for your
8 witness? Would you like to ask --

9 MS. BLEND: I have no redirect, Your Honor.

10 CHAIRMAN SCHMITT: I'm sorry?

11 MS. BLEND: I have no redirect, Your Honor.
12 Thank you.

13 CHAIRMAN SCHMITT: Then you may call your
14 next witness.

15 MS. BLEND: Thank you. The Company calls
16 Matthew J. Satterwhite pursuant to the Commission's
17 subpoena for his testimony in this case.

18 I will note that we will need just a moment to
19 sanitize the witness and the counsel seats and work
20 spaces, and we'll do that as quickly as we can.

21 MS. VINSEL: Chairman, could I take this
22 moment to try to resolve any issues about going into
23 confidential session to ensure that those are on the
24 line?

25 CHAIRMAN SCHMITT: Yeah, I think they're

1 changing seats, though. Just a second. They have
2 to spray down.

3 Okay. Mr. Overstreet, are we ready?

4 MR. OVERSTREET: Yes, Mr. Chairman, we're
5 ready. We call Matthew J. Satterwhite.

6 CHAIRMAN SCHMITT: Before -- before we swear
7 in Mr. Satterwhite, Ms. Vinsel, staff counsel, I
8 guess needs to clear up something about a potential
9 confidential session.

10 Is that correct?

11 MS. VINSEL: Yes, Chairman. Thank you. We
12 will be going into confidential sessions twice
13 during Mr. Satterwhite's testimony, and I wanted to
14 ensure that everyone who is currently in the hearing
15 has actually signed the -- done whatever they need
16 to do to sign confidentiality agreements with --

17 VICE CHAIRMAN CHANDLER: Ms. Vinsel.

18 MS. VINSEL: Yes.

19 VICE CHAIRMAN CHANDLER: Can I have one
20 second, Mr. Overstreet, to question Ms. Vinsel?

21 MS. VINSEL: Yes.

22 VICE CHAIRMAN CHANDLER: Is confidential
23 information confidential pursuant to a request of
24 confidentiality by a party or is it confidential per
25 the Commission's directive?

1 MS. VINSEL: It is per the Commission's
2 directive.

3 VICE CHAIRMAN CHANDLER: So I guess I'm just
4 going to ask if that made a distinction to your
5 question, Mr. Overstreet.

6 MS. VINSEL: Before Mr. Overstreet answers,
7 let me say, because we've had a couple people
8 apparently phone in and just be listed as caller
9 number, so we can't identify them. They seem to
10 have dropped out.

11 I just wanted to make sure that this was only, you
12 know, the parties and their counsel, the witnesses
13 on the hearing.

14 CHAIRMAN SCHMITT: At some point after lunch
15 we were advised that there was someone identified as
16 Caller 5, but we couldn't -- no one seemed to know
17 who that was.

18 MS. VINSEL: I think it looks like we've
19 resolved the issue and everyone's named. We're okay
20 now. Thank you.

21 Thank you, Your Honor.

22 MR. OVERSTREET: Ms. Vinsel, to answer your
23 question in a little broader perspective.

24 And thank you, Mr. Vice Chairman, for that
25 clarification.

1 Among the parties, all of the parties have
2 signed NDA except for SWVA. So to the extent that
3 the confidential information does not relate to
4 information that was either produced and accorded --
5 produced by Kentucky Power and accorded confidential
6 treatment by the Commission in response to Kentucky
7 Power's motion or was not used by another party in
8 its filing, you know, I think it would be fine
9 except with respect to SWVA.

10 MS. VINSEL: Thank you, Mr. Overstreet. For
11 the purposes of these confidential sessions, Mr.
12 Frye can remain in the hearing.

13 MR. OVERSTREET: Thank you.

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

20 THE WITNESS: Yes.

21 * * * *

1 MATTHEW J. SATTERWHITE, called by the
2 Kentucky Power Company, having been first duly
3 sworn, testified as follows:

4 MR. OVERSTREET: May I ask, Your Honor?

5 CHAIRMAN SCHMITT: Yes, you may.

6 MR. OVERSTREET: Thank you.

7 DIRECT EXAMINATION

8 By Mr. Overstreet:

9 Q. Mr. Satterwhite, please state your name,
10 employer, and position.

11 A. Matthew J. Satterwhite, employed by American
12 Electric Power Service Corporation, and my position
13 is vice president of regulatory services.

14 Q. And are you appearing here in response to the
15 Commission's subpoena?

16 A. Correct.

17 Q. And what is your understanding of the subject
18 matter of your testimony here today in response to
19 that subpoena?

20 A. From my reading of the subpoena, the
21 Commission had questions about transmission under my
22 current position, how that applies to Kentucky Power
23 and PJM, and selected pages from my previous
24 testimony in the last rate case.

25 MR. OVERSTREET: Thank you.

1 Your Honor, the witness is available for
2 cross-examination.

3 CHAIRMAN SCHMITT: Ms. Vinsel,
4 cross-examination?

5 MS. VINSEL: Thank you, Chairman.

6 CROSS-EXAMINATION

7 By Ms. Vinsel:

8 Q. Good afternoon, Mr. Satterwhite.

9 A. Good afternoon. Good to see you.

10 Q. Good to see you again.

11 If you can't hear me or if you don't
12 understand my question, please let me know.

13 A. Absolutely.

14 Q. Since we last spoke, you have changed your
15 job. Can you tell me what your job duties are now?

16 A. Sure. As vice president of regulatory
17 services -- and a sound check. Is this good?

18 Q. It is good. Thank you.

19 A. As vice president of regulatory services, I'm
20 sort of the -- in charge of the central regulatory
21 group for American Electric Power. So we're a
22 service organization, and we serve all of the
23 operating companies, that they don't have to employ
24 staff for things like rate cases.

25 And we help process rate cases. And we do

1 that every day for all of our different
2 jurisdictions, as well as I have staff that we will
3 talk about today, Dana Horton to monitor PJM and the
4 other RTOs. We're sort of like an essential
5 repository for regulatory matters at AEP all the
6 service of our clients, which are the operating
7 companies.

8 Q. Thank you. So when you talk about the
9 regulatory, in addition to FERC and the Kentucky
10 Public Service Commission, I believe there are a
11 total -- well, ten other state regulatory
12 commissions that you deal with. Is that correct?

13 A. Correct.

14 Q. Thank you.

15 Prior to today, what has your involvement in
16 this case?

17 A. When I received the subpoena, I started to
18 read some of the testimony. I guess prior to that,
19 my staff was involved in helping put together the
20 case. Alex Vaughan, a number of the witnesses,
21 Jaclyn Cost and others are on my staff.

22 And, in general, before rate cases are filed,
23 my staff will work with the people at the operating
24 companies to talk about what could go in those
25 cases, what are possibilities, what are we seeing

1 across the country, what are some different ways
2 things might be prevented or things that we thought
3 we should do, what we've seen in other places. So
4 kind of a central learning pool to advise the
5 operating company level. So people under my
6 direction were working with the company on that.

7 Q. Okay.

8 THE REPORTER: I'm having trouble hearing
9 him. I'm sorry.

10 Q. I'm sorry, the court reporter is saying that
11 she's having trouble hearing you. Maybe if you
12 could lean in closer or pull it in closer.

13 A. Absolutely. Is that better? I'll try to
14 talk slower. I know I talk fast. Call time out
15 when you need to.

16 Q. Okay. Will do.

17 Trying to think of when the subpoena was
18 issued, but I can look it up quickly. You may know.

19 A. I believe it was last Tuesday, yes.

20 Q. So prior --

21 A. We got a call Monday, Monday asking if we
22 would appear. I said absolutely, and the subpoena
23 came on Tuesday.

24 Q. So prior to that did you have any
25 conversations with anyone, say particularly in

1 response to rebuttal testimony?

2 A. Trying to think. My staff definitely would
3 have. I was aware of sort of -- when the testimony
4 was filed, I get updated on what was filed. So I
5 think I sat on initial calls with counsel to talk
6 about what the issues were in the case.

7 A lot of what we do is help the operating
8 company determine all the transmission issues in
9 this case, who are the experts that maybe can help
10 you.

11 Dr. Pearce and Kamran Ali would be good to respond
12 to this. They have the most information.

13 So we had them serve in that role to make sure
14 the record could be developed along the lines of
15 what we're seeing in the case. So I was involved in
16 that.

17 Q. Roughly two weeks ago, AEP announced a
18 \$37 billion five-year capital plan that's focused on
19 renewable expansion and grid investments.

20 Are you familiar with that?

21 A. Yes.

22 MS. VINSEL: Okay. This is where, Chairman,
23 I would like to go into a very brief confidential
24 session.

25 CHAIRMAN SCHMITT: All right. At this time

1 we'll go into confidential session.

2 MS. SACRE: Yes, sir. Proceed.

3 (Confidential testimony of Mr. Satterwhite
4 heard from 1:52 p.m. through 1:59 p.m.)

5 CHAIRMAN SCHMITT: We're now out of
6 confidential session and back into regular open
7 session.

8 MS. VINSEL: Thank you.

9 Q. Also, Mr. Satterwhite, our court reporter has
10 asked again. She's having a hard time hearing you.

11 A. I got closer.

12 Q. Thank you.

13 In terms of regulatory proceedings, is your
14 team's role different for transmission-related
15 matters at the state commission level as opposed to,
16 say, the FERC level?

17 A. We're involved at every level. There's
18 different teams that are involved. We have a
19 dynamic transmission group that is almost, you know,
20 its own business unit. So they have a lot of
21 people, just like an operating company would, of how
22 they want to move forward. Kelly Pearce is in that
23 group.

24 Dr. Pearce, I should say. Kamran Ali as well.

25 But when it comes down to filings at the state

1 commission or making filings at PJM or FERC, that's
2 when we would be involved.

3 There's also a DC office. We have counsel out
4 in D.C. and former counsel out there that are also
5 involved and sort of have -- watch as they go
6 through that area.

7 It's really a team effort of who looks at
8 things, but we try to make sure we have awareness
9 about what's going on so we're not being disjointed
10 in how we present things.

11 Q. I want to be clear that I understand, and I
12 don't want to put words in your mouth.

13 What I'm hearing is, in one way, there's a
14 dynamic team that might pull in people from
15 different parts of AEP, but also underlying that,
16 there's a static team, whether it's this team is
17 working with the state commission, this team is
18 working with FERC.

19 Is that a fair assessment?

20 A. Yeah. I guess I prefer to use the analogy
21 of, you know, there's operating companies like
22 Kentucky Power, there's a transmission group,
23 there's a generation group, and they all serve the
24 operating companies, but we serve all of those
25 groups to make sure that AEP and the operating

1 companies are up to date on all of the issues.

2 So that's probably that group. We're that
3 underlying that to make sure that things are
4 processed the right way and considerations are made.

5 Q. Thank you. I think I understand now. It
6 also leads well into my next question, which is if
7 there's any difference in your team's participation
8 and processes for operating companies versus the
9 transmission companies.

10 A. At the transmission level -- we're really
11 involved at the RTO level. So PJM, SPC, ERCOT,
12 MISO. So I have staff that sort of serve as a
13 generalist in those areas. Dana Horton, who will
14 appear later. I think all of you know him. He sort
15 of watches everything that goes on in the RTOs.

16 But then in front of our clients, for lack of
17 a better term, are the opco's, the generation group,
18 the transmission group. They all have staff.
19 They're also very involved and interact on their
20 specific issues. A lot of M3 process and reviewing
21 what the little projects are.

22 The transmission group has a group dedicated
23 to that, and they sit on those calls and go through
24 every page they want to go through. That really is
25 someone from the transition group that does that

1 versus my group, but when it gets to transmission --
2 sorry. I'll slow down.

3 Is there a transmission issue on a state case?
4 Is there a filing at PJM? That's when we would
5 review that as well from a central point of view.

6 Does that help?

7 Q. That does. Thank you very much. I
8 appreciate it.

9 I have some questions about the load-serving
10 entity open-access transmission tariff.

11 Do you mind if I just call it LSE OATT?

12 A. Sounds good.

13 Q. I know that's the general, but I want to make
14 sure for everybody that we're all on the same page.

15 Given both your current position and your
16 previous position at Kentucky Power -- and I don't
17 know. Did we say that -- what your previous
18 position at Kentucky Power was?

19 A. Not on the record today, no. Previously I
20 served as the president and COO of Kentucky Power
21 from 2016 to the end of 2018.

22 Q. The end -- okay. Thank you.

23 A. 2017 and 2018 was my term.

24 Q. So given your current position and then your
25 previous position at Kentucky Power as

1 president/CEO, is it a fair assumption that you're
2 familiar with the LSE OATT expense recovery proposed
3 in this case?

4 A. I'm familiar with the concept in the last
5 case when we established that. So I'm familiar with
6 that. I appeared and gave testimony related to that
7 in the previous rate case.

8 Q. Okay. What is being proposed in this case?
9 And I'll bring up some of Mr. Vaughan's testimony.
10 Again, I'm not going to ask you to swear to somebody
11 else's testimony, but I want to make sure we're all
12 on the same page.

13 In this case what's being proposed is in the
14 last rate case the proposal was an 80/20 split in
15 the tariff PPA. In this case Kentucky Power
16 proposes to recover 100 percent of the cost outside
17 of base rates in tariff PPA.

18 A. That's my understanding, yes.

19 Q. Okay.

20 MS. VINSEL: Zack, can I ask you to bring up
21 -- and this is in the case record. It's from the
22 application. It's Alex Vaughan's direct testimony.
23 And if it helps -- oh, there you go.

24 And -- good. You're right on where I want
25 you. Can you scroll down, Zack, so that we can see

1 lines 3 through 14 or as much as we can? Okay.

2 That gets it.

3 Q. Mr. Satterwhite, can I ask you to read this,
4 beginning with line 3, which is a question, down to
5 line 14. And, again, let me go back and say this is
6 from the direct testimony of Alex Vaughan.

