COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF AMERICAN ELECTRIC POWER COMPANY, INC., KENTUCKY POWER COMPANY AND LIBERTY UTILITIES CO. FOR APPROVAL OF THE TRANSFER OF OWNERSHIP AND CONTROL OF KENTUCKY POWER COMPANY	)))	Case No. 2021-00481

REBUTTAL TESTIMONY OF

STEPHAN T. HAYNES

ON BEHALF OF KENTUCKY POWER COMPANY

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EXHIBITS

EXHIBIT	**DESCRIPTION**
EXHIBIT STH-R1	Kentucky Power Distribution and Transmission Transfers

**DIRECT TESTIMONY OF
STEPHAN T. HAYNES ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2021-00481

I. INTRODUCTION

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

A. My name is Stephan T. Haynes, and I am senior vice president, Strategy and Transformation, for American Electric Power Service Corporation ("AEPSC"). AEPSC is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP") and provides engineering, regulatory, financing, accounting, and planning and advisory services to subsidiaries of AEP, including Kentucky Power Company (the "Company" or "Kentucky Power"). My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. ARE YOU THE SAME STEPHAN T. HAYNES WHO OFFERED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

II. PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to respond to the allegations of Lane Kollen of J. Kennedy and Associates, Inc. who submitted direct testimony on behalf of the Office of Attorney General of the Commonwealth of Kentucky and Kentucky Industrial Utility Customers, Inc. I will demonstrate that Witness Kollen presents a false narrative to justify his theory that AEP should pay a more than half billion-dollar penalty to consummate the transaction. His result-oriented analysis of alleged past harms – which self-servingly yields a result nearly identical to the gain he incorrectly contends that AEP will realize on the transaction – is patently unreasonable. Equally importantly, it would send a singular negative message to current and future investors in regulated infrastructure in the Commonwealth if such draconian and unrealistic conditions are imposed as requested. My testimony further demonstrates that Mr. Kollen's testimony regarding the value to Kentucky Power of current affiliate sharing agreements is overstated. Finally, I discuss how the prompt approval of the Mitchell Agreements is appropriate and will facilitate both the orderly transition of Kentucky Power to Liberty ownership and the prudent future management of the Mitchell Plant regardless of who owns Kentucky Power.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. I am sponsoring the following rebuttal exhibits:

EXHIBIT	DESCRIPTION
EXHIBIT STH-R1	Kentucky Power Distribution and Transmission Transfers

III. REBUTTAL OF PROPOSED TRANSACTION ALLEGATIONS OF WITNESS KOLLEN

Q. WHAT CRITICISMS OF THE PROPOSED TRANSACTION MADE BY WITNESS KOLLEN DO YOU ADDRESS IN YOUR TESTIMONY?

A. The primary thrust of Witness Kollen's testimony is that AEP should pay Kentucky Power $578 million of an alleged $585 million acquisition premium to be recorded as a regulatory liability for the benefit of customers as compensation for the alleged risk and harms from the sale of Kentucky Power to Liberty. Setting aside the impropriety of any alleged "penalty," there is a fatal flaw in his testimony because he fails to calculate the actual gain experienced by AEP. Witness Llende address the fundamental error in Kollen's calculation by showing that the actual amount of AEP's after-tax gain on the sale of Kentucky Power, based on bedrock accounting principles, is far smaller than the gain Kollen imagines. I also show how it would be misguided as a matter of policy in attracting business to the state to ask for the seller of a utility, AEP, to pay the acquisition premium to Kentucky or its customers. In his testimony, Witness Kollen also restates his arguments that the Commission should not approve the proposed Mitchell Agreements. I address those allegations as well and show that the Agreements should be approved expeditiously regardless of the sale of Kentucky Power. Finally, I address Mr. Kollen's flawed increased inventory cost calculation.

a. Rebuttal of Witness Kollen's Allegations Regarding the Concept of Reimbursing Customers from the Gain

Q. DO YOU AGREE WITH MR. KOLLEN'S ALLEGATIONS AEP HAS A $585 MILLION GAIN FROM THE TRANSACTION AND THAT IT SHOULD PAY KENTUCKY POWER'S CUSTOMERS $578 MILLION OF THAT AMOUNT AS A PENALTY?

