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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

ORDER

Kentucky Power Company ("Kentucky Power"), a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP") is an electric utility that generates, transmits, distributes, and sells electricity to approximately 168,000 consumers in all or portions of 20 counties in eastern Kentucky.[1] Kentucky Power owns and operates a 285-megawatt ("MW") gas-fired steam-electric generating unit in Louisa, Kentucky, and owns and operates a 50 percent undivided interest in a coal-fired generating station in Moundsville, West Virginia; Kentucky Power's share consists of 780 MW. Kentucky Power obtains an additional 393 MW from Rockport (Indiana) Plant Generating Units No. 1 and No. 2 under a unit power agreement ("Rockport UPA"). Kentucky Power's transmission system is operated by PJM Interconnection, LLC ("PJM"), a regional

[1] Application at 2. Kentucky Power also furnishes electric service at wholesale to the Cities of Olive Hill and Vanceburg, Kentucky.

electric grid and market operator. Kentucky Power's most recent general rate increase was granted in June 2015 in Case No. 2014-00396.[2]

BACKGROUND

On April 26, 2017, Kentucky Power filed notice of its intent to file an Application ("Application") for approval of an increase in its electric rates based on a historical test year ending February 28, 2017. By Order entered May 24, 2017, the Commission granted Kentucky Power's motion to deviate from certain filing requirements, which Kentucky Power requested in order to obtain additional time to review its Application before its proposed filing date of June 28, 2017.

Kentucky Power tendered its Application on June 28, 2017, which included new rates to be effective on or after July 29, 2017, based on a request to increase its electric revenues by $65,387,987, or 11.80 percent. On August 7, 2017, Kentucky Power supplemented its Application to reflect the impact of refinancing of certain debts in June 2017, which reduced Kentucky Power's requested annual increase in revenues to $60,397,438. In its Application, Kentucky Power also requested approval of its environmental compliance plan, and proposed to revise, add, and delete various tariffs applicable to its electric service. After Kentucky Power cured filing deficiencies, its Application was deemed filed as of July 20, 2017. To determine the reasonableness of these requests, the Commission suspended the proposed rates for five months from their effective date, pursuant to KRS 278.190(2), up to and including January 18, 2018.

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[2] Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015) ("Case No. 2014-00396, Final Order").

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); Kentucky School Boards Association ("KSBA"); Kentucky League of Cities ("KLC"); Kentucky Commercial Utility Customers, Inc. ("KCUC"); Kentucky Cable Telecommunications Association ("KCTA"); and Wal-Mart Stores East, LP and Sam's East, Inc. (jointly, "Walmart").

By order entered on July 17, 2017, the Commission established a procedural schedule that provided for discovery, intervenor testimony, rebuttal testimony from Kentucky Power,[3] a formal evidentiary hearing, and an opportunity for the parties to file post hearing briefs.[4] On October 26, 2017, and November 7, 2017, an informal conference ("IC") was held at the Commission's offices to discuss procedural matters and the possible resolution of pending issues. All parties participated in the IC held on October 26, 2017, with the exception of KCTA, who engaged in separate discussions with Kentucky Power regarding possible resolution of issues pertaining to the Cable Television Pole Attachment Tariff ("Tariff C.A.T.V.") The Attorney General did not attend the November 7, 2017 IC due to a scheduling conflict, but indicated that the IC should proceed as scheduled. At the November 7, 2017 IC, the parties in attendance,

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[3] On October 11, 2017, the Attorney General filed a motion to amend the procedural schedule to permit him to file rebuttal testimony. Kentucky Power and KLC each filed responses in opposition. By order issued October 24, 2017, the Commission found the Attorney General failed to establish good cause to amend the procedural schedule and denied the Attorney General's motion.

[4] The Commission conducted public meetings in Kentucky Power's service territory on November 2, 2017, in Prestonsburg, Kentucky; on November 6, 2017, in Hazard, Kentucky; and on November 8, 2017, in Ashland, Kentucky.

with the exception of KCUC, arrived at an agreement in principle for the resolution of the issues raised in this case.

On November 22, 2017, Kentucky Power, KIUC, KLC, KSBA, KCTA, and Walmart ("Settling Intervenors") filed a Settlement Agreement ("Settlement") that addressed all of the issues raised in this proceeding. The Attorney General and KCUC are not signatories to the Settlement. The Settlement is attached as Appendix A to this Order.

Because the Settlement was not unanimous, the December 6, 2017, evidentiary hearing was held as scheduled for the purposes of hearing testimony in support of the Settlement and on contested issues. On January 5, 2018, Kentucky Power, the Attorney General, KIUC, and KCUC filed their respective post hearing briefs. The matter now stands submitted to the Commission for a decision.

SETTLEMENT AGREEMENT

The Settlement reflects the agreement of the parties, except for the Attorney General and KCUC, on all issues raised in this case. The major substantive areas addressed in the Settlement are as follow:

- Kentucky Power's electric retail revenues should be increased by $31,780,734, effective January 19, 2018.[5] This amount consists of a base rate revenue reduction of $28,616,704 from the $60,397,438 requested in Kentucky Power's August 7, 2017 supplemental filing.

[5] Settlement, paragraphs 2(a) and 17.

- Establishment of deferral mechanisms for $50 million in non-fuel, non-environmental Rockport UPA expenses.[6]

- Amendment of the Purchase Power Adjustment tariff ("Tariff P.P.A.") to recover incremental PJM Open Access Transmission Tariff ("OATT") Load Serving Entity ("LSE") charges and credits above or below net PJM OATT LSE charges and credits in base rates.[7]

- Amendment of Tariff P.P.A. as described in the Direct Testimony of Alex E. Vaughan ("Vaughan Direct Testimony") to collect from, or credit to, customers the amount of purchased power costs that are excluded from recovery through the Fuel Adjustment Clause ("FAC"), and gains and losses from incidental sales of natural gas purchased for use at Big Sandy Unit 1, but not used or stored.[8]

- Establishment of 20-year service life for Big Sandy Unit 1 for depreciation rates.[9]

- Establishment of a return on equity of 9.75 percent.[10]

- Agreement to lower the Kentucky Economic Development Surcharge rate ("Tariff K.E.D.S.") for residential customers and increase the rate for non-residential customers, with matching contribution by Kentucky Power.[11]

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[6] *Id.* at paragraph 3.

[7] *Id.* at paragraph 4.

[8] *Id.* at paragraph 6.

[9] *Id.* at paragraph 7.

[10] *Id.* at paragraph 8.

[11] *Id.* at paragraph 10.

- Agreement to continue Tariff K-12 School as a permanent customer class instead of a pilot rate.[12]

- Agreement that Kentucky Power will not request a general adjustment of base rates for rates that would be effective prior to the January 2021 billing cycle.[13]

- Increase Kentucky Power's customer charge for Residential Service customers to $14.00 per month.[14]

CONTESTED REVENUE REQUIREMENT AND REVENUE ALLOCATION ISSUES

Kentucky Power proposed an annual increase in its electric revenues of $60,397,438 in its August 7, 2017 supplemental filing. Through testimony, the Attorney General contended that Kentucky Power should be allowed to increase its electric revenues by $39.9 million.[15] Through testimony, KCUC contended that the revenue allocation contained in the Settlement does not provide fair or reasonable treatment for customers in the Large General Service class ("Tariff L.G.S."). Because the parties have not reached a unanimous settlement on the increase in revenues, the Commission must consider the evidentiary record on these issues as presented by Kentucky Power, the Attorney General, and KCUC, and render a decision based on a determination of Kentucky Power's capital, rate base, operating revenues, operating expenses, and revenue allocation, as would be done in a fully litigated rate case

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[12] *Id.* at paragraphs 1213.

[13] *Id.* at paragraph 5.

[14] *Id.* at paragraph 16.

[15] Direct Testimony of Ralph C. Smith ("Smith Testimony") at 12.

TEST PERIOD

Kentucky Power proposed the 12-month period ending February 28, 2017, as the test period for determining the reasonableness of its proposed rates. None of the Intervenors contested the use of this period as the test period. The Commission finds it is reasonable to use the 12-month period ending February 28, 2017, as the test period in this case. Due to the timing of Kentucky Power's filing, the 12-month period ending February 28, 2017, is the most recent feasible period to use for setting rates and, except for the adjustments approved herein, the revenues and expenses incurred during that period are neither unusual nor extraordinary.[16] In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

RATE BASE

Jurisdictional Rate Base Ratio

Kentucky Power proposed a test-year-end Kentucky jurisdictional rate base of $1,323,494,246.[17] The Kentucky jurisdictional rate base is divided by Kentucky Power's test-year-end total company rate base to derive the Kentucky jurisdictional rate base ratio ("jurisdictional ratio"). This jurisdictional ratio is then applied to Kentucky Power's total company capitalization to derive the Kentucky jurisdictional capitalization. The jurisdictional ratio uses the test-year-end rate base before any ratemaking adjustments

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[16] On May 22, 2017, Kentucky Power filed a motion to deviate from filing requirement 807 KAR 5:001, Section 12(1)(a), which requires the submission of a detailed financial exhibit for the 12-month test period ending not more than 90 days prior to the date of its application. Kentucky Power requested to deviate by filing the required financial exhibit for 12-month period ending 120 days, rather than 90 days, prior to the date of its application. By Order, the Commission approved Kentucky Power's motion to deviate from 807 KAR 5:001, Section 12(1)(a) (Ky. PSC May 24, 2017).

[17] Application, Section V, Exhibit 1, Schedule 4.

applicable to either Kentucky jurisdictional operations or other jurisdictional operations. Kentucky Power used a jurisdictional ratio of 98.3 percent.[18] The Commission finds the calculation of Kentucky Power's test-year electric rate base reasonable for purposes of establishing the jurisdictional ratio.

Pro Forma Jurisdictional Rate Base

Kentucky Power calculated a pro forma jurisdictional rate base of $1,194,888,447,[19] which reflects the types of adjustments made by the Commission in prior rate cases to determine the pro forma rate base.

The Attorney General proposed one adjustment to Kentucky Power's proposed rate base for the Cash Working Capital ("CWC") allowance. The Attorney General proposed an allowance of $18,953,980, which is $740,459 lower than the $19,694,529 proposed by Kentucky Power in its Application. While indicating a preference for using a lead-lag study, the Attorney General stated that if CWC is to be calculated using the Commission's long-standing 1/8th formula approach, then the proper level of CWC for ratemaking purposes should be based on the pro forma operations and maintenance expenses allowed by the Commission.[20] The Attorney General also stated that since Kentucky Power's revenue requirement is calculated based upon its jurisdictional capitalization rather than its adjusted jurisdictional rate base, any adjustment to CWC would have no impact on the revenue requirement.[21]

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[18] *Id.* The non-jurisdictional percentage of approximately 1.7 percent is due to the furnishing of electric service at wholesale to the City of Olive Hill and the City of Vanceburg.

[19] *Id.*

[20] Smith Testimony at 22.

[21] *Id.* at 23.

While the Commission agrees with the methodology the Attorney General utilized for calculating the CWC, the Commission does not agree with the Attorney General's proposed CWC. The CWC allowance included in the rate base, as shown below, is based on the adjusted operation and maintenance ("O&M") expenses discussed in this Order, as approved by the Commission. The Commission has determined Kentucky Power's pro forma jurisdictional rate base for ratemaking purposes for the test year to be as follows:

Total Utility Plant in Service	$2,264,648,845
Add:	
Materials & Supplies	36,344,575
Prepayments	49,905,719
Cash Working Capital Allowance	18,905,292
Subtotal	$105,155,586
Deduct:	
Accumulated Depreciation	764,544,392
Customer Advances	27,076,876
Accumulated Deferred Income Taxes	384,084,108
Contributions in Aid of Construction	
Subtotal	$1,175,705,376
Pro Forma Rate Base	$1,194,099,055

Reproduction Cost Rate Base

KRS 278.290 (1) states, in relevant part, that:

> [T]he commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, capital structure, and other elements of value recognized by the law of the land for ratemaking purposes.

Neither Kentucky Power, the Attorney General, nor KCUC provided information regarding Kentucky Power's proposed Kentucky jurisdictional reproduction cost rate base. Therefore, the Commission finds that using Kentucky Power's historic costs for deriving its rate base is appropriate and consistent with Commission precedent involving Kentucky Power, as well as other Kentucky jurisdictional utilities.

CAPITALIZATION

Kentucky Power proposed an adjusted Kentucky jurisdictional capitalization of $1,191,785,493.[22] This amount was derived through adjustments to exclude certain environmental compliance investments that remain part of the environmental rate base and are included in Kentucky Power's environmental surcharge mechanism.

Kentucky Power determined its electric capitalization by multiplying its total company capitalization by the rate base jurisdictional allocation ratio described earlier in this Order. This is consistent with the approach used in previous Kentucky Power rate cases.

The Attorney General did not recommend any adjustments to Kentucky Power's capitalization. The Attorney General proposed one adjustment to rate base for CWC, since it does not affect Kentucky Power's jurisdictional capitalization, but recommended no change to the amount proposed by Kentucky Power.

The Commission finds the proposed amount of Kentucky Power's jurisdictional capitalization is reasonable.

REVENUES AND EXPENSES

For the test year, Kentucky Power reported actual net operating income from its electric operations of $85,033,742.[23] Kentucky Power proposed 55 adjustments to

[22] Application, Section II, Exhibit L.

[23] Application, Section V, Exhibit 1, Supplemental Schedule 4 (filed Aug. 7, 2017).

revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income of $43,690,670.[24] With this level of net operating income, Kentucky Power reported an adjusted test year revenue deficiency of $60,397,438.[25]

The Attorney General accepted 45 of Kentucky Power's proposed adjustments to its test-year revenues and expenses.

A list of the non-contested adjustments is contained in Appendix B to this Order. The Attorney General proposed 14 additional adjustments to Kentucky Power's operating income relating to: 1) theft recovery revenue; 2) payroll expense – employee merit increase; 3) overtime payroll expense related to employee merit increase; 4) payroll tax expense; 5) incentive compensation expense; 6) stock-based compensation; 7) savings plan expense; 8) supplemental executive retirement program expense; 9) affiliate charge for corporate aviation expense; 10) storm damage expense; 11) relocation expense; 12) gain on sale of utility property; 13) cash surrender value of life insurance policies; and 14) rate case expense.

The Attorney General's proposed adjustments pertain solely to Kentucky Power's base rate revenue requirements. The Commission makes the following determinations regarding the Attorney General's proposed base rate adjustments.

Theft Recovery Revenue

The Attorney General proposed an adjustment to increase Kentucky Power's theft recovery revenue by $166,698 based upon Kentucky Power's estimate of

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[24] *Id.*

[25] *Id.* at Schedule V, Supplemental Exhibit 2 (filed Aug. 7, 2017).

increased theft recovery revenue.[26] Kentucky Power expects to increase theft recovery revenue due to the addition of a new administrative assistant who would allow Kentucky Power's field investigators to spend more time on suspected energy theft.

The Commission finds that the Attorney General's proposed adjustment regarding theft recovery revenue is reasonable, and therefore the proposed adjustment for theft recovery revenue of $166,698 should be allowed for ratemaking purposes.

Payroll Expenses: Employee Merit Increase, Overtime Payroll Expense, and Payroll Taxes

The Attorney General proposed adjustments to payroll expense for employee merit increases for non-exempt salaried employees, overtime payroll expense related to employee merit increases, and associated payroll taxes in the amount of $57,205, $4,148, and $48,362, respectively. The Attorney General argued that Kentucky Power did not justify basing its proposed payroll expense adjustment on an annual merit increase of 3.5 percent. The Attorney General maintained that the payroll expense adjustment should be based upon a 3.0 percent merit increase.[27] Limiting the merit increase to 3.0 percent results in corresponding adjustments to overtime and payroll tax expenses. The payroll tax adjustment includes the impact of limiting the merit increase to 3.0 percent and other adjustments to incentive compensation and stock-based compensation proposed by the Attorney General.

Kentucky Power maintained that the test year wage increases are reasonable. A comparison of Kentucky Power's total target compensation with the 2016 EAPDIS

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[26] Smith Testimony at 24; Kentucky Power's Response to the Attorney General's First Request for Information ("Attorney General's First Request"), Item 319.

[27] *Id.* at 26-30.

Energy, Technical, Craft & Clerical Survey (Southeast region data) reveals that, on average, Kentucky Power's compensation was 5.4 percent below the average for the region.[28] Kentucky Power claimed that, in light of the survey results, the test year wage increases were necessary to provide market competitive wages to target and retain employees.

The Commission finds that Kentucky Power's test year wages are reasonable and that the Attorney General's proposed adjustments to payroll expense for employee merit increases for non-exempt salaried employees, overtime payroll expense related to employee merit increase and payroll taxes should be denied.

Incentive Compensation and Stock Based Compensation

Kentucky Power included $3,900,806 of incentive compensation plan ("ICP") costs[29] and $1,758,874 in Long-Term Incentive Plan ("LTIP") costs in its Kentucky jurisdictional revenue requirement.[30] These amounts reflect the adjustments made by Kentucky Power.[31] In the Settlement, Kentucky Power and the Settling Intervenors agreed to reduce incentive compensation expenses by $3.15 million, which included incentive compensation and stock-based compensation.

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[28] Application, Direct Testimony of Andrew J. Carlin ("Carlin Direct Testimony"), Exhibit ARC-4.

[29] Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request"), Item 85; Kentucky Power's Response to KIUC's First Request for Information ("KIUC's First Request"), Item 31.

[30] Smith Testimony at 31. This consists of Kentucky Power direct-charged jurisdictional O&M expense of $2,255,760, AEP allocated amount of $3,118,781 and charges from other affiliates of $51,300 less $1,525,035 that was removed from the revenue requirement per the Application, Section V, Exhibit 2, Workpaper 32.

[31] Application, Direct Testimony of Tyler H. Ross ("Ross Direct Testimony") at 14.

The Attorney General recommended reducing incentive compensation expense by a total of $3,096,868. The Attorney General recommended an adjustment of ICP costs that decreased test year expense by $1,350,120 on a Kentucky jurisdictional basis, which represented the removal of the 25 percent of ICP costs that represent performance measures tied to increasing shareholder value.[32] The Attorney General maintained that ratepayers should not be responsible for those costs because Kentucky Power's shareholders are the main beneficiaries of the 25 percent performance measure for quantitative financial objectives, which include earnings per share.[33] Similarly, the Attorney General argued that $1,746,748 in stock-based compensation costs should be removed because ratepayers should not be required to pay management compensation based on the performance of Kentucky Power's stock price, which primarily benefits Kentucky Power's parent company.[34] In support of his argument, the Attorney General pointed to previous cases in which the Commission held that ratepayers should not bear the cost of stock-based compensation programs unless there is clear and definitive quantitative evidence demonstrating a benefit to ratepayers.[35]

In response, Kentucky Power argued that the Attorney General's adjustment to the proposed incentive compensation expense was not warranted because the

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[32] Smith Testimony at 35, Exhibit RCS-1, page 3 of 32; Smith Testimony at 30-31. The 2016 ICP was weighted 75 percent to AEP's earnings per share and 25 percent to other metrics

[33] *Id.* at 31.

[34] *Id.* at 39.

[35] Case No. 2014-00397, Final Order at 27-28; Case No. 2005-00042, *An Adjustment of the Gas Rates of the Union Light, Heat and Power Company* (Ky. PSC Feb. 2, 2006); Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010).

incentive compensation programs provide benefits to both Kentucky Power's customers and its shareholders.[36]

The Commission finds that the Settlement provision that reduces incentive compensation by $3.15 million, which is a greater reduction than the adjustment recommended by the Attorney General, is reasonable and should be approved.

Savings Plan Expense

Kentucky Power included $1,662,975 in its jurisdictional revenue requirement for savings plan expense for employees who participate in a defined benefit plan and have matching 401(k) contributions from Kentucky Power.[37]

The Attorney General proposed a Kentucky jurisdictional adjustment of $1,102,496 for savings plan expense for employees who participate in a defined benefit plan and have matching 401(k) contributions from Kentucky Power.

In rebuttal, Kentucky Power explained that participation in the defined benefit plan ended in 2000 and benefits were frozen in 2010.[38] Therefore, Kentucky Power does not contribute to a defined benefit plan and 401(k) matching plan at the same time. The Commission has disallowed such matching contributions when both a defined benefit plan and 401(k) matching contribution exist concurrently. This is not the case with Kentucky Power.

The Commission finds that Kentucky Power's savings plan expense is reasonable and should be allowed for ratemaking purposes.

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[36] Rebuttal Testimony of Andrew R. Carlin ("Carlin Rebuttal Testimony") at 7.

[37] Kentucky Power's Response to Staff's Second Request, Item 56.h. and i.

[38] Dec. 7, 2017 H.V.T. at 4:50:20.

Supplemental Executive Retirement Plan ("SERP")

The Attorney General proposed an adjustment of $52,453 for the expense associated with Kentucky Power's Supplemental Executive Retirement Plan ("SERP"). The Attorney General argued that such plans provide benefits to executives that exceed amounts limited in qualified retirement plans by the Internal Revenue Service.[39] The Attorney General also maintained that the provision of additional retirement compensation to Kentucky Power's highest paid executives is not a reasonable expense that should be recovered in rates.

In rebuttal, Kentucky Power stated that the total benefit it provides under both its qualified and non-qualified plan is equal to the benefit that would be produced by the formulas utilized under the qualified plans if these plans were not subject to the benefit limitations imposed on qualified plans.[40]

The Commission finds the SERP expenses reasonable and, therefore, should be allowed for ratemaking purposes.

Affiliate Charge for Corporate Aviation Expense

The Attorney General proposed an adjustment of $382,769 to remove the cost of the AEP corporate aviation expense charged to Kentucky Power during the test year.[41] The Attorney General argued that AEP corporate aviation is a perquisite for AEP executives and directors and, as such, shareholders should bear the cost, not ratepayers.

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[39] Smith Testimony at 42.

[40] Carlin Rebuttal Testimony at R-32.

[41] Smith Testimony at 43-44.

The Commission disagrees with the Attorney General's proposed adjustment for corporate aviation expense. While private jet travel may appear to be an extravagance, legitimate travel expenses would have been incurred through commercial airlines. The Commissions finds that the aviation expense proposed by Kentucky Power is reasonable and should be approved.

Storm Damage Expense

Kentucky Power proposed an adjustment of $595,932 for storm damage expense based upon a three-year average of major storm expense. The Attorney General proposed an adjustment to reduce storm damage expense by $595,932, arguing that Kentucky Power had not demonstrated a compelling reason to increase test year storm damage expense.[42]

Kentucky Power explained that it used a three-year average to normalize the level of costs to address the uncertainty regarding when, and how much, a major storm will affect Kentucky Power and because using only the test year amount in a base rate filing could lead to major swings in adjustments for storm damage expense.[43]

The Commission finds that Kentucky Power's storm damage expense adjustment is reasonable and should be allowed for ratemaking purposes.

Test Year Relocation Expense

Kentucky Power included a $318,073 adjustment for relocation expense in its test year revenue requirement.[44] The Attorney General proposed an adjustment to

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[42] *Id.* at 44.

[43] Rebuttal Testimony of Ranie K. Wohnhas ("Wohnhas Rebuttal Testimony") at R-18 – R-19.

[44] Kentucky Power's Response to the Attorney General's First Request, Item 251.

normalize relocation expenses that reduced the test year operating expenses by $140,972 on a Kentucky jurisdictional basis.[45]

In response to Commission Staff's Post-Hearing Data Request, Item 14, Kentucky Power stated that its relocation expense for the eight-month period March 1, 2017 to October 31, 2017 totaled $125,736. Annualized over a twelve-month period ending February 28, 2018, relocation expenses are forecasted to total $188,604. On a Kentucky jurisdictional basis, relocation expenses for the twelve months ending February 28, 2018 amount to $185,964.

The Commission finds that the relocation expense should be adjusted based upon the Kentucky jurisdictional relocation expenses for the twelve months ending February 28, 2018. This results in a decrease to the Kentucky jurisdictional relocation expense of $132,109.

Gain on Sale of Utility Property

The Attorney General proposed an adjustment to amortize a $996,669 gain on the sale of utility property ("Carrs Site") over three years for $327,240 per year on a Kentucky jurisdictional basis.[46] The Attorney General maintained that the Kentucky jurisdictional gain on the sale of utility property should flow back to customers.

In rebuttal, Kentucky Power argued that the gain on the sale of the property should not be adjusted to reduce its revenue requirement because the Carrs Site had not been included in rate base, and thus Kentucky Power had not received a return on

[45] Smith Testimony at 46.

[46] *Id.* at 47.

the Carrs Site for the last 33 years.[47] Kentucky Power also noted that it removed $60,539 in property taxes from its cost of service in this case.[48]

The Commission finds that, since Kentucky Power has not received a return on this investment and has excluded the property taxes from its cost of service, the proposed adjustment by the Attorney General is not reasonable and should be denied.

Cash Surrender Value of Life Insurance

Kentucky Power recorded expense in the test year associated with the cash surrender value of life insurance of former executives in a Kentucky jurisdictional amount of $26,941.[49]

The Attorney General asserted that Kentucky Power's ratepayers should not be responsible for paying the expenses for the cash surrender value of life insurance for former executives and recommended the $26,941 of expense be denied for ratemaking purposes.[50]

In rebuttal, Kentucky Power explained that the expense is part of the total compensation/benefit package given to executives (current or former) that should be recovered whether or not the executive is a current or a former employee.[51]

The Commission finds that the proposed expense is reasonable, and therefore the Attorney General's proposed adjustment should be denied.

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[47] Wohnhas Rebuttal Testimony at R-20.

[48] *Id.*

[49] Smith Testimony at 48.

[50] *Id.*

Rate Case Expense

The Attorney General proposed an adjustment to remove $458,333 in rate case expenses.[52] The Attorney General proposed to remove certain rate case expenses billed by a consultant who conducted witness preparation but did not sponsor testimony on Kentucky Power's behalf. The Attorney General also proposed to remove remaining rate case expenses as a penalty for Kentucky Power not seeking a reduction in the Rockport UPA ROE, which was established by the Federal Energy Regulatory Commission ("FERC").

In rebuttal, Kentucky Power argued that witness preparation is a necessary part of litigating a base rate case and that, regardless of who performs the function, the cost should be recovered.[53] Kentucky Power further argued that FERC's determination of the Rockport UPA ROE was fair, just, and reasonable, and that the decision was within FERC's exclusive jurisdiction. Kentucky Power asserted that the Attorney General's proposal to deny rate case expense as a penalty for the Rockport UPA ROE was an unlawful and unconstitutional attempt to overturn a FERC decision.

The Commission finds that the Attorney General's adjustment to remove rate case expenses for witness preparation and as a penalty for the Rockport UPA ROE is unreasonable, and should be denied. Given the type of service provided, the Attorney General's argument to remove the witness preparation consultant's fees is not

[51] Wohnhas Rebuttal Testimony at 17.

[52] Smith Testimony at 52.

[53] Wohnhas Rebuttal Testimony at R-20.

persuasive.[54] In regard to adjusting the rate case expenses as a penalty not related to ratemaking, as set forth in *South Central Bell v. Utility Reg. Comm'n*, 637 S.W.2d 649, 653 (Ky. 1982), the imposition of penalty that is not germane to the factors that go into the ratemaking process is arbitrary and subjective. If the Attorney General objects to the ROE awarded by FERC, the appropriate forum to address that issue is at FERC, and not the Commission.

COMMISSION ADJUSTMENTS TO REVENUES AND EXPENSES

Off System Sales ("OSS") Margins, System Sales Clause Tariff ("Tariff S.S.C.")

During the test year, Kentucky Power included OSS margins in the amount of $7,163,948. Kentucky Power operated the converted Big Sandy Unit 1 for only nine months of the test period. While Kentucky Power annualized the plant maintenance expense for Big Sandy Unit 1,[55] there was no adjustment or annualization to OSS margins.

The Commission finds that OSS margins should be adjusted to reflect an annualized amount. For the 12-month period ending September 30, 2017, Kentucky Power had OSS margins of $7,650,360.[56] Therefore, the Commission will utilize the OSS margins of $7,650,360 for the 12-month period ending September 30, 2017, rather than the test year amount, resulting in an increase in operating revenue of $486,412. Additionally, the amount of OSS margins to be collected in base rates is $7,650,360, rather than the $7,163,948 proposed in the application.

[54] *See* Kentucky Power Fifth Supplemental Response to Staff's First Request (filed Jan. 2, 2018), Item 56. The witness preparation fees were $42,623; Kentucky Power's other legal fees were $677,547.

[55] Application, Section V, Exhibit 2, Workpaper 41.

[56] Response to Commission Staff's Fourth Request for Information, Item 2.

Weather Normalized Commercial Sales

Kentucky Power proposed an adjustment to increase revenues to reflect normal temperatures, but its adjustment applied only to residential customer sales. In discovery, Kentucky Power stated that commercial revenues would have been $914,000 greater based on weather normalized temperatures.[57] After the related variable expenses are removed from revenues, the rate increase is reduced by $400,000.

The Commission finds this adjustment reasonable as temperatures affect the revenues in both the residential and commercial classes. Therefore, the Commission will reduce the rate increase by $400,000 to reflect this adjustment.

Purchased Power Limitation and Forced Outage Purchase Power Limitation Expense

Kentucky Power proposed adjustments to include the purchased power limitation and forced outage purchase power limitation expense in base rates in its application in the amount of $3,150,582 and $882,204, respectively.

As discussed under the FAC Purchase Power Limitation section below, the Commission is denying Kentucky Power's proposal to recover such costs under Tariff P.P.A. Accordingly, the Commission finds these adjustments unreasonable and should be denied.

Net Operating Income Summary

After considering all pro forma adjustments and applicable income taxes, Kentucky Power's adjusted net operating income is as follows:

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[57] Direct Testimony of Lane Kollen at 16-17.

Operating Revenues	$568,163,551
Operating Expenses	519,965,870
Adjusted Net Operating Income	$ 48,197,681

RATE OF RETURN

Capital Structure and Cost of Debt

Kentucky Power proposed an adjusted test-year-end capital structure consisting of 54.45 percent long-term debt at 5.32 percent; zero percent short-term debt at 0.80 percent; 3.87 percent accounts receivable financing at 1.95 percent; and 41.68 percent common equity at a return of 10.31 percent.[58] On August 7, 2017, Kentucky Power filed a supplement to its Application reflecting the results of Kentucky Power's June 2017 refinancing of $325 million 6.00 percent Senior Unsecured Notes, and $65 million WVEDA Mitchell Project, Series 2014A Variable Rate Demand Notes as authorized in Case No. 2016-00345.[59] This refinancing reduced the annual cost of long-term debt to 4.36 percent.[60] The capital structure proposed by the Settlement downwardly adjusts the long-term debt by one percent and places this percent onto the short-term debt at an interest rate of 1.25 percent.[61]

[58] Application, Direct Testimony of Zachary C. Miller ("Miller Direct Testimony") at 3.

[59] Case No. 2016-00345 *Electronic Application of Kentucky Power Company for Authority Pursuant to KRS 278.300 to Issue and Sell Promissory Notes of One or More Series and for Other Authorizations* (Ky. PSC Dec. 21, 2016).

[60] Supplemental Direct Testimony of Zachary C. Miller at 5.

[61] Settlement Testimony of Mattew J. Satterwhite ("Satterwhite Settlement Testimony") at Exhibit 6a.

The Attorney General employed Kentucky Power's proposed capital structure and senior capital cost rates.[62] KCUC was silent on this topic.

Kentucky Power stated that it sells its receivables to AEP for cost savings due to default risks and to improve cash flow.[63] However, Kentucky Power's uncollectible accounts remain with Kentucky Power and are not sold with the accounts receivable.[64] The Commission notes that the cost of accounts receivable financing is higher than traditional short-term financing. The Commission believes that selling the receivables but maintaining the bad debt places an undue burden onto Kentucky Power's customers. Therefore, the Commission will blend the funds between short-term debt and accounts receivable financing so that the weighted average cost percentage of accounts receivable financing is decreased three basis points and placed on the short-term debt weighted average cost percentage. This reduces the percent of accounts receivable financing to 1.67 percent of the total capital structure and increases the percent of short-term debt to 3.20 percent of the total capital structure. The Commission finds that the cost of long-term debt and short-term debt of 4.36 percent and 1.25 percent, respectively, to be reasonable.

<u>Return on Equity</u>

In its Application, Kentucky Power developed its return on equity ("ROE") using the discounted cash flow method ("DCF"), the capital asset pricing model ("CAPM"), the empirical capital asset pricing model ("ECAPM"), and the utility risk premium ("RP"). In

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[62] Direct Testimony of J. Randall Woolridge, Ph.D. ("Woolridge Testimony") at 3.

[63] Dec. 8, 2017 H.V.T. at 12:15:22.

[64] Dec. 6, 2017 H.V.T. at 5:43:36.

addition, Kentucky Power referenced the expected earnings approach.[65] Based on the results of the methods employed in its analysis, Kentucky Power recommended an ROE range of 9.71 percent to 10.91 percent, including flotation cost.[66] Kentucky Power recommended awarding the midpoint of this range, 10.31 percent, to maintain financial integrity and to support additional capital investment.[67] Kentucky Power further stressed that consideration of all models, not just the DCF model, is important as the DCF model results may reflect the impact from the recent recession and such financial inputs are not representative of what may prevail in the near future.[68]

Direct testimony and analysis regarding ROE was provided by the Attorney General. The Attorney General employed the DCF and CAPM models for his analysis and both models were evaluated using Kentucky Power's proxy group and the Attorney General's own proxy group. This was mostly for comparison purposes, as the Attorney General stated that, on balance, the two proxy groups were similar in risk.[69] The Attorney General's DCF model results indicated equity cost rates of 8.25 percent and 8.7 percent for the Attorney General and Kentucky Power proxy groups, respectively. The Attorney General disagreed with Kentucky Power's DCF analysis, specifically noting Kentucky Power's elimination of low-end DCF results and the use of growth forecasts that the Attorney General believes are overly optimistic and upwardly biased.[70]

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[65] Application, Direct Testimony of Adrian M. McKenzie, CFA ("McKenzie Direct Testimony") at 6.

[66] *Id.* at Exhibit AMM-2 at 1.

[67] Id. at 6.

[68] Id. at 7.

[69] *Id.* at 25.

[70] *Id.* at 65.

The Attorney General's CAPM results were 7.6 percent for both proxy groups. The Attorney General stated that Kentucky Power's CAPM analysis is flawed as the ECAPM version of the CAPM was used, which the Attorney General claims makes an inappropriate adjustment to the risk-free rate and the market risk premium.[71] Additionally, the Attorney General stated that Kentucky Power's CAPM analysis employed an inflated projected interest rate, an unwarranted size adjustment, and an excessive market or equity risk premium.[72]

The Attorney General recommended relying primarily on the DCF model, determined the ROE range of the two proxy groups, 8.25 percent and 8.7 percent, to be reasonable, and recommended an ROE of 8.6 percent.[73] In support of his recommendation, the Attorney General noted that: as investment risk, Kentucky Power's credit ratings are on par with the proxy groups; capital costs for utilities remain at historical low levels and are likely to remain at low levels; the risk associated with the electric utility industry is among the lowest and, as such, the cost of equity capital is amongst the lowest; and authorized ROEs have been gradually decreasing in recent years.[74]

The Attorney General also disagreed with Kentucky Power's upward adjustment of 0.11 percent to the equity cost rate recommendation to account for flotation costs. The Attorney General argued that Kentucky Power did not identify any flotation costs

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[71] *Id.* at 68.

[72] *Id.*

[73] Woolridge Testimony at 58.

[74] *Id.* at 59.

that are specifically associated with Kentucky Power.[75] The Attorney General stated that it is commonly argued that a flotation cost adjustment is necessary to recover issuance costs, but should not be recovered through the regulatory process, as these costs are already known to the investor upon buying the stock.[76]

The parties to the Settlement agreed that the revenue requirement increases for Kentucky Power will reflect a 9.75 percent ROE as applied to Kentucky Power's capitalization and capital structure of the proposed revenue requirement increases as modified through discovery. As a result, use of a 9.75 percent ROE reduced Kentucky Power's proposed electric revenue requirement by $4.7 million.[77] In his post hearing brief, the Attorney General recognized the significant reduction from the original ROE, but still believes it is in excess of the return shareholders require.[78] The Attorney General further argued that utilities seem to overstate necessary ROE, and does not support the 9.75 percent.[79] For the reasons discussed below, the Commission finds a ROE of 9.75 percent to be unreasonable, and for the purpose of base rate revenues and certain tariffs, an ROE of 9.70 percent should be applied.

In his testimony, the Attorney General noted that differing opinions between Kentucky Power and the Attorney General regarding capital market conditions result in differing ROE recommendations.[80] Kentucky Power's analysis assumes higher interest

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[75] *Id.* at 80.

[76] *Id.* at 81.

[77] Settlement at 4.

[78] Attorney General's Post Hearing Brief ("Attorney General's Brief") (filed Jan. 5, 2018) at 18.

[79] *Id.* at 19 and 20.

[80] Woolridge Testimony at 5.

rates and capital costs whereas the Attorney General concludes that interest rates and capital costs are at low levels and likely to remain low for some time.[81] The Commission agrees with the Attorney General that, although interest rates are increasing, they are doing so slowly and are still historically low. In fact, the Federal Reserve noted the following:

> The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.[82]

The Commission further agrees that models supporting the low interest rate environment should be given more weight than those supporting high interest rate expectations.

The Commission also agrees with the Attorney General that flotation costs should be excluded from the analysis. The Commission believes that flotation costs are accounted for in the current stock prices, as the price includes the underwriting spread and adding the adjustment amounts to double counting. Removal of the flotation costs from Kentucky Power's initial cost of equity range lowers the range to 9.6 percent from 10.8 percent.[83]

The 2017 economic environment has shown signs of relative improvement. In response to low inflation and low unemployment, the Federal Reserve increased interest rates a quarter of a percent three times in 2017. Current outlooks for 2018 are

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[81] *Id.*

[82] Testimony of Richard A. Baudino at 8.

[83] McKenzie Direct Testimony, Exhibit AMM-2 at 1.

healthy, with gross domestic product growth rates expected to remain between two and three percent, unemployment forecasted to continue at the natural rate, and inflation expected to hover at around two percent.[84] However, notwithstanding these improvements, the economy of Eastern Kentucky has lagged behind national and state trends. Employment trends have not recovered to pre-recession levels, earnings trends remain stagnant and lag behind the state trends, and poverty rates in the majority of Kentucky Power's service territory are 24.4 percent or higher.[85]

The Commission is cognizant of the risk inherent to Kentucky Power's service territory and load profile. The Commission notes the Attorney General's position that Eastern Kentucky has been economically depressed for the past decade and that the Commission should consider the economic conditions of the region in evaluating the overall rates and rate design.[86] Therefore, given the adverse economic situation of the service territory of high unemployment, low earnings, and high poverty rates, the Commission finds a lower ROE will allow Kentucky Power to earn a fair return while reflecting the economic situation of its customers.

For 2016, the median ROE of the utilities in the Attorney General's proxy group was 9.3 percent; for Kentucky Power's proxy group, the median ROE was 9.4 percent.[87] In addition, the average authorized ROE reported by SNL Financial for 2017 is

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[84] https://www.thebalance.com/us-economic-outlook-3305669.

[85] Attorney General's Brief at 12; Dismukes Testimony at 5-6; Dec. 6, 2017 H.V.T., PSC Exhibit 1.

[86] Dismukes Testimony at 6.

[87] Woolridge Testimony, Exhibit JRW-4 at 1.

approximately 9.7 percent.[88] The Commission agrees with Kentucky Power that this is a benchmark worthy of consideration, but disagrees that a downward adjustment will be injurious to customers and the Kentucky economy.[89] Based on the entire record developed in this proceeding, we find that an ROE of 9.7 falls within the range of the Attorney General's proposed 8.6 percent to the initial proposed ROE of 10.31 percent, and within Kentucky Power's original range of 9.6-10.8 percent, adjusted for flotation costs. Additionally, an ROE of 9.7 is within the range of the benchmarks provided by SNL, the proxy groups, and recent Commission Orders[90].

Rate-of-Return Summary

Applying the rates of 4.36 percent for long-term debt, 1.25 percent for short-term debt, 1.95 percent for accounts receivable financing, and 9.70 percent for common equity to the Commission adjusted capital structure produces an overall cost of capital of 6.44 percent.[91] The cost of capital produces a return on Kentucky Power's rate base of 6.42 percent.

BASE RATE REVENUE REQUIREMENTS

In the Settlement, Kentucky Power and the Settling Intervenors agreed to a base rate increase of $31.8 million. The Attorney General's expert witness proposed a base

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[88] Direct Testimony and Exhibits of Gregory W. Tillman on behalf of Wal-Mart Stores East, LP and Sam's East, Inc. at 11.

[89] Rebuttal Testimony of Adrien M. McKenzie, CFA at 73.

[90] Case No. 2016-00370 Electronic Application of Kentucky Utilities Company For An Adjustment Of Its Electric Rates and For Certificates of Public Convenience and Necessity (Ky. PSC Jun. 22, 2017) and Case No. 2016-00371 Electronic Application of Louisville Gas and Electric Company For An Adjustment Of Its Electric and Gas Rates and For Certificates Of Public Convenience and Necessity (Ky. PSC Jun. 22, 2017).

rate increase of $39.8 million. The Commission finds that, subject to the adjustments discussed in this Order, a base rate increase of $12.35 million is reasonable, as is discussed in the Total Jurisdictional Revenue Requirement section below.

REVENUE REQUIREMENT-RELATED RIDERS AND DEFERRALS

Big Sandy Retirement Rider

In its Application, Kentucky Power proposed to rename the Big Sandy Retirement Rider to the Decommissioning Rider to alleviate customer confusion regarding the purpose of the rider. Pursuant to the settlement agreement approved in Case No. 2014-00396, Kentucky Power recovers the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2, and other site-related retirement costs through this rider. Only the rider name will change; the rider will continue to operate in the manner approved by the Commission in Case No. 2014-00396.

The Commission finds the name change reasonable and that it should be approved. The Commission further finds that the carrying charges associated with this rider should be based on the weighted average cost of capital ("WACC"), after reflecting the impacts of the reduction in the federal corporate income tax rates approved in this Order, should become effective as of the date of this Order. However, the monthly amounts collected will not change until Kentucky Power makes its annual filing on or before August 15, 2018, to adjust the amounts collected under this rider.

Big Sandy Unit 1 Operation Rider

In its Application, Kentucky Power proposed to eliminate the Big Sandy Unit 1 Operation Rider ("Tariff B.S.1.O.R.") and to recover through base rates the costs

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[91] The Commission adjusted capital structure consists of 54.45 percent long-term debt, 3.2

currently recovered through Tariff B.S.1.O.R. Once new rates become effective in this case, Tariff B.S.1.O.R. will have an under- or over-recovery balance. Therefore, Kentucky Power also requested authority to establish a regulatory asset or liability that will allow Kentucky Power to track and defer any under- or over-recovery balance until its next rate case.

In Case No. 2014-00396, the Commission approved Tariff B.S.1.O.R. to permit Kentucky Power to recover the non-fuel costs of operating Big Sandy Unit 1 as a coal burning unit until its conversion to natural gas, the non-fuel costs of its operation as a natural gas unit and capital investment required for its conversion to natural gas once it is placed in service. Tariff B.S.1.O.R. was designed to be in effect until the rates established in Kentucky Power's next base rate case were implemented.

The Commission has previously approved regulatory assets for other jurisdictional utilities. Such approval has been granted when a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry-sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.[92] Since Tariff B.S.1.O.R. was approved by the Commission in Case No. 2014-00396, the establishment of a regulatory asset to address the under-

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percent of short term debt, 1.67 percent of accounts receivable financing, and 41.68 percent of common equity.

[92] Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), at 4. *See also* Case No. 2010-00449, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit* (Ky. PSC Feb, 28, 2011), at 7.

recovery of Tariff B.S.1.O.R. is consistent with the second example listed above. Regarding a possible regulatory liability, the Commission notes that it is appropriate that Kentucky Power customers be the beneficiaries of any over-recovery of Tariff B.S.1.O.R.

The Commission finds the establishment of a regulatory asset or liability due to the elimination of Tariff B.S.1.O.R. to be reasonable and that it should be approved. This approval is for accounting purposes only, and the appropriate ratemaking treatment for the regulatory asset or liability account will be addressed in Kentucky Power's next general rate case.

Tariff A.T.R.

In its Application, Kentucky Power proposed to eliminate Tariff Asset Transfer Rider ("Tariff A.T.R."). Given that Kentucky Power has recovered the full amount that Tariff A.T.R. was designed to recover, the Commission finds the elimination of Tariff A.T.R. to be reasonable and that it should be approved.

Tariff K.E.D.S.

In its Application, Kentucky Power proposed to increase Tariff K.E.D.S. from $0.15 per meter per month to $0.25 per meter per month. In the Settlement, Kentucky Power and the Settling Intervenors agreed to a surcharge of $0.10 per meter for residential customers and $1.00 per meter for non-residential customers. KCUC did not provide testimony regarding Tariff K.E.D.S.

Tariff K.E.D.S. imposes an economic development surcharge, which was approved in Kentucky Power's last rate case,[93] to fund economic development initiatives

[93] Case No. 2014-00396, Final Order at 49-51.

in Kentucky Power's service territory, with funds collected through the surcharge matched equally by Kentucky Power from AEP shareholder funds. As a basis for the increase, Kentucky Power argued that additional economic development funds were needed to grow its load and customer base. One of the reasons for Kentucky Power's proposed rate increase is a significant decline in load and customers since the economic downturn in 2008.[94] A decrease in customers and load concentrates costs among a smaller customer base, which results in fewer customers paying a larger share of the cost. Correspondingly, a growth in load and customer base spreads costs among a greater number of customers.

The Attorney General recommended that the economic development surcharge be eliminated.[95] The Attorney General asserted that Kentucky Power failed to provide evidence of a direct tie between Kentucky Power's economic development efforts and increased jobs and electricity sales.[96] The Attorney General further asserted that the economic development surcharge simply redistributes ratepayer dollars without evidence of an identifiable benefit for ratepayers.

In rebuttal, Kentucky Power countered that it maintains economic development metrics, including job counts, investments, and grants, which it uses to evaluate the

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[94] Application, Direct Testimony of Brad N. Hall ("Hall Direct Testimony") at 5. Between 2008 and 2016, Kentucky Power lost 6,931 customers, and its total annual sales declined from 7.24 GWh to 5.80 GWh.

[95] Direct Testimony of David E. Dismukes ("Dismukes Testimony") at 4; Direct Testimony of Roger McCann ("McCann Testimony") at 6, 17.

[96] Dismukes Testimony at 4, 41.

success of its economic development program.[97] In a subsequent discovery response, Kentucky Power provided its written economic development action plan with strategic goals and metrics set forth in specific detail.[98] Kentucky Power contended that its economic development program achieves identifiable goals, and that Kentucky Power's customers receive benefits from the economic development surcharge. As an example, Kentucky Power asserted that its economic development efforts are projected to create 1,705 new full-time positions, with an additional 1,000 construction jobs.[99]

The Commission recognizes the importance of economic development efforts, especially given the economic needs of Kentucky Power's service area. However, the Commission also recognizes that 26 percent, or 35,756, of Kentucky Power's residential customers are at or below the poverty level.[100] In 2016, Kentucky Power disconnected more than 11,000 residential customers who could not pay their electric bill.[101] In the course of this proceeding, the Commission received a large number of public comments from residential customers who questioned why they are charged for Kentucky Power's economic development efforts, particularly given the difficulty that residential customers have in paying their electric bills. Residential customers, especially those on fixed incomes, cannot pass along their costs; to a certain extent, non-residential customers

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[97] Dec. 8, 2017 H.V.T. at 10:44:56.

[98] Kentucky Power Response to KCUC's Post Hearing Data Request ("Response to KCUC Post Hearing Request"), Item No. 1, Attachment 1.

[99] Hall Direct Testimony at 12; Dec. 8, 2017 H.V.T. at 10:31:23. On December 7, 2017, there was an announcement that 875 jobs would result from a business locating in Pikeville, Kentucky. Prior to that announcement, there were 830 projected new jobs created from Kentucky Power economic development efforts.

[100] Dec. 8, 2017 H.V.T. at 11:58:01 and 5:33:49.

[101] *Id.* at 11:58:19.

can pass along their costs to their customers. The Commission finds that the residential customer economic development surcharge of $0.10 per meter per month, as set forth in the Settlement, is unreasonable and therefore should be denied. The Commission further finds that the residential customer economic development surcharge should be eliminated. However, the Commission finds that the economic development surcharge on non-residential customers of $1.00 per meter per month, as set forth in the Settlement, is reasonable. Therefore, the Commission approves the portion of the Settlement applicable to the economic development surcharge for non-residential customers only.

Home Energy Assistance Program Surcharge

In its Application, Kentucky Power proposed to increase the HEAP surcharge from $0.15 per residential meter per month to $0.20 per residential meter per month. Similar to the economic development surcharge, funds collected through the HEAP surcharge are matched equally by Kentucky Power from AEP shareholder funds.

HEAP funds provide subsidies to assist eligible low-income customers in Kentucky Power's service territory to pay electric bills during seven peak heating and cooling months.[102] There is a waiting list of eligible customers because there are not sufficient HEAP funds available to assist all eligible customers.[103]

The Attorney General supported the five-cent increase to $0.20 per residential meter per month, but argued that the increase was inadequate to keep pace with

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[102] McCann Testimony at 5-6, 14. Subsidies are available in January, February, March, July, August, September, and December.

[103] *Id.* at 15. As of Sept. 20, 2017, there were 1,475 eligible customers on a wait-list for HEAP subsidies.

Kentucky Power's rate increases. The Attorney General proposed that the Commission approve the HEAP surcharge increase and, if the Commission discontinued the economic development surcharge, that the HEAP surcharge be increased in the same amount by which the economic development is reduced.[104]

Kentucky Power's President, Matthew J. Satterwhite, testified that, if the Commission modified the Settlement to eliminate the $0.10 per meter per month economic development surcharge for residential customers, Kentucky Power could agree to a commensurate increase in the HEAP surcharge by $0.10 per residential meter per month, with matching shareholder funds.[105]

The Settlement is silent as to the HEAP surcharge.

The Commission finds that the proposed increase in the HEAP surcharge is insufficient to address the demonstrable need to assist eligible low-income customers with their electric bills. The Commission further finds that the HEAP surcharge should be increased by the corresponding amount that the economic development surcharge for residential customers is reduced. Therefore, the Commission rejects Kentucky Power's proposed increase in the HEAP surcharge to $0.20 per residential meter per month. The Commission finds an increase of the HEAP surcharge to $0.30 per residential meter per month is reasonable and should be approved.

<u>Rockport Deferral Mechanism</u>

In the Settlement, Kentucky Power and the Settling Intervenors agreed to defer $50 million of non-fuel and non-environmental lease expenses from Rockport Unit 2

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[104] McCann Testimony at 6, 17; Dismukes Testimony at 4.

over five years, with the establishment of a regulatory asset for later recovery ("Rockport Deferral Regulatory Asset") of these expenses. This Rockport Deferral Regulatory Asset, plus a carrying charge based on a WACC of 9.11 percent, will be recovered through Kentucky Power's Tariff P.P.A. over five-years starting in December of 2022. The dates of the end of the deferral period and the start of the five-year amortization period coincide with the anticipated end of the Rockport UPA lease agreement.[106]

The Settlement proposed a deferral of $15 million in 2018 and 2019, $10 million in 2020, and $5 million in 2021 and 2022. The Settlement's annual revenue requirement reflects a decrease to base rates of the 2018 $15 million adjustment. In 2020, 2021 and 2022 the decrease in the deferral will be offset with an increase in the amount recovered through Tariff P.P.A. Additionally, in 2022, the increase in the amount recovered through Tariff P.P.A. will be prorated through December 8, 2022, as the Rockport UPA will terminate on that date. By utilizing Tariff P.P.A., Kentucky Power is able to reduce the annual deferral amount and concurrently keep base rates unchanged. Beginning in December 2022, the five-year deferral period will end and the recovery of the Rockport Deferral Regulatory Asset will begin. The Rockport Deferral Regulatory Asset will be amortized through 2027 and be subject to carrying charges until it is fully recovered. Kentucky Power estimates that the Rockport Deferral

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[105] Dec. 7, 2017 H.V.T. at 10:53:09.

[106] Satterwhite Settlement Testimony at S-10.

Regulatory Asset will total approximately $59 million in December 2022. That amount will decrease incrementally until fully collected over the five-year amortization period.[107]

Neither the Attorney General nor KCUC offered testimony concerning the Rockport Deferral. However, during the hearing and in his post-hearing brief, the Attorney General expressed his concerns about the "very large financing costs" associated with the deferrals, stating that the "$50M over the entire deferral period is going to have financing costs piled on top of it... [t]hese financing costs are at the weighted average cost of capital including the 9.75 percent return of equity which then gets a tax gross up on top of it."[108] The Attorney General further stated that a concern that the costs of the deferral will eventually require rate recovery in future rate proceedings.[109] The Attorney General recommended that the carrying charge be reduced to 4.36 percent for Kentucky Power's current long term debt.[110]

In response, Kentucky Power argued that the 9.11 percent WACC made Kentucky Power financially whole because of its need to finance the deferral through a combination of debt and equity, and therefore was appropriate.[111]

The recovery period of the proposed Rockport Deferral Mechanism is contingent upon Kentucky Power not renewing the Rockport UPA.[112] If the lease is not renewed,

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[107] *See* Appendix A, paragraph 3 for details of the Rockport UPA Expense Deferral.

[108] Dec. 6, 2017 H.V.T. at 04:01:19; *See also* Attorney General's Brief at 31.

[109] Dec. 6, 2017 H.V.T. at 04:01:19

[110] Attorney General's Brief at 31.

[111] Kentucky Power's Post Hearing Brief ("Kentucky Power's Brief") (filed Jan. 5, 2018) at 48.

[112] Kentucky Power stated that it is unlikely that the Rockport lease will be renewed. Dec. 6, 2017 H.V.T. at 5:47:44; Kentucky Power Response to Staff's Second Request, Item 72.

the expenses associated with the Rockport UPA will be removed from rate base, which allows the regulatory asset to be funded without a change in rate base. However, if the lease is renewed, the deferred expenses will have to be recovered from future ratepayers, and possibly through an increase in rate base.[113] The Commission recognizes that there are inherent risks associated with any deferral mechanism, especially since the deferral recovery is contingent upon not renewing the Rockport UPA. Given Kentucky Power's excess capacity and slow load growth, the Commission believes the benefits of the deferral outweigh the associated risks, and approves the Rockport Deferral Mechanism and the associated $15 million decrease to rate base. The carrying charges associated with this rider shall be based on the WACC approved in this Order and are effective as of the date of this Order. This approval is for accounting purposes only, and the appropriate ratemaking treatment for this regulatory asset account will be addressed in Kentucky Power's next general rate case.

Environmental Surcharge Tariff E.S.

Kentucky Power proposed an addition to its Environmental Compliance Plan to recover the cost of installing Selective Catalytic Reduction ("SCR") technology at Rockport Unit 1, affecting the amounts collected under Tariff E.S The project is discussed later in the Environmental Compliance Plan section of this Order. Kentucky Power estimated the revenue requirement for the SCR project to be $3,903,065.[114] The Commission finds the Rockport Unit 1 revenue requirement to be reasonable.

[113] Satterwhite Settlement Testimony at S-13.

[114] Elliott Testimony, Exhibit AJE-5.

TOTAL JURISDICTIONAL REVENUE REQUIREMENTS

The Commission has found that Kentucky Power's required ROE falls within a range of 8.60 percent to 10.31 percent, and approves an ROE of 9.70 percent. The Settlement proposed a base rate increase of $31.8 million and environmental surcharge revenues of $3.9 million, for a total of $35.7 million. The environmental surcharge is discussed farther below. Because Kentucky Power recovers the costs associated with the decommissioning of coal-related assets at Big Sandy through the Decommissioning Rider, those costs are not included for recovery in the base rates. However, for the twelve months ending September 30, 2018, Kentucky Power will recover approximately $20.2 million through the Decommissioning Rider,

Due to the modifications the Commission makes to the Settlement and the provision for the reduction in the federal corporate income tax rate from 35 percent to 21 percent in the Tax Cuts and Jobs Act, the Commission finds that an increase in base rate revenues of $12.35 million, as shown in Appendix F to this Order, exclusive of the environmental surcharge, will result in fair, just, and reasonable electric rates for Kentucky Power and its ratepayers. The Commission utilized Kentucky Power's equity gross up revenue conversion factor ("GRCF"), as provided in Kentucky Power's revised Environmental Surcharge forms filed on January 3, 2018, to reflect the reduction in the federal corporation income tax rate effective with the date of this Order. Additionally, the adjustments the Commission makes to the test year operating income and expense items reflect the income tax rate reduction and change in the GRCF. The excess accumulated deferred income tax ("ADIT") impacts resulting from the reduction federal corporate income tax rate will be addressed in Case No. 2017-00477. The Commission also finds that Kentucky Power should establish a mechanism to track the over/under-collection of federal income taxes, and that a true-up of any over/under-collections be addressed in Case No. 2017-00477.

Due to the economic conditions in Kentucky Power's service territory, the Commission believes that the impact of the federal corporate income tax reduction on rates should be put into place effective with the date of this Order. In addition, the lower rates should serve as an impetus for economic development through recruiting new businesses as well as maintaining existing business customers.

NONREVENUE REQUIREMENT RIDERS AND TARIFFS

The following sections address riders and a tariff that have no direct impact on Kentucky Power's revenue requirement. The discussion covers both those that have been contested, and those that are included in the Settlement.

Non-Utility Generator Tariff

In its Application, Kentucky Power proposed to revise the Non-Utility Generator Tariff ("Tariff N.U.G.") to eliminate a provision that requires a 30-day written notice to customers taking service under Tariff N.U.G. if a transmission provider implements charges for transmission congestion. Kentucky Power asserted that this clause is no longer necessary because PJM has already created transmission congestion charges.[115] Kentucky Power also proposed to revise language in the special terms and conditions section of Tariff N.U.G. to clarify the requirement to take service for remote

[115] Application, Vaughan Direct Testimony at 25.

self-supply.[116] The Settlement is silent as to Tariff N.U.G. Neither KCUC nor the Attorney General contested the proposed revisions to Tariff N.U.G.

The Commission finds the revisions to Tariff N.U.G. to be reasonable and that they should be approved.

Systems Sales Clause

In its Application, Kentucky Power proposed to reduce monthly bill volatility by revising its Tariff S.S.C. to change from a monthly system sales adjustment factor to an annual sales adjustment factor. Kentucky Power further proposed to set the Tariff S.S.C. rate to $0, with the difference between actual off-system sales margins and a base amount of $7,163,948 deferred based on the current 75/25 customer sharing mechanism approved in Case No. 2014-00396.[117] The net deferred credit or charge to customers would then be the base for the annual Tariff S.S.C. rate update.[118] Kentucky Power proposed to file the required true-up information no later than August 15 of each year, with rates to be effective with Cycle 1 of October. The first filing would be made by August 15, 2018. The Settlement is silent as to Tariff S.S.C. Neither the Attorney General nor KCUC contested the proposed revisions to Tariff S.S.C.

The Commission finds the revisions to Tariff S.S.C., as adjusted to include $7,650,350 in base rates, to be reasonable and should be approved.

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[116] Sharp Direct Testimony at 28.

[117] Kentucky Power credits 75 percent of the difference between base and actual off system sales margins amounts to customers and retains 25 percent.

[118] Vaughan Direct Testimony at 36-37.

PJM Billing Line Items

In the Application, Kentucky Power proposed to include additional PJM Billing Line Items ("BLIs") for recovery through its FAC. Kentucky Power stated that these BLIs represent items that either require generation resources to be running and online, or are associated with other BLIs that require generation resources to be running and online. Kentucky Power stated that all of the service functions represented by the BLIs are related to fuel-related services previously received by Kentucky Power when it was a member of the AEP East Pool, and that those amounts were previously included in Kentucky Power's base fuel cost. The Settlement is silent as to the BLIs. Neither the Attorney General nor KCUC contested this proposal.

The Commission has reviewed the additional BLIs and finds that they are appropriate for inclusion in the FAC, as these BLIs represent charges and credits that relate to fuel consumed by resources that are running and online. Furthermore, the Commission finds that when Kentucky Power files its compliance tariff, it should amend its Tariff F.A.C to include PJM BLIs 2211, 2215, and 2415, as those BLIs have replaced BLI 2210.

MODIFICATIONS TO TERMS AND CONDITIONS OF SERVICE TARIFFS

In its Application, Kentucky Power proposed certain revisions to its terms and conditions for service. The revisions include: verification of a customer's identity and proof of ownership or lease of property where service is requested at the time an application for service is filed; information to be considered when evaluating whether to waive a deposit; payment arrangements; mobile alerts; elimination of the employee discount; modifying the equal payment plan; and denial or discontinuance of service.

Kentucky Power also requested a deviation from 807 KAR 5:006, Section 14(2)(a) to amend when a customer can sign up for the Equal Payment Plan, and the annual settle-up month for certain customers.

Neither the Attorney General nor KCUC contested the revisions.

The Commission finds that the proposed revisions to the terms and conditions of service as contained in the Application are reasonable, with the exception of the denial or discontinuance of service, and should be approved. The Commission further finds that Kentucky Power established good cause to deviate from 807 KAR 5:006, Section 14(2)(a), and that its request for a deviation should be granted.

As to the denial or discontinuance of service, the Commission finds that the proposed revisions as contained in the Application are overbroad and do not comply with Commission precedent.[119] In response to Commission Staff's Post Hearing Data Request, Kentucky Power revised the terms for denial or discontinuance of service as follows:

> The Company reserves the right to refuse or discontinue service to any customer if the customer is indebted to the Company for any service theretofore rendered at any location. Service will not be supplied or continued to any premises if at the time of application for service the Applicant is merely acting as an agent of a person or former customer who is indebted to the Company for service previously supplied at the same, or other premises, until payment of such indebtedness shall have been made;

The Commission finds that the revised language regarding denial or discontinuance of service as filed on in the Supplemental Response on December 21, 2017, is reasonable and should be approved.

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[119] *See* H.V.T., PSC Exhibits 2, 3, 4, and 6.

RATE DESIGN, TARIFFS AND OTHER ISSUES

Rate Design

Kentucky Power filed a fully allocated jurisdictional cost-of-service study ("COSS") to determine the cost to service each customer class as well as the rate of return on rate base for each class during the test year. The results of the COSS illustrate the amount of cross-subsidization between the rate classes and show that all non-residential rate classes subsidize the residential class. In its Application, Kentucky Power proposed to reduce these subsidies by five percent in its proposed rates. The Settlement modifies this proposed revenue allocation and proposes to use the first $5.8 million of any Commission-authorized revenue increase to the Industrial General Service ("IGS") rate class to fully eliminate the subsidy Rate IGS would have paid under the rate increase as originally proposed by Kentucky Power.[120] The remaining revenue increase is spread uniformly among the rate classes, further reducing interclass subsides.[121]

The Attorney General did not offer any testimony concerning the allocation of any proposed revenue increase, aside from recommending limiting any revenue increase, and stating that Kentucky Power's customers are unable to afford a rate increase and that a large increase would set the entire economy of Eastern Kentucky back, counteracting any economic expansion.[122]

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[120] Satterwhite Settlement Testimony at S-9; Dec. 8, 2017 H.V.T. at 2:59:20; Direct Testimony of Stephen J. Baron ("Baron Testimony") at 15 and Table 2.

[121] Satterwhite Settlement Testimony at S-9.

[122] Dismukes Testimony at 3.

The KCUC does not support the revenue allocation as set forth in the Settlement, contending that the Settlement does not provide fair or reasonable treatment of the Tariff L.G.S. customer class. KCUC stated that in addition to bearing a subsidy burden associated with the overall rate structure, the L.G.S. class must also absorb an additional $500,000 subsidy resulting from the Public and Private School service ("PS") tariff.[123] To remedy this, the KCUC proposes that the first $500,000 of any additional Commission-directed decrease in the revenue requirement be applied to the Tariff L.G.S. customer class and any revenue reduction beyond $500,000 be uniformly spread among all the rate classes in proportion to each class's revenue requirement.[124]

Residential Customer Charge

In its Application, Kentucky Power proposed an increase in the residential customer charge from $11.00 to $17.50, an increase of 59 percent. The cost-of-service study filed by Kentucky Power in this proceeding supports a customer charge of $37.88.[125] The Settlement allows for an increase in the residential customer charge to $14.00, an increase of 27 percent.

The Attorney General objected to any increase on the residential customer charge.[126] The Attorney General contended that shifts towards fixed cost recovery disproportionally hurt low-income customers and Kentucky Power did not provide

[123] Settlement Testimony of Kevin Higgins ("Higgins Settlement Testimony") at 2.

[124] *Id.* at 4.

[125] Vaughan Direct Testimony, Exhibit AEV-2 at 1.

[126] Dismukes Testimony at 6.

sufficient evidence to justify an increase.[127] The Attorney General argued that Kentucky Power's fixed cost calculation of almost $38.00 is flawed because a portion of demand-related costs are assigned as fixed costs, which the Attorney General argued is fundamentally incorrect.[128] The Attorney General noted that none of the parties to the proposed Settlement represent the interests of residential ratepayers, and the proposed $14 would recover too much of any potential revenue increase through the customer charge and undermine future incentives for efficiency, resulting in an erosion of LIHEAP funds.[129]

The Commission believes an increase to the Residential Basic Service Charge is warranted, and finds that the Settlement's increase to $14.00 is reasonable. The proposed 27 percent increase is consistent with the principle of gradualism that the Commission has long employed. Consistent with this change, the Commission also approves the customer charges of $14.00 as set forth in the Settlement for the three optional residential tariffs: 1) Residential Service Load Management Time-of-Day; 2) Residential Service Time-of-Day; 3) and Experimental Residential Service Time-of-Day 2. The Commission also approves a customer charge of $14.50 for the new optional Residential Demand Metered Electric Service ("Tariff R.S.D.").[130]

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[127] *Id.*

[128] *Id.* at 20.

[129] Attorney General's Brief at 32-33.

[130] The Settlement and supporting testimony state that Kentucky Power and the Settling Intervenors agreed to a residential customer charge of $14.00. Settlement at paragraph 16(a); Satterwhite Settlement Testimony at S-22. The proposed Settlement Tariff R.S.D. filed on Dec. 1, 2017, inadvertently contains a monthly customer charge of $17.50.

General Service Rate Class

Kentucky Power proposed to combine the Small General Service ("S.G.S.") and Medium General Service ("M.G.S.") rate classes into a single General Service ("G.S.") rate class under which all general service customers with average demands up to 100 kilowatts ("kW") will take service. Kentucky Power stated that both the S.G.S. and M.G.S. rate classes currently incur a monthly service charge and a blocked energy charge. Additionally, the M.G.S. rate class incurs a demand charge. Due to this current tariff structure, there is movement between the S.G.S. and M.G.S. rate classes as load characteristics vary month to month for many commercial customers. Kentucky Power stated that combining the S.G.S. and M.G.S. into a single tariff allows for administration efficiencies by eliminating this movement between the two rate classes.[131] The new G.S. tariff combines rate design features from the S.G.S. and M.G.S. tariffs, and will include a monthly service charge, two blocked energy charges, and a demand charge for monthly billing demand greater than 10 kW. The blocked energy charge transition point is 4,450 kilowatt hours ("kWh"). Kentucky Power stated that setting the kWh block at 4,450 kWh ensures that almost all usage that was billed under the current S.G.S. tariff will continue to be billed on an energy charge only and such a rate design will minimize bill impact on current S.G.S. and M.G.S. customers.[132]

Although the proposed rate design minimizes the impact on an average commercial customer, due to the proposed increase in the demand charge from $1.91

[131] Vaughan Direct Testimony at 21.

[132] *Id.* at 21.

for all kW to $7.95 for all kW greater than 10 kW, it negatively affects customers whose load characteristics include low usage coupled with high demand.[133] The Commission believes that Kentucky Power's proposed increase in the demand charge of over 300 percent is excessive. For this reason, the Commission will minimize the impact on high demand commercial customers, apply a 2-step phase-in increase of demand rates, and limit the increase in year 2 to $6.00 per kW. In addition, Kentucky Power must identify and contact G.S. class customers whose average monthly demand is 25 kW or greater to meet to discuss the impacts of the rate increase on those customers' bills and analyze other tariff options, such as time-of-day rates, that may offer relief to these customers. Last, Kentucky Power should file with the Commission, within twelve months of this Order, a report listing the commercial customers who meet this load profile and the results of each meeting.

Rate Adjustment

In setting the rates shown in Appendix C, the Commission maintained the basic service charge for each class that was included in the Settlement. The reduction of Kentucky Power's revenue increase was allocated to the energy charges of those customer classes for which revenue increases were proposed. The reduction to each class's proposed revenue increase was approximately in proportion to the increase set forth in the Settlement.

[133] Dec. 8, 2017 H.V.T. at 4:53:40.

Tariff Purchased Power Adjustment

In its Application, Kentucky Power proposed to include the following additional cost of service items to be tracked and recovered through Tariff P.P.A.: (1) PJM OATT charges and credits that it incurs or receives from its participation as a LSE in the organized wholesale power markets of PJM; (2) purchased power costs excluded from recovery through the FAC as a result of the purchased power limitation; and (3) gains and losses from incidental gas sales. In addition, Kentucky Power proposed to change Tariff P.P.A. from a monthly adjusting surcharge to an annually updated surcharge.

The Attorney General filed testimony stating that these cost-of-service items should continue to be collected through base rates as Kentucky Power has not demonstrated a compelling reason to have these items tracked and recovered through Tariff P.P.A.[134]

1. PJM LSE OATT Charges and Credits

Kentucky Power proposed to include the following PJM LSE transmission charges and credits to costs recoverable through Tariff P.P.A.: network integration transmission service ("NITS"); transmission owner scheduling system control and dispatch service ("TO"); regional transmission expansion plan ("RTEP"); point-to-point transmission service; and RTO start-up cost recovery. An adjusted level of the net OATT charges and credits in the amount of $74,377,364 will be included in base rates.[135] The amount above or below the base rate level would be tracked monthly and the annual net over- or under-collection would then be collected from or credited to customers through the operation of Tariff P.P.A.

[134] Smith Testimony at 70.

Kentucky Power stated that the proposed tracking mechanism for PJM OATT LSE Charges is necessary due to the volatility of these PJM charges and credits, which Kentucky Power claimed are largely out of its control. Kentucky Power estimated that its PJM OATT LSE expenses will increase in 2018 by approximately $14 million, or 19 percent over the test year amount.[136] Kentucky Power expects increasing investment in the transmission grid by PJM member transmission owners, which will increase transmission charges allocated to LSEs in PJM. Kentucky Power stated that tracking the PJM LSE charges and credits via Tariff P.P.A. could preclude it from seeking more frequent rate cases.[137]

Finally, two proceedings currently before the FERC may affect the level of PJM LSE OATT charges incurred by Kentucky Power. One proceeding is a challenge to the ROE included in the AEP Zone formula, which determines the PJM transmission costs of service for the AEP Transmission Zone. Kentucky Power stated that at this time, any change resulting from this proceeding is not known and measurable. Therefore, an adjustment in this case is not possible. The second proceeding is a pending non-unanimous settlement regarding the cost allocation methodology historically used by PJM to allocate costs of transmission enhancement projects to the LSEs in its footprint. If approved, the proposed stipulation is expected to result in lower PJM LSE OATT

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[135] Vaughan Direct Testimony at 29.

[136] Satterwhite Settlement Testimony at S-14–S-15.

[137] Vaughan Direct Testimony at 27-28.

charges. However, the timing or magnitude of the possible cost allocation changes are not currently known.[138]

The Settlement revised the proposal regarding the PJM OATT LSE charges and credits as follows:

- Kentucky Power will recover and collect 80 percent of the annual over- or under-collection of PJM OATT LSE charges, as compared to the annual amount included in base rates, ("Annual PJM OATT LSE Recovery") through Tariff P.P.A.
- Kentucky Power will credit against the Annual PJM OATT LSE Recovery 100 percent of the difference between the return on its incremental transmission investments calculated using the FERC approved PJM OATT return on equity, and the return on its incremental transmission investments calculated using the 9.75 percent return on equity provided for in the settlement.
- The changes to Tariff P.P.A. to allow for the Annual PJM OATT LSE Recovery will terminate on the effective date when base rates are reset in the next base rate proceeding unless otherwise extended by the Commission.

Due to the volatility of the OATT charges and credits, the Commission finds the proposal to include the PJM LSE transmission charges and credits to the costs recoverable through Tariff P.P.A., as modified in the Settlement, reasonable with one modification. When calculating the credit against the Annual PJM OATT LSE Recovery, the return on equity amounts used to calculate the incremental transmission investments shall be 9.7 percent, the Commission-approved ROE amount.

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[138] *Id.* at 28-29.

In conjunction with approving the PJM OATT LSE tracker, the Commission finds that the three-year stay-out provision in the Settlement is reasonable and should be accepted. In approving the tracker, the Commission addresses Kentucky Power's primary concern, raised in the last rate case and in this case, that an increase in major expenses not directly under Kentucky Power's control would result in more frequent rate cases.

Regarding proposed transmission projects at PJM, the Commission expects Kentucky Power to work through the PJM stakeholder process to protect its customer interests.

2. FAC Purchased Power Limitations.

Kentucky Power proposed to track, on a monthly basis, the amount of purchased power costs excluded for recovery through the FAC over or above the base rate level using deferral accounting. The annual net over- or under-collection of these purchase power costs would be collected from or credited to customers through Tariff P.P.A.[139]

The FAC Purchase Power Limitation is a calculation that caps the amount of purchase power expense to be recovered through the monthly FAC surcharge. The calculation compares the cost of actual purchased power on an hourly basis to the cost of Kentucky Power's highest cost unit or the theoretical peaking unit equivalent, and caps the FAC-recoverable purchase power expense at the cost ($/MWh) of the highest generating unit (Kentucky Power owned or peaking unit equivalent). Kentucky Power claims that, because it relies on factors outside of its control, the FAC Purchase Power Limitation and the peaking unit equivalent calculation promote variability and volatility.

[139] *Id.* at 29.

