COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Electronic Investigation Of Kentucky Power Company Rockport Deferral Mechanism	))	Case No. 2022-00283

REBUTTAL TESTIMONY OF

BRIAN K. WEST

ON BEHALF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

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

A. My name is Brian K. West. My position is Vice President, Regulatory & Finance for Kentucky Power Company ("Kentucky Power" or the "Company"). My business address is 1645 Winchester Avenue, Ashland, Kentucky 41101.

Q. ARE YOU THE SAME BRIAN K. WEST WHO OFFERED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address several points in the direct testimony of Lane Kollen, witness for The Office of the Attorney General of The Commonwealth of Kentucky ("AG") and Kentucky Industrial Utility Customers, Inc. ("KIUC").

Q. ARE YOU SPONSORING ANY REBUTTAL EXHIBITS?

A. Yes. I am sponsoring the following exhibit:

EXHIBIT BKW-R1 Estimated net impact due to the expiration of the Rockport UPA through May 2025.

III. 2017 SETTLEMENT AGREEMENT

Q. DID THE COMMISSION EXPRESSLY APPROVE THE SETTLEMENT AGREEMENT AMONG SIGNATORY INTERVENING PARTIES IN CASE NO. 2017-00179?

A. Yes. Mr. Kollen's testimony to the contrary, at page 7, is simply incorrect. To point out that one particular item in a settlement agreement was the only item the Commission approved simply because that item, and not others, were mentioned in a paragraph of the Commission's order is overreaching and unfounded. In ordering paragraph 2 at page 75 of the 2017 Rate Case Order,[1] the Commission stated: "The provisions in the Settlement, as set forth in Appendix A to this Order, are approved, subject to the modifications and deletions set forth in this Order." The 2017 Rate Case Order did not modify or delete any aspect of the Settlement related to the Rockport Deferral, the Estimated Rockport Offset, the Actual Rockport Offset, the Rockport Offset True-Up, or the Rockport Fixed Cost Savings. Thus, contrary to Mr. Kollen's position ("The Company's proposed ratemaking recovery of the Rockport Deferrals is based on a settlement agreement in Case 2017-00179 *that the Commission did not expressly approve*..."[2]) the Commission plainly approved the settlement in the 2017 Rate Case, including the provisions of that settlement that are relevant here.

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[1] 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 And Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 (Ky. P.S.C. January 18, 2018).

[2] Kollen Direct Testimony at 4 (emphasis added).

Q. ARE THERE OTHER REASONS WHY MR. KOLLEN'S POSITION REGARDING APPROVAL OF THE 2017 RATE CASE SETTLEMENT IS UNSOUND?

A. Yes. Mr. Kollen's position, if accepted by the Commission, would completely upend and render meaningless settlements in cases before this Commission. A settlement agreement is a contract entered into by settling parties to a proceeding to provide for more certainty with respect to a case's outcome and thereby mitigate risk for all sides. It brings certainty in that terms are agreed to and once approved, can be relied upon for forecasting and strategic planning. Approved settlement agreements are also relied upon by parties outside of a proceeding, such as financial institutions as well as credit rating agencies. To the extent those agreements are not honored in their entirety or are changed in a material way, it can have the effect of increased borrowing costs due to increased risk, especially if the Company receives a downrating from a credit rating agency as a result of changes to an approved settlement agreement. Simply put, it is inappropriate now to change the approved 2017 Settlement Agreement.

Further, one of Mr. Kollen's present clients, KIUC, was a signatory party to the 2017 Rate Case settlement that AG/KIUC now ask the Commission to disavow. It is opportunistic and unfair, after KIUC, other Settling Intervenors, and customers have received 5 years of benefits and lower rates from the 2017 Settlement Agreement, to now disturb the settlement and deprive Kentucky Power of the certainty regarding the Rockport Deferral's amortization for which the Company and Settling Intervenors bargained, and which the Commission approved.

The only items remaining for adjudication in this proceeding are the Rockport Deferral's amortization period and recovery mechanism. The Commission has already approved all other aspects of the 2017 Settlement Agreement about which Mr. Kollen opines.

IV. MR. KOLLEN'S RECOMMENDATIONS

Q. WHAT EFFECT(S) WOULD RESULT IF THE COMMISSION WERE TO ACCEPT MR. KOLLEN'S ULTIMATE RECOMMENDATIONS?

A. First, I unequivocally do not agree with the recommendations contained in Mr. Kollen's testimony. If accepted by this Commission, they would have the effect of modifying an approved settlement agreement. Any changes to the approved 2017 Settlement Agreement will cast doubt on any utility company in the Commonwealth entering into a settlement agreement in a future proceeding and will have a chilling effect that will be hard to reverse.