7 A. Would you like me to read it to myself or
8 into the record?

9 Q. Into the record.

10 A. Okay. I have to put my readers on to look
11 close or far here.

12 Q. I understand.

13 A. Starting on Alex Vaughan's direct testimony,
14 page 32, line 3, the question is "Why should the
15 Company recover 100 percent of PJM LSE charges
16 through tariff PPA?"

17 Answer starts on line 5. "As the Company
18 discussed in its previous base rate case, these PJM
19 charges and credits are volatile and can have a
20 significant financial impact on the Company. The
21 annual level of such charges and credits can vary
22 greatly from year to year and are largely out of the
23 Company's control. Also, as the Company expected,
24 PJM transmission owners have continued to increase
25 their investment in the transmission grid. This

1 increasing level of investment, which is necessary
2 to maintain and improve the grid, will increase
3 transmission charges allocated to LSEs in PJM,
4 including Kentucky Power. The PJM LSE OATT charges
5 are the Company's single largest growing expense;
6 without a full tracking mechanism for these costs
7 allocated to the Company by a FERC-approved rate
8 schedule, the Company does not have an opportunity
9 to earn its allowed ROE."

10 That's finished up on line 14.

11 Q. Thank you very much.

12 And just to reiterate, when Mr. Vaughan says,
13 "As the Company expected, PJM transmission owners
14 have continued to increase their investment in the
15 transmission grid," would you agree that that's your
16 experience too?

17 A. Oh, absolutely. There's been a movement in
18 recent years across the -- especially the eastern
19 grid to make sure there's investment in transmission
20 systems to make sure it's robust enough to avoid
21 issues like we've had before. So there's been
22 expectation for investment in the system.

23 Q. And when you say the eastern grid, is there a
24 particular area that you're speaking of?

25 A. Really, it's the whole country. I mean, as I

1 talked about last time in my testimony too. After a
2 tree branch hit a wire in Akron and people are
3 walking across bridges in New York City, kind of
4 flipped everything on its head. It's kind of a new
5 day for how to look at transmission going forward.

6 Since then there's been -- you know, RTOs were
7 created, real focus on making sure that we are
8 replacing -- we have a good flow, which is what
9 Kamran Ali looks at, make sure there's not risk, and
10 then replacing aging assets to make sure that we
11 don't face problems now that we're all
12 interconnected, really, across the country.

13 MS. VINSEL: Zack, you can clear off the
14 document.

15 Q. Now, there are two quotes that I would like
16 for you to keep in mind as we go through the
17 cross-examination. The first is -- both of these
18 are from Mr. Vaughan's testimony, and the first is
19 what we just discussed, that the PJM transmission
20 owners have continued to increase their investment
21 in the transmission grid.

22 And then the second quote to remember is that
23 PJM LSE OATT charges are the Company's, Kentucky
24 Power's, single largest growing expense, and that
25 the costs are allocated to the Company by a

1 FERC-approved rate schedule. So --

2 A. Sorry. Just to be clear, to make sure we're
3 on the same page, if I can assume that, it says it's
4 the single largest growing expense without a full
5 tracking mechanism.

6 Q. Well, there's a semicolon there, and I hate
7 to be a grammarist, but there's a semicolon there.

8 A. All right. I can appreciate that. Okay.
9 Thank you. I didn't have -- I didn't know whether
10 it was true or not true.

11 Q. I understand. And --

12 A. You got me.

13 Q. You know, we -- we know that Mr. Vaughan is
14 very careful with his words.

15 A. My wife is an English teacher, so if you
16 could not show her this part of the hearing, I would
17 appreciate that.

18 Q. I promise. Although I can't say she's not
19 going to watch it on her own.

20 A. She won't.

21 Q. So again --

22 CHAIRMAN SCHMITT: You can't get this' kind of
23 excitement very many places.

24 A. We try. Ready for prime time.

25 Sorry. I apologize.

1 Q. No, no, no, no. You're good. You're good.
2 So, again, what we're looking at, the PJM LSE
3 OATT charges are the Company's largest single
4 growing expense, and also the concept that these
5 costs are allocated to the Company by a
6 FERC-approved rate schedule.

7 A. Yes.

8 Q. And I think -- because of your job, I think
9 it's a fair assumption that you are familiar with
10 FERC-approved rate schedules?

11 A. Yes.

12 Q. I have just one more portion of Mr. Vaughan's
13 testimony that I would like to share with you before
14 we go on.

15 MS. VINSEL: Zack, can you bring up again
16 Mr. Vaughan's direct testimony?

17 Q. And this is Mr. Vaughan's testimony beginning
18 on page 33. Let me do this. I'm going to have you
19 read again -- I'm glad you brought your readers,
20 Mr. Satterwhite. Can I have you read lines 6
21 through 11?

22 A. Sure. So page 33, Vaughan direct, line 6.

23 "Question: What is the proposed level of PJM
24 LSE OATT charges and credits to be included in base
25 rates?"

1 Answer starts on line 8. "The adjusted test
2 year Kentucky retail jurisdictional total of net PJM
3 LSE OATT charges and credits included in base rates
4 is \$96,896,495. This amount has grown from
5 \$74,377,364 in Case Number 2017-00179, and from
6 \$53,779,456 in Case Number 2014-00396. The single
7 expense is now 16 percent of the Company's total
8 proposed revenues."

9 Q. Thank you very much.

10 I first note, I can recall -- and I wonder if
11 you can recall from the last rate case, which is
12 17-179, when you discussed that the growth in the
13 LSE OATT charges had grown about \$20 million.

14 Do you recall that?

15 A. I'm trying to remember. I know when we were
16 talking about the need to file another case soon
17 after the one we tracked, it might have started at
18 14 and then went to 19. I'm just going from memory
19 there, but that sounds appropriate.

20 Q. Again, I don't want to put words in your
21 mouth, and I know it's been a while. I'll be
22 careful not to do that.

23 A. Yeah. It's in the testimony that staff
24 identified in the subpoena. I can look at that if
25 you want.

1 Q. I think we're okay. We can move -- we can
2 move on.

3 I've got one more thing I want you to
4 remember, and I'm going to round down here. The \$96
5 million of PJM LSE OATT charges that are included in
6 base rate in this test year -- if you'll just
7 remember
8 96 million.

9 A. Okay.

10 MS. VINSEL: And, Zack, if you will remove
11 this document. Can I have --

12 Q. We will look at your testimony,
13 Mr. Satterwhite.

14 MS. VINSEL: Zack, can I have you bring up
15 PSC Exhibit 14?

16 Q. And while he's bringing that up,
17 Mr. Satterwhite, this is your direct testimony from
18 the last Kentucky Power rate case.

19 A. Can I add one thing before we move on to
20 that?

21 Q. Yes, please.

22 A. In between the two questions you had me read
23 was another question about how the tracker allowed
24 for some refunds to come back (indiscernible) --
25 whole section on there.

1 THE REPORTER: I cannot hear him. No, I
2 cannot hear him.

3 CHAIRMAN SCHMITT: Mr. Satterwhite, could you
4 repeat, I guess, the answer probably going back to
5 where you advised Ms. Vinsel that there was another
6 part of the testimony that you wanted to discuss?
7 The court reporter couldn't hear.

8 THE WITNESS: Absolutely. I leaned back. I
9 apologize, Your Honor.

10 A. I just want to point out for completeness the
11 question in between the two questions read was a
12 description about how the nature of the tracker over
13 the past few years allowed refunds also to come back
14 that wasn't allowed in the base case scenario.

15 I just thought it was -- Mr. Vaughan put those
16 questions in order for a reason. I wanted to make
17 sure that that was all just considered in the same
18 part of the record.

19 Q. Fair enough. Thank you.

20 MS. VINSEL: Zack, do you mind to go to --
21 it's direct testimony page 18, but it's PDF page 22.

22 Thank you.

23 Q. Mr. Satterwhite, can I have you read lines 1
24 through 9 of page 18? And, again, this is your
25 direct testimony from the last rate case.

1 A. Sure. My direct page 18, question, line 1,
2 "What advantage is provided by addressing volatile
3 PJM costs in a tracker versus waiting for the
4 Company to file subsequent rate cases?"

5 Answer starts on line 4. "Kentucky Power
6 incurs charges and credits as a load-serving entity
7 in PJM under the FERC-approved open-access
8 transmission tariff. PJM LSE OATT charges and
9 credits can be volatile and have a significant
10 effect on the Company's revenue requirements. As
11 discussed in more detail by Company Witness Vaughan,
12 the net level of jurisdictional PJM LSE OATT charges
13 and credits increased by approximately \$20.6 million
14 since the last rate case filing."

15 Q. Thank you. And, yes, that is what we just
16 discussed a moment ago about that increase of
17 20 million.

18 A. I do believe, though, it might be in my
19 rebuttal, that might have gone down to \$14 million.
20 I believe I used that as an example of how it pushed
21 back and forth. We can check that if you need it.
22 I just wanted to make sure.

23 Q. We're actually -- I was going to have Zack
24 take this document down and go to PSC Exhibit 13,
25 which is, in fact, Mr. Satterwhite, your rebuttal

1 testimony from the last rate case.

2 A. Should have known you were all over it
3 already. I apologize.

4 Q. I can promise you we try everything we can to
5 be as thorough as we can be.

6 A. As always. Good to see.

7 Q. Okay. And what I would like to turn to is
8 it's -- within the document, it's testimony,
9 rebuttal testimony page -- beginning on page 8,
10 excuse me.

11 MS. VINSEL: And this is PDF page 11, Zack.
12 Can I have you scroll down, Zack, to -- to that line
13 17 so the bottom is visible.

14 Q. What I'm going to do, Mr. Satterwhite and
15 Zack -- Mr. Satterwhite, I'm going to ask you to
16 read from page 8, line 17, through page 9, line 2.

17 MS. VINSEL: So, Zack, as he's reading it, if
18 I can ask you to scroll at the right time.

19 A. Line 17 to line 2 on page 9?

20 Q. Of the following page, yes, sir.

21 A. Okay. Question on Satterwhite rebuttal 8,
22 line 17.

23 "Question: Why do you say the amount of
24 Kentucky Power's PJM LSE OATT expense is largely
25 outside of its control?"

1 Answer starts on 19. "The LSE OATT expense is
2 largely a reflection of Kentucky Power's share of
3 the costs to rebuild the transmission system in the
4 region. These are expenses charged to Kentucky
5 Power regardless of whether the Company has relief
6 for the expenses in its rate structure. Additional
7 detail regarding the nature of the Company's PJM LSE
8 OATT expense is provided in the direct and rebuttal
9 testimony of Company Witness Vaughan."

10 Q. Thank you, Mr. Satterwhite.

11 MS. VINSEL: Zack, you can stop --

12 Q. I'm sorry?

13 A. Earlier I said 14 million. In the question
14 above, 17 million was the update.

15 Q. Okay. Thank you. I will make note of that.

16 VICE CHAIRMAN CHANDLER: Ms. Vinsel, can I
17 ask for clarification on that?

18 MS. VINSEL: Yes.

19 VICE CHAIRMAN CHANDLER: This is Kent. The
20 question I have is I think that the additional
21 reference from the direct testimony was the increase
22 over the most recent rate case, and the reference at
23 the top of 8 seems to be a reference to the increase
24 in the fiscal year or calendar year 2018 over the
25 amount in 2017.

1 I just want to make sure we're clear on that
2 because I've kind of been confused with the new
3 references.

4 MS. VINSEL: Okay. Zack, can I have you
5 bring up that exhibit again? It is PSC Exhibit 13.
6 Let's look at the document page 8, PDF page 11.

7 Q. So what we're referring to here is on line 9,
8 an increase of 17 million above the 74.4 million in
9 test year PJM LSE OATT expense.

10 MS. VINSEL: Vice Chair, do we need to ask
11 more questions to get clarification?

12 THE WITNESS: No. He was just referring --
13 sorry.

14 VICE CHAIRMAN CHANDLER: Yeah. So this one
15 is rebuttal 8 and 9. In 8 it says that the 2018
16 estimate for calendar year 2018 is a \$17 million
17 increase over 2017 for the test year amount. Not
18 even 2017, just the test year amount. Right?

19 But the other reference that was on 32 or 33
20 of the direct was talking about a 20.6 million
21 number, and I thought that 20.6 million number was
22 merely the increase between the 2017 rate case test
23 year and the 2014 rate case test year. So I just
24 want to make sure that we're not talking apples and
25 oranges with those two references.

1 THE WITNESS: I don't remember what page
2 number it was on the direct.

3 VICE CHAIRMAN CHANDLER: 33. 32 or 33.

4 MS. VINSEL: Zack, can you bring up --

5 VICE CHAIRMAN CHANDLER: Should be
6 Mr. Satterwhite's direct testimony from the 2017
7 rate case, I believe. Let me check here. Maybe I'm
8 wrong.

9 MS. VINSEL: Yes, it is.

10 VICE CHAIRMAN CHANDLER: It's page 18.

11 MS. VINSEL: Yes. So let me make sure that
12 we're seeing the document.

13 Zack, I know --

14 A. I can verify that.

15 MS. VINSEL: We're switching through --

16 A. I can verify it, Vice Chairman. I apologize.

17 The vice chairman is correct. The previous
18 reference was referencing rate cases where this one
19 was what happened -- second one in the rebuttal
20 testimony was an update of what's happening that
21 year. That would be considered in a tracker.

22 Thank you for the clarification.

23 VICE CHAIRMAN CHANDLER: Okay. I just wanted
24 to make sure I wasn't confused. Thank you,
25 Mr. Satterwhite.

1 THE WITNESS: I appreciate that.

2 MS. VINSEL: Thank you. And, Zack, you can
3 stop the screen share now.

4 Q. I'm just going to go back here and -- because
5 I have a question about which region you were
6 referring to in that rebuttal testimony where you
7 said that the LSE OATT expense is largely a
8 reflection Kentucky Power's share of costs to
9 rebuild the transmission system in the region.

