COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Electronic Application Of Kentucky Power Company For Approval Of Affiliate Agreements Related To The Mitchell Generating Station	)))	Case No. 2021-00421

REBUTTAL TESTIMONY OF

JASON A. CASH

ON BEHALF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jason A. Cash. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by American Electric Power Service Corporation ("AEPSC") as Director Regulatory Accounting Services. AEPSC supplies engineering, accounting, planning, advisory, and other services to the subsidiaries of the American Electric Power ("AEP") system, one of which is Kentucky Power Company ("Kentucky Power" or the "Company").

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I graduated with a Bachelor of Science degree with a major in accounting from The Ohio State University in 2000. In 2000, I joined AEPSC and have held several positions within the Accounting organization, including general ledger accounting and financial reporting for Ohio Power Company and AEPSC. From 2008 through 2013, I worked in AEPSC's Transmission Accounting department where I was promoted to Supervisor of Transmission Accounting in 2013. From 2014 through 2019, I worked in AEPSC's Accounting Policy & Research department as a Staff Accountant and was later promoted to Senior Staff Accountant in 2019. In 2019, I was promoted to the position of Accounting Senior

Manager within AEPSC's Corporate Accounting department. In 2021, I was promoted to my current position as Director of Regulatory Accounting Services.

Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS DIRECTOR OF REGULATORY ACCOUNTING SERVICES.

A. My responsibilities include providing the AEP electric operating subsidiaries with accounting support for regulatory filings, including the preparation of depreciation studies and testimony. I also monitor regulatory proceedings and legislation for accounting implications and assist in determining the appropriate regulatory accounting treatment.

Q. HAVE YOU HAD ANY FORMAL TRAINING RELATING TO DEPRECIATION AND UTILITY ACCOUNTING?

A. Yes. I am a member of the Society of Depreciation Professionals ("SDP") and was a former at-large director for the SDP. I have completed training courses offered by the SDP, which include Depreciation Fundamentals, Life and Net Salvage Analysis, and Analyzing the Life of Real World Property. These training classes included topics such as an introduction to plant and depreciation accounting, data requirements and collection, depreciation models, life cycle analysis, current regulatory issues, actuarial life analysis, net salvage analysis, and simulation life analysis.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have filed testimony before the Public Service Commission of Kentucky in Case No. 2017-00179, the Oklahoma Corporation Commission, the Public Utilities Commission of Ohio, the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Michigan Public Service Commission, the Indiana Utility Regulatory

Commission, the Public Utility Commission of Texas, the Virginia State Corporation Commission, the Public Service Commission of West Virginia, the and the Tennessee Public Utility Commission (formerly the Tennessee Regulatory Authority) on behalf of the AEP operating companies in those states. I have also filed testimony before the Federal Energy Regulatory Commission on behalf of subsidiaries of Transource Energy, LLC. Transource Energy, LLC is a joint venture between AEP and Great Plains Energy.

Q. DID YOU OFFER DIRECT TESTIMONY IN THIS PROCEEDING?

A. No, I did not.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to:

- Rebut statements made by the Office of Attorney General of the Commonwealth of Kentucky and Kentucky Industrial Utility Customers, Inc. ("AG/KIUC") Witness Lane Kollen regarding the amount the Company has recorded in accumulated cost of removal, and the Company's current depreciation rates and the net salvage components that are included in those rates; and
- Correct AG/KIUC Witness Kollen's statements regarding the accounting associated with the sale of the Company's share of the Mitchell Plant to Wheeling Power Company ("Wheeling").

III. NET SALVAGE

Q. AG/KIUC WITNESS KOLLEN REFERS TO DECOMMISSIONING COSTS, OR TERMINAL NET SALVAGE, WITHIN THE BUYOUT PROVISION OF THE PROPOSED MITCHELL PLANT OWNERSHIP AGREEMENT. WHAT IS NET

SALVAGE AND HOW DOES IT AFFECT DEPRECIATION RATES AND DEPRECIATION EXPENSE?

A. Salvage includes amounts received for depreciable property retired due to sale, reimbursement or reuse of the property. Removal cost is the expenditure incurred in connection with retiring, removing or disposing of property. Net salvage is the difference between salvage and removal cost.

Positive net salvage occurs when salvage exceeds removal cost. Positive net salvage decreases depreciation rates and hence depreciation expense. Negative net salvage occurs when removal cost exceeds salvage. Negative net salvage increases depreciation rates and hence depreciation expense.