In any event, as discussed below, all effects on the Company's earnings in 2023 as a result of the sale to Liberty Utilities Co. can and will be addressed in the Rockport Offset True-Up filing in early 2024. Further, Mr. Kollen's suggestions that the Commission could either eliminate the Rockport Offset True-Up or, more egregiously, eliminate the Rockport Offset altogether, are highly improper. The evidence Mr. Kollen offers at page 14 of his direct testimony, that the estimated Rockport Offset is different by orders of magnitude is incorrect. As discussed further herein, the Rockport Offset estimates Mr. Kollen refers to were illustrative and not based on any real data or analyses. All elements of the Rockport Deferral must be approved for recovery as they were previously approved by this Commission.

Q. DO YOU AGREE WITH MR. KOLLEN'S SUGGESTION TO CALCULATE THE ACTUAL ROCKPORT OFFSET BASED ON THE 12-MONTHS ENDING JUNE 30, 2022?

A. No. It is most appropriate to use 2023 actuals, as previously agreed upon by the Settling Intervenors to the 2017 Settlement Agreement and accepted by the Commission.[3] Moreover, Mr. Kollen's position that using the 12-months' ending June 30, 2022 to calculate the Actual Rockport Offset is appropriate further disregards that there is variation in the Company's ROE month-to-month and quarter-to-quarter, even under AEP ownership. Table 1 below provides a comparison of the 2023 Estimated Rockport Offset Calculation utilizing Q3 2022 vs. Q2 2022 actuals. While Q2 2022 was the best available data at the time of the Company's direct case filing and reasonable to use to prepare an estimate of the Actual Rockport Offset, the variation in 2022 demonstrates that 2023 actuals cannot be properly measured using data from any other period.

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[3] *See* Section 3(g)(iii) of 2017 Settlement Agreement, 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 And Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 at PDF page 86 of 122 (Ky. P.S.C. January 18, 2018).

Table 1

(1) Rockport Fixed Cost Savings

Amount of Rockport Fixed Cost in Base Rates	$	40,831

(2) 2023 Rockport Offset Calculation

		Rockport Offset		
	Calculation	***Estimated - Q2 2022***	***Estimated - Q3 2022***	***Actual***
a	12 Month Net GAAP Income	$ 65,090	$ 56,003	Available Q1 2024
b	13 Month Average Common Equity	$ 881,014	$ 892,684	Available Q1 2024
c = a/b	Return on Common Equity	7.39%	6.27%	Available Q1 2024
d	Kentucky Power Allowed Retail ROE	9.30%	9.30%	
	If D < C, Stop If D > C, Continue to Part e			
e = (b*d)-a	Net GAAP Income Increase Required to Earn Allowed Retail ROE	$ 16,844	$ 27,016	Available Q1 2024
f	Gross Revenue Conversion Factor	1.352731	1.352731	
g = e*f	Rockport Offset	$ 22,786	$ 36,546	**Available Q1 2024**
= g	***Amount to Be Recovered Through Tariff PPA***	***$ 22,786***	***$ 36,546***	

(3) 2024 Rockport Offset True-up (Actual - Estimate) **Available Q1 2024**

V. NET OPERATING LOSSES, PENDING SALE, AND RATE EFFECTS

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDED MODIFICATION TO THE APPROVED ROCKPORT OFFSET TRUE-UP, WHICH HE PREDICATES ON EVENTS HAVING OCCURRED THAT WERE NOT REASONABLY FORESEEN AT THE TIME THE 2017 SETTLEMENT AGREEMENT WAS APPROVED BY THE COMMISSION?

A. No, I do not. There may always be unforeseen events that happen after the Commission issues an order in any case, and the 2017 Rate Case is no different. It is inappropriate to modify the Commission-approved settlement on that basis. Even if it were appropriate, it would nonetheless be speculative and premature for the Commission to do so now, in 2022, when Kentucky Power's 2023 ownership, operations, and net income are unknown and unknowable. The parties and the Commission will have the ability to evaluate the actual facts in early 2024, when the Company files the Rockport Offset True-Up.

Q. IS MR. KOLLEN'S EXHIBIT ____ (LK-6), PPA – FORM 1.0, AN ACTUAL ESTIMATE OF THE ROCKPORT OFFSET FROM THE 2017 BASE RATE PROCEEDING?