10 And what region is that that you were speaking
11 of?

12 A. That was PJM.

13 Q. Were you speaking of AEP east region or the
14 entirety of the PJM region?

15 A. I believe the LSE OATT covers everything in
16 PJM, the RTEP and the supplemental.

17 Q. Okay. Kentucky Power provided a copy of the
18 transmission agreement for the AEP east companies in
19 response to a data request.

20 Let me step back and say would you agree
21 Kentucky Power is in the AEP east transmission zone?

22 A. Yes.

23 Q. And I presume that you're familiar with this
24 transmission agreement?

25 A. I believe so.

1 Q. Okay.

2 MS. VINSEL: Zack, can I have you bring up --
3 it is Kentucky Power's response to the Attorney
4 General and KIUC's first data request. I'm looking
5 for -- it's PDF page 1656.

6 Oh, actually, no. Let me have you scroll back
7 there, Zack, to the start of this. 1656. That's
8 good. That's good. Thank you. Can I have you
9 scroll back up again? Thank you, Zack.

10 Q. So, Mr. Satterwhite, do you recognize this?
11 I recognize you were not the one who sent this, but
12 this is part of -- the transmission agreement was
13 filed as part of a settlement in a FERC matter; is
14 that correct?

15 A. That's correct.

16 Q. And this letter dated August 4th, 2010, is
17 from AEP filing the transmission agreement -- or the
18 proposed transmission agreement.

19 A. It looks to be. I can authenticate it. This
20 looks to be an accurate copy of that agreement.

21 Q. Thank you.

22 MS. VINSEL: Zack, can I have you now turn
23 to -- it's PDF page 1660. Thank you.

24 Q. This is the -- the introduction to the
25 transmission agreement. And I think it's helpful

1 because it's got some good information here that we
2 can use moving forward.

3 So, Mr. Satterwhite, can I ask you to read
4 beginning here on --

5 MS. VINSEL: Zack, can I have you scroll down
6 a minute. I want to be sure I'm looking at the
7 right page. I believe I am.

8 Scroll up, I'm sorry. This should be page 4
9 of 129. And if you'll scroll back down to the next
10 page. Thank you.

11 Q. Mr. Satterwhite, I would like to have you
12 read this introduction section. I'm going to have
13 you read -- although on the bottom of the
14 transmission agreement it's page 2, but the
15 pagination on the page itself is page 4 of 129. And
16 I say that simply because I want to make sure the
17 record is correct.

18 Can I have you read this? And I'll tell you
19 when to stop.

20 A. I want to make sure because I don't have the
21 PDF pages on the copy that I have. I think that
22 might be a function of what's on the screen.

23 So is this the one that starts on actual
24 page 2? It's the introduction of AEP as a
25 multistate electric utility?

1 Q. Yes, yes.

2 A. (Indiscernible)

3 Q. Yes. I'm going to have you -- if you don't
4 mind using your -- the pages on yours, if you'll
5 read starting at the top of page 2 of your pages
6 through page 4 of your pages.

7 A. Sure.

8 Q. Okay. Thank you.

9 A. Thank you. So page 2, Roman numeral I,
10 "Introduction," "AEP is a multistate electric
11 utility holding company system, providing electric
12 service to approximately 5 million customers in
13 parts of 11 states. AEP represented in its filing
14 in this case that the AEP System is planned and
15 operated on an integrated basis pursuant to various
16 agreements under which the AEP operating company
17 pooled or combined their individual systems to
18 achieve the benefits of integrated operations.

19 "This proceeding involves proposed amendments
20 to one such agreement. The Transmission Agreement
21 entered into in 1984 among the five -- among five of
22 the AEP East Operating Companies - Appalachian Power
23 Company, Columbus Southern Power Company,
24 Indiana-Michigan Power Company, Kentucky Power
25 Company, and Ohio Power Company and administered by

1 the AEPSC, as Agent. As approved by the
2 Commission" -- there's a footnote there -- "the
3 Agreement shares the cost of the Members'
4 investments in Extra-High-Voltage and high-voltage
5 facilities operated at 138 kolovolts and above.

6 "On June 5, 2009, AEP filed with the
7 Commission proposed amendments to the Transmission
8 Agreement.

9 The proposed amendments, if approved, would effect a
10 comprehensive reallocation of transmission-related
11 costs and revenues among the AEP East Companies,
12 including two new members, Kingsport Power Company
13 and Wheeling Power Company," and another footnote
14 there.

15 "AEP represented in its filing that the
16 proposed amendments recognize that, pursuant to the
17 PJM Open-Access Transmission Tariff, the AEP East
18 Companies, including Kingsport and Wheeling, and
19 other load-serving entities in the AEP east zone --
20 AEP zone of PJM now receives network transmission
21 service from and share the costs of the AEP East
22 Companies' transmission facilities, including those
23 operated at voltages below 138kV.

24 "The proposed amendment also would change the
25 primary transmission cost allocation methodology

1 under the Transmission Agreement from the current
2 Member Load Ratio basis to a 12-month coincident
3 peak basis. The proposed amendments specify that
4 the allocation of OATT-based transmission and
5 related costs and revenues will include all seven of
6 the AEP East Companies, including Kingsport and
7 Wheeling."

8 New paragraph on page 3.

9 Q. Mr. Satterwhite, you can skip that paragraph.
10 Let me have you -- let me have you go down.

11 Zack, will you scroll down.

12 Mr. Satterwhite, if I can have you start with
13 this last paragraph that begins IURC.

14 A. Skip the one that has the intervenors and --

15 Q. Yes.

16 A. Kentucky Commission and all? Okay.

17 "IURC, Steel Dynamics, West Virginia Consumer
18 Advocate, and IOUCC protested AEP's filing, and AEP
19 answered their protests. On August 3, 2009, the
20 Commission issued an order accepting AEP's proposed
21 amendments to the Transmission Agreement for filing,
22 subject to hearing and settlement judge procedures.
23 The Commission suspended the proposed amendments for
24 a nominal period, making them effective, subject to
25 refund, on the first day of the month after a final

1 Commission order in this proceeding, as" -- switch
2 to page 4 -- "requested by AEP." Order Accepting
3 and Suspending Proposed Transmission Agreement is
4 the citation there.

5 "On August 7, 2009, pursuant to an order of
6 Chief Judge Wagner, the Honorable David Coffman was
7 appointed Settlement Judge. The Chief Judge's
8 August 7, 2009, order also scheduled a settlement
9 conference to convene on August 20, 2009.

10 Settlement negotiations (including informal
11 information gathering and numerous conferences,
12 meetings, and telephone conversations) continued
13 since then. The Commission's trial staff
14 participated actively in the discussion. Judge
15 Coffman submitted periodic reports to the Commission
16 on the progress of the settlement discussions.
17 Ultimately, the settlement discussions produced the
18 Settlement Agreement submitted in this document."

19 Then it goes to Roman Numeral --

20 Q. I was going to say, thank you. We're good
21 now.

22 MS. VINSEL: Zack, can I have you scroll in
23 this same document. It's PDF page 1724. And when
24 we get to it, I'll announce the document page.

25 So because this was filed in response to a

1 data request, the page -- within the data request
2 it's page 68 of 129. But, Zack, can I have you
3 scroll down to the bottom?

4 Okay. That didn't help me. Let me have you
5 scroll back up. This is Appendix -- Appendix 1.

6 Q. Mr. Satterwhite, would you agree that AEP
7 East Operating Companies are both LSEs, load-serving
8 entities, and transmission owners?

9 A. Yes.

10 MS. VINSEL: Zack, can I have you scroll up
11 so we can see both of these charts, please?

12 A. Can you give that citation again so we can
13 grab the -- it's difficult to see on the screen.

14 MS. VINSEL: Yes. Zack, let me have you go
15 back -- there you go. This is -- there you go.

16 Q. This is actually -- it's Appendix 1 to the
17 transmission agreement. If you're looking at the
18 data request, this is page 68. It's stamped page 68
19 of 129 pages. And tell me when you're there,
20 Mr. Satterwhite.

21 MR. OVERSTREET: Ms. Vinsel, Mark Overstreet
22 here. Just to keep the record straight, you
23 referred to a data request, but I don't think we've
24 identified the specific data request, and I believe
25 this is AG KIUC 1-41, Attachment 1.

1 MS. VINSEL: Yes, you're correct.

2 MR. OVERSTREET: Thank you.

3 A. I have the document in front of me now.

4 Q. And the chart depicts the allocation of
5 transmission-related costs and revenues, correct?

6 A. Correct.

7 Q. Correct. It also depicts AEP operating
8 companies as both LSE and as transmission owners,
9 correct?

10 And earlier when I asked you about, to keep in
11 mind that quote --

12 A. I'm sorry. I haven't answered. I haven't
13 answered yet. I'm looking at it to see. You're on
14 page 68 of 129?

15 Q. Yes.

16 A. I'm just looking for the operating company
17 names on here.

18 I see AEP as a transmission owner and AEP as
19 an LSE?

20 Q. Yes.

21 A. If I'm missing something obvious, let me
22 know.

23 Q. No, that was my -- my question was this list,
24 AEP as a transmission owner and AEP as an LSE.

25 A. Okay. Yes, I see that.

1 Q. Okay. And, earlier, one of the quotes I
2 asked you to keep in mind that you wrote down from
3 Mr. Vaughan's testimony is that the LSE OATT
4 expenses are costs allocated by the Company --
5 excuse me -- allocated to the Company by a
6 FERC-approved rate schedule.

7 Do you still have that?

8 A. Written down here? Yes.

9 Q. And would you agree that this transmission
10 agreement lays out a significant part of that
11 process, the allocation process?

12 A. Yeah. Taken as a whole, this document was
13 amended to change how those would be allocated to
14 the different operating companies, correct.

15 Q. And earlier, just a moment ago, you made a
16 comment about the operating companies.

17 Do you know why this chart refers to AEP as
18 transmission owner and AEP as LSE rather than the
19 operating companies in those designations?

20 A. Yeah, maybe I should switch from my state hat
21 to my FERC hat.

22 The load-serving entities is the proper term
23 when you're having this discussion. So when I say
24 opco, that's probably not using the right
25 terminology. Should be load-serving entities and

1 transmission owners.

2 Q. Okay. I'm making note of that.

3 MS. VINSEL: Zack, you can stop the screen
4 share, please.

5 VICE CHAIRMAN CHANDLER: Ms. Vinsel, can I
6 ask a question on that? Sorry to interject.

7 Is AEP an LSE itself, or is it an LSE through
8 its operating companies being LSEs?

9 THE WITNESS: I believe the load-serving
10 entity -- AEP is a load-serving entity, and it
11 divides that up among the load-serving entities
12 within membership.

13 VICE CHAIRMAN CHANDLER: Okay. So that's
14 the -- is that the nexus, then, between AEP and PJM,
15 is that PJM sees LSE as an -- AEP as a TO and AEP as
16 the LSE?

17 THE WITNESS: Yeah. It's a bill that comes
18 to AEP, comes to AEP overall. And then that's why
19 we did the allocation method at FERC, to make sure
20 we're properly allocating those amongst the
21 individual load-serving entities within AEP.

22 VICE CHAIRMAN CHANDLER: Okay. Sorry,
23 Ms. Vinsel.

24 MS. VINSEL: You're fine.

25 Q. I want to make sure that I'm clear here too.

1 So Kentucky Power does own its own transmission
2 system, correct?

3 A. Kentucky Power has (indiscernible). They are
4 also a transmission operator, and they're part of
5 the AEP system, where PJM clears it all out, sort of
6 the clearinghouse for all the transmission owners
7 and LSEs that are within the AEP as an LSE.

8 Q. So is Kentucky Power --

9 A. I should back up -- I should probably back up
10 and clarify because the AEP corporate is not a
11 load-serving entity. It's the companies within it
12 that are the actual load-serving entities.

13 It's that clearinghouse concept I was trying
14 to talk about of how it's treated with the PJM bill
15 and part of the RTO where that sort of all -- all
16 the changes happen.

17 Q. So Kentucky Power itself is an LSE and a
18 transmission owner; is that correct?

19 A. Yes.

20 Q. And, as you just said, Kentucky Power and AEP
21 are distinct entities.

22 A. American Electric Power is a tariff company,
23 and AEP Service Corp has lots of services to deal
24 with the allocation between -- and the FERC-approved
25 rate methodology here is that it's absolutely

1 transparent and shown how that's going to be
2 treated, is my understanding.

3 Q. You may have just answered part of what I was
4 going to ask. I'm going to ask it anyway.

5 So Kentucky Power needs to recover its revenue
6 requirement as a transmission owner, correct?

7 A. Correct.

8 Q. And it recovers it through this transmission
9 agreement; is that correct?

10 Or let me -- let me take that back. Let me
11 say it this way: The methodology for how it
12 recovers costs is covered by the transmission
13 agreement? Is that more correct?

14 A. How the costs and how the revenues flow is
15 governed by the agreement, yes.

16 Q. So does the Kentucky Power revenue
17 requirement go through AEP before it gets to PJM?

18 A. Go through AEP. I'm trying to figure out
19 how -- so the RTO PJM, it sort of takes care of them
20 separately and then bills them essentially or
21 recognizes them from an overall systemwide because
22 AEP is a system.

23 So the bill and the revenues sort of are
24 recognized when they come into that overall AEP bill
25 and revenue. And then this methodology shows how

1 that's going to be treated so it's allocated
2 properly and transparently to all the different
3 load-serving entity members within the AEP system.

4 Does that help?

5 Q. I think it does. That difference between
6 recognition and treatment, is that a fair -- I tell
7 you what. Would it be helpful if I follow up with
8 Mr. Vaughan with this question?

9 A. Actually, Dana, Mr. Horton --

10 Q. Mr. Horton? Okay.

11 A. -- would be a good one. He's the PJM expert.
12 Mr. Vaughan would have some answers too. Mr. Pearce
13 would know. They deal with it more every day. But
14 it's the concept that the AEP entity, all the LSE
15 members are parts of it.