The Commission is not convinced that this issue requires special ratemaking treatment. The Commission has long held that any purchased power costs not recoverable through the FAC are eligible for recovery through base rates. The Commission finds Kentucky Power's proposal to include an estimated amount of FAC Purchased Power Limitation Expense in base rates, and to subsequently true up that amount through Tariff P.P.A., is unreasonable, and therefore should be denied. The Commission notes that Kentucky Power filed this case using a historic test period. The Commission will allow recovery of the test year amount of purchased power reasonably incurred, but excluded from the FAC. To the extent that Kentucky Power incurs any expense due to purchased power that is appropriately incurred after the test year, but excluded from the FAC, it can file a base rate case seeking recovery of those expenses. For the foregoing reasons, adjustments W26 and W27, which total $4,032,786, are unreasonable and should be removed from the revenue requirement.

3. Peaking Unit Equivalent Calculation

Kentucky Power proposed to change the methodology for calculating the peaking unit equivalent ("PUE") used in determining the FAC Purchased Power Limitation. In its Application, Kentucky Power proposes to include the cost of firm gas service as an expense in the calculation of its PUE. Kentucky Power stated that since the hypothetical combustion turbine ("CT") could be dispatched any day of the year, it requires firm gas service. The Commission disagrees. While firm gas service would certainly allow the CT to be dispatched any day of the year, the Commission is unaware of any jurisdictional utility utilizing firm gas service for a CT. Because CTs typically operate at low capacity factors and are primarily utilized during the summer peaking months, when pipeline capacity would typically not be constrained, the Commission finds the inclusion of firm gas service in the calculation of the PUE to be unreasonable, and therefore, this change in the PUE calculation should be denied. Kentucky Power's proposal to include startup costs and variable O&M expense is reasonable and should be approved.

4. Gains and Losses from Incidental Gas Sales.

Kentucky Power proposed to recover gains and losses from incidental sales of natural gas through Tariff P.P.A. Kentucky Power nominates Big Sandy Unit 1 in the PJM day-ahead electric power market based in part on the price of natural gas purchased for delivery the next day. If the Big Sandy Unit 1 Day Ahead nomination price is higher than the PJM electric power market clearing price, Big Sandy Unit 1 is not selected to run in the Real Time Market. In such a case, the natural gas purchased must either be stored by Columbia Gas or be sold. Kentucky Power stated that in August, September, and November of 2016, there were days that it was required to sell natural gas that had been purchased for delivery because Big Sandy Unit 1 was not selected by PJM to run.[140]

In Case No. 2014-00078, Duke Energy Kentucky ("Duke Energy") proposed similar treatment of gains and losses it experienced in January and February of 2014 from incidental sales of natural gas.[141] Duke Energy amended its request to apply to similar losses or gains occurring in the future. The Commission approved the treatment of the January and February 2014 gains and losses. However, the Commission found

[140] Application, Direct Testimony of John A. Rogness at 26-27

[141] Case No. 2014-00078, *An Investigation of Duke Energy Kentucky, Inc.'s Accounting Sale of Natural Gas Not Used in Its Combustion Turbines* (Ky. PSC Nov. 25, 2014).

Duke Energy's proposal to apply such treatment to similar losses or gains in the future to be overly broad and did not approve such treatment, finding that such gains and losses should be investigated on a case-by-case basis.

In this case, the Commission finds, as it did in Case No. 2014-00078, that gains and losses from the incidental sale of natural gas should be investigated on a case-by-case basis. If such gains or losses occur in the future, Kentucky Power should notify the Commission so those matters may be addressed in a formal proceeding. For purposes of this case, the Commission finds that the gain on the incidental sale of natural gas of $13,982 should be utilized to reduce Kentucky Power's revenue requirement.

Tariff K-12 School

In its Application, Kentucky Power proposed to discontinue the pilot Tariff K-12 School under which public schools in Kentucky Power's service territory took service under discounted rates. Kentucky Power stated that its load research and class cost of service study demonstrated that Tariff K-12 School customers would be better off in the Tariff L.G.S. customer class than they were previously a part of prior to the pilot Tariff K-12.

Tariff Pilot K-12 School was approved as part of the settlement agreement in Case No. 2014-00396. In Case No. 2014-00396, KSBA argued, as it does in this proceeding, that public school load characteristics were sufficiently unique to justify a distinct rate class for K-12 schools. Because school load data did not exist, Kentucky Power agreed to establish a pilot tariff with load research meters at 30 K-12 schools.

Kentucky Power further agreed to evaluate whether to continue Tariff K-12 School in its next base rate case using the load research data.

Tariff K-12 School rates were designed to produce an annual revenue requirement that was $500,000 less than would be produced under the L.G.S. rates from customers eligible to take service under Tariff K-12 School.[142] Tariff L.G.S. and Tariff M.G.S. customers rates were designed to include the $500,000 subsidy to Tariff K-12 Schools.[143]

Under the Settlement, Tariff K-12 School would cease to be a pilot, and would continue as a separate rate class. The tariff would be available to all K-12 schools, public and private, in Kentucky Power's service territory with normal maximum demands greater than 100 kW. Tariff K-12 School rates continue to be designed with a $500,000 subsidy absorbed by Tariff L.G.S. customers.

In its Settlement Testimony, KCUC asserted that the Settlement is unfair and unreasonable because L.G.S. customers had to absorb the subsidy to provide a $500,000 benefit for Tariff K-12 School customers, in addition to a significant inter-class subsidy burden as part of the overall rate structure.[144] KCUC stated that it did not object to the $500,000 discount to Tariff K-12 School customers, but instead objected that the discount is funded by L.G.S. customers, and not spread out among all customer classes. As a remedy, KCUC proposed that, if the Commission reduced the revenue requirement, that the first $500,000 of any reduction be applied first to reduce the revenue requirement of the L.G.S. class.

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[142] Case No. 2014-00396, Final Order, at 19.

[143] *Id.*

The Commission finds that load research data collected and analyzed by Kentucky Power demonstrates that a separate, discounted K-12 schools tariff is not justified and that public school usage characteristics do not support the discounted rates paid by Tariff K-12 School customers relative to the L.G.S. class. The Commission finds that it is unreasonable to continue Tariff K-12 School, and therefore rejects this portion of the Settlement.

Green Pricing Option Rider/Renewable Power Option Rider

Kentucky Power proposed to revise its Green Pricing Option Rider to expand the categories of renewable energy credits available, to allow participating customers to purchase their full requirements from renewable energy generators, and to change the name of the rider to the Renewable Power Option Rider ("Rider R.P.O"). The Commission finds that the Rider R.P.O. provision in the Settlement is reasonable and should be approved.

Tariff C.A.T.V.

In its Application, Kentucky Power proposed to increase Tariff C.A.T.V. rates for pole attachments on a two-user pole from $7.21 per year to $11.97 per year, and for pole attachments on a three-user pole from $4.47 per year to $7.52 per year. In the Settlement, Kentucky Power and the Settling Intervenors agreed to a rate of $10.82 per year for attachments on a two-user pole, and $6.71 per year for attachments on a three-user pole.

The Commission finds that the rates for Tariff C.A.T.V. as set forth in the Settlement are reasonable and should be approved.

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[144] Higgins Settlement Testimony at 2.

Temporary Service Tariff

In its Application, Kentucky Power proposed to revise its Temporary Service Tariff ("Tariff T.S.") to limit service provided under Tariff T.S. to ensure that customers do not continue to take service under Tariff T.S. even after construction is complete and the facility is occupied. The Commission finds these changes to be reasonable and that they should be approved.

Optional Residential Demand Charge Tariff

Kentucky Power proposed a new optional residential rate schedule ("Tariff R.S.D.") that will be available to up to 1,000 residential customers. The rate structure will consist of a monthly service charge, on-peak and off-peak kWh energy charges, and an on-peak kW demand charge. Kentucky Power stated that the goal of Tariff R.S.D. is to send targeted price signals that will reward customers for shifting usage away from the peak time periods that cause Kentucky Power to incur higher costs. Kentucky Power also stated that certain electric heating customers may benefit from Tariff R.S.D. due to their potentially higher load factor usage characteristics, and that the rate design is revenue neutral to the standard residential tariff.[145]

The Commission finds the proposed Tariff R.S.D. to be reasonable, that it should be approved, and that the rates included in Appendix C of this Order should be approved.

Tariff C.S.-Coal, Tariff C.S.-I.R.P. and Tariff E.D.R.

The Settlement extends through December 31, 2018, Tariff C.S.-Coal and the amendments to Tariff C.S.-I.R.P. and Tariff E.D.R., which were due to expire December

[145] Vaughan Direct Testimony at 19

31, 2017. The Commission finds the extension of the tariffs reasonable and that they should be approved. Any financial loss incurred in connection with these tariffs will be deferred for review and recovery in Kentucky Power's next base rate proceeding.

ENVIRONMENTAL COMPLIANCE PLAN

In its Application, Kentucky Power requested Commission approval of an amended environmental Compliance Plan ("2017 Plan") and an amended Environmental Surcharge tariff ("Tariff E.S.").

The 2017 Environmental Compliance Plan

The 2017 Plan includes previously approved projects and two new projects, Project 19 and Project 20. The 20 projects included in the 2017 Plan are listed in Appendix D to this Order.

Project 19 will install SCR technology at Rockport Unit 1 ("Rockport Unit 1 SCR Project"). The Rockport Unit 1 SCR project will reduce the plant's nitrogen oxide emissions, and is required under terms of a 2007 Consent Decree ("Consent Decree") among several AEP entities including Kentucky Power and I&M, and the Environmental Protection Agency and several environmental plaintiffs.

Project 20 seeks to include a return on inventories for consumables used in conjunction with approved projects through Tariff E.S. Kentucky Power currently recovers the cost of the consumption of consumables through Tariff E.S. The return on consumable inventories is currently part of the general rate base. Kentucky Power proposed that the return on consumable inventories be recovered through Tariff E.S. to align that cost with the cost recovery of items consumed.

Kentucky Power stated that the pollution control projects included in the 2017 Plan amendment are necessary to comply with the Federal Clean Air Act ("CAA") and other federal, state, and local regulations that apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. Kentucky Power asserted that the costs associated with its 2017 Plan are reasonable, and that the projects are a reasonable and cost-effective means to comply with environmental requirements.

The Attorney General argued that Kentucky Power should not be permitted to recover the cost of the Rockport Unit 1 SCR Project.[146] The Attorney General asserted that Kentucky Power's customers have been paying increasing amounts for environmental costs resulting from the Consent Decree because AEP voluntarily made environmental upgrades at generating stations, including the Rockport generating units, that were not identified in the original EPA litigation that led to the Consent Decree. Because Rockport was not part of the original litigation, the Attorney General asserts Kentucky Power should not recover the costs for the Rockport Unit 1 SCR project from its ratepayers.

In rebuttal, Kentucky Power stated that the decision to include Rockport in the Consent Decree settlement was a way to remove the significant risk of additional litigation at those units not named in any pending complaints, as well as to provide a more favorable outcome than would be expected on an individual basis.[147] Kentucky Power further stated that the Consent Decree provided certainty regarding the timing of

[146] Smith Testimony at 59.
[147] Rebuttal Testimony of John McManus at 3.

additional control installations across the AEP fleet. At the time of the settlement, Kentucky Power was still participating in the AEP Pool, which meant that the outcome of litigation involving all units across the AEP fleet contributing to the pool was in the best interest of Kentucky Power and its customers.

The Settlement was silent on the 2017 Environmental Compliance Plan.

The Commission finds that the 2017 Plan is reasonable as set forth in the Application and should be approved.

ENVIRONMENTAL SURCHARGE TARIFF MODIFICATIONS

Kentucky Power updated its Tariff E.S. to reflect the changes proposed in its Application and the Settlement. Kentucky Power updated the list of projects in the tariff to match the projects included in the 2017 Plan as noted previously in this Order. Kentucky Power updated Tariff ES to reflect the rate of return included in the Settlement to this case. Kentucky Power also updated the tariff to reflect the new monthly base environmental costs based on that rate of return. Kentucky Power determined the annual base revenue requirement level for environmental cost recovery to be $47,513,461.[148] The Commission has determined that the correct annual base revenue requirement is $44,379,316, which reflects the Commission authorized return on equity, capital structure changes, reduction of the federal corporate income tax rate from 35 percent to 21 percent and the depreciation rates set forth in Exhibit 5 of the

[148] In the Tariff E.S. filed December 1, 2017, Kentucky Power reflected an annual base revenue requirement of $47,811,215. Kentucky Power updated this amount to $47,513,461 to reflect the depreciation rates included in Exhibit 5 to the Settlement Agreement. See Response to Commission Staff's Post-Hearing Request for Information ("Staff's Post-Hearing Request"), Item 20 attachment KPCO_R_KPSC_PH_20_Attachment1.xls.

Settlement.[149] Kentucky Power shall file a revised Tariff ES to reflect the Commission authorized return on equity and capitalization discussed in this Order, and the annual base revenue requirement as shown on Appendix E attached to this order. Per the settlement agreement in Case No. 2012-00578,[150] all costs associated with the Mitchell FGD equipment are excluded from base rates and therefore are not included in the base revenue requirement noted above, but will be included as part of the current period environmental revenue requirement. The Commission finds that Tariff E.S. as discussed and modified in this Order should become effective for service rendered on and after the date of this Order.

Costs Associated with the 2015 Plan

Tariff E.S. revenue requirement is determined by comparing the base period revenue requirement with the current period revenue requirement. Kentucky Power proposed to incorporate the costs associated with the 2017 Plan into the existing surcharge mechanism used for previous compliance plans. Kentucky Power identified the environmental compliance costs for the 2017 Plan projects, which Kentucky Power proposed to recover through its environmental surcharge. Kentucky Power proposed to apply a gross-up factor to environmental expenses to account for uncollectible accounts and the Commission assessment fee. The factor will be applied to the incremental change in operating, maintenance, and other expenses from the base period. The

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[149] Response to Staff's Post-Hearing Request, Item 20.

[150] Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Oct. 7, 2013).

costs identified by Kentucky Power are eligible for surcharge recovery if they are shown to be reasonable and cost-effective for complying with the environmental requirements specified in KRS 278.183. The Commission finds that the costs identified for the 2017 Plan projects have been shown to be reasonable and cost-effective for environmental compliance. Thus, they are reasonable, and should be approved for recovery through Kentucky Power's environmental surcharge.

Qualifying Costs

As stated previously, the qualifying costs included in Kentucky Power's annual baseline level for environmental cost recovery under the tariff shall be $44,379,316. The qualifying costs included in the current period revenue requirement will reflect the Commission-approved environmental projects from Kentucky Power's 1997, 2005, 2007, 2015 and 2017 Plans. Per the settlement agreement in Case No 2012-00578, all costs associated with Mitchell Units 1 and 2 FGD equipment have been excluded from base rates and the environmental baseline level and shall be recovered exclusively through Tariff E.S. Should Kentucky Power desire to include other environmental projects in the future, it will have to apply for an amendment to its approved compliance plans.

Rate of Return

Paragraph 8(a) of the Settlement authorizes Kentucky Power to use a 9.75 percent ROE to be utilized in Tariff E.S. to determine the WACC for non-Rockport environmental projects. However as previously noted, the Commission has authorized a 9.70 percent ROE that should be used for all non-Rockport environmental projects.

Kentucky Power's ROE for environmental projects at the Rockport Plant is 12.16 percent as established by the FERC-approved Rockport Unit Power Agreement.

Capitalization and Gross Revenue Conversion Factor

Paragraph 3(c) and Exhibit 6 of the Settlement provide that Kentucky Power shall utilize a WACC of 6.48 percent and a gross revenue conversion factor ("GRCF") of 1.6433 to determine a rate of return of 9.11 percent to be used in the monthly environmental surcharge filings. As a result of the reduction of the federal corporate tax rate from 35 percent to 21 percent, the Commission has determined that Kentucky Power should use a GRCF of 1.352116. Because of the change in the authorized ROE, capitalization, and the GRCF, the WACC to be used for non-Rockport environmental projects is 6.44 percent. Utilizing a WACC of 6.44 percent and a GRCF produces a rate of return of 7.88 percent to be used in the monthly environmental surcharge filings. The WACC and GRCF shall remain constant until the Commission sets base rates in Kentucky Power's next base rate case proceeding.

Surcharge Formulas

The inclusion of the 2017 Plan into Kentucky Power's existing surcharge mechanism will not result in changes to the surcharge formulas. The costs associated with the Mitchell FGD will be excluded from base rates and the base rate revenue requirement of the environmental surcharge at least until June 30, 2020, but will be included in the current period revenue requirement for the environmental surcharge. The Commission finds that the formulas used to determine the environmental surcharge revenue requirement as proposed by Kentucky Power should be approved.

Surcharge Allocation

The retail share of the revenue requirement will be allocated between residential and non-residential customers based upon their respective total revenue during the previous calendar year. The environmental surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

Monthly Reporting Forms

The inclusion of the 2017 Plan into the existing surcharge mechanism will require modifications to the monthly environmental surcharge reporting forms. Kentucky Power provided its proposed revised forms to be used in the monthly environmental reports. The revised forms include the changes necessary to reflect the proposed 2017 Plan, as well as changes necessitated by the application of a gross-up factor to the incremental operating, maintenance and other expenses. The Commission finds that Kentucky Power's proposed monthly environmental surcharge reporting forms as revised should be approved.

FINDINGS ON SETTLEMENT AGREEMENT

Based upon a review of all the provisions in the Settlement, an examination of the entire record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Settlement are in the public interest and should be approved, subject to the modifications as discussed in this Order. Our approval of the Settlement as modified is based solely on its reasonableness and does not constitute precedent on any issue except as specifically provided for in this Order.

OTHER ISSUES

Vegetation Management

Kentucky Power's current Vegetation Management Plan ("2015 Vegetation Management Plan") was modified from its 2010 Vegetation Management Plan in Kentucky Power's last rate case, Case No. 2014-00396. In Case No. 2014-00396, it was determined that funding for the 2010 Vegetation Management Plan, which was scheduled to move to a four-year cycle within seven years of initial circuit clearing, needed modification. However, the work required to transition to a four-year cycle was significantly greater than initially estimated, and Kentucky Power could not wait until all circuits had an initial clearing ("Task 1") to begin re-clearing the circuits. Thus, the modification was approved allowing the continuation of Task 1 and a simultaneous undertaking of interim re-clearing ("Task 2"). Under this schedule, Task 1 would be completed by December 31, 2018, Task 2 would be completed by June 30, 2019, and on July 1, 2019, Kentucky Power's entire distribution system would commence to be re-cleared on a five-year cycle ("Task 3"), rather than a four-year cycle. Funding was approved for the 2015 Vegetation Management Plan, as well as a provision requiring Kentucky Power to obtain Commission approval prior to modifying its annual projected vegetation management spending on both an aggregate and a district basis if the change is more than 10 percent of the budget.

Kentucky Power is on pace to exceed the December 31, 2018 target for Task 1, and expects to complete Task 1 circuit clearing in the first quarter of 2018. In addition, Task 2 circuit re-clearing is expected to be completed by December 31, 2018, six months sooner than projected. To date, Kentucky Power has exceeded targets on budget as total expenditures are 101 percent of target level.[151] Reliability has increased

[151] Application, Direct Testimony of Everett G. Phillips ("Phillips Testimony") at 35.

and Kentucky Power customers have seen a 60 percent decrease in interruptions related to rights-of-way trees and vegetation.[152] Task 3 is estimated to begin in January 2019.

Embedded in Kentucky Power's current base rates are annual vegetation management O&M expenses of $27.661 million. Due to early completion of Tasks 1 and 2, Kentucky Power estimates a reduction of O&M expenses related to Tasks 1 and 2 from $27.661 million in 2017 to $21.639 million 2018. According to the 2015 Vegetation Management Plan, at the start of Task 3, O&M expenses are projected to decrease, resulting in a decrease of O&M expenses of $11.780 million. However, Kentucky Power has determined that the estimates of the annual O&M expenditures for Task 3 as estimated in the 2015 Vegetation Management Plan are undervalued and need to be increased.[153] Due to the re-clearing in Task 2, Kentucky Power now has a better grasp on regrowth, the effect of higher-than-average rainfall, and growing customer demand to remove tree debris, and proposes to increase the annual O&M expenses for Task 3. This re-estimation calculates costs for Task 3 to increase from the original $15.880 million to $21.284 million in 2019, and $21.473 in 2020.[154] Kentucky Power proposes the amount of vegetation management O&M expenses to be recovered through base rates for the instant case to be equal to the average of the revised estimated annual vegetation management plan O&M spending over 2018-2020, or $21.465 million.[155]

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[152] *Id* at 40.

[153] *Id.*
[154] *Id.* at 46

Kentucky Power also proposes two changes to its current vegetation management reporting requirements. First, Kentucky Power proposes to modify the pre-approval requirement for deviation of 10 or more percent from projected annual vegetation management O&M expenditures to eliminate the district-specific threshold and retain only the requirement for pre-approval if overall Kentucky Power vegetation management expenditures deviate more than 10 percent. Second, Kentucky Power proposes to manage its vegetation work and expenditures on a calendar year basis, as opposed to managing its vegetation work on a fiscal year and expenditures on a calendar year. Kentucky Power stresses that neither modification will change their overall vegetation management obligation, but provides for more flexibility to manage its obligations.[156]

The 2015 Vegetation Management Plan included a one-way balancing account. In this balancing account, any annual shortfall or excess in vegetation management O&M expenditures that is over the amount in base rates is added to or subtracted from future expenditures over four years. At the end of the four-year period, Kentucky Power will record a cumulative shortfall as a regulatory liability that will either be refunded to the customers or used to reduce the revenue requirement in its next filed base-rate case. If Kentucky Power has overspent on a cumulative basis during the four-year period, it will not seek recovery of such costs in a future base-rate proceeding. As of the end of November 2017, Kentucky Power testified that cumulative expenditures were slightly over the budgeted amount.[157]

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[155] Application, Section V, Exhibit 2, page 59.

[156] *Id.* at 43.

The Commission finds that the one-way balancing adjustment should be continued; however due to the change in the annual revenue requirement as noted in the Application, it should be adjusted accordingly. All expenses will be recorded against the annual budget. The annual shortfall or excess will be applied to the balance account. Through 2023, or until Kentucky Power's next base rate application, whichever occurs first, the expenditures will be balanced against the annual projected expenditures as found in the Application.[158]

The Commission approves the proposed modifications allowing Kentucky Power to request Commission approval for any spending deviation greater than 10 percent on an aggregate level as opposed to a district level. The Commission also approves Kentucky Power's request to manage its vegetation management program on a calendar year basis to coincide with the budgetary year. The Commission notes that Kentucky Power has exceeded the goals of the 2015 Vegetation Management Plan resulting in a reduction of O&M expenses 24 months earlier than estimated. The Commission approves Kentucky Power's proposed revenue requirement of $21.465 million. All other provisions of the 2015 Vegetative Management Plan are to remain unchanged.

The Commission will continue to review closely the vegetation management annual work plans and expenditures filed by Kentucky Power. In addition, the Commission will monitor the progress of the five-year maintenance cycle.

Bill Redesign

[157] Dec. 8, 2017 H.V.T. at 2:09:38.

[158] Phillips Testimony, Table 9 at 46.

On June 12, 2017, Kentucky Power filed an Application requesting approval to implement new bill formats that change the bill layout and composition, which is being implemented concurrently for all AEP operating companies, and to combine certain billing line items. That Application was docketed as Case No. 2017-00231.[159] By Order dated July 17, 2017, that case was consolidated into this proceeding. By further Order dated September 12, 2017, the Commission approved Kentucky Power's request to redesign the appearance of its bills, but stated that a decision on the proposed substantive changes to consolidate billing line items would be determined in the final Order in this proceeding.

Kentucky Power proposed to consolidate eight residential billing line items,[160] and seven commercial and industrial billing line items[161] into a single "Rate Billing" line item. Kentucky Power explained that customer satisfaction regarding billing correspondence was below the industry average according to a survey commissioned by Kentucky Power.[162] Kentucky Power asserted that its customers found the number of billing line

[159] Case No. 2017-00231, *Electronic Application of Kentucky Power Company for (1) Approval of Its Revised Terms and conditions of Service Implementing New Bill Formats; (2) An Order Granting All other Required Approvals and Relief* (filed June 12, 2017).

[160] The residential billing line items Kentucky Power proposes to consolidate into a single line items are Rate Billing, Residential Home Energy Assistance Program Charge, Kentucky Economic Development Surcharge, Capacity charge, Big Sandy 1 Operation Rider, Big Sandy Retirement Rider, Purchased Power Adjustment, and Green Pricing Option. The residential charges that Kentucky Power proposes to continue to display as individual billing line items are the Fuel Adjustment Charge, Demand-Side Management Factor, Environmental Surcharge, School Tax, Franchise Fee, State Sales tax, and HomeServe Warranty.

[161] The commercial and industrial billing line items Kentucky Power proposes to consolidate into a single line items are Rate Billing, Kentucky Economic Development Surcharge, Capacity charge, Big Sandy 1 Operation Rider, Big Sandy Retirement Rider, Purchased Power Adjustment, and Green Pricing Option. The commercial and industrial charges that Kentucky Power proposes to continue to display as individual billing line items are the Fuel Adjustment Charge, Demand-Side Management Factor, Environmental Surcharge, School Tax, Franchise Fee, and State Sales tax.

[162] Case No. 2017-00231, Direct Testimony of Stephen L. Sharp, Jr. (filed June 12, 2017) at 2.

items were "unhelpful," made the bills "difficult to understand," and obscured the information customers most wanted to know, which was the total amount owed and payment due date.[163] Kentucky Power further asserted that customers requested that line items be consolidated in order to simplify the bills. Customers who want detailed billing information could contact a Kentucky Power customer service center.

In the Settlement, the Settling Intervenors agreed to Kentucky Power's proposed consolidation of billing line items.

Neither KCUC nor the Attorney General filed testimony in this proceeding regarding the consolidation of billing line items. However, in a motion filed in Case No. 2017-00231 before it was incorporated into this proceeding, the Attorney General argued that consolidating the billing line items would result in a lack of transparency that impeded customers' understanding of how rates and their bills are calculated.[164]

The Commission finds that Kentucky Power's proposed consolidation of billing line items is unreasonable and should be denied. The Commission concurs with the Attorney General that displaying discrete billing line items on customer bills promotes transparency and customer understanding of their billing amounts. Further, it is not reasonable to require customers to take additional steps in order to obtain a detailed accounting for their bills. This is especially so given that the billing line items that Kentucky Power wishes to consolidate represent charges in addition to the base rate charge for utility service.

<u>Analysis of Kentucky Power's Participation in PJM</u>

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[163] *Id.* at 3; *Id.* at Application, paragraph 11.

Kentucky Power currently elects to self-supply its PJM capacity requirements under the Fixed Resource Requirement ("FRR") alternative. As discussed in testimony at the hearing, AEP conducts regular evaluations to determine whether its operating companies in PJM should elect to participate in the Reliability Pricing Model ("RPM") capacity market, or to self-supply under FRR.[165]

The Commission finds that Kentucky Power should file an annual update of the FRR/RPM election analysis. The Commission recognizes that this information is deemed confidential during the AEP internal decision-making process. However, once PJM is notified of the election, the information becomes public and ceases to be confidential. Kentucky Power should file the annual update after the information becomes public.

Further, the Commission recognizes that Kentucky Power's interests may not be aligned with the interests of other AEP operating companies. The Commission is aware that PJM bills AEP based on a one-coincident peak methodology, and that AEP subsequently allocates those costs to its operating companies using a twelve-coincident peak methodology. The Commission finds that Kentucky Power should file an annual report with the supporting calculations used by AEP to allocate these costs.

Last, the Commission strongly encourages Kentucky Power to recognize that it must make a determination regarding its participation in PJM that aligns with the interests of Kentucky Power and its ratepayers.

<u>Reduction in Corporate Tax Rates</u>

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[164] Case No. 2017-00231, Attorney General's Motion to Consolidate Cases (filed July 13, 2017) paragraphs 4-5.

[165] Dec. 7, 2017 H.V.T. at 10:43:18, and Kentucky Power Exhibit 9.

Effective January 1, 2018, the federal corporate income tax rate was reduced from 35 percent to 21 percent. Consistent with Kentucky Power's revised gross-up factor calculation in certain riders, the Commission finds that it is reasonable to utilize the 21 percent corporate income tax rate in the gross-up factor calculation. The Commission will address the impact of the recently enacted tax cuts on the excess ADIT and the rates of all investor-owned utilities, including Kentucky Power, on a prospective basis in pending cases that were opened on December 27, 2017.[166]

Based on the evidence of record and the findings contained herein, HEREBY ORDERS that:

1. The rates and charges proposed by Kentucky Power are denied.

2. 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.

3. The rates and charges for Kentucky Power, as set forth in Appendix C to this Order, are the fair, just, and reasonable rates for Kentucky Power, and these rates are approved for service rendered on and after January 19, 2018.

4. Kentucky Power's request to deviate from 807 KAR 5:006, Section 14(2)(a) by limiting enrollment in its Equal Payment Plan to the months of April through December is granted.

5. Kentucky Power's proposed depreciation rates, with the exception of the changes proposed in the Settlement are approved.

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[166] Case No. 2017-00477, *Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Company, Louisville Gas and Electric Company, Kentucky Power Company, and Duke Energy Kentucky, Inc.* (Ky PSC Dec. 27, 2017); Case No. 2017-00481, *An Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Atmos Energy Corporation, Delta Natural Gas Company, Inc., Columbia Gas of Kentucky, Inc., Kentucky-American Water Company, and Water Service Corporation of Kentucky* (Ky. PSC Dec. 27, 2017).

6. The regulatory asset or liability account established by under- or over-recovery from the elimination of Tariff B.S.1.O.R. is approved for accounting purposes only.

7. The regulatory asset account established by the deferral of Rockport UPA expenses is approved for accounting purposes only.

8. Kentucky Power's 2017 Environmental Compliance Plan is approved.

9. Kentucky Power's environmental surcharge tariff is approved for service rendered on and after the date of this Order.

10. The base period and current period revenue requirements for the environmental surcharge shall be calculated as described in this Order.

11. The environmental reporting formats described in this Order shall be used for the monthly environmental surcharge filings. Previous reporting formats shall no longer be submitted.

12. The Commission approves the sample forms that were filed by Kentucky Power on January 3, 2018.

13. Within three months of the date of this Order, Kentucky Power shall identify and contact GS class customers whose average monthly demand is 25 kW or greater for the purpose of meeting to discuss the impact of the rate increase on their bills and analyze other available tariff options, such as time-of-day rates.

14. Within twelve months of the date of this Order, Kentucky Power shall file a report listing the names of each GS class customers whose average monthly demand is 25 kW or greater, and stating the date and method of contact with the customer, whether Kentucky Power has met with the customer, and the results of each meeting.

15. Kentucky Power's request to revise its billing format to consolidate billing line items, as set forth in the application, is denied.

16. Kentucky Power's Vegetation Management Plan, as set forth in the Application, is approved.

17. Kentucky Power's request to obtain Commission approval for any spending deviation from its Vegetation Management Plan greater than 10 percent on an aggregate level as opposed to a district level is approved.

18. Kentucky Power's request to manage its Vegetation Management Plan on a calendar year basis is approved.

19. Kentucky Power shall file an annual update of the FRR/RPM election analysis conducted by AEP and its operating companies within 30 days of notifying PJM of the election.

20. Kentucky Power shall file annually the supporting calculations for allocating PJM bills, which are based on a one-coincident peak methodology, AEP's operating companies using a twelve-coincident-peak methodology.

21. Within 20 days of the date of this Order, Kentucky Power shall, using the Commission's electronic Tariff Filing System, file its revised tariffs setting out the rates authorized herein and reflecting that they were approved pursuant to this Order.

By the Commission

ENTERED

JAN 18 2018

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00179 DATED JAN 1 8 2018

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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

SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into this 22nd day of November, 2017, by and among Kentucky Power Company ("Kentucky Power" or "Company"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); Kentucky School Boards Association ("KSBA"); Kentucky League of Cities ("KLC"); Wal-Mart Stores East, LP and Sam's East, Inc. ("Wal-Mart"); and Kentucky Cable Telecommunications Association ("KCTA"); (collectively Kentucky Power, KIUC, KSBA, KLC, Wal-Mart, and KCTA, are "Signatory Parties").

RECITALS

1. On June 28, 2017 Kentucky Power filed an application pursuant to KRS 278.190, KRS 278.183, and the rules and regulations of the Public Service Commission of Kentucky ("Commission"), seeking an annual increase in retail electric rates and charges totaling $69,575,934, seeking approval of its 2017 Environmental Compliance Plan, an order approving accounting practices to establish regulatory assets or liabilities, and further seeking authority to implement or amend certain tariffs ("June 2017 Application").

2. On August 8, 2017, Kentucky Power supplemented its filing to reflect the impact of subsequent refinancing activities on the Company's Application ("August 2017 Refinancing Update"). The refinancing activities reduced the Company's requested annual increase in retail electric rates and charges from $69,575,934 to $60,397,438.

3. KIUC, KSBA, KLC, Wal-Mart, and KCTA filed motions for full intervention in Case No. 2017-00179. The Commission granted the intervention motions. Collectively KIUC, KSBA, KLC, Wal-Mart, and KCTA are referred to in this Settlement Agreement as the "Settling Intervenors."

4. The Attorney General of the Commonwealth of Kentucky ("Attorney General") and Kentucky Commercial Utility Customers, Inc. ("KCUC") also filed motions to intervene. The Attorney General and KCUC, who are not parties to this agreement, were granted leave to intervene.

5. Certain of the Settling Intervenors, KCUC, and the Attorney General filed written testimony in Case No. 2017-00179 raising issues regarding Kentucky Power's Rate Application.

6. Kentucky Power, KCUC, the Attorney General, and the Settling Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses.

7. Kentucky Power offered the Settling Intervenors, KCUC, and the Attorney General, along with Commission Staff, the opportunity to meet and review the issues presented by Kentucky Power's application in this proceeding and for purposes of settlement.

8. The Signatory Parties execute this Settlement Agreement for purposes of submitting it to the Kentucky Public Service Commission for approval pursuant to KRS 278.190 and KRS 278.183 and for further approval by the Commission of the rate increase, rate structure, and tariffs as described herein.

9. The Signatory Parties believe that this Settlement Agreement provides for fair, just, and reasonable rates.

NOW, THEREFORE, for and in consideration of the mutual promises set forth above, and the agreements and covenants set forth herein, Kentucky Power and the Settling Intervenors hereby agree as follows:

AGREEMENT

1. Kentucky Power's Application

(a) Except as modified in this Settlement Agreement, Kentucky Power's June 2017 Application as updated by the August 2017 Refinancing Update is approved.

2. Revenue Requirement

(a) Effective for service rendered on or after January 19, 2018, Kentucky Power shall implement a base rate adjustment sufficient to generate additional annual retail revenues of $31,780,734. This annual retail revenue amount represents a $28,616,704 million reduction from the $60,397,438 sought in the Company's August 2017 Refinancing Update.

(b) The $28,616,704 million reduction was the result of the following adjustments to the Company's request in the June 2017 Rate Application as modified in the August 2017 Refinancing Update:

Adjustment	**Reduction in Revenue Requirement ($Millions)**
Defer a portion of Rockport UPA non-fuel, non-environmental expenses	15.0
Increase revenues to Apply Weather Normalization to Commercial Sales Net of Variable O&M	0.40
Reduce Incentive Compensation	3.15
Reduce Amortization Expense to Recalibrate Storm Damage Amortization	1.22

Reduce Depreciation Expense by Extending Service Life of BS1 to 20 years	2.84
Reduce Depreciation Expense by Removing Terminal Net Salvage for BSU1	0.37
Reduce Depreciation Expense by Removing Terminal Net Salvage for Mitchell	0.57
Increase Short Term Debt to 1% and Set Debt Rate at 1.25%	0.36
Change in Return on Equity from 10.31% to 9.75%	4.70
Total Adjustments	**28.6**

(c) Kentucky Power agrees to allocate the $31,780,734 in additional annual revenue as illustrated on **Exhibit 1.** The Company will design rates and tariffs consistent with this allocation of additional revenue.

(i) As part of the Commission's consideration of the reasonableness of this Settlement Agreement, the tariffs designed in accordance with this subparagraph shall be filed with the Commission and served on counsel for all parties to this case no later than December 1, 2017.

(ii) Within ten days of the entry of the Commission's Order approving without modification this Settlement Agreement and the rates thereunder, Kentucky Power shall file with the Commission signed copies of the tariffs in conformity with 807 KAR 5:011.

3. Rockport UPA Expense Deferral

(a) Kentucky Power is a party to a FERC-approved Unit Power Agreement with AEP Generating Company for capacity and energy produced at the Rockport Plant ("Rockport UPA"). The Rockport UPA expires on December 8, 2022.

(b) Kentucky Power will defer a total of $50 million in non-fuel, non-environmental Rockport UPA Expense for later recovery as follows:

(i) Kentucky Power will defer $15M annually of Rockport UPA Expense in 2018 and 2019 for later recovery.

(ii) Kentucky Power will defer $10M of Rockport UPA Expense in 2020 for later recovery.

(iii) Kentucky Power will defer $5M annually of Rockport UPA Expense in years 2021 and 2022 for later recovery.

(c) The Rockport UPA Expense of $50 million described in Paragraph 3(b) above will be deferred into a regulatory asset ("the Rockport Deferral Regulatory Asset") and will be subject to carrying charges based on a weighted average cost of capital ("WACC") of 9.11%[1] until the Regulatory Asset is fully recovered. From January 1, 2018 through December 8, 2022, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset principal balance net of accumulated deferred income taxes ("ADIT"). From December 9, 2022 until the Rockport Deferral Regulatory Asset is fully recovered, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset balance including deferred carrying charges net of ADIT. The Rockport Deferral Regulatory Asset shall be recovered on a levelized basis through the demand component of Tariff P.P.A. and amortized over five years beginning on December 9, 2022. Kentucky Power estimates that the regulatory asset balance will total approximately $59 million on December 8, 2022.

(d) Additional expenses reflecting the declining deferral amount in years 2020 through 2022 will be recovered through the demand component of Tariff P.P.A. as follows:

(i) Kentucky Power will recover $5 million through Tariff P.P.A. in 2020

(ii) Kentucky Power will recover $10 million through Tariff P.P.A. in 2021

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[1] 6.48% grossed up for applicable State and Federal taxes, uncollectible accounts expense, and the KPSC maintenance fee

(iii) Kentucky Power will recover $10 million through Tariff P.P.A. in 2022, prorated through December 8, 2022.

(e) The Signatory Parties acknowledge that the Company's decision whether to seek Commission approval to extend the Rockport UPA will be made at a later date. Whether or not the Company seeks to extend the Rockport UPA, beginning December 9, 2022, the Capacity Charge recovered through Tariff C.C., approved in Case No. 2004-00420, will end. Any final over- or under-recovery balance will be included in the subsequent calculation of the purchase power adjustment under Tariff P.P.A. In the event that Kentucky Power elects not to extend the Rockport UPA, it will experience a reduction in Rockport UPA fixed costs ("Rockport Fixed Costs Savings").

(f) If Kentucky Power elects not to extend the Rockport UPA, it will, beginning December 9, 2022, credit the Rockport Fixed Cost Savings through the demand component of Tariff P.P.A. until new base rates are set. However, for 2023 only, the Rockport Fixed Cost Savings credit will be offset by the amount, if any, necessary for the Company to earn its Kentucky Commission-authorized return on equity (ROE) for 2023 ("Rockport Offset"). An example of the calculation of the Rockport Offset is included as **Exhibit 2**.

(g) For the purposes of implementing the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above, the following definitions apply:

(i) "Rockport Fixed Costs Savings" shall mean the annual amount of non-fuel, non-environmental Rockport UPA expense included in base rates for rates effective in November 2022.

(ii) "Estimated Rockport Offset" shall mean the amount of additional annual revenue the Company estimates would be necessary for it to earn the Commission-authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings.

(iii) "Actual Rockport Offset" shall mean the amount of additional annual revenue that would have been necessary for the Company to earn the Commission-authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings. The Company shall calculate the Actual Rockport Offset using a comparison of the per books return on equity for 2023 to the Commission-approved return on equity. The Actual Rockport Offset cannot exceed the Rockport Fixed Costs Savings.

(iv) "Rockport Offset True-Up" shall mean the difference between the Estimated Rockport Offset and the Actual Rockport Offset.

(h) The Company shall implement the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above as follows:

(i) By November 15, 2022, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective December 9, 2022. This filing shall reflect the impact of the Rockport Fixed Cost Savings and the Estimated Rockport Offset on the purchase power adjustment factor. This filing shall also reflect the commencement of recovery of the Rockport Deferral Regulatory Asset.

(ii) The Company shall make its normal August 15, 2023 Tariff P.P.A. filing for rates effective in October 2023. The Rockport Fixed Cost Savings and the Estimated Rockport Offset will continue to be factored into the calculation of the purchase power adjustment factor through the end of 2023. Beginning in January 2024, the Estimated Rockport Offset will not be factored into the calculation of the purchase power adjustment factor.

(iii) By February 1, 2024, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective March 1, 2024. This filing shall only reflect the impact of the Rockport Offset True-Up on the purchase power adjustment factor. The purchase power adjustment factor shall be established to recover or credit the Rockport Offset True-Up amount in three months.

(iv) Beginning with the August 15, 2024 Tariff P.P.A. filing, the Company will incorporate the Rockport Fixed Cost Savings in its annual calculation of the purchase power adjustment factor.

4. <u>PJM OATT LSE Expense Recovery</u>

(a) As described in the testimony of Company Witness Vaughan, Kentucky Power has included an adjusted test year amount of net PJM OATT LSE charges and credits in base rates. Kentucky Power will track, on a monthly basis, the amount of OATT LSE charges and credits above or below the base rate level using deferral accounting. Kentucky Power will recover and collect 80% of the annual over or under collection of PJM OATT LSE charges, as compared to the annual amount included in base rates, ("Annual PJM OATT LSE Recovery") through the operation of Tariff P.P.A.

(b) Kentucky Power will credit against the Annual PJM OATT LSE Recovery 100% of the difference between the return on its incremental transmission investments calculated using the FERC-approved PJM OATT return on equity and the return on its incremental transmission investments calculated using the 9.75% return on equity provided for in this settlement (the "Transmission Return Difference"). Kentucky Power shall calculate the Transmission Return Difference as shown in **EXHIBIT 3**.

(c) These changes to Tariff P.P.A. to allow for the Annual PJM OATT LSE Recovery will terminate on the effective date when base rates are reset in the next base rate proceeding unless otherwise specifically extended by the Commission. Nothing in this Paragraph 4(c) prohibits Kentucky Power or any other Signatory Party from taking any position regarding the extension of the Annual PJM OATT LSE Recovery mechanism or any other treatment of the Company's PJM OATT LSE expenses.

5. Rate Case Stay Out

(a) Kentucky Power will not file an application for a general adjustment of base rates for rates that would be effective prior to the first day of the January 2021 billing cycle. This rate case "stay out" is expressly conditioned on Commission approval of this Settlement Agreement without modification including the recovery of the Rockport Deferral Regulatory Asset as described in Section 3 above and the incremental PJM OATT LSE expense through Tariff P.P.A. as described in Section 4 above.

(b) This stay out will not apply if a change in law occurs that will result in a material adverse effect on the Company's financial condition.

(c) Nothing in this stay out provision should be interpreted as prohibiting the Commission from altering the Company's rates upon its own investigation, or upon complaint, including to reflect changes in the tax code, including the federal corporate income tax rate, depreciation provisions, or upon a request by the Company to seek leave to address an emergency that could adversely impact Kentucky Power or its customers. In the event the Commission initiates an investigation or a complaint is filed with the Commission regarding the Company's rates, the Company retains the right to defend the reasonableness of its rates in such proceedings.

6. Tariff P.P.A.

(a) Kentucky Power's proposed changes to Tariff P.P.A., as set forth in the testimony of Company Witness Vaughan and modified by Sections 2 and 3 above, are approved.

(b) A revised version of Tariff P.P.A. incorporating the modifications described in Sections 2 and 3 above is included as **EXHIBIT 4**.

7. Depreciation Rates

(a) Kentucky Power and the Settling Intervenors agree that Big Sandy Unit 1 has an expected life of 20 years following its conversion from a coal-fired to a natural gas-fired generating unit. The depreciation rates for Big Sandy Unit 1 have been adjusted to reflect the 20 year expected life. Kentucky Power and the Signatory Parties retain the right to propose updated depreciation rates for Big Sandy Unit 1 in future proceedings to reflect updates to the expected life.

(b) Kentucky Power has adjusted depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant to remove terminal net salvage costs. Kentucky Power retains the right to propose updated depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant in future proceedings to include terminal net salvage costs, and the Settling Intervenors retain the right to challenge the inclusion of such costs in future proceedings.

(c) Kentucky Power's updated depreciation rates are included as **EXHIBIT 5**.

8. Return on Equity, Capitalization, WACC, and GRCF

(a) Kentucky Power shall be authorized a 9.75% return on equity. The authorized return on equity of 9.75% will be used in the calculation of the Company's Environmental Surcharge factor (for non-Rockport environmental projects) and the carrying charges for the Rockport Deferral and Decommissioning Rider regulatory assets.

(b) Kentucky Power will update its capitalization to reflect short term debt as 1% of the Company's total capital structure. The annual interest rate for the short term debt will be set at 1.25%.

(c) Kentucky Power shall utilize a weighted average cost of capital ("WACC") of 9.11% including a gross revenue conversion factor ("GRCF") of 1.6433%. The GRCF does not include a Section 199 deduction. This WACC and GRCF shall remain constant (including for the riders and surcharges described in Paragraph 8(a) above) until such time as the Commission sets base rates in the Company's next base rate case proceeding. The calculations of the WACC and GRCF are shown on **Exhibit 6**.

9. Storm Damage Expense Amortization

(a) Kentucky Power will recover and amortize the remaining unamortized balance of its deferred storm expense regulatory asset authorized in Case No. 2012-00445 over a period of five years beginning January 1, 2018, consistent with the recommendation of KIUC. The unamortized balance of the regulatory asset authorized in Case No. 2012-00445 will total $6,087,000 on December 31, 2017 and will be amortized over five years at an annual amount of $1,217,400.

(b) Kentucky Power will recover and amortize the deferred storm expense regulatory asset authorized in Case No. 2016-00180 over a period of 5 years beginning January 1, 2018 consistent with the testimony of Company Witness Wohnhas. The balance of the regulatory asset authorized in Case No. 2016-00180 totals $4,377,336 and will be amortized over five years at an annual amount of $875,467.

(c) The combined balance of the Kentucky Power's deferred storm expense regulatory assets (the remaining unamortized balance authorized in Case No. 2012-00445 and the amount authorized in Case No. 2016-00180) will total $10,464,336 on December 31, 2017 and will be amortized over five years at an annual amount of $2,092,867.

10. <u>Kentucky Economic Development Surcharge</u>

(a) Kentucky Power's new Kentucky Economic Development Surcharge Tariff ("Tariff K.E.D.S.") shall be approved with rates amended as follows:

(i) The KEDS rate for residential customers will be set at $0.10 per meter instead of $0.25 as proposed by the Company.

(ii) The KEDS rate for non-residential customers for which the KEDS applies will be set at $1.00 per meter instead of $0.25 as proposed by the Company.

(b) All KEDS funds collected by Kentucky Power shall be matched dollar-for-dollar by Kentucky Power from shareholder funds. The proceeds of KEDS and Kentucky Power's shareholder contribution shall be used by Kentucky Power for economic development projects, including the training of local economic development officials, in the Company's service territory. The KEDS, and the matching shareholder contribution, shall remain in effect until changed by order of the Commission.

(c) Kentucky Power will continue to file on or before March 31st of each year a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

(d) Kentucky Power shall serve a copy of the annual report to be filed with the Commission in accordance with subparagraph (c) on counsel for all parties to this proceeding.

11. Backup and Maintenance Service

(a) In order for Marathon Petroleum LP ("Marathon") to evaluate the economics of self or co-generation, Kentucky Power and Marathon will begin negotiations regarding the terms, conditions and pricing for backup and maintenance service within 30 days of a Commission Order approving this provision and will complete negotiations within the next 120 days. Prior to the start of the 120 day negotiation period, Marathon will provide Kentucky Power with specific information regarding the MW size of a potential self or co-generation facility and the type of generation technology being considered.

(b) If Kentucky Power and Marathon cannot reach an agreement on backup and maintenance service within 120 days, Kentucky Power and Marathon agree to submit the issue to the Commission for resolution.

12. School Energy Manager Program

(a) Kentucky Power shall seek leave from the Commission to include up to $200,000 for the School Energy Manager Program in its each of its 2018 and 2019 DSM Program offerings.

(b) Kentucky Power and KSBA both expressly acknowledge that there is in Case No. 2017-00097 a currently-pending Commission investigation of the Company's DSM programs and funding and that the outcome of that investigation could impact the School Energy Manager Program.

13. Tariff K-12 School

(a) Kentucky Power shall continue its current Pilot Tariff K-12 School but shall remove the Pilot designation as set forth in **Exhibit 7**. Tariff K-12 School shall be available for general service to all K-12 schools in the Company's service territory, public and private, with normal maximum demands greater than 100 kW. Tariff K-12 School shall reflect rates for customers taking service under the tariff designed to produce annually in the aggregate $500,000 less from Tariff K-12 School customers than would be produced under the new L.G.S. rates to be established under this Settlement Agreement from customers eligible to take service under Tariff K-12 School. The aggregate total revenues to be produced by Tariff K-12 School and Tariff L.G.S. shall be equal to the revenues that would be produced in the aggregate by the new rates in the absence of Tariff K-12 School. Service under Tariff K-12 School shall be optional.

14. <u>Bill Format Changes</u>

(a) The bill formatting changes proposed by the Company in Case No. 2017-00231 and consolidated into this case by Commission Order dated July 17, 2017, to the extent not already approved, are approved.

(b) Within 180 days of a Commission Order approving this Settlement, Kentucky Power will conduct a training session with representatives from its municipal clients and KLC to explain the new bill format and tools available to clients to evaluate their electric usage.

15. <u>Renewable Power Option Rider</u>

(a) The proposed changes to the Company's Green Pricing Option Rider, including renaming the rider to the Renewable Power Option Rider ("Rider R.P.O."), are approved except that the availability of service provision for Option B will state the following:

> "Customers who wish to directly purchase the electrical output and all associated environmental attributes from a renewable energy generator may contract bilaterally with the Company under Option B. Option B is available to customers taking metered service under the Company's I.G.S., and C.S.-I.R.P. tariffs, or multiple L.G.S. tariff accounts with common ownership under a single parent company that can aggregate multiple accounts to exceed 1000 kW of peak demand."

A revised version of Rider R.P.O. incorporating the modifications described above is included as **EXHIBIT 8**. Bills for customers receiving service under Rider R.P.O. will include a separate line item for Rider R.P.O. charges.

(b) Beginning no later than March 31, 2018, and no later than each March 31 thereafter, Kentucky Power will file a report with the Commission describing the previous year's activity under Rider R.P.O. This annual report will replace the semi-annual reports filed in Case No. 2008-00151.

16. Modifications To Kentucky Power's Rate Tariffs

In addition to the rate and tariff changes described and agreed to above, Kentucky Power and the Settling Intervenors agree that the following tariffs shall be modified or implemented as described below:

(a) The Customer charge for the Residential Class ("Tariff R.S.") shall be increased to $14.00 per month instead of the $17.50 per month proposed by the Company in its filing in this case.

(b) The Company is extending the termination date for Tariff C.S. – Coal and the amendments to Tariff C.S. – I.R.P. and Tariff E.D.R. approved in Case No. 2017-00099 from December 31, 2017 to December 31, 2018.

(c) The pole attachment rate under Tariff C.A.T.V. shall be $10.82 for attachments on two-user poles and $6.71 for attachments on three-user poles for all attachments instead of the $11.97 for attachments on two-user poles and $7.42 for attachments on three-user poles proposed by the Company in its filing in this case.

17. Filing Of Settlement Agreement With The Commission And Request For Approval

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Intervenors shall file this Settlement Agreement with the Commission along with a joint request to the Commission for consideration and approval of this Settlement Agreement so that Kentucky

Power may begin billing under the approved adjusted rates for service rendered on or before January 19, 2018.

18. Good Faith And Best Efforts To Seek Approval

(a) This Settlement Agreement is subject to approval by the Public Service Commission.

(b) Kentucky Power and the Settling Intervenors shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be approved in its entirety and without modification and that the rates and charges set forth herein be implemented.

(c) Kentucky Power and the Settling Intervenors filed testimony in this case. Kentucky Power also filed testimony in support of the Settlement Agreement. For purposes of any hearing, the Settling Intervenors and Kentucky Power waive all cross-examination of the other Signatory Parties' witnesses except for purposes of supporting this Settlement Agreement unless the Commission disapproves this Settlement Agreement. Each further stipulates and recommends that the Notice of Intent, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record.

(d) The Signatory Parties further agree to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, including in connection with any appeal from the Commission's adoption or enforcement of this Settlement Agreement.

(e) No party to this Settlement Agreement shall challenge any Order of the Commission approving the Settlement Agreement in its entirety and without modification.

19. Failure Of Commission To Approve Settlement Agreement

If the Commission does not accept and approve this Stipulation in its entirety, then any adversely affected Party may withdraw from the Stipulation within the statutory periods provided for rehearing and appeal of the Commission's order by (1) giving notice of withdrawal to all other Parties and (2) timely filing for rehearing or appeal. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearing's and appeals, all Parties that have not withdrawn will continue to be bound by the terms of the Stipulation as modified by the Commission's order.

20. Continuing Commission Jurisdiction

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

21. Effect of Settlement Agreement

This Settlement Agreement shall inure to the benefit of, and be binding upon, the parties to this Settlement Agreement, their successors, and assigns.

22. Complete Agreement

This Settlement Agreement constitutes the complete agreement and understanding among the parties to this Settlement Agreement, and any and all oral statements, representations, or agreements. Any and all such oral statements, representations, or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

23. Independent Analysis

The terms of this Settlement Agreement are based upon the independent analysis of the parties to this Settlement Agreement, are the product of compromise and negotiation, and reflect a fair, just, and reasonable resolution of the issues herein. Notwithstanding anything contained in this Settlement Agreement, Kentucky Power and the Settling Intervenors recognize and agree that the effects, if any, of any future events upon the income of Kentucky Power are unknown and this Settlement Agreement shall be implemented as written.

24. Settlement Agreement And Negotiations Are Not An Admission

(a) This Settlement Agreement shall not be deemed to constitute an admission by any party to this Settlement Agreement that any computation, formula, allegation, assertion, or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of the Signatory Parties.

(b) Neither the terms of this Settlement Agreement nor any statements made or matters raised during the settlement negotiations shall be admissible in any proceeding, or binding on any of the parties to this Settlement Agreement, or be construed against any of the parties to this Settlement Agreement, **except that** in the event of litigation or proceedings involving the approval, implementation or enforcement of this Agreement, the terms of this Settlement Agreement shall be admissible. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

25. Consultation With Counsel

The parties to this Settlement Agreement warrant that they have informed, advised, and consulted with their respective counsel with regard to the contents and significance of this Settlement Agreement and are relying upon such advice in entering into this agreement.

26. Authority To Bind

Each of the signatories to this Settlement Agreement hereby warrant they are authorized to sign this agreement upon behalf of, and bind, their respective parties.

27. Construction Of Agreement

This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only and is not to be deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kentucky Power or any other utility.

28. Counterparts

This Settlement Agreement may be executed in multiple counterparts.

29. Future Rate Proceedings

Nothing in this Settlement Agreement shall preclude, prevent, or prejudice any party to this Settlement Agreement from raising any argument or issue, or challenging any adjustment, in any future rate proceeding of Kentucky Power.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 22nd day of November 2017.

KENTUCKY POWER COMPANY

By: ______________________

Its: Counsel

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Michael L. Kurtz

Its: Counsel

KENTUCKY SCHOOL BOARDS
ASSOCIATION, INC.

By: [signature]

Its: Legal Counsel

KENTUCKY LEAGUE OF CITIES

By: [signature]

Its: Director of Municipal Law & Training

KENTUCKY CABLE
TELECOMMUNICATION
ASSOCIATION, INC.

By: Jason K. [illegible]

Its: KCTA Board Chairman

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

By: ______________

Its: Counsel

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00179 DATED JAN 18 2018

Adjustments	Amounts
Capacity Charge Revenues Removal	($6,396,832)
Removal of Effects of Decommissioning Rider Revenue and Expenses	($18,512,331)
Eliminate Mitchell FGD Operating Expenses	($13,308,197)
Remove Mitchell plant FGD and Consumable inventory from Rate Base	($1,610,192)
Removal of Mitchell FGD Environmental Surcharge Rider Revenues	($538,417)
Remove Big Sandy Unit 1 Operation Rider Deferrals	($4,333,902)
Fuel Under (Over) Revenues	$4,574,472
Reset OSS Margin Baseline to 2016 Test Year OSS Margins	($8,800,856)
PPA Rider Synchronization Adjustment	$372,542
Remove DSM Revenue Expense	($5,503,380)
Remove HEAP Revenue and Expense	($246,772)
Remove Economic Development Surcharge Revenue and Expense	($303,011)
Tariff Migration Adjustment	$1,026,263
Customer Annualization Revenue Adjustment	($1,342,364)
Weather Normal Load Revenue Adjustment	$4,080,748
O&M Expense Interest on Customer Deposit	$67,254
Amortization of Major Storm Cost Deferral	$874,592
Postage Rate Decrease Adjustment	($6,656)
Eliminate Advertising Expense	$100,444
Adjust Pension and OPEB Expense	$148,679
Employee Related Group Benefit Expense	$429,241
Remove PJM BLIs From Base for FAC Inclusions	($516,659)
Adjustment to Include Purchase Power Limitation Expense in Rate Base	$3,150,582
Adjustment to Include Forced Outage Purchase Power Limitation in Base Rates	$882,204
Annualize NITS/PJM LSE OATT Expense	$3,825,858
Annualize PJM Admin Charges	$118,606
Amortization of NERC Cost Deferral	$14,275
Severance Expense Adjustment	$2,363
Annualization of Payroll Expense Adjustment	$244,837
Social Security Tax Base Adjustment	$26,009
Eliminate Non-Recoverable Business Expenses	$14,914
Plant Maintenance Normalization	($274,334)
Depreciation Annualization Adjustment Electric Plant in Service	$2,037,359
Decrease ARO Depreciation Expense to an Annualized Level	($3,818)
Decrease ARO Accretion Expense to an Annualized Level	($109,495)
Annualization of Cable Pole Attachment Revenue	$532,369
KPSC Maintenance Assessment	($1,801)
State Gross Receipts Tax Adjustment	$78,776

Interest Synchronization Adjustment (Per 8/7/2017 Amendment)	$6,449,828
AFUDC Offset Adjustment (Per 8/17/2017 Amendment)	$28,197
Adjustment to Recognize Accrued Surcharge Revenue Differences	($62,588)
Mitchell Plant ADSIT Amortization	$1,292,491
Decrease O&M for Vegetation Management Tree Trimming	($6,794,282)
Annualization of Property Taxes	$595,507

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00179 DATED JAN 18 2018

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

TARIFF R.S.
RESIDENTIAL SERVICE

Service Charge per month	$	14.00
Energy Charge per kWh	$	.09660
Storage Water Heating Provision - Per kWh	$	.06072
Load Management Water Heating Provision - Per kWh	$	.06072
Home Energy Assistance Program Charge Per meter per month	$	.30

TARIFF R.S.-L.M.-T.O.D.
RESIDENTIAL SERVICE LOAD MANAGEMENT TIME-OF-DAY

Service Charge per month	$	16.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.14346
All kWh used during off-peak billing period	$	.06072
Separate Metering Provision Per Month	$	3.75
Home Energy Assistance Program Charge Per meter per month	$	.30

TARIFF R.S.-T.O.D.
RESIDENTIAL SERVICE TIME-OF-DAY

Service Charge per month	$	16.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.14386
All kWh used during off-peak billing period	$	.06072
Home Energy Assistance Program Charge Per meter per month	$	.30

TARIFF R.S.-T.O.D. 2
EXPERIMENTAL RESIDENTIAL SERVICE TIME-OF-DAY 2

Service Charge per month	$	16.00
Energy Charge per kWh:		
All kWh used during summer on-peak billing period	$	.17832
All kWh used during winter on-peak billing period	$	.15342
All kWh used during off-peak billing period	$	.08094
Home Energy Assistance Program Charge		
Per meter per month	$	.30

TARIFF R.S.D.
RESIDENTIAL DEMAND-METERED ELECTRIC SERVICE

Service Charge per month	$	17.50
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.09738
All kWh used during off-peak billing period	$	.07029
Demand Charge per kW	$	4.02
Home Energy Assistance Program Charge		
Per meter per month	$	.30

TARIFF G.S.
GENERAL SERVICE

Secondary Service:		
Service Charge per month	$	22.50
Energy Charge per kWh:		
Phase 1		
First 4,450 kWh per month	$	.10198
Over 4,450 kWh per month	$	.10188
Phase 2		
First 4,450 kWh per month	$	.09807
Over 4,450 kWh per month	$	.09798
Demand Charge per kW greater than 10 kW		
Phase 1	$	4.00
Phase 2	$	6.00
Primary Service:		
Service Charge per month	$	75.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.08629
Over 4,450 kWh per month	$	.08659
Demand Charge per kW greater than 10 kW	$	7.18

Subtransmission Service:

Service Charge per month	$ 364.00
Energy Charge per kWh:	
First 4,450 kWh per month	$ .07822
Over 4,450 kWh per month	$ .07855
Demand Charge per kW greater than 10 kW	$ 5.74

TARIFF G.S.
GENERAL SERVICE
RECREATIONAL LIGHTING SERVICE PROVISION

Service Charge per month	$ 22.50
Energy Charge per kWh	$ .09968

TARIFF G.S.
GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	$ 22.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	$ .14423
All kWh used during off-peak billing period	$ .06072

TARIFF G.S.
GENERAL SERVICE
OPTIONAL UNMETERED SERVICE PROVISION

Service Charge per month	$ 14.00
Energy Charge per kWh:	
Phase 1	
First 4,450 kWh per month	$ .10198
Over 4,450 kWh per month	$ .10188
Phase 2	
First 4,450 kWh per month	$ .09807
Over 4,450 kWh per month	$ .09798

TARIFF S.G.S.-T.O.D.
SMALL GENERAL SERVICE TIME-OF-DAY

Service Charge per month	$ 22.50
Energy Charge per kWh:	
All kWh used during summer on-peak billing period	$ .17034
All kWh used during winter on-peak billing period	$ .14372
All kWh used during off-peak billing period	$ .07511

TARIFF M.G.S.-T.O.D.
MEDIUM GENERAL SERVICE TIME-OF-DAY

Service Charge per month	$	22.50
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.16747
All kWh used during off-peak billing period	$	.06072

TARIFF L.G.S.
LARGE GENERAL SERVICE

Secondary Service Voltage:		
Service Charge per month	$	85.00
Energy Charge per kWh	$	.07712
Demand Charge per kW	$	7.97
Primary Service Voltage:		
Service Charge per month	$	127.50
Energy Charge per kWh	$	.06711
Demand Charge per kW	$	7.18
Sub-transmission Service Voltage:		
Service Charge per month	$	660.00
Energy Charge per kWh	$	.05112
Demand Charge per kW	$	5.74
Transmission Service Voltage:		
Service Charge per month	$	660.00
Energy Charge per kWh	$	.04997
Demand Charge per kW	$	5.60
All Service Voltages:		
Excess Reactive Charge per KVA	$	3.46

TARIFF L.G.S.
LARGE GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	$	85.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.14063
All kWh used during off-peak billing period	$	.06088

TARIFF L.G.S. – T.O.D.
LARGE GENERAL SERVICE TIME-OF-DAY

Secondary Service Voltage:	
Service Charge per month	$ 85.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .09670
Off-Peak Energy Charge per kWh	$ .04132
Demand Charge per kW	$ 10.87
Primary Service Voltage:	
Service Charge per month	$ 127.50
Energy Charge:	
On-Peak Energy Charge per kWh	$ .09300
Off-Peak Energy Charge per kWh	$ .04010
Demand Charge per kW	$ 7.84
Sub-transmission Service Voltage:	
Service Charge per month	$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .09176
Off-Peak Energy Charge per kWh	$ .03970
Demand Charge per kW	$ 1.52
Transmission Service Voltage:	
Service Charge per month	$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .09049
Off-Peak Energy Charge per kWh	$ .03928
Demand Charge per kW	$ 1.49
All Service Voltages:	
Excess Reactive Charge per KVA	$ 3.46

TARIFF I.G.S.
INDUSTRIAL GENERAL SERVICE

Secondary Service Voltage:	
Service Charge per month	$ 276.00
Energy Charge per kWh	$ .02663
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 24.13
Of Monthly Off-Peak Billing Demand	$ 1.60

Primary Service Voltage:

Service Charge per month	$ 276.00
Energy Charge per kWh	$ .02553
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 20.57

Sub-transmission Service Voltage:

Service Charge per month	$ 794.00
Energy Charge per kWh	$ .02793
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 13.69
Of Monthly Off-Peak Billing Demand	$ 1.51

Transmission Service Voltage:

Service Charge per month	$1,353.00
Energy Charge per kWh	$ .02792
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 13.26
Of Monthly Off-Peak Billing Demand	$ 1.49

All Service Voltages:
Reactive demand charge for each kilovar of maximum leading or lagging reactive demand in excess of 50 percent of the kW of monthly metered demand is $.69 per KVAR.

Minimum Demand Charge
The minimum demand charge shall be equal to the minimum billing demand times the following minimum demand rates per kW:

Secondary	$ 25.83
Primary	$ 22.21
Subtransmission	$ 15.30
Transmission	$ 14.86

TARIFF M.W.
MUNICIPAL WATERWORKS

Service Charge per month	$ 22.90
Energy Charge - All kWh per kWh	$ .09135

Subject to a minimum monthly charge equal to the sum of the service charge plus $8.89 per kW as determined from customer's total connected load.

TARIFF O.L.
OUTDOOR LIGHTING

OVERHEAD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	$	8.50
150 Watts (16,000 Lumens)	$	9.30
200 Watts (22,000 Lumens)	$	10.90
250 Watts (28,000 Lumens)	$	15.04
400 Watts (50,000 Lumens)	$	16.01
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	$	9.04
400 Watts (20,000 Lumens)	$	14.64

POST-TOP LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	$	14.05
150 Watts (16,000 Lumens)	$	23.30
100 Watts Shoe Box (9,500 Lumens)	$	29.50
250 Watts Shoe Box (28,000 Lumens)	$	24.99
400 Watts Shoe Box (50,000 Lumens)	$	36.16
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	$	10.59

FLOOD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
200 Watts (22,000 Lumens)	$	13.10
400 Watts (50,000 Lumens)	$	17.06
Metal Halide		
250 Watts (20,500 Lumens)	$	15.27
400 Watts (36,000 Lumens)	$	18.39
1,000 Watts (110,000 Lumens)	$	30.94
250 Watts Mongoose (19,000 Lumens)	$	20.57
400 Watts Mongoose (40,000 Lumens)	$	23.59

Per Month:		
Wood Pole	$	3.40
Overhead Wire Span not over 150 Feet	$	2.00
Underground Wire Lateral not over 50 Feet	$	7.40

Per Lamp plus $0.02725 x kWh in Sheet No. 14-3 in Company's tariff

TARIFF S.L.
STREET LIGHTING

Rate per Lamp:
Overhead Service on Existing Distribution Poles

High Pressure Sodium		
100 Watts (9,500 Lumens)	$	7.02
150 Watts (16,000 Lumens)	$	7.55
200 Watts (22,000 Lumens)	$	8.95
400 Watts (50,000 Lumens)	$	11.71

Service on New Wood Distribution Poles

High Pressure Sodium		
100 Watts (9,500 Lumens)	$	10.80
150 Watts (16,000 Lumens)	$	11.55
200 Watts (22,000 Lumens)	$	12.95
400 Watts (50,000 Lumens)	$	16.61

Service on New Metal or Concrete Poles

High Pressure Sodium		
100 Watts (9,500 Lumens)	$	27.45
150 Watts (16,000 Lumens)	$	28.15
200 Watts (22,000 Lumens)	$	26.70
400 Watts (50,000 Lumens)	$	27.11

Per Lamp plus $0.02725 x kWh in Sheet No. 15-2 in Company's tariff

TARIFF C.A.T.V.
CABLE TELEVISION POLE ATTACHMENT

Charge for attachments

On a two-user pole	$	10.82
On a three-user pole	$	6.71

TARIFF COGEN/SPP I
COGNERATION AND/OR SMALL POWER PRODUCTION
100 KW OR LESS

Monthly Metering Charges:
Single Phase:

Standard Measurement	$	9.25
Time-of-Day Measurement	$	9.85

Polyphase:	
Standard Measurement	$ 12.10
Time-of-Day Measurement	$ 12.40
Energy Credit per kWh:	
Standard Meter – All kWh	$ .03240
Time-of-Day Meter:	
On-Peak kWh	$ .03860
Off-Peak kWh	$ .02790
Capacity Credit:	
Standard Meter per kW	$ 3.11
Time-of-Day Meter per kW	$ 7.47

TARIFF COGEN/SPP II
COGNERATION AND/OR SMALL POWER PRODUCTION
OVER 100 KW

Metering Charges:	
Single Phase:	
Standard Measurement	$ 9.25
Time-of-Day Measurement	$ 9.85
Polyphase:	
Standard Measurement	$ 12.10
Time-of-Day Measurement	$ 12.40
Energy Credit per kWh:	
Standard Meter – All kWh	$ .03240
Time-of-Day Meter:	
On-Peak kWh	$ .03860
Off-Peak kWh	$ .02790
Capacity Credit:	
Standard Meter per kW	$ 3.11
Time-of-Day Meter per kW	$ 7.47

TARIFF K.E.D.S.
KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Per month per account:	
Residential	$ .00
All Other	$ 1.00

TARIFF C.C.
CAPACITY CHARGE

Energy Charge per kWh:		
Service Tariff		
I.G.S.	$	.000749
All Other	$	.001435

RIDER R.P.O.
RENEWABLE POWER OPTION RIDER
OPTION A

Solar RECs:		
Block Purchase per 100 kWh per month	$	1.00
All Usage Purchase per kWh consumed	$	.01000
Wind RECs:		
Block Purchase per 100 kWh per month	$	1.00
All Usage per kWh consumed	$	.01000
Hydro & Other RECs:		
Block Purchase per 100 kWh per month	$	.30
All Usage per kWh consumed	$	.00300

RIDER A.F.S.
ALTERNATE FEED SERVICE RIDER

Monthly Rate for Annual Test of Transfer Switch/Control Module	$	14.67
Monthly Capacity Reservation Demand Charge per kW	$	6.29

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00179 DATED JAN 18 2018

ENVIRONMENTAL COMPLIANCE PLAN

Project	Plant	Pollutant	Description	In-Service Year
			Previously Approved Environmental Compliance Projects	
1	Mitchell	NOx, SO2, and SO3	Mitchell Units 1 & 2, Water Injection, Low NOx Burners, Low NOx Burner Modification, SCR, FGD, Landfill, Coal Blending Facilities & SO3 Mitigation	1993-1994-2002-2007
2	Mitchell	SO2, NOx and Gypsum	Mitchell Plant Common CEMS, Replace Burner Barrier Valves & Gypsum Material Handling Facilities	1993-1994-2007
3	Rockport	SO2 / NOx	Continuous Emission Monitors ("CEMS")	1994
4	Rockport	NOx, Fly Ash, & Bottom Ash	Rockport Units 1 & 2 Low NOx Burners, Over Fire Air & Landfill	2003-2008
5	Mitchell & Rockport	SO2, NOx, Particulates & VOC and etc.	Title V Air Emissions Fees at Mitchell and Rockport Plants	Annual
6	Big Sandy, Mitchell & Rockport	NOx	Costs Associated with NOx Allowances	As Needed
7	Big Sandy, Mitchell & Rockport	SO2	Costs Associated with SO2 Allowances	As Needed
8	Big Sandy, Mitchell & Rockport	SO2 / NOx	Costs Associated with the CSAPR Allowances	As Needed
9	Mitchell	Particulates	Mitchell Units 1 & 2 - Precipitator Modifications	2007-2013
10	Mitchell	Particulates	Mitchell Units 1 & 2 - Bottom Ash & Fly Ash Handling	2008-2010
11	Mitchell	Mercury	Mitchell Units 1 & 2 - Mercury Monitoring ("MATS")	2014
12	Mitchell	Selenium	Mitchell Units 1 & 2 - Dry Fly Ash Handling Conversion	2014
13	Mitchell	Fly Ash, Bottom Ash, Gypsum & WWTP Solids	Mitchell Units 1 & 2 - Coal Combustion Waste Landfill	2014
14	Mitchell	Particulates	Mitchell Unit 2 - Electrostatic Precipitator Upgrade	2015
15	Rockport	Particulates	Rockport Units 1 & 2 - Precipitator Modifications	2004-2009
16	Rockport	Mercury	Rockport Units 1 & 2 - Activated Carbon Injection ("ACI") & Mercury Monitoring	2009-2010

17	Rockport	Hazardous Air Pollutants ("HAPS")	Rockport Units 1 & 2 - Dry Sorbent Injection	2015
18	Rockport	Fly Ash & Bottom Ash	Rockport Plant Common - Coal Combustion Waste Landfill Upgrade to Accept Type 1 Ash	2013 & 2015
			Proposed Environmental Compliance Projects	
19	Rockport	NOx	Rockport Unit 1 - Selective Catalytic Reduction equipment	2017
20	Mitchell Rockport	SO2 / NOx, Mercury, Particulates, Hazardous Air Pollutants ("HAPS")	Cost of consumables used in conjunction with approved ECP projects including the cost of the consumables used and a return on consumable inventories. Consumables include, but are not limited to sodium bicarbonate, activated carbon, anhydrous ammonia, trona, lime hydrate, limestone, polymer, and urea.	As Needed

APPENDIX E

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00179 DATED JAN 18 2018

MONTHLY BASE PERIOD REVENUE REQUIREMENT

Billing Month	Base Period Cost
January	$ 3,664,681
February	3,581,017
March	3,353,024
April	3,661,574
May	3,595,145
June	3,827,332
July	3,747,320
August	3,888,262
September	3,636,247
October	3,824,697
November	3,717,340
December	3,882,677
	$ 44,379,316

APPENDIX F

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00179 DATED JAN 18 2018

Commission Staff Adjustments to the Revenue Requirement in the Settlement Agreement
Case No. 2017-00179
Kentucky Power Company (Kentucky Jurisdiction)

	Pre-Tax Operating Income Amount	NOI Amount	GRCF		Staff RR Amount
Increase Per Settlement					31,780,734
Operating Income Issues					
OSS Rider Adjustment	(486,412)	(361,693)	1.352116	$	(489,051)
Theft Recovery Revenue	(166,198)	(123,584)	1.352116	$	(167,100)
Purchased Power Adj (WP 26&27)	(4,032,786)	(2,998,755)	1.352116	$	(4,054,664)
Relocation Expense	(132,109)	(98,235)	1.352116	$	(132,826)
Cost of Capital Issues					
Total Change in ROE and capitalization		(476,714)	1.352116	$	(644,573)
Change in GCRF					(13,943,890)
Total Adjustments to the Settlement Agreement				$	(19,432,104)
Recommended Change in Base Rates				$	12,348,630

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Commonwealth of Kentucky
Public Service Commission
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P.O. Box 615
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psc.ky.gov

November 8, 2017

PARTIES OF RECORD

Re: Case No. 2017-00179

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter.

