

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

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

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I. INTRODUCTION AND BACKGROUND

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

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. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND.**

9 A. I received a Bachelor of Science Degree in Agriculture and a Master of Accounting Degree
10 from The Ohio State University in June 2005. I have been a Certified Public Accountant
11 since 2007, transitioning my Ohio license to inactive status in 2012. I began my career in
12 2005 as an auditor within Ernst & Young’s Columbus, Ohio, Assurance Services practice.
13 I joined AEPSC as an internal auditor in 2008 and held roles of increasing responsibility
14 within the AEPSC Audit Services function through early 2016, when I accepted a role
15 within the AEPSC Accounting function.

16 Since early 2016, I have held roles of increasing responsibility in a diverse set of
17 disciplines within the AEPSC Accounting function, including Manager Derivative
18 Accounting Policy & Research (2016), Director Commercial Accounting (2017), Director

1 Tax Accounting & Support Services (2018), and my current role of Director Regulatory
2 Accounting Services (2019).

3 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR IN THE**
4 **REGULATORY ACCOUNTING SERVICES GROUP?**

5 A. My primary responsibilities in Regulatory Accounting Services involve providing AEP
6 operating subsidiaries, including Kentucky Power, with accounting support for regulatory
7 filings. This accounting support includes the preparation of cost of service adjustments,
8 accounting schedules, testimony, and responses to data requests. Also, I monitor
9 regulatory proceedings, settlements, orders, and legislation for accounting implications and
10 participate in determining the appropriate regulatory accounting and financial reporting
11 treatment of regulatory transactions.

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY**
13 **PROCEEDINGS?**

14 A. Yes. I have testified before this Commission in Case No. 2020-00174. I have also filed
15 testimony with the Public Utilities Commission of Texas in Case No. 49494, addressing
16 AEP Texas' accounting for actual costs, investment, and revenues associated with
17 deployment of its advanced metering system. In addition, I filed testimony with the Public
18 Utilities Commission of Ohio in Case No. 05-376-EL-UNC.

II. PURPOSE OF TESTIMONY

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

2 A. My testimony supports the Company's Application for approval of its 2021 Environmental
3 Compliance Plan ("ECP"). As discussed by Company Witnesses Brett Mattison and Gary
4 O. Spitznogle, Kentucky Power management considered two compliance options to meet
5 the requirements of Coal Combustion Residual ("CCR") and Steam Electric Effluent
6 Limitation Guidelines ("ELG") regulations at the Mitchell Generating Station. The
7 Company's Application seeks a certificate of public convenience and necessity authorizing
8 it to make the investments required for both CCR and ELG compliance ("Case 1"), which
9 would permit the Mitchell Generating Station to continue to operate until its projected
10 retirement date of 2040. The Company has also presented the Commission with a second,
11 CCR-only alternative ("Case 2"), which would permit the Mitchell Generating Station to
12 operate through December 31, 2028. Company Witness Lerah M. Scott presents the
13 Company's proposed 2021 ECP and updated Environmental Surcharge ("Tariff E.S.") and
14 calculates an updated Tariff E.S. revenue requirement and rates. My testimony supports
15 the accounting for costs related to both compliance cases. In particular, my testimony
16 addresses:

- 17 • Accounting for CCR and ELG Investment and Ratemaking Treatment,
- 18 • Depreciation Rates,
- 19 • The Company's Request for Accounting Authority to Defer ELG Costs If Case 2 is
20 Selected,
- 21 • Asset Retirement Obligation Accounting and Ratemaking Treatment, and
- 22 • Incremental operations and maintenance ("O&M") Expenses and Ratemaking
23 Treatment.