16 PJM -- would be appointed at PJM's one system.
17 And so paperwork, for lack of a better term, comes
18 into the one system, and then we have to work, as we
19 work with FERC and others for the allocation of
20 revenues and cost, do that paperwork so it's clear
21 how that one relationship relates to all the key
22 parts. That's my explanation. Mr. Horton can
23 probably give a very technical explanation.

24 Q. Well, I'll be ready for that. Thank you.

25 We just talked about revenue. Now what about

1 expenses as an LSE? How does Kentucky Power recover
2 its transmission expenses?

3 A. So this is what that nature -- and just to
4 clarify -- in the LSE OATT tracker, the expenses
5 that go into that, yeah. So that's, again, this
6 paperwork that's the overall costs are allocated to
7 the AEP as the overall part of PJM.

8 And then this agreement has the allocation
9 method, and the details are in here, but, roughly,
10 it's a -- they bill -- they bill American Electric
11 Power on a 1-coincident peak metric. And then the
12 point of (indiscernible) go in front of FERC is
13 there for stability and other reasons. We like to
14 separate this on a 12 coincident peak amongst all
15 the members of AEP, and that's how that's figured
16 into -- what gets charged actually ends up the
17 expense that flows through to those companies.

18 THE REPORTER: Can he repeat that, please? I
19 don't know what --

20 MS. VINSEL: You couldn't --

21 Q. I'm sorry. All right. I'll have to ask you
22 to repeat that. The court reporter was unable to
23 hear clearly.

24 A. Absolutely. Maybe I'll say it better this
25 time anyway.

1 So the LSE OATT expenses that end up being
2 recognized in the rider by Kentucky Power, those are
3 the expenses that are charged to use the
4 transmission system. So AEP receives one bill based
5 on a
6 1 coincident peak, or 1 CP, from PJM as they measure
7 that.

8 Then this agreement takes that and considers
9 the 12 CP amongst all the operating companies, LSEs
10 within the AEP system, and allocates it based on
11 that 12-CP method to decide what charges are going
12 to be charged to each of the LSEs.

13 Q. So I'm going to streamline it a little bit.
14 So the expenses go from PJM back down to AEP where
15 we've got, you know, the 1 CP versus -- and then the
16 methodology in the transmission agreement and the
17 12 CP, down to the actual owners, the operating
18 companies, or what have you, for the LSE.

19 A. Correct. Correct, and that's the amount that
20 would flow through any tracker, would be the result
21 of that process.

22 Q. Let me -- I recall -- I recall something from
23 your testimony, but I'm not going to ask you if you
24 recall it. That seems unfair since it was on video,
25 and I'm not going to be able to show you that. So

1 let me ask you about a general principle.

2 A. All right.

3 Q. If Kentucky Power invests in transmission in
4 excess of the proportion of allocated costs under
5 the FERC schedules -- are you following me so far?

6 A. Say it again.

7 Q. I was going to say, it's a complex question,
8 and I don't want to take you too far off.

9 So we start with Kentucky Power --

10 A. Kentucky Power.

11 Q. -- invests in transmission. That investment
12 is in excess of the proportion of allocated costs
13 under the FERC schedule.

14 A. What I hear you asking is, as a transmission
15 owner, Kentucky Power invests to be a transmission
16 owner, and that's in excess of the separate item of
17 expense that might come to them for being a member
18 and using the transmission system.

19 I think we're on the same page there. I
20 understand now.

21 Q. I think the question is too about revenues
22 and expenses and allocation and in general. So that
23 if Kentucky Power's investment is in excess of the
24 allocated costs, those expenses that come back down
25 through the FERC schedule, would that be a benefit

1 for Kentucky Power and its customers?

2 Let me say it a little simpler. If Kentucky
3 Power invested more than they're charged for, then
4 Kentucky Power comes out ahead, correct?

5 A. I think that -- I apologize, but I think
6 that's kind of looking at it a little too granular.
7 I think that you could be a transmission owner.
8 There's benefits and risks and everything that come
9 with being a transmission owner on one page.

10 And then there's using the transmission
11 system, that expenses come from that. And just
12 because Kentucky Power is investing or not investing
13 in the level of investment in support of the
14 Commonwealth doesn't necessarily dictate the
15 benefits it gets that are representative of the
16 expenses being part of a dynamic system.

17 So it's hard to generalize that closely to it
18 because the two things really are kind of a couple.

19 Q. And I don't want to make this too simplistic,
20 and that's an issue I'd like to circle back to.

21 A. Okay.

22 Q. But looking at it from dollars and cents,
23 from a dollars-and-cents perspective, is it the case
24 that, if Kentucky Power investment exceeds the costs
25 that are allocated to it, that that's a benefit to

1 Kentucky Power?

2 A. If your metric is just using that to judge it
3 by, you could say that, but that doesn't -- to me,
4 the things are trying to achieve different results.
5 You use that as a transmission owner for one
6 purpose, and then you use transmission system for
7 another purpose. So I think there's other things
8 you have to factor in.

9 But if you want to just do that one metric, if
10 you're saying you're receiving more than you're
11 spending, you could have that be a single metric. I
12 wouldn't use that, but I understand what you're
13 saying.

14 Q. One of the things that Mr. Mattison was asked
15 about was -- and you may recall this from the order
16 in 2017-179, where the Commission raised the
17 question about the interest of Kentucky Power and
18 its ratepayers and how that aligns with PJM's
19 interests.

20 And at that time the Commission asked Kentucky
21 Power to do an analysis and to keep it -- evaluation
22 to be thinking about, how those two interests align.

23 And at some point Mr. Mattison had said --
24 and, again, I'm not going to hold you to what Mr.
25 Mattison said. The question is --

1 A. We're all listening.

2 Q. -- quantifying the costs and the benefits. I
3 understand what is being said about, okay, if all
4 our generation goes away, we still have to have a
5 way to provide power to our service. That too seems
6 to be a bit extreme and in the middle ground.
7 Evaluating the costs and benefits is a piece of all
8 of this that we're asking about.

9 Has there been any -- or is there any ongoing
10 analysis that quantifies benefits and quantifies
11 costs? Costs are typically easier to quantify.

12 A. I think -- I'll say yes, and -- but it's not
13 the single little report that would have that as a
14 title and the stuff after it.

15 You know, I think what we were talking about
16 earlier is the lack of congestion because AEP has
17 such a robust system. So the crisis that come --
18 you know, we don't have to -- Kentucky Power doesn't
19 have to take power -- electrons aren't painted red
20 and they come from Mitchell or Big Sandy and come to
21 us. If it's cheaper to go pull it out of Michigan,
22 we're going to pull it out of Michigan if that's
23 cheaper to customers.

24 So it's not just lights stay on. It's that
25 we're part of that robust network that we're a part

1 of, that we're already in. And that's how the AEP
2 system was built to begin with. The generation was
3 away from the population centers. It creates this
4 overall large organization with the transmission
5 system, with the full agreement. And that's just
6 the reality of how everything is set up.

7 So it's not -- that's why it's hard to accept
8 the one metric you said earlier about is it their TO
9 investment or their LSE expenses. There's lots of
10 value for things built, for example, in Southern
11 Ohio to make sure that power can get down after the
12 Big Sandy went down to the one gas unit, there was
13 some congestion issues and things that Kamran Ali,
14 when he speaks later, can tell you about.

15 A lot of investment that wasn't part of the
16 Commonwealth, that absolutely was for the benefit of
17 Kentucky Power customers.

18 Q. So -- and without putting words in your
19 mouth, if the Commission were at some point to ask
20 for some sort of reporting that quantifies costs and
21 benefits, there is something out there. It may not
22 be in one report, but there are parts and pieces
23 that can somehow or another paint a picture. Is
24 that correct?

25 A. Yeah. I mean, I think if the -- I can't

1 speak for Mr. Mattison, but if the Commission wanted
2 to talk, you know, outside this hearing because,
3 obviously, this is talking a lot about, you know,
4 what's happening at FERC, justifying what's
5 happening there.

6 What kind of document or what kind of thing
7 needs to be shared with the Commission to answer a
8 question -- I know talking to Mr. Mattison he'd be
9 more than willing to have that conversation if you
10 want to talk about that. But it's multiple things
11 like FRR versus RPM, what's the Company going to do.

12 Everything that goes into the overall system
13 are all piece parts of showing why there's overall
14 benefit for being part of it.

15 Q. Thank you. Yes, I know that that analysis,
16 you know, the FRR is one of the analysis that we do
17 ask for on an annual basis. So, yes, we're familiar
18 with that.

19 Okay. Let me jump back to where we were
20 before. I'm going to strike that. Let's move on to
21 something else to so highlight something.

22 MS. VINSEL: Zack, can you bring up again
23 Mr. Vaughan -- Alex Vaughan's direct testimony in
24 this case? Thank you. Yes.

25 What I'd like to look at is Exhibit AEV to

1 Mr. Vaughan's testimony. This -- thank you, Zack.

2 Q. Mr. Satterwhite, can you see that this is the
3 documents, the PJM LSE OATT expenses from the test
4 year in this case, which has a historic test year
5 that 12 months ended March 31st, 2020?

6 A. Is that AEV5 or 3?

7 Q. AEV5.

8 A. All right. I'm on the right page now. Can
9 you please reask your question?

10 Q. Okay. Would you agree this is the PJM LSE
11 OATT expenses from the test year in this case?

12 A. PPA rider base amount 12-month ending March
13 31, 2020.

14 Q. And that's the end of the historic test
15 during this case?

16 A. Yes.

17 Q. Okay.

18 A. Correct.

19 Q. Let me have you look at line 11. It says
20 "PJM LSE OATT Base Amount." And then this amount is
21 the 96.896 million.

22 Do you remember that 96 million is one of the
23 things I asked you to remember earlier?

24 A. Yes. Yes.

25 Q. Do you know how much of the PJM LSE OATT

1 expenses that are reflected in that 96 million are
2 from affiliates?

3 A. I do not.

4 Q. Well, Mr. Vaughan included in the last rate
5 case some of the expense accounts that are from
6 affiliates and which ones are from nonaffiliates.

7 So if I were to say to you the items on line
8 3, 4, 5, 7, and 8 are from affiliates -- I've got
9 the account numbers if you want me to read them to
10 you, but let's just use the last two numbers on each
11 of them. On Number 3, the account number ending 35.

12 VICE CHAIRMAN CHANDLER: Ms. Vinsel?

13 MS. VINSEL: Yes.

14 VICE CHAIRMAN CHANDLER: Just one second. I
15 don't know if anybody else has, but I've lost the
16 Company's video.

17 Okay. Now I'm seeing Mr. Satterwhite. Sorry
18 about that.

19 A. Can you still hear me?

20 Q. Yes.

21 A. Yeah, now that -- I wasn't familiar with this
22 exhibit. I look at it now, and I see in the
23 description it has "affiliated" on the lines that
24 you described.

25 Q. And the lines 3, 4, 5, 7, and 8, subject to

1 check, would you agree those five lines together are
2 over \$88 million?

3 A. Just a second. I'm trying to put a straight
4 line. I volunteered at the polls, and I learned you
5 have to use a ruler for everything to make sure you
6 got a straight line.

7 Q. I appreciate that.

8 A. Sorry. Trying to keep up.

9 So what was the number you said?

10 Q. A little over \$88 million.

11 A. Yes.

12 Q. Okay.

13 MS. VINSEL: Zack, can I have you remove the
14 screen share?

15 Q. So, Mr. Satterwhite, would you be surprised
16 that those five lines together represent more than
17 90 percent of the base amount of PJM LSE OATT
18 expenses in the test year?

19 A. Sorry. Can you repeat the question?

20 Q. Would you agree that -- or would you be
21 surprised that those five lines of the affiliated
22 expenses represent more than 90 percent of the base
23 amount PJM LSE OATT expenses in the test year?

24 A. I think that can depend year to year. I
25 believe the document is -- stands for itself, and

1 that's what it is. It's really a matter of what
2 investments were made in that year and what portion,
3 and lots of things go into that.

4 As Mr. Mattison talked about, you know, when
5 he builds his budget, what he has the ability to
6 invest or not invest. So it can fluctuate from year
7 to year.

8 Q. Okay. Well, I'd like to take a look at some
9 of those AEP transmission owners specifically.

10 MS. VINSEL: Chairman?

11 CHAIRMAN SCHMITT: Yes.

12 MS. VINSEL: Can we go into confidential
13 session?

14 CHAIRMAN SCHMITT: Candace, can you put us
15 into confidential session at this time?

16 MS. SACRE: Yes, sir.

17 CHAIRMAN SCHMITT: You'll have to say when.

18 MS. SACRE: It is activated.

19 CHAIRMAN SCHMITT: We're now into
20 confidential session.

21 (Confidential testimony of Mr. Satterwhite
22 from 3:00 p.m. 3:28 p.m.)

23 CHAIRMAN SCHMITT: Hold on. Mr. Satterwhite,
24 I don't know what your answer is, but we're now in
25 public session. So we can go back while you --

1 THE WITNESS: No, I think I can cover it in
2 public. It's just a general statement that, you
3 know, the people we were discussing and made
4 comments here were not legal counsel. They're just
5 making general comments.

6 MS. VINSEL: Fair enough, and duly noted.

7 Q. So the article discussed the Commission's
8 June 10, 2013, decision regarding the transmission
9 company. I'd like to bring up that order.

10 MS. VINSEL: Zack, can you pull up PSC
11 Exhibit 16? Thank you. Again, this was case
12 number -- I'm going to have to scroll down myself to
13 look at the case number, but --

14 VICE CHAIRMAN CHANDLER: 0042.

15 MS. VINSEL: Thank you. I was going to say,
16 I knew that if Zack scrolled down, I'd find it.

17 Q. And this is the order that was referenced in
18 that article that found -- or the Commission found
19 that Kentucky Transco cannot be classified as a
20 utility service and therefore was not regulated by
21 the Commission.

