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, AND	**)**	**CASE NO. 2021-00004**
AMENDED ENVIRONMENTAL COMPLIANCE	**)**	
PLAN, AND REVISED ENVIRONMENTAL	**)**	
SURCHARGE TARIFF SHEETS	**)**	

SUPPLEMENTAL DIRECT

TESTIMONY

OF

LANE KOLLEN

ON BEHALF OF THE
OFFICE OF THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY
AND
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

JUNE 2021

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SUPPLEMENTAL DIRECT TESTIMONY OF LANE KOLLEN

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. What is the purpose of your supplemental testimony?

A. The purpose of my supplemental testimony is to address and quantify the effects of the accelerated tax deduction for the remaining tax basis and the related reduction in the revenue requirement if the Mitchell Plant is retired in 2028 (Case 2) instead of in 2041 (Case 1).

Q. When the Mitchell Plant is retired, is there an accelerated tax benefit?

A. Yes. When the Mitchell Plant is retired, the remaining tax basis is deductible as an “abandonment loss” in the year of the retirement. Effectively, the retirement accelerates all future tax depreciation deductions into the year of the retirement if there is any remaining tax basis.

After the abandonment loss deduction, the remaining tax basis will be $0. Similar to accelerated tax depreciation, the abandonment loss is a temporary difference, meaning that it results in a current tax deduction even though the remaining net book value is depreciated or amortized over a longer period for accounting and ratemaking purposes.

There is no change in the net book value upon retirement, so the abandonment loss deduction temporary difference results in an incremental liability accumulated deferred income tax ("ADIT") amount equal to the abandonment loss times the combined federal and state income tax rate.

Q. Is the accelerated deduction of the remaining tax basis of the Mitchell Plant an economic benefit if it is retired in 2028 and not in 2041?

A. Yes. The abandonment loss results in a monetization (through a reduction in current income tax expense and income tax payable and an increase in deferred income tax expense and liability ADIT) of the remaining tax basis of the Mitchell Plant thirteen years before it otherwise would be fully monetized if it is retired in 2041.

The additional ADIT is subtracted from the Mitchell Plant rate base and reduces the revenue requirement starting in 2028 and continuing through 2041 compared to the retirement in 2041, albeit on a declining basis over that time period. The additional ADIT will reverse over the twelve years from 2029 through 2041 or longer, depending on the amortization period approved by the Commission for the recovery of the remaining net book value.

Q. Have you quantified the economic value of the abandonment loss if the Mitchell plant is retired in 2028 compared to 2041?

Yes. I estimate this economic value at $30.2 million on a net present value basis in 2028 dollars.[1] In a supplemental discovery response, after I filed my Direct Testimony, the Company finally provided the actual tax basis for the Mitchell Plant of $443.673 million at December 31, 2020.[2] The Company claimed in a prior discovery response that it was unable to project what the tax basis will be at December 31, 2028.[3] Nevertheless, starting with the actual tax basis at December 31, 2020, I was able to estimate the tax basis of $274.655 million at December 31, 2028. I assumed straight line tax depreciation and no plant additions or retirements for the eight years from January 1, 2021 through December 31, 2028 for this purpose.

Although not as precise as if the Company had performed the calculations using its fixed asset software, this quantification is sufficiently accurate to provide a reasonable estimate of the effect of the abandonment loss deduction on the economics of Case 2 compared to Case 1.

Q. What is your conclusion based on this quantification?

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[1] I have filed an Excel spreadsheet in live format with all formulas intact with the calculations of this amount in conjunction with my Supplemental Direct Testimony.

[2] Supplemental response to AG-KIUC 2-6 dated May 28, 2021. I have attached a copy of this response as my Supplemental Exhibit___(LK-1).

[3] Response to AG-KIUC 1-27.

A. The retirement of the Mitchell Plant in 2028 is the economic choice. In addition to the savings from correction of the errors and assumptions in Cases 1 and 2 that I addressed and quantified in my Direct Testimony, the abandonment loss tax savings from the retirement in 2028 demonstrates conclusively that the Commission should approve the projects included in the request for CPCN necessary for compliance with the CCR Rule, but should deny the projects necessary for compliance with the ELG Rule.

Q. Do the results or your conclusion change depending on whether the Company records the remaining net book value as a regulatory asset or as a debit in accumulated depreciation?

A. No. Regardless of whether the Company records the remaining net book value as a regulatory asset or as a debit in accumulated depreciation, there is no net change on the asset side of the balance sheet and the liability ADIT related to the regulatory asset or the debit in accumulated depreciation is the same as the sum of the ADIT due to tax depreciation before the abandonment loss deduction and the ADIT due to the abandonment loss deduction.