A. Absolutely not. Witness Kollen's argument that Kentucky Power has caused past damages or future risks is flawed and is based on an attempt to capture a perceived AEP gain that is erroneous. Mr. Kollen's calculation of the acquisition premium ignores well-accepted and fundamental accounting and tax principles applicable to AEP. Instead of an objective study, Witness Kollen instead has engaged in a result-oriented analysis in which he found alleged past harms and alleged future risks in an amount that is almost the entire incorrectly assumed gain he puts forward. Indeed, many of his alleged past harms relate to prior cases and Commission orders that he now seeks to collaterally attack, as well as conditions included in the prior orders that were spawned by his client's own positions in those proceedings. His analysis is a result-oriented effort to find an amount as close to his calculated gain as possible, notwithstanding the actual facts, and should be rejected out of hand.

Q. HOW IS AEP'S AND KENTUCKY POWER'S RESPONSE TO KOLLEN'S ALLEGATIONS ORGANIZED?

A. I will address the effect that Witness Kollen's proposed penalty would have on investment in Kentucky and investor sentiment on the business climate in Kentucky, and also summarize the testimony of other witnesses that address the false presumptions that give rise to the list of liabilities created to salvage that incorrectly assumed gain. Specifically, Company Witness James Llende addresses Mr. Kollen's erroneous calculation of AEP's gain from the sale of the Company. In addition, Mr. Llende also addresses Witness Kollen's erroneous statements regarding the Company's and AEP's taxes.

Q. IS MR. KOLLEN'S CALCULATION OF THE 'ACQUISITION PREMIUM' RECEIVED BY AEP THE GAIN THAT AEP WOULD RECEIVE BY CLOSING THE SALE OF KENTUCKY POWER?

A. No. What Mr. Kollen is trying to calculate as AEP's acquisition premium from a sale of Kentucky Power would be called by accountants the 'after-tax accounting gain on sale'. As Company Witness Llende shows, AEP's gain on the Kentucky Power sale transaction is much smaller than the more than half billion-dollar amount calculated by Witness Kollen.

Q. WHAT IS FLAWED ABOUT MR. KOLLEN'S ASSUMPTION OF THE GAIN RETAINED BY AEP TO FUND HIS ASSERTED HARM WITH AEP'S DEPARTURE?

A. Mr. Kollen ignores the full economic impact of this transaction on the books of American Electric Power and provides the Commission with an incomplete analysis of the financial result. Witness Llende explains that AEP's actual expected gain on the sale of Kentucky Power is approximately $40 million - around seven percent (7%) of the $585 million acquisition premium benefit that Mr. Kollen incorrectly contends AEP will receive.

Q. WHAT ELSE IS FLAWED ABOUT MR. KOLLEN'S REQUEST THAT AEP PAY ITS SALE PREMIUM TO KENTUCKY CUSTOMERS?

A. A share of stock in Kentucky Power is not analogous to an asset held by Kentucky Power, a regulated utility. Regulatory principles in Kentucky require that Kentucky's customers receive adequate, efficient and reasonable service at fair, just and reasonable rates established by this Commission. The fact that Kentucky Power has been unable to earn its authorized return over the past nine years shows not only how AEP is exposed to those risks (which customers are not) but also how rates have been kept artificially low (preventing Kentucky Power from earning its authorized return) over a long period, which is a benefit to customers. For Witness Kollen to ask the Commission to impose further financial harm on AEP through a result-oriented position on the gain is inappropriate.