Q. WHAT TYPES OF NET SALVAGE ARE TYPICALLY CONSIDERED FOR PRODUCTION PLANT TYPE PROPERTY, SUCH AS THE MITCHELL PLANT, WHEN DEVELOPING DEPRECIATION RATES?

A. The development of depreciation rates for production plant type property typically considers and includes both terminal and interim net salvage.

Q. HOW DOES TERMINAL NET SALVAGE DIFFER FROM INTERIM NET SALVAGE?

A. Terminal net salvage, or the final decommissioning costs excluding asset retirement obligation ("ARO") remediation, refers to the final costs incurred to retire the plant at the end of its useful life less any salvage received from the property retired (net salvage). Interim net salvage represents amounts received (salvage) net of removal cost incurred from retirements from the time a plant is placed in service until its final retirement. Net salvage is included in a depreciation study to recognize that there will be a cost and/or potential salvage value associated with those retirements that needs to be included in the depreciation calculation. Estimated terminal and interim net salvage is included with the calculated depreciation rates that are used to record depreciation expense and accumulated depreciation for the Company.

Q. IS IT AN ACCEPTED PRACTICE TO INCLUDE TERMINAL NET SALVAGE AS IN THE CALCULATION OF DEPRECIATION RATES FOR PRODUCTION PLANT ASSETS?

A. Yes. In other states where AEP operating companies seek approval of depreciation rates for production plants, including Indiana, Virginia, Michigan, Arkansas, Texas, Louisiana and Oklahoma, commissions recognize the need to include terminal net salvage in depreciation rate calculations.

In Kentucky, the Commission included a level of terminal net salvage in the depreciation rates for Kentucky Power's generating plants until January 2018, when it approved a settlement that excluded that component from the Company's depreciation rates.

In addition, the National Association of Regulatory Utility Commissioners' ("NARUC") "Public Utility Depreciation Practices" includes a discussion about terminal (final) net salvage for life span property and its inclusion with interim net salvage in depreciation rate calculations for this property. The discussion on page 161 of the NARUC manual provides:

> "Net salvage associated with final retirements must be composited with interim net salvage resulting from expected piecemeal retirements in order to develop an estimate of future net salvage."

Q. ON PAGE 16, LINES 16-20, OF HIS DIRECT TESTIMONY, AG/KIUC WITNESS KOLLEN STATES "[REMOVING THE DECOMMISSIONING COST COMPONENT FROM THE BUYOUT PRICE] IS IMPORTANT BECAUSE THE COMPANY'S CUSTOMERS ALREADY HAVE PAID FOR FUTURE DECOMMISSIONING COSTS AND THE COMMISSION SHOULD ENSURE THAT THIS REGULATORY LIABILITY IS USED TO OFFSET ANY SEPARATE PROVISION IN THE PROPOSED OWNERSHIP AGREEMENT TO PREPAY WHEELING POWER COMPANY FOR FUTURE ESTIMATED DECOMMISSIONING COSTS." IS THE ACCOUNTING FOUNDATION FOR THIS STATEMENT CORRECT?

A. The accounting assumptions in AG/KIUC Witness Kollen's statement are only partially correct. AG/KIUC Witness Kollen is generally correct that depreciation rates are usually calculated to include a level of terminal net salvage. In fact, as part of the approved settlement in Case No. 2014-00396, the Commission approved updated depreciation rates for the Mitchell Plant which included a level of terminal net salvage in the approved rates. The Commission later approved updated depreciation rates for the Mitchell Plant that excluded terminal net salvage all together from both the Mitchell Plant and also the Big Sandy Plant as part of the approved settlement in Case No. 2017-00179. Thus, to state that "the Company's customers already have paid for future decommissioning costs" is not entirely correct because the plant is not fully depreciated and the Company's Commission-approved depreciation rates are not currently collecting final decommissioning costs (*i.e.*, terminal net salvage). The FERC Uniform System of Accounts requires that the net salvage which is included in depreciation rates be accrued to accumulated depreciation. Although depreciation rates are typically calculated to include a level of terminal net salvage, current depreciation rates for the Mitchell Plant exclude terminal net salvage and have excluded terminal net salvage since the order was issued in Case No. 2017-00179. As of 12/31/2021, the Mitchell Plant carries an undepreciated balance, which means that the full amount of the Kentucky jurisdictional share of final decommissioning cost has not been collected from Kentucky customers. Furthermore, an undepreciated balance is expected at 12/31/2028 using current depreciation rates, unless regular depreciation studies are performed and the Commission approves updated depreciation rates that recovers the undepreciated balance, including both interim net salvage and terminal net salvage, by 12/31/2028.

