

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Electronic Application Of Kentucky Power Company)
For Approval of A Certificate of Public Convenience)
And Necessity For Environmental Project)
Construction At The Mitchell Generating Station, An)
Amended Environmental Compliance Plan, And)
Revised Environmental Surcharge Tariff Sheets)

Case No. 2021-00004

REBUTTAL TESTIMONY OF
HEATHER M. WHITNEY
ON BEHALF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Heather M. Whitney. My business address is 1 Riverside Plaza, Columbus,
3 Ohio 43215. I am employed by the American Electric Power Service Corporation
4 (“AEPSC”) as a Director in Regulatory Accounting Services. AEPSC is a wholly-owned
5 subsidiary of American Electric Power Company, Inc. (“AEP”). AEP is the parent
6 company of Kentucky Power Company (“Kentucky Power” or the “Company”).

7 **Q. ARE YOU THE SAME HEATHER M. WHITNEY WHO OFFERED DIRECT**
8 **TESTIMONY IN THIS PROCEEDING?**

9 A. Yes.

II. PURPOSE OF REBUTTAL TESTIMONY

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my rebuttal testimony is to address depreciation and related accounting
12 issues in response to Attorney General of the Commonwealth of Kentucky and Kentucky
13 Industrial Utility Customers, Inc. (“AG/KIUC”) Witness Kollen’s recommendation that
14 the Company use the currently authorized depreciation rates for the projects necessary to
15 comply with the Coal Combustion Residual (“CCR”) and Steam Electric Effluent
16 Limitation Guidelines (“ELG”) Rules.

III. DEPRECIATION ACCOUNTING

1 **Q. DO YOU AGREE WITH AG/KIUC WITNESS KOLLEN’S RECOMMENDATION**
2 **THAT THE COMPANY USE THE CURRENTLY AUTHORIZED**
3 **DEPRECIATION RATES FOR THE PROJECTS NECESSARY TO COMPLY**
4 **WITH THE CCR AND ELG RULES?**

5 **A.** No. Generally Accepted Accounting Principles (“GAAP”) and Federal Energy Regulatory
6 Commission (“FERC”) general instructions make it clear that assets should be depreciated
7 over their expected remaining lives. For instance, Accounting Standards Codification
8 (“ASC”) 360-10-35-3 provides, “Depreciation expense in financial statements for an asset
9 shall be determined based on the asset’s useful life.” Further, FERC Code of Federal
10 Regulations, Title 18, General Instructions, Paragraph 22, Depreciation Accounting
11 provides:

12 *Method.* Utilities must use a method of depreciation that allocates in a systematic
13 and rational manner the service value of depreciable property over the service life
14 of the property.

15 *Service lives.* Estimated useful service lives of depreciable property must be
16 supported by engineering, economic, or other depreciation studies.

17 *Rate.* Utilities must use percentage rates of depreciation that are based on a method
18 of depreciation that allocates in a systematic and rational manner the service value
19 of depreciable property to the service life of the property. Where composite
20 depreciation rates are used, they should be based on the weighted average estimated
21 useful service lives of the depreciable property comprising the composite group.

22 It is also a fundamental principle of cost-of-service ratemaking that the cost of an
23 asset should be recognized over the period it is used and useful to provide service to
24 customers. Depreciating an asset longer than it is expected to be used and useful
25 improperly shifts the cost of service to customers who will not benefit from the asset.

1 As supported by Company Witnesses Brett Mattison and Gary O. Spitznogle, if
2 CCR and ELG investments are authorized, the Mitchell Plant expected retirement date, or
3 service life end date, is expected to be 2040. The CCR and ELG investments will be
4 separately identifiable in the Company's property accounting records. Accordingly, the
5 separately identifiable CCR and ELG investment should be depreciated through 2040,
6 using the 5.86% rate supported on page 6 of my direct testimony in this case until total
7 Mitchell Plant depreciation rates are updated in a subsequent base case filing.

8 As supported by Company Witnesses Mattison and Spitznogle, if CCR-only
9 investment is authorized, the Mitchell Plant expected retirement date, or service life end
10 date, is expected to be 2028. The CCR-only investment will be separately identifiable in
11 the Company's property accounting records. Accordingly, the separately identifiable
12 CCR-only investment should be depreciated through 2028, using the 20.0% rate supported
13 on page 6 of my direct testimony in this case until total Mitchell Plant depreciation rates
14 are updated in a subsequent base case filing.

15 **Q. IF THE COMMISSION ACCEPTS AG/KIUC WITNESS KOLLEN'S**
16 **RECOMMENDATION THAT THE COMPANY USE THE CURRENTLY**
17 **AUTHORIZED DEPRECIATION RATE FOR THE PROJECTS NECESSARY TO**
18 **COMPLY WITH THE CCR AND ELG RULES, WHAT IS THE APPROXIMATE**
19 **AMOUNT OF NET BOOK VALUE THAT WILL REMAIN TO BE PAID BY**
20 **CUSTOMERS AFTER THE RETIREMENT OF MITCHELL PLANT?**

21 A. If CCR and ELG investments are authorized, and the Company is required to use the
22 currently authorized depreciation rate of 2.96% for Mitchell Boiler Plant Equipment to
23 depreciate these investments instead of the proposed rate of 5.86%, approximately

1 \$33 million – or roughly half – of the total expected \$66 million net book value would
2 remain as of December 2040 for future recovery from customers.

