

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
ALEX E. VAUGHAN
ON BEHALF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

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

3 A. My name is Alex E. Vaughan, and I am employed by American Electric Power
4 Service Corporation (“AEPSC”) as Director, Regulated Pricing and Renewables.
5 My business address is 1 Riverside Plaza, Columbus, Ohio 43215. AEPSC is a
6 wholly-owned subsidiary of American Electric Power Company, Inc. (“AEP”), the
7 parent Company of Kentucky Power Company (the “Company” or “Kentucky
8 Power”).

9 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

10 A. My responsibilities include the oversight of cost of service analyses, rate design,
11 special contracts, and renewables for the AEP System operating companies.

12 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE AND**
13 **EDUCATIONAL BACKGROUND.**

14 A. I graduated from Bowling Green State University with a Bachelor of Science
15 degree in Finance in 2005. Prior to joining AEPSC, I worked for a retail bank and
16 a holding company where I held various underwriting, finance, and accounting
17 positions. In 2007, I joined AEPSC as a Settlement Analyst in the RTO Settlements
18 Group. I later became the PJM Settlements Lead Analyst, where I was responsible
19 for reconciling AEP’s settlement of its activities in the PJM market with the

1 monthly PJM invoices and for resolving issues with PJM. In 2010, I transferred to
2 Regulatory Services as a Regulatory Analyst and was later promoted to the position
3 of Regulatory Consultant. My responsibilities included supporting regulatory
4 filings across AEP's eleven state jurisdictions and at the FERC. I also performed
5 financial analyses related to AEP's generation resources and loads, power pools,
6 and PJM. In September 2012, I was promoted to Manager, Regulatory Pricing and
7 Analysis, where I was responsible for cost of service, rate design, and special
8 contract analysis for the AEP east operating companies. In September 2018, I was
9 promoted to my current position.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY**
11 **PROCEEDINGS?**

12 A. Yes. I have presented testimony on behalf of the AEP operating companies
13 numerous times before the regulatory bodies in Virginia, West Virginia, Kentucky,
14 Tennessee, Indiana and Michigan. In Kentucky, I have testified before the
15 Kentucky Public Service Commission (the "Commission") in Case No. 2013-
16 00197, Case No. 2014-00396, and Case No. 2017-00179 on behalf of the Company.
17 I have also participated in and provided information to the Commission in several
18 informal conferences and the recent public hearing on net metering rule changes.

19 **Q. DID YOU OFFER DIRECT TESTIMONY IN THIS PROCEEDING?**

20 A. No.

II. PURPOSE OF TESTIMONY

21 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

1 A. The purpose of my testimony is to respond to certain allegations of Lane Kollen
2 and Stephen Baron of J. Kennedy and Associates, Inc., who submitted direct
3 testimony on behalf of the Office of Attorney General of the Commonwealth of
4 Kentucky (“AG”) and Kentucky Industrial Utility Customers, Inc. (“KIUC”). I
5 assist Company Witness Haynes in demonstrating that Witness Kollen presents a
6 false narrative to justify his theory that AEP should pay a more than half billion-
7 dollar penalty to consummate the sale of Kentucky Power Company to Liberty
8 Utilities Co. Mr. Kollen’s result-oriented analysis of alleged past harms is patently
9 unreasonable and demonstrably incorrect.

10 I specifically address Mr. Kollen’s proposals regarding the Rockport Unit Purchase
11 Agreement (“UPA”) deferral, what he and Mr. Baron claim to be “out of state
12 transmission premiums” and a “transmission cost penalty,” and Mr. Baron’s claims
13 of increased costs that will be incurred by exiting the AEP Power Coordination
14 Agreement (“PCA”).

15 **Q. ARE YOU SPONSORING ANY REBUTTAL EXHIBITS OR SCHEDULES?**

16 A. No.

III. SUMMARY OF REBUTTAL TESTIMONY

17 **Q. BESIDES THE ISSUES ADDRESSED BY COMPANY WITNESS HAYNES,**
18 **ARE THERE OTHER FUNDAMENTAL PROBLEMS WITH MR.**
19 **KOLLEN’S UNPRECEDENTED PROPOSAL TO IMPOSE A MORE**
20 **THAN ONE-HALF BILLION DOLLAR PENALTY ON AEP?**

21 A. Yes. The effort in part is an unvarnished attempt to relitigate past rate case
22 decisions. The clearest examples are Mr. Kollen’s proposals to penalize the

1 Company's parent, AEP, \$134 million to "pay off the Rockport regulatory asset"
2 and to recoup what he erroneously calls "out-of-state transmission premiums
3 currently included in rates." Additionally, the Company already includes the cost
4 of capacity performance insurance in its rates and as such customers will not see an
5 increase in cost as a result of the Company exiting the AEP PCA.