A. No, it is not. PPA - Form 1.0 was created in the 2017 Rate Case using fictitious numbers for illustrative purposes only. The face of the document makes obvious that it is not based on any analyses that projected the amount of the Rockport Offset. Mr. Kollen's use of that form as evidence supporting his position that things have drastically changed since the 2017 Settlement Agreement is faulty and completely wrong.

Q. WILL THE COMPANY REALIZE NET OPERATING LOSSES IN 2023?

A. It is unknown at this time. Mr. Kollen at page 16 of his direct testimony claims that net operating losses ("NOL") may need to be recorded on the Company's books in 2023 due to the Company's sale to Liberty Utilities Co. Again, as even Mr. Kollen seems to recognize, his position is speculative and based upon assumptions about events that have not yet occurred. Whether the Company will record the tax effects of an NOL in 2023 and what impact that would have on the Company's 2023 ROE are issues that should be dealt with in 2024, after those facts are known. Simply put, they are irrelevant for purposes of this proceeding.

Q. DO YOU AGREE WITH MR. KOLLEN'S STATEMENTS REGARDING KPCO_R_KPSC_2_6_ATTACHMENT1?

A. No, I do not. That attachment provides the estimated net impact due to the expiration of the Rockport UPA through May 2025. Several of Mr. Kollen's statements regarding that discovery response attachment are incorrect and necessitate clarification or correction.

1. Actual Rockport Offset (pg. 10, lines 19-21 of the Kollen testimony)

Mr. Kollen states that the Company estimates the Rockport Offset True-Up to be $18.045 million; however, this is not the Company's assertion. Kentucky Power has not, nor can it, accurately estimate what the true-up amount actually will be. The $18.045 million represents a high-level and high-end estimate based on the information available to the Company now. As an example, for the 12-months' ended June 30, 2022, Kentucky Power's earned ROE was 7.74% with an authorized ROE of 9.3%. The Estimated Rockport Offset Calculation, BKW-Exhibit 4, estimated that an additional approximately $22.786 million would be needed for the Company to have earned its authorized ROE, per the 2017 Settlement Agreement. At a high level, if the Company's actual ROE for 2023 is something less than 7.74%, then it is possible the remaining $18.045 million, or a portion thereof, of the $40.8 million cap on the Rockport Offset would be required in order for Kentucky Power to be able to earn its authorized ROE of 9.3% in 2023, per the approved 2017 Settlement Agreement.

2. Estimated Capacity Replacement Costs (pg. 11, lines 19-20 of the Kollen Testimony)

Mr. Kollen refers to the Company's response to KPSC 2-4 and states: "The Company estimates an increase of $1.7 million on an annual basis to Tariff PPA." This is incorrect. The response to KPSC 2-4 stated that replacement capacity costs of $1,663,348 are for calendar year 2023 only. As the response explains, replacement capacity costs will vary and are based on PJM Planning Years, which run June 1 through May 31. There are different costs associated with PJM Planning Years 2022/2023 and 2023/2024. Nonetheless, the actual capacity costs will be reflected in future Tariff P.P.A. calculations.

3. Fuel Adjustment Clause ("FAC") (pg. 11, lines 14-16 of the Kollen Testimony)

Mr. Kollen states the Company estimates there will be a reduction in the FAC as a result of the Rockport UPA expiration; however, the Company has not made that assertion. The attachment, in respect to the FAC, presented the information available to the Company and noted that the "[a]nalysis does not reflect an estimate for any potential future additional energy purchases required to meet load to replace Rockport energy." The Company's future fuel costs and future generation market prices are unknown. Consequently, whether the loss of the Rockport UPA will be an increase, reduction, or nominally indifferent as to the FAC is unknown. Thus, contrary to Mr. Kollen's assertion, whether the expiration of the Rockport UPA will result in increased FAC rates also is unknown.[4] Nevertheless, the FAC, along with the Environmental Surcharge and Capacity Charge, are not at issue in this proceeding.

Q. DO YOU AGREE WITH MR. KOLLEN'S OTHER STATEMENTS REGARDING THE FAC?

A. No, I do not. In response to Staff's data request 1-1 to AG-KIUC, Mr. Kollen makes two mischaracterizations. First, Mr. Kollen states that "The margin reflected in the FAC is the difference between the Company's fuel expense and the revenues from the sale of the Company's energy generation into the PJM markets." However, the total amount of FAC costs paid by customers reflects the cost of the Company's internal generation and its

[4] *See* Kollen Test. p. 11; AG/KIUC Response to KPSC 1-1.

purchased power costs, net of any costs removed due to forced outage replacement cost rule or the peaking unit equivalent cost cap.