Q. HOW MIGHT KOLLEN'S POSITION AFFECT INVESTOR THINKING ABOUT INVESTING IN KENTUCKY?

A. We know investors are watching this case closely for what it will reveal about the state's business climate. Regulatory Research Associates, or RRA, a group within S&P Global Commodity Insights, recently issued a report, RRA State Regulatory Evaluations – Energy, indicating that investors are closely watching this proceeding for what information it can provide about utility regulation in the state. As stated in the report, "The [Kentucky] commission's composition has changed meaningfully during the past year, and it is unclear whether the actions taken by the PSC in these cases are indicative of a sustained move toward a more restrictive regulatory climate. The proposed sale of American Electric Power Co. Inc.'s Kentucky Power Co. subsidiary bears watching over the coming months." That this transaction is of significant interest to investors is confirmed by the investor calls of both AEP and Liberty since the transaction's announcement in October 2021, in which numerous questions have been raised by investors about the transaction and its likelihood of success.

Adopting the position for which Witness Kollen advocates and requiring the seller of a utility to pay hundreds of millions of dollars in order to transfer its ownership of a Kentucky utility to another multi-utility company is likely to have a significantly chilling effect on investment in the Commonwealth.

Q. ARE YOU AWARE OF ANY UTILITY ACQUISITIONS OR MERGERS THAT HAVE REQUIRED THE SELLING COMPANY TO PAY PROCEEDS, GAINS OR PREMIUMS TO THE UTILITY OR THE CUSTOMERS OF THE UTILITY BEING SOLD?

A. No. Although there are cases where, as part of a settlement, a customer benefits fund has been agreed to by the acquiring company and intervenors, I am not aware of any instance where the alleged gain on a transaction has been taken by a state regulatory commission as part of discharging its responsibility to determine that a transaction is in the public interest in accordance with applicable state laws. I further am not aware of any transaction that either involved payment by a selling company, nor were any proposed gains calculated using an approach like the unreasonable, over-inflated and result-oriented analysis engaged in by Witness Kollen, which yields an unworkable standard that would have a negative impact on investments in the Commonwealth.

Q. WHAT IS YOUR CONCLUSION ABOUT AEP PAYING A PENALTY EQUIVALENT TO A PORTION OF ITS GAIN ON THE SALE OF KENTUCKY POWER TO CUSTOMERS?

A. Customer benefits resulting from a sale or acquisition is a matter for the acquiring company to consider as part of its customer benefits package, not an attempt to penalize the selling company on the way out. Nothing should be required to be paid to customers to consummate a transaction out of a gain from a transaction. It is just bad business practice for the Commonwealth of Kentucky to be seen as requiring this type of sale requirement and could make other companies think long and hard before seeking to invest in a company in Kentucky. Furthermore, beyond the factually unsupported basis for Mr. Kollen's conclusion that Kentucky Power's customers have been or will be damaged by the past actions of the Company and the proposed transfer, it is my understanding that the Commission lacks a legal basis to impose a penalty on the selling owner of a regulated utility, or to award damages to customers

Any gain or loss received from the sales of Kentucky Power and Kentucky Transco will be received by the shareholders of Kentucky Power and Kentucky Transco which are American Electric Power, Inc. and AEP Transmission, LLC. Liberty is offering customers many benefits including a rate holiday from the Big Sandy rider, a fund to offset the costs of volatile fuel, and a commitment to seek securitization on generating assets that could decrease customer bills. Those commitments from the acquiring company that further place the transaction in the public interest should be the focus of the proceeding. Without the consummation of the transaction, customers will not receive those benefits, which are unparalleled.

b. Rebuttal of Witness Kollen's Allegations Regarding the Loss of Affiliate Agreements Related to Inventory Sharing

Q. HOW DOES WITNESS KOLLEN CALCULATE HIS ESTIMATE OF INCREASED COST DUE TO LOSS OF SHARED INVENTORY AND SPARE PARTS WITH AEP UTILITY AFFILIATES?

A. Mr. Kollen provides a $25 million estimate of the increase in materials and supplies and inventories, which is materially overstated and ignores a major portion of the shared inventory as it relates to generating plants. He provides no source for this number, applies an actual financing cost, and then does a ten year net present value of that increased financing cost. As shown below, this is an inaccurate simplification that yields only a speculative result.

Q. WILL THE CHANGE IN THE CURRENT AFFILIATE AGREEMENTS HAVE AS LARGE AN IMPACT ON THE COMPANY INVENTORY AS WITNESS KOLLEN PROJECTS?