III. REGULATORY ACCOUNTING

Accounting for CCR and ELG Investment and Ratemaking Treatment

1 **Q. PLEASE PROVIDE AN OVERVIEW OF THE CCR AND ELG INVESTMENTS**
2 **AT THE MITCHELL GENERATING STATION PROPOSED IN THIS CASE AND**
3 **THE RELATED FORECASTED CONSTRUCTION PERIODS.**

4 A. As described further by Company Witness Brian D. Sherrick, the Company is currently
5 incurring engineering, design, and permitting costs related to the preparation of the
6 Company's filing in this case and the future construction of systems to comply with CCR
7 Rule and ELG Rule requirements at the Company's Mitchell Generating Station. The
8 Company forecasts the following in-service dates related to construction for CCR and
9 ELG:

- 10 • Dry Ash Handling System – May 2023
- 11 • Wastewater Ponds – November 2023
- 12 • Water Biological Treatment System with Ultrafiltration – April 2024

13 The CCR only option requires only the construction and associated work in connection
14 with the wastewater ponds. The Company estimates that the wastewater pond construction
15 would be placed in service in November 2023.

16 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO INCLUDE CCR AND**
17 **ELG CONSTRUCTION WORK IN PROGRESS IN TARIFF E.S. RATE BASE.**

18 A. Consistent with KRS 278.183(1), the Company proposes to include construction work in
19 progress ("CWIP") for project construction costs in Tariff E.S. rate base and concurrently
20 recover a return on project construction costs through Tariff E.S. rates. Accordingly,
21 Company Witness Scott has included an estimated level of CWIP in the Company's
22 estimated annual revenue requirement for Tariff E.S.

1 **Q. PLEASE DESCRIBE THE COMPANY'S ACCOUNTING FOR CCR AND ELG**
2 **INVESTMENT.**

3 A. The Company will record project construction costs to FERC Account 107 before
4 transferring the completed construction cost¹ to FERC Account 101 when the projects are
5 placed in service. The Company will then record related depreciation expense to FERC
6 Account 403 and corresponding accumulated depreciation to FERC Account 108. For
7 Tariff E.S. purposes, and consistent with ratemaking treatment in base rates, the Company
8 proposes to reflect ECP Project 22 (CCR and ELG (Case 1)) assets described in this case
9 as a component of rate base (CWIP and electric plant in service less accumulated
10 depreciation and less related deferred income taxes) in order to calculate a return on rate
11 base and include such return along with the related depreciation expense as recoverable
12 costs of service. The Company's monthly Tariff E.S. over-/under-recovery balance
13 calculation and related accounting results in collection of actual, allowed incurred costs
14 through Tariff E.S. rates.

Depreciation Rates

15 **Q. WHAT ARE THE USEFUL LIVES THAT THE COMPANY USED IN**
16 **DETERMINING THE DEPRECIATION RATES FOR THE CCR AND ELG**
17 **INVESTMENTS DESCRIBED IN THIS FILING?**

18 A. The Company's depreciation rates for the Mitchell Generating Station were last updated
19 as a result of the settlement approved by the Commission in Case No. 2017-00179, and

¹ If the Commission approves the Company's proposal to include CWIP for project construction costs in Tariff E.S. rate base and concurrently to recover a return on project construction costs through Tariff E.S. rates, an allowance for funds used during construction will not be charged to the proposed CCR and ELG projects.

1 are based on plant in-service balances at December 31, 2013 and an expected retirement
2 date of 2040.

3 For Case 1, the Company proposes a 5.86% annual depreciation rate for CCR and
4 ELG investments at Mitchell Generating Station based on a weighted average remaining
5 life of 17.08 years, as supported by the table below.

Case 1 - CCR and ELG Investment at Mitchell Generating Station:								
			A			B	C = A x B	D = 1 / C
Line No.	Project Description	Estimated Project Cost (in thousands)	Percentage of Total Estimated Project Cost	Expected Retirement Date	Estimated Project In-Service Date	Remaining Life (in Years)	Wtd. Avg. Remaining Life (in Years)	Proposed Depreciation Rate
1	Dry Ash Handling System	\$ 28,308	43.05%	December 2040	May 2023	17.50	7.53	
2	Wastewater Ponds	\$ 13,046	19.84%	December 2040	November 2023	17.08	3.39	
3	Water Biological Treatment System with Ultrafiltration	\$ 24,406	37.11%	December 2040	April 2024	16.58	6.15	
4	Total	\$ 65,759	100.00%				17.08	5.86%

6 For Case 2, the Company proposes a 20% annual depreciation rate for the CCR
7 only investments at Mitchell Generating Station based on an in-service date of November
8 2023 and closure of the plant in December 2028 (remaining life of 5 years).

