Kentucky Power Company
KPSC Case No. 2021-00421
Commission Staff's Second Set of Data Requests
Dated January 5, 2022

DATA REQUEST

KPSC 2-01 Refer to Kentucky Power’s response to Commission Staff’s First Request for Information (Staff’s First Request), Item 3.c. Confirm that none of the environmental permits listed in Attachment 1 to Kentucky Power’s response to Staff’s First Request, Item 3.c. contain a date certain.

RESPONSE

Confirmed. The timing for the permit transfers is driven by the Commission’s directive that the transfer of the permits be accomplished in a prompt manner.

Witness: Timothy C. Kerns

DATA REQUEST

KPSC 2-02 Refer to Kentucky Power's response to Staff's First Request, Item 9.Identify the technical expert who has been selected, provide the specific criteria used to evaluate and select the technical expert, and explain whether the selection was made in response to a request for proposals.

RESPONSE

Burns & McDonnell has been selected as the Technical Expert to study allocation of CCR and ELG costs for Kentucky Power and Wheeling Power. The American Electric Power Service Corporation (AEPSC) sent requests for proposals to seven independent consultants seeking their CCR and ELG technology experience, their familiarity with the CCR and ELG rules, their regulatory experience, and their availability and schedule.

One consultant did not respond. Two responded that they did not have ELG or regulatory experience. Two responded that they did not have resources available to serve as the Technical Expert. Two consultants responded with proposals. The two proposals were evaluated based on the aforementioned criteria, and Burns & McDonnell was selected. There is now an agreement in place and the team has started the study regarding allocation of CCR and ELG costs.

Witness: Timothy C. Kerns

DATA REQUEST

KPSC 2-03 Refer to Kentucky Power’s response to Staff’s First Request, Item 11.b.Provide the calculations showing how the CapEx adjustment was derived in the numerical example.

RESPONSE

See KPCO_R_KPSC_2_03_Attachment1 for the requested information.

Witness: Stephan T. Haynes

DATA REQUEST

KPSC 2-04 Explain why the inclusion of any Effluent Limitations Guidelines (ELG)related costs and or expenditures in any facet of the Ownership or Operating Agreements does not violate the Commission's July 15, 2021 Order in Case No. 2021-00004.[2]

[2] Case No. 2021-00004, 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.

RESPONSE

The updated agreements need to recognize the two different paths approved by the West Virginia and Kentucky Commission on ELG investments. While Kentucky decided to only move forward with CCR investment and not operate the plant past 2028, the West Virginia Commission approved the full ELG investment to preserve its option to run past 2028. This means there is a significant difference in how the two owners are investing in and considering ELG investment. The Kentucky Commission instructed KPCO to ensure ELG costs are not borne by Kentucky customers and to update permits and operations to effectuate that outcome. Recognizing the two paths chosen by the Commissions on ELG investment is necessary to recognize and ensure the investment is clear, customers are protected, and the regulated companies can begin to plan for the Commission directed end of life in their different jurisdictions.

Witness: Deryle B. Mattison

DATA REQUEST

KPSC 2-05 Kentucky Power acquired its share of the Mitchell facility at book value without regard to an estimated fair market valuation. Explain why this Commission should approve a transfer amount other than the Mitchell facility's book value as of December 31, 2028 for the Mitchell facility minus any and all ELG related costs and or expenditures.

RESPONSE

See the Company's response to AG-KIUC 1-19, which describes why the divergent regulatory and economic interests of both the Company and Wheeling Power Company are appropriately and fairly balanced by using a fair market valuation process instead of an adjusted net book value for the transfer price.

Transfers at net book value between plant co-owners would typically happen between regulated utilities under circumstances where there is alignment on the remaining useful life of the plant based on the investments they have equally made. Although the Mitchell Plant may be operated beyond 2028 by Wheeling Power, the value of the plant to Kentucky Power terminates as of December 31, 2028 because Kentucky Power will not be investing in the ELG environmental control equipment necessary for the plant to operate after that date due to orders of the KPSC rejecting the CPCN for that investment. Thus, for purposes of the buyout transaction, if net book value is used, the plant should be deemed to be depreciated to zero as of the end of its useful life to Kentucky customers, which is through 2028 and not 2040.