If you have any questions, please contact Nancy Vinsel, Commission Staff Attorney, at 502-782-2582.

Sincerely,

for

Gwen R. Pinson
Executive Director

NJV/ph

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2017-00179

FROM: Nancy J. Vinsel, Staff Attorney

DATE: November 8, 2017

RE: Informal Conference of November 7, 2017

Pursuant to a November 6, 2017 email sent to all parties, a November 6, 2017 motion to schedule an informal conference ("IC") filed by Kentucky Power Company ("Kentucky Power"), and an Order issued on November 7, 2017, an IC was conducted at the Commission's offices on November 7, 2017. The IC was held at the request of Kentucky Power to allow the parties an opportunity to discuss in person and telephonically the issues and the possible resolution of issues. An attendance sheet is attached to this memo.

The Attorney General, by and through his Office of Rate Intervention ("Attorney General"), did not attend the IC due to a scheduling conflict. In an email exchange with Commission Staff, the Attorney General indicated the IC should proceed as scheduled and not be rescheduled.

Kentucky Cable Telecommunications Association ("KCTA") did not attend this IC or a previous IC held on October 26, 2017, because KCTA and Kentucky Power are conducting separate discussions regarding possible resolution of issues pertaining to Tariff C.A.T.V.

After a period of discussion, of the parties in attendance, Kentucky Power Company, Kentucky Industrial Utility Customers, Kentucky School Boards Association, Kentucky League of Cities, and Wal-Mart Stores East and Sam's East reached an agreement in principle to resolve their respective positions on the issues in this proceeding.

There being no further discussion, the IC was then adjourned.

cc: Parties of Record

Attachment

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

October 25, 2017

Please sign in:

NAME	REPRESENTING
RICHARD RAFF	PSC STAFF
Matthew Baer	PSC -FA
Mary Beth Purvis	PSC-FA
Sarah Jankowski	PSC-FA
Quang D. Nguyen	PSC
Ron Handziak	PSC-FA
Jim Livers	"
Daniel [illegible]	"
Mary Whitaker	PSC- FA
Carrie Harris	Telephonic • Walmart, outside counsel
Jody Kyler Cohn	Telephonic : KIUC, outside counse

NAME	REPRESENTING
Todd Osterloh	KCUC
Mark R. Overstreet	Stites & Harbison for Ky. Power
Ken Gish	Stites & Harbison for KPCO
Amy Elliott	KPCo
William Allen	KPCo
Matt Satterwhite	KPCo
Alex Vaughan	KPCo
Ranie Wohnhas	KPCo.
Ron Willhite	KSBA
Mike Kurtz	KIUC
Matt Malone	KSBA
Morgain Sprague	KLC
Gregory Dutton	KLC
Jim Gardner	KCUC

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

OCTOBER 2017

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) AN ORDER APPROVINGS 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**

DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. What is your occupation and by whom are you employed?

A. I am a utility rate and planning consultant holding the position of Vice President and Principal with the firm of Kennedy and Associates.

Q. Please describe your education and professional experience.

A. I earned a Bachelor of Business Administration ("BBA") degree in accounting and a Master of Business Administration ("MBA") degree from the University of Toledo.

I also earned a Master of Arts ("MA") degree in theology from Luther Rice University. I am a Certified Public Accountant ("CPA"), with a practice license, Certified Management Accountant ("CMA"), and Chartered Global Management Accountant ("CGMA"). I am a member of numerous professional organizations.

I have been an active participant in the utility industry for more than thirty years, initially as an employee of The Toledo Edison Company from 1976 to 1983 and thereafter as a consultant in the industry since 1983. I have testified as an expert witness on planning, ratemaking, accounting, finance, and tax issues in proceedings before regulatory commissions and courts at the federal and state levels on hundreds of occasions.

I have testified before the Kentucky Public Service Commission on numerous occasions, including Kentucky Power Company ("KPC" or "Company") base rate proceedings, Case Nos. 2014-00396, 2009-00459, and 2005-00341; Mitchell acquisition proceeding, Case No. 2012-00578; allocation of fuel costs to off-system sales proceeding, Case No. 2014-00255; ecoPower biomass purchased power agreement ("PPA") proceeding, Case No. 2013-00144; Big Sandy 2 environmental retrofit proceeding, Case No. 2011-00401; wind power PPA proceeding, Case No. 2009-00545; various Company Environmental Surcharge ("ES") proceedings and Fuel Adjustment Clause ("FAC") proceedings; numerous Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") base rate proceedings; numerous LG&E and KU ES and FAC proceedings; and other proceedings involving Big Rivers Electric Corporation and East Kentucky Power Cooperative, Inc.[1]

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Kentucky Industrial Utility Customers, Inc. ("KIUC"), a group of large customers taking electric service on the KPC system. KIUC has been an active participant in all significant KPC rate and certification proceedings for more than thirty years.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to: 1) summarize the KIUC revenue requirement recommendations, 2) address specific issues that affect the Company's revenue requirement, 3) quantify the effect on the revenue requirement of the cost of capital recommendations, including return on equity, provided by KIUC witness Mr. Richard Baudino, and 4) address the ratemaking implications of a potential federal income tax rate reduction.

Q. Please summarize your testimony.

A. The Commission should carefully scrutinize the Company's requests and consider KIUC's recommendations in this proceeding in order to limit the additional increases to just and reasonable amounts and to mitigate the effects on customers. The Company's rates charged to customers already have increased 71% over the last ten

---

[1] My qualifications and regulatory appearances are further detailed in my Exhibit___(LK-1).

years and 141% over the last fifteen years. The requests in this proceeding seek additional increases of more than 11% compared to present rates.

I recommend that the Commission increase the Company's base rates by no more than $13.385 million compared to the Company's revised proposed base increase of $60.397 million.[2] In the following table, I provide a summary of the KIUC recommendations compared to the Company's request for a base rate increase. The KIUC recommendations regarding the cost of capital will also reduce the Environmental Surcharge and Decommissioning Rider[3] revenue requirements, although I do not show the quantification of these amounts in the table.

Summary of KIUC Recommendations
Case No. 2017-00179
For the Test Year Ended February 28, 2017
($ Millions)

Base Rate Increase Requested by Company	
Requested Base Increase As Modified by Aug 7, 2017 Suppl Filing	60.397
Operating Income Issues	
Defer Rockport Unit 2 Lease Expense	(20.307)
Increase Revenues to Apply Weather Normalization to Commercial Sales Net of Variable O&M	(0.400)
Reduce Variable O&M Expense Adjustments Due to Revenue Adjustments	(0.172)
Remove Incentive Compensation Expense Tied to Financial Performance	(3.153)
Reject Post Test Year Merit and Related Overtime Increases Projected in 2017	(0.981)
Reject Increases in Staffing	(0.174)
Reduce Amortization Expense to Recalibrate Storm Damage Amortization	(1.221)
Reduce Depreciation Expense by Extending Rem Service Life of BS1 to 30 Years	(4.764)
Reduce Depreciation Expense by Removing Terminal Net Salvage for BS1	(0.372)
Reduce Depreciation Expense by Removing Terminal Net Salvage for Mitchell Plant	(0.570)
Include Section 199 Deduction in Gross Revenue Conversion Factor	(1.320)
Capitalization Issues	
Remove Net DSM, Other Surcharge, and Non-Utility Costs from Capitalization	(0.912)
Reduce Low Sulfur Coal Inventory to Reflect Actual	(0.117)
Cost of Capital Issues	
Increase Short Term Debt to 2% of Capital Structure and Set Debt Rate at 1.25%	(0.712)
Reduce Return on Equity from 10.31% to 8.85%	(11.838)
Total KIUC Adjustments to KPCo Request	**(47.012)**
Increase After KIUC Adjustments	**13.385**

[2] The Company filed a supplemental on August 28, 2017.

[3] The Company has proposed renaming the present Big Sandy Retirement Rider to the Decommissioning Rider ("DR"). Hereafter, I refer to this surcharge mechanism as the Decommissioning Rider or DR.

In addition to the issues shown on the preceding table, I address the effects of potential federal income tax rate reductions and recommend that the Commission direct the Company to defer any reductions in income tax expense until the savings can be reflected in rates.

The remainder of my testimony is structured to address each of the issues on the preceding table followed by the potential federal income tax rate reduction issue. The amounts that I cite throughout my testimony are Kentucky retail-jurisdictional ("jurisdictional") unless otherwise indicated as "total Company."

II. THE INCREASES IN THIS PROCEEDING WILL COMPOUND THE NEGATIVE EFFECTS OF PRIOR SIGNIFICANT INCREASES IN CUSTOMER RATES

Q. Please describe the significant increases in customer rates over the last ten years.

A. The Company's rates have increased significantly compared to the rates that were in effect ten and fifteen years ago. The Company's rates have increased an average of 71% over the last ten years and 141% over the last fifteen years. These rates include all forms of rate recovery, including base rates and all riders, such as the FAC and the ES, among others. And more rate increases are likely. The Company estimates that its transmission costs alone will increase from $74 million in the test year to $130.9 million in 2022, an increase of $56.9 million or 77%.

Q. Would the increases in rates that you cite have been greater but for the actions of KIUC?

A. Yes. KIUC has saved *all* customers, not only industrial customers, hundreds of millions of dollars through its participation in rate and certification proceedings, all at its own expense. In a recent proceeding, KIUC identified errors in Kentucky Power Company's calculation of the FAC whereby it allocated excessive fuel costs to retail customers that should have been allocated to off-system sales.[4] In that proceeding, KIUC's actions saved *all* customers tens of millions of dollars, both through FAC refunds and lower FAC recoveries going forward. In another recent proceeding, KIUC opposed the Company's proposed uneconomic purchased power contract with ecoPower and the associated rate recovery.[5] That case was ultimately resolved by the Kentucky Court of Appeals. KIUC's actions saved *all* customers approximately $700 million over the 20 year term of the proposed ecoPower PPA.

Q. Why is the history of increases in customer rates relevant in this proceeding?

A. The history of increases provides a context for the review of the Company's requests in this proceeding for several reasons. First, the magnitude of the cumulative rate increases harmed residential, business, and government customers, and contributed to the continuing loss of load experienced by the Company. The rate increases and other relief sought in this proceeding will compound the harm from the prior increases and, in turn, will cause greater rate increases in the future even as the Company's load continues to shrink. Rate increases negatively affect the viability and competitiveness of businesses in local, regional, national, and international markets, which is contrary to the Company's economic development efforts.

---

[4] KPSC Case No. 2014-00225.
[5] KPSC Case No. 2013-00144.

Second, the magnitude of the cumulative rate increases should lead the Company to search for *greater efficiencies* and implement *cost reductions*, rather than allowing increases or intentionally driving costs upward year after year. The Commission has the ability to influence the Company's behavior in this respect through the ratemaking process and to ensure that rates reflect the least reasonable cost to serve the retail customer load.

Third, the Company's history of increases and the negative effects, including the loss of load, in its service territory should lead the Commission to search for opportunities to mitigate the increases sought in this proceeding. These opportunities, include, but are not limited to, minimizing the rate increases in this proceeding through various ratemaking adjustments, such as temporary deferrals of costs that can be recovered by the Company through savings after the costs no longer are incurred, and rejecting the Company's proposed modifications to the FAC and PPA surcharge mechanisms, both of which will result in future automatic and significant rate increases with no further authorization by the Commission.

III. OPERATING INCOME ISSUES

Defer $20.3 Million Rockport 2 Lease Expense

Q. Please describe the Rockport Unit Power Agreement ("UPA") and the related purchased power expense.

A. Kentucky Power purchases 15% of the capacity of and energy generated by the Rockport 1 and 2 units. Rockport 1 is owned 50% each by AEP affiliates Indiana

Michigan Power Company ("I&M") and AEP Generating Company ("AEG"). Rockport 2 is owned by Wilmington Trust Co. I&M and AEG each lease 50% of Rockport 2 from Wilmington Trust Co. Kentucky Power purchases 30% of AEG's ownership interest in Rockport 1 and 30% of AEG's leased interest in Rockport 2 pursuant to the Unit Power Agreement ("UPA").

The UPA expires December 7, 2022.[6] Similarly, the Rockport 2 lease terminates in December 2022. Kentucky Power has no right or obligation to purchase the capacity or energy of Rockport 1 or Rockport 2 after that date. Whether Kentucky Power will seek authority from the Commission to extend the UPA Rockport 1 is not known. However, we know that the Company will not seek such authority from the Commission for Rockport 2. On July 21, 2017, the Company and certain of its affiliates filed a motion in U.S. District Court seeking to modify a Consent Decree that was entered into with the U.S. Department of Justice. In that Motion, they stated that "*AEP does not currently plan on extending the term of the Lease, which will terminate in 2022.*"[7] Thus, Kentucky Power will no longer purchase Rockport 2 after December 7, 2022.

Q. What was the Rockport 2 purchased power expense and lease expense during the test year?

A. The Company incurred $59.936 million (total Company) in Rockport 2 purchased power expense in the test year, consisting of $20.485 million (total Company) in

[6] Company's response to AG 1-2(e). I have attached a copy of the response to AG 1-2 as my Exhibit___(LK-2).

[7] Company's response to AG 1-2(l), a copy of which is included in my Exhibit___(LK-2).

lease expense, $12.015 million in other non-fuel operation and maintenance ("O&M") expense, and $27.437 million in fuel expense.[8] The retail portion of the Rockport 2 lease expense was $20.198 million and the associated revenue requirement was $20.307 million after gross-up for PSC assessment fees and bad debt.

The Company recovers various components of the Rockport 2 purchased power expense through base rates, the fuel adjustment clause surcharge, and the environmental surcharge. In addition, the Company recovers another $6.4 million in revenues for Rockport 1 and Rockport 2 through the Capacity Charge ("CC") tariff as an incentive authorized in Case No. 2004-00420. That incentive is treated "below the line," meaning that it is not used to offset revenue requirements in a rate case. It is an "equity kicker." That $6.4 million incentive also ends on December 7, 2022.

There will be rate reductions of $38.9 million after the Rockport 2 purchase terminates in December, 2022. The Company no longer will incur any Rockport 2 purchased power or the lease expense and no longer will recover the incentive through the CC surcharge after December, 2022.

Q. Is it likely that the Company will seek to replace the Rockport 2 capacity when the purchase and lease expire in December 2022?

A. No. The Company presently has capacity well in excess of its load and PJM reserve requirements, and it projects that this excess will continue to grow through the date

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[8] Company's response to KIUC 1-43, which included Attachments with copies of the monthly Rockport UPA invoices and support. The Rockport 2 lease expense shown in account 507 Rents on the monthly supporting schedule entitled "Rockport Operation & Maintenance Expenses Unit 2." I have attached a copy of the relevant pages from this response as my Exhibit___(LK-4).

when the Rockport purchase and Rockport 2 lease terminate in December 2022. The Company projects a UCAP reserve margin of 33.6%, including the Rockport 2 capacity, in the PJM 2017/2018 plan year, and projects that this will increase to 48.1% in the PJM 2021/2022 plan year as its load continues to decline. The following chart demonstrates that the Rockport 2 capacity is excess.[9]

KENTUCKY POWER COMPANY PROJECTED RESERVE MARGINS WITH AND WITHOUT ROCKPORT 2 CAPACITY

Planning Year	MW Available Capacity (UCAP)	MW Obligation to PJM (UCAP)	KPCo Reserve Margin	Planning (Installed) Reserve Margin	MW Excess Capacity	MW Rockport 2 (UCAP)	MW Excess Capacity w/o Rockport 2
2017/18	1,282	960	33.58%	16.6%	163	176	(13)
2018/19	1,317	953	38.22%	16.6%	206	176	30
2019/20	1,317	957	37.6%	16.6%	201	176	25
2020/21	1,322	955	38.5%	16.6%	209	176	33
2021/22	1,322	893	48.06%	16.6%	281	176	105

Q. Does the termination of the Rockport 2 lease in 2022 provide an opportunity to reduce the revenue requirement now in this proceeding?

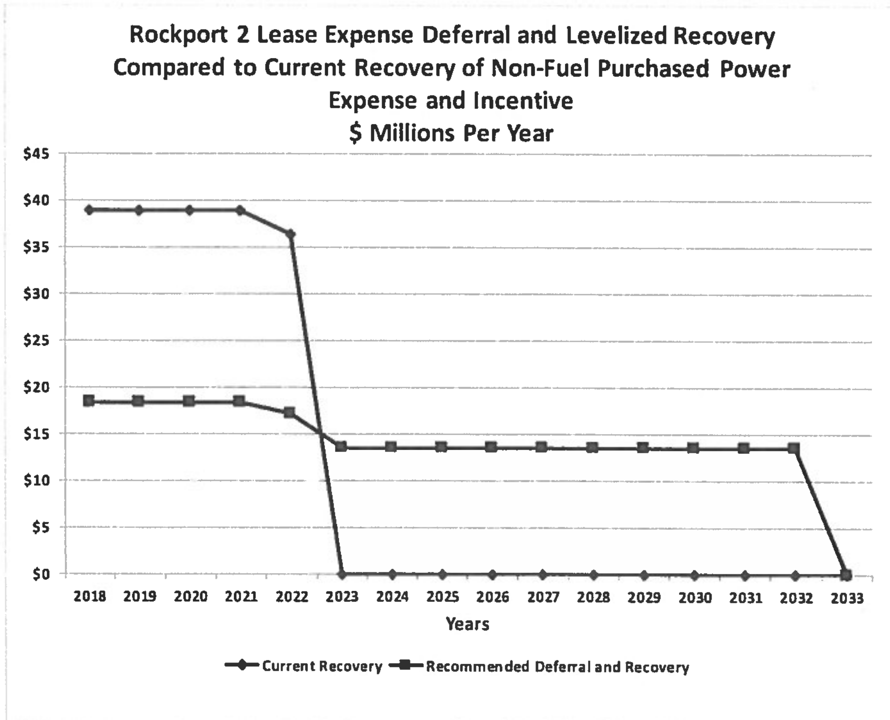
A. Yes. The Company's purchased power rate recoveries should decline by $38.9 million (total Company) annually starting in December 2022, $20.3 million (KY retail) of which is the recovery for the Rockport 2 lease expense.

The 2022 termination of the Rockport purchase and Rockport 2 lease provides the Commission with the opportunity to reduce the revenue requirement now, while still providing the Company recovery of the entirety of its Rockport 2 expenses, albeit over an extended recovery period. More specifically, the

[9] Company's response to KIUC 1-5 Attachment 1. A copy of this response is attached as my Exhibit___(LK-5).

Commission could direct that the Company temporarily defer the $20.3 million Rockport 2 lease expense from the date when rates are reset in this proceeding through December 2022 when the Rockport 2 lease is terminated. This would reduce the Company's revenue requirement in this proceeding by $20.3[10] million. Beginning December 2022, the deferrals would be amortized to expense and recovered over the subsequent ten years as a partial offset to the reduction in the expense after the termination of the lease. Instead of a $39 million rate reduction in 2022, consumers would get a $20.3 million rate reduction now, and another reduction of $4.7 million in 2022. Taking part of the 2022 rate reduction today is reasonable because of the severely depressed state of the Eastern Kentucky economy. The following graph portrays the Rockport 2 non-fuel purchase power expense compared to KIUC's deferral proposal

[10] The reduction of $20.2 million in expense equates to a reduction of $20.3 million in the revenue requirement after gross-up for PSC assessment fees and bad debt.



Q. Why should the Commission authorize a temporary deferral followed by a subsequent amortization and recovery?

A. There are several reasons. First, it constructively resolves the cost recovery related to the Company's excess capacity problem in a manner that balances the Company's recovery of costs with the need to restrain growth in customer rates now because of the depressed Eastern Kentucky economy.

Second, it lowers the rate increase in this proceeding by $20.3 million and provides lower rates for the next five years. It allows recovery over the subsequent ten years as a partial offset to the rate reduction that will occur due to the elimination of the $39 million Rockport 2 non-fuel purchased power expense. It does this without harming the Company financially because it will fully recover the expenses that are deferred. No Rockport 2 costs would be disallowed. KIUC's deferral recommendation only changes the timing of cost recovery.

Third, it mitigates the increases in future proceedings by amortizing and recovering the deferrals over a longer period of time, such as ten years, and on a levelized basis, rather than front-loading the recovery under the traditional revenue requirement cost recovery curve.

Fourth, it provides the Company additional time to acquire new customers and incremental load through its economic development activities, including its Coal Plus, Appalachian Sky Initiative activities,[11] as well as the new aluminum mill recently announced by Braidy Industries, Inc.[12] To the extent that the Company successfully adds load, the deferral and subsequent amortization of the Rockport 2 lease expense will further reduce the cost of the deferrals to all customers on a billing unit basis.

Q. Has the Commission previously authorized deferrals of production costs to limit a rate increase?

A. Yes. The Commission previously directed Big Rivers Electric Corporation to defer $26 million per year in depreciation expense related to the Coleman and Wilson power plants. The Commission found that both plants were excess capacity due to the loss of two large aluminum smelter loads and that the deferrals were necessary to avoid rate shock to the remaining customers. Without the smelter loads, the Big Rivers system is roughly half the size of Kentucky Power.

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[11] Satterwhite Direct Testimony at 10-13, 15-16.
[12] Satterwhite Direct Testimony at 5.

Q. Is the temporary deferral of the Rockport 2 lease expense even more appropriate than the Wilson and Coleman depreciation deferrals?

A. Yes. With the Rockport 2 lease expense, the deferrals are temporary and there is a plan that will ensure the Company fully recovers its costs, albeit it on a delayed and extended basis.

The KIUC plan in this proceeding is different from the Big Rivers deferrals where there is no plan for or certainty of recovery. The Big Rivers deferrals continue to grow because Big Rivers still owns the plants and they still remain excess capacity. But at some point, the deferrals must stop. At that time, the deferral balance (which was $103 million in August 2017) must either be written off from the excess member equity resulting from the LG&E Unwind or recovered in member rates, or some combination of writeoff and recovery. Importantly, at that time there also may be recovery of ongoing depreciation expense for Wilson, which is still operating (Coleman is effectively retired). That means there could be a double hit on ratepayers—the recovery of all or part of the Wilson and/or Coleman deferral balances plus the recovery of all or part of the ongoing Wilson depreciation expense.

The opposite is true with respect to KIUC's recommended Rockport 2 lease expense deferral. The $20.3 million per year deferral will end in December 2022 when the lease expires. At that time, the Company will have a $39 million per year rate reduction, all else equal. So the repayment of the deferral would be funded through associated rate savings. A deferral of the Rockport 2 lease expense is essentially borrowing against future known rate savings. This is reasonable and necessary now since Kentucky Power's load is shrinking due to a depressed local economy, and recovery of the excess capacity Rockport 2 lease expense in current rates would only make matters worse.

Q. What is your recommendation?

A. I recommend that the Commission defer the Rockport 2 lease expense from the effective date when rates are reset in this proceeding through December 2022 when the Rockport 2 lease terminates. I recommend that the Commission allow recovery of the deferred expense starting in December 2022 over ten years on an annuitized (mortgage or levelized) basis through the PPA surcharge mechanism. The Company should earn a carrying charge on the deferral at its weighted average cost of capital.

Q. What is the effect of your recommendation on the revenue requirement in this proceeding and on the revenue requirement in 2022 after the UPA and lease are terminated?

A. This will result in a reduction in the base revenue requirement of $20.3 million now and another reduction in the revenue requirement of approximately $4.7 million in December 2022.

<u>Increase Revenues to Reflect Weather Normalization of Commercial Sales</u>

Q. Please describe the Company's proposed weather normalization of revenues.

A. The Company proposes an adjustment to increase revenues to reflect "normal" temperatures, but its adjustment applies only to the residential customer sales revenues. It did not propose or apply similar adjustments to the commercial or any other retail sales revenues. It limited the proposed weather normalization ratemaking adjustment to the residential class based only on its assertion that the residential class is the most sensitive to temperature variations.

Q. Does temperature also affect commercial sales revenues?

A. Yes. The Company states in response to KIUC discovery that the "weather sensitive classes include the Residential, Commercial, and Wholesale classes. The Industrial and Other Retail class sales are much less responsive to changes in temperature."[13]

Q. Does the Company calculate the effect of normalized temperature on commercial sales revenues in addition to residential sales revenues for other purposes?

A. Yes. In response to KIUC discovery, the Company confirmed that it calculates the effects of temperature on commercial sales revenues in addition to residential sales revenues for both internal management reporting purposes and external financial reporting purposes.[14]

Q. What was the effect of normalized temperature on commercial sales revenues in the test year?

A. For internal management and financial reporting purposes, the Company calculated that commercial sales revenues would have been $0.914 million greater at

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[13] Company's response to KIUC 1-83. I have attached a copy of this response as my Exhibit___(LK-6).

[14] Company's responses to KIUC 1-83 and 1-84. I have attached a copy of the response to KIUC 1-84 as my Exhibit___(LK-7).

normalized temperatures compared to the actual temperatures in the test year.[15]

The Company also claims that there is a related effect on variable expenses equal to 59.0% of the change in revenues. If this assumption is applied to the increase in commercial sales revenues, then there also would be an increase in variable expenses of $0.539 million.[16] However, as I subsequently discuss, KIUC recommends that the related effect on variable expenses be reduced to 56.44%. Consequently, I reflect effect on revenues less the related effect on variable expenses at 56.44% on the table in the Summary section of my testimony.

Q. What is your recommendation?

A. I recommend that the Commission include the effects of normalized temperatures on commercial sales revenues in addition to residential sales revenues. Temperatures affect the revenues in both classes, not just the residential class. The Company recognizes this fact for its internal management and external financial reporting. The Company offers no valid reason for excluding such an adjustment from the revenue requirement. This reduces the rate increase by $0.4 million.

<u>Reduce O&M Expense Adjustments Related to Revenue Adjustments</u>

Q. Please describe the Company's proposed adjustments to increase or reduce variable expenses in conjunction with its adjustments to annualize customer

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[15] Company's response to KIUC 2-16. I have attached a copy of the response, Attachment 1, and my calculation showing the total test year effect of the monthly amounts for the commercial class as my Exhibit___(LK-8).

[16] I show an adjustment of $0.914 million to increase revenues and an adjustment of $0.516 million to increase expenses on the table in the Summary section of my testimony.

revenues and weather normalize residential sales revenues.

A. The Company proposed an adjustment to reduce variable expenses by $1.932 million in conjunction with its adjustment to reduce revenues by $3.274 million for customer annualization (Adjustment 12). The Company also proposed an adjustment to increase variable expenses by $3.941 million in conjunction with its adjustment to increase residential sales revenues by $6.679 million for weather normalization (Adjustment 15). In both instances, the Company used a 59% variable expense ratio, which it applied to the change in revenues.

Q. Have you reviewed the Company's calculation of the 59% variable expense ratio?

A. Yes. It includes both variable expenses that vary directly with energy sales and revenues and fixed expenses that do not vary directly with energy sales and revenues in the test year. The Company provided a schedule in response to KIUC discovery that details the expenses it considers to be variable in the calculation of the 59% ratio.[17] These expenses include fuel expenses, which are variable, as well as expenses such as supervision, advertising, meter reading, and gas reservation fee, which are not variable as a function of sales revenues in the test year.

Q. Have you calculated a corrected variable expense ratio that excludes the fixed expenses that do not vary directly with energy sales and revenues in the test year?

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[17] Company's response to KIUC 1-28.

A. Yes. The corrected variable expense ratio is 56.44%.[18]

Q. What is the effect on the revenue requirement if the corrected variable expense ratio is applied to the Company's two revenue adjustments?

A. The effect is a reduction of $0.172 million in the revenue requirement based on the difference between the corrected variable expense ratio and the Company's proposed variable expense ratio.[19]

Disallow Incentive Compensation Expense Tied to Financial Performance

Q. Please describe the Company's request for recovery of incentive compensation expense tied to AEP's financial performance.

A. The Company included $3.136 million in incentive compensation expense tied to AEP's financial performance. Of this amount, $1.727 million was incurred pursuant to the AEP Long Term Incentive Plan ("LTIP")[20] and $1.409 million was incurred pursuant to the AEP Incentive Compensation Plan ("ICP").

Q. Please describe the AEP LTIP incentive compensation expense.

A. The AEP LTIP was implemented to incentivize AEP executives and managers to enhance shareholder value. If AEP executives and managers achieve or exceed the

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[18] The calculation of the ratio is detailed in my workpapers, which are filed contemporaneously with my testimony.

[19] The calculation of the reduction in expense and the revenue requirement is detailed in my workpapers, which are filed contemporaneously with my testimony.

[20] Company's response to KIUC 1-31. The Company provided the incentive compensation expense included in the test year revenue requirement incurred directly by the Company and incurred by AEP Service Corporation and allocated to the Company. I have attached a copy of this response as my Exhibit___(LK-9).

LTIP target metrics for total shareholder returns ("TSR") and earnings per share ("EPS"), they are rewarded with additional compensation.[21]

The LTIP incentive compensation consists of performance share incentives ("PSIs") and restricted stock units ("RSUs").[22] The LTIP PSI incentive compensation is based on target metrics for AEP's EPS and TSR, both of which are measures of AEP's financial performance. The LTIP RSU incentive compensation is based on the stock price of AEP at the grant date.[23] The stock price, by definition, is a measure of AEP's financial performance.

Q. Please describe the AEP ICP incentive compensation expense.

A. The AEP ICP was implemented to reward employees for achieving or exceeding targets for AEP's EPS as well as certain operations and safety metrics, weighted 75% to AEP's EPS and 25% to the other target metrics.[24] The Company incurred $1.879 million in ICP incentive compensation expense in the test year,[25] of which $1.409 million was tied to the achievement of AEP's EPS.

Q. Should the Commission include the AEP LTIP and ICP incentive compensation expense tied to AEP's financial performance in the Company's revenue requirement?

A. No. The Commission historically has disallowed and removed incentive compensation expenses from the revenue requirement that were incurred to

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[21] Company's response to KIUC 1-30.

[22] "Units" are similar to shares of AEP common stock, but have no voting rights.

[23] *Id.*

[24] Response to KIUC 1-30, KPCO_R_KIUC_1_30_Attachment1.pdf. I have not attached a copy of this response or the attachment due to the size.

[25] Section V-Application Exhibit 2 W32.

incentivize the achievement of shareholder goals as measured by financial performance, not incurred to incentivize the achievement of customer and safety goals. That is because the achievement of AEP LTIP and ICP target metrics tied to financial performance benefits shareholders to the detriment of customers in rate proceedings such as this. The entirety of the AEP LTIP and 75% of the ICP incentive compensation expense were incurred to achieve shareholder goals and was not directly tied to the achievement of regulated utility service requirements.

In the Company's last base rate proceeding, the Commission specifically disallowed incentive compensation expense incurred to achieve shareholder goals. In its discussion related to the disallowance, the Commission stated:

> Incentive criteria based on a measure of EPS, with no measure of improvement in areas such as service quality, call-center response, or other customer-focused criteria are clearly shareholder oriented. As noted in Case No. 2013-00148, the Commission has long held that ratepayers receive little, if any, benefit from these types of incentive plans. It has been the Commission's practice to disallow recovery of the cost of employee incentive plans that are tied to EPS or other earnings measures and we find that Kentucky Power's argument to the contrary does nothing to change this holding as it is unpersuasive.

Likewise, in its order in Kentucky-American Water Company Case No. 2010-00036, the Commission disallowed incentive compensation expense tied to "financial goals that primarily benefited shareholders."[26]

Again, in its order in Atmos Energy Corporation Case No. 2013-00148, the Commission stated "Incentive criteria based on a measure of EPS, with no measure of improvement in areas such as safety, service quality, call-center response, or other customer-focused criteria, are clearly shareholder-oriented. As noted in the hearing

[26] Order in Kentucky American Water Company Case No. 2010-00036 at 14.

on this matter, the Commission has long held that ratepayers receive little, if any, benefit from these types of incentive plans. . . It has been the Commission's practice to disallow recovery of the cost of employee incentive plans that are tied to EPS or other earnings measures."[27] Thus, the LTIP and ICP expense tied to EPS and total shareholder return should be borne by shareholders, not customers.

Further, incentive compensation incurred to incentivize AEP financial performance also provides the Company's executives, managers, and employees a direct incentive to seek greater and more frequent rate increases from customers in order to improve AEP's EPS and TSR. The greater the rate increases and revenues, the greater AEP's EPS and TSR and the greater the incentive compensation expense. Thus, there is an inherent conflict between achieving lower rates for customers on the one hand and achieving greater financial performance for shareholders and greater incentive compensation for executives, managers, and other employees on the other hand. Thus, all such expenses should be allocated to shareholders, not to customers.

Finally, the Company's request to embed these expenses in the revenue requirement tends to be self-fulfilling. The additional revenues ensure that the expense is covered regardless of the Company's actual performance and regardless of its operational and safety performance. Thus, the expenses should be directly assigned to AEP shareholders, not customers.

In summary, the Company's requests for recovery of LTIP and ICP expense tied to EPS and total shareholder return fall clearly within the disallowance

[27] Order in Atmos Energy Corporation Case No. 2013-00148 at 9.

precedent and should be allocated to shareholders and not recovered from customers.

Reject Post Test Year Merit and Related Overtime Wage and Salary Increases

Q. Please describe the Company's request to include post-test year merit and related overtime wage and salary increases in the revenue requirement.

A. The Company made two proforma adjustments to increase expense related to post-test year merit and related overtime wage and salary increases. The discussion for the increases are found in the Direct Testimony of Mr. Tyler H. Ross at pages 14-15. The adjustment for the post-test year merit increase increased expenses by $0.827 million.[28] The adjustment was made to reflect merit increases for Company and AEPSC employees projected after the end of the test year in April, May, and June of 2017. The adjustment for the related overtime increase based on the percentage merit increases increased expenses by $0.149 million.[29]

Q. Should the Commission allow the Company's proposed ratemaking adjustment for these post-test year increases in expense?

A. No. These proposed adjustments are selective single issue adjustments that increase expense and the revenue requirement. The Company has proposed no other post-test year increases to revenues or reductions to expense that could or would offset more, all, or part of the proposed increases in the revenue requirement. The Company had the option to propose a fully forecast test year, but chose to file using a historic test

[28] Section V, Exhibit 2, Adjustment W33.
[29] Section V, Exhibit 2, Adjustment W34.

year. It should not be allowed to use a historic test year for its filing and then selectively superimpose post-test year increases in expenses that it would have included if it chose a forecast test year. This mix and match of historic and forecast test years is unfair to customers and easily manipulated to achieve an increase in the revenue requirement and requested increase.

In addition, these adjustments simply assume that the Company will not achieve any offsetting cost reductions through labor productivity improvements, staffing reductions, adoption of more efficient work processes, or otherwise downsizing the Company to match its declining load profile. The Commission can influence the Company's behavior and its costs by denying recovery of these selective post-test year increases, thus requiring the Company to reduce other costs or limit other cost increases so that its costs more closely match its revenues. In other words, the Commission should deny the Company an incentive to increase its costs post-test year rather providing it an incentive to live within its means.

<u>**Reject Expense for Proposed Increases in Staffing**</u>

Q. Please describe the Company's proposed increase in staffing and the related increase in expense and revenue requirement.

A. The Company made a proforma adjustment to increase expense related to five post-test year distribution employee increases.[30] The adjustment for the post-test year merit increase increased expenses by $0.173 million.[31] The adjustment was made to

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[30] The discussion for the increase is found in the Direct Testimony of Mr. Ranie K. Wohnhas at 19-22.
[31] Section V, Exhibit 2, Adjustment W52.

reflect the actual or expected additions of a Safety Coordinator, two Distribution System Inspectors, and two administrative associates after the end of the test year.

Q. Are the increases in staffing and the related expense dependent on including these expenses in the revenue requirement?

A. Yes, that appears that to be the case. Normally, the Company does not seek Commission approval to increase staffing or incur expense unless it is discretionary. Instead, it staffs to perform its utility functions in a reasonable and cost-effective manner. The Company has not identified any specific post-test year change in regulations, safety, or other requirements that did not already exist in the test year. In other words, the Company has not justified a post-test year increase in staffing and the related expenses.

Q. Is this another selective post-test year adjustment that fails to consider any other opportunities for cost reductions or increases in revenues?

A. Yes. Even if the increased staffing and related expenses were justified, the Company has identified no other reductions in costs or increases in revenues that would offset the increase in expense. More specifically, it has identified no reductions in staffing and related expense that could be achieved through attrition or otherwise due to its declining load, reductions in expense due to capital investments that were made to improve productivity, or savings from other initiatives and improvements in efficiency.

<u>Reduce Amortization Expense to Properly Calibrate Storm Damage Amortization</u>

Q. Please describe the Company's request for storm damage amortization expense.

A. The Company seeks $2.429 million in annual amortization expense for storm damage deferrals. This is the amount of amortization expense that was authorized in Case No. 2014-00336. The Company had a remaining unamortized balance of $8.097 million at February 28, 2017.[32] It will continue to amortize and recover the deferrals at the same $2.429 million until its rates are reset in this proceeding, most likely on or about January 1, 2018. The remaining unamortized balance will be $6.073 million at that time. The balance will be fully amortized in June 2020 if the amortization expense is not reset in this proceeding. This reflects a 2.5 year effective amortization period.

Q. Should the amortization expense be reset in this proceeding?

A. Yes. The Commission should reset the amortization period to five years and calculate the amortization expense using the remaining unamortized balance at January 1, 2018, the date when rates will be reset in this proceeding. This is appropriate for two reasons. First, because the Commission does not know when the Company will file its next base rate case or when the rates from that case will become effective. If rates are not reset in the next case for three years, then the Company will recover $7.287 million in amortization expense even though the balance remaining is only $6.087 million at December 31, 2017.

Second, the Company will over-recover the return on the deferred storm

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[32] Company's response to KIUC 2-15, a copy of which is attached as my Exhibit___(LK-10).

expense regardless of the amortization period and regardless of whether the remaining unamortized balance is determined at February 28, 2017 or December 31, 2017. The only question is the amount of the over-recovery.

Q. How does the Company over-recover the return on the deferred storm expenses?

A. That occurs because the amount of the remaining unamortized deferral included in capitalization is fixed at the end of the historic test year under the Company's proposal. The revenue requirement includes the return on that amount from the date rates are reset in this proceeding until rates are reset in the next base rate proceeding. Meanwhile, customers continue to pay down the deferral each month, first from March 1, 2017 through December 31, 2017, the day before rates are reset in this proceeding, and then continue to pay down the deferral each month thereafter. These recoveries reduce the Company's capitalization and its financing costs each month. However, even as the Company's financing costs continue to decline, it continues to recover the return on the remaining unamortized deferral as if that balance never declined. Under the Company's proposal, the return will be based on the balance at February 28, 2017 even though customers will have paid down the balance by another $2.024 million by December 31, 2017. Under the KIUC proposal, the return will be based on the lower balance at December 31, 2017, but the Company still will over-recover until base rates again are reset in the next base rate case.

Q. Why is it appropriate to use a five year amortization period and the remaining unamortized deferral as of the date when rates are reset in this proceeding?

A. First, it correctly sets the amortization to correspond to the balance at the date when rates are reset. This is the balance that remains to be recovered, which is less than the balance at February 28, 2017. This reduces the amortization expense based on the remaining balance and minimizes the likelihood that the Company will over-recover the deferrals themselves.

Second, it sets the amortization expense based on a reasonably short recovery period and one that is consistent with the amortization period approved by the Commission in the last base rate proceeding.

Third, the longer amortization period (five years versus the Company's 2.5 years) minimizes the Company's over-recovery of the return on the remaining unamortized deferrals.

Q. What is the effect of your recommendation?

A. The effect is a reduction of $1.215 million in amortization expense.

Reduce Depreciation Rates and Expense to Reflect Converted Big Sandy 1 Remaining Service Life of 30 Years

Q. Please describe the Company's proposed service life for the depreciation rates and expense on the converted Big Sandy 1 natural gas-fired generating unit.

A. The Company proposes depreciation rates and expense that reflect a 15 year service life for the converted Big Sandy 1 natural gas-fired generating unit starting from the date of the conversion in June 2016. This proposed service life assumes a probable retirement date of mid-2031.[33] This is the same retirement date the Company assumed for the pre-conversion Big Sandy 1 coal-fired generating unit.

Q. Does the Company have any specific plans to retire Big Sandy 1 in mid-2031?

A. No. The Company has no plans to retire Big Sandy 1 in mid-2031. The mid-2031 date is not supported by any planning or engineering studies, according to the Company's response to KIUC discovery.[34] The mid-2031 date is simply a carryover of the prior assumption for the plant when it was coal-fired and prior to the conversion to a gas-fired generation and the installation of new boiler and the installation and/or refurbishment of certain other balance of plant equipment. As a coal-fired plant, the mid-2031 probable retirement date was based, in large part, on the avoidance of costs necessary to comply with numerous environmental requirements applicable to coal-fired generation.

As a newly converted gas-fired plant, the Company will continue to invest in, operate, and maintain Big Sandy 1 indefinitely unless and until there are other more economic alternatives. In the conversion, the Company more than doubled its net plant investment in Big Sandy 1,[35] meaning that more than half of the net investment in the plant represents new and refurbished equipment and balance of plant. The Company and its affiliate utilities have a history of continuously extending the

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[33] Direct Testimony of Jason Cash at 7.

[34] Company's response to KIUC 1-73. I have attached a copy of the response as my Exhibit___(LK-11).

[35] Company's response to KIUC 1-41(a). I have attached a copy of the response to KIUC 1-41 as my Exhibit___(LK-12).

service lives of their generating units through ongoing investment in plant and effective maintenance practices as long as it remains economic for them to do so.

Finally, as a natural gas-fired unit, Big Sandy 1 is no longer subject to the same environmental and premature shutdown and retirement risks that exist for coal-fired units. The historic focus of the U.S. Environmental Protection Agency ("EPA") has been to reduce emissions and other residuals at coal-fired generating units. This has led to the premature retirement of coal-fired generating units when it was uneconomic to make additional plant investments to comply with these requirements.

Q. What remaining service life do you recommend for the depreciation rates on Big Sandy 1?

A. I recommend a remaining service life for Big Sandy of 30 years from the Company's depreciation study date of December 31, 2016 based on a probable retirement date of December 31, 2046. Similar to the depreciation rates on all plant, the Commission can periodically review the status of Big Sandy 1 in the various Integrated Resource Plan ("IRP") proceedings to determine if it is appropriate to assume that Big Sandy 1 will be retired prior to or after December 31, 2046. If there is, then this assumption can be reflected in the Company's next depreciation study. The Company will recover all prudent and reasonable costs of Big Sandy 1 regardless of the timing of the recovery.

I propose the 30 year life based on the relative age of the plant, including the new equipment and balance of plant, the Company's intent to continue to make plant investments and maintain the plant indefinitely so long as there are no other more economic options, the ability of the Commission to extend or shorten the remaining life in future IRP and rate case proceedings, and the Company's ability to recover the cost of the plant regardless of the actual retirement date.

Q. What is the effect of your recommendation?

A. The effect is a reduction in depreciation expense of $4.738 million.[36]

<u>**Eliminate Terminal Net Salvage in Big Sandy 1 and Mitchell Plant Depreciation Rates**</u>

Q. Please describe the terminal net salvage reflected in the Company's proposed production plant depreciation rates.

A. The Company included terminal net negative salvage of $11.404 million (net salvage income of $8.261 million less cost of removal of $19.665 million), or negative 7.32%, in its proposed depreciation rates for Big Sandy 1. The terminal net negative salvage estimate was based on a "conceptual dismantling estimate" in 2013 dollars developed by Sargent & Lundy in 2012 for the entire Big Sandy plant site, which includes both Big Sandy 1 and Big Sandy 2. The Company allocated the Big Sandy plant site estimate to Big Sandy 1 based on the Big Sandy 1 capacity compared to the sum of the Big Sandy 1 and Big Sandy 2 capacity. Finally, the Company escalated the S&L estimate by 2.30% annually to 2031 to calculate the amount included in the proposed Big Sandy 1 depreciation rate.[37]

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[36] The calculations are shown on my Exhibit___(LK-13)
[37] Direct Testimony of Jason Cash at 7-8.

The Company included terminal net salvage of $21.186 million (net salvage income of $19.032 less cost of removal of $40.218 million), or negative 2.37%, based on the calculation of depreciation rates for the Mitchell plant established in the last base rate proceeding using plant at December 31, 2013. The Company proposes no change in the Mitchell depreciation rates in this proceeding.

Q. Is the Company's proposed recovery of future terminal net negative salvage for Big Sandy 1 and Mitchell appropriate?

A. No. As a threshold matter, the Commission should not attempt to forecast today the scope of any future dismantling activities and site restoration necessary or reasonable when Company's generating units are retired decades in the future. The default assumption should be "retirement in place" unless and until the generating units are retired or near retirement and then changed only after the Company files and the Commission approves a dismantling and site restoration plan, including the estimated cost at that time. The Company would be required to make a filing and demonstrate that the dismantling and site restoration plan was necessary and that the estimated cost was reasonable.

If the Commission approves a dismantling and site restoration plan, then the Company would be allowed to defer the actual and prudent costs incurred pursuant to the approved plan and recover those costs prospectively either through base rates or through the Company's "Decommissioning Rider," previously approved by the Commission to recover the actual costs of dismantling and coal-related site remediation for Big Sandy 1 and Big Sandy 2. The Commission authorized recovery of these Big Sandy coal-related costs based on actual costs incurred and on a levelized (annuitized) basis over 25 years.

Q. Why is this a better approach?

A. First, this approach establishes a default "retirement in place" rather than assuming dismantlement and site restoration for ratemaking purposes.

Second, it requires the Company to demonstrate that dismantling and site restoration, the scope of such activities, and the estimated cost are necessary and reasonable after or near the actual retirement of the generating units.

Third, it ensures that costs are incurred only if dismantling and site restoration is necessary and the Commission approves the scope of the activities after or near the retirement date.

Fourth, it ensures that only actual costs are recovered from customers after they are incurred. This avoids the guesswork of estimates developed and recovery of these estimates through depreciation rates decades before the generating units are retired, let alone dismantled and the site restored.

Q. Is there another reason that the Commission should not allow the terminal net negative salvage for Big Sandy 1?

A. Yes. It would result in double recovering the same costs twice, once in the base revenue requirement and again in the Big Sandy Retirement Rider (or the proposed renamed "Decommissioning Rider"). The S&L conceptual cost estimate is based on dismantlement and site remediation for Big Sandy 1 as a coal-fired facility.[38] The Company made no effort to correct the S&L estimate to remove the coal-related costs or to obtain a new S&L study and estimate.

Q. If the Commission does not remove the terminal net negative salvage from the Big Sandy 1 depreciation rates and expense, do you have another recommendation?

A. Yes. The Commission should remove the 2.30% annual escalation on the Big Sandy 1 terminal net negative salvage rate. This escalation methodology "front-loads" recovery of an uncertain estimate of future costs in future dollars, which also is uncertain.

In addition, the Company's proposed escalation assumes that there will be no changes in the physical dismantling and site restoration approach assumed by S&L, no efficiencies from technology, equipment and disposal advances, and no improvements in productivity, any of which could offset future inflation in costs.

Further, the use of estimated 2031 dollars for 2017 ratemaking purposes is an inherent mismatch and forces today's customers to subsidize future customers. If the cost estimate or actual cost escalates in future years, then the increases, to the extent they are reasonable and prudent, can be reflected in periodic revisions and updates to depreciation rates and expense.

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[38] Company's response to KIUC 1-36.

Q. What is the effect of your recommendation to remove the cost of future dismantling and site restoration from the depreciation rates and expense on Big Sandy 1 and the Mitchell plant?

A. The effect is a reduction of $0.370 million in depreciation expense on Big Sandy 1 and $0.567 million on the Mitchell plant.[39] The reduction in depreciation expense on Big Sandy 1 is in addition to the reduction from extending the remaining service life.

<u>**Include §199 Tax Deduction in Gross-Up Factor Used for Income Tax Expense**</u>

Q. Please describe the §199 deduction.

A. §199 of the Internal Revenue Code ("IRC") allows a deduction against taxable income for qualified domestic production (manufacturing) activities. The §199 deduction is calculated by applying a 9% rate against qualified domestic production income for federal income tax expense and a 6% rate for state income tax expense. This requires an allocation of the Company's taxable income to production (or generation) activities, not only for the calculation of the §199 deduction in the test year income tax expense, but also for the calculation of the gross revenue conversion factor. Most utilities use a production rate base allocation factor to allocate taxable income for this purpose in their base rate proceedings.

Q. Did the Company include a §199 deduction in the calculation of income tax expense in this proceeding?

A. No. It assumed that there would be no §199 deduction in the calculation of income

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[39] The calculations are shown on my Exhibit___(LK-14).

tax expense for the adjusted test year before any rate increases. The Company also assumed that there would be no §199 deduction in the calculation of the gross revenue conversion factor ("GRCF") used to determine the income tax expense due to the rate increases. In part, this represents a change from the prior proceeding wherein the Company used a three-year historic average of the §199 deduction in the calculation of income tax expense for the adjusted test year before any rate increases.

Q. Is the §199 deduction dependent on taxable income in the test year?

A. Yes. If the Company has positive taxable income from all sources, then it is able to take a §199 deduction, all else equal. As a threshold matter, the ability to take a §199 deduction is determined at the entity level, not at the Kentucky retail or retail base rate level. The ability to take any deduction is dependent on the Company's total taxable income from *all* sources during the year, not only the taxable income due to Kentucky retail rates, including base rates and surcharge mechanisms, but also *all* other taxable income from other sources, including wholesale taxable income. In the test year, the Company had positive taxable income from all sources.[40]

If the Company is able to take a §199 deduction, then any increase in taxable income necessarily increases the §199 deduction, after allocation to the production function, all else equal. Consequently, any incremental taxable income due to the rate increases that are authorized in this proceeding and that is allocable to the production function qualifies for the §199 deduction.

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[40] Sch 4 tab on KPSCO_SR_KPSC_1_73_SupplementalAttachment3_SectionVSchedules_TYE2-28-2017FINAL.xlsx.

Q. What does that mean in this proceeding?

A. It means that the Company's gross revenue conversion factor ("GRCF") should reflect the §199 deduction for the purpose of grossing up the operating income deficiency.

Q. In prior proceedings, the Company has argued against a §199 deduction on the basis that the AEP consolidated tax return overrides the Company's ability to take the deduction on a standalone basis. Please address this argument.

A. The Commission should reject this argument as a matter of consistency. The Commission has consistently taken the position that income tax expense should be calculated on a utility standalone basis without consideration of parent consolidated income tax benefits even when those benefits are allocated to the utility pursuant to an intercompany tax allocation agreement. For example, in the Company's last base rate proceeding, the Commission rejected the AG's position that the parent company loss adjustment ("PCLA") tax benefit allocated from AEP to the Company be used to reduce income tax expense for ratemaking purposes. In its Order in that proceeding, the Commission stated:

> The Commission finds that the AG's proposal to include the PCLA in Kentucky Power's federal income tax expense is inappropriate. This recommendation, if adopted, would represent a significant departure from over 25 years of the Commission's established and balanced policy prohibiting affiliate cross-subsidization.63 Therefore, the "stand-alone" approach the Commission has historically used shall be used to allocate income tax liabilities for Kentucky ratemaking purposes. Accordingly, we deny the AG's proposed adjustment for ratemaking purposes.

Thus, the Commission should reject any argument by the Company that the

Commission should not include a §199 deduction based on the lack of such a deduction in prior years due to the parent company's consolidated tax return limitations.

Q. What is your recommendation?

A. I recommend that the Commission reflect the §199 deduction in the GRCF. This is appropriate because the Company is able to take a deduction even with no rate increases. Thus, any rate increases authorized in this proceeding mathematically will increase the Company's taxable income and the amount of the deduction, and thus reduce the income tax expense that should be recovered from customers in the revenue requirement.

The concept of the GRCF is to allow the Company to recover the incremental income tax expense resulting from the rate increase, not something more. The income tax rates that are used in the GRCF generally assume that the income from the rate increase will be taxed at the Company's maximum incremental income tax rate on a standalone basis. That maximum incremental income tax rate should reflect all deductions that are available. Yet the Company's proposal incorrectly assumes that the §199 deduction does not apply to the additional taxable income, which is not true. Consequently, the Company's proposal overstates the incremental income tax rate and the resulting increase in income tax expense resulting from the rate increase, thus transferring this tax benefit from customers to the Company's shareholder.

Q. How should the GRCF be modified to reflect the §199 deduction applicable to the increase in taxable income resulting from any rate increases authorized in this proceeding?

A. The GRCF should be modified to capture the effects of the §199 deduction based on the production portion of taxable income (qualified domestic production activities income) in the same manner that the Commission previously adopted and used in prior Kentucky Power, KU, and LG&E base rate and environmental surcharge proceedings. In those prior proceedings, the Commission used the percentage of production plant to total plant included in the base or ES rate base. The Commission then multiplied the resulting production percentage times the 9% rate to determine the weighted §199 deduction percentage for federal income tax expense and times the 6% rate for state income tax expense.

Q. What is the effect on the revenue requirement of properly including the §199 deduction in the GRCF?

A. The first effect is a reduction of $1.320 million in the Company's base revenue requirement. The second effect is a reduction of $0.227 million in the ES revenue requirement. I calculated these effects using the methodology that I previously described.[41] I quantified these reductions after all other KIUC adjustments to the capital structure and costs of capital were incorporated into the revenue requirement. I note this because the sequence in which the adjustments are made affects their quantification. To the extent that the Commission does not fully adopt certain of

[41] The calculations are detailed in my electronic workpapers filed coincident with my testimony.

KIUC's recommendations (for example the Commission authorizes a return on equity above 8.85%), then the reduction in the revenue requirement due to the §199 deduction will be more.

IV. CAPITALIZATION ISSUES

Correct Capitalization So that It Reflects Adjustments to Remove Non-Utility and Surcharge Investments

Q. Is the Commission's historic use of capitalization to calculate the Company's "return on" utility investment as a component of the revenue requirement generally a reasonable proxy for rate base?

A. Yes. In theory, capitalization (outstanding financing) and rate base should be equivalent. In practice, there may be differences due to financial reporting (capitalization) compared to ratemaking (rate base), timing and/or structure of financing, and other factors. In its administrative filing requirements, the Commission requires that the utility reconcile capitalization and rate base to ensure that there are no significant differences. In base rate filings, the Commission generally requires utilities to reduce total Company capitalization for rate base amounts that are reflected in surcharge mechanisms, such as the ES, non-utility investments, disallowed investments, and non-jurisdictional investments.

Q. Has the Company followed this historic approach in this proceeding?

A. Generally, yes. However, there are certain balance sheet assets and liabilities that the Company should have removed from capitalization in the same manner that these amounts would be removed or not included in rate base, but it failed to do so. Consequently, capitalization is overstated, the return on capitalization and the related income tax expense is overstated, and the revenue requirement is overstated.

Q. Why should capitalization be adjusted to remove the financing associated certain balance sheet assets and liabilities?

A. All assets and liabilities generally affect the capitalization on the Company accounting books. Assets generally must be financed unless they are simply bookkeeping entries, such as an asset retirement obligation. Thus, an increase in assets generally results in an increase in capitalization. On the other hand, liabilities generally allow the utility to avoid financing. Thus, an increase in liabilities generally results in a reduction in capitalization.

If the Commission determines that the financing costs of certain assets, such as environmental assets, are to be recovered through a surcharge, such as the ES, then the per books capitalization used for the base revenue requirement should be reduced accordingly. In this case, the Company reduced capitalization for the rate base investment in the Mitchell Plant FGD and consumable inventory, which are included in the Company's ES.[42]

Q. Are there other adjustments to capitalization that are necessary, but that the Company did not include?

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[42] Ratemaking Adjustment 04 shown in Exhibit 2 of the Company's filing.

A. Yes. There are numerous costs that should be removed or added to capitalization so that it is consistent with the appropriate ratemaking recovery of the return on these costs. Some are related to non-utility activities and some are related to surcharges and either are or should be included in the costs recovered through those surcharges. Some simply vary from positive to negative amounts over time and are not appropriate to include in base rates under the assumption that they generally will net to zero over time. These costs include the following:

Asset Account 175.0001	Curr Unreal Gains NonAffil
Asset Account 175.0002	Long-Term Unreal Gns – Non Aff
Asset Account 182.3009	DSM Incentives
Asset Account 182.3010	Energy Efficiency Recovery
Asset Account 182.3011	DSM Lost Revenues
Asset Account 182.3012	DSM Program Costs
Asset Account 182.3063	Unrecovered Fuel Costs
Asset Account 182.3519	Unrecovered Purch Power-PPA
Asset Account 182.3520	Deferred Dep – Environmental
Asset Account 182.3521	Carrying Charge – Environmental
Asset Account 182.3522	CC – Environmental Unrec Equity
Asset Account 182.3523	Deferred O&M – Environmental
Asset Account 182.3524	Deferred Consumable Exp – Envi
Asset Account 182.3525	Deferred Property Tax - Enviro

Q. What is the effect of your recommendation on capitalization and the revenue requirement?

A. The effect is a reduction of $9.569 million to Kentucky adjusted capitalization and a reduction of $0.912 million in the base revenue requirement.[43]

<u>Reduce Coal Inventory to Reflect Lower of Actual or Target</u>

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[43] The calculations are detailed in my electronic workpapers filed coincident with my testimony. Refer also to Section II on Exhibit___(LK-15) for the effect on the base rate revenue requirement.

Q. Please describe the Company's proposed adjustment to increase actual low sulfur coal inventory to a target inventory level.

A. The Company made a proforma adjustment to reflect capitalization for the Mitchell Plant coal stock based on its target levels of low and high sulfur coal instead of the actual test year levels. The discussion for the adjustment is found in the Direct Testimony of Mr. Wohnhas at pages 10-11 and the calculation is provided in Section V, Workpaper S-3. The Company's target level based adjustment represented a net decrease in capitalization of $6.709 million. While the Company's adjustment for high sulfur coal to target represented a decrease from test year levels, the low sulfur coal adjustment represented an increase over actual test year levels of $1.250 million.

Q. Is this an appropriate adjustment?

A. No. The Commission historically has adjusted capitalization to remove the investment costs of coal inventories that exceed the Company's target days of inventory. This adjustment ensures that the return on the coal inventory investment is not excessive. However, that ratemaking *protection* should not translate into an *entitlement* to include an investment in capitalization that does not exist when the Company's investment in coal inventory is less than the target days.

Q. What is your recommendation?

A. I recommend that the Commission reject the Company's proposed adjustment to increase capitalization for inventory that did not exist in the test year.

Q. What is the effect of your recommendation?

A. The effect is a reduction in Kentucky adjusted capitalization of $1.232 million and a reduction in the revenue requirement of $0.117 million.[44]

V. COST OF CAPITAL ISSUES

Effect of Short-Term Debt In Capitalization

Q. Please describe the Company's proposed capital structure.

A. The company proposes capital structure of 0% short-term debt, 54.45% long-term debt, 3.87% receivables, and 41.68% common equity. The actual capital structure at the end of the test year was 0.06% short-term debt, 54.93% long-term debt, 2.96% receivables, and 42.05% common equity. The Company first eliminated short-term debt in conjunction with its ratemaking adjustment to reduce coal inventories.

Q. Is 0% short-term debt reasonable?

A. No. The Company routinely utilized short-term debt during the test year in lieu of other forms of financing as do most other utilities.[45] Short-term debt is the least cost form of financing and is readily available to the Company through the AEP Utility Money Pool. The cost of short-term debt during the test year was a mere 0.80%. This compares to the Company's proposed costs of long-term debt at 4.36%, receivables at 1.95%, and common equity at 16.94%, including the related income tax gross-up.

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[44] The calculations are detailed in my electronic workpapers filed coincident with my testimony. Refer also to Section III on Exhibit___(LK-15) for the effect on the base rate revenue requirement.

[45] Refer to Company's filing at Section V, Workpaper S-3, page 3 of 4.

Q. Should the Commission reflect short-term debt in the capital structure?

A. Yes. The Company relied on short-term debt during the test year and historically has relied on short-term debt. In my experience, most utilities rely on short-term debt in order to minimize their cost of financing, particularly during construction. The cost of short-term debt is a fraction of the cost of long-term debt and common equity. In addition, there is no other way to recognize this lower cost form of financing since the Company does not use Allowance for Funds Used During Construction ("AFUDC").[46]

Q. How much short-term debt should be reflected in the capital structure for ratemaking purposes?

A. I recommend that the Commission reflect 2.0% short-term debt and reduce the long-term debt to 52.52%[47]. The 2.0% is consistent with the Company's actual use of short-term debt during the test year, although the percentage has been much greater in other years.[48]

Q. Does your recommendation change the total debt and common equity capitalization proposed by the Company?

A. No. It only modifies the debt component to reflect short-term debt in lieu of a comparable percentage of long-term debt.

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[46] Under the FERC Uniform System of Accounts, all short-term debt is first assigned to construction work in progress as a component of the cost of capital used for calculating AFUDC. If there is no AFUDC, then all short-term debt should be reflected in the revenue requirement in order to accurately reflect the utility's cost of capital incurred to finance its rate base investment.

[47] KIUC previously reduced long-term debt rate to 54.43%.

[48] At some dates during the test year in Case No. 2009-00459, the Company's short-term debt was nearly 17% of capitalization. Kollen Direct in Case No. 2009-00459 at 39.

Q. Have you quantified the effect on the Company's revenue requirement of including short-term debt in the capitalization and applying the debt rate recommendation of 1.25% sponsored by KIUC witness Mr. Richard Baudino?

A. Yes. The effects are reductions of $0.712 million in the base revenue requirement and $0.123 million in the ES revenue requirement. These reductions are incremental to the reductions for the other cost of capital recommendations that I address.[49]

Effect of Return on Common Equity Recommended by KIUC

Q. Have you quantified the effect on the Company's revenue requirement of the return on equity recommendation sponsored by KIUC witness Mr. Richard Baudino?

A. Yes. The effects are reductions of $11.838 million in the base revenue requirement and $2.037 million in the ES revenue requirement. There is an additional effect on the Decommissioning Rider revenue requirement, although I have not quantified this effect. These reductions are incremental to the reductions for the other cost of capital recommendations that I address.[50]

Q. What is the effect of each 1.0% return on common equity?

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[49] Refer to Section IV on Exhibit___(LK-15) for the effect on the base rate revenue requirement. Changes in the grossed up rate of return were applied to the ES total plant of $203.252 million to determine the effects on the ES revenue requirement. The calculations for ES are detailed in my electronic workpapers filed coincident with my testimony.

[50] Refer to Section V on Exhibit___(LK-XX) for the effect on the base rate revenue requirement. Changes in the grossed up rate of return were applied to the ES total plant of $203.252 million to determine the effects on the ES revenue requirement. The calculations for ES are detailed in my electronic workpapers filed coincident with my testimony.

A. The effects of each 1.0% return on common equity are $8.108 million on the base revenue requirement and $1.395 million on the ES revenue requirement. As I noted previously, there also is an effect on the Decommissioning Rider revenue requirement, but I have not quantified it.

Q. What is the pretax return on common equity requested by the Company and that recommended by KIUC?

A. The pretax return on common equity requested by the Company is 16.94%. The pretax return recommended by KIUC, excluding any changes related to the §199 deduction in the GRCF, is 14.54%. The pretax return is the return on common equity that must be recovered from ratepayers in the revenue requirement. It includes federal and state income taxes that must be recovered in the revenue requirement, but that are expensed by the Company in computing its earned return. For this purpose, I included not only the income tax gross-up to the return on common equity but also a gross-up for uncollectibles expense and the Commission maintenance fee.

Q. Please describe why there will be an effect on the ES revenue requirement in addition to the effect on the Mitchell FGD ES revenue requirement.

A. The Commission historically has used the return on common equity set in the utility's most recent base rate proceeding in the cost of capital applied in the ES. Thus, the return on equity will apply to all rate base investment in the ES in addition to the Mitchell FGD. However, the quantification will be dependent on the rate base included in the monthly ES filings after the date rates are reset in this proceeding.[51]

Q. Please explain why there will be an effect on the Decommissioning Rider revenue requirement in addition to the effects on the base and ES revenue requirements.

A. The DR includes a return on the unamortized deferred costs, but on a levelized basis over 25 years.

VI. POTENTIAL FEDERAL INCOME TAX RATE REDUCTION

Q. Do the Company's base and surcharge revenue requirements reflect income tax expense and ADIT at the present federal income tax rate of 35%?

A. Yes. The Company's income tax expense and ADIT are calculated based on a federal income tax rate of 35% for base rate and surcharge purposes.

Q. If the federal income tax rate is reduced to 20%, as recently proposed by the Trump administration, then what will be the effect on the Company's income tax expense, ADIT, and base rate and surcharge revenue requirements?

A. There will be significant reductions in the Company's income tax expense and revenue requirements, one due to the reduction in current and deferred income tax expense calculated using the lower federal income tax rate, and another due to an

[51] The Stipulation and Settlement Agreement in Case No. 2012-00578 set the ES rate at 0.00% until base rates are reset in this proceeding.

additional reduction in deferred income tax expense from an amortization of the "excess" ADIT resulting from the lower federal income tax rate.

The reduction in the federal income tax rate will reduce current and deferred income tax expense included in the base revenue requirement, environmental surcharge revenue requirement and all other surcharge revenue requirements that include income tax expense.

In the first instance, current and deferred income tax expense will be reduced by 43% if the federal income tax rate is reduced from 35% to 20%. For the Company, this will result in a reduction in income tax expense of $12.583 million compared to the income tax expense based on the KIUC capitalization and cost of capital recommendations in this proceeding. I haven't calculated the reductions in the ES or DR revenue requirements for purposes of this proceeding, but the effects will be significant and in addition to the effects on the base revenue requirement.

In addition, 43% of the existing ADIT at 35% will become "excess" at 20%. The ADIT represents the amount of future tax liabilities that have already been collected from ratepayers before these amounts are ultimately be paid to the federal government. The "excess" ADIT no longer will represent a future tax liability to be paid to the federal government and will need to be returned to customers. The ADIT will be amortized as negative income tax expense. This negative deferred income tax amortization expense will further reduce the Company's base and surcharge revenue requirements.

Q. Can these reductions be calculated using a formula?

A. Yes. The Company's income tax expense is based on the gross-up on the weighted return on common equity applied to the allowed capitalization for ratemaking purposes, all else equal. If the income tax rate is reduced, then the new federal income tax rate would be substituted for the 35% in the calculation of the GRCF. The difference in the GRCF at 35% and at the new rate then is multiplied times the weighted common equity in the capital structure and then multiplied times the allowed capitalization.

The reduction in the deferred income tax expense resulting from an amortization of the excess ADIT is calculated by dividing the net ADIT amounts over the average amortization period for each temporary difference.

Finally, any change in income tax expense must be multiplied by the new GRCF to determine the effect on the revenue requirement.

Q. What is your recommendation?

A. I recommend that the Commission monitor the federal tax legislation developments and act in a timely manner to reduce the Company's revenue requirements coincident with the effective date of the federal income tax rate reduction (which could be effective back to January 1, 2017) through either immediate rate reductions or deferrals followed by subsequent reductions. This will not occur automatically for the base revenue requirement. However, it should be reflected automatically in the ES and DR revenue requirements through the true-up provisions of those surcharges and the calculation of income tax expense going forward.

Q. Does this complete your testimony?

A. Yes.

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

LANE KOLLEN, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Lane Kollen

Sworn to and subscribed before me on this
2nd day of October 2017.

Jessica K. In

Notary Public

JESSICA K INMAN
MY COMMISSION EXPIRES
NOTARY
PUBLIC
JULY 31, 2019
CHEROKEE COUNTY, GEORGIA

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) AN ORDER APPROVINGS 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**

EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

OCTOBER 2017

EXHIBIT ____ (LK-1)

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

Luther Rice University, MA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Management Accountants

Mr. Kollen has more than thirty years of utility industry experience in the financial, rate, tax, and planning areas. He specializes in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition and diversification. Mr. Kollen has expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to Present:

J. Kennedy and Associates, Inc.: Vice President and Principal. Responsible for utility stranded cost analysis, revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Maine, Maryland, Minnesota, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, West Virginia and Wisconsin state regulatory commissions and the Federal Energy Regulatory Commission.

1983 to 1986:

Energy Management Associates: Lead Consultant.
Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to 1983:

The Toledo Edison Company: Planning Supervisor.
Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

Rate phase-ins.
Construction project cancellations and write-offs.
Construction project delays.
Capacity swaps.
Financing alternatives.
Competitive pricing for off-system sales.
Sale/leasebacks.

CLIENTS SERVED

Industrial Companies and Groups

Air Products and Chemicals, Inc.
Airco Industrial Gases
Alcan Aluminum
Armco Advanced Materials Co.
Armco Steel
Bethlehem Steel
CF&I Steel, L.P.
Climax Molybdenum Company
Connecticut Industrial Energy Consumers
ELCON
Enron Gas Pipeline Company
Florida Industrial Power Users Group
Gallatin Steel
General Electric Company
GPU Industrial Intervenors
Indiana Industrial Group
Industrial Consumers for
Fair Utility Rates - Indiana
Industrial Energy Consumers - Ohio
Kentucky Industrial Utility Customers, Inc.
Kimberly-Clark Company
Lehigh Valley Power Committee
Maryland Industrial Group
Multiple Intervenors (New York)
National Southwire
North Carolina Industrial
Energy Consumers
Occidental Chemical Corporation
Ohio Energy Group
Ohio Industrial Energy Consumers
Ohio Manufacturers Association
Philadelphia Area Industrial Energy
Users Group
PSI Industrial Group
Smith Cogeneration
Taconite Intervenors (Minnesota)
West Penn Power Industrial Intervenors
West Virginia Energy Users Group
Westvaco Corporation

Regulatory Commissions and Government Agencies

Cities in Texas-New Mexico Power Company's Service Territory
Cities in AEP Texas Central Company's Service Territory
Cities in AEP Texas North Company's Service Territory
Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
Maine Office of Public Advocate
New York State Energy Office
Office of Public Utility Counsel (Texas)

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation
Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

**Expert Testimony Appearances
of
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Date	Case	Jurisdict.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-SC	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR-87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County, completion.

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Date	Case	Jurisdict.	Party	Utility	Subject
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric Corp.	Financial workout plan.
5/88	M-87017-1C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017-2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.
7/88	M-87017-1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92.
7/88	M-87017-2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92.
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	88-171-EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800-355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71).
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of canceled plant.

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Date	Case	Jurisdict.	Party	Utility	Subject
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.

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Date	Case	Jurisdict.	Party	Utility	Subject
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Recovery of CAAA costs, least cost financing.
9/91	91-231-E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.
12/91	91-410-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	PUC Docket 10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities /Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715-AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.

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Date	Case	Jurisdict.	Party	Utility	Subject
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base.
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities /Entergy Corp.	Merger.
3/93	93-01-EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions, fuel.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities /Entergy Corp.	Merger.
4/93	92-1464-EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission	Gulf States Utilities /Entergy Corp.	Merger.
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine closure costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Audit and investigation into fuel clause costs.
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Nuclear and fossil unit performance, fuel costs, fuel clause principles and guidelines.
4/94	U-20647 (Supplemental Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Audit and investigation into fuel clause costs.
5/94	U-20178	LA	Louisiana Public Service Commission Staff	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.

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Date	Case	Jurisdict.	Party	Utility	Subject
9/94	U-19904 Initial Post-Merger Earnings Review	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policies, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission Staff	Southern Bell Telephone Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission Staff	Southern Bell Telephone Co.	Alternative regulation, cost allocation.
11/94	U-19904 Initial Post-Merger Earnings Review (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Revenue requirements. Fossil dismantling, nuclear decommissioning.
6/95	3905-U Rebuttal	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive regulation, affiliate transactions, revenue requirements, rate refund.
6/95	U-19904 (Direct)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
10/95	95-02614	TN	Tennessee Office of the Attorney General Consumer Advocate	BellSouth Telecommunications, Inc.	Affiliate transactions.
10/95	U-21485 (Direct)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
11/95	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co. Division	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
11/95 12/95	U-21485 (Supplemental Direct) U-21485 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
1/96	95-299-EL-AIR 95-300-EL-AIR	OH	Industrial Energy Consumers	The Toledo Edison Co., The Cleveland Electric Illuminating Co.	Competition, asset write-offs and revaluation, O&M expense, other revenue requirement issues.
2/96	PUC Docket 14965	TX	Office of Public Utility Counsel	Central Power & Light	Nuclear decommissioning.
5/96	95-485-LCS	NM	City of Las Cruces	El Paso Electric Co.	Stranded cost recovery, municipalization.

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Date	Case	Jurisdict.	Party	Utility	Subject
7/96	8725	MD	The Maryland Industrial Group and Redland Genstar, Inc.	Baltimore Gas & Electric Co., Potomac Electric Power Co., and Constellation Energy Corp.	Merger savings, tracking mechanism, earnings sharing plan, revenue requirement issues.
9/96 11/96	U-22092 U-22092 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues, allocation of regulated/nonregulated costs.
10/96	96-327	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Environmental surcharge recoverable costs.
2/97	R-00973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Stranded cost recovery, regulatory assets and liabilities, intangible transition charge, revenue requirements.
3/97	96-489	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental surcharge recoverable costs, system agreements, allowance inventory, jurisdictional allocation.
6/97	TO-97-397	MO	MCI Telecommunications Corp., Inc., MCImetro Access Transmission Services, Inc.	Southwestern Bell Telephone Co.	Price cap regulation, revenue requirements, rate of return.
6/97	R-00973953	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	R-00973954	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	U-22092	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Depreciation rates and methodologies, River Bend phase-in plan.
8/97	97-300	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co., Kentucky Utilities Co.	Merger policy, cost savings, surcredit sharing mechanism, revenue requirements, rate of return.
8/97	R-00973954 (Surrebuttal)	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
10/97	97-204	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness.
10/97	R-974008	PA	Metropolitan Edison Industrial Users Group	Metropolitan Edison Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
10/97	R-974009	PA	Penelec Industrial Customer Alliance	Pennsylvania Electric Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.