9 The proposed depreciation rates for Case 1 and Case 2 do not consider a component
10 for net salvage at this time.

Request for Accounting Authority to Defer ELG Costs If Case 2 Selected

11 **Q. IS THE COMPANY CURRENTLY INCURRING ELG-RELATED COSTS AT**
12 **THE MITCHELL GENERATING STATION?**

13 A. Yes. As supported by Company Witness Sherrick, the ELG project at Mitchell Generating
14 Station has incurred costs of approximately \$2.8 million through October 2020 and is
15 projected to incur approximately \$2.0 million in additional costs through August 2021., for
16 a total of \$4.8 million of estimated incurred costs through August 2021. Kentucky Power
17 and Wheeling Power Company each own an undivided 50% interest in the Mitchell Plant;
18 therefore, Kentucky jurisdictional Mitchell Generating Station ELG project costs through
19 August 2021 are estimated to be \$2.4 million.

1 **Q. IF THE COMMISSION APPROVES CASE 2 FOR THE MITCHELL**
2 **GENERATING STATION, WHAT AUTHORITY DOES THE COMPANY**
3 **REQUEST WITH RESPECT TO INCURRED MITCHELL GENERATING**
4 **STATION ELG COSTS?**

5 A. If the Commission approves Case 2 for the Mitchell Generating Station, the Company
6 requests that the Commission:

- 7 • Conclude that any incurred Kentucky jurisdictional Mitchell Generating Station ELG
8 costs are prudently incurred on behalf of customers, and
- 9 • Include specific provisions in the final order in this proceeding authorizing the creation
10 of a corresponding regulatory asset subject to carrying charges based on an authorized
11 pre-tax weighted average cost of capital (“WACC”) of 7.62%² until the regulatory asset
12 is fully recovered.

13 The Company would then request amortization of deferred Mitchell Generating Station
14 ELG costs in a future base rate filing.

Asset Retirement Obligation Accounting and Ratemaking Treatment

15 **Q. WHAT IS THE COMPANY’S ACCOUNTING REQUIREMENT FOR ASSET**
16 **RETIREMENT OBLIGATIONS (“ARO”)?**

17 A. AROs are liabilities that are recognized pursuant to the Financial Accounting Standards
18 Board’s (“FASB”) Accounting Standards Codification (“ASC”) Topic 410, *Asset*
19 *Retirement and Environmental Obligations*. This accounting standard establishes the
20 accounting treatment for legal obligations related to asset retirement. Ash ponds from coal-
21 fired generating facilities such as Mitchell Generating Station typically have legal
22 obligations for final closure. The initial estimate and establishment of an ARO results in

² The Company will use the capital structure and cost of capital to calculate a pre-tax WACC rate of 7.62%, including the authorized return on equity of 9.3% for base rates, as approved by the Commission in Case No. 2020-00174.

1 the Company recording an ARO liability to FERC Account 230 and a corresponding ARO
2 asset to FERC Account 101.

3 **Q. PLEASE DESCRIBE THE COMPANY'S ACCOUNTING FOR CHANGES TO AN**
4 **ARO LIABILITY DUE TO THE PASSAGE OF TIME.**

5 A. The Company incurs accretion expense as the ARO liability increases from the time of
6 initial recognition until the time the obligation is settled and cash is paid. During the years
7 prior to the performance of final ARO settlement activities, accretion expense is calculated
8 using the discount rate(s) that was used to initially value the obligation. The Company
9 records accretion expense to FERC Account 411.10 (O&M expense) and a corresponding
10 increase to FERC Account 230 (ARO liability).