Q. Does this complete your testimony?

A. Yes.

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SUPPLEMENTAL EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE
ATTORNEY GENERAL AND
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

JUNE 2021

DATA REQUEST

AG-KIUC 2_6 Refer to the response to AG-KIUC 1-27. The Company was asked to provide the Mitchell plant-related balances by unit for gross plant, accumulated depreciation, ADIT, fuel inventories, M&S inventories and each other balance sheet account at December 31, 2020 and rolled forward through 2028. The Company provided only the gross plant, accumulated depreciation, fuel inventories, and M&S inventories at December 31, 2020.

a. Provide the tax basis and ADIT balances by temporary difference for each Mitchell unit and the Mitchell plant at December 31, 2020. If the Company asserts that it cannot provide the requested information, then provide the following:

1. Identify and describe the Company's fixed asset software used to track its plant-related costs and balances, including the calculation of book and tax basis differences, book depreciation expense, accelerated tax depreciation deduction, temporary difference between accelerated tax depreciation and straight-line tax depreciation on an actual basis in the current period and on a budget and/or forecast basis for the runout period.

2. Confirm that the Company does not maintain and/or cannot calculate the tax basis and the ADIT due to the temporary differences for accelerated tax depreciation in excess of straight-line depreciation for each Mitchell unit and/or the Mitchell plant in total at December 31, 2020. If confirmed, then explain why the Company does not maintain and/or cannot calculate these amounts at December 31, 2020.

c. Provide a runout of the accelerated tax depreciation, straight-line tax depreciation, book depreciation, and ADIT for each Mitchell unit and the Mitchell plant for each year 2021 through 2040 starting with the tax basis, ADIT balances by temporary difference, and gross plant at December 31, 2020, assuming no future capital additions or retirements.

d. Provide the Company's budgeted/forecast capital additions for each Mitchell unit and the Mitchell plant for each year 2021 through 2040 by major project, specifically including separately, but not limited to, the CCR costs and ELG costs, reflected in the economic analyses supporting continued operation of Mitchell through 2040.

e. Provide the Company's budgeted/forecast depreciation expense, accumulated depreciation, accelerated tax depreciation, straight line tax depreciation, and ADIT related to the capital additions provided in response to part (e) of this question for each year 2020 through 2040 by major project, specifically including separately, but not limited to, the CCR costs and ELG costs reflected in the Company's economic analyses supporting continued operation of Mitchell through 2040.

f. Provide the Company's best forecast of the net book value and all other rate base components of the Mitchell plant at the end of 2028 under the CCR only Case 2. Provide all supporting workpapers and calculations, including all electronic spreadsheets in live format with all formulas intact.

g Provide the Company's best forecast of the net book value and all other rate base components of the Mitchell plant at the end of 2028 and 2040 under the CCR/ELG Case 1. Provide all supporting workpapers and calculations, including all electronic spreadsheets in live format with all formulas intact.

RESPONSE

This data request was numbered AG_KIUC 2-3 in the filing made with the Commission and served on Kentucky Power. Subsequent data requests are numbered AG_KIUC 2-4 through AG_KIUC 2-8. Because there is an earlier AG_KIUC 2-3 Kentucky Power is treating this request as AG_KIUC 2_6 to avoid confusion in the written record. Subsequent data requests are numbered AG_KIUC_2_7 through AG_KIUC_2_11.

a. The Company uses PowerPlant to account for original cost and book depreciation expense, and PowerTax for the tax depreciation and book/tax differences mentioned in the request. The Company has not performed the requested analysis, but it is in the process of doing so and will supplement this response with the requested information when the analysis is complete.

b. There is no subpart b

c., e., f., and g. The Company has not prepared any such forecasts.

d. Please see the Capital Tab of KPCO_R_KIUC AG_1_2_Attachment6, provided in response to KIUC_AG_1_2 for the requested information.

MAY 28, 2021 SUPPLEMENTAL RESPONSE

a. The net tax basis for the Mitchell Plant at December 31, 2020 is $443,672,887 (original basis less accumulated tax depreciation) and the ADIT balance is -$94,428,111. The net tax basis and ADIT is not maintained in the Company's fixed asset software at the level to which this information can be provided for each unit of the Mitchell Plant. The Company does not calculate the temporary differences by plant or by unit 1 and 2 separately.

2. The Company confirms that tax basis and ADIT is not maintained by Unit 1 and Unit 2 in the fixed asset system. To maintain the data beyond the plant level would be too voluminous for the fixed asset system and AEP has no business purpose to do so.

Witness: Allyson L. Keaton