22 MS. VINSEL: Zack, I think you're on page 8,
23 correct? It looks like.

24 Q. So let me point out, Mr. Satterwhite, this is
25 page 8 of that final order. In that first paragraph

1 is the sentence where the Commission found that
2 Kentucky Transco -- it starts, "Consequently,
3 Kentucky Transco does not legally qualify for the
4 issuance of a CPCN to provide only wholesale
5 transmission service which would not be a
6 Commission-regulated activity and which would be
7 provided under rates and tariffs that are not filed
8 here."

9 A. Was that a question, if that's what it says?

10 Q. No, I was just reading that. Now I'm looking
11 down here. Okay. No, I think we're good.

12 And then further -- I'm going to do the
13 reading for this one, if you don't mind, Mr.
14 Satterwhite.

15 A. Okay.

16 Q. In the second paragraph, do you see the
17 sentence -- I'm sorry. What did you say?

18 A. Nothing. I cut you off. Go ahead. I
19 apologize.

20 Q. It's okay.

21 Do you see the second paragraph, the sentence
22 that begins, "As noted in the Dissenting Opinion"?

23 A. The paragraph that begins "The fact that
24 Kentucky Transco intends to provide the same
25 wholesale transmission," that one or a different

1 one?

2 Q. That one, the second paragraph. If you go
3 down about two-thirds of the way down, there's a
4 sentence that begins, "As noted in the Dissenting
5 Opinion."

6 MS. VINSEL: Thank you, Zack. I appreciate
7 that you put the hand on it.

8 Q. I'll just read this one.

9 "As noted in the Dissenting Opinion, should
10 Kentucky Transco" -- which is Kentucky Transmission
11 Company -- "propose to construction transmission
12 facilities capable of operating at 69 kilovolts or
13 above, those facilities will be subject to siting
14 review by the Kentucky State Board on Electric
15 Generation and Transmission Siting pursuant to KRS
16 278.700(5) and 278.714."

17 MS. VINSEL: Thank you, Zack. You can close
18 that.

19 Q. I will say that the order does go on to note
20 it was a policy decision in terms of what was a
21 utility, what wasn't, and the siting board.

22 So are you aware whether Kentucky Transmission
23 Company has ever filed an application with the
24 Kentucky Board on Electric generation and
25 Transmission Siting?

1 A. I can't say for sure. And I know, from my
2 time there, I was very focused on having an
3 investment in Kentucky Power Company and trying to
4 site the project there. I'm not sure what's
5 happened in the past two years, so I can't give an
6 absolutely and direct certainty, but we can find out
7 for you.

8 Q. I was going to say, to the best of knowledge
9 in your experience, then.

10 A. Yeah, I'm not aware of any.

11 Q. Thank you.

12 How did Kentucky Transmission Company get
13 almost \$100 million in rate base?

14 A. I'm no longer an expert in all of the -- what
15 has to be sited and go before the board and what
16 doesn't, but I believe that a number of projects --
17 and Mr. Ali can maybe talk about some of those, or
18 we can have somebody else gather those -- of what
19 those projects were, but there's opportunities to
20 make investment in the transmission system that
21 doesn't meet the threshold, I would imagine.

22 Q. But you don't know how Kentucky Transmission
23 Company got that almost \$100 million in rate base,
24 then. Is that a fair statement?

25 A. I've not -- I'm not aware of what those are.

1 So I can't speak to that.

2 MS. VINSEL: Chairman, staff does not have
3 any further questions for Mr. Satterwhite.

4 CHAIRMAN SCHMITT: We've been at this for a
5 little more than two hours. Why don't we take a
6 break until 15 minutes before 4:00, and we'll come
7 back and give the Attorney General's Office an
8 opportunity to cross-examine. We'll be in recess
9 until 3:45.

10 (Recess from 3:34 p.m. to 3:52 p.m.)

11 CHAIRMAN SCHMITT: Okay. Yes, we're back on
12 the record. We're not on the record.

13 VICE CHAIRMAN CHANDLER: Yes.

14 CHAIRMAN SCHMITT: We're on the record now.
15 It's hit-and-miss. All right.

16 Mr. Satterwhite, I guess the reporter who is
17 here, and off and on has difficulty hearing you, and
18 she has requested that maybe we do a sound test. So
19 I'd ask you to speak into the microphone.

20 And then whoever is going to do -- if we can
21 get whoever is going to cross-examine for the
22 Attorney General, if there is to be a cross, and do
23 a sound test too because she wants to make sure,
24 obviously, that the transcript is correct.

25 All right. So, Mr. Satterwhite, would you

1 state your name into the microphone so that we can
2 see if she can hear properly?

3 THE WITNESS: Sure. Matthew J. Satterwhite,
4 American Electric Power, Kentucky Power Company.

5 CHAIRMAN SCHMITT: Could you hear? Did you
6 still have difficulty hearing?

7 THE REPORTER: Ask him to do it again.

8 CHAIRMAN SCHMITT: I'm sorry?

9 THE REPORTER: Can he do it again, please?

10 CHAIRMAN SCHMITT: Can you do please repeat
11 that, Mr. Satterwhite?

12 THE WITNESS: Matthew J. Satterwhite,
13 American Electric Power, Kentucky Power Company.

14 CHAIRMAN SCHMITT: Are you satisfied you
15 can -- okay. Is there cross-examination from the
16 Attorney General's Office? Mr. West.

17 MR. WEST: Yes.

18 CHAIRMAN SCHMITT: Would you state your name
19 and something so that we can see if the reporter can
20 hear you?

21 MR. WEST: Yeah. This is Mike West from the
22 Attorney General's Office.

23 CHAIRMAN SCHMITT: Okay. All right. Looks
24 like we're ready to go.

25 Mr. West, do you have cross-examination?

1 MR. WEST: No, we do not have any questions
2 for this witness. Thank you.

3 CHAIRMAN SCHMITT: Okay. Mr. Kurtz, do you
4 have cross-examination for KIUC?

5 MR. KURTZ: Yes, sir, very briefly.

6 CHAIRMAN SCHMITT: Can you hear Mr. Kurtz?

7 Just make sure we speak up. We can hear here,
8 I can and the other people in the room, Counsel.
9 But the reporter that Stites & Harbison has here is
10 having difficulty hearing, and so that's the reason
11 that we're going through this. So okay.

12 CROSS-EXAMINATION

13 By Mr. Kurtz:

14 Q. Good afternoon, Mr. Satterwhite.

15 A. Afternoon. Good to see you.

16 Q. Okay. I think staff has established that
17 transmission of PJM LSE OATT charges are the
18 Company's fastest growing single expense.

19 Would you agree with that?

20 A. Yes. That's what we read about earlier, yes.

21 Q. And from Mr. Vaughan's testimony in the 2014
22 rate case, the expense was 53.7 million, and now
23 it's 96.89 million.

24 Do you recall that?

25 A. Yes. I recall that, yes.

1 Q. I think we understand from the record that
2 over the next five years AEP is projected to spend
3 \$10 billion in PJM transmission projects, 2021
4 through 2025?

5 A. Can I check the -- your exhibits and verify
6 that?

7 Q. Yeah. That was the EEI report towards the
8 back.

9 A. Page 53?

10 Q. That sounds --

11 A. Yeah, the five -- the five-year transmission
12 plan.

13 Q. Yes, that's it.

14 A. Yes, that's correct.

15 Q. Now, if the Commission concluded that these
16 transmission costs are very expensive, and they're
17 growing, and they're going to continue to grow, and
18 we're -- we feel that there needs to be some cost
19 containment, what can the Commission do to keep that
20 transmission expense down?

21 A. I think this is a FERC jurisdictional matter
22 as far as controlling those costs. If you wanted to
23 go challenge those costs, that's where you'd do
24 that. I think there are expenses for the Company
25 that are naturally going to come to the Company.

1 So it's a matter of, when you're doing
2 ratemaking, do you want to allow the Company to
3 recover its expenses or not? And so I think that
4 that's the question for the state commission in a
5 proceeding like this.

6 And then federally would be where I think, if
7 you wanted to raise a question about spending,
8 that's where that would occur.

9 Q. Well, in fact, under the preemption doctrine,
10 the state commission has to allow recovery of
11 FERC-approved transmission expenses, correct?

12 A. I would agree with that.

13 Q. However, there's no requirement that recovery
14 be done through a tracker, is there?

15 A. No. The reason we raised the tracker is to
16 make sure that the Company can recognize those
17 expenses that are supposed to be reflected, come in
18 timely, and don't further exacerbate the problem of
19 the Company.

20 Q. So one thing the Commission could do was go
21 back to a base rate recovery, no tracker, to keep
22 cost containment.

23 A. I don't know if that's cost containment.
24 It's kind of avoidance of the issue maybe for how
25 it's going to impact Kentucky Power Company. That's

1 the reason why the tracker was proposed in the first
2 place. The expenses are still going to be charged
3 to Kentucky Power. It's going to further put
4 pressure on its ability to properly earn, garner
5 investments, and make investments.

6 So that's why we do feel tracker is the
7 appropriate mechanism because it recognizes it in
8 real time. And also when screwups occur, those can
9 go either way. That can get recognized also in a
10 tracker.

11 Q. Well, if the commission went with a hundred
12 percent tracker recovery, tell me where I'm wrong.
13 At FERC and PJM, you have formula rates,
14 forward-looking future test year formula rates for
15 the operating companies and the transcos, and the
16 transcos get a 55 percent equity capitalization, and
17 everybody gets a 10.35 percent ROE.

18 And then, if we had a tracker here in
19 Kentucky, like you do in a lot of jurisdictions,
20 those would automatically flow through real time.

21 So how would that help consumers?

22 A. It helps consumers by it's the whole nature
23 of why we talk about the tracker to begin with. If
24 you don't do that, the Company has no ability to
25 earn, all right, because it's the largest growing

1 expense.

2 And there's sort of a -- the elephant in the
3 room is that the Company is not collecting on
4 expenses that it knows it's incurring and
5 potentially would have a mechanism to a tracker to
6 recover.

7 If it's not earning, you know, it's going to
8 cost more to borrow money. It can't invest capital.
9 The parade of horrors that come with a company
10 that's underperforming would happen if such a large
11 expense is not recovered and recognized.

12 The nature of a rate proceeding is to make
13 sure that the Company has an opportunity to earn its
14 authorized return, and unless there's a tracker that
15 tracks these, it's very difficult, in reality, to
16 reach an opportunity to earn that return.

17 Q. Do you listen in on AEP earnings calls,
18 quarterly earnings calls?

19 A. Yes.

20 Q. For over what period of time have you been
21 doing that?

22 A. When I can, off and on for a number of years.

23 Q. Do you recall that, periodically, an analyst
24 will ask Mr. Akins or the other executives,
25 "Kentucky Power is a drag on your earnings, on your

1 financial metrics. What are you doing to sell
2 Kentucky Power?" And the answer would be, "Well,
3 we're looking at that."

4 Have you heard that conversation?

5 A. No. I know the answer because investors do
6 ask. They recognize that Kentucky Power appears to
7 be an outlier in that same graph you had with the
8 bubble. And they ask something close to that
9 question.

10 I think consistently our CEO and CFO say,
11 we're not going to talk about individual properties
12 like that. That would be inappropriate. Our focus
13 is on making sure that the properties we have in
14 place have the best chance to be the best companies
15 they can for customers and for shareholders, and so
16 we're focused on managing those properly.

17 Q. In terms of analysis, study, and -- have you
18 -- do you periodically look -- do you regularly look
19 to see whether or not Kentucky Power is a
20 stand-alone entity or Kentucky Power merged with
21 another Kentucky entity, for example, would be
22 better for consumers versus being part of the
23 traditional AEP family?

24 A. No, that's not an analysis that I would do,
25 no.

1 Q. Early on you said that the Kentucky
2 Commission could go to FERC and deal with
3 transmission at FERC.

4 How so? By proposing a change to the
5 transmission agreement? Proposing a change to the
6 -- the PJM tariff? What would the Commission ask
7 the federal government to do?

8 A. There's a couple of layers. You know, the
9 projects -- there's a stakeholder process at PJM
10 that the Commission and others can participate in,
11 if there are individual projects that they like to
12 question or challenge the veracity of. And witness
13 Kamran Ali can talk about those.

14 And I suppose anyone can file a complaint at
15 FERC to try to change whatever structures are in
16 place at FERC if they want to and take that burden
17 and file to make that change.

18 Q. That's a tough -- that's a tough burden,
19 isn't it?

20 A. Well, anytime you have the burden in a case,
21 you're trying to move something. I won't judge
22 whether that's tough or not. We believe there's
23 lots of value, and you have to look at the entire
24 history of how AEP came to be in the RTO, what it
25 looked like when it came there, the benefits that

1 have happened, why it was structured like it is now
2 and like it was back in the day.

3 You can't just come in and say I want to
4 ignore all history, and today I want to do this.
5 You sort of have to look at the overall landscape
6 what's happened in the past.

7 Q. Because if Kentucky went to FERC and said,
8 "We're a loser under this transmission agreement,
9 and we're going to sort of multiply over the years,"
10 somebody else would say in Indiana, "Well, too bad.
11 We're a winner. We like the way the agreement
12 works."

13 That's kind of -- everybody goes like this,
14 take it to the other guy?

15 A. Well, I don't know if I'd accept the premise.
16 I certainly wouldn't be advocating that Kentucky is
17 a loser in this. I think Dr. Pearce's testimony
18 shows that over time, you know, the different CP
19 methods have swung each different ways.

20 And I think in this hearing some of the
21 questions I've seen and some of the testimony
22 focused so narrowly on transmission, it's not
23 focused on the overall participation in PJM and
24 being part of the zone and part of AEP that Kentucky
25 Power has. So I think you have to look at more than

1 just the narrow scope.

2 Q. I'm talking about something more fundamental
3 than a 1-CP versus a 12-CP allocation of the
4 subsidy. I'm talking about something more
5 fundamental to address this concern from a Kentucky
6 perspective.

7 Did you understand -- I mean, something more
8 fundamental like Kentucky Power being a stand-alone
9 entity within PJM, like Duke Energy Kentucky and
10 Duke Energy Ohio and Kentucky are combined. East
11 Kentucky Power Cooperative, Dayton Power & Light,
12 something like that.