The Company also notes that the three prior transfers of Mitchell Plant at adjusted net book value – from Ohio Power Company to AEP Generation Resources, Inc. ("AEPGR"), and from AEPGR in equal shares to the Company and Wheeling Power Company, respectively – were the result of a corporate reorganization of Ohio Power Company due to the deregulation of generation in Ohio. Those circumstances, under which ownership of the plant was re-allocated among AEP affiliates due to a mandatory divestiture mandate, are inherently different than the circumstances here, where the potential future transfer of the plant under the Mitchell Plant Ownership Agreement will be at Wheeling Power's option, based on the future economics of the plant in comparison to the option of retiring the plant, and will likely occur when the companies are no longer affiliates.

The Company concurs that the transfer price should include a mechanism to reduce the otherwise applicable value of the plant to account for the ELG-related costs and expenditures carried solely by Wheeling Power. To provide additional fairness and protection to both Owners, the fair market valuation process set forth in the Mitchell Plant Ownership Agreement also provides that (1) the Fair Market Value should include a reduction for the costs and expenditures carried by Wheeling for other assets in excess of its ownership share because their useful lives extended past 2028, enabling the Company to not fund costs and expenditures on those assets when made to the same extent; and (2) Fair Market Value is defined in the Mitchell Plant Ownership Agreement to expressly prevent the resulting amount from being less than zero (i.e., Fair Market Value can never be an amount due to Wheeling Power from the Company).

Witness: Stephan T. Haynes

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DATA REQUEST

KPSC 2-06 Refer to Kentucky Power’s Response to Staff’s First Request, Item 14.h.and Item 18.f. Explain in specific detail why it is reasonable to eliminate the “outlier” fair market appraisal amount.

RESPONSE

The intent of the appraisal process is to determine fair market value (FMV) which is defined as “... with respect to the KPCo Interest as of any date, an amount (which may be a positive or a negative number) equal to 50% of the cash price obtainable in an arm’s-length sale of the entirety of the Mitchell Plant between an informed and willing buyer and seller, in each case under no compulsion to buy or sell, as the case may be, as determined by and adjusted in accordance with the procedures and valuation criteria and factors set forth in Section 9.6(b)."

The intent of eliminating outliers is to truly eliminate estimates that are inconsistent with the best estimates of FMV. An estimate that is significantly different than two indicates that it is not a good estimate of FMV. This is a common practice when obtaining appraisals for the purpose of determining FMV.

Witness: Deryle B. Mattison

Kentucky Power Company
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DATA REQUEST

KPSC 2-07 State whether Kentucky Power or any AEP subsidiary used the same fair market appraisal calculation that excludes an "outlier" appraisal amount as specified in the Mitchell Operating Agreement, Section 9.6(b). If so, identify which entity or entities have utilized the same calculation and provide documentation of any agreement or transaction that utilized the same calculation methodology.

RESPONSE

This circumstances surrounding and giving rise to the need for the new Mitchell Operations and Maintenance Agreement are unique and exceptional, as detailed in the Company's direct case. For these reasons, neither the Company nor an AEP subsidiary has used a fair market appraisal calculation that is identical to that outlined in Section 9.6(b) of the Operations and Maintenance Agreement. Nonetheless, as noted in the Company's response to KPSC 2-6, it is common practice to exclude outliers when conducting a fair market analysis.

Witness: Deryle B. Mattison

DATA REQUEST

KPSC 2-08 Refer to the proposed Mitchell Ownership Agreement, Article 6.9. Explain whether the parties' intent is that this contract provision take precedence over any regulatory agency's decision or order. If so, provide the basis for which Kentucky Power asserts the contract term takes precedence over a regulatory agency's decision or order.

RESPONSE

No, that is not the parties' intent.

Witness: Deryle B. Mattison

DATA REQUEST

KPSC 2-09 Refer to the proposed Mitchell Ownership Agreement, Article 9.6(b). Confirm that if the highest appraisal amount is more than twice the amount of the middle estimate, then the highest estimate is excluded and only the middle and lowest estimates are used. If confirmed, explain why there is not a similar provision for excluding the lowest estimate if it is equally lower than the middle estimate.