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Date	Case	Jurisdict.	Party	Utility	Subject
11/97	97-204 (Rebuttal)	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates, cost allocation.
11/97	U-22491	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
11/97	R-00973953 (Surrebuttal)	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
11/97	R-973981	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements, securitization.
11/97	R-974104	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
12/97	R-973981 (Surrebuttal)	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements.
12/97	R-974104 (Surrebuttal)	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
1/98	U-22491 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
2/98	8774	MD	Westvaco	Potomac Edison Co.	Merger of Duquesne, AE, customer safeguards, savings sharing.
3/98	U-22092 (Allocated Stranded Cost Issues)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
3/98	8390-U	GA	Georgia Natural Gas Group, Georgia Textile Manufacturers Assoc.	Atlanta Gas Light Co.	Restructuring, unbundling, stranded costs, incentive regulation, revenue requirements.
3/98	U-22092 (Allocated Stranded Cost Issues) (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
3/98	U-22491 (Supplemental Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Restructuring, unbundling, stranded costs, T&D revenue requirements.

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10/98	9355-U	GA	Georgia Public Service Commission Adversary Staff	Georgia Power Co.	Affiliate transactions.
10/98	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, other revenue requirement issues.
11/98	U-23327	LA	Louisiana Public Service Commission Staff	SWEPCO, CSW and AEP	Merger policy, savings sharing mechanism, affiliate transaction conditions.
12/98	U-23358 (Direct)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
12/98	98-577	ME	Maine Office of Public Advocate	Maine Public Service Co.	Restructuring, unbundling, stranded cost, T&D revenue requirements.
1/99	98-10-07	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Stranded costs, investment tax credits, accumulated deferred income taxes, excess deferred income taxes.
3/99	U-23358 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
3/99	98-474	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co.	Revenue requirements, alternative forms of regulation.
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Revenue requirements, alternative forms of regulation.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co.	Revenue requirements.
3/99	99-083	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Revenue requirements.
4/99	U-23358 (Supplemental Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
4/99	99-03-04	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Regulatory assets and liabilities, stranded costs, recovery mechanisms.
4/99	99-02-05	Ct	Connecticut Industrial Utility Customers	Connecticut Light and Power Co.	Regulatory assets and liabilities, stranded costs, recovery mechanisms.
5/99	98-426 99-082 (Additional Direct)	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co.	Revenue requirements.
5/99	98-474 99-083 (Additional Direct)	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Revenue requirements.

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Date	Case	Jurisdict.	Party	Utility	Subject
5/99	98-426 98-474 (Response to Amended Applications)	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co., Kentucky Utilities Co.	Alternative regulation.
6/99	97-596	ME	Maine Office of Public Advocate	Bangor Hydro-Electric Co.	Request for accounting order regarding electric industry restructuring costs.
6/99	U-23358	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Affiliate transactions, cost allocations.
7/99	99-03-35	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Stranded costs, regulatory assets, tax effects of asset divestiture.
7/99	U-23327	LA	Louisiana Public Service Commission Staff	Southwestern Electric Power Co., Central and South West Corp, American Electric Power Co.	Merger Settlement and Stipulation.
7/99	97-596 Surrebuttal	ME	Maine Office of Public Advocate	Bangor Hydro-Electric Co.	Restructuring, unbundling, stranded cost, T&D revenue requirements.
7/99	98-0452-E-GI	WV	West Virginia Energy Users Group	Monongahela Power, Potomac Edison, Appalachian Power, Wheeling Power	Regulatory assets and liabilities.
8/99	98-577 Surrebuttal	ME	Maine Office of Public Advocate	Maine Public Service Co.	Restructuring, unbundling, stranded costs, T&D revenue requirements.
8/99	98-426 99-082 Rebuttal	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co.	Revenue requirements.
8/99	98-474 98-083 Rebuttal	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Revenue requirements.
8/99	98-0452-E-GI Rebuttal	WV	West Virginia Energy Users Group	Monongahela Power, Potomac Edison, Appalachian Power, Wheeling Power	Regulatory assets and liabilities.
10/99	U-24182 Direct	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, affiliate transactions, tax issues, and other revenue requirement issues.
11/99	PUC Docket 21527	TX	The Dallas-Fort Worth Hospital Council and Coalition of Independent Colleges and Universities	TXU Electric	Restructuring, stranded costs, taxes, securitization.

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Date	Case	Jurisdict.	Party	Utility	Subject
11/99	U-23358 Surrebuttal Affiliate Transactions Review	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Service company affiliate transaction costs.
01/00	U-24182 Surrebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, affiliate transactions, tax issues, and other revenue requirement issues.
04/00	99-1212-EL-ETP 99-1213-EL-ATA 99-1214-EL-AAM	OH	Greater Cleveland Growth Association	First Energy (Cleveland Electric Illuminating, Toledo Edison)	Historical review, stranded costs, regulatory assets, liabilities.
05/00	2000-107	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	ECR surcharge roll-in to base rates.
05/00	U-24182 Supplemental Direct	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Affiliate expense proforma adjustments.
05/00	A-110550F0147	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy	Merger between PECO and Unicom.
05/00	99-1658-EL-ETP	OH	AK Steel Corp.	Cincinnati Gas & Electric Co.	Regulatory transition costs, including regulatory assets and liabilities, SFAS 109, ADIT, EDIT, ITC.
07/00	PUC Docket 22344	TX	The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges and Universities	Statewide Generic Proceeding	Escalation of O&M expenses for unbundled T&D revenue requirements in projected test year.
07/00	U-21453	LA	Louisiana Public Service Commission	SWEPCO	Stranded costs, regulatory assets and liabilities.
08/00	U-24064	LA	Louisiana Public Service Commission Staff	CLECO	Affiliate transaction pricing ratemaking principles, subsidization of nonregulated affiliates, ratemaking adjustments.
10/00	SOAH Docket 473-00-1015 PUC Docket 22350	TX	The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges and Universities	TXU Electric Co.	Restructuring, T&D revenue requirements, mitigation, regulatory assets and liabilities.
10/00	R-00974104 Affidavit	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Final accounting for stranded costs, including treatment of auction proceeds, taxes, capital costs, switchback costs, and excess pension funding.
11/00	P-00001837 R-00974008 P-00001838 R-00974009	PA	Metropolitan Edison Industrial Users Group Penelec Industrial Customer Alliance	Metropolitan Edison Co., Pennsylvania Electric Co.	Final accounting for stranded costs, including treatment of auction proceeds, taxes, regulatory assets and liabilities, transaction costs.

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12/00	U-21453, U-20925, U-22092 (Subdocket C) Surrebuttal	LA	Louisiana Public Service Commission Staff	SWEPCO	Stranded costs, regulatory assets.
01/01	U-24993 Direct	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
01/01	U-21453, U-20925, U-22092 (Subdocket B) Surrebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Industry restructuring, business separation plan, organization structure, hold harmless conditions, financing.
01/01	Case No. 2000-386	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co.	Recovery of environmental costs, surcharge mechanism.
01/01	Case No. 2000-439	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Recovery of environmental costs, surcharge mechanism.
02/01	A-110300F0095 A-110400F0040	PA	Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance	GPU, Inc. FirstEnergy Corp.	Merger, savings, reliability.
03/01	P-00001860 P-00001861	PA	Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance	Metropolitan Edison Co., Pennsylvania Electric Co.	Recovery of costs due to provider of last resort obligation.
04/01	U-21453, U-20925, U-22092 (Subdocket B) Settlement Term Sheet	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Business separation plan: settlement agreement on overall plan structure.
04/01	U-21453, U-20925, U-22092 (Subdocket B) Contested Issues	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Business separation plan: agreements, hold harmless conditions, separations methodology.
05/01	U-21453, U-20925, U-22092 (Subdocket B) Contested Issues Transmission and Distribution Rebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Business separation plan: agreements, hold harmless conditions, separations methodology.

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07/01	U-21453, U-20925, U-22092 (Subdocket B) Transmission and Distribution Term Sheet	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Business separation plan: settlement agreement on T&D issues, agreements necessary to implement T&D separations, hold harmless conditions, separations methodology.
10/01	14000-U	GA	Georgia Public Service Commission Adversary Staff	Georgia Power Company	Revenue requirements, Rate Plan, fuel clause recovery.
11/01	14311-U Direct Panel with Bolin Killings	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co	Revenue requirements, revenue forecast, O&M expense, depreciation, plant additions, cash working capital.
11/01	U-25687 Direct	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Revenue requirements, capital structure, allocation of regulated and nonregulated costs, River Bend uprate.
02/02	PUC Docket 25230	TX	The Dallas-Fort Worth Hospital Council and the Coalition of Independent Colleges and Universities	TXU Electric	Stipulation. Regulatory assets, securitization financing
02/02	U-25687 Surrebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, River Bend uprate.
03/02	14311-U Rebuttal Panel with Bolin Killings	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co.	Revenue requirements, earnings sharing plan, service quality standards.
03/02	14311-U Rebuttal Panel with Michelle L. Thebert	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co.	Revenue requirements, revenue forecast, O&M expense, depreciation, plant additions, cash working capital.
03/02	001148-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Co.	Revenue requirements. Nuclear life extension, storm damage accruals and reserve, capital structure, O&M expense.
04/02	U-25687 (Suppl. Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, River Bend uprate.
04/02	U-21453, U-20925 U-22092 (Subdocket C)	LA	Louisiana Public Service Commission	SWEPCO	Business separation plan, T&D Term Sheet, separations methodologies, hold harmless conditions.
08/02	EL01-88-000	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	System Agreement, production cost equalization, tariffs.
08/02	U-25888	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc. and Entergy Louisiana, Inc.	System Agreement, production cost disparities, prudence.

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09/02	2002-00224 2002-00225	KY	Kentucky Industrial Utilities Customers, Inc.	Kentucky Utilities Co., Louisville Gas & Electric Co.	Line losses and fuel clause recovery associated with off-system sales.
11/02	2002-00146 2002-00147	KY	Kentucky Industrial Utilities Customers, Inc.	Kentucky Utilities Co., Louisville Gas & Electric Co.	Environmental compliance costs and surcharge recovery.
01/03	2002-00169	KY	Kentucky Industrial Utilities Customers, Inc.	Kentucky Power Co.	Environmental compliance costs and surcharge recovery.
04/03	2002-00429 2002-00430	KY	Kentucky Industrial Utilities Customers, Inc.	Kentucky Utilities Co., Louisville Gas & Electric Co.	Extension of merger surcredit, flaws in Companies' studies.
04/03	U-26527	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, capital structure, post-test year adjustments.
06/03	EL01-88-000 Rebuttal	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	System Agreement, production cost equalization, tariffs.
06/03	2003-00068	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Environmental cost recovery, correction of base rate error.
11/03	ER03-753-000	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Unit power purchases and sale cost-based tariff pursuant to System Agreement.
11/03	ER03-583-000, ER03-583-001, ER03-583-002 ER03-681-000, ER03-681-001 ER03-682-000, ER03-682-001, ER03-682-002 ER03-744-000, ER03-744-001 (Consolidated)	FERC	Louisiana Public Service Commission	Entergy Services, Inc., the Entergy Operating Companies, EWO Marketing, L.P, and Entergy Power, Inc.	Unit power purchases and sale agreements, contractual provisions, projected costs, levelized rates, and formula rates.
12/03	U-26527 Surrebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, capital structure, post-test year adjustments.
12/03	2003-0334 2003-0335	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co., Louisville Gas & Electric Co.	Earnings Sharing Mechanism.
12/03	U-27136	LA	Louisiana Public Service Commission Staff	Entergy Louisiana, Inc.	Purchased power contracts between affiliates, terms and conditions.

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03/04	U-26527 Supplemental Surrebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, capital structure, post-test year adjustments.
03/04	2003-00433	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co.	Revenue requirements, depreciation rates, O&M expense, deferrals and amortization, earnings sharing mechanism, merger surcredit, VDT surcredit.
03/04	2003-00434	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Revenue requirements, depreciation rates, O&M expense, deferrals and amortization, earnings sharing mechanism, merger surcredit, VDT surcredit.
03/04	SOAH Docket 473-04-2459 PUC Docket 29206	TX	Cities Served by Texas-New Mexico Power Co.	Texas-New Mexico Power Co.	Stranded costs true-up, including valuation issues, ITC, ADIT, excess earnings.
05/04	04-169-EL-UNC	OH	Ohio Energy Group, Inc.	Columbus Southern Power Co. & Ohio Power Co.	Rate stabilization plan, deferrals, T&D rate increases, earnings.
06/04	SOAH Docket 473-04-4555 PUC Docket 29526	TX	Houston Council for Health and Education	CenterPoint Energy Houston Electric	Stranded costs true-up, including valuation issues, ITC, EDIT, excess mitigation credits, capacity auction true-up revenues, interest.
08/04	SOAH Docket 473-04-4555 PUC Docket 29526 (Suppl Direct)	TX	Houston Council for Health and Education	CenterPoint Energy Houston Electric	Interest on stranded cost pursuant to Texas Supreme Court remand.
09/04	U-23327 Subdocket B	LA	Louisiana Public Service Commission Staff	SWEPCO	Fuel and purchased power expenses recoverable through fuel adjustment clause, trading activities, compliance with terms of various LPSC Orders.
10/04	U-23327 Subdocket A	LA	Louisiana Public Service Commission Staff	SWEPCO	Revenue requirements.
12/04	Case Nos. 2004-00321, 2004-00372	KY	Gallatin Steel Co.	East Kentucky Power Cooperative, Inc., Big Sandy Recc, et al.	Environmental cost recovery, qualified costs, TIER requirements, cost allocation.
01/05	30485	TX	Houston Council for Health and Education	CenterPoint Energy Houston Electric, LLC	Stranded cost true-up including regulatory Central Co. assets and liabilities, ITC, EDIT, capacity auction, proceeds, excess mitigation credits, retrospective and prospective ADIT.
02/05	18638-U	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co.	Revenue requirements.
02/05	18638-U Panel with Tony Wackerly	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co.	Comprehensive rate plan, pipeline replacement program surcharge, performance based rate plan.

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02/05	18638-U Panel with Michelle Thebert	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co.	Energy conservation, economic development, and tariff issues.
03/05	Case Nos. 2004-00426, 2004-00421	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co., Louisville Gas & Electric	Environmental cost recovery, Jobs Creation Act of 2004 and §199 deduction, excess common equity ratio, deferral and amortization of nonrecurring O&M expense.
06/05	2005-00068	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental cost recovery, Jobs Creation Act of 2004 and §199 deduction, margins on allowances used for AEP system sales.
06/05	050045-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Co.	Storm damage expense and reserve, RTO costs, O&M expense projections, return on equity performance incentive, capital structure, selective second phase post-test year rate increase.
08/05	31056	TX	Alliance for Valley Healthcare	AEP Texas Central Co.	Stranded cost true-up including regulatory assets and liabilities, ITC, EDIT, capacity auction, proceeds, excess mitigation credits, retrospective and prospective ADIT.
09/05	20298-U	GA	Georgia Public Service Commission Adversary Staff	Atmos Energy Corp.	Revenue requirements, roll-in of surcharges, cost recovery through surcharge, reporting requirements.
09/05	20298-U Panel with Victoria Taylor	GA	Georgia Public Service Commission Adversary Staff	Atmos Energy Corp.	Affiliate transactions, cost allocations, capitalization, cost of debt.
10/05	04-42	DE	Delaware Public Service Commission Staff	Artesian Water Co.	Allocation of tax net operating losses between regulated and unregulated.
11/05	2005-00351 2005-00352	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co., Louisville Gas & Electric	Workforce Separation Program cost recovery and shared savings through VDT surcredit.
01/06	2005-00341	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	System Sales Clause Rider, Environmental Cost Recovery Rider. Net Congestion Rider, Storm damage, vegetation management program, depreciation, off-system sales, maintenance normalization, pension and OPEB.
03/06	PUC Docket 31994	TX	Cities	Texas-New Mexico Power Co.	Stranded cost recovery through competition transition or change.
05/06	31994 Supplemental	TX	Cities	Texas-New Mexico Power Co.	Retrospective ADFIT, prospective ADFIT.
03/06	U-21453, U-20925, U-22092	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Jurisdictional separation plan.

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03/06	NOPR Reg 104385-OR	IRS	Alliance for Valley Health Care and Houston Council for Health Education	AEP Texas Central Company and CenterPoint Energy Houston Electric	Proposed Regulations affecting flow- through to ratepayers of excess deferred income taxes and investment tax credits on generation plant that is sold or deregulated.
04/06	U-25116	LA	Louisiana Public Service Commission Staff	Entergy Louisiana, Inc.	2002-2004 Audit of Fuel Adjustment Clause Filings. Affiliate transactions.
07/06	R-00061366, Et. al.	PA	Met-Ed Ind. Users Group Pennsylvania Ind. Customer Alliance	Metropolitan Edison Co., Pennsylvania Electric Co.	Recovery of NUG-related stranded costs, government mandated program costs, storm damage costs.
07/06	U-23327	LA	Louisiana Public Service Commission Staff	Southwestern Electric Power Co.	Revenue requirements, formula rate plan, banking proposal.
08/06	U-21453, U-20925, U-22092 (Subdocket J)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Jurisdictional separation plan.
11/06	05CVH03-3375 Franklin County Court Affidavit	OH	Various Taxing Authorities (Non-Utility Proceeding)	State of Ohio Department of Revenue	Accounting for nuclear fuel assemblies as manufactured equipment and capitalized plant.
12/06	U-23327 Subdocket A Reply Testimony	LA	Louisiana Public Service Commission Staff	Southwestern Electric Power Co.	Revenue requirements, formula rate plan, banking proposal.
03/07	U-29764	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc., Entergy Louisiana, LLC	Jurisdictional allocation of Entergy System Agreement equalization remedy receipts.
03/07	PUC Docket 33309	TX	Cities	AEP Texas Central Co.	Revenue requirements, including functionalization of transmission and distribution costs.
03/07	PUC Docket 33310	TX	Cities	AEP Texas North Co.	Revenue requirements, including functionalization of transmission and distribution costs.
03/07	2006-00472	KY	Kentucky Industrial Utility Customers, Inc.	East Kentucky Power Cooperative	Interim rate increase, RUS loan covenants, credit facility requirements, financial condition.
03/07	U-29157	LA	Louisiana Public Service Commission Staff	Cleco Power, LLC	Permanent (Phase II) storm damage cost recovery.
04/07	U-29764 Supplemental and Rebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc., Entergy Louisiana, LLC	Jurisdictional allocation of Entergy System Agreement equalization remedy receipts.
04/07	ER07-682-000 Affidavit	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Allocation of intangible and general plant and A&G expenses to production and state income tax effects on equalization remedy receipts.
04/07	ER07-684-000 Affidavit	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Fuel hedging costs and compliance with FERC USOA.

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05/07	ER07-682-000 Affidavit	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Allocation of intangible and general plant and A&G expenses to production and account 924 effects on MSS-3 equalization remedy payments and receipts.
06/07	U-29764	LA	Louisiana Public Service Commission Staff	Entergy Louisiana, LLC, Entergy Gulf States, Inc.	Show cause for violating LPSC Order on fuel hedging costs.
07/07	2006-00472	KY	Kentucky Industrial Utility Customers, Inc.	East Kentucky Power Cooperative	Revenue requirements, post-test year adjustments, TIER, surcharge revenues and costs, financial need.
07/07	ER07-956-000 Affidavit	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Storm damage costs related to Hurricanes Katrina and Rita and effects of MSS-3 equalization payments and receipts.
10/07	05-UR-103 Direct	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Company, Wisconsin Gas, LLC	Revenue requirements, carrying charges on CWIP, amortization and return on regulatory assets, working capital, incentive compensation, use of rate base in lieu of capitalization, quantification and use of Point Beach sale proceeds.
10/07	05-UR-103 Surrebuttal	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Company, Wisconsin Gas, LLC	Revenue requirements, carrying charges on CWIP, amortization and return on regulatory assets, working capital, incentive compensation, use of rate base in lieu of capitalization, quantification and use of Point Beach sale proceeds.
10/07	25060-U Direct	GA	Georgia Public Service Commission Public Interest Adversary Staff	Georgia Power Company	Affiliate costs, incentive compensation, consolidated income taxes, §199 deduction.
11/07	06-0033-E-CN Direct	WV	West Virginia Energy Users Group	Appalachian Power Company	IGCC surcharge during construction period and post-in-service date.
11/07	ER07-682-000 Direct	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Functionalization and allocation of intangible and general plant and A&G expenses.
01/08	ER07-682-000 Cross-Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Functionalization and allocation of intangible and general plant and A&G expenses.
01/08	07-551-EL-AIR Direct	OH	Ohio Energy Group, Inc.	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	Revenue requirements.
02/08	ER07-956-000 Direct	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Functionalization of expenses, storm damage expense and reserves, tax NOL carrybacks in accounts, ADIT, nuclear service lives and effects on depreciation and decommissioning.

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03/08	ER07-956-000 Cross-Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Functionalization of expenses, storm damage expense and reserves, tax NOL carrybacks in accounts, ADIT, nuclear service lives and effects on depreciation and decommissioning.
04/08	2007-00562, 2007-00563	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co., Louisville Gas and Electric Co.	Merger surcredit.
04/08	26837 Direct Bond, Johnson, Thebert, Kollen Panel	GA	Georgia Public Service Commission Staff	SCANA Energy Marketing, Inc.	Rule Nisi complaint.
05/08	26837 Rebuttal Bond, Johnson, Thebert, Kollen Panel	GA	Georgia Public Service Commission Staff	SCANA Energy Marketing, Inc.	Rule Nisi complaint.
05/08	26837 Suppl Rebuttal Bond, Johnson, Thebert, Kollen Panel	GA	Georgia Public Service Commission Staff	SCANA Energy Marketing, Inc.	Rule Nisi complaint.
06/08	2008-00115	KY	Kentucky Industrial Utility Customers, Inc.	East Kentucky Power Cooperative, Inc.	Environmental surcharge recoveries, including costs recovered in existing rates, TIER.
07/08	27163 Direct	GA	Georgia Public Service Commission Public Interest Advocacy Staff	Atmos Energy Corp.	Revenue requirements, including projected test year rate base and expenses.
07/08	27163 Taylor, Kollen Panel	GA	Georgia Public Service Commission Public Interest Advocacy Staff	Atmos Energy Corp.	Affiliate transactions and division cost allocations, capital structure, cost of debt.
08/08	6680-CE-170 Direct	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Power and Light Company	Nelson Dewey 3 or Colombia 3 fixed financial parameters.
08/08	6680-UR-116 Direct	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Power and Light Company	CWIP in rate base, labor expenses, pension expense, financing, capital structure, decoupling.
08/08	6680-UR-116 Rebuttal	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Power and Light Company	Capital structure.
08/08	6690-UR-119 Direct	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Public Service Corp.	Prudence of Weston 3 outage, incentive compensation, Crane Creek Wind Farm incremental revenue requirement, capital structure.
09/08	6690-UR-119 Surrebuttal	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Public Service Corp.	Prudence of Weston 3 outage, Section 199 deduction.

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09/08	08-935-EL-SSO, 08-918-EL-SSO	OH	Ohio Energy Group, Inc.	First Energy	Standard service offer rates pursuant to electric security plan, significantly excessive earnings test.
10/08	08-917-EL-SSO	OH	Ohio Energy Group, Inc.	AEP	Standard service offer rates pursuant to electric security plan, significantly excessive earnings test.
10/08	2007-00564, 2007-00565, 2008-00251 2008-00252	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co., Kentucky Utilities Company	Revenue forecast, affiliate costs, ELG v ASL depreciation procedures, depreciation expenses, federal and state income tax expense, capitalization, cost of debt.
11/08	EL08-51	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Spindletop gas storage facilities, regulatory asset and bandwidth remedy.
11/08	35717	TX	Cities Served by Oncor Delivery Company	Oncor Delivery Company	Recovery of old meter costs, asset ADFIT, cash working capital, recovery of prior year restructuring costs, levelized recovery of storm damage costs, prospective storm damage accrual, consolidated tax savings adjustment.
12/08	27800	GA	Georgia Public Service Commission	Georgia Power Company	AFUDC versus CWIP in rate base, mirror CWIP, certification cost, use of short term debt and trust preferred financing, CWIP recovery, regulatory incentive.
01/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Entergy System Agreement bandwidth remedy calculations, including depreciation expense, ADIT, capital structure.
01/09	ER08-1056 Supplemental Direct	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Blytheville leased turbines; accumulated depreciation.
02/09	EL08-51 Rebuttal	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Spindletop gas storage facilities regulatory asset and bandwidth remedy.
02/09	2008-00409 Direct	KY	Kentucky Industrial Utility Customers, Inc.	East Kentucky Power Cooperative, Inc.	Revenue requirements.
03/09	ER08-1056 Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc	Entergy System Agreement bandwidth remedy calculations, including depreciation expense, ADIT, capital structure.
03/09 04/09	U-21453, U-20925 U-22092 (Sub J) Direct Rebuttal	LA	Louisiana Public Service Commission Staff	Entergy Gulf States Louisiana, LLC	Violation of EGSI separation order, ETI and EGSL separation accounting, Spindletop regulatory asset.
04/09	2009-00040 Direct-Interim (Oral)	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Emergency interim rate increase; cash requirements.

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04/09	PUC Docket 36530	TX	State Office of Administrative Hearings	Oncor Electric Delivery Company, LLC	Rate case expenses.
05/09	ER08-1056 Rebuttal	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Entergy System Agreement bandwidth remedy calculations, including depreciation expense, ADIT, capital structure.
06/09	2009-00040 Direct-Permanent	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Revenue requirements, TIER, cash flow.
07/09	080677-EI	FL	South Florida Hospital and Healthcare Association	Florida Power & Light Company	Multiple test years, GBRA rider, forecast assumptions, revenue requirement, O&M expense, depreciation expense, Economic Stimulus Bill, capital structure.
08/09	U-21453, U-20925, U-22092 (Subdocket J) Supplemental Rebuttal	LA	Louisiana Public Service Commission	Entergy Gulf States Louisiana, LLC	Violation of EGSI separation order, ETI and EGSL separation accounting, Spindletop regulatory asset.
08/09	8516 and 29950	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Company	Modification of PRP surcharge to include infrastructure costs.
09/09	05-UR-104 Direct and Surrebuttal	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Company	Revenue requirements, incentive compensation, depreciation, deferral mitigation, capital structure, cost of debt.
09/09	09AL-299E	CO	CF&I Steel, Rocky Mountain Steel Mills LP, Climax Molybdenum Company	Public Service Company of Colorado	Forecasted test year, historic test year, proforma adjustments for major plant additions, tax depreciation.
09/09	6680-UR-117 Direct and Surrebuttal	WI	Wisconsin Industrial Energy Group	Wisconsin Power and Light Company	Revenue requirements, CWIP in rate base, deferral mitigation, payroll, capacity shutdowns, regulatory assets, rate of return.
10/09	09A-415E Answer	CO	Cripple Creek & Victor Gold Mining Company, et al.	Black Hills/CO Electric Utility Company	Cost prudence, cost sharing mechanism.
10/09	EL09-50 Direct	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Waterford 3 sale/leaseback accumulated deferred income taxes, Entergy System Agreement bandwidth remedy calculations.
10/09	2009-00329	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Company, Kentucky Utilities Company	Trimble County 2 depreciation rates.
12/09	PUE-2009-00030	VA	Old Dominion Committee for Fair Utility Rates	Appalachian Power Company	Return on equity incentive.

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Date	Case	Jurisdict.	Party	Utility	Subject
12/09	ER09-1224 Direct	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Hypothetical versus actual costs, out of period costs, Spindletop deferred capital costs, Waterford 3 sale/leaseback ADIT.
01/10	ER09-1224 Cross-Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Hypothetical versus actual costs, out of period costs, Spindletop deferred capital costs, Waterford 3 sale/leaseback ADIT.
01/10	EL09-50 Rebuttal Supplemental Rebuttal	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Waterford 3 sale/leaseback accumulated deferred income taxes, Entergy System Agreement bandwidth remedy calculations.
02/10	ER09-1224 Final	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Hypothetical versus actual costs, out of period costs, Spindletop deferred capital costs, Waterford 3 sale/leaseback ADIT.
02/10	30442 Wackerly-Kollen Panel	GA	Georgia Public Service Commission Staff	Atmos Energy Corporation	Revenue requirement issues.
02/10	30442 McBride-Kollen Panel	GA	Georgia Public Service Commission Staff	Atmos Energy Corporation	Affiliate/division transactions, cost allocation, capital structure.
02/10	2009-00353	KY	Kentucky Industrial Utility Customers, Inc., Attorney General	Louisville Gas and Electric Company, Kentucky Utilities Company	Ratemaking recovery of wind power purchased power agreements.
03/10	2009-00545	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Ratemaking recovery of wind power purchased power agreement.
03/10	E015/GR-09-1151	MN	Large Power Interveners	Minnesota Power	Revenue requirement issues, cost overruns on environmental retrofit project.
03/10	EL10-55	FERC	Louisiana Public Service Commission	Entergy Services, Inc., Entergy Operating Cos	Depreciation expense and effects on System Agreement tariffs.
04/10	2009-00459	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Revenue requirement issues.
04/10	2009-00548, 2009-00549	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Company, Louisville Gas and Electric Company	Revenue requirement issues.
08/10	31647	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Company	Revenue requirement and synergy savings issues.
08/10	31647 Wackerly-Kollen Panel	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Company	Affiliate transaction and Customer First program issues.

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08/10	2010-00204	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Company, Kentucky Utilities Company	PPL acquisition of E.ON U.S. (LG&E and KU) conditions, acquisition savings, sharing deferral mechanism.
09/10	38339 Direct and Cross-Rebuttal	TX	Gulf Coast Coalition of Cities	CenterPoint Energy Houston Electric	Revenue requirement issues, including consolidated tax savings adjustment, incentive compensation FIN 48; AMS surcharge including roll-in to base rates; rate case expenses.
09/10	EL10-55	FERC	Louisiana Public Service Commission	Entergy Services, Inc., Entergy Operating Cos	Depreciation rates and expense input effects on System Agreement tariffs.
09/10	2010-00167	KY	Gallatin Steel	East Kentucky Power Cooperative, Inc.	Revenue requirements.
09/10	U-23327 Subdocket E Direct	LA	Louisiana Public Service Commission	SWEPCO	Fuel audit: S02 allowance expense, variable O&M expense, off-system sales margin sharing.
11/10	U-23327 Rebuttal	LA	Louisiana Public Service Commission	SWEPCO	Fuel audit: S02 allowance expense, variable O&M expense, off-system sales margin sharing.
09/10	U-31351	LA	Louisiana Public Service Commission Staff	SWEPCO and Valley Electric Membership Cooperative	Sale of Valley assets to SWEPCO and dissolution of Valley.
10/10	10-1261-EL-UNC	OH	Ohio OCC, Ohio Manufacturers Association, Ohio Energy Group, Ohio Hospital Association, Appalachian Peace and Justice Network	Columbus Southern Power Company	Significantly excessive earnings test.
10/10	10-0713-E-PC	WV	West Virginia Energy Users Group	Monongahela Power Company, Potomac Edison Power Company	Merger of First Energy and Allegheny Energy.
10/10	U-23327 Subdocket F Direct	LA	Louisiana Public Service Commission Staff	SWEPCO	AFUDC adjustments in Formula Rate Plan.
11/10	EL10-55 Rebuttal	FERC	Louisiana Public Service Commission	Entergy Services, Inc., Entergy Operating Cos	Depreciation rates and expense input effects on System Agreement tariffs.
12/10	ER10-1350 Direct	FERC	Louisiana Public Service Commission	Entergy Services, Inc. Entergy Operating Cos	Waterford 3 lease amortization, ADIT, and fuel inventory effects on System Agreement tariffs.
01/11	ER10-1350 Cross-Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc., Entergy Operating Cos	Waterford 3 lease amortization, ADIT, and fuel inventory effects on System Agreement tariffs.

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03/11 04/11	ER10-2001 Direct Cross-Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc., Entergy Arkansas, Inc.	EAI depreciation rates.
04/11	U-23327 Subdocket E	LA	Louisiana Public Service Commission Staff	SWEPCO	Settlement, incl resolution of S02 allowance expense, var O&M expense, sharing of OSS margins.
04/11 05/11	38306 Direct Suppl Direct	TX	Cities Served by Texas-New Mexico Power Company	Texas-New Mexico Power Company	AMS deployment plan, AMS Surcharge, rate case expenses.
05/11	11-0274-E-GI	WV	West Virginia Energy Users Group	Appalachian Power Company, Wheeling Power Company	Deferral recovery phase-in, construction surcharge.
05/11	2011-00036	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Revenue requirements.
06/11	29849	GA	Georgia Public Service Commission Staff	Georgia Power Company	Accounting issues related to Vogtle risk-sharing mechanism.
07/11	ER11-2161 Direct and Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and Entergy Texas, Inc.	ETI depreciation rates; accounting issues.
07/11	PUE-2011-00027	VA	Virginia Committee for Fair Utility Rates	Virginia Electric and Power Company	Return on equity performance incentive.
07/11	11-346-EL-SSO 11-348-EL-SSO 11-349-EL-AAM 11-350-EL-AAM	OH	Ohio Energy Group	AEP-OH	Equity Stabilization Incentive Plan; actual earned returns; ADIT offsets in riders.
08/11	U-23327 Subdocket F Rebuttal	LA	Louisiana Public Service Commission Staff	SWEPCO	Depreciation rates and service lives; AFUDC adjustments.
08/11	05-UR-105	WI	Wisconsin Industrial Energy Group	WE Energies, Inc.	Suspended amortization expenses; revenue requirements.
08/11	ER11-2161 Cross-Answering	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and Entergy Texas, Inc.	ETI depreciation rates; accounting issues.
09/11	PUC Docket 39504	TX	Gulf Coast Coalition of Cities	CenterPoint Energy Houston Electric	Investment tax credit, excess deferred income taxes; normalization.
09/11	2011-00161 2011-00162	KY	Kentucky Industrial Utility Consumers, Inc.	Louisville Gas & Electric Company, Kentucky Utilities Company	Environmental requirements and financing.
10/11	11-4571-EL-UNC 11-4572-EL-UNC	OH	Ohio Energy Group	Columbus Southern Power Company, Ohio Power Company	Significantly excessive earnings.

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Date	Case	Jurisdict.	Party	Utility	Subject
10/11	4220-UR-117 Direct	WI	Wisconsin Industrial Energy Group	Northern States Power-Wisconsin	Nuclear O&M, depreciation.
11/11	4220-UR-117 Surrebuttal	WI	Wisconsin Industrial Energy Group	Northern States Power-Wisconsin	Nuclear O&M, depreciation.
11/11	PUC Docket 39722	TX	Cities Served by AEP Texas Central Company	AEP Texas Central Company	Investment tax credit, excess deferred income taxes; normalization.
02/12	PUC Docket 40020	TX	Cities Served by Oncor	Lone Star Transmission, LLC	Temporary rates.
03/12	11AL-947E Answer	CO	Climax Molybdenum Company and CF&I Steel, L.P. d/b/a Evraz Rocky Mountain Steel	Public Service Company of Colorado	Revenue requirements, including historic test year, future test year, CACJA CWIP, contra-AFUDC.
03/12	2011-00401	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Big Sandy 2 environmental retrofits and environmental surcharge recovery.
4/12	2011-00036 Direct Rehearing Supplemental Direct Rehearing	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Rate case expenses, depreciation rates and expense.
04/12	10-2929-EL-UNC	OH	Ohio Energy Group	AEP Ohio Power	State compensation mechanism, CRES capacity charges, Equity Stabilization Mechanism
05/12	11-346-EL-SSO 11-348-EL-SSO	OH	Ohio Energy Group	AEP Ohio Power	State compensation mechanism, Equity Stabilization Mechanism, Retail Stability Rider.
05/12	11-4393-EL-RDR	OH	Ohio Energy Group	Duke Energy Ohio, Inc.	Incentives for over-compliance on EE/PDR mandates.
06/12	40020	TX	Cities Served by Oncor	Lone Star Transmission, LLC	Revenue requirements, including ADIT, bonus depreciation and NOL, working capital, self insurance, depreciation rates, federal income tax expense.
07/12	120015-EI	FL	South Florida Hospital and Healthcare Association	Florida Power & Light Company	Revenue requirements, including vegetation management, nuclear outage expense, cash working capital, CWIP in rate base.
07/12	2012-00063	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Environmental retrofits, including environmental surcharge recovery.
09/12	05-UR-106	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Company	Section 1603 grants, new solar facility, payroll expenses, cost of debt.
10/12	2012-00221 2012-00222	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Company, Kentucky Utilities Company	Revenue requirements, including off-system sales, outage maintenance, storm damage, injuries and damages, depreciation rates and expense.

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10/12	120015-EI Direct	FL	South Florida Hospital and Healthcare Association	Florida Power & Light Company	Settlement issues.
11/12	120015-EI Rebuttal	FL	South Florida Hospital and Healthcare Association	Florida Power & Light Company	Settlement issues.
10/12	40604	TX	Steering Committee of Cities Served by Oncor	Cross Texas Transmission, LLC	Policy and procedural issues, revenue requirements, including AFUDC, ADIT – bonus depreciation & NOL, incentive compensation, staffing, self-insurance, net salvage, depreciation rates and expense, income tax expense.
11/12	40627 Direct	TX	City of Austin d/b/a Austin Energy	City of Austin d/b/a Austin Energy	Rate case expenses.
12/12	40443	TX	Cities Served by SWEPCO	Southwestern Electric Power Company	Revenue requirements, including depreciation rates and service lives, O&M expenses, consolidated tax savings, CWIP in rate base, Turk plant costs.
12/12	U-29764	LA	Louisiana Public Service Commission Staff	Entergy Gulf States Louisiana, LLC and Entergy Louisiana, LLC	Termination of purchased power contracts between EGSL and ETI, Spindletop regulatory asset.
01/13	ER12-1384 Rebuttal	FERC	Louisiana Public Service Commission	Entergy Gulf States Louisiana, LLC and Entergy Louisiana, LLC	Little Gypsy 3 cancellation costs.
02/13	40627 Rebuttal	TX	City of Austin d/b/a Austin Energy	City of Austin d/b/a Austin Energy	Rate case expenses.
03/13	12-426-EL-SSO	OH	The Ohio Energy Group	The Dayton Power and Light Company	Capacity charges under state compensation mechanism, Service Stability Rider, Switching Tracker.
04/13	12-2400-EL-UNC	OH	The Ohio Energy Group	Duke Energy Ohio, Inc.	Capacity charges under state compensation mechanism, deferrals, rider to recover deferrals.
04/13	2012-00578	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Resource plan, including acquisition of interest in Mitchell plant.
05/13	2012-00535	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corporation	Revenue requirements, excess capacity, restructuring.
06/13	12-3254-EL-UNC	OH	The Ohio Energy Group, Inc., Office of the Ohio Consumers' Counsel	Ohio Power Company	Energy auctions under CBP, including reserve prices.
07/13	2013-00144	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Biomass renewable energy purchase agreement.

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07/13	2013-00221	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corporation	Agreements to provide Century Hawesville Smelter market access.
10/13	2013-00199	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corporation	Revenue requirements, excess capacity, restructuring.
12/13	2013-00413	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corporation	Agreements to provide Century Sebree Smelter market access.
01/14	ER10-1350	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Waterford 3 lease accounting and treatment in annual bandwidth filings.
02/14	U-32981	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC	Montauk renewable energy PPA.
04/14	ER13-432 Direct	FERC	Louisiana Public Service Commission	Entergy Gulf States Louisiana, LLC and Entergy Louisiana, LLC	UP Settlement benefits and damages.
05/14	PUE-2013-00132	VA	HP Hood LLC	Shenandoah Valley Electric Cooperative	Market based rate; load control tariffs.
07/14	PUE-2014-00033	VA	Virginia Committee for Fair Utility Rates	Virginia Electric and Power Company	Fuel and purchased power hedge accounting, change in FAC Definitional Framework.
08/14	ER13-432 Rebuttal	FERC	Louisiana Public Service Commission	Entergy Gulf States Louisiana, LLC and Entergy Louisiana, LLC	UP Settlement benefits and damages.
08/14	2014-00134	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corporation	Requirements power sales agreements with Nebraska entities.
09/14	E-015/CN-12-1163 Direct	MN	Large Power Intervenors	Minnesota Power	Great Northern Transmission Line; cost cap; AFUDC v. current recovery; rider v. base recovery; class cost allocation.
10/14	2014-00225	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Allocation of fuel costs to off-system sales.
10/14	ER13-1508	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Entergy service agreements and tariffs for affiliate power purchases and sales; return on equity.
10/14	14-0702-E-42T 14-0701-E-D	WV	West Virginia Energy Users Group	First Energy-Monongahela Power, Potomac Edison	Consolidated tax savings; payroll; pension, OPEB, amortization; depreciation; environmental surcharge.
11/14	E-015/CN-12-1163 Surrebuttal	MN	Large Power Intervenors	Minnesota Power	Great Northern Transmission Line; cost cap; AFUDC v. current recovery; rider v. base recovery; class allocation.
11/14	05-376-EL-UNC	OH	Ohio Energy Group	Ohio Power Company	Refund of IGCC CWIP financing cost recoveries.

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11/14	14AL-0660E	CO	Climax, CF&I Steel	Public Service Company of Colorado	Historic test year v. future test year; AFUDC v. current return; CACJA rider, transmission rider; equivalent availability rider; ADIT; depreciation; royalty income; amortization.
12/14	EL14-026	SD	Black Hills Industrial Intervenors	Black Hills Power Company	Revenue requirement issues, including depreciation expense and affiliate charges.
12/14	14-1152-E-42T	WV	West Virginia Energy Users Group	AEP-Appalachian Power Company	Income taxes, payroll, pension, OPEB, deferred costs and write offs, depreciation rates, environmental projects surcharge.
01/15	9400-YO-100 Direct	WI	Wisconsin Industrial Energy Group	Wisconsin Energy Corporation	WEC acquisition of Integrys Energy Group, Inc.
01/15	14F-0336EG 14F-0404EG	CO	Development Recovery Company LLC	Public Service Company of Colorado	Line extension policies and refunds.
02/15	9400-YO-100 Rebuttal	WI	Wisconsin Industrial Energy Group	Wisconsin Energy Corporation	WEC acquisition of Integrys Energy Group, Inc.
03/15	2014-00396	KY	Kentucky Industrial Utility Customers, Inc.	AEP-Kentucky Power Company	Base, Big Sandy 2 retirement rider, environmental surcharge, and Big Sandy 1 operation rider revenue requirements, depreciation rates, financing, deferrals.
03/15	2014-00371 2014-00372	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Company and Louisville Gas and Electric Company	Revenue requirements, staffing and payroll, depreciation rates.
04/15	2014-00450	KY	Kentucky Industrial Utility Customers, Inc. and the Attorney General of the Commonwealth of Kentucky	AEP-Kentucky Power Company	Allocation of fuel costs between native load and off-system sales.
04/15	2014-00455	KY	Kentucky Industrial Utility Customers, Inc. and the Attorney General of the Commonwealth of Kentucky	Big Rivers Electric Corporation	Allocation of fuel costs between native load and off-system sales.
04/15	ER2014-0370	MO	Midwest Energy Consumers' Group	Kansas City Power & Light Company	Affiliate transactions, operation and maintenance expense, management audit.
05/15	PUE-2015-00022	VA	Virginia Committee for Fair Utility Rates	Virginia Electric and Power Company	Fuel and purchased power hedge accounting; change in FAC Definitional Framework.
05/15 09/15	EL10-65 Direct, Rebuttal Complaint	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Accounting for AFUDC Debt, related ADIT.

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Date	Case	Jurisdict.	Party	Utility	Subject
07/15	EL10-65 Direct and Answering Consolidated Bandwidth Dockets	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Waterford 3 sale/leaseback ADIT, Bandwidth Formula.
09/15	14-1693-EL-RDR	OH	Public Utilities Commission of Ohio	Ohio Energy Group	PPA rider for charges or credits for physical hedges against market.
12/15	45188	TX	Cities Served by Oncor Electric Delivery Company	Oncor Electric Delivery Company	Hunt family acquisition of Oncor; transaction structure; income tax savings from real estate investment trust (REIT) structure; conditions.
12/15 01/16	6680-CE-176 Direct, Surrebuttal, Supplemental Rebuttal	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Power and Light Company	Need for capacity and economics of proposed Riverside Energy Center Expansion project; ratemaking conditions.
03/16 0/16 04/16 05/16 06/16	EL01-88 Remand Direct Answering Cross-Answering Rebuttal	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Bandwidth Formula: Capital structure, fuel inventory, Waterford 3 sale/leaseback, Vidalia purchased power, ADIT, Blythesville, Spindletop, River Bend AFUDC, property insurance reserve, nuclear depreciation expense.
03/16	15-1673-E-T	WV	West Virginia Energy Users Group	Appalachian Power Company	Terms and conditions of utility service for commercial and industrial customers, including security deposits.
04/16	39971 Panel Direct	GA	Georgia Public Service Commission Staff	Southern Company, AGL Resources, Georgia Power Company, Atlanta Gas Light Company	Southern Company acquisition of AGL Resources, risks, opportunities, quantification of savings, ratemaking implications, conditions, settlement.
04/16	2015-00343	KY	Office of the Attorney General	Atmos Energy Corporation	Revenue requirements, including NOL ADIT, affiliate transactions.
04/16	2016-00070	KY	Office of the Attorney General	Atmos Energy Corporation	R & D Rider.
05/16	2016-00026 2016-00027	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co., Louisville Gas & Electric Co.	Need for environmental projects, calculation of environmental surcharge rider.
05/16	16-G-0058 16-G-0059	NY	New York City	Keyspan Gas East Corp., Brooklyn Union Gas Company	Depreciation, including excess reserves, leak prone pipe.
06/16	160088-EI	FL	South Florida Hospital and Healthcare Association	Florida Power and Light Company	Fuel Adjustment Clause Incentive Mechanism re: economy sales and purchases, asset optimization.

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Date	Case	Jurisdict.	Party	Utility	Subject
07/16	160021-EI	FL	South Florida Hospital and Healthcare Association	Florida Power and Light Company	Revenue requirements, including capital recovery, depreciation, ADIT.
08/16	15-1022-EL-UNC 16-1105-EL-UNC	OH	Ohio Energy Group	AEP Ohio Power Company	SEET earnings, effects of other pending proceedings.
9/16	2016-00162	KY	Office of the Attorney General	Columbia Gas Kentucky	Revenue requirements, O&M expense, depreciation, affiliate transactions.
09/16	E-22 Sub 519, 532, 533	NC	Nucor Steel	Dominion North Carolina Power Company	Revenue requirements, deferrals and amortizations.
09/16	15-1256-G-390P (Reopened) 16-0922-G-390P	WV	West Virginia Energy Users Group	Mountaineer Gas Company	Infrastructure rider, including NOL ADIT and other income tax normalization and calculation issues.
10/16	10-2929-EL-UNC 11-346-EL-SSO 11-348-EL-SSO 11-349-EL-SSO 11-350-EL-SSO 14-1186-EL-RDR	OH	Ohio Energy Group	AEP Ohio Power Company	State compensation mechanism, capacity cost, Retail Stability Rider deferrals, refunds, SEET.
11/16	16-0395-EL-SSO Direct	OH	Ohio Energy Group	Dayton Power & Light Company	Credit support and other riders; financial stability of Utility, holding company.
12/16	Formal Case 1139	DC	Healthcare Council of the National Capital Area	Potomac Electric Power Company	Post test year adjust, merger costs, NOL ADIT, Incentive compensation, rent.
01/17	46238	TX	Steering Committee of Cities Served by Oncor	Oncor Electric Delivery Company	Acquisition of Oncor by Next Era Energy; goodwill, transaction costs, transition costs, cost deferrals, ratemaking issues.
02/17	16-0395-EL-SSO Direct (Stipulation)	OH	Ohio Energy Group	Dayton Power & Light Company	Non-unanimous stipulation re: credit support and other riders; financial stability of utility, holding company.
02/17	45414	TX	Cities of Midland, McAllen, and Colorado City	Sharyland Utilities, LP, Sharyland Distribution & Transmission Services, LLC	Income taxes, depreciation, deferred costs, affiliate expenses.
03/17	2016-00370 2016-00371	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Company, Louisville Gas and Electric Company	AMS, capital expenditures, maintenance expense, amortization expense, depreciation rates and expense.
06/17	29849 (Panel with Philip Hayet)	GA	Georgia Public Service Commission Staff	Georgia Power Company	Vogtle 3 and 4 economics.

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08/17	17-0296-E-PC	WV	Public Service Commission of West Virginia Charleston	Monongahela Power Company, The Potomac Edison Power Company	ADIT, OPEB.

EXHIBIT ____ (LK-2)

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DATA REQUEST

AG_1_002

Regarding the Rockport station and the Unit Power Agreement ("UPA"), confirm the following:
a. Rockport Unit 1 is owned by KPCo affiliates Indiana Michigan Power Co. ("I&M") and AEP Generating Company ("AEG");
b. Rockport Unit 2 is owned by Wilmington Trust Co., which leases an undivided 50% share of Unit 2 to I&M, and an undivided 50% share to AEG;
c. Under the terms of the UPA, KPCo is entitled to 30% of the output of AEG's share in the Rockport Units;
d. Under the terms of the New Source Review Consent Decree ("Consent Decree," as modified by four Modifications to the Consent Decree) that KPCo and other American Electric Power ("AEP") operating companies entered into with the U.S. Department of Justice, among others, and as more fully described in: (i) the McManus testimony at p. 3 and Exhibit JMM-1 attached thereto in Case No. 2017-00179; and (ii) ECP Plan Project 19, KPCo will be required to pay its proportionate share of the costs of installing Selective Catalytic Reduction ("SCR") technology at Rockport Unit 1;
e. the Rockport UPA expires in 2022;
f. Under the terms of the Consent Decree, Rockport Unit 2 will require approximately $1.4 billion in new pollution controls by 2028;
g. I&M's 2015 IRP filing calls for renewing the Rockport lease, and adding SCR technology in 2019, and FGD systems in 2025 and 2028;
h. In April, 2017 the U.S. Sixth Circuit Court of Appeals issued a ruling ("Appellate Court Ruling") holding that AEG will be responsible for the costs of installing an FGD at Rockport Unit 2 estimated to cost $1.4 billion;
i. The Appellate Court Ruling stated, inter alia, that the EPA initiated and ultimately settled ". . . enforcement litigation against various AEP affiliates for alleged Clean Air Act violations at other coal-burning power plants. But it did not do so with respect to Rockport 2. Rather, having made no allegations regarding the owners' plant, the EPA gained the ability to impose the scrubber requirement only by virtue of the consent decree agreed to by its lessees—one whereby AEP traded away Rockport 2's long-term value in exchange for a more favorable settlement of claims against their other interests."
j. Neither the Kentucky Public Service Commission nor the Kentucky Office of the Attorney General were parties to the cases in which the Consent Decree and the four modifications thereto were formulated and approved.
k. On or about July 21, 2017, KPCo and certain of its affiliates filed a

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motion in the U.S. District Court for the Southern District of Ohio (Eastern Division; hereinafter: "U.S. District Court Motion") seeking a fifth Modification to the Consent Decree;

l. The U.S. District Court Motion states, inter alia, at pp. ii-iii, "The Modification seeks to remedy the uncertainty that currently surrounds AEP's rights with respect to Rockport Unit 2 by removing commitments for future pollution control installations (specifically the obligations to install a selective catalytic reduction system ("SCR") by the end of 2019 and a high-efficiency flue gas desulfurization system ("FGD") by the end of 2028) at that Unit and instead committing AEP to one of two alternative courses of action with respect to the Rockport Units";

m. The U.S. District Court Motion states, inter alia, at p. 17 that "... given the ongoing dispute with the Lessors concerning the terms of the [Rockport Unit 2] Lease, AEP does not currently plan on extending the term of the Lease, which will terminate in 2022";

n. The U.S. District Court Motion states, inter alia, at p. 18 that "... AEP proposes modifying the Consent Decree as follows... (1) remove the requirements for additional control installations at Rockport Unit 2 (the SCR and the high-efficiency FGD); (2) memorialize AEP's commitment to seek any appropriate state regulatory approvals to replace Rockport Unit 2's capacity and energy, including but not limited to actions related to the Rockport Unit 2 Lease.... ";

o. In the instant case, KPCo seeks approval of its Fifth Amended Environmental Compliance Plan, which includes, inter alia, Project 19 regarding the installation of a selective catalytic converter (SCR) at Rockport Unit 1;

p. The construction of the Rockport Unit 1 SCR is required by the Consent Decree;

q. KPCo and its affiliates are not seeking to delay or negate the construction of the Rockport Unit 1 SCR in their U.S. District Court Motion;

r. The return on equity applicable to construction of the Rockport Unit 1 SCR is 12.16%.

RESPONSE

a. Confirmed.

b. Rockport Unit 2 is owned by Wilmington Trust Co., not in its individual capacity, but solely as owner trustee under twelve separate trusts. Wilmington Trust Co. leases an undivided 50% share of Unit 2 to I&M, and an undivided 50% share to AEG.

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c. AEG controls 50% of the Rockport Plant, and the Company is entitled to 30% of the output from AEG's share. Thus, the Company is entitled to 15% of the total output of Rockport.

d. The UPA, not the Consent Decree, governs the Company's payment of costs related to the Rockport Unit 1 SCR. The Consent Decree requires that the Unit 1 SCR be installed and operated by December 31, 2017. Pursuant to the terms of the UPA, the costs paid by Kentucky Power for its 15% share of the output of the Rockport Plant include a portion of the cost of the Unit 1 SCR and are reflected in the purchased power bill that the Company receives from AEG. The UPA is attached as "AG_1_002_Attachment1.pdf."

e. Confirmed.

f. The Consent Decree does not address the cost of emissions control technology. The Consent Decree requires an SCR to be installed and operated on Rockport Unit 2 by December 31, 2019. It further requires that one Rockport unit "Retrofit, Retire, Re-power, or Refuel" by December 31, 2025, and that the other Rockport unit "Retrofit, Retire, Re-power, or Refuel" by December 31, 2028. These terms are defined in the Part III, "Definitions," of the Consent Decree.

g. As a threshold matter, the extension of the UPA between Kentucky Power and AEG is a question that is independent and different from I&M's resource planning decisions with respect to Rockport. As explained in Kentucky Power's 2017 Integrated Resource Plan ("IRP"), the UPA expires December 7, 2022. Kentucky Power anticipates that it will address whether to extend the UPA in its 2019 IRP, and it will seek appropriate approval from the Commission for an extension of the UPA or the acquisition of replacement energy and capacity.

I&M's 2015 IRP did not "call for" any specific actions but rather identified (at page ES-6) maintaining Rockport as one part of I&M's "preferred portfolio." I&M's 2015 IRP made clear (at page ES-13) that the "IRP process is a continuous activity" and "assumptions and plans are continually reviewed as new information becomes available and modified as appropriate." I&M's 2015 IRP further clarified that it was "not a commitment to a specific course of action, as the future is highly uncertain." Id. Rather, the I&M 2015 IRP was "simply a snapshot of the future at this time" (i.e., 2015), as the "complexities" of resource planning "necessitate the need for flexibility and adaptability in any ongoing planning activity and resource planning processes." Id.

In addition, I&M's 2015 IRP explained (at page ES-1) that I&M had evaluated multiple resource planning scenarios including cases which removed one or both Rockport units. The results of these analyses showed that the decision whether to retire a Rockport unit was "highly dependent on assumptions" and was "near break-even" in some scenarios. Id.

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I&M's 2015 IRP is available at:

https://www.indianamichiganpower.com/info/projects/IntegratedResourcePlan/

h. The referenced "Appellate Court Ruling" has been superseded by a subsequent decision. The U.S. Court of Appeals for the Sixth Circuit ("Sixth Circuit") issued a decision on April 14, 2017. However, in response to a petition for rehearing, the Sixth Circuit granted rehearing and issued a superseding "Amended Opinion" on June 8, 2017. This Amended Opinion reversed the district court's dismissal of certain of plaintiffs' claims. Critically, however, the Amended Opinion made no liability determination and remanded the case to the district court for further proceedings. Please see the Company's response to KPSC 2-49, which provides the Amended Opinion as "KPCO_R_KPSC_2_049_Attachment1.pdf." The Amended Opinion speaks for itself.

i. The Company confirms the quoted language is contained in the June 8, 2017 Amended Opinion. The Company notes that the Sixth Circuit's decision considered all allegations in the lessors' complaint to be true, and that there had been no opportunity to develop a complete factual record in the district court. As noted in subpart (h) above, the June 8, 2017 "Amended Opinion" made no liability determination and remanded the case to the district court for further proceedings. The Amended Opinion, which is provided in the Company's response to KPSC 2-49, speaks for itself.

j. Confirmed. Neither of these entities moved to intervene in the cases.

k. Confirmed. This motion was previously provided to the Attorney General on July 25, 2017 by Kentucky Power and is attached as "AG_1_002_Attachment2.pdf."

l. The Company confirms that the quoted language is contained in the motion, but notes that the specifics of the requested relief are explained in greater detail elsewhere in the motion. The motion ("AG_1_002_Attachment2.pdf") speaks for itself.

m. The Company confirms that the quoted language is contained in the motion, but notes that the circumstances surrounding the litigation with the lessors are set forth more fully elsewhere in the motion. The motion ("AG_1_002_Attachment2.pdf") speaks for itself.

n. Although the quoted language may be found in the motion, the excerpt is only a partial list of the proposed Consent Decree modifications. A complete list can be found on pages 18-22 of the motion ("AG_1_002_Attachment2.pdf").

o. Confirmed.

Kentucky Power Company
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p. Confirmed.

q. Confirmed. The Rockport Unit 1 SCR went into service on August 9, 2017.

r. Kentucky Power confirms that under the terms of the FERC-approved UPA, the rate it pays for its 15% share of the output of Rockport reflects a 12.16% ROE.

Witness: Matthew J. Satterwhite

EXHIBIT ____ (LK-3)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
Attorney General's First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

AG_1_301 Unit Power Agreement. Does KPCo have a Unit Power Agreement with AEP Generating Company? If "yes" explain fully and:
a. Provide a copy of the Unit Power Agreement ("UPA") between KPCo and AEP Generating Company.
b. Confirm that the UPA is the same as the Unit Power Supply Agreement ("UPSA") which was approved by the Commission in its Order dated October 25, 2004 in Case No. 2001-00420. If not confirmed, explain fully why not, and provide a copy of the UPA applicable to Rockport.
c. Identify all FERC proceedings from 2004 through 2017 that have addressed the Rockport Unit Power Supply Agreement.
d. Identify all costs, by account, that the Company is requesting in the test year related to the Rockport Unit Power Supply Agreement.
e. Identify and provide all invoices to the Company in 2015, 2016 and 2017 (to date) related to charges associated with the Rockport Unit Power Supply Agreement.

RESPONSE

a. Please refer to the Company's response to AG 1-2 for the requested information.

b. The Company cannot confirm the statement. The Commission by order Dated December 13, 2004 approved the Stipulation and Settlement Agreement among Kentucky Power Company, Kentucky Industrial Utility Customers, Inc, and the Office of the Attorney General Office of Rate Intervention in Case No. 2004-00420.

Please refer to the Company's response to AG 1-2 for a copy of the Unit Power Agreement.

c. Docket ER13-286 was the only FERC proceeding addressing the Rockport Unit Power Supply Agreement in the years from 2004 through 2017.

d. Rockport purchase power is recorded in the test year in accounts 5550027 and 5550046 in the amounts of $51,785,042 and $48,218,333, respectively. There were no specific adjustment to these accounts in the test year.

e. Please refer to the Company's response to KIUC 1-43 for the requested information.

Witness: Ranie K. Wohnhas
Matthew J. Satterwhite

EXHIBIT ____ (LK-4)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

KIUC_1_043 Please provide copies of all Rockport Unit Power Agreement monthly invoices billed to the Company from AEP for the period January 2015 through the most recent month available in electronic format with all formulas intact.

RESPONSE

Please refer to KPCO_R_KIUC_1_43_Attachment1.xls through KPCO_R_KIUC_1_43_Attachment31.xls for the requested information.

Witness: Ranie K. Wohnhas

A E P GENERATING COMPANY **March, 2016 ESTIMATE**

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	160,041
501	FUEL	918,850
502	STEAM EXPENSES	306,714
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	61,102
506	MISC. STEAM POWER EXPENSES	136,574
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	7,273,533
510	MAINTENANCE SUPER. AND ENGINEERING	96,591
511	MAINTENANCE OF STRUCTURES	19,700
512	MAINTENANCE OF BOILER PLANT	155,999
513	MAINTENANCE OF ELECTRIC PLANT	(1,058)
514	MAINTENANCE OF MISC. STEAM PLANT	50,250
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	321,482
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	1,410
557	OTHER POWER SUPPLY EXPENSES	7,716
	TOTAL OTHER SUPPLY EXPENSES	9,126

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	31
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	3
THIS BILLING IS FOR MONTH OF	March, 2016

A E P GENERATING COMPANY

April, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	182,923
501	FUEL	2,804,734
502	STEAM EXPENSES	319,505
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	79,968
506	MISC. STEAM POWER EXPENSES	111,036
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	9,188,419
510	MAINTENANCE SUPER. AND ENGINEERING	90,994
511	MAINTENANCE OF STRUCTURES	14,062
512	MAINTENANCE OF BOILER PLANT	165,178
513	MAINTENANCE OF ELECTRIC PLANT	135,183
514	MAINTENANCE OF MISC. STEAM PLANT	38,138
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	443,555
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	(4,437)
557	OTHER POWER SUPPLY EXPENSES	(7,880)
	TOTAL OTHER SUPPLY EXPENSES	(12,317)

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	30
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	4
THIS BILLING IS FOR MONTH OF	April, 2016

A E P GENERATING COMPANY

May, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	201,984
501	FUEL	7,228,379
502	STEAM EXPENSES	1,024,514
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	55,191
506	MISC. STEAM POWER EXPENSES	80,535
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	14,280,856
510	MAINTENANCE SUPER. AND ENGINEERING	84,457
511	MAINTENANCE OF STRUCTURES	11,847
512	MAINTENANCE OF BOILER PLANT	149,185
513	MAINTENANCE OF ELECTRIC PLANT	56,951
514	MAINTENANCE OF MISC. STEAM PLANT	51,365
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	353,805
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	978
557	OTHER POWER SUPPLY EXPENSES	3,682
	TOTAL OTHER SUPPLY EXPENSES	4,659

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	31
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	5
THIS BILLING IS FOR MONTH OF	May, 2016

A E P GENERATING COMPANY

June, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	149,478
501	FUEL	8,184,768
502	STEAM EXPENSES	878,552
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	62,304
506	MISC. STEAM POWER EXPENSES	95,284
507	RENTS	5,690,246
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	15,060,631
510	MAINTENANCE SUPER. AND ENGINEERING	87,372
511	MAINTENANCE OF STRUCTURES	25,208
512	MAINTENANCE OF BOILER PLANT	105,636
513	MAINTENANCE OF ELECTRIC PLANT	32,300
514	MAINTENANCE OF MISC. STEAM PLANT	30,656
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	281,172
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	1,647
557	OTHER POWER SUPPLY EXPENSES	7,319
	TOTAL OTHER SUPPLY EXPENSES	8,966

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	30
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	6
THIS BILLING IS FOR MONTH OF	June, 2016

A E P GENERATING COMPANY

July, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	165,825
501	FUEL	9,011,508
502	STEAM EXPENSES	940,969
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	53,624
506	MISC. STEAM POWER EXPENSES	97,375
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	15,959,554
510	MAINTENANCE SUPER. AND ENGINEERING	91,414
511	MAINTENANCE OF STRUCTURES	28,380
512	MAINTENANCE OF BOILER PLANT	229,288
513	MAINTENANCE OF ELECTRIC PLANT	42,295
514	MAINTENANCE OF MISC. STEAM PLANT	30,084
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	421,462
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	(3)
557	OTHER POWER SUPPLY EXPENSES	4,304
	TOTAL OTHER SUPPLY EXPENSES	4,301

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	31
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	7
THIS BILLING IS FOR MONTH OF	July, 2016

A E P GENERATING COMPANY

August, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	201,696
501	FUEL	9,223,440
502	STEAM EXPENSES	959,152
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	53,194
506	MISC. STEAM POWER EXPENSES	68,804
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	16,196,539
510	MAINTENANCE SUPER. AND ENGINEERING	114,176
511	MAINTENANCE OF STRUCTURES	27,575
512	MAINTENANCE OF BOILER PLANT	163,359
513	MAINTENANCE OF ELECTRIC PLANT	24,080
514	MAINTENANCE OF MISC. STEAM PLANT	36,983
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	366,171
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	1,621
557	OTHER POWER SUPPLY EXPENSES	7,691
	TOTAL OTHER SUPPLY EXPENSES	9,312

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	31
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	8
THIS BILLING IS FOR MONTH OF	August, 2016

A E P GENERATING COMPANY

September, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	168,835
501	FUEL	8,493,263
502	STEAM EXPENSES	974,540
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	52,843
506	MISC. STEAM POWER EXPENSES	164,977
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	15,544,711
510	MAINTENANCE SUPER. AND ENGINEERING	94,541
511	MAINTENANCE OF STRUCTURES	4,106
512	MAINTENANCE OF BOILER PLANT	121,595
513	MAINTENANCE OF ELECTRIC PLANT	(25,760)
514	MAINTENANCE OF MISC. STEAM PLANT	35,106
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	229,587
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	(4,134)
557	OTHER POWER SUPPLY EXPENSES	(9,870)
	TOTAL OTHER SUPPLY EXPENSES	(14,004)

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	30
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	9
THIS BILLING IS FOR MONTH OF	September, 2016

C:\Users\Jessica1\Desktop\Shared Project Folders\Kentucky Power 2017-00179\Data Requests\KIUC\KPCO_R_KIUC_1_43_Attachment21_Sept_2016.xls

A E P GENERATING COMPANY

October, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	144,882
501	FUEL	8,911,821
502	STEAM EXPENSES	1,092,407
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	52,733
506	MISC. STEAM POWER EXPENSES	111,126
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	16,003,221
510	MAINTENANCE SUPER. AND ENGINEERING	85,008
511	MAINTENANCE OF STRUCTURES	7,860
512	MAINTENANCE OF BOILER PLANT	193,157
513	MAINTENANCE OF ELECTRIC PLANT	24,649
514	MAINTENANCE OF MISC. STEAM PLANT	16,398
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	327,072
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	686
557	OTHER POWER SUPPLY EXPENSES	5,644
	TOTAL OTHER SUPPLY EXPENSES	6,330

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	31
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	10
THIS BILLING IS FOR MONTH OF	October, 2016

A E P GENERATING COMPANY

November, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	172,478
501	FUEL	7,939,935
502	STEAM EXPENSES	930,819
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	49,752
506	MISC. STEAM POWER EXPENSES	110,291
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	14,893,528
510	MAINTENANCE SUPER. AND ENGINEERING	86,713
511	MAINTENANCE OF STRUCTURES	(8,046)
512	MAINTENANCE OF BOILER PLANT	286,737
513	MAINTENANCE OF ELECTRIC PLANT	23,959
514	MAINTENANCE OF MISC. STEAM PLANT	35,309
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	424,671
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	136
557	OTHER POWER SUPPLY EXPENSES	2,141
	TOTAL OTHER SUPPLY EXPENSES	2,277

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	30
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	11
THIS BILLING IS FOR MONTH OF	November, 2016

A E P GENERATING COMPANY

December, 2016
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	176,670
501	FUEL	10,623,614
502	STEAM EXPENSES	1,124,689
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	56,749
506	MISC. STEAM POWER EXPENSES	90,848
507	RENTS	5,690,248
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	17,762,818
510	MAINTENANCE SUPER. AND ENGINEERING	99,873
511	MAINTENANCE OF STRUCTURES	15,233
512	MAINTENANCE OF BOILER PLANT	224,582
513	MAINTENANCE OF ELECTRIC PLANT	30,614
514	MAINTENANCE OF MISC. STEAM PLANT	32,011
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	402,312
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	498
557	OTHER POWER SUPPLY EXPENSES	(7,894)
	TOTAL OTHER SUPPLY EXPENSES	(7,396)

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	31
NO OF DAYS IN CURRENT YEAR >	366
CURRENT YEAR IS	2016
CURRENT MONTH IS	12
THIS BILLING IS FOR MONTH OF	December, 2016

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A E P GENERATING COMPANY

January, 2017
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	153,707
501	FUEL	5,426,053
502	STEAM EXPENSES	717,880
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	83,669
506	MISC. STEAM POWER EXPENSES	207,620
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	12,279,182
510	MAINTENANCE SUPER. AND ENGINEERING	102,466
511	MAINTENANCE OF STRUCTURES	26,802
512	MAINTENANCE OF BOILER PLANT	289,355
513	MAINTENANCE OF ELECTRIC PLANT	202,153
514	MAINTENANCE OF MISC. STEAM PLANT	41,225
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	662,001
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	3,500
557	OTHER POWER SUPPLY EXPENSES	14,199
	TOTAL OTHER SUPPLY EXPENSES	17,699

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	31
NO OF DAYS IN CURRENT YEAR >	365
CURRENT YEAR IS	2017
CURRENT MONTH IS	1
THIS BILLING IS FOR MONTH OF	January, 2017

A E P GENERATING COMPANY

February, 2017
ESTIMATE

ROCKPORT OPERATION & MAINTENANCE EXPENSES UNIT 2
50% OWNERSHIP INTEREST OF ROCKPORT PLANT

500	SUPERVISION AND ENGINEERING	130,795
501	FUEL	8,439,465
502	STEAM EXPENSES	965,978
503	STEAM FROM OTHER SOURCES	0
504	STEAM TRANSFERRED - CR	0
505	ELECTRIC EXPENSES	54,790
506	MISC. STEAM POWER EXPENSES	87,402
507	RENTS	5,690,253
508	OPERATION SUPPLIES AND EXPENSES	0
509	CARRYING CHARGES - ALLOWANCES	0
	TOTAL OPERATION EXPENSE	15,368,682
510	MAINTENANCE SUPER. AND ENGINEERING	69,469
511	MAINTENANCE OF STRUCTURES	10,455
512	MAINTENANCE OF BOILER PLANT	177,804
513	MAINTENANCE OF ELECTRIC PLANT	(56,723)
514	MAINTENANCE OF MISC. STEAM PLANT	32,774
515	MAINTENANCE NORMALIZING	0
	TOTAL MAINTENANCE EXPENSES	233,780
555	PURCHASED POWER	0
556	SYSTEM CONTROL AND LOAD DISPATCHING	(203)
557	OTHER POWER SUPPLY EXPENSES	1,685
	TOTAL OTHER SUPPLY EXPENSES	1,482

	AMOUNT MUST BE ZERO
IS FUEL IN BALANCE ON PAGE 2	0

BE SURE THIS IS CORRECT

NO OF DAYS IN CURRENT MO >	28
NO OF DAYS IN CURRENT YEAR >	365
CURRENT YEAR IS	2017
CURRENT MONTH IS	2
THIS BILLING IS FOR MONTH OF	February, 2017

EXHIBIT ____ (LK-5)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

KIUC_1_005 Please provide a load and capability analysis for the Company showing capacity resources, demand response resources, retail and wholesale load and reserve margin for the historic period 2013 through 2016 and the forecast period 2017 through 2027. Also include the Company's Fixed Resource Requirement capacity obligation for each year. The analysis can be presented on either a calendar year or PJM delivery year basis.

RESPONSE

Please refer to KPCO_R_KIUC_1_5_Attachment1.pdf for load, capability and reserve margin including a forecast of the Company's Fixed Resource Requirement obligation for each year. KPCO_R_KIUC_1_5_Attachment2.pdf provides actual and forecast retail and wholesale energy for the Company. KPCO_R_KIUC_1_5_Attachment3.pdf provides forecast retail and wholesale demands coincident with the Company's internal peak demand. The Company does not have hourly meters on all of its customers, therefore historical coincident peak demand data by class are not available.