3 If CCR-only investment is authorized, and the Company is required to use the
4 currently authorized depreciation rate of 2.96% for Mitchell Boiler Plant Equipment to
5 depreciate these investments instead of the proposed rate of 20.0%, approximately
6 \$11 million – or nearly 85% – of the total expected \$13 million net book value would
7 remain as of December 2040 for future recovery from customers.

8 Mr. Kollen’s recommendation, under either scenario, thus would result in
9 significant depreciation expense deferrals after the Mitchell Plant’s retirement. The
10 Commission has recently expressed concern regarding such deferrals; in Case No.
11 2020-00174, it denied AG/KIUC’s proposal to extend the depreciation period associated
12 with the Rockport Unit 2 Selective Catalytic Reduction system, citing “concern regarding
13 the numerous cost deferrals already established for Kentucky Power . . .”¹ Company
14 Witness Mattison discusses the potential impact of delaying recovery of depreciation
15 expense on Kentucky Power’s credit metrics.

¹ Order, *In the Matter of: Electronic Application of Kentucky Power Company for (1) a general adjustment of its rates for electric service; (2) approval of tariffs and riders; (3) approval of accounting practices to establish regulatory assets and liabilities; (4) approval of a certificate of public convenience and necessity; and (5) all other required approvals and relief* at 27 (Ky. PSC, January 13, 2021).

1 **Q. INTERVENORS RECOMMEND THAT THE COMPANY ONLY INSTALL THE**
2 **NECESSARY CCR ASSETS AND NOT INSTALL ELG ASSETS. WOULD A**
3 **COMMISSION DECISION AUTHORIZING CASE 2 PROSPECTIVELY**
4 **CHANGE THE COMPANY'S GAAP ACCOUNTING FOR DEPRECIATION OF**
5 **MITCHELL PLANT?**

6 A. Yes. If the Commission does not authorize the construction and recovery of ELG
7 compliance measures at the Mitchell Plant, resulting in the 2028 closure of the facility, the
8 Company would change the GAAP per books depreciation estimated retirement date for
9 Mitchell Plant from 2040 to 2028, consistent with ASC 360 described above. As discussed
10 in my direct testimony, depreciation expense is recorded as a debit (increase) to FERC
11 Account 403 and a corresponding credit (increase credit balance) to FERC Account 108
12 accumulated depreciation.

13 In addition, the Company would begin recording an entry to credit (decrease)
14 depreciation expense recorded in FERC Account 403 and debit (decrease credit balance)
15 accumulated depreciation recorded in FERC Account 108 for the portion of depreciation
16 expense recognized in the income statement, but not yet being collected from customers in
17 rates (specifically, the incremental depreciation expense incurred using the 2028 updated
18 per books estimated retirement date when compared to level of depreciation expense
19 recovered in rates using the 2040 estimated retirement date for Mitchell Plant as previously
20 approved by the Kentucky Public Service Commission).

21 These entries are made for GAAP purposes only, and have \$0 net effect on FERC
22 Accounts 108 and 403. The portion of depreciation expense recognized in the income
23 statement, but not yet being collected from customers in rates, as recorded to FERC

1 Account 108, will be mapped for GAAP reporting purposes to the “Regulatory Assets” line
2 item on the Company’s GAAP Balance Sheet in accordance with ASC 980-360. For FERC
3 reporting purposes, no amounts will be recorded to FERC Account 182.3 other regulatory
4 assets; rather, all FERC Account 108 amounts will continue to be reported within
5 Accumulated Provisions for Depreciation, Amortization, and Depletion (FERC Form 1
6 Pages 200-201).

IV. CONCLUSION

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. Yes, it does.



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E-Signature Summary

E-Signature 1: Heather M. Whitney (HMW)

June 08, 2021 10:22:10 -8:00 [AEF05332242C] [167.239.221.80]
hmwhitney@aep.com (Principal) (Personally Known)

E-Signature Notary: S. Smithhisler (SRS)

June 08, 2021 10:22:10 -8:00 [CA441E283077] [161.235.221.85]
srsmithhisler@aep.com
I, S. Smithhisler, did witness the participants named above electronically sign this document.



VERIFICATION

The undersigned, Heather M. Whitney, being duly sworn, deposes and says she is a Director in Regulatory Accounting Services for American Electric Power Service Corporation, that she has personal knowledge of the matters set forth in the forgoing testimony, and the information contained therein is true and correct to the best of her information, knowledge and belief after reasonable inquiry.

Heather M. Whitney
Signed on 2021/06/08 10:22:10 -8:00

Heather M. Whitney

STATE OF OHIO

)

) Case No. 2021-00004

COUNTY OF FRANKLIN

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by

Heather M. Whitney, on 06/08/2021.



S. Smithisler
Signed on 2021/06/08 10:22:10 -8:00

Notary Public

Notary ID Number: 2019-RE-775042

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