6 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY AND**
7 **RECOMMENDATIONS.**

8 A. The Commission should ignore the thinly veiled attempt by Mr. Kollen and Mr.
9 Baron on behalf of the AG and KIUC to collaterally attack and re-litigate legacy
10 rate making issues that have been previously decided by this Commission and in
11 fact were, in some instances, actually supported by Mr. Kollen in testimony before
12 this Commission.

IV. TRANSMISSION COST OF SERVICE ISSUES

13 **Q. WAS THE ISSUE OF MR. KOLLEN'S SO-CALLED "OUT-OF-STATE**
14 **TRANSMISSION PREMIUMS"¹ LITIGATED IN THE COMPANY'S LAST**
15 **RATE CASE?**

16 A. Yes. Both Mr. Kollen and Mr. Baron in Case No. 2020-00174 criticized the
17 transmission investment policies of Kentucky Power and its AEP affiliate
18 companies and urged the Commission to open an investigation into whether
19 grounds exist to petition FERC to amend its approval of the AEP Transmission
20 Agreement. The issue was fully litigated. Although the Commission was critical
21 of certain aspects of Kentucky Power's transmission investment policies, it

¹ Kollen Direct Testimony at 60.

1 declined to open the requested investigation. Instead, it approved the Company's
2 current rates as fair, just, and reasonable, including increasing the Company's
3 recovery through Tariff PPA of Kentucky Power's incremental LSE OATT
4 expense from 80 percent to 100 percent. Messrs. Kollen and Baron² now seek a
5 do-over of the Commission's January 13, 2021 decision in Case No. 2021-00174
6 and ask the Commission to re-characterize as an unfair, unjust, and unreasonable
7 subsidy of \$75 million of the rates approved only 14 months ago.

8 To the extent the Attorney General and KIUC believe that Kentucky
9 Power's rates are unfair, unjust, and unreasonable, they have avenues of relief
10 where the issue may be fully and fairly litigated. Two such avenues were to seek
11 rehearing or appeal of the Commission's January 13, 2021 order, which neither the
12 AG nor KIUC elected to do. An application for approval of the proposed transfer
13 of Kentucky Power, however, is not one of those avenues, particularly where it
14 amounts to untimely asking the Commission for a to rehear and reconsider a
15 decision that it was just recently ruled upon.

16 **Q. DOES A "TRANSMISSION COST PENALTY" EXIST IN KENTUCKY**
17 **POWER'S RATES, AS MR. BARON ALLEGES ON PAGE 14 OF HIS**
18 **TESTIMONY?**

19 A. No. Kentucky Power pays just and reasonable rates for wholesale transmission
20 service in the AEP Zone and the PJM RTO that are approved by the FERC. One
21 cannot classify any portion of wholesale transmission expense as a "subsidy," and
22 seek to collect "damages" or a "penalty" from the Company's parent, simply

² Baron Direct Testimony at 12-27.

1 because the Company's annual expense is greater than its Kentucky transmission
2 cost of service³. It is undisputable that the Company utilizes more than just its in-
3 state Kentucky transmission system to supply reliable service to its customers.

V. ROCKPORT UPA DEFERRAL ISSUES

4 **Q. DID THE COMMISSION APPROVE THE ESTABLISHMENT OF THE**
5 **ROCKPORT DEFERRAL REGULATORY ASSET?**

6 A. Yes. In Case No. 2017-00179, the Commission approved the settling parties'
7 proposal to defer for the benefit of Kentucky customers \$50 million in non-fuel and
8 non-environmental Rockport lease expenses from Rockport Unit 2 over five years⁴.
9 The deferred amounts, along with a carrying charge equal to the Company's
10 WACC, are to be recovered on a levelized basis over five years starting in
11 December 2022 through Tariff PPA. Under the Commission-approved settlement
12 agreement in Case No. 2017-00179, the future amortization of the Rockport
13 regulatory asset would be offset by the reduction in Kentucky Power's fixed
14 expenses following the expiration and non-renewal of the Rockport UPA.
15 Kentucky Power notified the Commission, as part of its application filed February
16 8, 2021 in Case No. 2021-00004⁵, of its decision not to renew the Rockport Unit

³ *Id.* at 18 lines 4-10.

⁴ Order, *In the Matter of: Electronic Application Of Kentucky Power Company For (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; (4) An Order Approving Accounting Practices To Establish Regulatory Assets Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 at 75 (Ky. P.S.C. January 18, 2018 (approving Section 3(c) of the Settlement Agreement). KIUC was a signatory to the Settlement Agreement.