Witness: Ranie K. Wohnhas

KENTUCKY POWER COMPANY
Projected Summer Peak Demands, Generating Capabilities, and Margins (UCAP)
Based on (June 2017) Load Forecast
2017

Planning Year	Internal Demand (a)	DSM (b)	Projected DSM Impact (c)	Net Internal Demand	Interruptible Demand Response (d)	Demand Response Factor	Forecast Pool Req't (e)	UCAP Obligation	Net UCAP Market Obligation (f)	Total UCAP Obligation	Existing Capacity & Planned Changes (g)	Net Capacity Sales (h)	Net ICAP	AEP EFORd (j)	Available UCAP	BASE UCAP Removed (l)	Net Position w/o New Capacity	Net Position w/ New Capacity	Total UCAP Obligation Less IDR and IRM	Installed Reserve Margin (IRM)	KPCo Reserve Margin Above PJM IRM	Total KPCo Reserve Margin
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(16)	(17)	(18)	(19)	(20)	(21)				
				=(1)+(3)				=((4)-((5)*(6)))*(7)		=(8)+(9)			=(11)-(12) + Sum(14) +(15)		=(16)*(1-(17))		=((11)-(12) +(15)) *(1-(17)) -(10)-	=(18)-(10)-(19)				
	Obligation to PJM										Resources						KPCo Position (MW)		PJM Reserve Margin			
2013 /14 (k)	1,136	(3)	0	1,136	0	0.957	1.089	1,237	0	1,237	1,470	50	1,420	4.65%	1,354	0	117	117	1,067	15.90%	10.96%	26.86%
2014 /15 (k)	1,084	(1)	0	1,084	0	0.954	1.093	1,185	0	1,185	2,250	0	2,250	20.77%	1,783	0	598	598	1,020	16.20%	58.64%	74.84%
2015 /16 (k)	1,096	(2)	0	1,096	0	0.951	1.091	1,196	0	1,196	1,450	0	1,450	10.16%	1,303	0	107	107	1,035	15.60%	10.34%	25.94%
2016 /17 (k)	1,088	(3)	0	1,088	0	0.953	1.095	1,191	0	1,191	1,457	0	1,457	11.09%	1,295	0	104	104	1,023	16.40%	10.16%	26.56%
2017 /18 (k)	1,021	(3)	0	1,021	0	0.947	1.097	1,119	0	1,119	1,457	0	1,457	11.98%	1,282	0	163	163	960	16.60%	16.98%	33.58%
2018 /19 (k)	1,020	(7)	0	1,020	0	1.000	1.089	1,111	0	1,111	1,463	0	1,463	9.99%	1,317	0	206	206	953	16.60%	21.62%	38.22%
2019 /20 (k)	1,025	(9)	0	1,025	0	1.000	1.089	1,116	0	1,116	1,463	0	1,463	9.99%	1,317	0	201	201	957	16.60%	21.00%	37.60%
2020 /21 (k)	1,022	(10)	0	1,022	0	1.000	1.089	1,113	0	1,113	1,468	0	1,468	9.97%	1,322	0	209	209	955	16.60%	21.90%	38.50%
2021 /22	960	(11)	(3)	957	1	1.000	1.089	1,040	0	1,040	1,468	0	1,468	9.97%	1,322	1	281	281	893	16.60%	31.46%	48.06%
2022 /23	957	(12)	(7)	951	1	1.000	1.089	1,034	0	1,034	1,468	0	1,468	9.97%	1,322	1	287	287	888	16.60%	32.31%	48.91%
2023 /24	955	(12)	(9)	946	1	1.000	1.089	1,029	0	1,029	1,468	0	1,468	9.97%	1,322	1	292	292	884	16.60%	33.04%	49.64%
2024 /25	953	(13)	(10)	942	1	1.000	1.089	1,025	0	1,025	1,468	0	1,468	9.97%	1,322	1	296	296	880	16.60%	33.62%	50.22%
2025 /26	952	(12)	(11)	941	1	1.000	1.089	1,023	0	1,023	1,465	0	1,465	9.98%	1,319	1	295	295	879	16.60%	33.57%	50.17%
2026 /27	951	(12)	(12)	939	1	1.000	1.089	1,021	0	1,021	1,465	0	1,465	9.98%	1,319	1	297	297	877	16.60%	33.87%	50.47%
2027 /28	950	(11)	(12)	938	1	1.000	1.089	1,020	0	1,020	1,465	0	1,465	9.98%	1,319	1	298	298	876	16.60%	34.01%	50.61%

Notes: (a) Based on (June 2017) Load Forecast (with implied PJM diversity factor)

(b) Existing plus approved and projected "Passive" EE, and VVO
(note: these values & timing are for reference only and are not reflected in position determination)

(c) For PJM planning purposes, the ultimate impact of new DSM is 'delayed' ~4 years to represent the ultimate recognition of these amounts through the PJM-originated load forecast process

(d) Demand Response approved by PJM in the prior planning year plus forecasted "Active" DR

(e) Forecast Pool Requirement (FPR) = (1 + IRM) * (1 - PJM EFORd)

(f)

(g) GAS CONVERSION RERATES:
2015/16: Big Sandy 1: 285 MW
RETIREMENTS:
2015/16: Big Sandy 2
2030/31: Big Sandy 1

(h)

(i)

(j) Beginning 2008/09, based on 12-month avg. AEP EFORd in eCapacity as of twelve months ended 9/30 of the previous year

(k) Actual PJM forecast

(l) Capacity Removed as part of
PJM Capacity Peformance Rule
Current CP Assumptions are:
Wind 5%, Solar 38%, ROR Hydro 25%
Demand Response 50%

KPSC Case No. 2017-00179
KIUC First Set of Data Requests
Dated August 14, 2017
Item No. 5
Attachment 1
Page 1 of 1

EXHIBIT ____ (LK-6)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

KIUC_1_083 Please confirm that the Company calculates the effects of temperature on revenues for all major customer classes, including residential, commercial, and industrial for internal management reporting purposes.

RESPONSE

The Company calculates the effects of temperature on revenues for all major weather sensitive customer classes and publishes these estimates for both internal and external purposes. For Kentucky Power, the weather sensitive classes include the Residential, Commercial, and Wholesale classes. The Industrial and Other Retail class sales are much less responsive to changes in temperatures. As a result, no weather impact is estimated or published for the non-weather sensitive classes.

Witness: Alex E. Vaughan

EXHIBIT ____ (LK-7)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

KIUC_1_084 Please confirm that the Company calculates the effects of temperature on revenues for all major customer classes, including residential, commercial, and industrial for financial reporting purposes.

RESPONSE

Refer to the Company's response to KIUC 1-83

Witness: Alex E. Vaughan

EXHIBIT ____ (LK-8)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC's Second Set of Data Requests
Dated September 8, 2017

DATA REQUEST

KIUC_2_016 Refer to the responses to KIUC 1-83, 1-84, and 1-85. Provide the Company's calculation of the weather normalized base revenues and the difference in weather normalized base revenues compared to actual unadjusted base revenues developed for internal management and external reporting purposes by customer class and in total for all classes for each month January 2015 through February 2017. Provide these calculations in live electronic spreadsheet format with all formulas intact.

RESPONSE

See KPCO_R_KIUC_2_016_Attachment1.xls for the actual unadjusted nonfuel revenues, weather normalized non-fuel revenues, and the Company's computed weather impact that was developed and reported for internal management and external reporting purposes by customer class and in total for the months requested. The actual computations are performed in the SAS software and not in a spreadsheet. The Company does not have a spreadsheet that replicates the weather normalization calculations as specifically requested.

Witness: Alex E. Vaughan

Kentucky Power Non-fuel Revenue Impact of Weather

JURIS	YEAR	MONTH	Revenue Class	Actual Non-Fuel Revenues (000s)	Weather Normalized Revenues (000s)	Weather Impact ($000s)
KPC	2015	1	Residential	$ 19,339.47	$ 17,975.21	$ 1,364.25
KPC	2015	1	Commercial	$ 9,395.14	$ 9,117.45	$ 277.69
KPC	2015	1	Industrial	$ 7,718.76	$ 7,718.76	$ -
KPC	2015	1	Other Retail	$ 118.11	$ 118.11	$ -
KPC	2015	1	Munis	$ 347.50	$ 340.23	$ 7.27
			Total	**$ 36,918.98**	**$ 35,269.76**	**$ 1,649.21**
KPC	2015	2	Residential	$ 20,588.39	$ 15,656.59	$ 4,931.80
KPC	2015	2	Commercial	$ 9,933.27	$ 8,891.01	$ 1,042.26
KPC	2015	2	Industrial	$ 7,476.26	$ 7,476.26	$ -
KPC	2015	2	Other Retail	$ 118.93	$ 118.93	$ -
KPC	2015	2	Munis	$ 375.58	$ 340.68	$ 34.90
			Total	**$ 38,492.43**	**$ 32,483.47**	**$ 6,008.96**
KPC	2015	3	Residential	$ 16,109.97	$ 15,879.27	$ 230.70
KPC	2015	3	Commercial	$ 7,987.20	$ 7,956.67	$ 30.53
KPC	2015	3	Industrial	$ 7,040.88	$ 7,040.88	$ -
KPC	2015	3	Other Retail	$ 115.64	$ 115.64	$ -
KPC	2015	3	Munis	$ 291.40	$ 290.05	$ 1.35
			Total	**$ 31,545.09**	**$ 31,282.51**	**$ 262.58**
KPC	2015	4	Residential	$ 10,775.92	$ 11,301.03	$ (525.10)
KPC	2015	4	Commercial	$ 7,523.75	$ 7,651.13	$ (127.38)
KPC	2015	4	Industrial	$ 7,927.38	$ 7,927.38	$ -
KPC	2015	4	Other Retail	$ 131.07	$ 131.07	$ -
KPC	2015	4	Munis	$ 206.33	$ 210.05	$ (3.72)
			Total	**$ 26,564.45**	**$ 27,220.66**	**$ (656.20)**
KPC	2015	5	Residential	$ 11,886.35	$ 11,271.84	$ 614.51
KPC	2015	5	Commercial	$ 9,346.36	$ 9,092.81	$ 253.55
KPC	2015	5	Industrial	$ 8,069.44	$ 8,069.44	$ -
KPC	2015	5	Other Retail	$ 129.68	$ 129.68	$ -
KPC	2015	5	Munis	$ 220.65	$ 215.22	$ 5.43
			Total	**$ 29,652.48**	**$ 28,778.99**	**$ 873.49**
KPC	2015	6	Residential	$ 11,376.47	$ 11,054.10	$ 322.37
KPC	2015	6	Commercial	$ 8,145.24	$ 8,032.49	$ 112.76
KPC	2015	6	Industrial	$ 7,035.06	$ 7,035.06	$ -
KPC	2015	6	Other Retail	$ 101.73	$ 101.73	$ -
KPC	2015	6	Munis	$ 2,082.88	$ 2,051.55	$ 31.33
			Total	**$ 28,741.38**	**$ 28,274.93**	**$ 466.46**
KPC	2015	7	Residential	$ 12,327.68	$ 12,937.86	$ (610.18)
KPC	2015	7	Commercial	$ 8,129.64	$ 8,359.70	$ (230.06)
KPC	2015	7	Industrial	$ 7,149.49	$ 7,149.49	$ -
KPC	2015	7	Other Retail	$ 129.99	$ 129.99	$ -
KPC	2015	7	Munis	$ 363.52	$ 372.44	$ (8.92)
			Total	**$ 28,100.32**	**$ 28,949.48**	**$ (849.16)**

KPC	2015	8 Residential	$ 13,788.37	$ 14,839.83	$ (1,051.46)
KPC	2015	8 Commercial	$ 9,189.58	$ 9,590.38	$ (400.80)
KPC	2015	8 Industrial	$ 6,919.71	$ 6,919.71	$ -
KPC	2015	8 Other Retail	$ 122.77	$ 122.77	$ -
KPC	2015	8 Munis	$ 343.95	$ 356.55	$ (12.60)
		Total	**$ 30,364.38**	**$ 31,829.24**	**$ (1,464.86)**
KPC	2015	9 Residential	$ 12,476.61	$ 12,306.89	$ 169.71
KPC	2015	9 Commercial	$ 9,104.53	$ 9,038.69	$ 65.83
KPC	2015	9 Industrial	$ 8,343.41	$ 8,343.41	$ -
KPC	2015	9 Other Retail	$ 137.56	$ 137.56	$ -
KPC	2015	9 Munis	$ 337.79	$ 335.59	$ 2.20
		Total	**$ 30,399.90**	**$ 30,162.14**	**$ 237.74**
KPC	2015	10 Residential	$ 11,058.04	$ 11,500.15	$ (442.11)
KPC	2015	10 Commercial	$ 9,655.91	$ 9,782.09	$ (126.18)
KPC	2015	10 Industrial	$ 8,504.42	$ 8,504.42	$ -
KPC	2015	10 Other Retail	$ 138.35	$ 138.35	$ -
KPC	2015	10 Munis	$ 275.40	$ 279.25	$ (3.85)
		Total	**$ 29,632.12**	**$ 30,204.26**	**$ (572.14)**
KPC	2015	11 Residential	$ 13,290.53	$ 15,018.21	$ (1,727.68)
KPC	2015	11 Commercial	$ 9,089.19	$ 9,396.91	$ (307.73)
KPC	2015	11 Industrial	$ 8,244.02	$ 8,244.02	$ -
KPC	2015	11 Other Retail	$ 131.89	$ 131.89	$ -
KPC	2015	11 Munis	$ 328.79	$ 342.68	$ (13.89)
		Total	**$ 31,084.42**	**$ 33,133.71**	**$ (2,049.30)**
KPC	2015	12 Residential	$ 16,943.98	$ 22,384.28	$ (5,440.30)
KPC	2015	12 Commercial	$ 8,852.27	$ 9,876.88	$ (1,024.60)
KPC	2015	12 Industrial	$ 8,142.62	$ 8,142.62	$ -
KPC	2015	12 Other Retail	$ 136.95	$ 136.95	$ -
KPC	2015	12 Munis	$ 331.21	$ 366.30	$ (35.09)
		Total	**$ 34,407.03**	**$ 40,907.03**	**$ (6,499.99)**
KPC	2016	1 Residential	$ 26,340.62	$ 24,210.29	$ 2,130.34
KPC	2016	1 Commercial	$ 12,525.35	$ 12,110.83	$ 414.52
KPC	2016	1 Industrial	$ 8,272.27	$ 8,272.27	$ -
KPC	2016	1 Other Retail	$ 143.63	$ 143.63	$ -
KPC	2016	1 Munis	$ 420.03	$ 408.46	$ 11.57
		Total	**$ 47,701.90**	**$ 45,145.48**	**$ 2,556.43**
KPC	2016	2 Residential	$ 19,911.66	$ 20,582.44	$ (670.78)
KPC	2016	2 Commercial	$ 8,766.00	$ 8,913.31	$ (147.31)
KPC	2016	2 Industrial	$ 7,134.75	$ 7,134.75	$ -
KPC	2016	2 Other Retail	$ 128.58	$ 128.58	$ -
KPC	2016	2 Munis	$ 377.49	$ 382.08	$ (4.59)
		Total	**$ 36,318.48**	**$ 37,141.16**	**$ (822.68)**
KPC	2016	3 Residential	$ 13,458.09	$ 16,171.55	$ (2,713.46)
KPC	2016	3 Commercial	$ 8,367.97	$ 8,953.01	$ (585.04)
KPC	2016	3 Industrial	$ 7,497.32	$ 7,497.32	$ -
KPC	2016	3 Other Retail	$ 131.19	$ 131.19	$ -
KPC	2016	3 Munis	$ 306.62	$ 324.48	$ (17.85)

Total	$ 29,761.19	$ 33,077.55	$ (3,316.35)

KPC	2016	4 Residential	$ 12,536.09	$ 12,078.92	$ 457.17
KPC	2016	4 Commercial	$ 9,305.11	$ 9,185.67	$ 119.43
KPC	2016	4 Industrial	$ 7,924.52	$ 7,924.52	$ -
KPC	2016	4 Other Retail	$ 140.87	$ 140.87	$ -
KPC	2016	4 Munis	$ 277.85	$ 274.60	$ 3.25
		Total	**$ 30,184.44**	**$ 29,604.58**	**$ 579.85**
KPC	2016	5 Residential	$ 12,269.33	$ 12,166.25	$ 103.08
KPC	2016	5 Commercial	$ 10,047.31	$ 10,035.27	$ 12.05
KPC	2016	5 Industrial	$ 7,914.72	$ 7,914.72	$ -
KPC	2016	5 Other Retail	$ 143.81	$ 143.81	$ -
KPC	2016	5 Munis	$ (515.88)	$ (514.46)	$ (1.42)
		Total	**$ 29,859.29**	**$ 29,745.59**	**$ 113.71**
KPC	2016	6 Residential	$ 14,722.76	$ 14,019.41	$ 703.36
KPC	2016	6 Commercial	$ 10,680.40	$ 10,443.01	$ 237.39
KPC	2016	6 Industrial	$ 8,311.86	$ 8,311.86	$ -
KPC	2016	6 Other Retail	$ 160.45	$ 160.45	$ -
KPC	2016	6 Munis	$ 283.91	$ 279.86	$ 4.05
		Total	**$ 34,159.38**	**$ 33,214.59**	**$ 944.80**
KPC	2016	7 Residential	$ 17,872.24	$ 17,315.15	$ 557.09
KPC	2016	7 Commercial	$ 10,695.09	$ 10,519.28	$ 175.81
KPC	2016	7 Industrial	$ 7,630.24	$ 7,630.24	$ -
KPC	2016	7 Other Retail	$ 148.34	$ 148.34	$ -
KPC	2016	7 Munis	$ 310.50	$ 307.37	$ 3.13
		Total	**$ 36,656.41**	**$ 35,920.38**	**$ 736.03**
KPC	2016	8 Residential	$ 18,058.03	$ 16,309.71	$ 1,748.32
KPC	2016	8 Commercial	$ 10,797.46	$ 10,234.47	$ 562.98
KPC	2016	8 Industrial	$ 7,500.90	$ 7,500.90	$ -
KPC	2016	8 Other Retail	$ 137.44	$ 137.44	$ -
KPC	2016	8 Munis	$ 309.60	$ 299.66	$ 9.95
		Total	**$ 36,803.43**	**$ 34,482.18**	**$ 2,321.25**
KPC	2016	9 Residential	$ 11,968.76	$ 10,105.71	$ 1,863.05
KPC	2016	9 Commercial	$ 8,168.05	$ 7,562.39	$ 605.66
KPC	2016	9 Industrial	$ 6,504.00	$ 6,504.00	$ -
KPC	2016	9 Other Retail	$ 128.93	$ 128.93	$ -
KPC	2016	9 Munis	$ 286.45	$ 272.22	$ 14.23
		Total	**$ 27,056.19**	**$ 24,573.25**	**$ 2,482.94**
KPC	2016	10 Residential	$ 11,939.50	$ 12,833.25	$ (893.75)
KPC	2016	10 Commercial	$ 9,356.73	$ 9,441.84	$ (85.11)
KPC	2016	10 Industrial	$ 7,157.98	$ 7,157.98	$ -
KPC	2016	10 Other Retail	$ 131.61	$ 131.61	$ -
KPC	2016	10 Munis	$ 213.05	$ 216.89	$ (3.84)
		Total	**$ 28,798.87**	**$ 29,781.57**	**$ (982.70)**
KPC	2016	11 Residential	$ 14,549.19	$ 16,209.51	$ (1,660.32)
KPC	2016	11 Commercial	$ 10,991.97	$ 11,304.98	$ (313.01)
KPC	2016	11 Industrial	$ 8,872.69	$ 8,872.69	$ -
KPC	2016	11 Other Retail	$ 145.69	$ 145.69	$ -
KPC	2016	11 Munis	$ 266.56	$ 274.63	$ (8.07)

			Total	**$ 34,826.10**	**$ 36,807.50**	**$ (1,981.40)**
KPC	2016	12	Residential	$ 20,736.54	$ 21,105.83	$ (369.29)
KPC	2016	12	Commercial	$ 9,744.06	$ 9,821.99	$ (77.92)
KPC	2016	12	Industrial	$ 7,610.54	$ 7,610.54	$ -
KPC	2016	12	Other Retail	$ 138.62	$ 138.62	$ -
KPC	2016	12	Munis	$ 337.28	$ 339.19	$ (1.91)
			Total	**$ 38,567.04**	**$ 39,016.17**	**$ (449.12)**
KPC	2017	1	Residential	$ 19,233.57	$ 22,741.61	$ (3,508.05)
KPC	2017	1	Commercial	$ 9,148.12	$ 9,893.07	$ (744.95)
KPC	2017	1	Industrial	$ 7,156.03	$ 7,156.03	$ -
KPC	2017	1	Other Retail	$ 133.62	$ 133.62	$ -
KPC	2017	1	Munis	$ 324.06	$ 346.34	$ (22.28)
			Total	**$ 35,995.40**	**$ 40,270.67**	**$ (4,275.28)**
KPC	2017	2	Residential	$ 14,536.40	$ 18,445.07	$ (3,908.67)
KPC	2017	2	Commercial	$ 8,479.08	$ 9,300.52	$ (821.44)
KPC	2017	2	Industrial	$ 7,276.16	$ 7,276.16	$ -
KPC	2017	2	Other Retail	$ 136.46	$ 136.46	$ -
KPC	2017	2	Munis	$ 293.59	$ 322.28	$ (28.69)
			Total	**$ 30,721.69**	**$ 35,480.49**	**$ (4,758.80)**

Kentucky Power Non-fuel Revenue Impact of Weather

JURIS	YEAR	MONTH	Revenue Class	Actual Non-Fuel Revenues (000s)	Weather Normalized Revenues (000s)	Weather Impact ($000s)	Weather Impact Commercial($000s)
KPC	2015	1	Residential	$ 19,339.47	$ 17,975.21	$ 1,364.25	
KPC	2015	1	Commercial	$ 9,395.14	$ 9,117.45	$ 277.69	
KPC	2015	1	Industrial	$ 7,718.76	$ 7,718.76	$ -	
KPC	2015	1	Other Retail	$ 118.11	$ 118.11	$ -	
KPC	2015	1	Munis	$ 347.50	$ 340.23	$ 7.27	
			Total	**$ 36,918.98**	**$ 35,269.76**	**$ 1,649.21**	
KPC	2015	2	Residential	$ 20,588.39	$ 15,656.59	$ 4,931.80	
KPC	2015	2	Commercial	$ 9,933.27	$ 8,891.01	$ 1,042.26	
KPC	2015	2	Industrial	$ 7,476.26	$ 7,476.26	$ -	
KPC	2015	2	Other Retail	$ 118.93	$ 118.93	$ -	
KPC	2015	2	Munis	$ 375.58	$ 340.68	$ 34.90	
			Total	**$ 38,492.43**	**$ 32,483.47**	**$ 6,008.96**	
KPC	2015	3	Residential	$ 16,109.97	$ 15,879.27	$ 230.70	
KPC	2015	3	Commercial	$ 7,987.20	$ 7,956.67	$ 30.53	
KPC	2015	3	Industrial	$ 7,040.88	$ 7,040.88	$ -	
KPC	2015	3	Other Retail	$ 115.64	$ 115.64	$ -	
KPC	2015	3	Munis	$ 291.40	$ 290.05	$ 1.35	
			Total	**$ 31,545.09**	**$ 31,282.51**	**$ 262.58**	
KPC	2015	4	Residential	$ 10,775.92	$ 11,301.03	$ (525.10)	
KPC	2015	4	Commercial	$ 7,523.75	$ 7,651.13	$ (127.38)	
KPC	2015	4	Industrial	$ 7,927.38	$ 7,927.38	$ -	
KPC	2015	4	Other Retail	$ 131.07	$ 131.07	$ -	
KPC	2015	4	Munis	$ 206.33	$ 210.05	$ (3.72)	
			Total	**$ 26,564.45**	**$ 27,220.66**	**$ (656.20)**	
KPC	2015	5	Residential	$ 11,886.35	$ 11,271.84	$ 614.51	
KPC	2015	5	Commercial	$ 9,346.36	$ 9,092.81	$ 253.55	
KPC	2015	5	Industrial	$ 8,069.44	$ 8,069.44	$ -	
KPC	2015	5	Other Retail	$ 129.68	$ 129.68	$ -	
KPC	2015	5	Munis	$ 220.65	$ 215.22	$ 5.43	
			Total	**$ 29,652.48**	**$ 28,778.99**	**$ 873.49**	
KPC	2015	6	Residential	$ 11,376.47	$ 11,054.10	$ 322.37	
KPC	2015	6	Commercial	$ 8,145.24	$ 8,032.49	$ 112.76	
KPC	2015	6	Industrial	$ 7,035.06	$ 7,035.06	$ -	
KPC	2015	6	Other Retail	$ 101.73	$ 101.73	$ -	
KPC	2015	6	Munis	$ 2,082.88	$ 2,051.55	$ 31.33	
			Total	**$ 28,741.38**	**$ 28,274.93**	**$ 466.46**	
KPC	2015	7	Residential	$ 12,327.68	$ 12,937.86	$ (610.18)	
KPC	2015	7	Commercial	$ 8,129.64	$ 8,359.70	$ (230.06)	
KPC	2015	7	Industrial	$ 7,149.49	$ 7,149.49	$ -	
KPC	2015	7	Other Retail	$ 129.99	$ 129.99	$ -	
KPC	2015	7	Munis	$ 363.52	$ 372.44	$ (8.92)	
			Total	**$ 28,100.32**	**$ 28,949.48**	**$ (849.16)**	
KPC	2015	8	Residential	$ 13,788.37	$ 14,839.83	$ (1,051.46)	
KPC	2015	8	Commercial	$ 9,189.58	$ 9,590.38	$ (400.80)	
KPC	2015	8	Industrial	$ 6,919.71	$ 6,919.71	$ -	
KPC	2015	8	Other Retail	$ 122.77	$ 122.77	$ -	
KPC	2015	8	Munis	$ 343.95	$ 356.55	$ (12.60)	
			Total	**$ 30,364.38**	**$ 31,829.24**	**$ (1,464.86)**	
KPC	2015	9	Residential	$ 12,476.61	$ 12,306.89	$ 169.71	
KPC	2015	9	Commercial	$ 9,104.53	$ 9,038.69	$ 65.83	
KPC	2015	9	Industrial	$ 8,343.41	$ 8,343.41	$ -	
KPC	2015	9	Other Retail	$ 137.56	$ 137.56	$ -	
KPC	2015	9	Munis	$ 337.79	$ 335.59	$ 2.20	

Kentucky Power Non-fuel Revenue Impact of Weather

JURIS	YEAR	MONTH	Revenue Class	Actual Non-Fuel Revenues (000s)	Weather Normalized Revenues (000s)	Weather Impact ($000s)	Weather Impact Commercial($000s)
			Total	**$ 30,399.90**	**$ 30,162.14**	**$ 237.74**	
KPC	2015	10	Residential	$ 11,058.04	$ 11,500.15	$ (442.11)	
KPC	2015	10	Commercial	$ 9,655.91	$ 9,782.09	$ (126.18)	
KPC	2015	10	Industrial	$ 8,504.42	$ 8,504.42	$ -	
KPC	2015	10	Other Retail	$ 138.35	$ 138.35	$ -	
KPC	2015	10	Munis	$ 275.40	$ 279.25	$ (3.85)	
			Total	**$ 29,632.12**	**$ 30,204.26**	**$ (572.14)**	
KPC	2015	11	Residential	$ 13,290.53	$ 15,018.21	$ (1,727.68)	
KPC	2015	11	Commercial	$ 9,089.19	$ 9,396.91	$ (307.73)	
KPC	2015	11	Industrial	$ 8,244.02	$ 8,244.02	$ -	
KPC	2015	11	Other Retail	$ 131.89	$ 131.89	$ -	
KPC	2015	11	Munis	$ 328.79	$ 342.68	$ (13.89)	
			Total	**$ 31,084.42**	**$ 33,133.71**	**$ (2,049.30)**	
KPC	2015	12	Residential	$ 16,943.98	$ 22,384.28	$ (5,440.30)	
KPC	2015	12	Commercial	$ 8,852.27	$ 9,876.88	$ (1,024.60)	
KPC	2015	12	Industrial	$ 8,142.62	$ 8,142.62	$ -	
KPC	2015	12	Other Retail	$ 136.95	$ 136.95	$ -	
KPC	2015	12	Munis	$ 331.21	$ 366.30	$ (35.09)	
			Total	**$ 34,407.03**	**$ 40,907.03**	**$ (6,499.99)**	
KPC	2016	1	Residential	$ 26,340.62	$ 24,210.29	$ 2,130.34	
KPC	2016	1	Commercial	$ 12,525.35	$ 12,110.83	$ 414.52	
KPC	2016	1	Industrial	$ 8,272.27	$ 8,272.27	$ -	
KPC	2016	1	Other Retail	$ 143.63	$ 143.63	$ -	
KPC	2016	1	Munis	$ 420.03	$ 408.46	$ 11.57	
			Total	**$ 47,701.90**	**$ 45,145.48**	**$ 2,556.43**	
KPC	2016	2	Residential	$ 19,911.66	$ 20,582.44	$ (670.78)	
KPC	2016	2	Commercial	$ 8,766.00	$ 8,913.31	$ (147.31)	
KPC	2016	2	Industrial	$ 7,134.75	$ 7,134.75	$ -	
KPC	2016	2	Other Retail	$ 128.58	$ 128.58	$ -	
KPC	2016	2	Munis	$ 377.49	$ 382.08	$ (4.59)	
			Total	**$ 36,318.48**	**$ 37,141.16**	**$ (822.68)**	
KPC	2016	3	Residential	$ 13,458.09	$ 16,171.55	$ (2,713.46)	
KPC	2016	3	Commercial	$ 8,367.97	$ 8,953.01	$ (585.04)	$ (585.04)
KPC	2016	3	Industrial	$ 7,497.32	$ 7,497.32	$ -	
KPC	2016	3	Other Retail	$ 131.19	$ 131.19	$ -	
KPC	2016	3	Munis	$ 306.62	$ 324.48	$ (17.85)	
			Total	**$ 29,761.19**	**$ 33,077.55**	**$ (3,316.35)**	
KPC	2016	4	Residential	$ 12,536.09	$ 12,078.92	$ 457.17	
KPC	2016	4	Commercial	$ 9,305.11	$ 9,185.67	$ 119.43	$ 119.43
KPC	2016	4	Industrial	$ 7,924.52	$ 7,924.52	$ -	
KPC	2016	4	Other Retail	$ 140.87	$ 140.87	$ -	
KPC	2016	4	Munis	$ 277.85	$ 274.60	$ 3.25	
			Total	**$ 30,184.44**	**$ 29,604.58**	**$ 579.85**	
KPC	2016	5	Residential	$ 12,269.33	$ 12,166.25	$ 103.08	
KPC	2016	5	Commercial	$ 10,047.31	$ 10,035.27	$ 12.05	$ 12.05
KPC	2016	5	Industrial	$ 7,914.72	$ 7,914.72	$ -	
KPC	2016	5	Other Retail	$ 143.81	$ 143.81	$ -	
KPC	2016	5	Munis	$ (515.88)	$ (514.46)	$ (1.42)	
			Total	**$ 29,859.29**	**$ 29,745.59**	**$ 113.71**	
KPC	2016	6	Residential	$ 14,722.76	$ 14,019.41	$ 703.36	
KPC	2016	6	Commercial	$ 10,680.40	$ 10,443.01	$ 237.39	$ 237.39
KPC	2016	6	Industrial	$ 8,311.86	$ 8,311.86	$ -	
KPC	2016	6	Other Retail	$ 160.45	$ 160.45	$ -	

Kentucky Power Non-fuel Revenue Impact of Weather

JURIS	YEAR	MONTH	Revenue Class	Actual Non-Fuel Revenues (000s)	Weather Normalized Revenues (000s)	Weather Impact ($000s)	Weather Impact Commercial($000s)
KPC	2016	6	Munis	$ 283.91	$ 279.86	$ 4.05	
			Total	**$ 34,159.38**	**$ 33,214.59**	**$ 944.80**	
KPC	2016	7	Residential	$ 17,872.24	$ 17,315.15	$ 557.09	
KPC	2016	7	Commercial	$ 10,695.09	$ 10,519.28	$ 175.81	$ 175.81
KPC	2016	7	Industrial	$ 7,630.24	$ 7,630.24	$ -	
KPC	2016	7	Other Retail	$ 148.34	$ 148.34	$ -	
KPC	2016	7	Munis	$ 310.50	$ 307.37	$ 3.13	
			Total	**$ 36,656.41**	**$ 35,920.38**	**$ 736.03**	
KPC	2016	8	Residential	$ 18,058.03	$ 16,309.71	$ 1,748.32	
KPC	2016	8	Commercial	$ 10,797.46	$ 10,234.47	$ 562.98	$ 562.98
KPC	2016	8	Industrial	$ 7,500.90	$ 7,500.90	$ -	
KPC	2016	8	Other Retail	$ 137.44	$ 137.44	$ -	
KPC	2016	8	Munis	$ 309.60	$ 299.66	$ 9.95	
			Total	**$ 36,803.43**	**$ 34,482.18**	**$ 2,321.25**	
KPC	2016	9	Residential	$ 11,968.76	$ 10,105.71	$ 1,863.05	
KPC	2016	9	Commercial	$ 8,168.05	$ 7,562.39	$ 605.66	$ 605.66
KPC	2016	9	Industrial	$ 6,504.00	$ 6,504.00	$ -	
KPC	2016	9	Other Retail	$ 128.93	$ 128.93	$ -	
KPC	2016	9	Munis	$ 286.45	$ 272.22	$ 14.23	
			Total	**$ 27,056.19**	**$ 24,573.25**	**$ 2,482.94**	
KPC	2016	10	Residential	$ 11,939.50	$ 12,833.25	$ (893.75)	
KPC	2016	10	Commercial	$ 9,356.73	$ 9,441.84	$ (85.11)	$ (85.11)
KPC	2016	10	Industrial	$ 7,157.98	$ 7,157.98	$ -	
KPC	2016	10	Other Retail	$ 131.61	$ 131.61	$ -	
KPC	2016	10	Munis	$ 213.05	$ 216.89	$ (3.84)	
			Total	**$ 28,798.87**	**$ 29,781.57**	**$ (982.70)**	
KPC	2016	11	Residential	$ 14,549.19	$ 16,209.51	$ (1,660.32)	
KPC	2016	11	Commercial	$ 10,991.97	$ 11,304.98	$ (313.01)	$ (313.01)
KPC	2016	11	Industrial	$ 8,872.69	$ 8,872.69	$ -	
KPC	2016	11	Other Retail	$ 145.69	$ 145.69	$ -	
KPC	2016	11	Munis	$ 266.56	$ 274.63	$ (8.07)	
			Total	**$ 34,826.10**	**$ 36,807.50**	**$ (1,981.40)**	
KPC	2016	12	Residential	$ 20,736.54	$ 21,105.83	$ (369.29)	
KPC	2016	12	Commercial	$ 9,744.06	$ 9,821.99	$ (77.92)	$ (77.92)
KPC	2016	12	Industrial	$ 7,610.54	$ 7,610.54	$ -	
KPC	2016	12	Other Retail	$ 138.62	$ 138.62	$ -	
KPC	2016	12	Munis	$ 337.28	$ 339.19	$ (1.91)	
			Total	**$ 38,567.04**	**$ 39,016.17**	**$ (449.12)**	
KPC	2017	1	Residential	$ 19,233.57	$ 22,741.61	$ (3,508.05)	
KPC	2017	1	Commercial	$ 9,148.12	$ 9,893.07	$ (744.95)	$ (744.95)
KPC	2017	1	Industrial	$ 7,156.03	$ 7,156.03	$ -	
KPC	2017	1	Other Retail	$ 133.62	$ 133.62	$ -	
KPC	2017	1	Munis	$ 324.06	$ 346.34	$ (22.28)	
			Total	**$ 35,995.40**	**$ 40,270.67**	**$ (4,275.28)**	
KPC	2017	2	Residential	$ 14,536.40	$ 18,445.07	$ (3,908.67)	
KPC	2017	2	Commercial	$ 8,479.08	$ 9,300.52	$ (821.44)	$ (821.44)
KPC	2017	2	Industrial	$ 7,276.16	$ 7,276.16	$ -	
KPC	2017	2	Other Retail	$ 136.46	$ 136.46	$ -	
KPC	2017	2	Munis	$ 293.59	$ 322.28	$ (28.69)	
			Total	**$ 30,721.69**	**$ 35,480.49**	**$ (4,758.80)**	
							$ (914.15)

EXHIBIT ____ (LK-9)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

KIUC_1_031 Please provide the amount of incentive compensation expense pursuant to the Long Term Incentive Plan (LTIP) included in the test year revenue requirement for each target metric used for this plan during the test year. Separately provide the costs incurred directly by the Company and the costs incurred through AEPSC affiliate charges. In addition, please provide these amounts by FERC O&M and/or A&G expense account.

RESPONSE

The information cannot be provided as requested. The LTIP is comprised of two components: Restricted Stock Units (RSUs) and Performance Share Incentives (PSIs). RSUs do not have a target metric as payout of RSUs is based on the grant date stock price of American Electric Power Company, Inc. PSIs have two target metrics: Earnings per Share (EPS) and Total Shareholder Return (TSR). Separate entries were not recorded to the ledger in the test year related to these two PSI target metrics. In addition, the expense related to the PSI is calculated based on the performance of the components over a three-year period and not the test year as requested.

The Company is providing the total PSI and total RSU expense included in the test year revenue requirement for the twelve months ended February 28, 2017. Please see KIUC_1_31_Attachment1.xls and KIUC_1_31_Attachment2.xls for total LTIP and total RSU expense included in the test year revenue requirement for the twelve months ended February 28, 2017 related to Kentucky Power employees and AEPSC employees that were billed to Kentucky Power, respectively.

Witness: Tyler H. Ross

KPSC Case No. 2017-00179
KIUC's First Set of Data Requests
Dated August 14, 2017
Item No. 31
Attachment 2
1 of 1

Kentucky Power Company
AEPSC Billings to Kentucky Power Company in Cost of Service
For Long Term Incentive (PSI & RSU)
For the Test Year Ended February 2017

	PSI - Performance Share Incentive			RSU - Restricted Stock Units			LTIP Total		
FERC Account	Amount Billed by AEPSC to KPCO	Less: Mitchell Amount Billed by KPCO to Co-Owner	Adjusted Amount Billed KPCO	Amount Billed by AEPSC to KPCO	Less: Mitchell Amount Billed by KPCO to Co-Owner	Adjusted Amount Billed KPCO	Amount Billed by AEPSC to KPCO	Less: Mitchell Amount Billed by KPCO to Co-Owner	Adjusted Amount Billed KPCO
5000	137,115	46,100	91,015	17,315	11,884	5,432	154,430	57,984	96,447
5010	4,053	390	3,663	1,391	141	1,250	5,444	531	4,913
5020	2,177	815	1,362	157	46	110	2,333	861	1,472
5050	7	0	7	13	0	13	21	0	21
5060	3,587	1,462	2,126	1,003	393	610	4,590	1,855	2,735
5100	12,615	4,834	7,782	3,220	1,212	2,008	15,836	6,046	9,790
5110	13,352	5,507	7,845	2,866	1,047	1,819	16,218	6,554	9,663
5120	19,212	6,116	13,096	4,552	1,700	2,851	23,764	7,316	15,948
5130	27,265	9,448	17,817	7,275	2,225	5,051	34,540	11,673	22,867
5140	11,091	5,175	5,917	2,031	958	1,072	13,122	6,133	6,989
5280	43	18	25	7	3	4	50	21	29
5300	2	0	2	0	0	0	2	0	2
5310	188	80	108	58	25	34	246	105	141
5350	2	1	1	0	0	0	2	1	1
5560	15,299	6,502	8,797	3,949	1,679	2,271	19,249	8,181	11,068
5570	45,759	18,647	27,112	11,124	4,650	6,474	56,883	23,297	33,585
5600	20,118	113	20,005	10,216	35	10,181	30,334	149	30,186
5611	92	0	92	65	0	65	157	0	157
5612	13,575	8	13,567	6,508	2	6,506	20,082	9	20,073
5615	1,681	67	1,615	954	24	930	2,635	90	2,545
5620	2,239	0	2,239	1,205	0	1,205	3,444	0	3,444
5630	689	0	689	392	0	392	1,082	0	1,082
5660	12,759	220	12,539	5,466	69	5,397	18,225	290	17,936
5680	401	(2)	403	194	1	193	596	(1)	596
5690	77	0	77	2	0	2	78	0	78
5691	21	0	21	12	0	12	32	0	32
5692	993	3	990	507	1	505	1,500	4	1,495
5693	9	0	9	5	0	5	14	0	14
5700	6,721	1	6,720	3,307	0	3,307	10,028	1	10,027
5710	10,730	0	10,730	4,588	0	4,588	15,318	0	15,318
5720	1	0	1	0	0	0	1	0	1
5730	6,498	0	6,498	2,825	0	2,825	9,323	0	9,323
5800	11,215	412	10,803	3,949	72	3,277	14,564	484	14,080
5810	52	0	52	24	0	24	75	0	75
5820	1,863	0	1,863	1,154	0	1,154	3,017	0	3,017
5830	(3)	0	(3)	0	0	0	(3)	0	(3)
5840	167	0	167	49	0	49	216	0	216
5860	2,427	1	2,426	659	0	659	3,086	1	3,085
5880	12,230	62	12,167	3,067	13	3,054	15,297	76	15,221
5890	4	0	4	0	0	0	4	0	4
5900	101	0	101	36	0	36	137	0	137
5910	92	0	92	29	0	29	121	0	121
5920	4,430	0	4,430	2,044	0	2,044	6,474	0	6,474
5930	643	0	643	166	0	166	808	0	808
5970	84	0	84	16	0	16	99	0	99
5980	20	0	20	38	0	38	59	0	59
9010	960	(0)	960	284	0	284	1,243	(0)	1,243
9020	1,507	5	1,502	437	1	437	1,945	6	1,939
9030	84,281	31	84,250	23,616	6	23,609	107,897	38	107,859
9050	298	0	298	89	0	89	387	0	387
9070	1,166	0	1,166	335	0	335	1,501	0	1,501
9080	436	0	436	126	0	126	562	0	562
9100	(1)	(0)	(1)	2	0	1	1	0	1
9200	983,571	210,611	772,960	244,530	54,724	189,806	1,228,101	265,335	962,766
9230	7,067	1,744	5,323	1,706	416	1,290	8,774	2,161	6,613
9250	79	20	59	42	10	32	121	30	91
9260	942	236	705	264	65	199	1,205	302	904
9280	29,035	3,125	25,909	10,963	1,222	9,741	39,998	4,347	35,650
9301	240	0	240	71	0	71	311	0	311
9302	3,799	570	3,229	1,048	157	891	4,847	727	4,120
9350	4,712	217	4,495	1,081	54	1,027	5,793	271	5,522
Grand Total	1,519,784	322,538	1,197,247	386,431	82,836	303,595	1,906,216	405,374	1,500,841

Kentucky Power Company
Adjusted LTIP in Cost of Service by Account
For the Test Year Ended 2/28/17

Account	O&M Labor Equalivent FERC pg 354	Percent	RSU Incentive at going Level Total Company $ 49,864	RSU Incentive at going Level Jurisdictional $ 49,465	PSI Incentive at going Level Total Company $ 195,097	PSI Incentive at going Level Jurisdictional $ 193,536
Generation:						
5000	549,015.61	2.0325%	$ 1,013.48	$ 1,005.37	$ 3,965.31	$ 3,933.58
5010	56,383.78	0.2087%	104.08	103.25	407.24	403.98
5010	339,539.40	1.2570%	626.79	621.77	2,452.35	2,432.73
5020	617,569.78	2.2863%	1,140.03	1,130.90	4,460.44	4,424.75
5020	467.77	0.0017%	0.86	0.86	3.38	3.35
5020	433.40	0.0016%	0.80	0.79	3.13	3.11
5020	814.20	0.0030%	1.50	1.49	5.88	5.83
5020	103,683.06	0.3838%	191.40	189.87	748.86	742.87
5050	755.80	0.0028%	1.40	1.38	5.46	5.42
5060	4,321,953.62	16.0001%	7,978.27	7,914.43	31,215.63	30,965.87
5100	2,095,165.60	7.7564%	3,867.65	3,836.70	15,132.49	15,011.41
5110	247,433.20	0.9160%	456.76	453.10	1,787.10	1,772.81
5120	4,723,003.83	17.4848%	8,718.60	8,648.84	34,112.24	33,839.30
5130	1,288,338.76	4.7695%	2,378.26	2,359.23	9,305.12	9,230.67
5140	689,790.61	2.5536%	1,273.34	1,263.16	4,982.06	4,942.20
Transmission:						
5600	3.48	0.0000%	0.01	0.01	0.03	0.02
5710	54,811.53	0.2029%	101.18	100.37	395.88	392.71
Distribution:						
5800	173,469.56	0.6422%	320.22	317.66	1,252.90	1,242.87
5830	217,242.21	0.8042%	401.03	397.82	1,569.05	1,556.49
5840	25,155.58	0.0931%	46.44	46.07	181.69	180.23
5850	2,536.38	0.0094%	4.68	4.64	18.32	18.17
5860	590,500.47	2.1861%	1,090.06	1,081.33	4,264.93	4,230.81
5870	132,374.66	0.4901%	244.36	242.41	956.09	948.44
5880	2,137,110.97	7.9117%	3,945.08	3,913.51	15,435.44	15,311.94
5900	325.88	0.0012%	0.60	0.60	2.35	2.33
5930	4,200,542.79	15.5506%	7,754.14	7,692.10	30,338.73	30,095.98
5930	623,215.33	2.3072%	1,150.45	1,141.24	4,501.22	4,465.20
5940	9,332.45	0.0345%	17.23	17.09	67.40	66.86
5950	34,377.81	0.1273%	63.46	62.95	248.30	246.31
5960	18,183.04	0.0673%	33.57	33.30	131.33	130.28
5970	59,409.09	0.2199%	109.67	108.79	429.09	425.65
5980	23,186.00	0.0858%	42.80	42.46	167.46	166.12
9010	147,237.49	0.5451%	271.80	269.62	1,063.43	1,054.92
9020	2,075.81	0.0077%	3.83	3.80	14.99	14.87
9020	205,770.64	0.7618%	379.85	376.81	1,486.19	1,474.30
9020	1,090.97	0.0040%	2.01	2.00	7.88	7.82
9030	33,826.65	0.1252%	62.44	61.94	244.32	242.36
9030	152,610.67	0.5650%	281.72	279.46	1,102.24	1,093.42
9030	654,882.21	2.4244%	1,208.90	1,199.23	4,729.93	4,692.09
9030	108,818.46	0.4029%	200.88	199.27	785.95	779.66
9050	811.83	0.0030%	1.50	1.49	5.86	5.82
9070	70,143.66	0.2597%	129.48	128.45	506.62	502.56
9080	217,140.50	0.8039%	400.84	397.63	1,568.31	1,555.76
9080	330,137.46	1.2222%	609.43	604.55	2,384.44	2,365.36
9100	3,687.69	0.0137%	6.81	6.75	26.63	26.42
Admin. and General:						
9200	1,492,673.94	5.5259%	2,755.46	2,733.41	10,780.95	10,694.69
9210	-975.04	-0.0036%	(1.80)	(1.79)	(7.04)	(6.99)
9220	-533,702.00	-1.9758%	(985.21)	(977.32)	(3,854.70)	(3,823.86)
9250	5,788.20	0.0214%	10.68	10.60	41.81	41.47
9260	11,475.50	0.0425%	21.18	21.01	82.88	82.22
9280	85,649.94	0.3171%	158.11	156.84	618.61	613.66
9301	1,227.71	0.0045%	2.27	2.25	8.87	8.80
9302	3,561.67	0.0132%	6.57	6.52	25.72	25.52
9302	19,307.72	0.0715%	35.64	35.36	139.45	138.34
9350	654,509.13	2.4230%	1,208.21	1,198.55	4,727.24	4,689.42
9350	8,240.91	0.0305%	15.21	15.09	59.52	59.04
Total	27,012,117.37	100%	49,864.00	49,465.00	195,097.00	193,536.00

EXHIBIT ____ (LK-10)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC's Second Set of Data Requests
Dated September 8, 2017

DATA REQUEST

KIUC_2_015 Provide a schedule that shows the amortization expense related to each deferred asset included in the base revenue requirement. For each expense, provide a citation to the relevant Commission Order authorizing recovery of the deferred asset, if any.

RESPONSE

Please refer to KPCO_R_KIUC_2_15_Attachment1.xls for the requested information.

Witness: Tyler H. Ross

EXHIBIT ____ (LK-11)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

KIUC_1_073 Please provide all studies or analysis to support the expected retirement date of Big Sandy 1 at 2031.

RESPONSE

No such studies exist. Retirement dates are established by AEP Engineering based on many factors, including the original design, the current condition of the unit - including maintenance and replacements, and its operational conditions - including number of startups and hours of operation. Also considered in determining retirement dates is the potential cost to replace the generation with another source.

Witness: Debra L. Osborne

EXHIBIT ____ (LK-12)

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017
Page 1 of 2

DATA REQUEST

KIUC_1_041

Refer to the Big Sandy plant balances on Section V Exhibit 2 page 46.
a. Separate the plant balances into pre-conversion plant and conversion plant.
b. Describe all overhaul/rebuild work performed on the pre-conversion Big Sandy 1 equipment/plant to enable continued use or re-use after the conversion.
c. Describe all new equipment/plant installed at Big Sandy 1 due to the conversion.

RESPONSE

a. Please refer to KPCO_R_KIUC_1_41a_Attachment1.xls for the separated plant balances.

b. Modifications to pre-conversion Big Sandy plant and equipment included the following:

1. Boiler modification to allow for natural gas combustion;
2. Boiler Pressure Part replacements to accommodate expected increase in operating temperatures;
3. Electronic monitoring system upgrades and modifications to accommodate new and modified equipment;
4. Electrical upgrades including new power distribution equipment to serve new electrical loads;
5. Instrumentation upgrades as required by new equipment installations;
6. Fire Protection System upgrades including Hazard Area Classifications, upgraded building ventilation, and modifications to fire water supply system;
7. Relocation of the Plant Hydrogen Supply tanks;
8. Relocation of Unit 2 station batteries to serve Unit 1 loads;
9. Modifications to burner platforms to provide safe access to new gas burners and associated equipment;
10. Emissions Monitoring System (CEMS) upgrades and modifications as required by air permit.

c. New equipment installed at Big Sandy 1 for the gas conversion included the following:

1. Main Gas & Igniter supply header station with flow metering equipment and pressure reducing, shutoff, and vent valves;
2. Duplex blower system to supply combustion/cooling air to burners and igniters;
3. Burner and igniter gas racks, burners, igniters, and flame scanners;

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
KIUC First Set of Data Requests
Dated August 14, 2017
Page 2 of 2

4. Natural Gas Pipeline terminating at a new gas metering station on the plant site;
5. Fuel Gas conditioning equipment, including pressure reducing station, water bath heater, scrubber vessel, and check-metering station;
6. Gas piping from Check-Metering station to Main Gas & Igniter station;
7. Electric Auxiliary boiler to feed existing steam space heaters and combustion air heating coils;
8. Dedicated Unit 1 demineralized water treatment system, including pre-treatment, reverse osmosis, and deionization equipment;
9. New hydrogen piping to Unit 1 turbine/generator area.

Witness: Debra L. Osborne
Jason A. Cash

EXHIBIT ____ (LK-13)

Kentucky Power Company
KIUC Recommendation to Reduce Depreciation to Extend Estimated Service Life of Big Sandy 1 from 15 to 30 Years
Case No. 2017-00179
For the Test Year Ended February 28, 2017
($)

Acct. No	Description	Depreciable Electric Plant In Service as of 2/28/2017	Company's Proposed Annual Rates	Company's Pro Forma Annualized Depreciation on EPIS 2/28/2017	KIUC Recommended Annual Rates Adj #1	KIUC Recommemded Annualized Depreciation on EPIS 2/28/2017	KIUC Recommemded Depreciation Expense Adjustment
	Big Sandy Unit 1						
311	Structures & Improvements	12,184,471	4.83%	588,694	2.30%	280,425	(308,269)
312	Boiler Plant Equipment	75,395,244	7.15%	5,391,340	3.32%	2,502,789	(2,888,551)
314	Turbogenerator Units	61,396,870	4.52%	2,777,454	2.14%	1,311,155	(1,466,299)
315	Accessory Electrical Equip.	3,909,915	3.03%	118,393	1.44%	56,250	(62,143)
316	Misc. Power Plant Equip.	3,587,666	4.52%	162,251	2.15%	77,087	(85,164)
	Total Production Plant - BS1 - Total Co.	156,474,166		9,038,132		4,227,706	(4,810,426)

Allocation Factor Per Company Filing	0.985
KIUC Reducton in Depreciation Expense to Extend Service Life of BS1 30 Years - KY Jurisdiction	(4,738,269)

Source: Section V Exhibit 2 - Page 46 of 60

AS FILED
KENTUCKY POWER COMPANY
SCHEDULE I - CALCULATION OF BIG SANDY UNIT 1 DEPRECIATION RATES BY THE REMAINING LIFE METHOD
BASED ON PLANT IN SERVICE AT DECEMBER 31, 2016
AVERAGE LIFE GROUP (ALG) METHOD ACCRUAL RATES

Acct. No.	Account Title	Original Cost	Net Salvg. Ratio	Total to be Recovered	Calculated Depreciation Requirement	Accumulated Depreciation	Remaining to Be Recovered	Avg. Remain Life	Annual Accrual Amount	Annual Accrual Percent
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)
BIG SANDY UNIT 1										
311	Structures & Improvements	11,756,127	1.09	12,814,178	7,526,502	4,805,397	8,008,781	14.10	567,999	4.83%
312	Boiler Plant Equipment	75,388,722	1.09	82,173,707	22,552,265	9,774,280	72,399,427	13.43	5,390,873	7.15%
314	Turbogenerator Units	61,392,346	1.09	66,917,657	36,338,075	28,424,981	38,492,676	13.86	2,777,249	4.52%
315	Accessory Electrical Equip.	3,877,136	1.09	4,226,078	2,964,549	2,578,951	1,647,127	14.03	117,400	3.03%
316	Misc. Power Plant Equip.	3,321,344	1.09	3,620,265	2,153,127	1,512,867	2,107,398	14.03	150,207	4.52%
	Total	155,735,675	1.09	169,751,885	71,534,518	47,096,476	122,655,409	13.62	9,003,728	5.78%

AS ADJUSTED BY KIUC TO EXTEND SERVICE LIFE OF BS1 FROM 15 to 30 YEARS
KENTUCKY POWER COMPANY
SCHEDULE I - CALCULATION OF BIG SANDY UNIT 1 DEPRECIATION RATES BY THE REMAINING LIFE METHOD
BASED ON PLANT IN SERVICE AT DECEMBER 31, 2016
AVERAGE LIFE GROUP (ALG) METHOD ACCRUAL RATES

Acct. No.	Account Title	Original Cost	Net Salvg. Ratio	Total to be Recovered	Calculated Depreciation Requirement	Accumulated Depreciation	Remaining to Be Recovered	Avg. Remain Life	Annual Accrual Amount	Annual Accrual Percent
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)
BIG SANDY UNIT 1										
311	Structures & Improvements	11,756,127	1.09	12,814,178	7,526,502	4,805,397	8,008,781	29.60	270,567	2.30%
312	Boiler Plant Equipment	75,388,722	1.09	82,173,707	22,552,265	9,774,280	72,399,427	28.93	2,502,573	3.32%
314	Turbogenerator Units	61,392,346	1.09	66,917,657	36,338,075	28,424,981	38,492,676	29.36	1,311,058	2.14%
315	Accessory Electrical Equip.	3,877,136	1.09	4,226,078	2,964,549	2,578,951	1,647,127	29.53	55,778	1.44%
316	Misc. Power Plant Equip.	3,321,344	1.09	3,620,265	2,153,127	1,512,867	2,107,398	29.53	71,365	2.15%
	Total	155,735,675	1.09	169,751,885	71,534,518	47,096,476	122,655,409	29.13	4,211,341	2.70%

EXHIBIT ____ (LK-14)

Kentucky Power Company
KIUC Recommendation to Reduce Depreciation to Remove Terminal Net Salvage for Big Sandy 1
Case No. 2017-00179
For the Test Year Ended February 28, 2017
($)

Acct. No	Description	Depreciable Electric Plant In Service as of 2/28/2017	KIUC Recommended Annual Rates After Adj #1	Company's Pro Forma Annualized Depreciation on EPIS 2/28/2017	KIUC Recommended Annual Rates Adj #2	KIUC Recommemded Annualized Depreciation on EPIS 2/28/2017	KIUC Recommemded Depreciation Expense Adjustment
	Big Sandy Unit 1						
311	Structures & Improvements	12,184,471	2.30%	280,425	2.07%	251,611	(28,814)
312	Boiler Plant Equipment	75,395,244	3.32%	2,502,789	3.08%	2,320,360	(182,429)
314	Turbogenerator Units	61,396,870	2.14%	1,311,155	1.90%	1,164,773	(146,382)
315	Accessory Electrical Equip.	3,909,915	1.44%	56,250	1.20%	46,981	(9,269)
316	Misc. Power Plant Equip.	3,587,666	2.15%	77,087	1.91%	68,583	(8,504)
Total Production Plant - BS1 - Total Co.		156,474,166		4,227,706		3,852,308	(375,398)

Allocation Factor Per Company Filing	0.985
KIUC Reducton in Depreciation Expense to Remove Terminal Net Salvage for BS1 - KY Jurisdiction	(369,767)

AS ADJUSTED BY KIUC TO REMOVE TERMINAL NET SALVAGE
KENTUCKY POWER COMPANY
SCHEDULE I - CALCULATION OF BIG SANDY UNIT 1 DEPRECIATION RATES BY THE REMAINING LIFE METHOD
BASED ON PLANT IN SERVICE AT DECEMBER 31, 2016
AVERAGE LIFE GROUP (ALG) METHOD ACCRUAL RATES

Acct. No.	Account Title	Original Cost	Net Salvg. Ratio	Total to be Recovered	Calculated Depreciation Requirement	Accumulated Depreciation	Remaining to Be Recovered	Avg. Remain Life	Annual Accrual Amount	Annual Accrual Percent
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)
BIG SANDY UNIT 1										
311	Structures & Improvements	11,756,127	1.02	11,991,250	7,526,502	4,805,397	7,185,853	29.60	242,765	2.07%
312	Boiler Plant Equipment	75,388,722	1.02	76,896,496	22,552,265	9,774,280	67,122,216	28.93	2,320,160	3.08%
314	Turbogenerator Units	61,392,346	1.02	62,620,193	36,338,075	28,424,981	34,195,212	29.36	1,164,687	1.90%
315	Accessory Electrical Equip.	3,877,136	1.02	3,954,679	2,964,549	2,578,951	1,375,728	29.53	46,587	1.20%
316	Misc. Power Plant Equip.	3,321,344	1.02	3,387,771	2,153,127	1,512,867	1,874,904	29.53	63,492	1.91%
	Total	155,735,675	1.02	158,850,389	71,534,518	47,096,476	111,753,913	29.13	3,837,691	2.46%

KENTUCKY POWER COMPANY
DEPRECIATION STUDY AT DECEMBER 31, 2016
CALCULATION OF NET SALVAGE RATIO - BIG SANDY UNIT 1

As Filed

Plant/Units	Terminal Salvage	Interim Salvage Amount	Total Salvage Amount	Terminal Removal	Interim Removal Amount	Total Removal Amount	Original Cost at Dec. 2016	Salvage as a % of Original Cost	Removal as a % of Original Cost	Net Salvage Percent	Net Salvage Ratio
Big Sandy Unit 1	$8,261,424	$1,045,110	$9,306,534	$19,665,185	$4,099,354	$23,764,539	$155,735,675	5.98%	15.26%	-9.28%	1.09
Total Big Sandy Unit 1	$8,261,424	$1,045,110	$9,306,534	$19,665,185	$4,099,354	$23,764,539	$155,735,675				

As Adjusted by KIUC

Plant/Units	Terminal Salvage	Interim Salvage Amount	Total Salvage Amount	Terminal Removal	Interim Removal Amount	Total Removal Amount	Original Cost at Dec. 2016	Salvage as a % of Original Cost	Removal as a % of Original Cost	Net Salvage Percent	Net Salvage Ratio
Big Sandy Unit 1	$0	$1,045,110	$1,045,110	$0	$4,099,354	$4,099,354	$155,735,675	0.67%	2.63%	-1.96%	1.02
Total Big Sandy Unit 1	$0	$1,045,110	$1,045,110	$0	$4,099,354	$4,099,354	$155,735,675				

Kentucky Power Company
KIUC Recommendation to Reduce Depreciation to Remove Terminal Net Salvage for Mitchell Plant
Case No. 2017-00179
For the Test Year Ended February 28, 2017
($)

Acct. No	Description	Depreciable Electric Plant In Service as of 2/28/2017	Company's Proposed Annual Rates	Company's Pro Forma Annualized Depreciation on EPIS 2/28/2017	KIUC Recommended Annual Rates	KIUC Recommemded Annualized Depreciation on EPIS 2/28/2017	KIUC Recommemded Depreciation Expense Adjustment
	Mitchell Plant						
311	Structures & Improvements	$39,689,654	2.66%	1,055,745	2.58%	1,023,080	(32,665)
312	Boiler Plant Equipment	$543,318,597	3.05%	16,571,217	2.96%	16,097,328	(473,889)
312	Boiler Plant Equip - SCR Catalyst	$8,255,456	12.50%	1,031,932	12.50%	1,031,932	-
314	Turbogenerator Units	$53,960,834	1.76%	949,711	1.67%	903,802	(45,909)
315	Accessory Electrical Equip.	$23,765,408	1.56%	370,740	1.49%	353,086	(17,654)
316	Misc. Power Plant Equip.	$6,552,009	2.72%	178,215	2.63%	172,450	(5,765)
	Total Production Plant - BS1 - Total Co.	675,541,958		20,157,560		19,581,678	(575,882)
	Allocation Factor Per Company Filing						0.985
	KIUC Reducton in Depreciation Expense to Extend Service Life of BS1 from 15 to 40 Years - KY Jurisdiction						(567,244)

Source: Section V Exhibit 2 - Page 43 of 60

AS ADJUSTED BY KIUC - MATCHES ORDER 2014-00396 DETERMINED RATES
KENTUCKY POWER COMPANY
SCHEDULE I - CALCULATION OF DEPRECIATION RATES BY THE REMAINNG LIFE METHOD
BASED ON PLANT IN SERVICE AT DECEMBER 31, 2013
AVERAGE LIFE GROUP (ALG) METHOD ACCRUAL RATES

Acct. No.	Account Title	Original Cost	Net Salvg. Ratio	Total to be Recovered	Calculated Depreciation Requirement	Accumulated Depreciation	Remaining to Be Recovered	Avg. Remain Life	Annual Accrual Amount	Annual Accrual Percent
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)
Mitchell Plant (3)										
311	Structures & Improvements	42,000,197	1.05	44,100,207	18,282,178	16,183,402	27,916,805	25.01	1,116,226	2.66%
312	Boiler Plant Equipment	765,644,984	1.05	803,927,233	245,324,500	238,518,432	565,408,801	24.25	23,315,827	3.05%
312	Boiler Plant Equip SCR Catalyst (2)	8,190,115	1.00	8,190,115	4,023,394	2,378,493	5,811,622	4.07	1,023,764	12.50%
314	Turbogenerator Units	53,295,697	1.05	55,960,482	29,106,660	33,613,523	22,346,959	23.84	937,372	1.76%
315	Accessory Electrical Equip.	17,080,672	1.05	17,934,706	9,466,086	11,043,285	6,891,421	25.81	267,006	1.56%
316	Misc. Power Plant Equip.	7,693,412	1.05	8,078,083	3,289,590	3,072,520	5,005,563	23.96	208,913	2.72%
	Total	893,905,077	1.05	938,190,826	309,492,408	304,809,655	633,381,171	23.57	26,869,109	3.01%

AS ADJUSTED BY KIUC
KENTUCKY POWER COMPANY
SCHEDULE I - CALCULATION OF DEPRECIATION RATES BY THE REMAINNG LIFE METHOD
BASED ON PLANT IN SERVICE AT DECEMBER 31, 2013
AVERAGE LIFE GROUP (ALG) METHOD ACCRUAL RATES

Acct. No.	Account Title	Original Cost	Net Salvg. Ratio	Total to be Recovered	Calculated Depreciation Requirement	Accumulated Depreciation	Remaining to Be Recovered	Avg. Remain Life	Annual Accrual Amount	Annual Accrual Percent
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)
Mitchell Plant (3)										
311	Structures & Improvements	42,000,197	1.03	43,260,203	18,282,178	16,183,402	27,076,801	25.01	1,082,639	2.58%
312	Boiler Plant Equipment	765,644,984	1.03	788,614,334	245,324,500	238,518,432	550,095,902	24.25	22,684,367	2.96%
312	Boiler Plant Equip SCR Catalyst (2)	8,190,115	1.00	8,190,115	4,023,394	2,378,493	5,811,622	4.07	1,023,764	12.50%
314	Turbogenerator Units	53,295,697	1.03	54,894,568	29,106,660	33,613,523	21,281,045	23.84	892,661	1.67%
315	Accessory Electrical Equip.	17,080,672	1.03	17,593,092	9,466,086	11,043,285	6,549,807	25.81	253,770	1.49%
316	Misc. Power Plant Equip.	7,693,412	1.03	7,924,214	3,289,590	3,072,520	4,851,694	23.96	202,491	2.63%
	Total	893,905,077	1.03	920,476,526	309,492,408	304,809,655	615,666,871	23.55	26,139,693	2.92%

KENTUCKY POWER COMPANY
DEPRECIATION STUDY AT DECEMBER 31, 2013
CALCULATION OF NET SALVAGE RATIO - MITCHELL PLANT

Plant/Units	Terminal Salvage	Interim Salvage Amount	Total Salvage Amount	Terminal Removal	Interim Removal Amount	Total Removal Amount	Original Cost at Dec. 2013	Salvage as a % of Original Cost	Removal as a % of Original Cost	Net Salvage Percent	Net Salvage Ratio
AS FILED - In 2014-00396											
Mitchell Plant (a)	$35,633,102	$9,414,094	$45,047,196	$75,298,756	$35,556,306	$110,855,062	$893,905,077	5.04%	12.40%	-7.36%	1.07
Total Mitchell Plant	$35,633,102	$9,414,094	$45,047,196	$75,298,756	$35,556,306	$110,855,062	$893,905,077				
(a) Kentucky's share at 50%.											
TO REMOVE TERMINAL NET SALVAGE ESCALATION OF 2.35% - Order in 2014-00396 Based on KIUC Recommendation in that Case.											
Mitchell Plant (a)	$19,031,883	$9,414,094	$28,445,977	$40,217,580	$35,556,306	$75,773,886	$893,905,077	3.18%	8.48%	-5.30%	1.05
Total Mitchell Plant	$19,031,883	$9,414,094	$28,445,977	$40,217,580	$35,556,306	$75,773,886	$893,905,077				
(a) Kentucky's share at 50%.											
TO REMOVE ALL TERMINAL NET SALVAGE - KIUC Recommendation in 2017-00179											
Mitchell Plant (a)	$0	$9,414,094	$9,414,094	$0	$35,556,306	$35,556,306	$893,905,077	1.05%	3.98%	-2.93%	1.03
Total Mitchell Plant	$0	$9,414,094	$9,414,094	$0	$35,556,306	$35,556,306	$893,905,077				
(a) Kentucky's share at 50%.											

EXHIBIT ____ (LK-15)

KIUC Adjustments to KPCO Capitalization and Cost of Capital - Base Rates
Case No. 2017-00179
Test Year Ending February 28, 2017

I. KPCO Capitalization, Cost of Capital, and Gross Revenue Conversion Factor Per Filing

	Per Book Balance	KPCO Proforma Adjustments	KPCO Adjusted Capitalization	KPCO Reapportioned Adjusted Capitalization	Kentucky Jurisdictional Factor	KPCO Reapportioned Kentucky Adjusted Capitalization	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost	Revenue Requirement
Short Term Debt	1,022,872	(1,022,872)	-	-	98.50%	-	0.00%	0.80%	0.00%	0.00%	-
Long Term Debt	870,000,000	(211,151,766)	658,848,234	658,848,915	98.49%	648,913,758	54.45%	4.36%	2.37%	2.38%	28,396,984
Accts Receivable Financing	46,807,067	-	46,807,067	46,807,115	98.50%	46,105,009	3.87%	1.95%	0.08%	0.08%	958,548
Common Equity	666,016,164	(161,644,243)	504,371,921	504,372,442	98.49%	496,766,726	41.68%	10.31%	4.30%	7.07%	84,211,304
Sub Total	1,583,846,103	(373,818,881)	1,210,027,222	1,210,028,472		1,191,785,493	100.00%		6.75%	9.53%	113,566,837
Job Development Tax Credit	1,250		1,250			-					
Total Capital	1,583,847,353	(373,818,881)	1,210,028,472	1,210,028,472		1,191,785,493	100.00%		6.75%	9.53%	113,566,837

II. KPCO Capitalization, Cost of Capital, and Gross Revenue Conversion Factor Adjusting Capitalization to:
Capitalization Adjustment 1 - Remove Certain Balances Consistent With Appropriate Ratemaking Recovery for Non-Utility and Surcharge Investments

	KPCO Reapportioned Kentucky Adjusted Capitalization	KIUC Proforma Adjustment 1	Kentucky Jurisdictional Factor	KIUC Kentucky Proforma Adjustment 1	KIUC Reapportioned Kentucky Adjusted Capitalization	KIUC Adjusted Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost	Revenue Requirement	Incremental Revenue Requirement
Short Term Debt	-			-	-	0.00%	0.80%	0.00%	0.00%	-	-
Long Term Debt	648,913,758	(5,496,719)	98.60%	(5,419,765)	643,493,993	54.43%	4.36%	2.37%	2.38%	28,168,986	(227,998)
Accts Receivable Financing	46,105,009	-		-	46,105,009	3.90%	1.95%	0.08%	0.08%	950,852	(7,696)
Common Equity	496,766,726	(4,207,935)	98.60%	(4,149,024)	492,617,702	41.67%	10.31%	4.30%	7.07%	83,535,176	(676,129)
Total Capital	1,191,785,493	(9,704,654)		(9,568,788)	1,182,216,704	100.00%		6.75%	9.53%	112,655,014	(911,823)

III. KPCO Capitalization, Cost of Capital, and Gross Revenue Conversion Factor Adjusting Capitalization to:
Capitalization Adjustment 2 - Reduce Low Sulfur Coal Inventory to Reflect Actual

	KPCO Reapportioned Kentucky Adjusted Capitalization	KIUC Proforma Adjustment 1	Kentucky Jurisdictional Factor	KIUC Kentucky Proforma Adjustment 1	KIUC Reapportioned Kentucky Adjusted Capitalization	KIUC Adjusted Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost	Revenue Requirement	Incremental Revenue Requirement
Short Term Debt	-			-	-	0.00%	0.80%	0.00%	0.00%	-	-
Long Term Debt	643,493,993	(707,825)	98.60%	(697,916)	642,796,078	54.43%	4.36%	2.37%	2.38%	28,139,627	(29,360)
Accts Receivable Financing	46,105,009	-		-	46,105,009	3.90%	1.95%	0.08%	0.08%	949,861	(991)
Common Equity	492,617,702	(541,866)	98.60%	(534,280)	492,083,423	41.67%	10.31%	4.30%	7.07%	83,448,109	(87,067)
Total Capital	1,182,216,704	(1,249,691)		(1,232,195)	1,180,984,509	100.00%		6.75%	9.53%	112,537,596	(117,418)

KIUC Adjustments to KPCO Capitalization and Cost of Capital - Base Rates
Case No. 2017-00179
Test Year Ending February 28, 2017

IV. KPCO Capitalization, Cost of Capital, and Gross Revenue Conversion Factor Adjusting Capitalization for:
Cost of Capital Adjustment 1 - Reflect 2% Short Term Debt in Capital Structure at 1.25% Cost of Debt

	KPCO Reapportioned Kentucky Adjusted Capitalization	KIUC Proforma Adjustment 1	Kentucky Jurisdictional Factor	KIUC Kentucky Proforma Adjustment 1	KIUC Reapportioned Kentucky Adjusted Capitalization	KIUC Adjusted Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost	Revenue Requirement	Incremental Revenue Requirement
Short Term Debt	-	23,979,380	98.50%	23,619,689	23,619,689	2.00%	1.25%	0.02%	0.02%	237,465	237,465
Long Term Debt	642,796,078	(23,979,380)	98.50%	(23,619,689)	619,176,388	52.43%	4.36%	2.29%	2.30%	27,189,766	(949,861)
Accts Receivable Financing	46,105,009	-	98.50%	-	46,105,009	3.90%	1.95%	0.08%	0.08%	949,861	-
Common Equity	492,083,423	-	98.50%	-	492,083,423	41.67%	10.31%	4.30%	7.07%	83,448,109	-
Total Capital	1,180,984,509	-		-	1,180,984,509	100.00%		6.69%	9.47%	111,825,201	(712,396)

V. KPCO Capitalization, Cost of Capital, and Gross Revenue Conversion Factor Adjusting Return on Common Equity to 8.85%.

	KIUC Reapportioned Kentucky Adjusted Capitalization	KIUC Adjusted Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost	Revenue Requirement	Incremental Revenue Requirement
Short Term Debt	23,619,689	2.00%	1.25%	0.02%	0.02%	237,465	-
Long Term Debt	619,176,388	52.43%	4.36%	2.29%	2.30%	27,189,766	-
Accts Receivable Financing	46,105,009	3.90%	1.95%	0.08%	0.08%	949,861	-
Common Equity	492,083,423	41.67%	8.85%	3.69%	6.06%	71,610,121	(11,837,988)
Total Capital	1,180,984,509	100.00%		6.08%	8.47%	99,987,213	(11,837,988)
				Effect for Every 1% ROE			(8,108,211)

VI. KPCO Capitalization, Cost of Capital, and Gross Revenue Conversion Factor Adjusting Gross Revenue Conversion Factor to Reflect Section 199 Production Activities Deduction

	KIUC Reapportioned Kentucky Adjusted Capitalization	KIUC Adjusted Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost	Revenue Requirement	Incremental Revenue Requirement
Short Term Debt	23,619,689	2.00%	1.25%	0.02%	0.02%	237,465	-
Long Term Debt	619,176,388	52.43%	4.36%	2.29%	2.30%	27,189,766	-
Accts Receivable Financing	46,105,009	3.90%	1.95%	0.08%	0.08%	949,861	-
Common Equity	492,083,423	41.67%	8.85%	3.69%	5.95%	70,290,334	(1,319,788)
Total Capital	1,180,984,509	100.00%		6.08%	8.35%	98,667,426	(1,319,788)
				Effect for Every 1% ROE			(903,964)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY OF

MATTHEW J. SATTERWHITE

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Matthew J. Satterwhite, being duly sworn, deposes and says he is the President and COO for Kentucky Power Company 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

Matthew J. Satterwhite

COMMONWEALTH OF KENTUCKY	)	
	)	2017-00179
COUNTY OF BOYD	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Matthew J. Satterwhite, this 3rd day of November 2017.

Trisha M. Young Blum
Notary Public

Notary ID Number: 530202

My Commission Expires: 3-18-19

COMMONWEALTH OF KENTUCKY
TRISHA M. YOUNG
NOTARY ID 530202
COMMISSION EXPIRES 3-18-19

**REBUTTAL TESTIMONY OF
MATTHEW J. SATTERWHITE, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2017-00179

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**REBUTTAL TESTIMONY OF
MATTHEW J. SATTERWHITE, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

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

A. My name is Matthew J. Satterwhite, and I am the President and Chief Operating Officer of Kentucky Power Company ("Kentucky Power" or "Company"). My business address is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.

Q. ARE YOU THE SAME MATTHEW SATTERWHITE THAT FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to intervenor testimony on four topics:

- the Company's economic development efforts;
- the need for timely recovery of the Company's volatile PJM LSE OATT expense through Tariff P.P.A.;
- KIUC Witness Kollen's proposal to defer costs associated with the Rockport Unit Power Agreement for future recovery; and
- the recovery of costs associated with the Rockport Unit 1 SCR.