13 A. I don't believe --

14 Q. So the state can control its own destiny and
15 wouldn't have to have its transmission costs be
16 reliant on the Indiana transco.

17 A. I think what you're proposing, first of all,
18 wouldn't be allowed currently in the construct of
19 PJM. DP&L came in, and they filed independently.
20 They came in that way. Kentucky Power came into PJM
21 as part of the AEP system.

22 You can't break off a piece and create an
23 island by itself, I don't believe. And creating an
24 island of 168,000 customers, I don't know that that
25 would be very -- a good path for Kentucky Power

1 either, as President Mattison said.

2 And that ignores the overall benefit over time
3 that Kentucky Power has received. It might need to
4 get low-cost power down from the Cook plant in
5 Michigan and travel down and get -- and travel
6 freely without all the congestion. And being part
7 of the overall AEP system on the generation side and
8 the transmission side provides all that benefit.

9 So I don't think it would be good for Kentucky
10 Power to sort of go alone, and I don't think that
11 they functionally can do that.

12 Q. Do you really believe that Cook example?

13 A. That's the purpose of a grid. That's why a
14 grid does not have state lines, an interstate
15 transmission grid. You have to have a robust grid
16 with the investment to have the benefit and where
17 the generation is in different places.

18 I mean, you look at Kentucky Power, the
19 Mitchell Plant is in West Virginia, but doesn't have
20 to get power from there, even though it's across the
21 state border; it's where the cheapest power can come
22 from, and it can travel on that grid without the
23 congestion and take advantage of the lower power
24 prices that come over time. They don't get added on
25 with congestion costs.

1 Q. The cheapest power in the 13-state PJM
2 region, not the cheapest generation output from the
3 AEP power plants, correct?

4 A. Well, it's a pretty big -- I mean, we're not
5 talking about going to Oklahoma to get it, if that's
6 what you mean.

7 Q. I said PJM.

8 A. Right. I thought you said within the AEP
9 system. Within the PJM system, correct.

10 Q. So the way it works is the renewables
11 dispatch first because they have zero energy costs
12 within PJM, correct?

13 A. Whatever's at the stack, at that point in the
14 stack, yes.

15 Q. The nuclear units dispatch next, correct?

16 A. Yes.

17 Q. Okay. And all that energy goes -- everybody
18 in PJM pays the same energy price except for line
19 losses and congestion, whether you're in New Jersey
20 or Kentucky or Michigan, correct?

21 A. That's a benefit of PJM, yes.

22 Q. Okay. And so Kentucky gets that benefit from
23 PJM regardless of the AEP transmission agreement.
24 That maybe was relevant 20 years ago for purposes --
25 when AEP was not part of PJM, but we get that now

1 anyway.

2 A. Well, the system as a whole was put into PJM,
3 the AEP system, and everyone, as a part of that,
4 even out of the AEP zone, it's their responsibility
5 to make sure that their zone is robust enough that
6 it can carry the power as well, and that's what AEP
7 has been doing. That's what the investment is in
8 the AEP zone that Kentucky benefits from.

9 Q. That's why I asked you did you really believe
10 your Cook example because that -- that nuclear
11 generation, wherever it lands in the stack, sets the
12 marginal clearing price for all of PJM, not just
13 AEP, correct?

14 A. The theory is that the system is open, and it
15 can flow freely without having any congestion to
16 come here by being a member.

17 MR. KURTZ: Chairman, those are all my
18 questions.

19 Thank you, Mr. Satterwhite.

20 THE WITNESS: Thank you.

21 CHAIRMAN SCHMITT: All right. Counsel for
22 Walmart --

23 MS. GRUNDMANN: No questions.

24 CHAIRMAN SCHMITT: -- do you have questions?

25 MS. GRUNDMANN: No questions, Your Honor.

1 CHAIRMAN SCHMITT: Kentucky Solar Industries?

2 MR. SPENARD: Yes, good afternoon. No
3 questions for this witness.

4 CHAIRMAN SCHMITT: Mr. Fitzgerald, for joint
5 intervenors, questions?

6 MR. FITZGERALD: No questions. Thank you,
7 Mr. Chairman.

8 CHAIRMAN SCHMITT: Mr. Miller or others from
9 Sierra Club, questions?

10 MR. MILLER: Thank you, Your Honor. No
11 questions from Sierra Club.

12 CHAIRMAN SCHMITT: Okay. Mr. Frye for SWVA?

13 MR. FRYE: Thank you, Your Honor. No
14 questions.

15 Vice Chairman Chandler, do you have questions?

16 VICE CHAIRMAN CHANDLER: I'm going to
17 surprise everybody here, Chairman. I do have
18 questions.

19 CHAIRMAN SCHMITT: I think we're all
20 surprised.

21 VICE CHAIRMAN CHANDLER: I know. That's as
22 funny as I get.

23 EXAMINATION

24 By Vice Chairman Chandler:

25 Q. Good afternoon or almost good evening,

1 Mr. Satterwhite. How are you?

2 A. Good. How are you doing?

3 Q. Good. I just want to ask, in terms of the
4 questions that Mr. Kurtz was just asking you, from
5 your experience what does -- what does the past have
6 to do with whether a schedule or rate is just and
7 reasonable at the time?

8 A. Are you saying what is the path of how
9 electrons flow?

10 Q. No, no. Past, P-A-S-T. You were talking
11 about the history of how the pool went into PJM, and
12 that's -- I make a joke -- that's ancient history.
13 But we're talking about a decade ago, right?

14 What does the past have to do anything with
15 whether a rate or schedule -- what I mean is that at
16 the PSC, Kentucky PSC level, the other ten
17 jurisdictions you participate in, state
18 jurisdictions and FERC, what bearing does the past
19 and history have on whether a schedule or rate is
20 currently just and reasonable?

21 A. Yeah, sure. I think someone brought up FRR
22 earlier, and what's the FRR contract and why is that
23 out there. You have to look to history for that.
24 When AEP came into PJM, that was where that was
25 really born, the concept that we have all this

1 generation, our customers really have already paid
2 for access to that and to put that generation in
3 place. We want to be able to self-supply that
4 capacity going forward.

5 So it's kind of an understanding of you have
6 the current mechanisms and the current markets and
7 the RTOs and how they fit into the structure of how
8 things were set up prior to that when they came into
9 that system, to respect that.

10 Kentucky Power was part of an overall zone,
11 team, lack of a better term, with the AEP zone.
12 Things were created over time to make sure they
13 could serve that, and that got adopted and pushed
14 into the RTO system. You want to make sure that
15 you're looking overall what that impact is.

16 The other point I think I'd look at is, you
17 know, the question I think Commissioner Mathews
18 asked earlier, which is some people are saying
19 should you be doing that FRR? Should you be doing
20 different things?

21 Our point has always been we at the state
22 level like to plan for 20 or 30 years out. We're
23 not looking in three-year chunks and three-year
24 increments. So you want to look over a longer
25 period of time versus react to what happened maybe

1 in one year.

2 And so the argument here is look in the past,
3 look in the future, know that you have a type of
4 system that levels out as it goes up and down. How
5 do you make sure you don't have huge swings up and
6 down, but that things can change over time. And
7 that's based on how you try to make decisions that
8 seem be reasonable.

9 Q. So let me ask about the 1 CP and 12 CP. I'll
10 ask Mr. Pearce whenever that comes time for him too.
11 But you're effectively creating a mismatch with that
12 allocation, correct?

13 It's going from -- it's being allocated to
14 AEP, right, at the LSE, the OATT LSE expenses are
15 being allocated to you all on a 1-CP basis, and
16 you're reallocating it on a 12-CP basis.

17 So, I mean, I just think of cost of service,
18 even at the retail level, there's a disconnect
19 between how you're incurring the expenses and how
20 those expenses are being recovered, correct?

21 A. I think it's a -- that's why we have the
22 discussion at the federal level at FERC to talk
23 about that issue. I think if you look at Mr.
24 Pearce's testimony as well, it shows it helps stops
25 some volatility that could happen. His testimony

1 shows over the past seven years there would have
2 been huge swings one way or the other way.

3 You know, if that were just setting base
4 rates, you could really be hurting the Company if
5 they didn't have the ability to go in and adapt to
6 that, and it could affect customers by swinging back
7 and forth both ways.

8 And it's really a recognition that in the
9 zone, you know, Kentucky, APCO, winter-peaking
10 companies, others are not winter-peaking companies.
11 It's just a matter of dumb luck of when the
12 coincident peak happens, when you hit that, and that
13 can really swing things both ways.

14 So they approached it as a 12-CP method would
15 stop that volatility and kind of smooth things out a
16 little bit, and they thought that would be an
17 appropriate approach. They filed that, and the
18 Kentucky Commission intervened in that case and
19 agreed with it.

20 Q. Yeah. So I think that -- and maybe you-all
21 will introduce this later, but the case -- the -- as
22 the document said, the Kentucky Commission initially
23 intervened. I think the document you read from
24 indicated that they didn't take a formal position on
25 the settlement. They may have filed subsequent

1 items in the docket taking the position.

2 All of that is immaterial to the basic
3 fundamental question that I'm asking, which is
4 wouldn't you agree that there's a disconnect
5 between -- between allocating -- getting a cost,
6 incurring a cost on a 1-CP basis, and then
7 allocating it out on a 12-CP basis? There's a
8 fundamental disconnect between those two measures,
9 correct?

10 A. I would say there's a difference. I don't
11 know if it's a disconnect. The difference is why
12 would you have a difference in those two? And the
13 justification was in that docket. You have the
14 difference because it's volatile because of the size
15 of the zone and the potential for huge swings of
16 winners and losers.

17 So that difference was justified in that
18 docket and accepted by FERC, and the Kentucky -- I
19 think they intervened out of time, the Kentucky
20 Commission, and said that they were in support of
21 those changes.

22 Q. And so let me ask, though, about the 1 CP
23 versus the 12 CP. It's bigger than that, isn't it?
24 Because it's not just an allocation, it's not just a
25 change in allocation from 1 CP to 12 CP.

1 It effectively recovers the entirety of the
2 AEP -- instead of -- let's just take this. Instead
3 of Kentucky Power, for instance, being its own LSE
4 in AEP, right, and being charged its LSE OATT
5 expenses on a -- let's even make it up -- a 1-CP
6 basis, Kentucky Power instead is being allocated a
7 portion -- everybody, every operating company in the
8 AEPS zone, all of those costs are in one pot, and
9 then they're being allocated on a 12-CP basis,
10 right?

11 A. When you say their own costs, that's where I
12 want to make sure I'm tracking with you directly.

13 Q. Instead of -- instead of -- let's just say
14 this. Okay? Let's make this up.

15 So instead of, for instance, AEP being
16 allocated Kentucky Power exclusively, a single
17 bill -- I know that's not how it's done; it's
18 probably on computers, whatever. They get an
19 invoice.

20 AEP gets an invoice at the top says, "Kentucky
21 Power's LSE OATT expense." Right? And it says this
22 is how it's allocated. Our peak load this year was
23 a 1 CP on this date. Here's your bill. Right?

24 Kentucky -- as I understand it, AEP doesn't
25 just take that portion, change it up as if it was

1 allocated on a 12-CP basis, and then send a
2 different bill to Kentucky Power. And if it's more
3 on a 12-CP basis, AEP's better off; they pocket the
4 money. Or, if it's less on a 12-CP basis than a
5 1-CP, AEP is out the money.

6 That's not how it works, is it? Can we say
7 that's how I think it works and see if it's correct?

8 A. Well, I'm confused on some of your terms of
9 how you're using it. Let me say what I think the
10 difference is, and maybe then we can figure out what
11 we can agree or not agree on.

12 Kentucky has a benefit of more than just what
13 happens at its border. Like I said before, and you
14 can talk to witness Ali about all the investment
15 that went into Southern Ohio for the benefit to make
16 sure the power could flow properly to customers in
17 Eastern Kentucky at the time.

18 So you can't look at it as simple as here's
19 the level of exactly what happened in Kentucky, and
20 here's the investment that happened in Kentucky.
21 Each of the load-serving entities, which are all of
22 the -- you know, Kentucky Power is one of the
23 load-serving entities -- they group themselves
24 together with everyone, and they sort of share in
25 the overall investment and the benefit from that.

1 And so you want to make sure that there isn't
2 anything left out. You want to make sure that all
3 of those companies put together recovers everything
4 that was invested in there.

5 And this process allows them to do that
6 without having the huge swings of potentially if
7 something happened in the winter or the summer, that
8 it would artificially -- I don't want to say
9 artificially -- it would have that volatility from
10 year to year.

11 And that was the point of the FERC docket, is
12 to show that and show that that was a better method
13 to do it. And that was agreed upon and ruled upon.
14 So that's what became the allocation.

15 Q. I get the volatility. And I'm worried -- so
16 you keep coming back to the volatility, but I'm
17 trying to ask questions about something completely
18 different, which is wouldn't you agree that AEP is
19 billed as a single LSE from PJM for its LSE OATT
20 expenses, and it's billed on a 1-CP basis?

21 A. Yeah, you know, I was trying to talk earlier
22 about was I confusing things for people when I was
23 talking about is AEP the LSE or the operating
24 company is the LSE. And someone reminded me that
25 each of the operating companies are -- they're

1 actually the load-serving entities because they
2 serve. And all that sort of comes into AEP, who
3 sort of handles that billing to make sure it's
4 allocated along with the FERC method.

5 So I think it does sort of come in
6 individually, but the method that they put in place
7 at FERC was how you handle it on the 12 CP basis. I
8 just wanted to clarify that in case I was misleading
9 earlier.

10 Q. But to the substance of the question, does
11 AEP get one bill on a 1-CP basis for all of the PJM
12 LSE OATT expenses incurred on behalf of its
13 operating companies in the PJM system, and then
14 reallocate that to the operating companies on a
15 12-CP basis?

16 A. I understand it is. And we could ask
17 Mr. Pearce to clarify this, is that the separate
18 load-serving entity bills come in, and then that's
19 aggregated at AEP to then allocate this over the
20 12-CP method.