⁵ Application, *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 at 3 (Feb. 8, 2021).

1 Power Agreement, and confirmed that its decision not to renew was final on March
2 26, 2021.⁶

3 **Q. DID MR. KOLLEN ADDRESS IN CASE NO. 2017-00179 THE COMPANY'S**
4 **PROPOSAL TO ESTABLISH THE ROCKPORT DEFERRAL**
5 **REGULATORY ASSET AND THEN TO AMORTIZE IT BEGINNING**
6 **DECEMBER 2022 USING THE SAVINGS FROM THE NON-RENEWAL**
7 **OF THE ROCKPORT UPA?**

8 A. Yes. KIUC was Mr. Kollen's client in Case No. 2017-00179. The Rockport
9 Deferral Regulatory Asset was part of the settlement agreed to by KIUC in that
10 case. Mr. Kollen lauded the proposed Rockport deferral and amortization proposal
11 as "extremely beneficial to customers" and "a tremendous result"⁷ when asked
12 about it while testifying. Now, after having enjoyed the benefits of the proposal for
13 almost five years, and the time has arrived to begin paying for the benefit customers
14 received, his proposal in this case is that the customers not only keep the
15 tremendous result approved by the Commission, but that the Company's parent
16 now pay \$59 million for it as well. Mr. Kollen offers no justification for such a
17 payment, but rather just revisits the same historical facts surrounding the UPA that
18 existed when the Commission-approved settlement agreement that established the

⁶ *Id.*, Kentucky Power's response to Commission Staff's First Set of Data Requests, Item 5 (Mar. 26, 2021).

⁷ II Transcript of Hearing, *In the Matter of: Electronic Application Of Kentucky Power Company For (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; (4) An Order Approving Accounting Practices To Establish Regulatory Assets Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 at 568, 569 (Ky. P.S.C. December 7, 2017).

1 Rockport UPA purchased power expense deferral, which he and his client
2 supported, was reached in Case No. 2017-00179.⁸

3 **Q. WHAT IS YOUR RECOMMENDATION REGARDING MR. KOLLEN'S**
4 **ROCKPORT DEFERRAL POSITION?**

5 A. The Commission should disregard Mr. Kollen's unreasonable and inappropriate
6 proposal in its entirety.

VI. POWER COORDINATION AGREEMENT ISSUES

7 **Q. WILL THE COMPANY AND ITS CUSTOMERS SEE AN INCREASE IN**
8 **COSTS FROM EXITING THE AEP PCA AND THE JOINT FRR PLAN**
9 **AS MR. BARON ALLEGES⁹?**

10 A. No, one cannot say that definitively. As Mr. Baron indicates, all capacity resource
11 owners in PJM are subject to capacity performance charges if their resources fail to
12 perform during a PJM initiated performance interval. This is nothing new and is a
13 risk that the Company currently insures against. When the Company does exit the
14 AEP joint FRR plan and the PCA after the sale to Liberty it can still purchase
15 insurance for capacity performance risk. Capacity performance insurance
16 premiums are currently included in the Company's Kentucky retail cost of service.
17 I sponsored adjustment W48 in the 2020-00174 base rate case to bring the test year
18 total capacity performance insurance expense to the annual going level of \$313,872.
19 Capacity performance insurance premiums for the two upcoming PJM delivery
20 years have actually come down in cost from that level, so even when the Company

⁸ Kollen Direct Testimony at 42-44.

⁹ Baron Direct Testimony at 29-31.

1 exits the AEP PCA and has fewer capacity resources to spread the risk across, it
2 cannot be definitively determined at this time whether that would lead to an increase
3 in customer costs as this is an expense already included in the Company's Kentucky
4 retail rates.

VII. CONCLUSION

5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 A. Yes.



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E-Signature 1: Alex Vaughan (AEV)

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

E-Signature Notary: Jennifer Young (JY)

March 17, 2022 06:10:53 -8:00 [476C04C7760B] [167.239.221.103]
jayoung1@aep.com
I, Jennifer Young, did witness the participants named above electronically sign this document.



VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is Director of Regulated Pricing and Renewables 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.

Alex Vaughan
Signed on 2022/03/17 06:10:53 -8:00

Alex E. Vaughan

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 Alex E. Vaughan, this 17 day of March 2022.

J. Young
Signed on 2022/03/17 06:10:53 -8:00
Notary Public

KYNP31964

Notary ID Number: _____

My Commission Expires: 6/21/2025

JENNIFER A. YOUNG
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # **KYNP31964**
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