Q. NOTWITHSTANDING THE ACCOUNTING INACCURACIES IN WITNESS KOLLEN'S STATEMENT, DO YOU AGREE WITH HIS CHARACTERIZATION THAT KENTUCKY POWER IS PREPAYING WHEELING'S DECOMMISSIONING COSTS?

A. No. AG/KIUC Witness Kollen misrepresents that any payment made for the estimated decommissioning costs in conjunction with the sale is being "prepaid" by Kentucky customers. Any estimated decommissioning cost amount applied to the adjusted fair market value to determine the Buyout Price – whether expressly through the backstop fair market value process or implicitly as a result of a mutually negotiated price -- becomes part of the overall sale transaction price and would not be recorded as a prepaid expense (or FERC account 165) on Wheeling's books. To the extent decommissioning costs collected through depreciation from Kentucky customers remain on Kentucky Power's books in 2028, Kentucky Power can propose appropriate ratemaking treatment for those amounts as a separate matter at that time to address the balance, if any. Company Witness Haynes further addresses the decommissioning cost issue raised by Mr. Kollen in terms of the buy-out provisions in the Mitchell Plant Ownership Agreement.

Q. WAS A DEPRECIATION STUDY FILED FOR THE MITCHELL PLANT WITH CASE NO. 2017-00179 OR CASE NO. 2020-00174?

A. No. The Company did not propose to update depreciation rates for the Mitchell Plant in Case No. 2017-00179. However, depreciation rates were updated for the Mitchell Plant in that case to exclude terminal net salvage with no other updates. The Company did not propose to update depreciation rates for the Mitchell Plant in Case No. 2020-00174.

Q. EARLIER IN HIS DIRECT TESTIMONY, PAGE 5, LINES 20-22, AG/KIUC WITNESS KOLLEN REFERS TO "…THE $8 MILLION IN DECOMMISSIONING COSTS THAT ALREADY HAVE BEEN RECOVERED FROM RATEPAYERS THROUGH DEPRECIATION EXPENSE AND THAT ARE RECORDED IN ACCUMULATED DEPRECIATION." ARE THE $8 MILLION IN DECOMMISSIONING COSTS THAT HE REFERS TO IN HIS DIRECT TESTIMONY EXCLUSIVELY DECOMMISSIONING COSTS?

A. No, they are not. As previously stated, total net salvage can include both interim net salvage and terminal net salvage. With the settlement that was approved in Case No. 2017-00179, terminal net salvage has been excluded from depreciation rates and as a result has not been collected from customers since the effective date of that order.

Q. ON PAGE 26, LINES 15-16, OF HIS DIRECT TESTIMONY, AG/KIUC WITNESS KOLLEN STATES "THE DECOMMISSIONING COMPONENT OF THE

COMPANY'S MITCHELL PLANT DEPRECIATION RATES REFLECTS A 2.5% ANNUAL ESCALATION RATE." IS THIS STATEMENT CORRECT?

A. No. As part of the approved settlement in Case No. 2014-00396, the Commission approved updated depreciation rates for the Mitchell Plant which excluded the 2.35% escalation factor that was included with the Company's calculation of terminal net salvage for the Mitchell Plant. With the settlement that was approved in Case No. 2017-00179, terminal net salvage was completely removed from Mitchell Plant's depreciation rates.

Q. ON PAGE 27, LINES 2-6, OF HIS DIRECT TESTIMONY, AG/KIUC WITNESS KOLLEN CLAIMS "THE DEFINITION OF DECOMMISSIONING COSTS SET FORTH IN SECTION 14 OF THE PROPOSED OWNERSHIP AGREEMENT FAILS TO MENTION SALVAGE INCOME." PLEASE RESPOND.

A. Company Witness Haynes further addresses whether the definition of decommissioning costs in the Mitchell Plant Ownership Agreement is sufficiently flexible to include estimated salvage income.