21 Q. Okay. But what I'm trying to make sure I get
22 to is that Kentucky is paying a portion of -- it's
23 not just a reallocation of Kentucky Power's portion;
24 it's a allocation of the entirety of the AEPE's LSE
25 OATT expense, correct?

1 A. Yes, that's absolutely. Yeah, it's part of
2 the whole system.

3 Q. And it's, like, 5 1/2, 6 percent, just rough,
4 right?

5 A. And that's based on what the usage was in
6 Kentucky during that time period. Let me put it
7 this way. Maybe I'm saying it wrong.

8 The costs overall are aggregated together, and
9 then Kentucky's portion is that 6.5 or whatever,
10 6 percent of what those costs overall are.

11 Q. Okay. So let me harken back to your -- I
12 think I'm using that word right -- to your testimony
13 in 2017 in the 2017-179 rate case.

14 Would you agree that in the event -- I think
15 Ms. Vinsel was asking you earlier about the benefits
16 of transmission if an operating company invests in
17 an inordinate amount of transmission, that they get
18 a benefit they don't pay the entire cost of, right,
19 or something along those lines.

20 Do you remember those questions?

21 A. Yes.

22 Q. Okay. So forget the benefit from the
23 transmission, right? Let's just talk about dollars
24 and cents.

25 Wouldn't you agree that, as an operating

1 company, insofar as you invest an inordinate amount,
2 which is you invest more in transmission than you're
3 being allocated the cost for. Insofar as that's the
4 case, wouldn't you agree that the revenue you
5 receive as a transmission owner actually goes to
6 offset the PJM LSE expense allocated to you?

7 A. I think it's whatever you invest in. If you
8 can bring in more revenues, it offsets the costs. I
9 think you sort of have to separate being a
10 transmission owner and the revenue you get from that
11 from being a participant on the system once you move
12 to the RTO process.

13 You have a cost for being part of a
14 transmission system. That expense comes in
15 regardless of how much you invest. But if you want
16 to choose that to invest in and invest more than the
17 transmission operator, that would be a benefit to
18 help cover costs, yes.

19 Q. But I'm asking specifically about PJM LSE
20 OATT expense. I remember you discussing in the 2017
21 case that, insofar as the investments can occur in
22 Kentucky Power, that will be an additional amount of
23 revenue that the Company receives that will help
24 offset the increases of the LSE OATT expense.

25 Would you agree with that?

1 A. Yeah. I think that gets to what I was
2 talking about earlier, where you can put it in a
3 transco or you can put it in Kentucky Power. I
4 wanted more investment in Kentucky Power that would
5 help that investment and that rate base for Kentucky
6 Power to maybe help with other areas that they
7 weren't earning as well in. So I think that's what
8 I was referring to.

9 Q. Yeah, but I just want to make sure that I
10 understand the mechanics. That is an offset to that
11 PJM LSE OATT -- net PJM LSE OATT expense being
12 proposed to charge 100 percent to the tariff PPA.

13 A. You missed me when you pulled in the tariff
14 PPA, because I think that's separate from it. I
15 think it's a matter of -- I think what you're asking
16 is, if you make more transmission operator
17 investment, is that a way to help cover and decrease
18 some of the LSE OATT expenses.

19 Q. The net PJM LSE OATT expense, yes.

20 A. Yes. What I'm saying is, just like if you
21 invested in something else and made money, that
22 would decrease. It's not that it's a netting --
23 direct netting from the start. It's just yes, if
24 you're making more money somewhere else, it can help
25 decrease money in another place.

1 Q. Yeah, but this is very specific to the -- the
2 PJM LSE OATT expense are an allocation of
3 transmission costs, the vast majority of which is
4 done by supplemental projects in that LSE's
5 territory, right? It's 100 percent -- supplemental
6 projects, as you understand it, are allocated
7 100 percent to the LSE, correct?

8 A. 100 percent to the zone.

9 Q. To the zone, right.

10 A. Right. It's Kentucky Power's using of the
11 AEP zone, and that represents a cost it has for
12 transmission. That's what the LSE OATT is.

13 A transmission owner investment is a separate
14 function. It's how much you're investing in that.
15 That can contribute to those costs, absolutely. But
16 it's sort of a separate track.

17 Q. Right. But what -- I guess what I'm trying
18 to say is, it's circular. If Kentucky Power invests
19 an inordinate amount in supplemental projects in
20 their -- in their, Kentucky Power's, territory and
21 it sits on Kentucky Power's books as a transmission
22 investment, and gets recovered, and they get the
23 offsetting revenues, that -- that investment is
24 going to flow through and come back as LSE OATT
25 expense, correct?

1 A. Let me take a sidestep on "inordinate
2 amount." Obviously, we do planning. We wouldn't do
3 something just to invest the dollars. And you can
4 talk to Kamran Ali about that.

5 But yes, the investment you would make as a
6 transmission owner into the system, that would come
7 back as an expense to the overall system.

8 Q. Okay. So if I have a question -- so that's
9 how it works for the operating company, for Kentucky
10 Power, right?

11 But if I have a question about how the
12 Kentucky Transmission Company, right, if that's the
13 same benefit, the same offset for Kentucky Power
14 customers, would you agree that's not the case?

15 A. If the money is going into the transco versus
16 Kentucky Power, that benefit would stay with the
17 transco and not come to the Kentucky Power Company,
18 correct.

19 Q. So insofar --

20 A. And let me clarify. The benefit of the
21 transmission system being upgraded comes to
22 everyone. It's the dollar benefit of that investment
23 that wouldn't reach Kentucky Power, which is the
24 reason why myself and Mr. Mattison have tried to
25 have more investment in Kentucky Power versus the

1 transco.

2 Q. Yeah, and that's what I just want to make
3 sure. No -- no difference in the type of service
4 Kentucky Power customers are going to get
5 necessarily, right? It's just cheaper if the
6 operating company is the one that makes the
7 investment.

8 A. Cheaper is the question I'd have to think
9 more about because, you know, it's sort of
10 short-term versus long-term. The reason the
11 transcos were created is because they could maybe
12 act quicker and get financing quicker.

13 But to me and President Mattison, the
14 advantage of long run of building the rate base and
15 making sure the earnings from that come into the
16 operating company to balance out with everything
17 else, it's just a matter of when you want to look at
18 it and which advantage you're claiming.

19 Q. Well, let me ask this: As Kentucky Power
20 president, you said that your attempt -- and you're
21 now talking about Mr. Mattison doing the same thing.
22 You wanted the investment to be at the Kentucky
23 Power level, right, not at the Kentucky Transco
24 level.

25 A. Some of it, yes.

1 Q. And is that because it was a benefit to your
2 -- it was a benefit to customers, right? It was,
3 long term, cheaper for those investments to occur at
4 Kentucky Power for those customers.

5 A. I don't know that -- the part I'm quibbling
6 with is "long term cheaper." It was a benefit -- it
7 was absolutely -- I felt it was a benefit for
8 Kentucky Power customers because it helped with the
9 overall stability of the return and the health of
10 Kentucky Power Company, which is good for customers
11 if it's a strong company. That's why I preferred
12 more benefit in Kentucky Power.

13 Q. The revenues from the investment at Kentucky
14 Power offset -- offset costs for Kentucky Power.
15 Agreed?

16 A. Yeah, see, now you're right. We are getting
17 back to the circular nature of it. Just as any --
18 yes, just as any other investment that brought a
19 return in would offset the costs.

20 Q. Forget that. But the revenues at the
21 Kentucky Transco level offset no expenses for
22 Kentucky Power customers.

23 A. That stays with the transco. Correct.

24 Q. No benefit to Kentucky Power customers. It
25 does not offset expenses at the Kentucky Power

1 level.

2 A. From simply the return that if it's --
3 Kentucky Power transco gets, that distinction --
4 that delta there doesn't go to Kentucky Power
5 customers, but the benefit of the investment and the
6 transmission upgrades, they do go to.

7 That's why I'm quibbling with the -- you want
8 a solely financial difference between the two, then
9 on that return that transco gets versus Kentucky
10 Power gets, you are correct. But there's still a
11 benefit of having the transco investment for
12 customers.

13 Q. I think we're on the same page.

14 A. The difference now is could it be more
15 expensive if Kentucky Power continues to not be able
16 to earn at a lower ROE? Then it would cost more
17 money to get the capital to do the investment, and
18 the transco may be the better forum for customers
19 that way.

20 Q. And that's fair. I just haven't seen
21 anything to that effect. Have you seen any study to
22 that effect at the operation company level --
23 operating company level?

24 A. About how capital impacts rate?

25 Q. Yes. Specifically if -- have you looked at

1 any study where there's been a concern about making
2 specific transmission investments at the operating
3 company level versus that state's transco?

4 A. I guess I'd put it this way: I've been
5 involved in conversations with rating agencies and
6 banks when we're trying to refinance things for
7 different companies, and the health of the utility
8 is very important in that.

9 So I don't know if it's a study, but it's
10 just -- it's intuitive when you're doing financing,
11 there's concern, if someone can't earn, how they're
12 going to be able to repay that back. And so capital
13 can cost more to fund it.

14 Q. So let me ask you a question. I'm trying to
15 bring this all together. So you're saying that --
16 well, I'll withdraw it.

17 Let me ask about the filing of FERC formula
18 transmission rates. That's your group that does
19 that, right?

20 A. Correct.

21 Q. Are you aware of any instance in your time at
22 AEP that an operating company has challenged the
23 FERC formula transmission rates for any affiliate's
24 transmission -- for any affiliate's transmission
25 rates, FERC transmission rates?

1 A. I can't think of any right now, no.

2 Q. Okay. The other question I have is, with all
3 of these -- all of this discussion about the
4 allocation of costs, the passthroughs, the offsets
5 to revenues, is Mr. Pearce the next best person to
6 ask about this?

7 A. About how the allocations work?

8 Q. How the allocations work, how the revenues
9 offset worked between transmission companies and
10 operating companies, the whole conversation we've
11 had, is there another person that would know
12 additional information?

13 A. I think he's probably the best person. He
14 worked in commercial operations for a while as well,
15 so he understands the balance of the pool and the
16 generation history with the transmission. Yeah, I'd
17 agree he would be the one.

18 Q. You've answered a lot of the questions I have
19 typed up through your interaction with Ms. Vinsel.

20 Congestion, you were talking about congestion
21 earlier. Is it your understanding that congestion
22 is a driver for supplemental projects or baseline
23 projects?

24 A. Yes. Sorry. Sorry to be cute.

25 Q. No.

1 A. I think Mr. Ali is going to be the one that
2 could really talk about what the criteria are. You
3 know, they have the -- if you look in AG exhibits,
4 that lays out -- what is this? AG Exhibit 1,
5 there's a section in here on transmission that
6 really kind of lays out the different drivers for
7 how we do asset replacement. This is on page 53,
8 local reliability, RTO, customer service, telecom.

9 He can get into how congestion plays a part in
10 that, how aging assets play a part in that, how
11 making sure that the system is robust enough that
12 what PJM is assuming is in place for its RTEP
13 projects really is in place, that responsibility
14 that everyone has in their zone. The good news is
15 Mr. Ali is a witness in here, so you can get into
16 all those issues with him.

17 Q. Yeah. And Mr. Ali will give us all the
18 answers. So I've learned he's the Mr. Vaughan of
19 transmission.

20 A. No, he's really the -- I mean, he's the
21 person who does the planning here at AEP, so --

22 Q. He knows what he's talking about.

23 A. Yeah, my people implement the rates that come
24 out of that and reflect those. But, really, if you
25 want to get into exactly what the nitty-gritty is in

1 all of those things, AEP has put that expert up for
2 the Commission's benefit.

3 Q. Yeah. And so I guess I'll round out -- start
4 to round out on that point. So you and Mr. Mattison
5 have talked about the benefits of Kentucky Power's
6 participation in the transmission agreement and AEP
7 in sort of a general high-level sense. They get the
8 benefit from the reduction in congestion, and they
9 get the benefit from the flows from other parts of
10 AEP.

11 What -- what -- and I mean this genuinely,
12 because I take away that this is the -- my concern
13 is that the -- that AEP's position is we're all
14 connected; we should just allocate it the way we
15 always have, right, even back to the days when we
16 were a pool.

17 But what benefit do Kentucky Power customers
18 get from a replacement of a 69 kV line in Michigan?

19 A. It's the expectation -- I can appreciate
20 that. Let me start there, your question, because I
21 know it's been raised -- you've raised it before,
22 and others have. And I know we've had our -- Kamran
23 and others come down to the Commission to talk about
24 that and other commissions.

25 There's a responsibility as part of a zone

1 that's sort of take care of your backyard and expect
2 others taking care of their backyard, that the
3 system is robust enough to move the power so the
4 benefits can be there on the energy side. And
5 anything you might need for operational emergencies,
6 that the system is up and ready to go.

7 And so the AEP system as a whole is
8 responsible for delivering that. And Kentucky Power
9 as a member of that system has a responsibility to
10 give its share. And it's not giving 50 percent of
11 it, it's giving that 5 to 6 percent commensurate
12 with its usage of the system.

13 And its usage of the system is not limited to
14 the borders of the commonwealth. The usage of the
15 system could be larger than that.

16 So I can't say this project that happened at
17 Ball State in Indiana has this direct impact here in
18 Kentucky. It's making sure that system is robust
19 enough to move forward and in the position to
20 provide the overall benefits for whatever it might
21 need to is in place. And Kentucky's part of that
22 and has a duty to participate in it.

23 Q. But you can appreciate that those are already
24 things that are taken into account at the PJM level,
25 right? I mean, baseline projects meant to

1 facilitate or reduce congestion or to make sure that
2 -- to make sure that the bulk electric transmission
3 system is able to move electricity adequately so
4 that, you know, the energy markets work and that
5 they run the FTR markets. You don't need pure 100
6 percent no congestion; you have ability through the
7 FTR market to hedge them.