A. No. Witness Kollen's assumptions are grounded in the potential impacts of inventory changes on Kentucky Power's generation facilities. Those facilities' relationship to shared inventory will not materially change after the transfer. First and foremost, he ignores the Mitchell Ownership Agreement and Mitchell O&M Agreement, under which Wheeling Power Company will operate the Mitchell Plant. By being the Mitchell operator, Wheeling will continue to have access to the shared spare parts arrangement currently used by Kentucky Power as operator of Mitchell. Additionally, the Big Sandy plant does not have any shared spare parts with other AEP generating units and therefore does not currently benefit from affiliate sharing. Thus, because Kentucky Power's access to generation spares will be unchanged, those spares should be excluded. The exclusion of generation spares significantly reduces the inventory and spare parts impacts, which are limited to Kentucky Power's transmission and distribution operations.

Q. HAVE YOU BEEN ABLE TO CALCULATE AN ESTIMATE OF THE IMPACT OF THE CHANGE TO TRANSMISSION AND DISTRIBUTION INVENTORY AND SPARE PARTS FROM KENTUCKY NOT BEING IN THE CURRENT AFFILIATE AGREEMENTS?

A. Yes. Based on actual Kentucky Power transmission and distribution inventory data for the last two years and its actual cost of capital, Kentucky Power realizes an actual financing benefit of $58,000 using Mr. Kollen's approach. That amount equates to $0.42 million on a 10-year NPV basis, and as Mr. Balashov's testimony further demonstrates, this alleged harm is negated through Liberty's inventory management.

Q. PLEASE DESCRIBE HOW YOU CALCULATED KENTUCKY POWER'S AFFILIATE SHARING BENEFIT.

A. I obtained Kentucky Power inventory data from 2020 and 2021, analyzed the inventory requests to move transmission and distribution parts and equipment between Kentucky Power and affiliate companies, and calculated the total dollar amount of those inventory transfers. The details of my analysis are shown in Exhibit STH-R1. The calculation shows that over the last two years Kentucky Power net transferred out inventory to AEP affiliates an average of a $932,000 per year. I used the Company's last approved weighted average cost of capital (WACC) of 6.19% for the financing cost/benefit and the NPV calculation, rather than Kollen's use of 7.60% to calculate the annual financing cost and 6.19% to calculate the 10-year NPV financing cost identified above.

Q. BASED ON YOUR ANALYSIS, WHAT DO YOU CONCLUDE ABOUT WITNESS KOLLEN'S AFFILIATE AGREEMENT ARGUMENT?

A. Application of the actual transmission and distribution inventory data clearly shows the impact to the Company is immaterial and based on the last two years would be a benefit to the Company. I conclude that Witness Kollen's estimate is grossly in error versus reality.

c. Rebuttal of Witness Kollen's Allegations Regarding the Regulatory Approvals of The Proposed Mitchell Plant Operation and Maintenance Agreement And Mitchell Ownership Agreement

Q. IN HIS TESTIMONY, WITNESS KOLLEN REITERATES HIS OPPOSITION TO THE MITCHELL AGREEMENTS, AND STATES THE COMMISSION

DOES NOT NEED TO RULE ON THEM IN CONJUNCTION WITH THE TRANSACTION. WHAT DO YOU THINK OF HIS POSITION?

A. The Commission should disregard Mr. Kollen's comments and promptly issue an order on the Mitchell Agreements as requested by the Company in Case 2021-00421. Mr. Kollen is simply pressing his arguments in that case in a new forum. Mr. Kollen also wades into his lay understanding of under what conditions the transaction could be terminated by Liberty if the Mitchell Agreements are not approved. While Mr. Kollen is incorrect in a number of his assertions about that issue, that is beside the point and a distraction to the Commission's review in this case. Mr. Kollen seeks to draw the Commission and the parties into an issue that is irrelevant as to whether the Commission should approve the transaction based on the public interest standard in Kentucky Law.