11 **Q. PLEASE DESCRIBE THE COMPANY'S ACCOUNTING FOR DEPRECIATION**
12 **OF THE ARO ASSET.**

13 A. When the Company incurs an ARO liability, an offsetting ARO asset is also recognized.
14 ARO assets are depreciated over the useful life of the associated facility, resulting in
15 depreciation expense recorded to FERC Account 403.1 and accumulated depreciation
16 recorded to FERC Account 108.

17 In summary, the Company's incurred ARO depreciation expense and ARO
18 accretion expense (described above) over the life of the facilities represent the estimated
19 cost of the legally required final closure activities.

20 **Q. FOR RATEMAKING PURPOSES, HOW DOES THE COMPANY PROPOSE TO**
21 **REFLECT ARO COST RELATED TO THE CCR AND ELG INVESTMENTS?**

22 A. Similar to the accounting for existing ash pond AROs, the Company proposes to recover
23 ARO final closure costs through base rates.

1 **Q. DOES THE COMPANY CURRENTLY HAVE AN ESTIMATE OF ARO COSTS**
2 **RELATED TO THE CCR AND ELG INVESTMENTS?**

3 A. No. As discussed by Company Witness Sherrick, the Company cannot accurately estimate
4 the AROs related to the new wastewater ponds that will be constructed at Mitchell
5 Generating Station at this time. Once those assets are placed in service, the Company will
6 develop closure cost estimates and record the corresponding ARO assets and ARO
7 liabilities. Upon the establishment of initial ARO assets and ARO liabilities, the Company
8 will reflect related ARO asset depreciation expense and ARO liability accretion expense,
9 respectively, in the Company's cost of service in future year base case filings with the
10 Commission.

11 **Q. WILL THE COMPANY INCLUDE THE ARO ASSET AND ARO LIABILITY IN**
12 **THE CALCULATION OF RATE BASE IN THE DEVELOPMENT OF FUTURE**
13 **BASE CASE REVENUE REQUIREMENTS?**

14 A. No. For the calculation of rate base related to the CCR and ELG projects at Mitchell
15 Generating Station and similar to the calculation of rate base in previous base rate filings,
16 the Company will reduce the amount of electric plant in service to remove the original cost
17 of ARO assets since these assets are non-cash plant assets. Similarly, the Company will
18 also reduce accumulated provision for depreciation (FERC Account 108) to remove
19 amounts related to the original cost of AROs since these net ARO assets are non-cash plant
20 assets.

Incremental O&M Expenses and Ratemaking Treatment

1 **Q. WILL THE COMPANY INCUR INCREMENTAL O&M EXPENSES RELATED**
2 **TO THE PROPOSED CCR AND ELG PROJECTS AT MITCHELL**
3 **GENERATING STATION?**

4 A. I understand from Company Witness Sherrick that the Company does not currently expect
5 to incur incremental O&M expenses related to these CCR and ELG construction projects.
6 The other costs included in project cost estimates supported by Company Witness Sherrick
7 represent certain anticipated recurring ash disposal operations and maintenance costs that
8 are recovered through base rates. If any new O&M expenses are incurred related to the
9 CCR and ELG projects at Mitchell Generating Station, the Company would reflect a going
10 level of CCR and ELG O&M expenses in future base rate filings.

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes, it does.



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E-Signature Summary

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

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hmwhitney@aep.com (Principal) (Personally Known)

E-Signature Notary: S. Smithhisler (SRS)

February 05, 2021 09:20:24 -8:00 [5AE683E24C48] [167.239.221.82]
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 2021/02/05 09:20:24 -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, this 5th day of February 2021.



S. Smithisler
Signed on 2021/02/05 09:20:24 -8:00

Notary Public

Notary ID Number: 2019-RE-775042

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