Second, Mr. Kollen's comparison of Rockport generation costs and PJM energy market costs from the last two FAC six-month reviews (2022-00036 and 2022-00263) is blatant cherry-picking. Mr. Kollen offers no forecast for future coal prices or future PJM energy prices while simultaneously utilizing a highly abnormal period to draw his comparison. In doing so, Mr. Kollen fails to recognize the possibility that higher priced coal will be included in the Rockport coal inventory, as coal contracts established prior to market prices rising fall off resulting in future generation costs not yielding such a margin in prices.

Q. DOES THE TABLE ON PAGE 13 OF MR. KOLLEN'S TESTIMONY REPRESENT A COMPLETE AND ACCURATE ESTIMATE OF THE RATE IMPACTS DUE TO THE EXPIRATION OF THE ROCKPORT UPA?

A. No, it does not. Inexplicably, Mr. Kollen chose to isolate the rate impacts due to the expiration of the Rockport UPA only with respect to Tariff P.P.A., and excludes other relevant factors. This results in an incomplete and potentially misleading picture about the rate impact on customers due to the expiration of the Rockport UPA. Mr. Kollen also fails to provide any supporting basis for any of his conclusions or estimates about that potential rate impact. Conversely, the Company provided, in KPCO_R_KPSC_2_6_Attachment1 (and provided herein as Exhibit BKW-R1), a comprehensive look at all known rate impacts due to the expiration of the Rockport UPA.

VI. ADJUSTMENT OF 2023 EARNINGS

Q. WILL IT BE DIFFICULT TO ADJUST THE COMPANY'S 2023 EARNINGS TO ACCURATELY ACCOUNT FOR THE EFFECTS OF THE SALE TO LIBERTY UTILITIES CO.?

A. Mr. Kollen seems to argue that it may be too difficult to calculate the Rockport Offset True-Up if it needs to be adjusted for various elements related to the sale to Liberty Utilities Co. To the contrary, the Commission and the parties to this proceeding are sophisticated, knowledgeable, and capable of working through much more complicated issues than those presented with respect to the Company's 2023 earnings, which are merely matters of addition and subtraction. Mr. Kollen sells the Commission and his clients short in suggesting that they cannot handle such an exercise after 2023 results are known. The parties and the Commission should not simply abandon the exercise as Mr. Kollen suggests. The items related to the sale to Liberty Utilities Co. noted in the Company's response to AG-KIUC 2-9 should be addressed, to the extent necessary, in the 2024 Rockport Offset True-Up filing.

VII. WEIGHTED AVERAGE COST OF CAPITAL ("WACC")

Q. MR. KOLLEN SEEMS TO IMPLY THAT THE COMPANY HAS NOT APPLIED THE CORRECT WACC TO THE ROCKPORT DEFERRAL CALCULATION. DO YOU AGREE WITH HIS IMPLICATION?

A. No, I do not. Although Mr. Kollen quotes directly from the Commission's January 18, 2018 Order in the 2017 Rate Case at page 7 of his direct testimony, his interpretation of the Commission's language, and what he implies as a result of that interpretation, is incorrect. In every other instance, such as the Company's Environmental Surcharge, the current WACC approved in the most recent base rate proceeding is the appropriate WACC to use in all such calculations going forward until it is reset in the next base rate proceeding. The Commission approved the current WACC in Case No. 2020-00174, the Company's most recent base rate proceeding, and it is the appropriate WACC to apply to the Rockport Deferral calculation. Also, it is worth noting that the Company's WACC has decreased from Case No. 2017-00179 to Case No. 2020-00174, to customers' benefit.

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

VERIFICATION

The undersigned, Brian K. West, being duly sworn, deposes and says he is the Vice President, Regulatory & Finance for Kentucky Power Company, that he has personal knowledge of the matters set forth in the foregoing testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Brian K. West

Commonwealth of Kentucky)
) Case No. 2022-00283
County of Boyd)

Subscribed and sworn before me, a Notary Public, by Brian K. West this 8th day of November, 2022.

Scott E. Bishop
Notary Public

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

My Commission Expires June 24, 2025

Notary ID Number: KYNP 32110