Q. SHOULD THE COMMISSION DELAY THE APPROVAL OF THE MITCHELL AGREEMENTS TO AFTER THE APPROVAL OF LIBERTY'S ACQUISITION OF KENTUCKY POWER?

A. No. The Commission should approve the Mitchell Agreements in order to enable the prudent operation of the Mitchell Plant into the future and enable those changes to happen promptly with protections in place for Kentucky customers.

Delay in approving the proposed Mitchell Agreements would delay a number of critical activities. It would delay the Effluent Limitation Guidelines ("ELG") compliance construction by Wheeling Power which has a date certain deadline to keep the plant compliant. It would delay naming Wheeling Power as operator and put Wheeling in the position of operating the plant and assuming the additional responsibilities around ELG compliance. It would also delay the needed clarification of the changed process for Mitchell Plant capital investment decisions and the allocation of those capital investments between the two owners depending on whether the investment is a pre-2028 investment or an investment made for post-2028. Finally, it would delay Liberty's acquisition of Kentucky Power, which in turn delays the application of the benefits proposed. The transaction cannot close until all approvals are received for the revised Mitchell Agreements because those approvals are conditions precedent to closing the transaction, as well as of significant overall importance to the future of Kentucky Power, and hence of significant importance to Liberty as well. Thus, there is no reason for the Commission to wait to approve the Mitchell Agreements, which are pending in Case No. 2021-00421 and need to be addressed irrespective of the transaction in order for Mitchell's owners to comply with this Commission's orders on ELG.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Calculation of Kentucky Transaction Inventory Impact

Kollen's Analysis

Annual Increased Finanicng Cost	$ 1.9												
Annual Increased Inventory	$ 25												
Grossed up Rate of Return	7.60%												
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**		
$ in millions		-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	NPV	($13.90)
												Discount Rate	6.1%

AEP Analysis

Annual Decreased Finanicng Cost	$ 0.058												
Annual Decreased Inventory	$ 0.9	Average Net Transfer Out for 2020 & 2021											
Grossed up Rate of Return	6.2%												
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**		
$ in millions		0.058	0.058	0.058	0.058	0.058	0.058	0.058	0.058	0.058	0.058	NPV	$0.42

Distribution

	Transfer Out	Transfer In	Net Out / (In)
2020	$ 3,585,069.76	$ 1,719,997.53	$ 1,865,072.23
2021	$ 3,103,519.40	$ 1,820,039.96	$ 1,283,479.44
Average	$ 3,344,294.58	$ 1,770,018.75	$ 1,574,275.83

Transmission

	Transfer Out	Transfer in	Net Out / (In)
2020	$ -	$ 511,351.03	$ (511,351.03)
2021	$ 18,639.27	$ 791,374.28	$ (772,735.02)
Average	$ 9,319.63	$ 651,362.66	$ (642,043.03)

Total

	Transfer Out	Transfer in	Net Out / (In)
2020	$ 3,585,069.76	$ 2,231,348.57	$ 1,353,721.19
2021	$ 3,122,158.66	$ 2,611,414.24	$ 510,744.42
Average	$ 3,353,614.21	$ 2,421,381.41	$ 932,232.81

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E-Signature 1: Stephan Haynes (STH)
March 17, 2022 07:15:18 -8:00 [2381386ECD6D] [167.239.75.249]
sthaynes@aep.com (Principal) (Personally Known)

E-Signature Notary: Jennifer Young (JY)
March 17, 2022 07:15:18 -8:00 [B48D42C793B9] [167.239.221.103]
jayoung1@aep.com
I, Jennifer Young, 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 Haynes
Signed on 2022/03/17 07:15:18 -8:00

Stephan T. Haynes

COMMONWEALTH OF KENTUCKY)
) Case No. 2021-00481
COUNTY OF BOYD)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Stephan T. Haynes, this _17__ day of March 2022.

Signed on 2022/03/17 07:15:18 -8:00

Notary Public

Notary ID Number: ___KYNP31964_________

My Commission Expires: __6/21/2025________

JENNIFER A. YOUNG
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # KYNP31964
My Commission Expires Jun 21, 2025

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