8 You can appreciate that PJM, bigger than the
9 AEP system, already takes this into account, right?

10 A. They do that, but PJM also -- I mean,
11 supplemental projects are not just side projects
12 that are a preference project. Supplemental
13 projects are important to make sure the system can
14 stand up.

15 PJM, when it's kind of doing its general
16 planning, is assuming that everything that's already
17 in place is working perfectly. And they might need
18 to shed stuff on one end, or there might be a flow
19 in a different area, and they think that system is
20 going to be in place to handle that. And it's each
21 person -- or each entity within the different zones
22 to make sure that that system is in place so PJM can
23 plan the larger RTEP projects.

24 Q. Right. I get that completely. But what is
25 the replacement of a 69 kV line in Michigan, what --

1 AEP built their transmission system to move energy,
2 right? To move energy from the places it's created
3 to the places it's consumed, right? So insofar as a
4 baseline project, for instance, is allocated based
5 on a number of factors, and they can do things like
6 base it on DFAX, right? Do you understand what I
7 mean when I say DFAX, or at least understand it's
8 generally who gets the benefit of the flow?

9 A. Yes.

10 Q. Okay. So do you-all -- has anybody, to your
11 knowledge, ever run or recently run a DFAX on the
12 AEPSC system to see if Kentucky Power is actually
13 getting the benefits from the flow across the
14 system?

15 I mean, just saying it is one thing, but have
16 you-all done -- are you aware of anybody that has
17 done the study to determine whether the capital
18 contribution and the costs is actually showing up in
19 the -- in the benefit of service?

20 A. That's not something that my group would run,
21 and I don't know if somebody else has run it. I
22 know it's a pretty dynamic organization and, you
23 know, transmission group. They're looking at things
24 all the time. They may have run something like
25 that. I don't know if that's in Mr. Ali's group or

1 Mr. Pearce's group, but we're very focused on making
2 sure it's that robust transmission system.

3 So I can't answer that directly, but one of
4 the other witnesses might be able to.

5 Q. Okay. And I do have one question for you.
6 If we need to -- please tell me. You'll know better
7 than I do if we need to go into confidential
8 session.

9 Is your group at all responsible for
10 maintaining AEP's Black Star programs or Black Star
11 plans?

12 A. On the generation side, the Black Star
13 program?

14 Q. Yes. And filing that with FERC? Excuse me.
15 Sorry.

16 A. No problem. It's more difficult than is one
17 person responsible, as you can imagine. So we have
18 a generation group. Paul Chodak is the head of
19 generation, and that group is sort of overseeing all
20 of that.

21 But they, again, are almost a service company
22 as well for all the operating companies because all
23 of the generation assets that are on the regulated
24 side are the assets of the presidents in the
25 operating company. So that group would work with

1 that. It wouldn't be my people directly making
2 those decisions, if that's what the question is.

3 Q. I guess why I asked, so it wouldn't come to
4 you-all until it had to be filed with somebody or go
5 in front of a regulatory body. Is that fair?

6 A. We might get questions about approaching it,
7 you know, elements of what might be related to that.
8 But we're not the ones, you know, overseeing those
9 decisions.

10 Q. Okay.

11 A. The operational -- I guess let me say it this
12 way. The operational decision isn't ours.

13 Q. Okay. And the last question I have is, as it
14 relates to rate cases, are those driven by
15 decision -- does your group go to the jurisdiction,
16 the people that -- the people -- I don't know.

17 Let's just see each state in each of the 11
18 states that you-all operate has a president and COO.
19 I don't know if that's the exact title, but let's
20 just assume it's similar to Kentucky.

21 When a rate case -- who determines when a rate
22 case is needed and starts that process? Is it
23 somebody in your group, or is it your group, or is
24 it exclusively kicked off and the decision made at
25 the operating company level?

1 A. The operating company president is the one
2 who decides whether a rate case should be filed or
3 not, but they have conversations with the corporate
4 finance group. They look at things like the return
5 on the rebuttal testimony of President Mattison.
6 Sometimes it becomes obvious that they maybe need to
7 do something.

8 But my group does not go and say, "You will be
9 filing a rate case at this time." My group is more
10 of we're up to date on maybe regulatory functions in
11 other places. And we might have a cost of service
12 expert, someone like Alex Vaughan, so that the
13 company -- each of the operating companies don't
14 have to employ an Alex Vaughan for the one six
15 months they might need it or the one year they might
16 need it. We can have that shared resource so the
17 expertise is in-house, and all those costs can be
18 shared amongst all the companies.

19 Q. And the decision to do it is left up to the
20 operating company -- the head of the operating
21 companies. Is that what you're saying?

22 A. Yeah. I cannot tell somebody that they will
23 be filing a rate case. The president of all our
24 operating companies have P&L responsibility. So,
25 ultimately, it's their decision.

1 Q. Okay. That clarification is very important.

2 VICE CHAIRMAN CHANDLER: Thank you,
3 Mr. Satterwhite.

4 THE WITNESS: Thank you.

5 CHAIRMAN SCHMITT: Dr. Mathews, questions?

6 COMMISSIONER MATHEWS: Just one, maybe two.
7 We'll see.

8 EXAMINATION

9 By Commissioner Mathews:

10 Q. I just want to take you back in time to the
11 last rate case when you spent what I think a lot of
12 time telling us that investment in transmission in
13 Kentucky was a good deal for us and provided a
14 benefit because we only paid 6 percent of that
15 transmission. Is that true? Am I remembering that
16 correctly?

17 A. Yes.

18 Q. Is that also true if that transmission
19 investment is done by the transco?

20 A. Yeah. What I was referring to there was I
21 was trying to get as many jobs, as many people
22 clocking in in the morning to go to work. And so
23 the more investment I could and more capital I could
24 get allocated to Kentucky, the better it was going
25 to help sort of help rise all ships kind of ride the

1 tide a little bit.

2 So I was fighting for the financial health of
3 the company, as well as trying to do economic
4 development that we'd have enough projects to sort
5 of bring in beyond what Kamran looks at for, you
6 know, reliability and everything else, but have more
7 projects brought into Kentucky for what
8 Vice-President Chandler was also talking about, just
9 having more investment in the Commonwealth.

10 Q. One more time. When you were referring to
11 that it was a benefit to Kentucky if Kentucky Power
12 had transmission investment because we only paid
13 6 percent of it, you were talking about maybe some
14 of those ancillary benefits that come as a result of
15 any construction project in the state? Is that what
16 you're saying today?

17 A. Yes. It's a direct answer. I apologize if I
18 didn't answer it directly before.

19 Yes, that was part of it. And also what I
20 mentioned earlier, I was trying to get more
21 investment in Kentucky Power versus the transco
22 overall. So that would help with the long-term
23 health of the Company. But investment in the
24 transco and investment in Kentucky Power means I
25 wanted to get investment in Kentucky.

1 Q. And then, if I go back through the questions
2 with Ms. Vinsel and the Vice Chairman, that is a
3 different consideration than putting more assets on
4 Kentucky Power's rate base that then you get a -- as
5 a transmission owner, you get some of the revenue
6 back.

7 A. I think it's both. Maybe we weren't
8 connecting properly, and I apologize if that was my
9 fault. I think Vice Chairman Chandler was trying to
10 make the direct correlation of A to B, and I was
11 trying to say they're kind of disaggregated.
12 There's transmission costs, and there's transmission
13 ownership.

14 Yes, I wanted more transmission ownership for
15 Kentucky Power for all the benefits. Was it solely
16 because it's going to decrease the overall LSE OATT
17 costs? No. Because it's going to help increase the
18 overall financial picture of Kentucky Power.

19 So that's was where the disconnect is. I
20 think we're all in violent agreement on the overall
21 issue, though.

22 COMMISSIONER MATHEWS: We could spend the
23 entire rest of the week talking about the difference
24 between the transmission-owning component and the
25 LSE component and the way those things bounce back

1 and forth.

2 So I will spare you that since it's 4:43 on
3 the first day of the hearing, and we're on our
4 second witness of 30 witnesses, and if we count that
5 we're likely going to talk to Mr. Mattison twice,
6 that really means 31 witnesses.

7 So with that, Mr. Chairman, I'm finished.

8 CHAIRMAN SCHMITT: Mr. Overstreet, any
9 redirect examination?

10 MR. OVERSTREET: Very briefly, Your Honor.

11 REDIRECT EXAMINATION

12 By Mr. Overstreet:

13 Q. Mr. Satterwhite, you and the vice chairman
14 discussed Kentucky Public Service Commission's
15 motion to intervene in the FERC Case ER09-1279-000?

16 A. Yes.

17 Q. That was the -- the case dealing with the
18 modification of the transmission agreement?

19 A. Correct.

20 MR. OVERSTREET: Ms. Vinsel, could we have
21 Company Exhibit 8 displayed, please?

22 MS. VINSEL: Just to be clear, Zack, that's
23 Kentucky Power Nonconfidential Exhibit 8.

24 MR. OVERSTREET: Yes.

25 Thank you.

1 Q. Mr. Satterwhite, do you recognize this
2 document?

3 A. Yes, I do.

4 Q. And is that the motion to intervene?

5 A. Yes.

6 Q. And could we turn, please, to page 2 of 4 of
7 that Company Hearing Exhibit 8?

8 And just a little bit farther down, please.
9 Thank you.

10 Could you read the paragraph that appears
11 under the heading "Support"?

12 A. Sure, at the bottom of the page it says
13 "Support." It's underlined. It says, "Kentucky PSC
14 supports AEPSC's June 5, 2009, proposed amendments
15 to its transmission agreement. The Kentucky PSC
16 believes that the proposed amendments will result in
17 transmission rates that are just and reasonable. It
18 appears that under the proposed amendments Kentucky
19 Power Company's transmission-related costs may
20 actually be lower than at present."

21 Q. Thank you.

22 MR. OVERSTREET: I'd like to move the
23 admittance of that exhibit, please.

24 CHAIRMAN SCHMITT: I'm sorry, Mr. Overstreet.
25 You moved to what? Make that an exhibit?

1 MR. OVERSTREET: I'm sorry, Your Honor. I'd
2 like to move to make that an exhibit. It's labeled
3 Hearing Exhibit 8, and we can call it that or,
4 because it's the first Kentucky Power hearing
5 exhibit, we can call it Hearing Exhibit 1. It's
6 whatever --

7 CHAIRMAN SCHMITT: We'll identify it as
8 Kentucky Power Hearing Exhibit 1.

9 Is there any objection to the filing?

10 Sustained. Let it be filed as Kentucky Power
11 Hearing Exhibit 1.

12 (KP Hearing Exhibit 1 admitted.)

13 MR. OVERSTREET: Thank you, Mr. Chairman. I
14 have no further questions.

15 CHAIRMAN SCHMITT: We're now at about 12
16 minutes or so till 5:00, and one of our group here
17 needs to leave by 5:00. So we might as well adjourn
18 or go into recess until in the morning.

19 But tomorrow I suspect, unless we make a good
20 bit more progress than we have today, we probably
21 ought to prepare to be at least until 6:00, and then
22 we'll see what happens with Thursday and Friday.

23 So if there's nothing else.

24 Ms. Vinsel?

25 MS. VINSEL: I need to move the Commission's

1 exhibits, the confidential exhibits 1 through 4 and
2 the nonconfidential exhibits into the record.

3 CHAIRMAN SCHMITT: Any objection,
4 Mr. Overstreet, or counsel for any of the other
5 parties?

6 MR. OVERSTREET: No, Your Honor.

7 CHAIRMAN SCHMITT: Let them be admitted as
8 identified by Ms. Vinsel.

9 (Commission Confidential Exhibits 1-4 admitted
10 and filed under seal.)

11 (Commission Exhibits 1-16 admitted.)

12 CHAIRMAN SCHMITT: Is there anything else
13 that we need to take up before we adjourn for this
14 evening?

15 MR. KURTZ: Chairman, Mike Kurtz, to the
16 extend I need to, I move for the admission of AG
17 KIUC Hearing Exhibit 1.

18 CHAIRMAN SCHMITT: Any objection.

19 Hearing none, let it be filed as Mr. Kurtz
20 identified it.

21 (AG KIUC Exhibit 1 admitted.)

22 CHAIRMAN SCHMITT: Anything else?

23 MR. KURTZ: Oh, and AG KIUC Hearing Exhibit
24 3. Sorry.

25 CHAIRMAN SCHMITT: All right. Let the --

1 yeah, let the AG KIUC Exhibit 3, previously been
2 identified as Exhibit 3, be introduced as AG KIUC
3 what? Hearing Exhibit 2, maybe. All right.
4 Anything else that anyone would like to take up?

5 MR. OVERSTREET: I'm sorry, Your Honor. On
6 Exhibit 3, I don't believe there's been a foundation
7 laid for that document as to its provenance. It's
8 numbers on the spreadsheet.

9 MR. KURTZ: Your Honor, it's a PJM document
10 listing the pricing of all the transmission owners
11 in PJM.

12 CHAIRMAN SCHMITT: Overruled. Let it be
13 filed.

14 (AG KIUC Exhibit 2 admitted.)

15 Anything further?

16 If not, we'll be in recess until 9:00 in the
17 morning. Thank you-all.

18 (Hearing adjourned at 4:51 p.m.)

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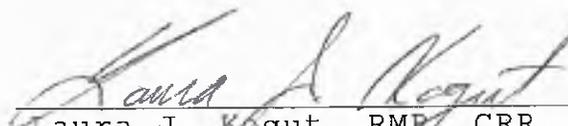
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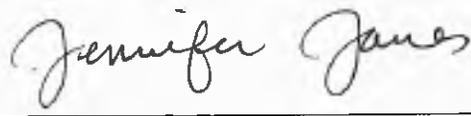
STATE OF KENTUCKY)
)
) SS.
)
COUNTY OF JEFFERSON)

We, Laura J. Kogut and Jennifer R. Janes,
Notaries Public within and for the State at Large,
with commissions expiring 25 July 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 22nd day of November
2020.



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



Jennifer R. Janes, RPR, CRR, CRC
Notary Public, State at Large