II. KENTUCKY POWER'S ECONOMIC DEVELOPMENT EFFORTS

Q. ATTORNEY GENERAL WITNESS DISMUKES RECOMMENDS ELIMINATING THE K-PEGG PROGRAM. HOW DO YOU RESPOND TO HIS RECOMMENDATION?

A. The Commission should adopt the Company's proposed continuation and expansion of the K-PEGG program. Mr. Dismukes' recommendation to reject the program outright would be harmful to economic development efforts in the Company's service territory. As described in more detail by Company Witness Hall, the K-PEGG program allows Kentucky Power to aggregate small contributions from customers through the KEDS, with matching contributions from the Company, to provide much needed economic development assistance grants to municipalities and economic development agencies. These grants bolster the ability of these front-line economic development organizations to position the region to compete for new business and jobs.

Economic development is the best remedy for the Company's declining load and the pressure that decline is placing on rates. It is appropriate that Kentucky Power and its customers be at the forefront of economic development. Kentucky Power's economic development efforts include its economic development grant programs, its Coal Plus tariff program, and its coordination with state and local economic development entities to attract new industry to the service territory. The Company's economic development efforts are gaining momentum, and the K-PEGG program is a key part of these efforts.

Grants issued by the Company through the K-PEGG program have supported economic development agencies in the region by providing them with resources necessary to train their personnel, develop strategic plans, obtain key trade group certifications, and make improvements to industrial park sites. These actions may seem small, compared to the types of tax-incentives and other financial incentives provided directly to companies by the Cabinet for Economic Development, but without these funds the communities in our service territory would struggle even to be a part of the economic development conversation. Now is not the time to derail an important part of economic development in eastern Kentucky by eliminating the K-PEGG Program.

Q. WHAT IS YOUR REACTION TO MR. DISMUKES' ATTACK ON THE K-PEGG PROGRAM?

A. I find it both surprising and disappointing. Beyond providing safe and reliable electric service to its customers, Kentucky Power's organizational focus is on economic development. I have made this a focus for the Company because economic opportunities provide job opportunities for our customers while helping assure an increase in customers in our service territory. Absent job opportunities and additional businesses, the Company's customer totals will continue to shrink. As the number of customers and associated load declines, the fixed costs of providing service is spread out over fewer remaining customers. At its core, the Company's economic development efforts are based on the ultimate goal of increasing the denominator in the rate setting equation – more customers and more load means that the cost of providing service can be spread over more billing units to everyone's benefit.

Mr. Dismukes' objections to economic development and the K-PEGG Program specifically are disappointing to me. I am disappointed because it appears Mr. Dismukes fails to understand the focus of the K-PEGG Program on filling gaps in the region's economic development infrastructure. The K-PEGG

Program is a key component of the Company's economic development plan. Without the support to local economic development agencies that the K-PEGG Program provides, the broader economic development efforts in the region will struggle. It is true that K-PEGG requires a small customer contribution ($3.00/customer/year if the Company's proposed expansion is approved), but the ability of the Company to aggregate these contributions with matching funds from the Company allows the K-PEGG Program to support economic development efforts throughout the service territory. Mr. Dismukes' suggestion to shut the K-PEGG Program down would take away this necessary support.

III. RECOVERY OF PJM LSE OATT EXPENSE

Q. DO YOU AGREE WITH THE RECOMMENDATIONS BY MESSRS. KOLLEN AND SMITH THAT THE COMMISSION REJECT THE COMPANY'S PROPOSAL TO RECOVER OR REFUND CHANGES IN ITS BASE RATE LEVEL OF PJM LSE OATT EXPENSE THOROUGH TARIFF P.P.A.?

A. No. The adjusted test year level of PJM LSE OATT expense included in base rates in this case represents a $20.6[1] million increase in these expenses since the September 30, 2014 test year in Kentucky Power's last rate case. This increase has put considerable downward pressure on the Company's ability to earn its authorized return. The Company projects that in 2018 these expenses will increase by $17.0 million over the amount included in the Company's test year in this case. That is a significant impact on the Company, and absent the requested amendment of Tariff P.P.A. or some measure to recover these expenses,

[1] Company Witness Vaughan Direct Testimony at 29.

Kentucky Power will have to file another base rate case within months of the January 2018 Order in this case.

Q. ARE YOU THREATENING THE COMMISSION WITH ANOTHER RATE CASE FILING IF THE COMPANY'S PROPOSAL IS NOT GRANTED?

A. Absolutely not. I do, however, want to make clear the importance of the issue and what the implications would be and the steps the Company would be forced to take in the event it is unable to recover its incremental PJM LSE OATT. The Commission is charged with setting rates that provide the utility an opportunity to earn a fair return. These PJM LSE OATT expenses are real costs that will impact the Company and immediately upset the balance of any Commission order that authorizes rates to give the Company an opportunity to earn a fair return. Knowing this now allows the Company and the Commission an opportunity to deal with it now. Ignoring it now, just to push it to an immediately subsequent filing, is inefficient.

These PJM charges produce a material financial impact that must be addressed one way or another. The Company proposes to avoid the inefficiency of another rate case immediately on the heels of this one through the Company's proposed changes to Tariff P.P.A. Doing so as proposed by the Company addresses the issue in a manner through which customers pay no more or no less for these PJM LSE OATT expenses.

As stated throughout the case, the volatile nature of these costs that are beyond the Company's control makes the proposed recovery mechanism appropriate. However, the Company must have a path to deal with these expenses that will be charged to the Company regardless of the outcome of the case. Thus, if the Company cannot recover these costs as proposed then the financial impact of the real costs charged to Kentucky Power will require the filing of another rate case shortly after an order is issued in this case to ensure rates provide that fair opportunity.

Q. WHAT IS THE HARM IN KENTUCKY POWER FILING A NEW RATE CASE IN 2018?

A. Rate cases require a significant dedication of resources from the Company, intervenors, and the Commission. The cases can also be expensive. The Company has estimated that the subset of rate case expenses the Company to be recovered in this case will total $1.375 million. This expense includes legal, consulting, and advertising costs. Advertising for the Commission-required notice alone cost approximately $600,000. These Company costs are part of the rate making process and are, accordingly, recovered from the Company's customers. The Company prefers to deal with the impact of these known PJM LSE OATT expenses now and avoid the increased cost of another case. The seven intervenors in this case also undoubtedly have legal and expert witness costs in this case.

Q. ARE FINANCIAL COSTS THE ONLY COSTS IMPOSED BY RATE CASES?

A. Far from it. Rate cases require enormous time and effort by the parties and the Commission. In the case of Kentucky Power, the time and effort required in preparing and litigating a rate case otherwise could be devoted to building on the safe, efficient, and reliable service being provided and to improving its operations. Most importantly, the effort otherwise could be devoted to the Company's customer service and economic development efforts.

With regard to economic development, rate cases produce rate uncertainty for customers evaluating whether to locate within the Company's service territory. The Company's proposal to track incremental PJM LSE OATT costs through Tariff P.P.A. would not produce the same effect on the region's competitiveness since many other utilities in the region, including those in Virginia, West Virginia, Ohio, and Indiana, utilize trackers for OATT costs. Forcing the Company into rate cases to recover these costs would result in a competitive disadvantage as compared to regions where utilities are not subject to the unnecessary rate uncertainty that rate cases bring.

There is also an impact on customers, many of whom are unfamiliar with the regulatory process. Rate cases are never a popular topic, and that is why there is a set regulatory paradigm in the Commonwealth to establish rates to ensure a fair opportunity to earn a fair return for public utilities. Yet failing to provide a regulatory mechanism in this case to address these volatile expenses likely will require Kentucky Power to file a new rate case in 2018. Dealing with the PJM LSE OATT expenses now will help prevent the customer confusion concerning why the Company would need to file a new case immediately, and avoid undermining public trust in the regulatory system.

Q. MANY BASE RATE EXPENSES INCREASE OVER TIME. WHY SHOULD PJM LSE OATT EXPENSE BE RECOVERED AS PROPOSED BY THE COMPANY INSTEAD OF SOLELY THROUGH BASE RATES?

A. There are two principal reasons. First is the magnitude of the estimated increase. Second, is the fact that, unlike many base rate expenses, the increases are largely out of the Company's control.

Q. WHAT IS THE MAGNITUDE OF THE ESTIMATED INCREASE?

A. Kentucky Power estimates that its 2018 PJM LSE OATT expense will be $91.4 million.[2] This is an increase of $17.0 million (22.8%) above the $74.4 million in test year PJM LSE OATT expense. Very few, if any, of the Company's expenses are likely to experience such volatility or increases of this magnitude over a similar period. By avoiding the need to file annual base rate cases, the Company's proposal will allow it to reflect only the actual costs incurred by Kentucky Power without the need to file full rate cases to address the known expenses. These types of changes are consistent with the principles of gradualism.

Q. WHY DO YOU SAY THE AMOUNT OF KENTUCKY POWER'S PJM LSE OATT EXPENSE IS LARGELY OUTSIDE ITS CONTROL?

A. The LSE OATT expense is largely a reflection of Kentucky Power's share of the costs to rebuild the transmission system in the region. These are expenses charged to Kentucky Power regardless of whether the Company has relief for the expenses in its rate structure. Additional detail regarding the nature of the

[2] The increase in anticipated 2018 PJM LSE OATT expense from the $84.4 million presented in the Company's response to KIUC 1-67 is a result of the AEP Companies updated formula rate filing with PJM made on October 31, 2017.

Company's PJM LSE OATT expense is provided in the direct and rebuttal testimonies of Company Witness Vaughan.

Q. SHOULD THERE BE ANY CONCERN THAT THE ESTIMATED $17.0 MILLION INCREASE IN 2018 PJM LSE OATT EXPENSES IS AN ESTIMATE?

A. No. Under the Company's proposal, the adjusted test year amount of PJM LSE OATT charges will remain in base rates and the Company will track for recovery only the annual incremental change in these expenses. The P.P.A. factor will be set at zero for the first year and not adjusted until the end of 2018 based on the actual costs incurred for the year. In addition, as discussed in the direct testimony of Company Witness Vaughan, there is a possibility for adjustments in the rate due to certain proceedings at FERC that could offset some of the costs that would be captured in the tracking of the costs. A tracking mechanism, like the Company's proposed change to Tariff P.P.A., allows those refunds to flow through the mechanism and benefit customers. Ultimately, Kentucky Power's proposed changes to Tariff P.P.A. will ensure that the Company recovers no more and no less than its actual PJM LSE OATT expense.

Q. IS THERE ANY OTHER ASPECT OF MESSRS. KOLLEN AND SMITH'S RECOMMENDATION CONCERNING THE COMPANY'S PROPOSED METHOD FOR TRACKING AND RECOVERING THE MANDATED PJM LSE OATT CHARGES THAT YOU WOULD LIKE TO COMMENT ON?

A. Yes. Fundamental to the establishment of fair, just, and reasonable rates is that the utility be provided the opportunity to earn a reasonable return on equity. The Commission in its Order in this case is charged with establishing a reasonable return on equity. The $17.0 million increase in PSM LSE OATT expense estimated in 2018 means that the failure to provide for recovery of the increase as proposed will reduce the Company's return on equity by 160 basis points and ensure the Company is denied the opportunity to earn its authorized rate return. The Company prefers to deal with the issue now and avoid having to file an entirely new rate case in 2018 for an issue that is currently known.

IV. DEFERRAL OF ROCKPORT UNIT POWER AGREEMENT EXPENSES

Q. CAN YOU DESCRIBE KIUC WITNESS KOLLEN'S PROPOSAL TO DEFER ROCKPORT EXPENSES FOR FUTURE RECOVERY?

A. Yes. Mr. Kollen has proposed for the Company to defer $20.3 million of what he refers to as "Rockport 2 Lease Expense" annually until the end of 2022 and then amortize the deferral amount to expense and recover the amount over the subsequent ten years.

Q WHAT IS THE BASIS FOR MR. KOLLEN'S PROPOSAL?

A. Mr. Kollen argues that because the Company's FERC-approved Unit Power Agreement ("UPA") for capacity and energy expires on December 7, 2022, and because it appears to him unlikely at this point that Kentucky Power will extend the UPA beyond 2022, the Company could defer some of the Rockport UPA costs and recover them after UPA terminates. According to Mr. Kollen, this proposal would allow the Company to implement part of the rate reduction associated with the termination of the Rockport UPA now as method to limit the rate increase in this case.

Q. DO YOU AGREE WITH MR. KOLLEN'S PROPOSED ROCKPORT UPA DEFERRAL?

A. No. While the concept proposed by Mr. Kollen is a creative way of reducing the Company's revenue requirement, the details of the deferral are problematic. The use of a deferral must be carefully considered. While it appears attractive because it lowers bills in the near term, it should not be forgotten that a deferral pushes payment off to a later date.

The risk to the Company is two-fold. First, there is a detriment to its financial statements carrying such a large unrecovered regulatory asset with the promise of future recovery. Details regarding this risk are described in the rebuttal testimony of Company Witness Wohnhas. Second, while the expectation is that a Commission Order that authorizes a deferral will be honored in the future, there are still parties that could seek to deny collection of the deferred amount. In fact, in this case Attorney General Witness Smith testifies that the Commission should consider writing off the unrecovered Big Sandy Retirement regulatory asset. Denying the collection of deferrals on the back end that were agreed upon or ordered to assist with lowering customer bills in the near-term is an undoing of the deal and punishes the Company for participating in the exercise.

V. RECOVERY OF ROCKPORT UNIT 1 SCR COSTS

Q. ON PAGES 59-60 OF HIS TESTIMONY, ATTORNEY GENERAL WITNESS SMITH RECOMMENDS THAT THE COMMISSION

DISALLOW RECOVERY OF THE COSTS ASSOCIATED WITH THE ROCKPORT UNIT 1 SCR. DO YOU AGREE WITH HIS RECOMMENDATION?

A. Absolutely not. Mr. Smith argues that because the Rockport Unit 1 SCR is related to the NSR Consent Decree, Kentucky Power should not be allowed to recover the costs. Company Witness McManus clarifies in his rebuttal testimony, Mr. Smith's misunderstandings about the NSR Consent Decree. The costs associated with the Rockport Unit 1 SCR are part of the required costs to produce capacity and energy at Rockport and, as such, they are costs properly recoverable by Kentucky Power.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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

POST-HEARING BRIEF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

This case affords the Commission the opportunity to provide Kentucky Power Company the tools necessary to help change the course of eastern Kentucky. With the loss of industrial load, particularly in coal mining and steel manufacturing, and the loss of population, Kentucky Power's fewer remaining customers are faced with picking up an increasing portion of the costs previously paid by others. Beginning in 2012 with the InSite Study, Kentucky Power moved to change the relentless math of this equation by "growing the denominator" through an intensified focus on economic development. These efforts yielded real success in 2017 with the announcements headlined by Braidy Industries, Inc. and EnerBlu, Inc. Braidy, EnerBlu, and the other additions are not the complete answer; much work – both in terms of economic development and investing in the electric infrastructure necessary to serve and attract these and future engines of growth – remains to be done. But, at the beginning of 2018, the prospects for the Company's service territory and Kentucky Power are much different – and brighter – than how they were perceived as recently as the beginning of 2017.

The Settlement Agreement among Kentucky Power, Kentucky Industrial Utility Customers, Inc. ("KIUC"), Kentucky School Boards Association ("KSBA"), Kentucky League of Cities ("KLC"), Wal-Mart East, LP and Sam's East, Inc. ("Walmart"), and Kentucky Cable Telecommunications Association ("KCTA") (collectively the "Signatory Parties") represents a commitment by the signatories to continuing along the path to recovery blazed by Kentucky Power. The Signatory Parties agreed to a creative solution that allows the Company's economic development efforts to continue by deferring the recovery of costs to provide time to "grow the denominator." The Settlement Agreement recognizes the regulatory compact and the importance of ensuring Kentucky Power is in a position to provide its customers with reliable, efficient, and reasonable service by allowing the Company the resources to do so. And it does so at a far lower cost than anyone could have anticipated on June 28, 2017 when Kentucky Power filed its application.

The Settlement Agreement addresses many of the challenges facing the Company's customers, Kentucky Power, and all of eastern Kentucky in a creative and pragmatic fashion. Like any fair agreement, it represents the give and take of negotiation. Like any good agreement, it represents a balance that Kentucky Power urges the Commission to uphold. And, like any equitable agreement, it fairly addresses the concerns and interests of, and affords benefits to, all parties to this proceeding including those who chose not to sign the agreement. Indeed, although the Attorney General declined to join the settlement, the agreement provides an initial revenue requirement increase millions of dollars less than that set out in his filed position.[1]

The Settlement Agreement also provides for reasonable and stable base rates for a three-year period during which Kentucky Power and its economic development partners can build on recent successes by attracting new and expanded economic activity, including good jobs, to the Company's service territory. The agreement does so through a weave of closely-knit provisions that implement the regulatory compact by affording Kentucky Power the financial and regulatory resources required to provide adequate and dependable service to its customers while also providing the opportunity for the Company's shareholder to earn a reasonable return, all the while doing so at fair, just, and reasonable rates. The stay out provision also provides the ultimate incentive for Kentucky Power to manage its finances efficiently as it will not be able to implement new base rates under the agreement for three years. But, like any weaving, it can unravel with the removal of a single thread.

[1] Smith Direct Testimony at 13-14. In addition to the Attorney General, Kentucky Commercial Utility Customers, Inc. ("KCUC") elected not to join the settlement.

The Settlement Agreement's provisions, many of which are available only through an agreement such as this, include:

● A 47.38 percent reduction (from the $60,397,438 requested in the Company's August 2017 Financing Update to the $31,780,734 provided for in the agreement) in Kentucky Power's requested revenue requirement adjustment. This reduction, along with other changes outside this proceeding, means ***the Company's average residential customer using 1,246 kWh per month will see an average monthly bill increase of $1.35 (0.79%)***.[2]

● The elimination of the subsidy provided by industrial and larger commercial customers (Tariff I.G.S.). Doing so enables Kentucky Power to continue to offer attractive industrial rates in furtherance of its economic development and customer retention efforts.

● The allocation in a fair and equitable fashion among the other tariff classes of the balance of the reduction in the Company's revenue requirement.

● Kentucky Power's agreement to freeze base rates for a three-year period.[3] This provision, which is available only through a settlement, provides real benefit to all of Kentucky Power's customers. It also provides the rate stability that will enhance Kentucky Power's economic development efforts and ensures Company operations are managed efficiently.

● Kentucky Power's agreement, through the proposed amendment to Tariff P.P.A., to recover only 80% of its incremental PJM LSE OATT expenses. This provision, whereby the Company foregoes recovery of a portion of federally-approved rates, also ensures that Kentucky Power's customers pay no more than the Company's actual incremental PJM LSE OATT expenses. The amendment of Tariff P.P.A., which is available only through settlement, also serves to limit the impact of one of the most rapidly increasing expenses facing the Company (an estimated $14 million increase in 2018 alone) by addressing upfront this significant challenge to Kentucky Power's finances.

● Kentucky Power's agreement to defer approximately $50 million in Rockport Unit Power Agreement expense during the period 2018-2022 and to recover that deferral over the subsequent five years. This deferral, which can be achieved only through the Company's agreement, allows Kentucky Power's customers to reap the benefits now of the anticipated reduction in expenses beginning December 7, 2022 with the expiration of the Rockport Unit Power Agreement. As described by KIUC Witness Kollen, this is "really a tremendous result."[4]

● Kentucky Power's agreement to make available as an offset during the period until its base rates are next adjusted the difference between its return on its incremental transmission investments calculated using the FERC-approved OATT return on equity ("ROE")

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[2] *See*, Kentucky Power's January 3, 2018 Supplemental Response to AG PH-5.

[3] This base case stay-out provision agreement is subject to the approval of the Settlement Agreement without modification. Rates also can be modified upon the occurrence of certain extraordinary events. Nothing in the agreement seeks to limit the Commission's continuing jurisdiction over Kentucky Power's rates and service.

[4] Kollen Hearing Testimony at 569.

and the return on its incremental transmission investments as calculated using the 9.75 percent ROE provided for by the Settlement Agreement.

- The amendment of the Company's existing distribution vegetation management plan to accelerate by 18 months a reduction in the Company's distribution vegetation management expense. A substantial portion of that expense is borne by the Company's residential customers; the amendment also allows the Company to limit the effect of the Settlement Agreement on residential rates.[5]

- The updating of Big Sandy Unit 1 depreciation rates for the first time since 1991. The revised rates, which are premised upon a reasonable remaining life of service for Big Sandy Unit 1, provide for inter-generational equity by limiting the risk that future customers will be required to fund Big Sandy Unit 1 depreciation expense after it retires.[6]

- Increased funding for low-income heating assistance (and increased matching shareholder contribution) through the Company's Home Energy Assistance Program.[7]

While the record in this case supports approval of relief sought in the Company's application, the Settlement Agreement improves on the application and is in the public interest. Kentucky Power remains eager to continue its commitment to its 168,000 customers and its efforts to improve the economic fortunes of its customers and the Company through enhanced economic development efforts. It asks the Commission to provide it with the tools to do so by approving the Settlement Agreement without modification.

II. CASE BACKGROUND

A. <u>The Regulatory Compact And The Requirement To Strike A Balance</u>.

Variously described as "ly[ing] at the heart of cost of service regulation,"[8] "the keystone of the structure that supports our unique system of regulation by government of investor owned

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[5] This benefit also was proposed as part of the Company's application.

[6] A similar benefit, involving a 15-year remaining life of service for Big Sandy Unit 1, was proposed as part of the Company's application.

[7] This benefit also was proposed as part of the Company's application.

[8] Karl McDermott, *Cost of Service Regulation In the Investor-Owned Electric Utility Industry: A History of Adaptation* xi (Edison Elec. Inst. 2012). Available at: http://www.eei.org/issuesandpolicy/stateregulation/Documents/COSR_history_final.pdf

utilities,"[9] and "the bedrock principle behind utility regulation,"[10] the regulatory compact provides the framework by which the Commission must judge the Company's application. The regulatory compact is a "'bargain' struck between the utilities and the state"[11] that embodies "the set of ***mutual*** rights, obligations, and benefits that exist between the utility and society:"[12]

> As a quid pro quo for being granted a monopoly in a regulated geographical area for the provision of a particular good or service, the utility is subject to regulation by the state to ensure that it is prudently investing its revenues in order to permit the most efficient service possible to the consumer. At the same time, the utility is not permitted to charge rates at the level at which its status as a monopolist could command in a free market. Rather the utility is allowed to earn 'a fair rate of return' on its 'rate base.'" Thus, it becomes the Commission's primary task at periodic rate proceedings to establish a level of rates and charges sufficient to permit the utility to meet its operating expenses plus a return on investment which will compensate its investors.[13]

When honored, the regulatory compact embodies and furthers the public interest.[14] In fact, the regulatory compact "has allowed our utilities to offer their most essential contribution to the health and growth of our economy, and it provided consumers with the most reliable and most economic utility service available anywhere in the world."[15]

Inherent in its nature as a *quid pro quo* is that the regulatory compact embodies "a sensitive balance that must be maintained under long standing and common sense standards of justness and reasonableness."[16] "[B]oth parties [to the regulatory compact] made tradeoffs in

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[9] Robert L. Swartwout, *Current Utility Regulatory Practice from a Historical Perspective*, 32 Nat. Res. J. 289, 290 (1992). Available at: http://digitalrepository.unm.edu/cgi/viewcontent.cgi?article=1844&context=nrj

[10] *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 797 (Ind. 2000).

[11] 735 N.E.2d at 797.

[12] *Cost of Service Regulation In the Investor-Owned Electric Utility Industry: A History of Adaptation* at 5. (emphasis supplied).

[13] 735 N.E.2d at 797.

[14] *Current Utility Regulatory Practice from a Historical Perspective*, 32 Nat. Res. J. at 314.

[15] *Id*. at 313.

[16] *Current Utility Regulatory Practice from a Historical Perspective*, 32 Nat. Res. J. at 313.

establishing their rights and responsibilities…."[17] Under the regulatory compact, "both the utility and consumers give up certain rights, or in contract law terms, exchange detriments."[18] "As with every just and reasonable interaction, for every right or benefit granted, there is a concomitant obligation."[19] The regulatory compact is not a smorgasbord from which either the utility or its customers are free to accept the benefits provided by the other party while refusing to provide some or all the obligations given in return for those benefits:

> [E]ach party, both utilities and their customers, is obliged to accept the costs as well as the benefits that can occur from time to time. Neither the utilities nor their customers can pick and choose when it is convenient to operate under the compact and then, later, choose to go back into the compact with everything forgiven. The regulatory compact is not a switch that may be turned off every now and then and then turned back on with the expectation of easy and immediate return to the former condition.[20]

This Commission, as the overseer of the relational contract comprising the regulatory compact,[21] bears primary responsibility for maintaining the bargains and tradeoffs implicit in the regulatory compact.[22] Where both sides of the bargain are not maintained, "there can be expected many and unpredictable dislocations and disturbances that may not be readily correctable, if correctable at all. In order for the regulatory compact to remain operable and effective, the sensitive balance of its associated rights, benefits, and obligations must be maintained."[23] Conversely, where fair, just, and reasonable rates, such as those proposed by Kentucky Power in its application, and improved upon in the Settlement Agreement, are sanctioned by the Commission, and thus the balance maintained, "investors [will] continue to

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[17] *Cost of Service Regulation In the Investor-Owned Electric Utility Industry: A History of Adaptation* at 5.
[18] *Id*. at 6.
[19] *Current Utility Regulatory Practice from a Historical Perspective*, 32 Nat. Res. J. at 313.
[20] *Id*. at 313-314.
[21] *Cost of Service Regulation In the Investor-Owned Electric Utility Industry: A History of Adaptation* at 6.
[22] *Current Utility Regulatory Practice from a Historical Perspective*, 32 Nat. Res. J. at 314.
[23] *Id*.

provide capital and consumers [will] continue to receive universal service at reasonable prices."[24]

Although the principles of *quid pro quo* and the exchange of benefits and detriments are *implicit* in the regulatory compact, they are *explicit* in the Settlement Agreement. This explicit tradeoff among the Signatory Parties is embodied in the sum of the individual provisions of the agreement, and evidenced by the fact that the Settlement Agreement was not easily reached.[25] Each party to the Settlement Agreement exchanged one or more detriments for offsetting benefits.

The Settlement Agreement likewise represents, and its individual provisions comprise, an overall balance among the parties.[26] The agreement itself so provides: "[n]othing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate the results produced through the compromise reflected herein represent fully the objectives of the Signatory Parties."[27] In sum, the Settlement Agreement represents "a package that balances out the interests of the Signatory Parties to provide the Commission a unique opportunity to rule upon the issues in this case."[28] Because the Settlement Agreement represents a package embodying the offsetting detriments and benefits exchanged by the parties, Kentucky Power urges the Commission to judge the fairness and reasonableness of the Settlement Agreement as a whole.

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[24] *Cost of Service Regulation In the Investor-Owned Electric Utility Industry: A History of Adaptation* at 6.

[25] Satterwhite Hearing Testimony at 59.

[26] *Id*. at 325, 397, 409.

[27] Settlement Agreement at ¶ 24(a).

[28] Satterwhite Settlement Testimony at S8. *See also* Carlin Hearing Testimony at 664 (explaining that that provision of the Settlement Agreement excluding $3.15 million of incentive compensation from the Company's revenue requirement "is part of a whole settlement, and the Company is willing to reduce its costs in the manner described in that settlement ***as part of a whole package deal***.") (emphasis supplied).

It similarly is inappropriate to view the individual provisions of the agreement in isolation, or to construe them as being of equal importance to each of the parties:

> Q. So 9.75 is, in your opinion, a reasonable amount [return on equity] for transmission?
>
> A. No. This is part of the overall balance. Believe me, I think, you know, with the territory we have overall, 10.31 is the right ROE for this Company.
>
> …
>
> So the 9.75 is something that we've agreed to that – you know, that's a compromise that we've made by the Company. The case that we've supported supports 10.31. I think that's appropriate for the territory we're in. It's tough.
>
> But for purposes of settlement and the overall package and the affordability of all the partners to the stipulation [that was] put together, 9.75 is where we ended up.[29]

KIUC Witness Kollen recognized this same balance in his description of the operation of the Rockport deferral mechanism. Thus, the Settlement Agreement provides for "cut[ting] off the peak of the revenue requirement for the next five years,"[30] while "rais[ing] slightly the revenue requirement for the five years starting in December 2022."[31] But, the overall balance struck is "really a tremendous result."[32]

There has been much discussion about the role of settlement agreements and the Commission's responsibility. At the opening of the hearing the Chairman noted the Commission's responsibility to examine all of the evidence in establishing rates that are fair, just, and reasonable, and that as a result, the Settlement Agreement was not binding on the

[29] Satterwhite Hearing Testimony at 325-326.

[30] Kollen Hearing Testimony at 569.

[31] *Id*.

[32] *Id*.

Commission.[33] But the two are not at odds; the Commission's responsibility does not preclude it from agreeing that the Settlement Agreement represents the "tremendous result" described by Mr. Kollen. Or from recognizing that it provides the Company's customers with multiple benefits not otherwise available to them,[34] while at the same time providing Kentucky Power the financial ability to provide safe and reliable service and to "grow the denominator" to the benefit the Company's 168,000 customers, Kentucky Power, and the economic vitality of Kentucky Power's entire service territory.

Nor, respectfully, does the settlement have to be exactly what the Commission would have decided in the absence of the agreement to be approved. The Commission can review the agreement to determine if, based on the record, it yields a fair and reasonable result. In that event, the Commission can and should approve the agreement without modification to preserve the balance presented. In doing so, the Commission will be acting just as it would do in setting rates under Kentucky law[35] and the regulatory compact[36] it implements in the absence of a settlement by deciding the issues in terms of the overall balance struck. In short, the Commission's approval of the Settlement Agreement without modification is fully consistent with the Commission's robust exercise of its full regulatory authority or the establishment of fair, just, and reasonable rates.

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[33] Hearing Statement of Chairman Schmitt at 31.

[34] Satterwhite Hearing Testimony at 325. These benefits include the deferral and recovery of a portion of the Rockport Unit Power Agreement expenses over a ten-year period, the Company's agreement to limit its recovery of its PJM LSE OATT expense to 80 percent of the expense, the three-year rate case stay-out provision, and the proposed shareholder funding of both the Company's Home Energy Assistance Program and K-PEGG economic development grants.

[35] *National-Southwire Aluminum Co. v. Big Rivers Electric Corp.*, 785 S.W.2d 503, 512 (Ky. App. 1990) (recognizing the *Hope Natural Gas Co*. doctrine and the importance on appeal of judging the reasonableness of the overall result reached).

[36] *Cost of Service Regulation In the Investor-Owned Electric Utility Industry: A History of Adaptation* at 5.

B. The Company's Application Squarely And Constructively Addresses The Challenges Facing The Company's Customers, Its Service Territory, And Kentucky Power.

1. Kentucky Power Is Facing An Unprecedented Decline In Its Number Of Customers And Load.

The parties, even the two intervenors not party to the Settlement Agreement, are in agreement on a single fact: this rate case arises out of the extraordinary circumstances[37] facing eastern Kentucky, the Company's residential, commercial, and industrial customers, and Kentucky Power. The Company's total customers declined by 3.8 percent from 2006 to 2016.[38] Residential customers declined by 5.2 percent over the same period,[39] while the number of industrial customers, including many coal mine and large industrial customers such as AK Steel, declined by 18.5 percent.[40] Energy sales to these two customer groups decreased by 11.65 percent[41] and 27.27 percent respectively over the eleven-year period.[42]

Most of this decline occurred in the last five years of this eleven year period. Thus, 71.29 percent of the decline in the total number of customers over the eleven-year period occurred in the five years between December 2011 to December 2016.[43] Similarly, 65.20 percent of the decline in the number of residential customers[44] and 79.63 percent of the decline in industrial customers occurred over the same five-year period.[45]

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[37] Satterwhite Direct Testimony at 12 ("Kentucky Power's service territory is undergoing historic changes, and it is critical that Kentucky Power act now to address these changes.")

[38] Attorney General Hearing Exhibit 4 (168,848 ÷ 175,571 = 96.2%).

[39] *Id*. (137,013 ÷ 144,447 = 94.85%)

[40] *Id*. (1,191 ÷ 1,461 = 81.5%)

[41] *Id*. (2,128,530 MWh ÷ 2,409,237 MWh = 88.35%).

[42] *Id.* (2,408,194 MWh ÷ 3,311,180 MWh = 72.73%).

[43] *Id*. ((173,641 – 168,848) ÷ (175,571 – 168,848)) = 71.29%).

[44] *Id*. ((141,860 – 137,013) ÷ (144,447 - 137,013)) = 65.20%).

[45] *Id*. ((1,406 - 1,191) ÷ (1,461 – 1,191) = 79.63%).

The decline in energy usage followed this same "end-loaded" pattern: 88.94 percent of total decline in energy usage occurred in the last five years of the eleven-year period.[46] The declines in energy usage by the residential sector (76.05 percent)[47] and the industrial sector (93.21 percent) were similarly pronounced during this same five-year period.[48]

This decline in Kentucky Power's customer base and their load is the single largest driver of the requested rate adjustment.[49] As the number of customers and their load decreases, Kentucky Power is required to spread the same or increasing costs over "the smaller number of remaining customers."[50]

2. Kentucky Power Is Working With Its Communities And Residents To Address The Loss Of Customers And Load.

Kentucky Power acted decisively to address what easily could have become a "death spiral" with more and more customers fleeing the service territory as rates are increased to recover fixed costs from a shrinking customer base. From the Company's innovative "Coal-Plus" program and Appalachian Sky initiative,[51] to its relentless focus on economic development more generally, Kentucky Power worked not only to grow the denominator but to diversify eastern Kentucky's economy. Without turning its back on coal,[52] Kentucky Power aggressively is seeking to attract the aerospace and automotive industries to eastern Kentucky to take advantage of the skills of former coal miners and steelworkers.[53] This diversification brings with it not only good paying jobs, but like a snow ball rolling downhill, it also builds on success,

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[46] *Id*. ((6,983,163 MWh – 5,862,697 MWh) ÷ (7,122,459 MWh – 5,862,697 MWh) = 88.94%).
[47] *Id*. ((2,342,021 MWh – 2,128,530 MWh) ÷ (2,409,237 MWh – 2,128,530 MWh) = 76.05%).
[48] *Id*. ((3,249,891 MWh – 2,408,194 MWh) ÷ (3,311,180 MWh – 2,408,194 MWh) = 93.21%).
[49] Satterwhite Direct Testimony at 12.
[50] *Id*.
[51] Satterwhite Hearing Testimony at 133-135; Satterwhite Direct Testimony at 10-11;
[52] Satterwhite Hearing Testimony at 134.
[53] Hall Hearing Testimony at 825-826; Satterwhite Direct Testimony at 10.

as Toyota demonstrated in central Kentucky,[54] by attracting other industries that either supply the aerospace and automotive industries locating in eastern Kentucky or use their products.[55]

Kentucky Power is focused on attracting employers that make sense for the entire region, and not just ones that use large amounts of electricity. As Company Witness Satterwhite testified in explaining the Company's decision not to recruit data farms to locate in eastern Kentucky:

> What I was explaining there was what I look at when I go to look for companies, and my goal was to bring large users that have a lot of jobs. So if they have very few jobs, I don't want to use the precious flat ground we have in Eastern Kentucky for something that would just help the utility company with usage, I want to provide the balance to make sure I bring back a lot of the jobs would that to bring people – put back – people back to work that are there and bring people back that have left.[56]

This community-focused approach similarly manifests itself in the Company's community advisory panels,[57] as well Kentucky Power's use of K-PEGG grants to local government and regional economic development agencies to improve the infrastructure of its service territory in order to attract new load,[58] build on the capabilities of the local economic development professionals in its service territory,[59] and to provide workforce training.[60]

3. Economic Conditions Are Affecting Kentucky Power's Financial Performance And Threatening Its Ability To Provide Safe And Reliable Service While Growing The Denominator And Bringing Back Good-Paying Jobs.

Notwithstanding the recently announced economic development successes involving Braidy Industries, Inc. and EnerBlu Inc., Kentucky Power's economic development efforts

[54] Hall Hearing Testimony at 882.

[55] *Id*. at 869-870.

[56] Satterwhite Hearing Testimony at 80.

[57] *Id*. at 118-119, 131, 146.

[58] Hall Rebuttal Testimony at R3-R4

[59] *Id*.

[60] *Id*.; Hall Hearing Testimony at 865

represent a long-term solution to the challenges facing eastern Kentucky and Kentucky Power. Both Braidy,[61] with a projected 60 MW of load, and EnerBlu, with a projected 25 MW of load,[62] for example, will not become operational until 2020.[63] In the interim, Kentucky Power's existing rates are inconsistent with the regulatory compact. Specifically, they are insufficient to permit the Company to recover its reasonable costs of providing safe and reliable service while affording Kentucky Power the opportunity to earn a return on its invested equity "commensurate with the returns on investments in other enterprises having corresponding risks."[64]

Kentucky Power's annual returns on equity for the period 2013-2016 fell far short of any measure –reasonable or otherwise – of a commensurate return on an investment in another enterprise having a similar risk. They ranged from a high of 7.49 percent in 2016 to a low of 2.72 percent in 2013, for an average annual return on equity over the four-year period of 4.89 percent.[65] Nor have the Company's returns on equity in the more immediate past fared any better. The Company's test year return on equity was 5.81 percent[66] while its rolling 12-month return on equity for each of the eleven months from January through November 2107 ranged from a high of 6.45 percent in January 2017[67] to a low of 4.41 percent in August 2017. The rolling 12-month return on equity over this same period averaged 5.37 percent.[68] Over the nine-

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[61] Kentucky Power's Company's Response to KPSC 2-7(b).

[62] Hall Hearing Testimony at 823.

[63] Kentucky Power's Company's Response to KPSC 2-7(b); Hall Hearing Testimony at 849.

[64] *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

[65] Kentucky Power Company's Response to KPSC 1-38, Attachment 1.xlsx.

[66] *Id*.

[67] Kentucky Power Company's Response to KPSC 1-38, Third Supplemental Attachment 1.xlsx.

[68] *Id*.

month post-test year period of March to November 2017, Kentucky Power's 12-month rolling return on equity averaged 5.2 percent.[69]

By contrast, the Commission found as little as two and one-half years ago in Case No. 2014-00396[70] that a reasonable range of return on equity for Kentucky Power was 9.3 percent to 10.3 percent,[71] and fixed a reasonable return on equity of 9.8 percent for the Company.[72] In that same Order, the Commission determined that a return on equity of 10.25 percent was reasonable for use in connection with the Company's Big Sandy Retirement Rider, Big Sandy 1 Operation Rider, and its environmental surcharge.[73] More recently, the Commission in June 2017 approved a return on equity of 9.7 percent for Kentucky Utilities Company and Louisville Gas & Electric Company,[74] both of which are less risky than Kentucky Power.[75]

In this case, Mr. McKenzie, testifying on behalf of the Company, recommended a return on equity of 10.31 percent for Kentucky Power,[76] while KIUC Witness Baudino recommended a return of 8.85 percent, and Dr. Woolridge, testifying for the Attorney General, recommended a return on equity of 8.6 percent.[77] Finally, although relying solely on awarded returns on equity reported by RRA to fix the return on equity for an individual utility presents the problems

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[69] *Id*.

[70] Order, *In the Matter of: Application Of Kentucky Power Company For: (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; And (4) An Order Granting All Other Required Approvals And Relief*, Case No. 2014-00396 (Ky. P.S.C. June 22, 2015) ("2014 Rate Case Order").

[71] *Id*. at 42.

[72] *Id.*

[73] *Id*. at 46-47, 48, 72.

[74] McKenzie Hearing Testimony at 631.

[75] Woolridge Hearing Testimony at 487.

[76] McKenzie Direct Testimony at 3.

[77] McKenzie Rebuttal Testimony at 1-2. This is not to suggest that either 8.60 percent or 8.85 percent is the proper return on equity. Absent the approval of the Settlement Agreement, and the multiple protections it provides to customer and Company alike, the proper return on equity is the 10.31 percent recommended by Mr. McKenzie. The returns on equity proposed by both Dr. Woolridge and Mr. Baudino are presented solely for the purpose of comparison, and to illustrate that Kentucky Power's recent returns on equity fall far short of the returns proposed by even the intervenors' witnesses.

identified by Mr. McKenzie in his direct testimony,[78] it is instructive to note that the average return on equity for integrated utilities reported by Regulatory Research Associates for both twelve month periods ended June 30, 2016 and June 30, 2017 lay between 9.5 percent and 10.0 percent.[79]

4. <u>Kentucky Power's Application Respects the Regulatory Compact By Presenting A "Skinny" Rate Case That Balances The Minimum Financial Needs Of The Company And The Effect Of The Requested Increase On All Of The Company's Customers.</u>

Notwithstanding the challenges imposed by the long-lived financial pressure endured by Kentucky Power as a result of the Company's failure to earn a reasonable return on equity, Kentucky Power did not – as the years of earnings far below the authorized level[80] testify – rush into filing this case. Company Witness Satterwhite explained that although he was aware at the time he was offered the position of President and Chief Operating Officer that the Company's financial performance justified a rate case, he did not accept the position until he determined he could help "change the denominator" in the longer run through economic development.[81] That is, he recognized that "over time you can't just constantly come in and file rate cases, so you have to change the denominator overall to be respective [*sic*] of your community and your whole region."[82] Thus, although planning for a rate case was underway on December 9, 2016 when Mr. Satterwhite assumed his position,[83] he asked his staff to "restart" the process[84] by taking a "fresh

[78] McKenzie Direct Testimony at 58-63.

[79] McKenzie Rebuttal Testimony at 2.

[80] Kentucky Power Company's Response to KPSC 1-38, Attachment 1.xlsx.

[81] Satterwhite Hearing Testimony at 120-121.

[82] *Id*. at 76.

[83] *Id*. at 118.

[84] *Id*.

look"[85] at all of Kentucky Power's financials and to provide explanations for what the Company "do[es] and how we do things."[86]

As part of this fresh look, Kentucky Power met with its customers to explain the need for the rate case and to explore its constituent parts.[87] Mr. Satterwhite also met with his operational staff[88] and financial and regulatory team and challenged them to look at all options for the case.[89] Some of the options, such as accelerating the completion of Task 2 vegetation management work and reducing the annual vegetation management expense early, were incorporated in the case.[90] Others, such as "socializing" the cost of processing credit card payments, were rejected after further consideration, including input from the Company's community advisory panels.[91] Finally, in a few instances the Company presented the Commission with alternative proposals, such as the five and six year vegetation management cycles, while providing its recommendation on which proposal the Commission should approve.[92]

The result was that Kentucky Power filed a "skinny" rate case that lacked a host of new initiatives or materially expanded programs and offerings: "I called everybody in, tried to skinny the case down more."[93] Each item was examined in light of the question of: "does it need to be in this case or could it be held off in the future?"[94] Kentucky Power's application seeks the

[85] *Id*.
[86] *Id*. at 120.
[87] *Id*. at 118-119; 147-148.
[88] *Id*. at 179.
[89] *Id*. at 71.
[90] Phillips Hearing Testimony at 296-297.
[91] Satterwhite Hearing Testimony at 147-148.
[92] *Id*. at 179.
[93] *Id.* at 463.
[94] *Id*. at 146.

minimum necessary to allow it to earn a reasonable return on equity while providing safe and reliable service to its customers.

5. In Furtherance of the Regulatory Compact Kentucky Power Actively And Effectively Manages Its Costs Thereby Helping To Reduce The Revenue Requirement Presented In Its Application.

Mr. Satterwhite also challenged his operational staff to reduce the Company's requested revenue requirement by examining "all avenues of where we could reduce our expenses."[95] Before filing the case, Mr. Satterwhite asked "our whole company and everyone who has a different part of the case to kind of go through it again with a finer tooth comb … [to determine] [c]an we try to manage the Company to cover those costs somewhere else."[96] This focus on cost reduction in identifying Kentucky Power's rate case revenue requirement is a manifestation of what Mr. Satterwhite and his team do daily in actively managing the Company: "[t]hat's what I do every day, try to see if there is a better way, more efficient way to do things, and challenge and empower our employees to raise those."[97]

Mr. Satterwhite's emphasis on cost control builds on existing efforts by "taking a fresh approach at managing the everyday."[98] As Mr. Satterwhite explained, "every day I'm with an employee, when we're going to build our budgets, budget from the bottom up, making sure people justify every dollar we spend."[99] He also brought in "fresh eyes" from the American Electric Power Service Corporation ("Service Corp.") to examine improving the efficiency of the Company's operations and the effect of his leadership.[100] In sum, Kentucky Power is "really

95 Phillips Hearing Testimony at 305.
96 Satterwhite Hearing Testimony at 146-147.
97 *Id*. at 178.
98 *Id*. at 153.
99 *Id*. at 184.
100 *Id*. at 186

creating buy-in and changing the culture overall that we're efficient, that we're smart with the customers' money, and the investments we make are prudent."[101]

The Attorney General's extended cross-examination concerning the existence of formal studies addressing cost reduction[102] misses these essential points. Not every management decision or cost reduction requires an expensive formal study by consultants such as McKinsey & Company, or even a binder on a shelf with tabs that was started and completed on dates certain.[103] Private business, and most aspects of government, actively control costs every day in the absence of third party consultant studies. Such studies are oftentimes unnecessary, costly (even if performed in-house), and delay implementation of cost control initiatives. For example, Kentucky Power was able to examine reducing the number of outside contractors without the cost and delay inherent in performing the sort of formal study inquired about by the Attorney General.[104] Similarly, in response to a challenge by management, Company Witness Phillips and his staff developed a plan to reduce the Company's vegetation management expenditures 18 months earlier than previously projected without the aid of a formal study.[105]

Kentucky Power is acting aggressively "to create a culture in Eastern Kentucky of businesspeople talking to each other and seeing what they can do to create jobs in Eastern Kentucky."[106] The Company also is seeking to build on its own culture to ensure employees are empowered to suggest changes that cut costs and improve the efficiency of the Company.[107]

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[101] *Id*. at 151.
[102] *Id*. at 125-178.
[103] *Id*. at 184.
[104] *Id*. at 178.
[105] Phillips Hearing Testimony at 296-297.
[106] Satterwhite Hearing Testimony at 106.
[107] *Id*. at 151.

Kentucky Power similarly is acting to remove barriers between it and its customers.[108] None of this requires – or perhaps is even possible with – the sort of cookbook studies and plans about which the Attorney inquired.

Equally protracted and equally unfounded were the Attorney General's cross-examination, and the conclusions the Attorney General seeks to draw from it, concerning data derived from the Company's 2006-2016 annual reports that were introduced as Attorney General Hearing Exhibit 4.[109] In particular, the Attorney General's focus on the change over the entire 11-year period ignores the fundamental differences between the two halves of the period and what changes occurred in the interim.[110]

Thus, for example, the Attorney General pointed out in cross-examination that the Company's total sales to ultimate customers increased $180,876,357 or 46 percent over the 11 years comprising Attorney General Hearing Exhibit 4.[111] Ignoring first of all that such number represents increases in costs, and not profits for the Company, the Attorney General's insinuation misses the key fact that 82.46 percent of the total increase occurred during the first five years (2006-2010) of the 11-year period.[112] Stated otherwise, only $31,371,311 of the $180,876,357 increase in total sales to ultimate customers occurred during the last six years of the 11-year period.[113]

Two principal drivers contributed to the increase in total sales and to ultimate customer revenues (principally during the first half) of the 11-year period. First, "all of the coal plants that

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[108] *Id*. at 104.

[109] *Id*. at 191.

[110] *See e.g. Id*. at 312 ("I don't know if you can do the comparison between '6 and '16, what changes in the middle, what's impacted by these numbers.")

[111] *Id*.

[112] Attorney General's Hearing Exhibit 4 (($541,079,466 (2010) – $391,934,420 (2006)) ÷ ($572,810,777 (2016) - $391,934,420 (2006)) = 82.46%).

are still being operated in the AEP system, they were being scrubbed during that time period … that's a lot of capital investment…. So as those plants were being scrubbed and those capital investments were made, Kentucky Power's costs were going up, because they're allocated [under the former AEP-East Pool Agreement] their portion of the AEP system."[114]

The second principal change in the Company's operations contributing to the need for additional internally-generated revenues was the precipitous decline in off-system sales revenues.[115] In 2006, those revenues totaled $181,168,530.[116] By 2016, they had declined 72 percent to $51,246,008[117] as result, in large part, to the 74.25 percent decline in the Company's MWh sales for resale from 5,283,270 MWh in 2006 to 1,413,350 MWh in 2016.[118] Nearly 77 percent of the decline in revenues occurred during the period 2010 to 2016.[119] The decline, which reflects the retirement of coal plants on the AEP system and the resulting reduction in "length" to support off-system sales,[120] as well as the increasing competitiveness of gas-fired units as a result of the fracking-related decline in gas prices,[121] meant the Company had "less of a cost offset"[122] as "those hundreds of million[s] of dollars"[123] of off-system sales margins were no

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[113] *Id*. (($572,810,777 (2016) - $541,079,466 (2010)) = $31,371,311.

[114] Vaughan Hearing Testimony at 1036-1037. Paradoxically, the Attorney General's 2013 advocacy of scrubbing Big Sandy Unit 2, and the rejection of the Mitchell Transfer, would have added, as the Commission found in Case No. 2012-00578, hundreds of millions of dollars of additional costs. The Commission rejected the Attorney General's position.

[115] *Id*. at 1037.

[116] Attorney General's Hearing Exhibit 4.

[117] *Id*.

[118] *Id*.

[119] *Id*.

[120] Vaughan Hearing Testimony at 1037.

[121] *Id*.

[122] *Id*.

[123] *Id*.

longer available.[124] Contrary to the canvas the Attorney General attempts to paint, "it's not just a picture that Kentucky Power's revenues keep going up and sales keep going down…."[125]

6. Kentucky Power Respects the Regulatory Compact By Actively Considering And Limiting The Impact Of The Requested Increase In Its Revenue Requirement On The Company's Customers.

By examining each item included in its filing to see if it could be excluded,[126] by filing a "skinny" case,[127] and by actively and successfully managing those costs that could not be pushed out to a later case or avoided altogether,[128] Kentucky Power reduced in substantial part the impact its application otherwise would have had. But Kentucky Power has an obligation, both statutory,[129] and as part of the regulatory compact,[130] to provide adequate, efficient, and reasonable service to each of its 168,000 customers.[131] And "[t]here's costs to having safe and reliable service,"[132] particularly in a service territory that is as challenging as eastern Kentucky.[133] It is these costs this case is paying for.[134]

And these costs must be paid. Kentucky Power cannot avail itself, as the Attorney General did, of the magical thinking required to file sworn testimony indicating the Company's current rates produce a $39.9 million revenue deficiency, and the next day hold a press conference urging the Commission to ignore that deficiency, all the while assuming the Company will be able to continue to provide safe, adequate, and reliable service without the

[124] *Id*.

[125] *Id*.

[126] Satterwhite Hearing Testimony at 146-147.

[127] *Id*. at 146.

[128] *Id*. at 146, 178.

[129] KRS 278.030(2).

[130] *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 797 (Ind. 2000).

[131] Satterwhite Hearing Testimony at 431.

[132] *Id.* at 165.

[133] *Id.* at 325.

funds required to do so. The Attorney General's proposal to ignore his own witness' sworn testimony and shred the regulatory compact will only exacerbate the issues facing the region's least well-off residents "by not having power to these people."[135]

Kentucky Power carefully considered the impact of its requested rates on its customers[136] and its economic development activities. Company Witness Satterwhite asked his staff to examine the impact of each item of the Company's rate case on its customers[137] and to take a fresh look at "how we could minimize the impact of what we were going to file."[138] The Company recognized that any increase in any cost could be difficult for some of its customers.[139] Kentucky Power's management is sensitive to that fact and strives to make the best decision for all of its customers.[140] Kentucky Power worked hard to strike a "balance, for the Company, for the regulatory compact, and still respected the community."[141]

The Company also worked to mitigate the impact of the proposed increase on its residential customers. The Company's application, consistent with the Commission's policy of gradualism, reduces the existing $30.6 million subsidy[142] provided to the residential class by other customer classes by only five percent.[143] Kentucky Power also proposed shifting a greater proportion of the fixed costs associated with providing service to residential customers from the

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[134] *Id*. at 165.

[135] *Id*. at 474.

[136] Satterwhite Direct Testimony at 14; Satterwhite Hearing Testimony at 127 ("We talk about the impact it's going to have on our customers. We talk with those customers directly.")

[137] Satterwhite Hearing Testimony at 146.

[138] *Id*. at 118.

[139] *Id.* at 475

[140] *Id.*

[141] *Id*. at 118-119.

[142] Buck Direct Testimony; Exhibit DRB-2.

[143] Wohnhas Direct at 8.

energy charge to the monthly service charge.[144] Doing so benefits residential electric heating[145] and other high energy usage customers, which in Kentucky Power's service territory disproportionately includes low-income customers, by reducing the amount of intra-class subsidy.[146] It also benefits all residential customers by reducing bill volatility.[147]

Again consistent with the Commission's policy of gradualism,[148] the Company proposed increasing the residential service charge to only $17.50 a month instead of to the full-cost monthly basic service charge of approximately $38.[149] Kentucky Power also proposed increasing the HEAP charge, and matching shareholder contribution, by $0.05 per residential meter per month to provide an additional $163,334 annually in low-income assistance.[150] In addition, the Company began working earlier in 2017 with low-income advocates to see how the Company and the advocates could better cooperate.[151] Finally, Kentucky Power's proposed revisions to its distribution vegetation management plan to accelerate the completion of Task 2 work and the corresponding decrease in distribution vegetation expense will primarily benefit residential customers.[152]

These efforts are in addition to the significant cost reductions resulting from the Company's refinancing of long-term debt in June of 2017.[153] Kentucky Power took the initiative to recognize those savings in this case, despite the fact that the refinancing, which produced a

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[144] Vaughan Direct Testimony at 10-15; Vaughan Rebuttal Testimony at R13-R14.

[145] Kentucky Power also proposed an optional residential demand-metered tariff to allow electric heating customers potentially to take advantage of their higher load factor usage characteristics. Vaughan Direct at 18-20.

[146] Vaughan Direct Testimony at 10-13.

[147] *Id*. at 12-13.

[148] *Id*. at 14.

[149] *Id*. at 10, 13.

[150] Wohnhas Direct at 7.

[151] Satterwhite Hearing Testimony at 130.

[152] *Id*. at 409-410.

[153] Wohnhas Supplemental Testimony at 2.

$8.1 million dollar reduction in the Company's annual revenue requirement and a 0.53 percent reduction in Kentucky Power's Weighted Average Cost of Capital ("WACC"), occurred approximately four months after the test year.[154] These cost-saving efforts are also in addition to Kentucky Power's efforts to increase its non-retail revenues.[155]

C. Kentucky Power's Economic Development Efforts Have Helped to Turn the Tide in the Company's Service Territory.

1. Kentucky Power's Economic Development Grant Programs.

Beginning in 2012, Kentucky Power began focused economic development efforts that have paved the way for recent successes in the Company's service territory.[156] Recognizing the historical level of poverty in the region, the Company commissioned a study of the economic development potential in the region to restart the process (the "2012 InSite Study").[157] This study identified a series of gaps in the economic development infrastructure that had to be filled before the region could be competitive in attracting new industry.[158] Filling these gaps to make the region competitive is the goal of the Company's formally-defined economic development programs.[159] Every utility is involved in and supports economic development, but Kentucky Power Company developed a partnership with its customers that goes beyond the norm. Through its efforts, Kentucky Power serves as the corporate leader in economic development in the region.

To fill the gaps identified in the 2012 InSite Study, Kentucky Power implemented two separate, but similar, economic development grant programs. The first, the Kentucky Economic

[154] Wohnhas Supplemental Direct Testimony at 1-4; Vaughan Supplemental Direct Testimony at 4; Miller Supplemental Direct Testimony at 6.

[155] Satterwhite Hearing Testimony at 367.

[156] Hall Direct Testimony at 6.

[157] *Id*. at 6-7; Exhibit BNH-1.

[158] Hall Direct Testimony at 8-9.

Advancement Program ("KEAP"), provides economic development grants to local governments and economic development agencies in Lawrence and the six Kentucky counties contiguous to Lawrence County.[160] The KEAP program arose out of the Settlement Agreement in Case No. 2012-00578 and provides $233,000 annually in economic development grants and contributions to community and technical colleges.[161] The program began in 2014 and, consistent with the Settlement Agreement in Case No. 2012-00578, will expire at the end of 2018.[162] Funds for the KEAP program are provided solely by the Company's shareholder.[163]

The Company's second economic development grant program, the Kentucky Power Economic Growth Grant ("K-PEGG") program, is a joint effort between the Company and its customers authorized by the Commission in Case No. 2014-00396.[164] Through the K-PEGG Program, the Company issues economic development grants to municipalities and local and regional economic development agencies to fill economic development gaps identified in the 2012 Insite Study.[165] These gaps included:

- A lack of functional and properly trained local or regional economic development organizations;
- Limited competitive and marketable industrial parks and buildings;
- Insufficient marketing infrastructure for available opportunities; and
- Insufficient workforce development and training.[166]

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[159] *Id*. at 9.
[160] *Id*. at 21.
[161] *Id*.
[162] *Id*. at 25.
[163] *Id*. at 22.
[164] *Id*. at 12.
[165] *Id*.
[166] *Id*. at 9; Exhibit BNH-1.

The K-PEGG program is funded in equal parts through the Kentucky Economic Development Surcharge ("KEDS"), a $0.15 per meter per month charge approved by the Commission in Case No. 2014-00396, and a corresponding dollar-for-dollar match by the Company.[167]

The K-PEGG program is unique among economic development efforts by utilities in that it is funded by a dedicated source of funds meaning that the Company cannot shift funds from the K-PEGG program to pay for other operational expenses:

> I mean, that's what I would consider a great thing about the K-PEGG program is that it's a commitment between the Company, the customer, and the Commission to dedicate these funds to economic development.
>
> So, you know, an example of if there was a budget constraint within the Company and they needed to reallocate dollars, these dollars cannot be reallocated. They must be spent for economic development within our service territory.[168]

Other utilities can shift money away from economic development at any time. The use of dedicated funds is vital and unprecedented. Also, unlike the KEAP program, which is limited in geographic scope, the K-PEGG program serves the Company's entire service territory.[169]

2. Kentucky Power's Economic Development Grant Programs Produce Results.

Through the KEAP and K-PEGG programs, Kentucky Power has issued 42 grants totaling $1,844,580.[170] Many of these grants provided support and training to economic development agencies in the Company's service territory. Others have provided needed assistance to economic development agencies to attract or retain prospects. For example,

- K-PEGG and KEAP grant funding allowed Ashland Alliance to obtain certifications for the EastPark Industrial Park.[171] Because of these certifications, Braidy Industries was able to keep its proposed aluminum mill in Greenup and Boyd Counties when construction delays associated with its original site put the

[167] Hall Direct Testimony at 13.

[168] Hall Hearing Testimony at 867.

[169] Hall Direct Testimony at 13.

[170] *Id*. at 15-16, 22-23; Hall Rebuttal Testimony at R2.

[171] Hall Hearing Testimony at 845-46; Hall Rebuttal Testimony at R6-R7.

project in jeopardy.[172] Braidy Industries plans to employ 550 full-time employees in addition to over 1,000 construction workers.[173]

- K-PEGG grant funding to the City of Pikeville facilitated the development of the Kentucky Enterprise Industrial Park in Pike County.[174] The Kentucky Enterprise Industrial Park will be the home of SilverLiner Trucking facility with up to 300 employees and the EnerBlu battery manufacturing facility with 875 employees.[175]

- K-PEGG grant funding to the Big Sandy Regional Industrial Development Authority directly supported the relocation of Logan Industries to Magoffin County keeping up to 115 jobs in the service territory.[176]

Through these grant programs and its other economic development efforts, Kentucky Power is turning the tide in its service territory. These efforts, if continued, will "grow the denominator" allowing the Company to spread its fixed costs over a larger load and limit rates for all customers.

D. Kentucky Power In Its Role As A Good Community Partner Cannot Be Required To Supplant The Role Of Government.

Kentucky Power has demonstrated that it is a great corporate citizen that strives to be more than just a corporation located in eastern Kentucky. The Company instead is a community partner, interested in positively impacting the community in which the Company and its customers live and operate. Although such a role is not contemplated under the regulatory compact, Kentucky Power nonetheless has seen real value from the charitable and economic development efforts it has undertaken.

As a regulated utility, Kentucky Power enjoys and adheres to the requirements implicit in the regulatory compact: that in return for providing safe and reliable service to customers, the utility is allowed a reasonable rate of return for that service. Also as a regulated utility, the

[172] Hall Hearing Testimony at 845-46.

[173] Hall Direct Testimony at 12.

[174] Hall Hearing Testimony at 832-833.

[175] Hall Rebuttal Testimony at R3; Hall Hearing Testimony at 823.

Company part of a unique relationship to its customers and its service territory. Not only does the Company strive to maintain the ability to earn a return on equity sufficient to permit it to attract capital to permit it to invest in its service territory, it also has a duty to provide service to its customers in accordance with Kentucky law. Kentucky Power, in particular, enjoys an even more unique relationship with its customers, as its service territory is located in eastern Kentucky, which has experienced as pronounced an economic downturn in recent years as anywhere in the country.

It is true that Kentucky Power's service territory has some of the highest poverty rates in the country. It is also true that in these same counties Kentucky Power's customers are spread across some of the most difficult terrain in the state.[177] Unfortunately, each of these factors compounds the effect of the other. It costs the Company more to provide safe and reliable service to customers who can least afford it. This fact, and the reality of a decreasing customer base, are two factors of the many that contributed to the Company's need for a rate increase.

Unfortunately, as Community Action Kentucky ("CAK") Witness McCann testified, society will never end poverty.[178] But, that does not mean Kentucky Power is ignoring the challenge. The Company secured grants to provide weatherization assistance to seniors and low income households through the Christian Appalachian Project ($50,000),[179] to provide video distance learning (Go Online And Learn, or GOAL) for every high school in its territory

[176] Hall Direct Testimony at 17-18; Hall Hearing Testimony at 844-845.

[177] Vaughan Direct Testimony at 18. Kentucky Power has 17 customers per distribution line mile. Louisville Gas and Electric Company/Kentucky Utilities Company have 41 customers per distribution line. Duke Energy Kentucky has 47 customers per distribution line. Compounding this disparity – and the cost differentials inherent in it – is the fact that Kentucky Power's difficult topography increases the distribution capital and O&M expense required to serve each distribution line mile above that required in the much more urban areas of the "Golden Triangle." *Id.*

[178] McCann Hearing Testimony at 1116.

[179] Satterwhite Hearing Testimony at 125.

($500,000),[180] funded the first Red Cross emergency response vehicle dedicated to the region ($150,000),[181] and secured funds to train unemployed coal miners at the eKAMI school teaching advanced manufacturing skills ($123,000).[182] In 2016, AEP directly donated, through the American Electric Power Foundation, $25,000 to God's Pantry in Paintsville, Kentucky and $10,000 to the Kentucky Governors Scholar Program.[183] In addition, in response to the fact that the low income assistance programs each year exhaust the millions provided by the federal government, Kentucky Power proposes to increase its contribution to low income assistance programs in this case.[184]

Kentucky Power did not undertake these actions believing it would alleviate all poverty. It did so to augment a program that already provides support to low income residents by asking for a little more support from residential customers while also guaranteeing equivalent additional shareholder support. In the long run, the focus on economic development will sow more seeds to help alleviate the level of poverty in Eastern Kentucky; in the short run, by also increasing its support to low income assistance programs now, the Company is actively addressing the immediate needs of its communities.

Kentucky Power is looking to do its part and more to address the challenges facing eastern Kentucky. The Company sought through the Settlement Agreement to find a mutually beneficial solution to those challenges so that Kentucky Power can uphold its end of the regulatory compact, without sacrificing what it is promised under that same compact.

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[180] Satterwhite Direct Testimony at 6; Satterwhite Hearing Testimony at 119.

[181] Satterwhite Direct Testimony at 6.

[182] Hall Hearing Testimony at 864-865.

[183] *Id*.

[184] *Id*. at 11-12.

By seeking to improve the overall economic situation of its service territory in the long-run and to provide assistance in the short-term, Kentucky Power is making a meaningful and important contribution to addressing the concerns raised by Mr. McCann and many of those persons who filed public comments. Neither the actions by the Company and its shareholder, nor the challenges facing eastern Kentucky, justify, as the Attorney General and others would have it, shredding the regulatory compact by denying Kentucky Power the opportunity to earn a reasonable return on equity. Nor does either justify transforming this rate case into the vehicle by which Kentucky Power is required to supplant the role of government, if it chooses to exercise it, and become a social welfare agency.

Courts have criticized regulatory bodies' unilateral attempts to implement certain social policies through ratemaking.[185] If "social considerations were to become dominant [in ratemaking practices], the enterprises to which they apply would cease to be public utilities in the accepted sense of the term. They would then become 'socialized,' like the public schools, the tax-financed or endowed universities, and (to a greater degree) the police, the courts, the military, and the city-street departments."[186] Ultimately, legislatures, and not utility regulatory bodies, bear responsibility to address social welfare issues.[187] The General Assembly, and not the Commission nor Kentucky Power, is best equipped to decide whether and how to address the broader concerns identified by Mr. McCann.[188]

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[185] *See Colorado Mun. League v. Public Utils. Comm'n*, 591 P.2d 577 (Colo. 1979) (commission lacked authority to effect social legislation by ordering that pay phone rates be reduced according to age and indigency classification); *Mountain States Legal Found. v. New Mexico State Corp. Comm'n*, 687 P.2d 92 (N.M. 1984) (commission lacked authority to effect social policy through preferential ratemaking for telephone service for elderly and indigent); *Process Gas Consumers Group v. Pennsylvania Pub. Util. Comm'n*, 511 A.2d 1315 (Pa. 1986) (commission's requirement that excess gas rate revenues be used for residential conservation programs exceeded commission's ratemaking authority).

[186] James C. Bonbright, et al., Principles of Public Utility Rates 169 (Public Utilities Reports, Inc., 2nd ed. 1988).

[187] Id. at 170

[188] Id. at 170, 177-178.

Through the balance achieved by Settlement Agreement, Kentucky Power and the Signatory Parties have addressed to the extent possible within the confines of this proceeding the concerns raised by Mr. McCann and others and shared by all parties. The Settlement Agreement does so in a creative and constructive fashion, while providing Kentucky Power with the financial resources required by the regulatory compact, KRS 278.030(1), and the state and federal constitutions. Kentucky Power's current rates fall far short of doing so. Neither the short-term nor long-term needs of Kentucky Power's customers, and eastern Kentucky as a whole, will be advanced if, as the Attorney General argues, Kentucky Power continues to be denied the financial wherewithal to provide adequate and reasonable service.

E. Case History.

1. The Company's As-Filed Rate Request.

In its June 28, 2017 filing, the Company sought to adjust its rates to produce approximately $65 million in additional annual revenue, or an 11.8 percent increase over the February 28, 2017 test year level.[189] The Company also proposed additional customer funding for the Home Energy Assistance Program ("HEAP") and the Kentucky Economic Development Surcharge ("KEDS") of $81,667 and $203,224, respectively, for a total additional increase of about 0.6 percent for those programs.[190] Kentucky Power proposed to match, dollar-for-dollar, the additional customer funding of HEAP and KEDS.[191] Further, the Company proposed a revenue increase of approximately $3.9 million in connection with the 2017 Environmental Compliance Plan ("2017 ECP").[192] Thus, the total proposed increase in revenue requirement

[189] Wohnhas Direct Testimony at 5.

[190] *Id.*

[191] *Id.*

[192] *Id.*

totaled around $69 million, or an increase of about 12.56 percent.[193] The Company also sought approval for a ROE of 10.31 percent.[194]

The Company's proposed adjustments yield fair, just, and reasonable rates that will allow the Company to make necessary investments, including vital economic development investments in its service territory, and continue to provide the service that customers and Kentucky regulations require.[195]

2. June 2017 Refinancing Activity.

As part of its ongoing active cost control measures, Kentucky Power refinanced in June 2017 its $325,000,000 6.00% Senior Unsecured Notes, and $65,000,000 WVEDA Mitchell Project, Series 2014A Variable Rate Demand Note (together, the "June 2017 Refinancing Activity").[196] The June 2017 Refinancing Activity resulted in an approximately ten percent reduction of the Company's proposed increase of annual revenue requirement from $69,575,936 to $63,313,785.[197]

As a result of the June 2017 Refinancing Activity, the Company also will see a decrease in estimated interest expense associated with the environmental surcharge in the amount of approximately $1.06 million, and an estimated reduction in the amounts recovered through the Decommissioning Rider (formerly the Big Sandy Retirement Rider) of approximately $800,000.[198] These savings, combined with the decrease in the proposed annual revenue requirement increase, result in a total $8.1 million benefit to customers.[199] The June 2017

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[193] *Id*. at 6.
[194] McKenzie Direct Testimony at 6.
[195] Satterwhite Direct Testimony at 17, 20.
[196] Wohnhas Supplemental Direct Testimony at 1.
[197] *Id*. at 2-3.
[198] Vaughan Supplemental Direct Testimony at 4.
[199] *Id*. at 4.

Refinancing Activity also produced a 53 basis point reduction of the Company's WACC, from 7.28 percent to 6.75 percent.[200]

3. <u>The Settlement Agreement</u>.

Following negotiations to which all parties were invited, Kentucky Power, KIUC, KSBA, KLC, Wal-Mart, and KCTA entered into a Settlement Agreement.[201] The Attorney General and KCUC elected not to sign the agreement. The Settlement Agreement produces an annual revenue increase of $31,780,734.[202] This represents a $28,616,704 reduction from the $60,397,438 sought by the Company in the August 2017 Refinancing Update.[203] Notably, this amount is smaller than the nearly $40 million revenue deficiency calculated by AG witness Smith.[204] The revenue requirement increase agreed to by the Settling Parties, when combined with changes outside this agreement, but not including possible further reductions as a result of the recent enactment of the Tax Cut and Jobs Act, will result in an average monthly bill increase for residential customers of $1.35 or 0.79 percent.[205] The Company filed an executed copy of the Settlement Agreement accompanied by supporting testimony with the Commission on November 22, 2017.[206]

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[200] Miller Supplemental Direct Testimony at 6.

[201] Satterwhite Settlement Testimony at S4, S6.

[202] Settlement Agreement at ¶ 2(a).

[203] *Id*.

[204] Compare to the Attorney General's Response to KPSC 1-2(a).

[205] *See* the Company's January 3, 2018 Supplemental Response to AG-PH 5. The total bill impact calculation accounts for changes to the Company's DSM factor effective January 1, 2018. The 9 percent average residential bill increase identified in Exhibit 1 to the Settlement Agreement is relative to the test year revenue amount.

[206] The Settlement Agreement filed on November 22, 2017 was updated on November 30, 2017 to incorporate the signature of a representative of KCTA and updated rates under Tariff C.A.T.V.

III. THE SETTLEMENT AGREEMENT IMPROVES ON THE APPLICATION, IS IN THE PUBLIC INTEREST, AND WILL RESULT IN RATES THAT ARE FAIR, JUST, AND REASONABLE.

A. Settlement Agreement Overview.

The Settlement Agreement is the result of constructive and creative negotiations among the parties and provides for a balanced package that allows the Company to address the financial challenges it has seen recently while mitigating rate impact on its customers. In addition to the revenue requirement reduction, the Settlement Agreement provides additional benefits, including a deferral of significant costs and an agreement by the Company not to seek a new base rate case for almost three years.

The Settlement Agreement also provides that any party may withdraw from the agreement if the Commission does not approve the agreement in its entirety.[207] As Company Witness Satterwhite described, the Settlement Agreement as a whole represents a fair balance:

> I guess the one caveat I would put in there is if the -- I think there's fair balance amongst the parties that did reach a settlement agreement in this case, and if the Commission were to decide to change something in one area, it would be to provide that balance still and change something else in the settlement agreement in a different area to still provide that overall balance that the parties have met.[208]

The rates proposed in the Company's application are fair, just, and reasonable, and in the absence of the Settlement Agreement, should be approved by the Commission as filed. The Settlement Agreement as a whole improves on those as-filed rates while providing additional benefits not available in the absence of the agreement. The Commission should approve the agreement without modification.

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[207] Settlement Agreement at ¶ 19.

[208] Satterwhite Hearing Testimony at 58.

B. <u>The Rate Case "Stay-Out" Provision Provide Customers A Significant Benefit Not Otherwise Available Absent Kentucky Power's Agreement In Return For The Balance Achieved By The Settlement Agreement</u>.

The regulatory compact[209] and KRS 278.030(2) impose the obligation on Kentucky Power to provide "adequate, efficient, and reasonable service" to each of the Company's 168,000 customers whether they are located in an urban area in Ashland, Pikeville, or Hazard, or at the end of a six-mile radial distribution line that serves only two customers. Kentucky Power (and every other utility) is neither statutorily[210] nor constitutionally[211] required to bear the costs of doing so. Rate cases are the legislatively sanctioned vehicle through which utilities obtain the financial wherewithal to meet their obligation to provide service to their customers.[212] Kentucky Power has the right – which only it can limit through a settlement agreement – to employ that legislatively-sanctioned vehicle to obtain fair, just, and reasonable rates sufficient to cover its expenses in providing service to its customers.

But the litigation of rate cases imposes burdens and uncertainties on the Commission, the Company's customers, and the Company itself.[213] Rate case litigation also imposes costs – both financial and otherwise – on each of the three.[214] In particular, these uncertainties also can affect Kentucky Power's ability to continue to effect the sort of change required to "grow the denominator" through economic development.[215] The time, energy, and financial resources that are required to prepare and litigate a rate case could otherwise be devoted to the operation of the

[209] *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 797 (Ind. 2000).

[210] KRS 278.030(1); *South Cent. Bell Tel. Co. v. Utility Regulatory Com'n*, 637 S.W.2d 649, 652 (Ky. 1982) ("The General Assembly has unequivocally allowed utilities to be fairly paid for their service.")

[211] *Commonwealth ex rel. Stephens v. S. Cent. Bell Tel. Co.*, 545 S.W.2d 927, 930 (Ky. 1976) (a just and reasonable, and hence constitutional, rate is one that "enable[s] the utility to operate successfully, to maintain its financial integrity, to attract capital and to compensate its investors for the risks assumed….")