RESPONSE

The Company can neither confirm nor deny because this provision applies with respect to both high and low outliers. The Mitchell Ownership Agreement 9.6(b) states "If the Fair Market Value determined by one of the three Appraisers deviates from the Fair Market Value determination of the middle Appraiser by more than twice the amount by which the Fair Market Value determination of the other Appraiser deviates from the Fair Market Value determination of the middle Appraiser, then the Fair Market Value determination of such Appraiser shall be excluded, the remaining two Fair Market Value determinations shall be averaged, and such average shall be the Fair Market Value, which shall be binding and conclusive on the Owners; otherwise the average of all three Fair Market Value determinations shall be the Fair Market Value, which shall be binding and conclusive on the Owners." This provision is aimed at eliminating true outliers, not at eliminating merely a "high" or "low" estimate, but nonetheless would apply if a "lowest estimate" deviated by more than twice the other two estimates.

Witness: Deryle B. Mattison

DATA REQUEST

KPSC 2-10 Refer to the proposed Mitchell Ownership Agreement, Article 12. Identify the senior executives with authority to resolve disputes if the Operating Committee cannot reach a unanimous decision.

RESPONSE

If the agreement were approved today, the senior executives would be Brett Mattison, President of Kentucky Power and Chris Beam, President of Wheeling Power.

Witness: Deryle B. Mattison

DATA REQUEST

KPSC 2-11 State whether there is a current Mitchell Ownership Agreement between Kentucky Power and Wheeling Power. If so, provide a copy.

RESPONSE

No, there is not a current "Mitchell Ownership Agreement" between Kentucky Power and Wheeling Power. The companies' relationship is currently governed by the existing Mitchell Plant Operating Agreement, which was filed as Exhibit DBM-1 to witness Mattison's direct testimony in this proceeding.

Witness: Deryle B. Mattison

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E-Signature Summary

E-Signature 1: Timothy C Kerns (TCK)
January 13, 2022 07:40:17 -8:00 [068BDE947FDF] [96.31.205.224]
tckerns@aep.com (Principal) (Personally Known)

E-Signature Notary: S. Smithhisler (SRS)
January 13, 2022 07:40:17 -8:00 [6F66D364E227] [161.235.221.106]
srsmithhisler@aep.com
I, S. Smithhisler, did witness the participants named above electronically sign this document.

VERIFICATION

The undersigned, Timothy C. Kerns, being duly sworn, deposes and says he is Vice President of Generating Assets for American Electric Power Service Corporation, that he has personal knowledge of the matters set forth in the forgoing responses, and the information contained therein is true and correct to the best of his information, knowledge and belief after reasonable inquiry.

Timothy C Kerns

____

Timothy C. Kerns

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 Timothy C. Kerns, on 01/13/2022.

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

VERIFICATION

The undersigned, Brett Mattison, being duly sworn, deposes and says he is President and COO of Kentucky Power Company, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief after reasonable inquiry.

Brett Mattison

____
Brett Mattison

Commonwealth of Kentucky)
) Case No. 2021-00421
County of Boyd)

Subscribed and sworn before me, a Notary Public, by Brett Mattison this 12th day of January, 2022.

Scott E. Bishop
____
Notary Public

My Commission Expires June 24, 2025

SCOTT E. BISHOP
Notary Public
Commonwealth of Kentucky
Commission Number KYNP32110
My Commission Expires Jun 24, 2025

Notary ID Number: KYNP 32110

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E-Signature 1: Stephan T Haynes (STH)
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sthaynes@aep.com (Principal) (Personally Known)

E-Signature Notary: S. Smithhisler (SRS)
January 13, 2022 07:30:25 -8:00 [64A7606148D7] [161.235.221.106]
srsmithhisler@aep.com
I, S. Smithhisler, did witness the participants named above electronically sign this document.

VERIFICATION

The undersigned, Stephan T. Haynes, being duly sworn, deposes and says he is Senior Vice President of Strategy & Transformation for American Electric Power Service Corporation, that he has personal knowledge of the matters set forth in the forgoing responses, and the information contained therein is true and correct to the best of his information, knowledge and belief after reasonable inquiry.

Stephan T Haynes

Stephan T. Haynes

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 Stephan T. Haynes, on 01/13/2022.

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