Q. ON PAGE 27, LINES 12-13, OF HIS DIRECT TESTIMONY, AG/KIUC WITNESS KOLLEN STATES "THE DECOMMISSIONING COMPONENT OF THE COMPANY'S MITCHELL PLANT DEPRECIATION RATES INCLUDES A 30% CONTINGENCY." IS THIS STATEMENT CORRECT?

A. No. The Company submitted a demolition estimate prepared by the independent engineering firm, Sargent & Lundy ("S&L"), to be included in Kentucky Power's proposed depreciation rates for the Mitchell Plant. The estimates prepared by S&L included a 15% allowance for contingency. The settlement approved in Case No. 2017-00179 completely removed terminal net salvage, including any contingency costs, from Mitchell Plant's depreciation rates. Thus, the statement made by Witness Kollen that the firms estimating decommissioning costs would include such a contingency is unsupported and, in fact, inconsistent with approach taken in current engineering estimates.

IV. ACCOUNTING FOR RETIREMENT AND SALE OF MITCHELL PLANT

Q. PLEASE DESCRIBE THE ACCOUNTING THAT IS REQUIRED BY THE COMPANY UPON EITHER THE RETIREMENT OR THE SALE OF KENTUCKY POWER'S 50% SHARE OF THE MITCHELL PLANT TO WHEELING.

A. Upon the retirement of the Mitchell Plant from the Company's books, whether by retirement or sale, the Company is required to follow FERC Electric Plant Instruction No. 10 "Additions and Retirements of Electric Plant," paragraph (2), which states:

> "(2) When a retirement unit is retired from electric plant, with or without replacement, the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property."

Upon the sale of the Mitchell Plant, the Company will continue to follow the FERC Uniform System of Accounts.

Q. ON PAGE 15, LINES 5-7, OF HIS DIRECT TESTIMONY, AG/KIUC WITNESS KOLLEN STATES "…THE COMPANY WILL RECLASSIFY AND RECORD THE EXCESS OF NET BOOK VALUE OVER THE FMV DETERMINED THROUGH THE NEGOTIATION OR APPRAISAL PROCESS AS A REGULATORY ASSET." DO YOU AGREE WITH THIS STATEMENT?

A. No. Unless the Commission approves updated depreciation rates for the Mitchell Plant which fully depreciates any remaining plant balances through December 2028, a debit balance will reside in accumulated depreciation upon the retirement or sale of the Company's interest in Mitchell Plant to Wheeling. Recovery of this remaining debit balance from the Company's customers would occur through future Commission review and authorization.

A reclassification of the debit balance residing in accumulated depreciation (FERC Account 108) related to the Mitchell Plant to a regulatory asset (FERC Account 182.3) would require approval from this Commission, as described within the FERC Uniform System of Accounts (Definition 31):

> "(31) Regulatory Assets and Liabilities are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable:
>
> > A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services…".

V. <u>CONCLUSION</u>

Q. PLEASE SUMMARIZE YOUR FINDINGS REGARDING MR. KOLLEN'S TESTIMONY ABOUT THE ACCOUNTING RELATED TO THE ACCUMULATED COST OF REMOVAL AND DECOMMISSIONING COST IN

THE BUYOUT PROVISION IN THE PROPOSED MITCHELL PLANT OWNERSHIP AGREEMENT.

A. AG/KIUC Witness Kollen's testimony is full of inaccuracies and factual mischaracterizations. My testimony, in conjunction with that of Company Witness Haynes, demonstrates that the accounting related to the Company's accumulated cost of removal and estimated decommissioning costs in the buyout provisions of the Mitchell Plant Ownership Agreement are consistent with accounting principles.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

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E-Signature Summary

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I, S. Smithhisler, did witness the participants named above electronically sign this document.

VERIFICATION

The undersigned, Jason A. Cash, being duly sworn, deposes and says he is Director - Regulatory Accounting Services for American Electric Power Service Corporation, that he 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 his information, knowledge and belief after reasonable inquiry.

Jason A. Cash

Jason A. Cash

STATE OF OHIO	)	
	)	Case No. 2021-00421
COUNTY OF FRANKLIN	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Jason A. Cash, on 02/09/2022.

NOTARY PUBLIC
STATE OF OHIO

Sarah Smithhisler
Commission # 2019-RE-775042
Electronic Notary Public
State of Ohio
My Comm Exp. Apr 29, 2024

Notarial act performed by audio-visual communication

S. Smithhisler

Notary Public

Notary ID Number: 2019-RE-775042