[212] *See* Satterwhite Hearing Testimony at 165 ("[t]here's costs to having safe and reliable service" and "[t]hat's what this rate case is paying for.")

[213] Satterwhite Rebuttal Testimony at R6-R7.

[214] *Id*. at R6-R7.

businesses of the Company and the intervenors.[216] The review and administration of rate cases – although among the most important duties undertaken by the Commission and its staff – result in burdens that may be increasingly difficult to meet with the declining resources made available to the government of the Commonwealth.[217]

Because of these burdens, as well as the impact any increase on costs can have the Company's residential customers,[218] Kentucky Power sought through its application to obtain the regulatory tools, coupled with its ongoing economic development efforts,[219] required to enable the Company to extend the period between rate case filings.[220] Chief – but not exclusively – among those tools was the amendment of the Company's Tariff P.P.A. to permit Kentucky Power to refund or recover incremental changes between the level of PJM LSE OATT Charges included in Kentucky Power's base rates and its actual OATT expense.[221]

The Settlement Agreement builds on the Company's efforts in its application to extend the period between future rate applications by including an express three-year base rate case stay out provision.[222] This is a significant benefit to customers. In addition to this direct benefit to all of the Company's customers, the rate stability resulting from the three-year stay out will prove to

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[215] *Id*. at R7.

[216] *Id*. at R7.

[217] *See* General Fund Budget Reduction Order 18-01, Office of State Budget Director, http://apps.sos.ky.gov/Executive/Journal/execjournalimages/2017-MISC-253341.pdf (December 28, 2017).

[218] Satterwhite Hearing Testimony at 76 ("over time you can't just constantly come in and file rate cases, so you have to change the denominator overall to be respective [*sic*] of your community and your whole region.")

[219] *Id*. at 165 ("[w]e're going to really focus on economic development. Hopefully that, in the future, avoids us having to file something or avoids us having to file something with such a large increase, because we have changed that denominator.")

[220] *See* Satterwhite Rebuttal Testimony at R4-R5.

[221] *Id*.

[222] Settlement Agreement at ¶ 5(a) ("Kentucky Power will not file an application for a general adjustment of base rates for rates that would be effective prior to the first day of the January 2021 billing cycle.")

be of a particular benefit as Kentucky Power and its economic development partners build on the Company's existing economic development efforts.[223]

The stay out provision is also a benefit that, *as a matter of law,* only Kentucky Power can agree to provide. *As a matter of the cold finances* necessary to permit Kentucky Power to continue to provide adequate, efficient, and reasonable service, it is a benefit the Company can afford only if the balance achieved in the Settlement Agreement between the detriments agreed to by Kentucky Power in return for the benefits it achieved is preserved by the Commission: "[w]ithout all of the considerations provided by the Settlement Agreement, Kentucky Power lacks that [financial] ability [to stay out.]"[224]

The balance struck in the Settlement Agreement was both intricate[225] and hard to achieve.[226] Critical to that balance, and Kentucky Power's financial ability to agree to the stay-out provision, were the protections provided by the amendment to Tariff P.P.A. to refund or recover variations from test year levels of PJM LSE OATT expenses.[227] The other parties to the Settlement Agreement evidenced their understanding of the importance of maintaining the overall balance struck in the Settlement Agreement by agreeing: "[t]his rate case 'stay out' is expressly conditioned on Commission of this Settlement Agreement without modification including the recovery of the Rockport Deferral Regulatory Asset as described in Section 3

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[223] Satterwhite Rebuttal Testimony at R7 ("With regard to economic development, rats case produce rate uncertainty for customers evaluating whether to locate within Kentucky Power's service territory.")

[224] Satterwhite Settlement Testimony at S16. *See also* Satterwhite Hearing Testimony at 336-337; 487 (requesting the Commission not disturb "the overall balance, I think, the parties have put into the settlement agreement."); 396 (same); 409 (same); 477 (same).

[225] Satterwhite Hearing Testimony at 331, 336.

[226] *Id*. at 324-325.

[227] Satterwhite Settlement Testimony at S16.

above and the incremental PJM LSE OATT expense through Tariff P.P.A. as described in Section 4 above."[228]

Finally, although Kentucky Power is agreeing to assume the financial risk inherent – even with the proposed amendment of Tariff P.P.A. and the recovery of the Rockport Deferral Regulatory Asset – in the stay out provision,[229] the parties recognized that there could be a change of law that could yield "a material adverse effect on the Company's financial condition,"[230] or emergency that could adversely affect the Company or its customers.[231] In those circumstances, the Company may file an application seeking to address the change in law or emergency.[232] The stay out provision, while limiting Kentucky Power's ability to seek base case rate relief, expressly recognizes the Commission's continuing jurisdiction over Kentucky Power's rates.[233]

C. Recovery of Kentucky Power's PJM OATT LSE Charges Through Tariff P.P.A. is Necessary, Reasonable, and Appropriate.

In the application, Kentucky Power seeks Commission approval to amend its Purchase Power Adjustment Rider ("Tariff P.P.A.") to include additional categories of expenses and to change from a monthly to an annual adjustment factor calculation. Currently, the Company recovers through Tariff P.P.A. the costs of (1) demand credits paid to C.S.-I.R.P. customers; (2) certain purchase power expenses not recoverable through the Company's fuel adjustment clause ("FAC"); and (3) power purchased through new Purchase Power Agreements.[234] The Company

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[228] Settlement Agreement at ¶ 5(a).
[229] Satterwhite Hearing Testimony at 397.
[230] Settlement Agreement at ¶ 5(b).
[231] *Id*. at ¶ 5(c).
[232] *Id*. at ¶ 5(b); *id*. at ¶ 5(c).
[233] *Id*. at ¶ 5(c).
[234] Vaughan Direct Testimony at 26.

proposes to add the following additional categories of costs for recovery under Tariff P.P.A.: (1) the charges and credits it incurs as a load serving entity ("LSE") in PJM under PJM's FERC-approved Open Access Transmission Tariff ("PJM OATT LSE Charges"); (2) purchase power costs excluded from recovery under the FAC due to the peaking unit equivalent calculation; and (3) gains and losses from incidental gas sales.[235]

Under the Company's application, the aggregate annual amount of costs incurred in the categories identified above ("Tariff P.P.A. Costs") will be compared to the amount of those costs included in base rates.[236] The Company will then set the annual purchase power adjustment factor to recover or credit any over or under recovery of the base rate amount ensuring that customers pay no more or no less than the actual charges.[237] Kentucky Power has set the purchase power adjustment factor initially at zero.[238] The Company will file with the Commission annually no later than August 15 the calculations used to develop subsequent purchase power adjustment factors.[239] The aggregate amount of Tariff P.P.A. Costs included in base rates is $78,737,938.[240] Much like the Commission's desire to address the impact of tax law changes outside the traditional rate case process, the treatment of PJM OATT LSE Charges also deserves special consideration.

1. <u>Kentucky Power's PJM OATT LSE Charges</u>.

As an LSE within PJM, Kentucky Power and its customers receive the benefits of a robust transmission system and access to a diverse market for energy.[241] Each year, PJM

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[235] *Id*.

[236] *Id*. at 35-36.

[237] *Id*. at 36.

[238] *Id*. at 35-36.

[239] *Id*.

[240] *See*, the Company's response to KIUC 1-67; Exhibit AEV-4S.

[241] Satterwhite Hearing Testimony at 405.

determines the annual transmission costs allocated to the AEP Zone (the transmission zone in which Kentucky Power is an LSE). These costs are largely driven by the nature of the transmission projects planned within the system and are allocated to various zones based on the benefits those zones receive from the project.[242] Many of the projects are designed to replace aging transmission infrastructure at (or past) the end of its design life.[243] Others are designed to address congestion or account for recent generation retirements.[244] These costs are almost exclusively outside Kentucky Power's ability to control.[245]

The costs charged to the AEP Zone are calculated using the cost allocations set forth in PJM's FERC-approved OATT,[246] which are based upon the costs arising from the various PJM transmission owners' FERC approved formula rate templates. A portion of costs assigned to the AEP Zone are then allocated to Kentucky Power through the FERC-approved AEP Transmission Agreement.[247] Recently, Kentucky Power's share of the AEP Zone transmission costs have averaged approximately six percent of the total AEP Zone transmission costs.[248] Kentucky Power's adjusted test year PJM OATT LSE charges totaled $74,038,517.[249]

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[242] Vaughan Hearing Testimony at 1022-23; Exhibit AEV-R1.

[243] Vaughan Hearing Testimony at 1026, 1038-1039.

[244] Exhibit AEV-R1 at 10.

[245] Satterwhite Hearing Testimony at 319 ("It is not as if I could take a snapshot in time from a test year and have less employee lunches and put a few less generators or transformers and cover that cost. It is completely outside that, my management ability."); Vaughan Rebuttal Testimony at R5-R6.

[246] Vaughan Rebuttal Testimony at R5-R6; Exhibit AEV-R1.

[247] Vaughan Hearing Testimony at 1026-27.

[248] *Id*. at 1033.

[249] Vaughan Direct Testimony at 29 (as corrected during Mr. Vaughan's testimony on December 8, 2017). This amount is included in the $78,737,938 total Tariff P.P.A. Costs that will be used to calculate the annual purchase power adjustment factor.

2. Recovery of Kentucky Power's PJM OATT LSE Charges Through Tariff P.P.A. Benefits Customers.

a. Kentucky Power Will Recover its Actual PJM OATT LSE Charges – No More and No Less.

Kentucky Power anticipates increasing investment in the PJM transmission system by its member transmission owners in the future.[250] This increased investment will address the aging system infrastructure, but will also result in increased PJM OATT LSE Charges for Kentucky Power. These costs, which are volatile and largely outside of the Company's control,[251] will have a material impact on the Company. The Company currently estimates that its share of the PJM OATT LSE Charges for 2018 will total approximately $88 million, a $14 million increase over the amount in the test year.[252] The Company further projects that these amounts will increase to approximately $93 million and approximately $105 million in 2019 and 2020, respectively.[253]

Two pending FERC proceedings have the potential to impact the Company's PJM OATT LSE Charges.[254] In one, a challenge was filed to the return on equity used in calculating the transmission cost of service in the AEP Zone.[255] In the other, a non-unanimous settlement in a case challenging the cost-allocation methodology used to allocate costs to LSEs in PJM is under review.[256] Both of these FERC proceedings may lower the Company's PJM OATT LSE Charges. Likewise, the Tax Cuts and Jobs Act, signed into law by President Trump on December 22, 2017, will affect the level of rates charged by PJM for transmission services under

[250] Vaughan Direct Testimony at 27.

[251] Vaughan Rebuttal Testimony at R5-R6.

[252] Satterwhite Settlement Testimony at S14-S15.

[253] Attachment 1 to the Company's response to KIUC 1-67.

[254] Vaughan Direct Testimony at 28.

[255] *Id.*

[256] *Id.*

its OATT. The specifics of how the tax code changes will impact the Company's PJM OATT LSE Charges is unknown at this time. Under the Company's proposal, however, any corresponding changes in PJM OATT LSE Charges would flow through Tariff P.P.A. to customers.

The volatile nature of these costs makes tracking these charges through Tariff P.P.A. preferable to utilizing forecasted test years. Originally, Kentucky Power estimated that its PJM OATT LSE Charges for 2018 would total approximately $91 million, exceeding the amount included in base rates by approximately $17 million.[257] Subsequently, third party changes, outside of the Company's control, reduced the 2018 AEP Zone transmission expense; as a result, Kentucky Power's estimated 2018 PJM OATT LSE Charges decreased to approximately $88 million, a level that was approximately $14 million in excess of the base rate level.[258] Had the Company used a forecasted test year, the Company's customers would have paid rates based on the original forecasted $91 million expense. With the Company's proposed tracking mechanism, customers will pay the actual amount and save $3 million.[259]

Kentucky Power is entitled to recover these FERC-approved costs.[260] Under the proposed changes to Tariff P.P.A. included in the application, the Company will recover no more and no less than its actual PJM OATT LSE Charges. Because these charges are volatile and, for the most part, beyond the Company's control, recovering them through a tracker ensures that any benefits of the changes in these costs, be it through the pending FERC proceedings, changes in

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[257] Satterwhite Rebuttal Testimony at R8.

[258] Satterwhite Hearing Testimony at 370; Satterwhite Settlement Testimony at S15.

[259] Satterwhite Hearing Testimony at 317-18.

[260] Order, *In the Matter of: The Application Of Kentucky Power Company For Approval Of An Amended Compliance Plan For Purposes Of Recovering Additional Costs Of Pollution Control Facilities And To Amend Its Environmental Cost Recovery Surcharge Tariff*, Case No. 2006-00307 at 11 (Ky. P.S.C. January 24, 2007) ("Rockport Environmental Surcharge Order").

the tax code, or through third party recalculations described above, flow through Tariff P.P.A. and the purchase power adjustment factor to customers.

b. *Recovering PJM OATT LSE Charges Through Tariff P.P.A. Will Avoid Immediate and Recurring Rate Cases.*

If the Company cannot recover its incremental PJM OATT LSE Charges as proposed through Tariff P.P.A., it will be forced to file another rate case almost immediately. Staff underscored this point in cross-examining Company Witness Satterwhite:

> Q. Is it correct that if the Commission were to deny that recovery [of the PJM LSE OATT expenses through the tracker], that Kentucky Power would have to come in for another rate case?
>
> A. Most likely, yes.
>
> Q. So this is a binary decision. The Commission authorizes – or authorizes recovery in this case or Kentucky Power comes in for another rate case?
>
> A. Yeah, [I] have to obviously look at what the overall decision is of the Commission. Hopefully it respects the balance of what we have in the settlement agreement ….[261]

Mr. Satterwhite continued on cross-examination by making clear that his testimony regarding the need for the amendment of Tariff P.P.A. is not a matter of brinksmanship; instead, it is driven by the economic realities presented by the PJM LSE OATT Charges and his obligation to manage the Company so that it has the financial ability to provide reliable service:

> It's a large amount, and I have to make sure I'm managing the Company properly and taking care of that…. When you're introducing something that is 14, 17, who knows how many million more, that's not something I can adjust what I do day to day to work within that [test year] snapshot. It's completely volatile and outside that paradigm of that historic test year view, so that volatility forces me to deal with that.[262]

[261] Satterwhite Hearing Testimony at 395-396.

[262] *Id*. 396-397.

Contrary to the Attorney General's contention, recovery or refund of incremental changes in the Company's PJM LSE OATT Charges through the Company's proposed changes to Tariff P.P.A. does not guarantee that Kentucky Power will earn its authorized return on equity:

> Q: Looking at lines 3 through 4, you state there (Reading) The tracker would allow the Company the opportunity to earn its ROE.
>
> But isn't it true that if the tracker is approved, it would guarantee that Kentucky Power would earn its authorized ROE rather than an opportunity to earn it?
>
> A: Absolutely not. We have an opportunity –
>
> Q: Really?
>
> A: -- if that is included. If it's approved, Kentucky Power has a legitimate opportunity. If it's not approved, we have no opportunity. That's one and a half percent ROE off the top, we know it's happening[263]…

Absent such a tool in its kit, and because the costs are real and are projected to increase in 2018 alone by $14 million over test year levels,[264] Kentucky Power may well be required to seek a further adjustment of its rates within months of the expected date of the Order in this case.[265] That is in no one's interest and would erode public confidence in the regulatory system.

Rate cases are expensive and time-consuming. The Company's rate case expenses in this case were estimated to total $1.3 million – $600,000 of which were exclusively for newspaper advertising expenses.[266] Many, if not all of these costs are incurred in a rate case regardless of the amount of revenue increase sought by the Company, and these necessary and prudently-incurred rate case expenses are properly recoverable from customers. The Company's proposal to track and recover its incremental PJM OATT LSE Charges through Tariff P.P.A. allows the

[263] Vaughan Hearing Testimony at 1035-36.

[264] Satterwhite Settlement Testimony at S14-S15.

[265] Satterwhite Rebuttal Testimony at R5.

[266] *Id*. at R6.

Company to recover these costs without the expense and distraction of nearly continuous rate cases. The proposed change to Tariff P.P.A. is reasonable and should be approved.

3. The Settlement Agreement Minimizes the Rate Impact of Recovering PJM OATT LSE Charges through Tariff P.P.A.

The Settlement Agreement accepts Kentucky Power's proposal to recover incremental PJM OATT LSE Charges through Tariff P.P.A. with two changes. First, as part of the overall balance of the Settlement Agreement, the Company agreed to only recover 80 percent of the its incremental PJM OATT LSE Charges.[267] This means that the Company will not recover the remaining 20 percent of its expenses that it is otherwise entitled to recover in full.[268] Second, the Company agreed to credit against the incremental PJM OATT LSE Charges used in calculating the purchase power adjustment under Tariff P.P.A. 100 percent of the difference between the return on its incremental transmission investments calculated using the FERC-approved PJM OATT return on equity and the return on its incremental transmission investments calculated using the 9.75 percent return on equity included in the Settlement Agreement (the "Transmission Return Difference.")[269] For 2018, the Transmission Return Difference is estimated to be a $607,326 credit to customers in the calculation of the purchase power adjustment factor.[270] Both of these changes to Tariff P.P.A. in the Company's application provide real benefits to customers that are not available outside the settlement agreement.

Although the Settlement Agreement changes to the proposed PJM OATT LSE Charge recovery mechanism make it more challenging for the Company to earn its authorized return,[271]

[267] Settlement Agreement at ¶ 4(a).

[268] Satterwhite Settlement Testimony at S14.

[269] Settlement Agreement at ¶ 4(b).

[270] *Id*., Exhibit 3.

[271] Vaughan Hearing Testimony at 1036, describing the Company's opportunity to earn its authorized return depending on the recovery of PJM OATT LSE Charges, "And it's no guarantee, because we're still absorbing 20 percent of those incremental costs in the settlement deal."

the Company agreed to the reductions as part of the overall balance of the Settlement Agreement. The Settlement Agreement's provisions authorizing the Company to recover 80 percent of its incremental PJM OATT LSE Charges, less the Transmission Return Difference, is in the public interest and should be approved as part of balance in the Settlement Agreement.

D. The Settlement Agreement's Proposed Deferral of Rockport UPA Expense Is A Creative Means Of Mitigating The Effect Of Required Increase In The Company's Annual Revenue Requirement.

1. The Proposed Rockport Deferral.

Kentucky Power is a party to a FERC-approved Unit Power Agreement ("UPA") under which it receives 15 percent of the output of the Rockport Generating Station in Rockport, Indiana ("Rockport UPA"). Kentucky Power agreed in the settlement agreement to defer a total of $50 million in Rockport UPA expense for recovery following the termination date of the Rockport UPA ("Rockport Deferral"). This creative concept, first suggested by KIUC,[272] allows the Company to defer these contractual expenses until 2022 when they may be offset as a result of the expiration of the Rockport UPA. Because the Rockport UPA is a FERC-approved rate schedule, the Company is authorized full and concurrent recovery through rates.[273] As such, the Rockport Deferral is not something that could otherwise be ordered by the Commission.

Under the Rockport Deferral, the Company will defer $15 million per year in 2018 and 2019, $10 million in 2020, and $5 million per year in 2021 and 2022. The Rockport Deferral creates a $15 million base rate credit. In subsequent years, the difference between the

[272] KIUC's proposal called for the deferral of $20.3 million a year through December 2022 and for the approximate $101.5 million deferral balance to be amortized on a levelized basis over ten years. Kollen Direct Testimony at 11, 15. The amount of the deferral and the length of the amortization period would have unreasonably burdened Kentucky Power's ability to maintain a stable investment grade credit rating by decreasing its cash flows. Wohnhas Rebuttal Testimony at R9-R10. The Rockport Deferral included in the Settlement Agreement only works financially if Kentucky Power is able to strengthen its cash flow by contemporaneously recovering 80 percent of any incremental increase in the Company's PJM LSE OATT Charges. Wohnhas Hearing Testimony at 969.

[273] Rockport Environmental Surcharge Order at 11.

$15 million base rate credit and the annual deferral amount will be recovered through the Company's Tariff P.P.A. The Rockport Deferral timeline is summarized as follows:

YEAR	CREDIT IN BASE RATES	DEFERRAL AMT	AMT RECOVERED VIA TARIFF PPA
2018	$15 million	$15 million	$0
2019	$15 million	$15 million	$0
2020	$15 million	$10 million	$5 million
2021	$15 million	$5 million	$10 million
2022	$15 million	$5 million	$10 million[274]

As it is being deferred, the Rockport Deferral Regulatory Asset will be subject to a carrying charge at the Company's weighted average cost of capital ("WACC"). The Company estimates that the Rockport Deferral Regulatory Asset will total $59 million dollars at the end of 2022.[275] The recovery of the Rockport Deferral Regulatory Asset will begin in December 2022.[276] The regulatory asset will be amortized over five years.[277]

In the event the Company elects not to extend the Rockport UPA, then starting on the termination date, it will no longer incur the costs associated with the Rockport UPA. Under the Settlement Agreement, the Company will, through Tariff P.P.A., credit back to customers these Rockport Fixed Cost Savings.[278] The Rockport Fixed Cost Savings credit will, for 2023 only, be subject to an offset in the amount of revenue, up to the amount of the Rockport Fixed Cost Savings, necessary for the Company to earn its Commission-authorized return on equity.

[274] Satterwhite Settlement Testimony at S11. The amount recovered through Tariff P.P.A. in 2022 will be prorated through December 8 – the termination date of the Rockport UPA.

[275] *Id.*

[276] *Id.*

[277] *Id.*

[278] Settlement Agreement at ¶ 3(f).

2. The Rockport Deferral is In the Public Interest.

a. The Rockport Deferral Allows the Company to Spread Five Years of Costs over Ten Years.

Through the Rockport Deferral, the Company is able to address one of the concerns in the public comments in this case and spread its costs out over a longer period.[279] The Rockport UPA is a FERC-approved rate schedule and, as such, the Company is authorized full recovery through rates. The Rockport Deferral provides a mechanism through which the Company can reduce the rate impact of the Rockport UPA in the near term. The design of the Rockport Deferral provides the necessary balance that allows the Company to do this without impacting the Company's credit rating, thereby avoiding additional borrowing costs to be borne by customers.[280]

b. The Use of a Weighted Average Cost of Capital Carrying Charge is Appropriate.

The Settlement Agreement provides that the Rockport Deferral Regulatory Asset will be subject to carrying charges based on a WACC of 9.11 percent until the regulatory asset is fully recovered.[281] The carrying charge is appropriate; it simply makes the Company whole as a result of its need to finance the deferral through a combination of debt and equity:

> Q. [W]ould that reduction in the amount of expenses be considered a significant reduction such that Kentucky Power would be able to finance it based upon its cost of debt given its capital structure?
>
> A. Well, I think it is a significant reduction in the deferral. That's no question about that. It's half of what my proposal was initially, but then the question is what is -- the next question is what is the likelihood of the company financing it with debt, and I think that right now if you look at their capital structure, and it's roughly 43 percent common equity, if they financed that additional $50 million with debt only, that would end up leveraging them more, and it could result in a down rating of their debt.

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[279] Satterwhite Hearing Testimony at 363.

[280] Wohnhas Hearing Testimony at 936.

[281] Settlement Agreement at ¶ 3(c).

For example, now I didn't really investigate this. It wasn't our proposal. Our proposal was for a full rate of return, but in certain circumstances it could make sense to do it on a debt only. I don't think that it is appropriate to do that in this case.

Q. Okay. Even based upon the amount of the expenses associated with the settlement agreement?

A. Yes. I think it's unlikely that the company would finance this exclusively with debt.[282]

The use of a WACC carrying charge for the Rockport Deferral Regulatory Asset is reasonable and appropriate, and should be approved as part of the balanced Settlement Agreement.

c. The Rockport Deferral Establishes a Process for Addressing the Termination of the Rockport UPA.

While the Company has not made a final decision on renewing the Rockport UPA, the Rockport Deferral mechanism included in the Settlement Agreement provides certainty regarding how rates would be affected should the Rockport UPA not be renewed. Through the Rockport Fixed Costs Savings credit and the Rockport Offset in 2023, the Settlement Agreement identifies how the Company will immediately credit to customers those costs that will be eliminated in the event the Rockport UPA is not renewed:

Q. So absent this agreement, the Company would end up receiving how much money in excess that they no longer have expenses for?

A. The fixed costs at Rockport, I believe, of UPA are about $54 million, I think is what we talked about earlier. So that would still be considered in base rates, because the unit power agreement, which is what we're paying for, is already -- is in base rates in this case. So it's a question of how do you remove that from base rates. And so what the stipulation does is provide a mechanism to allow that to happen versus us having to try to figure out at that time how we're going to deal with it.[283]

The Settlement Agreement also provides the Company with needed protection to address the uncertainty in the event it decides not to renew the Rockport UPA through the Rockport Offset:

[282] Kollen Hearing Testimony at 565-66.

Q. So after it expires, the savings of, and I'll take your word, $54 million flows back to customers, correct?

A. Absent the offset, the one-year protection that we put into the settlement agreement.

Q. And what is the protection?

A. Because we don't know what we'll be dealing with, typically you would have an entire rate case to deal with something like this, such a big impact. The offset is put in there to make sure that the Company is recovering the Commission-approved ROE.

So for one year there's an offset in there where some of those costs will be held to the side, just to make sure the Company can earn its ROE for that one year as it transitions away from having the Rockport on its bill and the Rockport generation in its portfolio. So there's that one year just to make sure.

And then what happens at the end of -- because this ends in 2022, so 2023 is the year we're looking at. At the end of 2023, we then take that balance, and in February we file something with the Commission to say -- if we collected too much over that past year that we held back, we give that back to customers over three months, or if it was too little, that we collect that over the next three months.

It's basically a security mechanism for the unknowns of what happens, because we're talking about unwinding such a big deal at $54 million in 2022 as we sit here in 2017.[284]

The Rockport Fixed Cost Savings credit and the Rockport Offset provide the Company's customers immediate rate relief if the Rockport UPA is not renewed while protecting the Company from unknown circumstances surrounding the termination. These provisions are reasonable and should be approved as part of the balanced Settlement Agreement.

E. **In The Context Of The Settlement Agreement The 9.75 Percent Return On Equity Will Permit Kentucky Power To Operate Successfully And Maintain Its Financial Integrity[285] Without Placing An Unreasonable Burden On Its Customers.**

Outside the context of the balance and protections provided by the Settlement Agreement a 10.31 percent return on equity as proposed in Kentucky Power's application is required.[286]

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[283] Satterwhite Hearing Testimony at 330-31.

[284] *Id*. at 332-33.

With the balance and protections provided by the Settlement Agreement, the agreed-to 9.75 percent ROE will allow Kentucky Power to operate successfully and maintain its financial integrity without placing an unreasonable burden on its customers.

The five basis points differential between the 9.75 percent return on equity proposed in the Settlement Agreement and the 9.70 percent rate awarded Louisville Gas and Electric Company and Kentucky Utilities Company six months ago is appropriate. A cornerstone of the analysis in determining that the 9.75 percent ROE stipulated in the Settlement Agreement is just and reasonable, and consistent with the requirements described in the *Hope* and *Bluefield* decisions, is whether the ROE authorized by the Commission allows Kentucky Power the opportunity to achieve earnings comparable to those from alternative investments of similar risk. Approval of a 9.75 percent ROE for Kentucky Power is particularly reasonable when compared with the ROE recently approved for Kentucky Utilities and Louisville Gas & Electric given that it is undisputed that these other Kentucky public utilities are a *lesser investment risk* than Kentucky Power.[287] It would be unreasonable to disregard the difference in risk between Kentucky Power and these other utilities when evaluating the reasonableness of the 9.75 percent ROE in the settlement.

Second, Kentucky Power's capital structure is more heavily weighted toward debt than Kentucky Utilities. As a result, the return on equity has a lesser effect on rates, and thus benefits customers, than it would for a utility, such as Kentucky Utilities, with a higher equity ratio.[288]

The benefit to costumers of approving the 9.75 percent ROE included in the Settlement Agreement is further supported by the extensive analysis of Company witness McKenzie in

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[285] *See Public Service Commission v. Dewitt Water District*, 720 S.W.2d 725, 730 (Ky. 1986).

[286] *See* pages 63-64*, infra*.

[287] McKenzie Hearing Testimony at 630-31; *see also* Woolridge Hearing Testimony at 484-87.

support of his recommended 10.31 percent ROE, reflected in the Company's Application.[289] As Mr. McKenzie explained, alternative ROE benchmarks confirm the reasonableness of the 10.31 percent return on equity requested in Kentucky Power's application.[290] Equally important, so long as it is considered in the context of the overall settlement, the 9.75 percent return on equity prescribed by the Settlement Agreement is, by definition, also reasonable.

The 9.75% return on equity provided for in the Settlement Agreement is not overly-generous; rather it is a conservative one, particularly in light of the Settlement's provision preventing Kentucky Power to file a base-rate increase petition for three years.[291] Approval of the 9.75% ROE in the context of the Settlement is the type of supportive regulatory environment action described in Moody's Kentucky Power's credit opinions, and one that strikes a balance and obtains alignment between the Company's need to maintain its financial integrity and its customers' need for a public utility able to provide them reliable electric service now and in the future.[292]

F. **<u>The Settlement Agreement Modifies the Proposed Expansion of the K-PEGG Program By Reducing the Cost of the Program to Residential Customers</u>.**

1. <u>Kentucky Power's Proposed Expansion of the K-PEGG Program is Necessary to Maintain Economic Development Momentum</u>.

In its Application, Kentucky Power proposed expanding the K-PEGG program by increasing the amount provided through the KEDS from \$0.15 per meter per month to \$0.25 per meter per month (an increase from \$1.80 per meter per year to \$3.00 per meter per year).[293] The

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[288] McKenzie Hearing Testimony at 638; *see also* Woolridge Hearing Testimony at 486-87.

[289] See pages 63-64, *infra*.

[290] McKenzie Direct Testimony at 6; see also *passim*, particularly Exhibit AMM 2.

[291] McKenzie hearing Testimony at 618-19.

[292] *Id.*, *see also* McKenzie Hearing Testimony at 637-40 (discussing the customer benefit, from a capital costs and related revenue requirement, of the Settlement's 9.75% ROE in light of Kentucky Power's low equity capital structure).

[293] Hall Direct Testimony at 19.

Company's matching contribution would increase a corresponding amount.[294] This expansion will provide an estimated $400,000 in additional funds for the K-PEGG Program.[295]

The Company's proposed expansion is vital to maintain the momentum that its economic development grant programs have brought to the region. Without the site development projects funded by grant programs like K-PEGG, the region may not have seen the EnerBlu and SilverLiner Trucking projects and their nearly 1,200 high-paying jobs locate in Pike County. Moreover, Kentucky Power economic development grants allowed Ashland Alliance and the Northeast Kentucky Regional Industrial Authority to obtain site certifications for the EastPark Industrial Park. Without these certifications, Braidy Industries and its 550 full-time and 1,000 temporary construction jobs would almost certainly have left the service territory when construction delays at its original location arose.[296]

The proposed expansion of the K-PEGG program will allow the Company to leverage a small ($1.20 per meter per year) increase into additional economic development opportunities for the service territory. In the absence of other corporate leadership in the region, Kentucky Power stepped to the forefront and began to right the ship on economic development. The Company's economic development grants have buttressed the economic development infrastructure in the region to the point where it is now competitive for diverse industries. The K-PEGG program is a vital component of the Company's economic development efforts. Expanding the program as proposed by the Company is both reasonable and necessary to maintain the economic development momentum in the region.

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[294] *Id*.

[295] *Id*. at 19-20.

[296] Hall Hearing Testimony at 845-46.

2. The Settlement Reduces the Cost of the K-PEGG Program to Residential Customers.

Under the terms of the Settlement Agreement, Kentucky Power will expand the K-PEGG Program. The Settlement Agreement, however, modifies the mechanism under which the expansion is financed to the benefit of the Company's residential customers. Under the Settlement Agreement, the KEDS amount for residential customers will decrease from the current $0.15 per meter per month amount to $0.10 per meter per month. The KEDS amount for non-residential customers subject to the surcharge will increase from $0.15 to $1.00 per meter per month.

The Settlement Agreement allows the Company to expand the K-PEGG program to maintain the economic development momentum in the service territory while reducing the rate impact of economic development activities on the Company's residential customers. Under the Settlement Agreement, the Company's residential customers would pay a lower KEDS amount than is currently authorized by the Commission. The Settlement Agreement's provisions for expansion of the Company's K-PEGG program are fair, just, and reasonable, in the public interest, and should be approved as part of the balanced Settlement Agreement.

G. The Company's Proposed Residential Basic Service Charge Represents a Gradual Step Towards Reflecting the Actual Fixed Cost of Providing Service, Thereby Aiding High Energy Users, Including Electric Heating And Many Low-Income Customers.

In its application, the Company proposed to increase its residential basic service charge from $11.00 per month to $17.50.[297] This proposed change is designed – in the spirit of gradualism – to move the residential basic service charge towards the actual fixed $38 per month cost of providing service and, in doing so, to reduce the intra-class subsidy paid by high-use

[297] Vaughan Direct Testimony at 10.

residential customers, many of whom in Kentucky Power's service territory are low-income customers.[298]

Two studies support the Company's calculation of the monthly fixed cost of providing service. In the first, the Company utilized the residential class customer and distribution revenue requirement from the class cost of service study and applied the fixed distribution plant allocation factors to determine what component of distribution revenue requirement was associated with typical distribution plant components.[299] This real world analysis quantified the fixed costs that the Company incurs that only vary with the number of customers and not the demand associated with these customers.[300]

The Company confirmed these results through a marginal customer connection method study.[301] In the marginal customer study, the Company reviewed work orders to determine what actual costs were incurred to add additional customers regardless of demand.[302] The marginal cost to connect a customer was calculated to be $38.91 per customer, confirming that $38 per month was a reasonable cost of providing service to customers.[303]

Moving the residential basic customer charge closer to the actual cost of providing service to customers provides benefits beyond simply following cost-causation principles. Shifting more of the fixed portion of the cost to provide service to the fixed charge will reduce bill volatility, especially for electric heating customers during winter months.[304] Perhaps most importantly, the Company's proposal to recover more of its fixed costs through the residential

[298] *Id*. at 11.
[299] *Id*. at 14-15; Exhibit AEV-2.
[300] *Id*.
[301] Vaughan Direct Testimony at 15; Exhibit AEV-3.
[302] *Id*.
[303] *Id*.
[304] Vaughan Direct Testimony at 12-13.

basic service charge will benefit the Company's low-income customers. Contrary to the theoretical musings of Attorney General Witness Dismukes,[305] the actual data from the test year demonstrates that the Company's low-income customers have higher usage than the average customer.[306] By reducing the intra-class subsidy that high-use residential customers pay for the benefit of lower-use customers, the Company is reducing the subsidy paid by its low-income customers to the below-average-use customer. The Company's proposed residential basic service charge represents a gradual shift towards recovering the full fixed cost of providing service, reduces the residential intra-class subsidy to the benefit of many low-income customers, and should be approved

1. <u>The Settlement Agreement Reduces the Proposed Increase to the Residential Basic Customer Charge While Still Providing a Gradual Step Towards Eliminating the Intra-Class Subsidy</u>.

The Settlement Agreement reduces the Company's increase in residential basic customer charge from $6.50 per month (as proposed) to $3.00 per month, and sets the new residential basic service charge at $14.00 per customer.[307] This change continues the Company's gradual move towards recovering the fixed cost of providing service to customers through the customer charge and reducing the intra-class subsidy provided by high-use (and in Kentucky Power service territory, low-income) customers to low-use customers.[308] The Settlement Agreement's $14.00 service charge is reasonable in light of the high costs of providing residential service in the rural, mountainous, and lower customer density areas of the Company's service territory. It also is comparable to the service charges of other utilities in the Commonwealth, especially those

[305] Attorney General Witness Dismukes bases his claim that the Company's low-income customers have lower usage on 12 and 8-year old general surveys of household data regarding low income customers and electricity use in Alabama, Kentucky, Mississippi, and Tennessee and not the actual data from the Company's service territory. Dismukes Hearing Testimony at 525-26.

[306] Vaughan Rebuttal Testimony at R14; Exhibit AEV-R3.

[307] Settlement Agreement at ¶ 16(a).

with similar topography and customer densities.[309] The Commission should approve the $14.00 residential basic customer charge as part of the balanced Settlement Agreement.

H. <u>The Settlement Agreement Provides Additional Benefits to Customers</u>.

1. <u>The Settlement Agreement Changes the Company's Capital Structure to Provide for a Lower Weighted Average Cost of Capital</u>.

Through the Settlement Agreement, Kentucky Power agreed to include in its capital structure short term debt as 1.00 percent of total capitalization with an annual interest rate of 1.25 percent.[310] Based on test year data, the Company included no short-term debt in the capital structure proposed in the application.[311] Because it was based on the actual test year data, the Company's decision to include no short term debt in its capital structure was reasonable. However, the Company agreed to include short-term debt in the capitalization as part of the overall balance of the Settlement Agreement. By doing so, Kentucky Power decreased the annual revenue requirement by approximately $350,000.[312]

2. <u>The Settlement Agreement Provides for Updated Depreciation Rates</u>.

In its application, Kentucky Power sought to update the depreciation rates for Big Sandy Unit 1. Depreciation rates for Big Sandy Unit 1 were last updated in 1991.[313] Big Sandy Unit 1 was converted to from a coal-fired unit to a natural gas-fired unit in 2016.

The existing depreciation rate for Big Sandy Unit 1 is 3.78 percent.[314] The depreciation study performed by Company Witness Cash provides for an updated depreciation rate of 5.78

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[308] Satterwhite Settlement Testimony at S23.

[309] Vaughan Hearing Testimony at 1051-52; Vaughan Direct Testimony at 18; Vaughan Rebuttal Testimony at R13; Exhibit AEV-R2.

[310] Settlement Agreement at ¶ 8(b).

[311] Miller Direct Testimony at 4-5; Application Section V, Workpaper S-3, Page 2.

[312] Satterwhite Settlement Testimony at S18; *see also* McKenzie Hearing Testimony at 641-42 (explaining that the 1.25% imputed rate for one percent of total capitalization is cheaper than an equity amount of the same one percent, and indeed cheaper than a long-term debt amount of the same one percent, lowering overall cost of capital from a customer's point of view).

percent.[315] Based on this updated rate, the Company proposes an increase in annual depreciation expense of $3,116,918.[316] These changes are required to reflect the additional investments made since the rates were last updated and the unit's reasonable remaining life of service.[317]

The method used for the Company's depreciation study takes into account, upon the retirement of any depreciable property, its full cost, less any net salvage realized.[318] To determine the net salvage cost for Big Sandy Unit 1, Company Witness Cash relied on a dismantling study performed by Sargent & Lundy, an independent engineering firm, in 2012.[319] The Sargent & Lundy study was then adjusted for inflation, and calculated in terms of 2031 dollars (the estimated retirement date for Big Sandy Unit 1).[320] Because the Sargent & Lundy study was performed for both Big Sandy Units 1 and 2, the study was also adjusted to reflect only the estimated dismantling costs for Big Sandy Unit 1.[321]

Although KIUC Witness Kollen recommended that the Commission eliminate terminal net salvage costs from the calculation of depreciation rates, Company Witness Cash stressed that such a practice could implicate generational equity concerns[322] by forcing future ratepayers to pay for the dismantling costs of Big Sandy Unit 1 from which they received no benefit.[323]

Although the depreciation rates proposed by the Company in its application were fair, just and reasonable, the rates in the Settlement Agreement improve on existing depreciation rates

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[313] Cash Direct Testimony at 3.
[314] *Id*. at 5.
[315] *Id*.
[316] *Id*.
[317] *Id*.
[318] *Id*. at 6.
[319] *Id*. at 7.
[320] *Id*. at 8.
[321] *Id*. at 9.
[322] Cash Rebuttal Testimony at R5.

while providing additional rate relief. As part of the overall balance of the Settlement Agreement, the Signatory Parties agreed to adjust the depreciation rates to use a 20-year expected life for Big Sandy Unit 1 in calculating the related depreciation expense.[324] Although longer than proposed by the Company in its application, the 20-year period is reasonable[325] and thus avoids "kicking the can down the road" as cautioned against by Company Witness Wohnhas.[326] The Signatory Parties also agreed to adjust its depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant to remove terminal net salvage costs.[327] The proposed changes to depreciation rates included in the Settlement Agreement are in the public interest and should be approved.

3. The Settlement Agreement Provides Benefits to Schools in the Company's Service Territory.

Well aware of the role improved education must play in turning the economic tide in the region, Kentucky Power is a strong supporter of the schools in its service territory.[328] In fact, the Company has recently secured a $500,000 grant from the AEP foundation to support video distance learning in the schools in the region.[329] The Settlement Agreement reflects the Company's commitment, within the balance provided by the agreement, to K-12 education in its service territory.

First, under the Settlement Agreement, Kentucky Power committed to seek Commission approval to fund the School Energy Manager Program up to $200,000 in 2018 and 2019 as part

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[323] *Id*.

[324] Satterwhite Settlement Testimony at S17.

[325] Osborne Hearing Testimony at 756-757.

[326] Wohnhas Direct Testimony at 22-23.

[327] Satterwhite Settlement Testimony at S17.

[328] The very first action that Company Witness Satterwhite took after he assumed the role of President and Chief Operating Officer was to contact all of the superintendents at the high schools in the service territory to extend an offer of partnership in improving education. Satterwhite Hearing Testimony at 119.

of its demand side management program.[330] The parties to the Settlement Agreement recognize that Commission approval of the School Energy Manager Program will occur in a separate proceeding.[331] Kentucky Power, however, believes that the program provides a valuable tool through which all schools in the Company's service territory can manage their energy usage and reduce the portion of their strained budgets devoted to electric service.[332]

Additionally, the Settlement Agreement provides that the "pilot" designation to Tariff K-12 School be removed and that service under the tariff be made available for both public and private schools within the service territory.[333] Consistent with current practice, rates for schools taking service under Tariff K-12 School will be designed to produce revenues that are $500,000 less annually than they would have produced had they taken service under Tariff L.G.S.[334] The total revenue for the L.G.S./K-12 School class will be the same as if all customers were taking service under Tariff L.G.S.[335]

Even with the rate design for Tariff K-12 School, customers receiving service under Tariff L.G.S. will see a total bill increase of only 5.17 percent which is less than the system average increase of 6.16 percent and the increase for Tariff K-12 School customers of 6.45 percent.[336] The provisions in the Settlement Agreement benefiting schools in the Company's service territory are in the public interest and should be approved as part of the overall balance in the agreement.

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[329] *Id*.

[330] Satterwhite Settlement Testimony at S20.

[331] *Id*.

[332] *Id*. at S20-21.

[333] *Id*. at S21.

[334] *Id*.

[335] *Id*.

[336] *See*, Attachment 1 to Kentucky Power's response to KPSC PH-17.

4. The Settlement Agreement Provides for Fair, Just, and Reasonable Pole Attachment Rates under Tariff C.A.T.V.

Under the Settlement Agreement, Kentucky Power will set pole attachment rates under Tariff C.A.T.V. at $10.82 for attachments on two-user poles and $6.71 for attachments on three-user poles.[337] This represents a reduction from the $11.97 rate for two-user poles and $7.42 rate for three-user poles proposed by the Company in its Application.[338] While the rates sought in the application were calculated using the same methodology that the Company utilized in prior cases, including in Case No. 2005-00341, and data from the Company's most recent FERC Form 1, these agreed-to rates reflect a reasonable increase in the Company's pole costs in the twelve years since the rates were updated. The Settlement Agreement rates are fair, just, and reasonable, and should be approved.

5. The Settlement Agreement Includes an Allocation of Revenues that Supports Economic Development While Gradually Reducing Interclass Subsidies.

As the part of the overall balance included in the Settlement Agreement, the Settling Parties agreed to a revenue allocation that promotes economic development while still reducing interclass subsidies. The revenue allocation agreed to in the Settlement Agreement removed the subsidy paid by the I.G.S. customer class. Company Witness Satterwhite emphasized importance of doing so to the Company's economic development efforts:

> The settlement agreement allows us -- part of the balance of that is to do even more and sort of speed that up for the industrial customers, because it really marries into what we need to do overall in the territory to bring more jobs in.[339]

Company Witness Vaughan expanded on the economic development benefits of reducing the I.G.S. subsidy:

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[337] Settlement Agreement at ¶ 16(c).

[338] Satterwhite Settlement Testimony at S24.

[339] Satterwhite Hearing Testimony at 347.

Q. Okay. Are you aware of any other states that are implementing a policy of eliminating industrial subsidies?

A. Yes. I do work for the Company's affiliates in Virginia and West Virginia, and right now they're -- this is the big topic of discussion in West Virginia, in front of the legislature, the -- you know, they are looking around at their job-creation opportunities, and they want to eliminate all subsidies.

One proposal is to eliminate all subsidies for industrial customers in the electric rates to help their economic development interests and bring new industrial loads to the -- to their service territory, to their state, so --

Q. And, of course, Kentucky competes for jobs with those other states, correct?

A. It's right across the river; yes, sir.[340]

Customers that take service under Tariff I.G.S. tend to be large industrial facilities that provide high-paying jobs[341] and, importantly, have higher job multipliers within the community.[342] Eliminating the subsidy provided by these businesses makes the region more attractive to new, diversified businesses and increases the likelihood that existing customers will remain and grow within the service territory. The revenue allocation proposed in the Settlement Agreement is reasonable and in the public interest.

IV. ABSENT THE APPROVAL OF THE SETTLEMENT AGREEMENT WITHOUT MODIFICATION KENTUCKY POWER IS ENTITLED TO THE REQUESTED $60.397 MILLION INCREASE IN THE COMPANY'S BASE REVENUE REQUIREMENT

As described above, the Settlement Agreement provides a balanced approach to addressing the Company's financial needs while providing benefits that would be otherwise unavailable. The Commission should approve the Settlement Agreement without modification. In the event, however, the Commission elects not to approve the Settlement Agreement without modification, then the Commission should approve the Company's application as filed. The

[340] Vaughan Hearing Testimony at 988-89.

[341] *See* Hall Hearing Testimony at 841-842; 822-823

[342] *Id*. at 880-884.

Company's application proposed rates that were fair, just, reasonable. To the extent not discussed above, key components of the Company's application are described below.

A. A Return On Equity Of 10.31 Percent Is Just and Reasonable Under the *Hope* and *Bluefield* Standards.[343]

In the last rate case, the Commission found a return on equity for Kentucky Power of 9.8 percent, within a range of 9.3 to 10.3 percent, was reasonable.[344] In the same Order, the Commission authorized the use of a 10.25 percent ROE for certain specific costs, consistent with the contested settlement agreement in that case. In its application, Kentucky Power sought, in light of anticipated conditions when the rates are expected to be effective, to increase its return on equity of 10.31 percent.[345] Dr. Woolridge for the Attorney General, and Mr. Baudino for KIUC, recommended that the Company's return on equity be set at punitively low rates of 8.60 percent[346] and 8.85 percent[347] respectively.

1. The Company's Current Rates Fail To Provide Kentucky Power With A Reasonable Opportunity To Earn The Minimally Required Return On Equity.

The Company's authorized return on capital, including its return on equity, must be sufficient to assure investors' confidence and adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money necessary to provide safe and reliable service to its customers while also providing a reasonable opportunity for

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[343] *See Federal Power Com'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 694 (1923); *see also* Order, *In the Matter of: The Application Of Cincinnati Bell Telephone Company For Authority to Increase And Adjust Its Rates And Charges And To Change Regulations And Practices Affecting Same*, Case No. 98-00292, 1999 Ky. PUC LEXIS 2493 at * 9 (Ky. P.S.C. January 25, 1999).

[344] 2014 Rate Case Order at 42.

[345] McKenzie Direct Testimony at 6; Application at ¶ 33.

[346] Attorney General Witness Woolridge's recommendation would constitute a 110 basis point reduction from the 9.8 percent ROE deemed reasonable in the Company's last rate case.

[347] KIUC Witness Baudino's original recommendation would have resulted in a 95 basis point reduction from the 9.8 percent ROE deemed reasonable in the Company's last rate case, as compared to the 5 basis point reduction provided for in the Settlement Agreement, and now supported by KIUC.

Kentucky Power to earn an ROE comparable to contemporaneous returns available from alternative investments of similar risk.[348] This is a fundamental part of the regulatory compact.

Kentucky Power's current rates do not provide it with a reasonable opportunity to earn its allowed rate of return or even the constitutional minimum. For the twelve months ended February 28, 2017, Kentucky Power earned a 5.81 percent return on equity.[349] Such a return on equity is neither sustainable nor constitutionally adequate.

The recommended returns on equity recommended by Attorney General Witness Woolridge and the originally by KIUC Witness Baudino (who during re-direct examination by counsel for KIUC at the hearing indicated the 9.75 percent ROE proposed in the Settlement Agreement was within the range of recommendations made to the Commission)[350] likewise would fall woefully short of the minimal constitutional standards. Such punitive ROE levels would threaten both the Company's ability to provide, and its customers' statutory right to receive reliable service at a reasonable price.[351] In light of the recognition by both Standard & Poor's Corporation and Moody's Investors Services of the importance for Kentucky Power and other utilities of the regulatory climate in which they operate, a reasonable ROE is critical to ensure the Company's continuing ability to raise new capital.[352] Absent the balance of the Settlement Agreement, a 10.31 percent ROE is fair, just, and reasonable.

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[348] *See Hope Natural Gas Co.*, 320 U.S. at 603 (1944); *Bluefield Water Works & Improvement Co.*, 262 U.S. at 694 (1923).

[349] Kentucky Power's Response to KPSC 1-38, Attachment 1.

[350] Baudino Hearing Testimony at 591.

[351] McKenzie Rebuttal Testimony at 2, 16-17 (the recommendation of Dr. Woolridge and the original recommendation of Mr. Baudino fall far below the returns available from other investments of comparable risk, thereby preventing Kentucky Power from earning its cost of equity capital and violating regulatory standards).

[352] *Id*. at 17.

B. <u>Kentucky Power's Application Includes a Gradual and Reasonable Reduction in Residential Class Subsidy</u>.

As part of developing the Application in this case, Kentucky Power conducted a class cost of service study to determine the cost to serve each of its customer classes.[353] Through the class cost of service study, the Company was also able to determine the rate of return on rate base for each of its customer classes during the test year.[354] During the test year, the residential class rate or return was the only rate of return less than the average jurisdictional rate of return, meaning that the Company's other customer classes subsidized the residential class.[355]

As part of the revenue allocation process, the Company evaluated how the revenue increase requested in this case should be allocated among customer classes to equalize the rates of return across customer classes. Equalizing rates of return across the customer classes would eliminate all inter-class subsidies. Importantly, equalizing rates of return across customer classes and eliminating subsidies in their entirety would require, contrary to the Commission's principle of gradualism, a base rate increase for the residential class of over thirty percent.[356]

Consistent with the Commission's long-standing policy of gradualism, Kentucky Power did not propose to equalize rates of return in this case.[357] To do so would require certain customer classes, particularly the residential customers, to bear a disproportionate share of the proposed increase.[358] Instead, the Company proposed to reduce the subsidy provided to the

[353] Buck Direct Testimony at 3-4.
[354] *Id*. at 4.
[355] *Id*. at 19-20.
[356] *Id*., Exhibit DRB-2, page 3 of 3.
[357] Wohnhas Direct Testimony at 8.
[358] *Id*.

residential class by five percent.[359] This gradual step towards equalizing rates of return across all customer classes is fair, just, and reasonable.

C. Kentucky Power's Compensation and Benefits Are Necessary to Remain Market-competitive And Permit The Company To Attract And Retain The Employees It Needs To Provide Adequate Service.

The costs incurred by Kentucky Power for employee compensation and benefits paid to Kentucky Power and AEPSC personnel are a reasonable cost of providing service to customers.[360] The compensation and benefits paid to these employees is reasonable and market-competitive: neither excessive nor insufficient.[361] These costs are necessary for the Company to provide reliable electric service to its customers and are prudently incurred. They are appropriately controlled and managed to ensure both that Kentucky Power and AEPSC are able to recruit and retain employees with the required level and variety of skills necessary to carry out all the activities involved in providing service to Kentucky Power's customers.[362]

1. Incentive Compensation Pay is a Not a Bonus, but Rather a Key Component of Market-Competitive Compensation.

Attorney General Witness Smith makes several recommendations attacking particular components of the total employee compensation costs, without credible evidence that these costs are not necessary for the Company to provide service to its customers, or that they are above the market-competitive level.

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[359] *Id.*; Buck Direct Testimony, Exhibit DRB-3, page 3. Contrast the Company's gradual residential subsidy reduction with the more extreme reduction proposed by KCUC. KCUC Witness Higgins proposed reducing the residential subsidy by 50 percent. Higgins Direct Testimony at 15. KCUC's proposal would have resulted in a rate increase for the residential customers of over 22 percent. Higgins Direct Testimony at 17. KCUC's proposal ignores gradualism and is neither fair, just, nor reasonable.

[360] Carlin Direct Testimony, *passim* (e.g., at 6-8, 12-14).

[361] *Id.*, *passim* (*e.g.*, at 3, 6-8). In fact, as explained by Company witness Carlin and shown in ARC Exhibits 4, 5, and 6, the Company's target employee compensation ranks below the market 12 median.

[362] *Id.; see also Id.* at 14-22, particularly 21-22 (discussing specific measures such as freezing external hiring from November 2008 through 2009, freezing line of progression increases from November 2008 through 2010 other than for physical and craft positions, implementation of efficiency measures, among several others).

In doing so, Mr. Smith ignores the benefits Kentucky Power's customers enjoy as a result of the services and work these employees provide and particularly the way in which the Company has structured and managed its employee compensation and benefits.[363] His approach is arbitrary and is intended only to achieve some level of decrease.

Specifically, Mr. Smith recommends reducing the Company's cost of service to reflect only 3.0 percent merit increases for 2017 for salaried employees instead of the actual 3.5 percent reflected in the Company's cost of service.[364] Absent from his recommendation is any mention of how the actual amount of these increases were necessary to address lagging employee compensation levels resulting from then-necessary cost management measures dating back to 2009, nor of the fact that the 3.5 percent actual increase results in present compensation levels that are well within the market-competitive range.[365] He also neglects to consider that the additional 0.5 percent is reserved for equity adjustments and line of progression promotional increases that frequently are not included in salary increase budgets. Mr. Smith does not mention the savings passed on to customers resulting from the 2009 cost management measures, nor the benefit to customers resulting from the Company addressing this lag in compensation level, particularly in terms of retention of skilled personnel and the value of the work they do.[366]

Mr. Smith also recommends denying cost recovery of 25 percent of the Company's annual incentive compensation expense along with 100 percent of the Company's long-term compensation expense. Nowhere does Mr. Smith deny that these components of employee compensation are simply building blocks of the total compensation each employee receives for

[363] Carlin Rebuttal Testimony at R6-R8, R11, and R14-R22 (also discussing, in passing, rebuttal evidence in connection with original recommendations of KIUC witness Kollen that are no longer part of KIUC's position in this case, in light of the balance reached in the Settlement regarding the Company's overall revenue requirement and recovery mechanisms and timing); *see also*, *Cf.*, Carlin Direct Testimony at 5-8.

[364] Carlin Rebuttal Testimony at R2.

[365] *Id*. at R2-R4; *Cf.*, Carlin Direct Testimony at 18-22..

her or his work, nor that this total compensation is not excessive and instead is well-within the range of the market-competitive compensation that is necessary to recruit and retain suitable employees.[367]

Mr. Smith's recommendation is premised on a fundamental misapprehension of the Company's compensation practices, and the types of employees who receive part of their total compensation in the form of annual incentive compensation pay or long-term incentive compensation pay.[368] Part of every Kentucky Power and AEPSC employee's compensation opportunity in every year is subject to the achievement, individually and as part of a team, of performance goals ultimately tied to the service provided to customers.[369] This compensation structure provides a myriad of benefits to customers, not the least of which is that the service they receive is better as a result: safer, more reliable, and less costly.[370]

Similarly, the long-term compensation benefits that Kentucky Power pays employees are not the exclusive perk of top executives and management, nor are they a reward primarily directed to benefit the parent company's stockholders.[371] To the contrary, and as explained in detail by Company Witness Carlin in his direct and rebuttal testimonies, and data request responses, approximately 1,025 employees of Kentucky Power and AEPSC received a portion of

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[366] Carlin Rebuttal Testimony at R2-R6.

[367] *Id*. at R6-R8; *Cf., Id.* at R9.

[368] *Id., e.g.,* at R18; *see also Id.* at R7-R8, R14 ("objections to the form of the Company's compensation arrangements, but not its reasonableness, is literally a matter of form over substance."); Carlin Direct Testimony at 5-6.

[369] Carlin Direct Testimony at 6; *see also Id.* at 11-17 (emphasizing that "annual and long-term incentive compensation [are paid to employees] as part of a market-competitive Total Compensation package; it is not provided as a 'bonus' on top of an already market competitive compensation package. In other words, if incentive compensation were not provided, the same target value of incentive compensation would need to be added to base pay in order for the Companies to provide a market-competitive compensation package to its employees.").

[370] Carlin Rebuttal Testimony at R9-R11; R15-R17.

[371] *Id.* at R17-R20, R24-25, R28-R30; *Cf., Id.* at 25-26 (emphasizing the importance allowing Kentucky Power to recover the Company's total compensation costs, which without dispute are reasonable and appropriate costs of providing service to customers, and highlighting that disallowing arbitrarily certain components of the total employee compensation would erode the Company's "ability to earn an appropriate rate of return on its investment [, which] is fundamental to the regulatory compact.")

their market-competitive compensation in the form of stock-based long-term compensation during the test year.[372] The benefits to Kentucky Power customers of long-term compensation are numerous, but the most important of all is that it results in the ability to retain on a long-term basis personnel with particularly valuable experience and skills. These employees by and large perform work that has long-term impacts on the service that Kentucky Power customers receive.[373]

Mr. Smith's recommendation is particularly pernicious in the false dichotomy that lies at its core: that the interest of the Company's customers and shareholders cannot be aligned. The opposite, of course, is true: aligning the benefits and interests of customers, employees, and shareholders is not only desirable and possible, but imperative in the long run.[374] The Company's provision of long-term compensation to employees is consistent with this objective, is simply a portion of the cost of paying employees for the work they do, and is a cost of providing service to customers that encourages the achievement of long-term goals critical for the provision of safe, reliable, and less costly service to Kentucky Power's customers.[375]

The benefits to customers from the work performed by Kentucky Power and AEPSC employees are visible throughout the record. These extend from the efforts led by Company President Satterwhite to mitigate the impact on customers of the costs the Company incurs to provide them electric service, to the significant savings achieved by refinancing of Company's long-term debt, to the significant savings achieved in connection with the Company's performance of its vegetation management plan led by Company Witness Phillips, and to the remarkable successes achieved by the team led by Company Witness Hall in attracting to

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[372] *See, e.g., Id.* at R18.
[373] *See Id.* at R18-R22, R24-R25;
[374] *Id.*

Kentucky Power's service territory economic and industrial investment resulting in thousands of much needed jobs and increased economic development for the region. Mr. Smith's recommendation to discount the incentive and long-term compensation paid to Kentucky Power's employees to provide service to its customers is short-sighted and arbitrary, and should be rejected.

2. The Company's Retirement Package is Not Double Dipping – It is a Swirled Cone the Same Size as Other Cones on the Market.

The last target of Attorney General Witness Smith's attack on the Company's employee compensation and benefits package is his effort to characterize the retirement benefits the Company offers to its employees as duplicative or excessive. The retirement benefits package paid by the Company is neither.

As explained by Company Witnesses Cooper and Carlin in their respective rebuttal testimonies, data request responses, and testimonies at the hearing, the retirement benefit costs paid by Kentucky Power and included in the Company's cost of service, are appropriate, market-competitive, and must be evaluated as a whole.[376] Mr. Smith's criticism overlooks that regardless of how many different components or varieties of employee retirement benefits the Company may offer, the underlying basic question remains the same: is the cost of the total employee retirement benefits offered to employees reasonable and prudently incurred? There is nothing in the record that would suggest that they are not.

At the hearing, Company Witness Carlin provided a clear illustration of the need to evaluate the Company's retirement benefit package as a whole:

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[375] *Id.*

[376] *See, e.g.*, Cooper Hearing Testimony at 705-707; Carlin Hearing Testimony at 688-689; *see also* Carlin Hearing Testimony at 666-667 ("[T]he [C]ompany does have defined benefit and defined contribution plans. The way I would describe it is that these plans are part of a market competitive benefit package that we benchmark against both utility industry, energy industry, and general industry companies. (…) In total. (…) [The Company] paid the same for it as [it] might if [it] had all of one or all of the other").

[A.] Think of it as the soft serve swirl where half is chocolate and half is vanilla, still fitting in the same size cup. So it's a single serving cup. We paid the same for it as we might if we had all of one or all of the other, but it's a swirl of the chocolate and the vanilla in this case.

Q. Are there employees who qualify for both defined benefit and defined [contribution plans]?

…

A. Yes. In fact, almost all employees qualify for both of those. Again, it's part of an overall market competitive benefit package that's a single serving. It's not a double dip.[377]

As explained in further detail by Company Witness Cooper at the hearing, the employee retirement benefits offered by the Company have changed overtime, and different employees have different benefits depending not only on their years of service, but also on when they started employment with Kentucky Power or AEPSC.[378] These different plans or components have the underlying objective of enabling employees to retire when appropriate through the provision of a market-competitive benefits package. In some cases, different retirement benefits have specific objectives such as, for example, enabling and encouraging employees to take greater responsibility, have greater flexibility, save for retirement (such as the Company's 401k plan),[379] increase the level of certainty that some level of retirement income will be available after an employee's active career is complete (such as the Company's pension plan),[380] or aligning the Company's measures to control costs with the employees' interests in judicious use of available benefits (such as in the Company's Health Reimbursement Arrangement ("HRA")

[377] Carlin Hearing Testimony at 666-667.

[378] Cooper Hearing Testimony at 709-715.

[379] Carlin Hearing Testimony at 683 ("The [401]K plan encourages employees to save because [the Company] know[s] that [its] contribution to the retirement program isn't enough for most employees. They aren't going to be able to retire comfortably with that, so they need to be encouraged, and the K plan does that, encouraged to save for their own retirement."), 684

[380] *Id.* at 684.

and Health Savings Account ("HSA") benefits).[381] In the end, the real question, and the question Mr. Smith ignores, is whether the total combination of these benefits adds up to an appropriate package for employees. Company Witness Cooper's testimony leaves no doubt that in the aggregate, there is nothing excessive or duplicative about these employee benefit plans.[382]

The key virtue of a retirement benefits package that includes "multiple plan flavors in a single-serving swirl" is that it allows the Company to offer an integrated package to all its employees that is better tailored to provide adequate retirement to employees with different years of service, who started service at different times, and who may be affected differently by their ability and attitude towards saving for retirement or the ups-and-downs of different retirement savings vehicles. "The pension plan solves some of those problems, not all of them, and therefore it's got value that the [401] K plan doesn't have. Both pieces together, we think, are the best way to go for employees."[383] Kentucky Power's retirement benefits package achieves this without duplication or excess, as the amount of the Company's contribution to the aggregate of its different retirement plans, combined, is still the same amount that it would be if it only offered one plan.[384]

The Company is not alone in adopting such a structure for its retirement benefits package. Beginning this year, the United States armed forces are adopting a retirement benefit structure similar to that employed by Kentucky Power:

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[381] Cooper Hearing Testimony at 704, 717-719.

[382] *Id*. at 705-715.

[383] Carlin Hearing Testimony at 684.

[384] *Id*. at 666-667; *see also Id.* at 679-680 ("[The Company has] designed these two plans together to do what other companies are doing, to provide the median amount of pension benefits together as a total, and so yes, [the Company has] two plans, but they're not creating a value for participants that's any greater than if [it] had a full-blown 401(k) plan with 100 percent or 125 percent match or a full-blown pension plan with a greater employee contribution there as well."), 681 ("What I think you're saying is the utility industry should take into account other industries, and we do. Other large employers offer benefits very similar to those that we offer."), 688-689 (clarifying that the Company's evaluation of whether its total compensation and retirement benefits package is "market competitive" the employment market considered is broader than only the market of employees for utilities).

> [T]he United States military, in an effort to reduce costs and increase retirement savings by its members, is modernizing its retirement benefits effective for 2018 in a fashion similar to the approach [the Company] is currently utilizing.
>
> The changes are based on a recommendation by the Military Retirement Modernization Commission which conducted a long-term study of the military retirement benefit and made a recommendation to Congress. The [Military Retirement Modernization] Commission's recommendation was included in the National Defense Authorization Act of 2016 and will be effective in 2018.
>
> The new U.S. military retirement system is known as the "Blended Retirement System" or BRS. The "blending" in BRS comes from the blending of two sources of retirement income: the existing defined benefit provision, plus a new defined contribution "Thrift Savings Plan" (TSP). The TSP is a government run retirement plan that offers the same types of savings and tax benefits that are provided under 401(k) plans. It allows members to invest their own money in either stocks or government securities and also get a contribution to that account from their employer.[385]

This new structure is similar to what Kentucky Power offers through its defined benefit cash balance retirement plan and defined contribution 401k retirement savings plan.[386]

Mr. Smith asserts that the Commission had, in other cases involving other utilities with different plans (and critically, *with very different levels of employer contribution as a percentage of employee wages*,) determined that those plans were not reasonable.[387] The description and differentiation provided by Company Witness Cooper makes quite clear that Mr. Smith's efforts to conflate other utilities' plans (which when viewed in the aggregate as evaluated by the Commission were found to be excessive) with Kentucky Power's employee benefit plans (which when viewed in the aggregate are reasonable) have no credible basis. The Cumberland Valley

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[385] Kentucky Power's December 27, 2017 Supplemental Response to KPSC 1-61.

[386] *Id.*

[387] Cooper Rebuttal Testimony at R2-R5.

plan, one of the plans found by the Commission to be unreasonable, provided a benefit of 30 percent of employee compensation, more than twice the costs paid by Kentucky Power when adding up the Company's contribution under both its pension and 401k plans *combined*.[388]

D. <u>The Proposed Changes To Vegetation Management Plan Are In The Customer's Interest</u>.

1. <u>Kentucky Power Proposes To Accelerate The Start Of Task 3 Work 18 Months Early And Thereby Accelerate A Reduction In Rates</u>.

The Company's current vegetation management plan ("2015 Vegetation Management Plan") provides for the completion of Task 1 work by December 31, 2018; the completion of Task 2 work by June 30, 2019; and the start of Task 3 work beginning July 1, 2019, at which time, Kentucky Power's entire distribution system would be re-cleared on a five-year cycle.[389] The 2015 Vegetation Management Plan is funded at approximately $27 million until the Company began the five-year maintenance cycle on July 1, 2019.[390]

In response to a challenge by management to reduce costs, and leveraging past successes, Kentucky Power is proposing to begin Task 3 work 18 months early.[391] Doing so enables Kentucky Power to reduce its current $27.6 million total annual expenditure to a $21.465 million annual expenditure—a difference of $6.135 million – when rates become effective in this case.[392] The Company also has honored its spending commitment in the 2014 rate case:

[388] Cooper Hearing Testimony at 705-07. In discussing the other utility plans raised by Mr. Smith, Company witness Cooper explained that the contributions found objectionable in connection with the Kentucky Utilities and Louisville Gas & Electric 401k plan added on the high end to a contribution by the utilities of 11.2 percent of employee compensation, making the contribution to just *one* of their plans (i.e., without factoring in any costs of those utilities pension plans) close to the 13 percent maximum that Kentucky Power aggregate contribution to *both its plans together*. *Id.* at 707-08.

[389] Phillips Direct Testimony at 31.

[390] *Id*. at 32.

[391] *Id*. at 34.

[392] Phillips Hearing Testimony at 296-297.

actual distribution vegetation management Operation and Maintenance expenditures through December 31, 2016 totaled 101 percent of its target expenditures.[393]

Kentucky Power's vegetation management efforts are success story. The Company has been able to obtain the significant improvements in reliability described at page 78 *infra,* while providing significant cost reductions 18 months early.

2. Kentucky Power's Request To Amend Its Vegetation Management Plan To Allow The Company To Manage Annual Expenditure Requirements On A Company Basis Is Reasonable And Will Provide Efficiencies.

Kentucky Power currently is required to seek Commission approval prior to deviating by more than ten percent in its projected annual vegetation management spending for each of its three districts.[394] The Company was required once to seek leave to deviate from budgeted district spending levels since this requirement was imposed on June 22, 2015.[395]

Kentucky Power is seeking to eliminate this requirement to improve the efficiency of its vegetation management operations and to provide it with the flexibility required to respond to developments over the course of the 15 months between when the district plan is filed with the Commission (October 1 of the preceding year) and the completion of the annual district plan (December 31 of the following calendar year).[396] Although the Company was required to seek a deviation only once in the two years between the imposition of the requirement and the filing of the Company's application, it on other occasions has idled experienced crews, or deferred the use

[393] Phillips Direct Testimony at 35.

[394] *Id*. at 47-51. Small changes in the Company's vegetation management operations within a single district can affect spending in amounts that approach the ten percent limit. For example, the 2015 budgeted total O&M funding for the Hazard District was $3.4 million. Phillips Direct Testimony, Exhibit EGP-4 at 7. The ten per cent limit would be triggered by a $340,000 change.

[395] *Id*. at 49-50.

[396] *Id*. at 48-50.

of roving crews, so as to manage its district expenditures within the ten percent limit on deviations.[397] These such actions can impede the Company's vegetation management efforts.

The Company understands and joins in the Commission's concern that customers in each of the Company's three districts equally share in the benefits of Kentucky Power's vegetation management efforts. Kentucky Power respectfully submits that the Commission and the Company can best address this concern through careful monitoring of the Company's annual vegetation management reports in lieu of the current ten percent deviation "trip wire." Doing so will allow the Commission address any concerns regarding inter-district inequities, while ensuring e the vegetation management program is managed in the most efficient manner to the ultimate benefit of all customers.

E. <u>Kentucky Power's Application Includes Other Reasonable Changes That Should be Approved</u>.

1. <u>Kentucky Power's Proposed Amortization Of Its Storm Damage Deferral And Adjustment To Test Year Amortization Expense Are Appropriate And Consistent With Prior Practice</u>.

The Company proposes to increase its test year annual major storm amortization expense by $875,467.[398] The increase from the test year level of $2,429,200 reflects the amortization over five years, beginning with the effective date of the rates established in this case, of the $4,377,336 of incremental major storm expense the Commission authorized the Company in Case No. 2016-00180[399] to defer for later review and recovery.[400] The test year amounts reflect

[397] *Id*.

[398] Wohnhas Direct Testimony at 14.

[399] Order, *In the Matter of: Application Of Kentucky Power Company For An Order Approving Accounting Practices To Establish Regulatory Assets And Liabilities Related To The Extraordinary Expenses Incurred By Kentucky Power Company In Connection With Two 2015 Major Storm Events*, Case No. 2016-00180 at 9 (Ky. P.S.C. November 3, 2016) ("2015 Major Storms Expense Deferral Order").

[400] Wohnhas Direct at 14.

the amortization, beginning in June 2015, of the regulatory asset approved in Case No. 2012-00445.[401]

In approving the establishment in Case No. 2016-00180 of the major storm expense regulatory asset, the Commission indicated that the recovery of the deferred expense, if any, was contingent on the Commission's detailed review in the Company's next rate case of Kentucky Power's storm preparedness, including its efforts to "harden its system," its response to outages, the reliability of its system, and the improvements in reliability as a result of the additional funding for the Company's distribution vegetation management plan.[402]

Kentucky Power provided detailed evidence through the testimony of Company Witness Phillips concerning each of these topics.[403] Specifically, Mr. Phillips testified about Kentucky Power's efforts to upgrade many of its distribution facilities from Grade C facilities to Grade B facilities,[404] its installation of equipment to improve grid reliability, including the installation of over $3 million of Supervisory Control And Data Acquisition Technology since the Company's last base rate case,[405] its implementation of an Incident Command System to improve its storm responsiveness,[406] its Distribution Asset Management programs, and its Major Distribution Reliability and Capacity Addition programs,[407] as well as its more than $21 million in reliability and system restoration capital investment since September 30, 2014.[408] Mr. Phillips also testified at length concerning the evolution and accomplishments of the Company's distribution

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[401] *Id*.

[402] 2015 Major Storms Expense Deferral Order at 8-9.

[403] Phillips Direct Testimony at 4-12, 13-26, 33-43.

[404] *Id*. at 5.

[405] *Id*. at 6.

[406] *Id*. at 9-12.

[407] *Id*. at 18-23.

[408] *Id*. at 23

vegetation management program,[409] including the decline by at least 60 percent since 2011 in number of interruptions of service (61 percent), total customers affected (60 percent), and total customer minutes interrupted (64 percent) as a result of vegetation within the Company's rights-of-way:[410]

Minor Cause Code	Year - 12 Month Ending Dec	Number of Interruptions	Total Customer Affected	Total Customer Minutes Interrupted
TIR + VIN	2010	2,250	64,360	12,280,664
TIR + VIN	2011	2,427	72,076	16,388,594
TIR + VIN	2012	1,674	43,934	11,369,680
TIR + VIN	2013	1,555	48,099	8,866,856
TIR + VIN	2014	1,462	36,471	8,617,318
TIR + VIN	2015	1,102	30,040	6,236,943
TIR + VIN	2016	943	28,713	5,949,862

None of the intervenors challenged, much less filed testimony disputing, the showing made by the Company in response to the Commission's Order, or its right to recover the deferral in full.

KIUC Witness Kollen nevertheless challenged the method by which Kentucky Power proposed to amortize the balance of its 2012 major storm deferral.[411] First, he argues that the amount of the regulatory asset should be adjusted to its January 2018 balance when the rates approved in this case are likely to be implemented.[412] He errs. Mr. Kollen's proposal is inconsistent with the test year concept as a snap shot in time of the utility's operations. That concept recognizes that the multitude of expenses captured in the test year will change over the period the rates are likely to be in effect – with some decreasing and many increasing – but that on the whole the changes will tend to offset each other.

[409] *Id*. at 33-54.

[410] *Id*. at 36.

[411] Kollen Direct at 26-28.

[412] *Id*. at 26.

Here, Mr. Kollen proposes to isolate a single decrease without providing the Company the benefit of an adjustment of any offsetting increase in test year expenses. Certainly, he offers no authority for recalculating in this case the annual amortization expense amount for the deferral resulting from the Commission's decision in Case No. 2014-00396. More fundamentally, his adjustment and his claim of resulting over-recovery[413] is premised on the assumption that the Company has been recovering the amortization expense since the end of the test year. That assumption is refuted by the fact that the Company's return on equity since the test-year end has averaged 5.26 percent[414] or approximately 54 percent of the 9.8 percent return on equity found reasonable by the Commission in Case No. 2014-00396.[415] A company that is earning only slightly better than one-half of its authorized return on equity is by definition not recovering many of its expenses.

Even more troubling is Mr. Kollen's proposal to extend (he labels it "reset") the previously five-year amortization period by an additional two and one-half years. Again, he offers no authority for such a do-over. More fundamentally, Mr. Kollen's proposal will extend the Company's recovery of 2012 major storm expenses until January 2023, or more than ten years after they were incurred.

2. Kentucky Power Properly Normalized Its Test Year Storm Expense.

Kentucky Power adjusted its test year level of major storm expense, less in-house labor, to the three year average of storm damage expense, less in-house labor, and adjusted the average

[413] Mr. Kollen also argues that the risk of over-recovery is exacerbated since the Commission and the intervenors do not know when the Company may file its next rate application. It is equally true that the Company has indicated that unless the Commission approves a mechanism for the contemporaneous recovery of its volatile PJM LSE OATT expenses it will be forced to file another application within months of the expected order in this case. Satterwhite Rebuttal Testimony at R5-R6; Vaughan Hearing Testimony at 1035-36.

[414] Kentucky Power's Response to KPSC 1-38, Third Supplemental Attachment 1.xlsx.

[415] 2014 Rate Case Order at 42.

for inflation using the Handy-Whitman Contract Labor Index.[416] The use of the three year average adjusted for inflation resulted in a $595,932 increase in the test year amount.[417]

Attorney General Witness Smith criticized the Company's use of the normalized level of expense but provided no evidentiary or legal basis for his challenge.[418] Instead, he simply opined that the Company failed to provide a compelling reason for the normalization.[419]

Normalization is appropriate where expenses may vary significantly and unpredictably on a yearly basis[420] because it provides a reasonable ongoing level of expense.[421] Moreover, it is appropriate to adjust a multi-year average used to normalize test year levels for inflation.[422]

Storm expense is the archetypical unpredictable and volatile expense: "the random occurrence of severe storm damage cannot be accurately predicted."[423] Certainly, Mr. Smith offers no evidence to the contrary. Nor can he. Over the past eight years, the Company's incremental annual major storm expense varied by almost 2,900 percent from $0.8 million to $23.1 million. Moreover, the three-year period chosen by the Company produces a reasonable value: the three-year average upon which the Company calculated the adjustment to the test year amount is less than 25 percent of the $6.4 million average over the eight-year period.[424] Moreover, the Handy-Whitman Index, which calculates cost trends for different types of utility

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[416] Wohnhas Direct Testimony at 13.

[417] *Id*.

[418] Smith Direct Testimony at 44.

[419] *Id*.

[420] Order, *In the Matter of: Adjustment Of Gas And Electric Rates Of Louisville Gas And Electric Co.*, Case No. 90-158 at 30 (Ky. P.S.C. December 21, 1990).

[421] *Id*.

[422] *Id*. ("[S]imply taking the average of an historic period (Commission used Consumer Price Index – Urban to adjust ten-year average).

[423] *Id*.

[424] Wohnhas Rebuttal at R18-R19; Application, Section V, Exhibit 2, Workpaper W17.

construction, is at least as appropriate to use as an inflation adjustment as the Consumer Price Index – Urban sanctioned in Case No. 90-158.

The Company's use of an inflation adjusted and normalized level of major storm expenses is consistent with the Company's past practice and Commission precedent.

3. Tariff Changes to Provide Clarity To Limit Fraud And Thereby The Costs Ultimately Borne By Other Customers Are Reasonable and Should Be Approved.

Kentucky Power proposed changes to the terms and conditions of service to provide clarity for customers on how service will be provided. In addition, the Company proposed changes to protect the Company from fraud. These changes will ultimately benefit customers as well through reduced uncollectable accounts expense.[425]

Chief of the provisions addressing fraud are the Company proposed changes to the section of its terms and conditions regarding Denial or Discontinuance of Service. In a post-hearing data request response, the Company updated its requested change to Sheet 2-10 of its Tariff to the following to address a request from Staff and the Commissioners:

> The Company reserves the right to refuse or discontinue service to any customer if the customer is indebted to the Company for any service theretofore rendered at any location. *Service will not be supplied or continued to any premises if at the time of application for service the Applicant is merely acting as an agent of a person or former customer who is indebted to the Company for service previously supplied at the same, or other premises, until payment of such indebtedness shall have been made*; provided however, the customer shall be notified in writing in accordance with 807 KAR 5:006, Section 15, before disconnection of service.[426]

The Company's proposed language will protect the Company from fraudulent attempts to request service and is consistent with language used by other utilities in the state. It should be approved.

[425] Satterwhite Hearing Testimony at 388-389; Sharp Hearing Testimony at 776.

[426] Attachment 1 to the Company's Supplemental Response to KPSC PH-23.

4. The Company's Proposal to Consolidate Billing Line Items Addresses Customer Confusion and Should be Approved.

In response to customer complaints about the complexity of the Company's bills because of the number of line items presented on the bills, Kentucky Power seeks to consolidate several of the surcharge and rider-related line items into a single "rate billing" line item.[427] Customers have expressed frustration with the number of line items appearing on the bill.[428] Typical is a Resident Public Comment filed in this case:

> One charge that I do not like is the Big Sandy Retirement Rider Many people are paying this out of their own Retirement Checks.
>
> We are paying for 10 things and these charges add up.[429]

Many customers simply want to know how much is owed and when payment is due.[430] The proposed roll-up will not leave customers without reasonable bill detail. Under the Company's proposal, the number of line-items shown on the bill would decrease from fifteen to eight.[431] If greater detail is still desired, customers can still obtain detailed information through the Company's website or by contacting a customer service representative.[432]

Understanding public utility regulation is not easy. The Company realized there was more it could do to aid customers' understanding. As Company Witness Satterwhite testified, public utilities confuse customers by calling our "prices" tariffs. Customers, therefore, assume

[427] Kentucky Power filed an application in Case No. 2017-00231 to update the appearance of its bills and to consolidate certain billing line items. By order dated July 17, 2017, the Commission consolidated Case No. 2017-00231 into this proceeding. By further order dated September 12, 2017, the Commission approved the Company's request to update the appearance of the bill, reserving a determination on the request to consolidate line items to be part of the final order in this case.

[428] Sharp Direct Testimony (Case No. 2017-00231) at 3.

[429] Resident Public Comment, Case No. 2017-00179 (Ky. P.S.C. Filed December 27, 2017) (emphasis in original).

[430] *Id*.

[431] *Id*. at 6.

[432] *Id*.

the rates for public utility services are taxes.[433] These little things matter. The items Kentucky Power Company is requesting to include as part of "rate billing" all involve the costs of providing electric service.

The utility business – and its regulation – is data driven. Utility professionals and regulators appreciate the granularity this data provides. In an attempt to emulate this model, and to be more transparent, utilities – including Kentucky Power – largely have succeeded in frustrating customers by making them believe they were paying for more than just electric service. In effect, the Company has unintentionally misled its customers by forcing them (through the level of bill detail) to miss the forest by focusing their attention on the trees. Kentucky Power's request to roll-up billing line items is based on conversations with its customers and an understanding on how the Company may be eroding trust in the regulatory model with its current bill format.

The Company's proposed billing line item consolidation reduces clutter on the bill and provides, in response to customer concerns, only the most important information regarding the bill. It is not an attempt to hide costs from customers. Consolidating line items as proposed by the Company is reasonable and should be approved.

V. THE COMPANY'S 2017 ENVIRONMENTAL COMPLIANCE PLAN SHOULD BE APPROVED

The Company also seeks approval of its 2017 Environmental Compliance Plan. The 2017 Environmental Compliance Plan adds two new projects. First, the Company is adding Project 19 which is the selective catalytic reduction ("SCR") technology at Rockport Unit 1.[434] Second, the Company is adding Project 20 to clarify the inclusion of all consumables necessary

[433] Satterwhite Hearing Testimony at 134.

[434] Elliott Direct Testimony at 4.

to operate approved projects and to add the return on the consumable inventory to the environmental surcharge calculation.[435]

The Rockport Unit 1 SCR is necessary to comply with the Clean Air Act.[436] It is a reasonable and cost-effective means for the Company to comply with its environmental requirements.[437] Accordingly, the Rockport Unit 1 SCR should be added to the Company's environmental compliance plan.

The Commission should also approve Project 20 identifying specifically the consumables necessary to operate approved projects and including the return on consumables inventory. Adding the environmental project consumables as a separate project merely clarifies that all costs associated with those consumables are properly recovered through the environmental surcharge. Similarly, recovering the return on the inventory of environmental project consumables through the environmental surcharge aligns the costs of operating the environmental projects with the costs recovered through the environmental surcharge.[438]

Finally, the Company is also seeking to add a gross-up factor to the costs incurred to operate approved environmental projects.[439] This gross-up factor accounts for the Commission maintenance assessment fee expense and uncollectable accounts expense; it is necessary to ensure that the Company recovers the full costs of operating its approved environmental

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[435] *Id*.

[436] McManus Direct Testimony at 6-7.

[437] Osborne Direct Testimony at 15; Order, *In the Matter of: The Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff* at 4, Case No. 2006-00307 (Ky. P.S.C. January 24, 2007) (Costs associated with the environmental compliance plan, including a reasonable rate of return, may be recovered through the environmental surcharge (Tariff E.S.) if the plan and the surcharge are "reasonable and cost-effective for compliance with the applicable environmental requirements.").

[438] Elliott Direct Testimony at 9.

[439] *Id*. 14.

projects.[440] There will be no double-recovery of the gross-up factor costs when environmental projects are rolled into the environmental base in subsequent rate case proceedings.[441] The Company's proposed use of a gross-up factor will help ensure full cost recovery of the operation of its approved environmental projects and should be approved by the Commission.

VI. THE INTERVENORS' POSITIONS ARE UNREASONABLE

A. <u>The Attorney General's Recommendation That The Commission Deny The Company's Proposed Rate Adjustment In Its Entirety Is At War With The Law And His Own Witness' Testimony</u>.

On October 3, 2017, the Attorney General filed the testimony of Ralph W. Smith. Mr. Smith, who served as the Attorney General's expert witness in this proceeding and multiple other rates cases before this Commission, calculated that the Company's current rates produce a $39,876,068 revenue deficiency. In fact, Mr. Smith testified that the $39.9 million increase was the Attorney General's recommended revenue requirement for the Company.[442] Almost simultaneously, the Attorney General held a press conference to announce that his Office of Rate Intervention "is recommending that the Public Service Commission (PSC) deny AEP/Kentucky Power's more than $60 million proposed increase."[443] At the same press conference, the Attorney General also asserted that in lieu of the three scheduled public meetings "the PSC ***should be required***, however, to hold public hearings in each of the 20 counties and hear concerns about the its proposed increase…."[444]

When asked by the Commission to place the square peg of his publicly-announced litigation position within the round hole of his witness' testimony, the Attorney General, not

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[440] *Id*.

[441] Elliott Hearing Testimony at 817.

[442] Smith Direct Testimony at 13-14; Exhibit RCS-1 at 2.

[443] Appendix, KPSC Data Request 1-2(b) to the Attorney General.

[444] *Id*. (emphasis supplied).

surprisingly, failed.[445] Nowhere in his response to the Commission's inquiry did the Attorney General explain how a $39.9 million revenue deficiency can be made to equal $0. Given an opportunity on cross-examination to correct or disavow his calculation of the $39.9 million revenue deficiency Mr. Smith declined to do so.[446] To the contrary, he stood by his calculation explaining "it's a number that was calculated at that point in time ***using adjustments that are documented and supported in the record***."[447] Mr. Smith, in fact, confirmed that his calculation of a $39.9 million revenue deficiency remained his recommendation to the Commission:

> Q. And that [the $39.9 million calculated revenue deficiency] is your recommendation, right?
>
> A. Yes, as of the date this was filed.[448]

The Attorney General's equivocation that the $39.9 calculated revenue deficiency was correct "as of the date" Mr. Smith's testimony was filed is an exercise in futility. Most tellingly, when asked by his attorney on direct examination the morning of his testimony, and only minutes before his equivocation, whether he had any changes to his October 3, 2017 direct testimony, which included his calculation of the $39.9 million revenue deficiency, Mr. Smith confirmed the accuracy of his October 3, 2017 direct testimony other than his December 4, 2017 correction to his qualifications and his December 5, 2017 errata sheet.[449] Yet, neither of those filings include any change to his calculation of a $39.9 million revenue deficiency.[450] Nor does either propose to update to Mr. Smith's direct testimony by recommending that the Commission

[445] Attorney General's Response to KPSC Data Request 1-2(b).

[446] Smith Hearing Testimony at 248-249.

[447] *Id*. at 248 (emphasis supplied); *id*. ("At that point in time it was a number we had calculated and supported.")

[448] *Id*. at 243.

[449] *Id*. at 201.

[450] Appendix A, Attorney General's December 4, 2017 Errata Filing; Attorney General's December 5, 2017 Corrections to Ralph C. Smith's Direct Testimony.

"stack on a bunch of deferral items"[451] or that it "stack[] some other adjustments on top of what we had calculated."[452]

The value of these never-disclosed adjustments and deferrals is best evidenced by the fact that having gone to the trouble of filing the day before the hearing corrections to his testimony adding the letter "s" to the name "AEP Generation Resource," and to include the missing "a" from Company Witness Vaughan's name, Mr. Smith failed to update his testimony on one of the most – if not the most – important aspect of this case: the revenue deficiency produced by Kentucky Power's current rates. Equally telling, being afforded the opportunity on redirect examination to have Mr. Smith identify and quantify any additional recommended adjustments or deferrals he earlier had alluded to, the Attorney General failed to ask Mr. Smith to do so.[453]

At the end of the day, the Attorney General's attempt to save his litigation position that the Commission should deny the Company's requested rate adjustment in its entirety from the only conclusion to be drawn from the sworn testimony of the Attorney General's witness is best captured by the Vice-Chairman's observation to Mr. Smith:

> So if I take the $2.5 million and I reduce it out there, I still don't come close to your 39.9 vs. 31.2. And the only difference is whether we amortize costs in the future, which you're objecting to, and I – so I don't know how I – I can't reconcile your position. That's my problem. I can't get to where you are.[454]

The Attorney General's recommendation that the Commission deny the Company's requested rate adjustment in its entirety also stands in opposition to the law and the underlying principles of the regulatory compact.

> The federal and state constitutions protect against the confiscation of property, not against a mere reduction of revenue…. Rates are non-confiscatory, just and

[451] Smith Hearing Testimony at 249.

[452] *Id*.

[453] Smith Hearing Testimony at 270-275, 291.

[454] Hearing Statement of Vice Chairman Cicero at 288.

> reasonable so long as they enable the utility to operate successfully, to maintain its financial integrity, to attract capital and to compensate its investors for the risks assumed even though they might produce only a meager return on the so-called "fair value" rate base.[455]

This standard, enunciated by the United States Supreme Court in *Hope Natural Gas*,[456] was recognized as controlling by the Attorney General's own return on equity witness, Dr. Woolridge,[457] and agreed to by Mr. Smith.[458] Indeed, Mr. Smith confirmed at the hearing that he not only relied upon Dr. Woolridge's calculation of the required return on equity to meet the *Hope* standard in arriving at his determination that the Company's current rates yielded a $39.9 million revenue deficiency, but that he was still relying on Dr. Woolridge's calculation.[459] The Attorney General's position and recommendation to ignore the law and regulatory compact should be denied.

The Attorney General presented sworn testimony calculating that Kentucky Power's current rates must be modified to produce an additional $39.9 million annually if they are to produce the opportunity for the Company to earn a reasonable rate of return under the *Hope* standard. Yet, the Attorney General nevertheless implores the Commission to cast aside both the *Hope* legal standard underlying the regulatory compact and the Attorney General's own witnesses' recommendations and disallow any increase. Doing so would deny Kentucky Power the opportunity to earn a reasonable return on equity. The Attorney General's litigation position is an invitation to ignore the law that the Commission can and must decline.

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[455] *South Central Bell Tel. Co. v. Stephens*, 545 S.W2d 927, 930-931 (Ky. 1976) (citing *Hope Natural Gas Co. v. Federal Power Com'n*, 320 U.S. 591 (1943)).

[456] *Hope Natural Gas Co. v. Federal Power Com'n*, 320 U.S. 591 (1943).

[457] Woolridge Direct Testimony at 2-3.

[458] Smith Hearing Testimony at 239-240, 242.

[459] *Id*. at 241-242.

B. <u>The Intervenors' Recommended Returns On Equity Are Based Upon Flawed And Unreasonable Analyses</u>.

As Company Witness McKenzie explained in detail in his rebuttal testimony, the analyses of the other witnesses, and in particular of Attorney General Witness Woolridge, are both incomplete and downwardly biased, resulting in inadequately low ROE recommendations that would not satisfy the requirements of *Hope* and *Bluefield*. Of particular note, however, are two of Dr. Woolridge's concessions during cross-examination. Both illustrate the dissonance between real-world investor expectations about risk-comparable required returns in the present capital market on one hand, and Dr. Woolridge's unrealistically biased recommendation that Kentucky Power's ROE be reduced to 8.6 percent.[460]

The first, and most telling, is Dr. Woolridge's statement, during cross-examination by counsel for the Commission's Staff on the topic of investors' expectations for long-term interest rates to rise in the future and the implied upward pressure on capital cost, that "people believe all these forecasted interest rates are going up…."[461] This brief moment of candor sheds a bright light on the underlying fact that is missing from Dr. Woolridge's analysis and resulting recommendation: his analysis ignores a realistic perception of investors' *present expectations* about required long-term returns under *current* market conditions and the information that

[460] The 8.6% ROE recommended by Dr. Woolridge would be a 120 basis point reduction from the ROE determined reasonable by the Commission for Kentucky Power in Case No. 2014-00396. *See* 2014 Rate Case Order at 42. Dr. Woolridge's recommended 8.6% ROE would also be an incongruent 110 basis points lower than the 9.7% ROE authorized by the Commission for Kentucky Utilities ("KU") and Louisville Gas & Electric ("LG&E") in Case Nos. 2016-00370 and 2016-00371 respectively. This recommendation makes no sense considering that KU's and LG&E's Moody's credit rating is two notches above Kentucky Power's. *See, Cf.*, Woolridge Hearing Testimony at 486 (conceding that a Moody's credit rating of A3 (KU's and LG&E') represents a less risky investment that a Baa2 credit rating (Kentucky Power's)); *see also* McKenzie Direct Testimony at 58-63; McKenzie Rebuttal Testimony at 2 (illustrating that although relying solely on awarded returns on equity reported by Regulatory Research Associates ("RRA") to fix the return on equity for an individual utility is not an appropriate methodology, it is nonetheless further demonstration of unreasonableness of Dr. Woolridge's recommendation that the average return on equity for integrated utilities reported by RRA for both twelve month periods ended June 30, 2016 and June 30, 2017 lay between 9.5% and 10.0%).

[461] Woolridge Hearing Testimony at 490.

influence those investors' expectations.[462] This admission is especially pertinent in evaluating the reasonableness of the 9.75 percent ROE contained in the Settlement Agreement, given that the settlement also precludes Kentucky Power from seeking an increase to its ROE for three years, during which time capital costs are anticipated to increase significantly.

The second concession from Dr. Woolridge's cross-examination concerns the tradeoff implied by the risk of lower credit ratings and the cost of capital, particularly from a customers' point of view.[463] Dr. Woolridge's admission is significant, as it illustrates the underlying benefit to Kentucky Power's customers from ensuring that the Company's rates are adequate to support its financial integrity. It is crucial for Kentucky Power's customers that the Company does not incur increased costs as a result of not having an opportunity to earn an adequate return on equity. This concession cannot be reconciled with Dr. Woolridge's low 8.6 percent ROE, a result that, if adopted, would send a very negative signal to credit rating agencies and mark a severe departure from Kentucky Power's supportive regulatory environment. Dr. Woolridge reluctantly conceded the well-known fact that in 2014, Kentucky Power was *one of the few* public utilities reviewed by Moody's that did not receive a credit rating upgrade.[464]

Equally illustrative of Dr. Woolridge's downward bias, and of the unreasonableness of his recommendation, was his effort to justify his 8.6 percent ROE by comparing it to the ROE

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[462] *See*, McKenzie Hearing Testimony at 634-36 (discussing, among other facts, the $4.2 trillion worth of long-term debt the U.S. Treasury has in its balance sheet); at 642 (discussing the Federal Reserve's decision to sell up to approximately $10 billion per month worth of these securities, and the expectation that this policy coupled with the possible effects of the recent tax reform legislation contribute to present investors' expectations for higher long-term interest rates and increased capital costs in the future); *see also* McKenzie Hearing Testimony at 620-24 (discussing the expectation that tax reform legislation will have a stimulative effect on the United States economy, and highlighting that the 9.75 percent ROE in the Settlement is a conservative rate beneficial to customers viewed in light of current investors' expectations about future economic growth).

[463] Cf. Woolridge Hearing Testimony at 487-88 (discussing the effect on customers from a cost point of view for a company to have a lower equity ratio).

[464] *Compare* Woolridge Hearing Testimony at 508-09 *with* the Company's response to KIUC 1-55, Attachment 1 at 21-22 (Moody's Kentucky Power Credit Opinion dated February 10, 2014, maintaining the Company's Baa2 credit rating unchanged, and emphasizing the importance for Kentucky Power of a supportive regulatory environment, and highlighting that "KPCo's [i.e., not AEP's, but Kentucky Power's specifically] ratings could be downgraded if the

provided for in a single formula rate proceeding in Illinois. This ROE pertains to Ameren Illinois Company, which is rated A3 by Moody's, versus the Baa1 credit rating assigned to Kentucky Power.[465] Ameren operates under a completely different regulatory framework than Kentucky Power and presents a completely different investment risk profile.[466]

Again, shedding light on the unbridgeable gap between Dr. Woolridge's analysis on one side and the perception of real-life investors about present capital markets and the required returns for Kentucky Power compared to investments of *similar* risk, it is either naïve or ill-informed to suggest that the ROE calculated for Ameren Illinois under the provisions of its formula rate plan is in any way relevant to the ROE that is appropriate for Kentucky Power. First, Ameren Illinois is a distribution-only utility that does not face the risks associated with owning and operating generating facilities. Ameren's ROE is recalculated under Illinois' re-structured regulatory framework on a yearly basis pursuant to a formula rate that automatically sets the ROE by adding a fixed risk premium to the 30-year U.S. Treasury bond yield.[467] Such methodology neither takes into consideration nor is indicative of investors' expectations for the electric utility as a whole, let alone for a Kentucky-regulated, vertically-integrated, electric utility rated Baa2 by Moody's, such as Kentucky Power.[468]

Second, and critical in distinguishing Dr. Woolridge's insinuation that Ameren Illinois' ROE would lend support to his recommended reduction in Kentucky Power's authorized ROE, the formula rate by which Ameren Illinois' ROE is prescribed is subject to a true-up mechanism.

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regulatory environment were to take a more adversarial tone, especially;" precisely the direction of Dr. Woolridge's recommendation.

[465] Woolridge Hearing Testimony at 504-05.

[466] McKenzie Hearing Testimony at 624-28; 648; *see also* the Attachment to the Attorney General's Response to KPSC PH-1 ("Ameren ICC Order").

[467] McKenzie Hearing Testimony at 624-28; 648.

[468] *Id.*

Thus, Ameren's formula rate plan provides a level of certainty that the ROE will, in fact, be earned that is not available to Kentucky Power.[469] Kentucky Power, by contrast, is not *guaranteed* to earn its authorized return and, in fact, has suffered the impact of attrition and the inability to earn the returns authorized by the Commission in past cases.[470]

Investors note rating agency credit opinions and use them to differentiate investment risks among the various investment options they have available in the capital markets. To obtain an evaluation of risks specific to Kentucky Power, investors look to the information provided by Moody's, given that Moody's differentiates company-specific credit risks from those of the parent company (*i.e.*, independent credit ratings for an operating utility like Kentucky Power, as opposed to a uniform umbrella rating such as the one provided by Standard and Poor's for AEP and its subsidiaries).[471] Similarly, Dr. Woolridge's recommendation entirely ignores the seismic negative signal that would be sent to credit agencies and investors if the Commission were to give any credence to his attempt to equate an isolated 8.4% ROE for Ameren Illinois to investors' expectations for Kentucky Power's ROE. This further demonstrates that Dr. Woolridge's recommendation is inconsistent with the requirements of *Hope* and *Bluefield*, is not based on the reality of investors' expectations and perceptions, and is not in the best interest of Kentucky Power's customers.[472]

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[469] McKenzie Hearing Testimony at 640-41; *see also* Ameren ICC Order at 3, 9, 28 (describing and applying the Illinois statutory framework for the formula to calculate and true-up Ameren Illinois' ROE at 580 basis points plus the average for the applicable calendar year of the monthly average yields of the 30-year U.S. Treasury bonds).

[470] Kentucky Power Company's actual earned return on equity of 5.81% during the test year, and of 4.89% over the years 2013 to 2016 on average leave no question on the matter. *See* Kentucky Power's Response to KPSC 1-38, Attachment 1.xlsx; *see also* McKenzie hearing Testimony at 641.

[471] *Compare* Woolridge Hearing Testimony at 506-509 *with* the Company's response to KIUC 1-55, Attachment 1 at 61 (Moody's Credit Opinion dated February 10, 2014).

[472] *Cf.* Woolridge Hearing Testimony at 487-88 (conceding that a lower credit rating would result in increased capital costs).

The 9.75 percent provided for in the Settlement Agreement is not overly-generous, but rather it is conservative, particularly in light of the Settlement Agreement's provision preventing Kentucky Power to file a base-rate increase petition for three years.[473] A reduction of that rate, as recommended by Attorney General Witness Woolridge, could be catastrophic for Kentucky Power and its customers, and is not supported by the credible evidence in the record. Approval of the 9.75 percent ROE in the context of the Settlement Agreement, in contrast, is the type of supportive regulatory environment action described in Moody's Kentucky Power credit opinions, and one that strikes a balance and obtains alignment between the Company's need to maintain its financial integrity and its customers' need for a public utility able to provide them reliable electric service now and in the future.[474]

C. **The Attorney General' Recommendation That The Commission Disallow Some Or All Of The Amounts Being Recovered Through The Big Sandy Retirement Rider Lacks Any Basis In Fact Or Law And Should Be Dismissed Out Of Hand.**

Attorney General Witness Smith advances the Attorney General's theme of throwing out applicable regulatory law and undoing past approvals in connection with his recommendation that Commission write-off the Big Sandy Retirement Rider ("BSRR") regulatory asset. Laboring under the fundamental misconception that "[b]ut for the AEP consent decree, the retirement of Big Sandy Unit 2 and the purchase of the 50 percent undivided interest in the Mitchell Plant by KPCo might not have been necessary,"[475] Mr. Smith urges the Commission to abandon its decision authorizing the establishment of the Big Sandy Retirement Rider regulatory

[473] McKenzie Hearing Testimony at 618-19.

[474] *Id.*, *see also* McKenzie Hearing Testimony at 637-40 (discussing the customer benefit, from a capital costs and related revenue requirement, of the Settlement's 9.75% ROE in light of Kentucky Power's low equity capital structure).

[475] Smith Direct Testimony at 64.

asset,[476] as well as its subsequent decision authorizing the Company to recover the regulatory asset through the BSRR,[477] and "disallow all or a portion of the costs currently being recovered" through the BSRR.[478] The Attorney General's recommendation finds no support in fact, law, or policy.

Significantly, Mr. Smith lacks the courage of his convictions regarding the factual premise for his recommendation: that, but for the 2007 Consent Decree, Big Sandy Unit 2 could have continued to operate without the installation of a $1 billion scrubber. Instead, he simply states that, but for the Consent Decree, the retirement of Big Sandy Unit 2 "might not have been necessary."[479] His trepidation is well-advised.

Company Witness McManus made clear that even in the absence of the 2007 Consent Decree, Big Sandy Unit 2 could not have continued to operate past April 2015 without the installation of a scrubber.[480] He underscored this point at the hearing:

> The MATS rule established very stringent unit-specific emission limitations for mercury, for acid gases, for particulate matter. For Big Sandy to comply with the MATS rule, it would have had to install a flue gas desulfurization system on both of the units or it could not have complied.[481]

Mr. Smith's belief that the 2007 Consent Decree led to the retirement of Big Sandy Unit 2 is particularly surprising given that almost two-and-one-half years earlier, the Commission found in

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[476] Order, *In the Matter of: Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act Requirements; and (5) All Other Required Approvals and Relief*, Case No. 2012-00578 (Ky. P.S.C. October 7, 2013)

[477] 2014 Rate Case Order at 45-47.

[478] Smith Direct Testimony at 64.

[479] *Id*.

[480] McManus Rebuttal Testimony at 9 ("The fate of Big Sandy Plant was ultimately determined by the requirements of EPA's Mercury and Air Toxics Standards (MATS) Rule.")

[481] McManus Hearing Testimony at 49-50.

the Company's 2014 rate case,[482] a case in which Mr. Smith testified, that "[t]he closure of Big Sandy Unit 2 and the conversion of Big Sandy Unit 1 to a natural gas-fired generating facility were precipitated by the MATS compliance deadline."[483]

Lacking a factual predicate, Mr. Smith's recommendation that the Commission deny recovery of the costs currently being recovered through the BSRR falls of its own weight. The legal basis for his recommendation fares no better.

The Commission requested during discovery that the Attorney General provide "any case(s) in which this Commission or another state public utility regulatory agency has denied recovery of costs that are similar to the … Big Sandy costs that the Attorney General proposes be denied in this proceeding."[484] Responding on behalf of the Attorney General, and under oath, Mr. Smith provided a list with 18 entries.[485] At the hearing, it was revealed that the list was compiled not by Mr. Smith – the witness who purported to sponsor the list – but, instead by his counsel.[486] More troubling was the fact that Mr. Smith had not even read each of the cases he testified under oath were responsive to the Commission's inquiry.[487]

Whatever Mr. Smith's lack of knowledge, much less the fundamental lack of understanding of the decisions he demonstrated upon cross-examination, of his purported list of authority for his recommendation, none of the decisions support his recommendation. A number of the decisions offered in support of Mr. Smith's recommendation involved decisions to disallow recovery of costs associated with abandoned nuclear facilities that had never been

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[482] Mr. Smith indicated on cross-examination that he read at the order "at some point." Smith Hearing Testimony at 205.

[483] 2014 Rate Case Order at 69. *See also id.* at 67 ("Due to the planned retirement of Big Sandy Unit 2 by June 1, 2015 to comply with the Mercury and Air Toxics Standards ("MATS") Rule ….")

[484] KPSC Data Request 1-4(b) to the Attorney General.

[485] Attorney General's Response to KPSC Data Request 1-4(b.

[486] Smith Hearing Testimony at 220.

placed in service.[488] Others addressed the constitutionality of statutes.[489] At least three of the decisions involved decisions by regulatory agencies to defer for later recovery certain expenses (the antithesis of what Mr. Smith is advocating here) or to cap the costs associated with plants under construction.[490] One entry did not even involve a decision by "this Commission or another state public utility regulatory agency," but, instead was the decision by Kentucky Power's parent to write down the value of certain deregulated units in Ohio.[491] Another entry was stricken from the record because it held the opposite of what Mr. Smith represented it as holding.[492]

Here the Attorney General asks the Commission to disallow the costs related to the BSRR regulatory asset. Those costs, based upon the testimony of the Attorney General's own witness, Mr. Smith, involve a regulatory asset that:

- was established by Order of this Commission;[493]
- is being amortized over a 25-year period as authorized by this Commission;[494]
- is being recovered on a levelized basis as authorized by the Commission;[495] and
- is being recovered through a regulatory mechanism approved by this Commission.[496]

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[487] *Id.* at 221 ("I don't think I have read every single one, no.")

[488] *See e.g. In the Matter of the Application of Sunflower Electric Cooperative, Inc., for approval of the State Corporation to make certain changes in its charges for sale of electricity to its member cooperatives* [Entry 11]; *Wabash Valley Power Ass'n, Inc. v. Rural Electrification Admin.* [Entry 12]; *Citizens Action Coalition v. NIPSCO* [Entry 15].

[489] *Duquesne Light Co. v. Barasch* [Entry 13]; *Petition of Public Service Co. of New Hampshire* [Entry 14].

[490] Case No. 2013-00199 [Entry 1]; Cause No. 43114 IGCC 11-15 [Entry 17]; *In re Construction Monitoring Proceeding for Georgia Power Company's Plant Vogtle 3 and 4; Supplemental Information, Staff Review, and Opportunity for Settlement* [Entry 18].

[491] Smith Hearing Testimony at 227 [Entry 2].

[492] Hearing Statement by counsel for the Attorney General at 224-225 [Entry 10].

[493] Smith Hearing Testimony at 230-231.

[494] *Id*. at 231.

[495] *Id*.

[496] *Id*. at 231-232.

None of the decisions discussed above, or the remaining entries supplied by Mr. Smith, involve a regulatory asset, or recovery mechanism, that include any of these characteristics. Most telling is that unlike the decisions upon which Mr. Smith purports to premise his recommendation, the Big Sandy Retirement Rider regulatory asset involves the undepreciated investment in and costs related to two generating stations that provided service to Kentucky Power's customers for approximately 50 years.[497]

Also without merit is Mr. Smith's suggestion that the Commission should disallow some or all of the costs associated with the BSRR because Kentucky Power's parent, American Electric Power Company, Inc. ("AEP"), has the financial wherewithal, in Mr. Smith's opinion, to "weather" "the non-recovery of the remaining net book value of Big Sandy Unit 2 at the time that unit was retired."[498] The question is not whether a separate corporate entity that is more than 25 times larger than Kentucky Power (as measured by common equity)[499] and is not regulated by the Commission,[500] would be bankrupted by the Attorney General's proposal. Rather, the issue is whether consistent with the "takings clause" of the Fifth Amendment, as made applicable to the States by the Fourteenth Amendment to the Constitution of the United States,[501] and Kentucky law, including Sections 2[502] and 13[503] of the Kentucky Constitution, the Commission can deny Kentucky Power recovery of its one quarter of a billion dollars of investment in assets

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[497] *Id*. at 231-233.

[498] Smith Direct Testimony at 64-65.

[499] *Cf*. https://www.aep.com/investors/FinancialFilingsAndReports/Filings/docs/AEP10-Q-3rd-2017.pdf (showing AEP common shareholder equity of $18.106 billion as of September 30, 2017) and Kentucky Power Company's Response to KPSC 1-44, November 30, 2017 Supplemental Response, Attachment 1.pdf (showing Kentucky Power shareholder equity of 665.3 million).

[500] Wohnhas Rebuttal Testimony at R11.

[501] *Nollan v. California Coastal Commission*, 483 U.S. 825 (1987).

[502] *God's Ctr. Fdn. V. Lexington-Fayette Urban County Gov't*, 125 S.W.3d 295, 299 (Ky. App. 2002) (recognizing that taking private property may violate Section 2 prohibition against arbitrary action).

[503] *Bobby Preece Facility v. Commonwealth*, 71 S.W.3d 99, 103 (Ky. App. 2001) (recognizing that Section 13 of the Kentucky Constitution provides protections similar to the takings clause of the Fifth Amendment).

that were used to provide service to Kentucky Power's customers for approximately one-half of a century. It cannot; certainly the Attorney General failed to provide any authority supporting such a course of action notwithstanding the Commission's direction that he do so.

Nor is it appropriate for the Commission to require, as Mr. Smith appears to advocate, customers of Kentucky Power's sister companies in other states (through AEP) to bear the costs associated with write-down of the BSRR regulatory asset:

> I think people see AEP, again, 16, 17,000 employees, regulated and unregulated business, and they think, "Oh, they should just take care of us because their stock is doing well," potentially from unregulated business. But this Commission is charged with regulating just what happens to Kentucky Power in the state. And the benefit of that really is, something could happen in Oklahoma next year, and this Commission wouldn't want me suddenly me to put something on my bills to pay for a problem that happened in Oklahoma or somewhere else.[504]

At bottom, the Attorney General asks this Commission to rewrite the terms of the regulatory compact by denying Kentucky Power the opportunity to earn a return on and of its investments that were used to provide safe, adequate, and reliable service to Kentucky Power's customers:

> Kentucky Power is required to invest the capital necessary to provide reasonable and adequate to its customers. In return, it is entitled to the opportunity to receive the return on and of that capital. Based upon that understanding, Kentucky Power has invested hundreds of millions of dollars of capital in its service territory, which has been used to bring electric service to tens of thousands of customers. Mr. Smith's proposal would tear up that understanding, and toss to the side a mutually beneficial arrangement that has benefitted [the] Company and its customers since the beginning of the 20th century.[505]

Compounding the injury, both legal and to the regulatory compact, is that the Mitchell Transfer was made, and Kentucky Power's customers received the benefits of that transfer for the past four years, based upon the Commission's express authorization of the establishment, and Kentucky Power's recovery through the BSRR, of the BSRR regulatory asset the Attorney

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[504] Satterwhite Hearing Testimony at 366.

[505] Wohnhas Rebuttal Testimony at R14-R15.

General now recklessly suggests be written off. Requiring Kentucky Power to absorb – assuming it could – a quarter of a billion dollar blow to its balance sheet would threaten Kentucky Power's ability to attract the capital necessary to provide the infrastructure necessary to support new and expanded business in the Company's service territory.[506] Such an arbitrary action would cross a line this Commission cannot and should not trammel.[507]

D. Equally Lacking A Basis In Fact Or Law Is The Attorney General's Proposal To Penalize Kentucky Power For Not Seeking To Amend The Return On Equity Provisions Of The Rockport Unit Power Agreement.

Characterizing the return on equity portion of Kentucky Power's payments under the Rockport Unit Power Agreement as excessive,[508] Mr. Smith, on behalf of the Attorney General, urges the Commission to impose three separate penalties on the Company: (a) the denial of Kentucky Power's rate case expenses; (b) the imposition of an "Affiliate Charge ROE-Reduction Rider" to flow back hypothetical cost reductions from a non-existent proceeding before the Federal Energy Regulatory Commission (FERC");[509] and (c) the imposition of an order barring Kentucky Power from filing an application to adjust its rates until the Company files a proceeding at FERC to adjust the return on equity provisions of the Rockport UPA.[510] Mr. Smith's recommendation is ill-conceived and reflects a fundamental misunderstanding of – or indifference to – the facts and law. It can and should be rejected.

It appears that Mr. Smith understands that the payments made by Kentucky Power under the Unit Power Agreement contain a return on equity component that reflects a nominal rate of

[506] *Id*. at R15.

[507] Satterwhite Rebuttal Testimony at 11 (explaining the risk posed by the Attorney General's proposal to write-off the BSRR regulatory asset).

[508] Smith Direct Testimony at 69.

[509] Mr. Smith also fails to note, much less explain why a different result should obtain here, that the Commission rejected his recommendation in Kentucky Power's last rate case that it establish an "Affiliate Charge ROE-Reduction Rider." 2014 Rate Case Order at 81.

[510] Smith Direct Testimony at 69.

12.16 percent.[511] What he does not comprehend, or otherwise chooses to ignore,[512] is that this nominal rate is limited by an operating ratio.[513] During the test year, the operating ratio (which reflects that amount of investment in service)[514] reduced the return on equity rate actually paid by Kentucky Power by approximately one-third to 8.18 percent.[515] This 8.18 percent rate is less than even the 8.60 percent return on equity rate that the Attorney General's own return on equity witness deemed appropriate for Kentucky Power.[516]

Further, the 8.18 percent return on equity component of Rockport expense is the test year level and hence provides the basis upon which the rates to be set upon in this case to recover the Rockport UPA expenses will be established. As such, Mr. Smith's arguments concerning the nominal 12.16 percent return on equity rate are inapplicable to this case.

Even if Mr. Smith were accurate in his misunderstanding that the return on equity component of the Rockport UPA payments during the test year were calculated at 12.16 percent, and he is not, he nevertheless erred in his characterization of that rate as excessive. To the contrary, the Commission explained in its order in the Company's last rate case – an order Mr. Smith testified he read[517] – that the 12.16 percent rate had been "found to legally constitute a fair, just, and reasonable rate."[518]

Mr. Smith's recommended penalties are also contrary to federal and state law. The Rockport UPA is a FERC-approved rate and as such, "the judicial doctrine of federal preemption

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[511] *Id.* at 67.

[512] Mr. Smith testified on cross-examination that he did not calculate the actual return on equity rate paid by Kentucky Power under the Rockport UPA. Smith Hearing Testimony at 290.

[513] Satterwhite Hearing Testimony at 448-449.

[514] *Id*. at 449.

[515] *Id*.; Kentucky Power Hearing Exhibit 8.

[516] Woolridge Direct Testimony at 4.

[517] Smith Hearing Testimony at 205.

[518] 2014 Rate Case Order at 81.

forecloses any inquiry here into the reasonableness of that rate or the costs recovered through that rate."[519] Mr. Smith seemingly recognizes this principle,[520] but through the artifice of triple penalties invites the Commission to accomplish indirectly what it is constitutionally prohibited from attempting directly. "[A] state agency's 'efforts to regulate commerce must fall when they conflict with or interfere with federal authority over the same activity.'"[521] Each of Mr. Smith's proposed penalties would violate Kentucky Power's right to recover the costs associated with the FERC-approved rate; in fact the "Affiliate Charge ROE-Reduction Rider" to flow back hypothetical cost reductions would be a direct violation of hornbook constitutional principles and this Commission's statutory authority and long-held precedent.

Mr. Smith's recommended penalties also run afoul of state law. KRS 278.180 and KRS 278.190 authorize regulated utilities to file applications for a general adjustment of their rates. That authorization is unconditional. An administrative agency "cannot amend, alter, or enlarge, or limit the terms of [a] legislative enactment,"[522] yet Mr. Smith's recommendation that the Commission "direct KPCo not to file another rate case until" the Company files a FERC proceeding to amend the Rockport UPA would do just that.[523] By the same token, "[t]he General Assembly has unequivocally allowed utilities to be fairly paid for their service,"[524] and the Commission may not in a rate proceeding refuse to establish rates that provide that fair payment as a means of penalizing the utility.[525]

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[519] Rockport Environmental Surcharge Order at 11.

[520] Smith Direct Testimony at 67.

[521] *Mississippi Power & L. Co. v. Mississippi*, 487 U.S. 354, 377 (1988).

[522] *Camera Center, Inc. v. Revenue Cabinet*, 34 S.W.3d 39, 41 (Ky. 2000).

[523] *See also* Satterwhite Settlement Testimony at S16.

[524] *South Cent. Bell Tel. Co. v. Utility Regulatory Com'n*, 637 S.W.2d 649, 652 (Ky. 1982).

[525] *Id*. at 652-653.

The Attorney General's failure to produce any legal authority supporting his recommendation that the Commission penalize Kentucky Power for not seeking to amend the Rockport UPA – despite being directed through discovery to do so[526] – only underscores the lawlessness of his recommendation. Not one of the 17 public utility regulatory agency or court decisions the Attorney General listed in response to KPSC 1-4(b) involved an agency decision disallowing the recovery through retail rates of costs incurred through a FERC-approved rate.[527] The Attorney General's silence speaks volumes.

E. <u>KIUC's Proposal To Defer $20.3 Million In Rockport Unit 2 Expenses Annually For A Five Year Period – Although A Constructive Concept – Would Jeopardize Kentucky Power's Stable Investment Grade Credit Rating</u>.

KIUC recommended deferring $20.3 million a year of Rockport Unit 2 expenses Kentucky Power currently pays through the Rockport Unit Power Agreement ("Rockport UPA").[528] Under KIUC's proposal, the deferral would continue through December 2022[529] when the Rockport Unit Power Agreement terminates coincident with the expiration of the Rockport Unit 2 lease and the Rockport UPA.[530] Upon the expiration of the Rockport UPA and the Rockport Unit 2 lease in December 2022, the approximate $101.5 million deferral balance[531] would be amortized on a levelized basis over ten years.[532] KIUC argues that the deferral is appropriate because of what it characterizes as "the severely depressed state of the Eastern Kentucky economy."[533]

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[526] KPSC Data Request 1-4(b) to the Attorney General.

[527] Attorney General's Response to KPSC Data Request 1-4(b).

[528] Kollen Direct Testimony at 11, 15.

[529] *Id*. at 11.

[530] *Id*. at 8.

[531] $20.3 million/year x five years = $101.5 million.

[532] Kollen Direct Testimony at 15.

[533] *Id*. at 11.

Under KIUC's proposal, the amortization payments beginning in December 2022 would be "funded" through the annual $38.9 million dollar reduction in Rockport Unit 2-related expenses following the expiration of the Rockport UPA on December 7, 2022.[534] Significantly, KIUC's proposal recognizes the importance to all parties of Kentucky Power's recovery of its Rockport expenses in full[535] and the Company's receipt of a carrying charge on the deferral balance at Kentucky Power's weighted average cost of capital ("WACC").[536] The WACC-based carrying charge is critical because Kentucky Power would be required to finance the deferral through a combination of debt and equity.[537] Although a constructive concept that was incorporated in the Settlement Agreement in a materially modified fashion,[538] the deferral as proposed by KIUC would unreasonably burden Kentucky Power's ability to maintain a stable investment grade credit rating by decreasing its cash flows.[539]

Specifically, KIUC's proposal required the deferral of too large of an amount and provided for its recovery over too long of a period – 15 years from the beginning of the deferral period until the conclusion of the amortization period.[540] The Company will continue to incur on a monthly basis, and be required to pay contemporaneously, the Rockport UPA expense during the five-year period prior to the start of the amortization period. Thus, while the Company's Rockport UPA expense will not decrease during the deferral period, its cash flow would be

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[534] *Id*. at 9, 11.

[535] *Id*. at 12.

[536] *Id*. at 15. Mr. Kollen also testified that any attempt to finance the reduced deferral balance provided for by the Settlement Agreement (approximately 50 percent of the amount provided for by the KIUC proposal) using only debt would risk a credit downgrade. Kollen Hearing Testimony at 565-566.

[537] KIUC Response to KPSC 1-1(b) ("The Company is unlikely to finance a deferral of this magnitude solely through debt given its present capital structure"). KIUC Witness Kollen testified upon cross-examination at the hearing that Kentucky Power would be unlikely to finance the reduced deferral amounts provided for by the Settlement Agreement solely using debt. Kollen Hearing Testimony at 565.

[538] Satterwhite Hearing Testimony at 86.

[539] Wohnhas Rebuttal Testimony at R9-R10

[540] Wohnhas Hearing Testimony at 968-969; Wohnhas Rebuttal Testimony at R10.

reduced by $20.3 million annually.[541] This decreased cash flow could lead to a deterioration of Kentucky Power's credit metrics and a consequent downgrade of its credit rating.[542] This, in turn, would lead to increased financing costs that ultimately would be borne by the Company's customers.[543] Indeed, even with a 50 percent reduction in both the amount deferred (from $101.5 million to $50 million)[544] and the period over which it is recovered once amortization starts (from ten years to five years), agreed to in the Settlement Agreement, the deferral works financially only if Kentucky Power is able to strengthen its cash flow by contemporaneously recovering 80 percent of any incremental increase in the Company's PJM LSE OATT costs:

> Q. Okay. Do you have those same concerns about the settlement deferral?
>
> A. No, because, you know, again, ***you look at it in total package***, all right, ***the Company is able to recover 80 percent of the OATT cost***, so that's a very -- that's a positive when we talk about this whole package. So it definitely reduces the risk, so I do not have the same concerns.[545]

F. <u>KIUC's Proposal To Employ A Hypothetical Capital Structure Reflecting Two Percent Short Term Debt Is Inconsistent With Past Practice And Lacks Support In The Record</u>.

KIUC also proposed that Kentucky Power's rates be established using a capital structure reflecting a hypothetical two percent level of short term debt.[546] KIUC offered this recommendation notwithstanding the fact that its proposed hypothetical level of short term debt proposed by KIUC is more than *3,300 percent greater* than Kentucky Power's actual short term debt capitalization at the end of the test year.[547]

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[541] Kollen Direct Testimony at 11, 12.

[542] Wohnhas Rebuttal Testimony at R9-R10.

[543] *Id*. at R10.

[544] With carrying charges the deferral balance will total approximately $59 million at the time amortization begins. Satterwhite Settlement Testimony at S11.

[545] Wohnhas Hearing Testimony at 969 (emphasis supplied).

[546] Kollen Direct Testimony at 45.

[547] *Id*. at 44. KIUC Proposed level of short term debt capitalization (2.0 percent) ÷ Actual short term debt level of capitalization (0.06 percent) = 3,333 percent.

Because the Company typically uses short term debt to finance its coal pile, Kentucky Power first allocated the $6.8 million reduction in capitalization as a result of the net over-target coal pile levels at the Mitchell generating station to eliminate the test year end short term debt balance of $1,022,872 and thereby produce an adjusted level of short term debt of $0.00.[548] Kentucky Power's proposed adjusted capital structure reflecting zero short term debt reflects its practice in prior cases[549] and is consistent with the position KIUC advocated in the Company's last rate case.[550] Mr. Kollen and KIUC offer no reason to depart from either.

Equally problematic is that KIUC's recommendation to include a hypothetical two percent level of short term debt in Kentucky Power's capitalization lacks an evidentiary basis. The only test year evidentiary basis offered by Mr. Kollen for using a two percent level of short term debt is that the Company relied on short term debt during the test year.[551] But the Company's need for short term debt changes daily. In fact, the Company was in an invested position for almost 90 days during the test year.[552] More fundamentally, KIUC was unable to offer any test year evidentiary support for its recommended two percent hypothetical level. On

[548] Wohnhas Direct Testimony at 10-11. Mr. Kollen also objects to Kentucky Power's $1,249,691 adjustment to *increase* Mitchell low-sulfur coal stocks to target levels. Kollen Direct Testimony at 43. Mr. Kollen errs. The increase was netted against the $8,054,063 *reduction* of Mitchell high-sulfur coal stocks to yield the $6,804,372 reduction in capitalization. Wohnhas Direct Testimony at 11. Both adjustments – up and down – reflect the appropriateness of using inventory target levels for the purpose of establishing capitalization and should be applied even handedly and without regard to the result. Wohnhas Rebuttal Testimony at R3-R4. More fundamentally, Kentucky Power's share of the Mitchell coal pile inventory target level is 172,823 tons (115,215 tons of low sulfur coal plus 57,608 tons of high sulfur coal). This total tonnage of coal, albeit distributed between two types of coal, is required to "ensure adequate coal is available to meet the Company's generation needs." *Id*. at 3. If Mitchell burned only high sulfur coal the reduction in capitalization as a result of the adjustment to target inventory levels would have been less because its target level would have been greater. KIUC seeks to take advantage of the full amount of the reduction in the high-sulfur inventory but refuses to give recognition to the fact that the reduction would have been less but for the two different coal piles. Kentucky Power appropriately netted the two adjustments.

[549] Wohnhas Rebuttal Testimony at R3.

[550] *See* Kollen Direct Testimony at 43-46; *In the Matter of: Application Of Kentucky Power Company For: (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; And (4) An Order Granting All Other Required Approvals And Relief*, Case No. 2014-00396 (Ky. P.S.C. March 23, 2015) (using test year-end level of short term debt but not adjusting it below zero. The balance of adjustments was ratably allocated between long term debt and equity).

[551] Kollen Direct Testimony at 45.

[552] Kentucky Power's Response to KIUC 1-50, Attachment 1.

discovery, the only test year basis – which in fact refuted its recommended two percent level of short term debt – was that some monthly test year balances "were as much as" 1.1 percent.[553] Nowhere does KIUC explain how a maximum month end test year level of short term debt[554] of slightly more than 50 percent of its recommended hypothetical level supports departing from test year values in general, or, specifically, abandoning Commission practice of using the test year end adjusted level.

KIUC's proposal to use a hypothetical two percent level of short term debt in Kentucky Power's capitalization should be rejected.

G. <u>The Aviation Expenses Allocated And Assigned To Kentucky Power Are Necessary Costs And Are Reasonable In Amount</u>.

Despite its importance to the efficient and economical conduct of business[555] and the use by business and government alike of private aviation,[556] the Attorney General recommends the Commission disallow in its entirety the corporate aviation expenses assigned and allocated to Kentucky Power.[557] In both his direct testimony and in response to discovery on behalf of the Attorney General, Mr. Smith argued that the expense should be disallowed because it was paid to

[553] KIUC Response to KPCo 1-16.

[554] The use of a maximum level also ignores that other month-end levels were lower and that the Company was in an invested short term position for approximately one-quarter of the test year. *See* Wohnhas Rebuttal Testimony at R5-R6.

[555] Satterwhite Hearing Testimony at 426-428; Kentucky Power's Response to KPSC PH-10, Attachment 1 at 1 (recognizing that corporate aviation is a tool "that allows AEP employees, board members and their third party advisors to conduct business in a safe, effective, and efficient manner.")

[556] Kentucky Power's Response to KPSC PH-10.

[557] Smith Direct Testimony at 43; Smith Hearing Testimony at 258. Expenses are assigned to Kentucky Power when the Company directly benefits from the flight or Company personnel are aboard. Even then, the Company may be assigned only a small proportion of the cost. Thus, Kentucky Power was assigned five percent of the cost from Columbus, Ohio to Washington D.C. when Mr. Satterwhite traveled using corporate aviation to meet at the White House with executives in President Trump's administration. Satterwhite Hearing Testimony at 427-428. Allocated corporate aviation expenses, like other service corporation expenses, are those expenses not directly assigned to another operating company or business unit and that benefit the companies generally.

an affiliate and because the Company had not demonstrated the expenses were cost-effective.[558] The Attorney General twice errs.

First, the fact that expenses are paid to an affiliate does not render them *per se* improper as Mr. Smith seems to believe. To the contrary, the lease by the Service Corporation of the three aircraft provides Kentucky Power the benefit of the aircraft without bearing the full cost as it would have to do on a stand-alone basis.[559]

Mr. Smith's objection to the cost-effectiveness of the use of private aviation also runs directly contrary to the Commonwealth's understanding in promoting the use of state aircraft by elected officials and other state employees:

WHAT ARE THE ADVANTAGES OF USING STATE AIRCRAFT?

- Conduct business while traveling. Maximize time management
- Privacy
- Security
- Interruptions and distractions eliminated
- Flexible departure and arrival schedule
- No wasted time waiting in line for a commercial flight
- Less travel time, therefore, savings of expenses for lodging and meals
- Post trip fatigue eliminated
- Safest form of transportation available[560]

Mr. Smith's speculative concerns that the leased aircraft are being misused[561] are equally unfounded. The use of the aircraft is governed by a six-page written policy that limits aircraft

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[558] Smith Direct Testimony at 43; Attorney General's Response to KPSC Data Request 1-7(b).

[559] Satterwhite Direct Testimony at 427-428.

[560] Kentucky Power Company's Response to KPSC PH-10 (citing https://transportation.ky.gov/Aviation/Pages/Aircraft-Fleet-Services.aspx).

[561] Smith Hearing Testimony at 260.

use to business purposes except when approved on a case-by-case basis at the highest levels of AEP.[562] Business travel in turn is narrowly defined as "a trip where the primary purpose is integrally and directly related to the performance of the executive's, board member's or third party advisor's duties to AEP."[563] Tellingly, Mr. Smith failed to identify a single instance of misuse of corporate aircraft by Kentucky Power or AEPSC despite being provided in discovery complete information about each flight, the passengers on the flights, their departure and arrival points, and their purposes.[564] Instead, he only pointed to claimed abuses in the use of military and other non-commercial aircraft by governmental personnel.[565]

Finally, presumably because the information was not available at the time he filed his direct testimony, Mr. Smith mistakenly overstates the amount of test year aviation expense recorded by Kentucky Power as an O&M expense. As the Company clarified in response to KSPC PHDR-13, the amount was $280,906 because the balance of $107,944 was assigned to Wheeling Power Company under the Mitchell Operating Agreement.[566]

H. Kentucky Power's Test Year Relocation Expenses Are Representative Of Future Levels And Should Not Be Adjusted.

Abandoning any pretense of consistency in his recommended adjustments, Mr. Smith urges the Commission to reduce the Company's test year relocation expense by $140,972 to reflect his calculation of the Company's three-year average relocation expense.[567] Mr. Smith makes this adjustment despite his challenge to the Company's proposal to use a three-year

[562] Kentucky Power's Response to KPSC PH-10, Attachment 1.
[563] *Id*.
[564] Kentucky Power's Response to KPSC 2-55, Attachment 1.
[565] Smith Hearing Testimony at 260-261.
[566] Kentucky Power's Response to KPSC PH-13.
[567] Smith Hearing Testimony at 46.

average to normalize its much larger and much more unpredictable and volatile storm expense.[568] Mr. Smith's feckless adherence to principle should be rejected.

Implicit in the historic test year concept is that the test year serves as a snapshot of the Company's operations.[569] The individual expenses comprising the test year will increase or decrease, but in the case of smaller and less volatile expenses, those changes will either tend to cancel each other out[570] or can be managed by the utility.[571] Thus, normalization of test year expenses is appropriate where the expenses are large and volatile.[572] To pick a single expense, or a handful of smaller expenses, and to normalize the expenses using historical averages, undermines the utility of the test year concept by ignoring the fact that the test year amounts of other expenses that are not being normalized may have been lower than their historical average.[573] To do so, as Mr. Smith proposes, only where it reduces the Company's revenue requirement compounds the error and is unsupported by Commission precedent and insupportable.

Mr. Smith premises his proposed normalization on the fact that Kentucky Power relocated its corporate headquarters from Frankfort to Ashland during the test year.[574] This effort involved the movement of two employees.[575] Far from being an anomaly, the test year level of relocation expenses is likely to be more representative than historic data of future levels of relocation expense as the Company builds on its successes:

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568 Smith Direct Testimony at 44.

569 *Id*.

570 *Id*.

571 Satterwhite Hearing Testimony at 396-397.

572 Kentucky Power's Response to KPSC PH-14.

573 Kentucky Power's Response to KPSC PH-14.

574 Smith Hearing Testimony at 45.

575 Kentucky Power's Response to KPSC PH-14.

> Kentucky Power is actively recruiting top talent to help lead its regulatory and business operations in the Commonwealth. As the Company continues to succeed in locating new industry more opportunity arises for current employees to be recruited away to other states and for Kentucky Power to recruit new talent with fresh ideas to Kentucky. The Company intends to be active in recruiting talented staff to lead Eastern Kentucky; meaning that although there is not a single identified budget for relocation there is a high likelihood that the Company will continue to relocate employees and executives to the region. As such, past years[’] data may not be representative.[576]

The Commission should reject Mr. Smith’s proposed normalization of Kentucky Power’s test year level of relocation expense.

I. Kentucky Power’s Treatment Of Its Post-Year Increase In Employee Complement Should Be Approved.

Because the test year is a snapshot of the Company’s operations, the Commission’s regulations recognize the appropriateness of adjusting test year amounts for *future*[577] known and measurable changes.[578] Kentucky Power proposed, in accordance with the Commission’s regulation, to increase its test year employee expense by $172,594[579] to reflect the Company’s plans to hire five additional employees.[580] All five employees were hired prior to the hearing in the case.[581]

Both the Attorney General and KIUC challenge some aspect of the proposed adjustment. Mr. Kollen argues on behalf of KIUC that the Commission should reject the adjustment in total

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[576] Satterwhite Hearing Testimony at 189; *see also id.* at 180-181 (discussing need to hire additional line mechanics in the Company’s Hazard division).

[577] The selective use of a *historical* average to “normalize” test year amounts as Mr. Smith proposes to do with the Company’s test year relocation expense is different in concept from a known and measurable post-test year change. *See* Kentucky Power’s Response to KPSC PH-14.

[578] 807 KAR 5:001, Section 16(5).

[579] Section V, Exhibit 2, Adjustment W52.

[580] Wohnhas Direct Testimony at 19-22; Satterwhite Direct Testimony at 19-20.

[581] Wohnhas Rebuttal Testimony at R.22.

because Kentucky Power is seeking, but has yet to receive, Commission approval to hire the five employees.[582] Mr. Kollen errs.

It is unclear why Mr. Kollen believes the Company was seeking Commission authorization to retain the five employees. No such authorization is sought in the application and neither Mr. Satterwhite nor Mr. Wohnhas indicated in their testimony or data request responses that such approval was being sought or required. Nor would it be appropriate for the Company to involve the Commission in such management decisions. The Commission regulates Kentucky Power's rates and service;[583] it does not directly manage the Company as Mr. Kollen seems to understand.

Mr. Kollen also errs in his contention that Kentucky Power failed to justify the need for the employees.[584] Both Messrs. Satterwhite and Wohnhas addressed the previously unmet need for the additional employees in their testimony as well as the benefits they were expected to provide.[585] In addition, Company Witness Satterwhite underscored the need for these and other employees in his hearing testimony.[586] Kentucky Power met its burden of going forward with the evidence and proof. Mr. Kollen and KIUC must do more than just raise debating points.

Mr. Smith takes a different tack on behalf of the Attorney General. He does not attack the proposed adjustment. Rather, he offers his own adjustment. He proposes to increase the Company's income to reflect a 50 percent increase in theft recoveries as a result of the addition of 1.5 full time employees devoted to revenue protection.

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[582] Kollen Direct Testimony at 24-25.

[583] KRS 278.040(2).

[584] Kollen Direct Testimony at 25.

[585] Wohnhas Direct Testimony at 19-22; Satterwhite Direct Testimony at 19-20.

[586] Satterwhite Hearing Testimony at 180-182.

Mr. Smith bases his adjustment on Company Witness Wohnhas' testimony that the addition of the employees could "increase its energy theft recoveries by up to 50 percent."[587] The estimate was just that. It was not a guarantee of the level of recoveries that might be achieved.[588] Most importantly, there was no timeline over which the increase was expected to be achieved. As such, and unlike the increase in the employee complement, all of whom have been hired, it is not a known and measurable change.

The employee-complement related adjustments proposed by KIUC and the Attorney General should be rejected.

J. <u>The Attorney General's Arguments Against The K-PEGG Program Are Unfounded</u>.

In his testimony, Attorney General Witness Dismukes assails the K-PEGG Program as flawed for "shifting performance risk" onto Kentucky Power's customers.[589] The Attorney General misconstrues the nature of the K-PEGG program, and his argument in opposition of successful economic development programs in the Company's service territory must be rejected. The Attorney General argues that somehow because the Company does not require grant recipients to commit to certain employment, load, or other metrics, it is flawed.[590] This argument represents a fundamental misunderstanding of the K-PEGG program and its purpose.

As described above, the K-PEGG program is designed to fill the economic development infrastructure gaps in the region through grants issued to improve the skill of economic development professionals and the marketability of sites available for development.[591] K-PEGG grants are fundamentally different than incentives handed out by the Kentucky Cabinet for

[587] Wohnhas Direct Testimony at 22.

[588] Wohnhas Rebuttal Testimony at R.23.

[589] Dismukes Direct Testimony at 45-51.

[590] *Id*. at 48.

Economic Development or even the rate discounts available under the Company's economic development rider. Kentucky Power issues K-PEGG programs not to incent specific development by specific target companies, but rather to upgrade the ability of the communities in its service territory to compete for economic development opportunities.[592] The purpose of the K-PEGG program makes the criteria proffered for use by Dr. Dismukes impossible.[593]

The K-PEGG program has been a success but can be even better with more resources. The Company's proposed expansion of the program provides such additional resources with, if the Settlement Agreement is approved, a reduction in the contribution to the program by residential customers. The proof of the success of Kentucky Power's economic development efforts can be found in the new jobs it has brought to eastern Kentucky. The Attorney General's attempt to discredit a low-cost, successful economic development program in eastern Kentucky is without merit and should be rejected.

VI. IMPACT OF THE TAX CUTS AND JOBS ACT OF 2017

On December 22, 2017, President Trump signed the Tax Cut and Jobs Act ("TCJA") of 2017 into law. Among the provisions of the TCJA is a reduction from 35 percent to 21 percent in the federal corporate tax rate that Kentucky Power pays. Kentucky Power is evaluating the overall impact of the TCJA on the Company's cost of service and how the reduction in federal corporate tax rate will impact rate payers.[594]

Although a determination of the effect of the TCJA on the Company's overall revenue requirement will not be possible for some time, and is currently being evaluated in Case No.

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[591] Hall Rebuttal Testimony at R5.

[592] *Id*.

[593] *Id*.

[594] The Company will establish a regulatory liability to track the tax savings resulting from the TCJA as required by the Commission's December 27, 2017 Order in Case No. 2017-00477.

2017-00477, the Company took the initiative on January 3, 2018 to file draft forms for use in calculations under Tariff P.P.A. and Tariff ES that incorporate the 21 percent federal corporate tax rate into the gross revenue conversion factor ("GRCF") calculation, thus potentially accelerating the impact of the federal tax savings on these rates.

The change in the federal corporate tax rate also is expected to reduce the Settlement Agreement GRCF from 1.6433 to a revised GRCF of 1.3521. Likewise, the pre-tax WACC has been reduced from 9.11 percent as included in the Settlement Agreement to 7.9227 percent. This pre-tax WACC will be used in subsequent Company rider calculations, including those made under the Decommissioning Rider, the Purchase Power Adjustment, and the Environmental Surcharge.

The revised forms filed with the Commission do not yet reflect any applicable changes in connection with the accumulated deferred income tax ("ADIT") calculations, as the Company is still evaluating those impacts. However, the Company intends to incorporate in subsequent calculations of the Company's riders changes in the ADIT calculation caused by the TCJA, if any and to the extent appropriate, once these changes and their effect are evaluated and determined.

VII. CONCLUSION

Kentucky Power respectfully requests that the Commission give the Company the tools to serve its customers and "grow the denominator" through economic development by approving, without modification, the Settlement Agreement in this case.

Respectfully submitted,

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COUNSEL FOR KENTUCKY POWER COMPANY

APPENDIX

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1

To the public Service Commission:

I would Like to protest Ky. Power's Add on Charges. They are getting outrageous. Some people are getting outrageous electric bills.

One charge that I do Not Like is the Big Sandy Retirement Rider. Many people are paying this out of their own retirement Checks.

We are Paying for 10 things and these charges add up.

Please help us.

RECEIVED
DEC 27 2017
PUBLIC SERVICE COMMISSION

Fuel Adj @ 0.0029429 Per KWH
DSM Adj @ 0.0080130 Per KWH
Residential HEAP @ $0.15
Kentucky Economic Development Surcharge
Capacity Charge @ 0.0014350 Per KWH
Big Sandy 1 Operation Rider @ 0.0034100 Per KWH
Purchased Power Adj 0.0928000%
Big Sandy Retirement Rider 3.7089000%
Environmental Adj 7.3671000%
School Tax

2

happening. And it's no guarantee, because we're still absorbing 20 percent of those incremental costs in the settlement deal.

Q. Isn't it true that despite the fact that Kentucky Power is losing customers and is experiencing declining usage, nonetheless revenues continue to grow?

A. I missed Mr. Wohnhas' discussion of this, so I assume you're referring to the ten-year period in question where revenues were going up; however, the load has been shrinking?

Q. Yes. As a matter of fact, there is an exhibit to the testimony of Dr. Dismukes, Exhibit 9 --

A. Yeah.

Q. -- that -- it's based on the Company's FERC Form 1. That's where the data comes from.

A. That's fair. And there are some caveats. There's some color around that. There's many things happening. Over that same time period all the coal plants that are still being operated in the AEP system, they were scrubbed during that time period, so during -- that's a lot of capital investment.

And in 2006 through 2014 Kentucky Power was still a member of the AEP's pool. So as those plants were scrubbed and those capital investments were made, Kentucky Power's costs were going up, because they're allocated their portion of the AEP system. So you had that going on.

You also have during that time period the decline in off-system sales margins, because after a peak in 2008, you had lower -- you had the economic recession, which really hurt -- hurt off-system sales. Prices went down. Gas prices began to come down it with fracking. You also had the retire -- the generation retirements, where the AEP's pool became a lot shorter.

And those off-system sales revenues that used to get allocated, those hundreds of million of dollars that used to get allocated to Kentucky Power through the old East pool, those were rate credits. Those were shared back with customers through the system sales clause. So as those off-system sales margins were reduced, our retail revenues grew, because we had less of a cost offset.

So, yeah, I agree with you that revenues have gone up and sales have gone down, but it's -- there's a lot of color within those, a lot of -- there's a lot of nuance to it. It's not just -- it's not just a picture that Kentucky Power 's revenues keep going up and sales keep going down and -- there's a lot to it.

Q. All right, sir. Of the amounts Kentucky Power pays each year in OATT charges, how much are to affiliates and how much are to nonaffiliates?

A. Huh. I don't have that number on me.

Q. If I -- I'd like to request that in a post-hearing data request.

A. We could. We could certainly -- certainly provide that.

Q. Thank you. Of the amounts Kentucky Power pays each year in OATT charges to affiliates --

A. Yeah.

Q. -- how much was paid for projects designated as baseline upgrades, network upgrades, or supplemental projects as defined by PJM?

A. So I'm not sure we track it at that level. However, a couple -- a couple of distinctions there. Network upgrades are like when a generator wants to connect within the system, and network upgrades are paid for by whomever is requesting that.

So if there's an IPP entering the AEP system and they require a $10 million transmission investment to be connected to our system to deliver power to PJM, they're paying that, not our customers. You know, or vice versa. A new wind

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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company d/b/a	:	
Ameren Illinois	:	
	:	**17-0197**
Rate MAP-P Modernization Action	:	
Plan-Pricing Annual Update Filing.	:	

ORDER

December 6, 2017

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STATE OF ILLINOIS

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PROPOSED ORDER

By the Commission:

I. PROCEDURAL HISTORY

Section 16-108.5 of the Public Utilities Act (the "Act") provides that an electric utility or combination utility (providing electric service to more than one million customers in Illinois and gas service to at least 500,000 customers in Illinois) may elect to become a "participating utility" and voluntarily undertake an infrastructure investment program as described in the Section. 220 ILCS 5/16-108.5(b). A participating utility is allowed to recover its expenditures made under the infrastructure investment program through the ratemaking process, including, but not limited to, the performance-based formula rate and process set forth in Section 16-108.5. 220 ILCS 5/16-108.5(b). Section 16-108.5(d) of the Act requires a participating utility to file, on or before May 1 of each year, with the Chief Clerk of the Illinois Commerce Commission ("Commission"), its updated cost inputs to the performance-based formula rate for the applicable rate year and the corresponding new charges, based on final historical data reflected in the utility's most recently filed annual Federal Energy Regulatory Commission ("FERC") Form 1, plus projected plant additions and correspondingly updated depreciation reserve and expense for the calendar year in which the inputs are filed. 220 ILCS 5/16-108.5(d).

On January 3, 2012, the Ameren Illinois Company d/b/a Ameren Illinois ("AIC" or "Ameren") filed with the Commission its performance-based formula rate tariff, Rate MAP-P Modernization Action Plan—Pricing Tariff ("Rate MAP-P"). That docket established the terms of the formula.

On April 13, 2017, Ameren filed its annual update of cost inputs pursuant to Section 16-108.5(d) of the Act. This docket is Ameren's seventh filing under the Electric Infrastructure Modernization Act ("EIMA"). In this docket, the Commission will establish a new revenue requirement to take effect on January 1, 2018 based on the historical FERC Form 1 reports for 2016 and projected plant additions for 2017 and reconcile the revenue requirement for 2016 with actual costs for 2016. The reconciliation balance will be added to the new revenue requirement and collected in rates effective on January 1, 2018.

Petitions to Intervene in this proceeding were filed by the Citizens Utility Board ("CUB"), as well as by Caterpillar Inc., Cargill, Inc., Viscofan USA, Inc., Tate & Lyle Ingredients Americas, Inc., Marathon Petroleum Company, CCPS Transportation, LLC, Keystone Consolidated Industries, Inc., Illinois Cement Company and Archer-Daniels-Midland Company, collectively as the Illinois Industrial Energy Consumers ("IIEC"). A notice of appearance was filed by the Illinois Attorney General's Office on the behalf of the People of the State of Illinois ("AG"). Staff of the Commission ("Staff") also participated in this proceeding.

An evidentiary hearing was held in this proceeding at the offices of the Commission at 527 E. Capitol, Springfield, Illinois. At the conclusion of the hearing, the Record was marked "Heard and Taken". Initial Briefs were filed by AIC, Staff, and IIEC-CUB. Reply Briefs were filed by AIC and IIEC-CUB. A Proposed Order was served on the parties. Briefs on Exceptions were filed by IIEC-CUB and Staff. The schedule adopted in this proceeding did not provide the parties with the opportunity to file Reply Briefs to Exceptions.

II. LEGAL STANDARD

The provisions of EIMA, specifically, Section 16-108.5(d), provides in relevant part:

> Subsequent to the Commission's issuance of an order approving the utility's performance-based formula rate structure and protocols, and initial rates under subsection (c) of this Section, the utility shall file, on or before May 1 of each year, with the Chief Clerk of the Commission its updated cost inputs to the performance-based formula rate for the applicable rate year and the corresponding new charges.

220 ILCS 5/16-108.5(d).

Section 16-108.5(d) further specifies the requirements for this annual filing as follows:

> Within 45 days after the utility files its annual update of cost inputs to the performance-based formula rate, the Commission shall have the authority, either upon complaint or its own initiative, but with reasonable notice, to enter upon a hearing concerning the prudence and reasonableness of the costs incurred by the utility to be recovered during the applicable rate year that are reflected in the inputs to the performance-based formula rate derived from the utility's FERC Form 1. During the course of the hearing, each objection shall be stated with particularity and evidence provided in support thereof, after which the utility shall have the opportunity to rebut the evidence. Discovery shall be allowed consistent with the Commission's Rules of Practice, which Rules shall be enforced by the Commission or the

> assigned hearing examiner. The Commission shall apply the same evidentiary standards, including, but not limited to, those concerning the prudence and reasonableness of the costs incurred by the utility, in the hearing as it would apply in a hearing to review a filing for a general increase in rates under Article IX of this Act.
>
> . . .
>
> In a proceeding under this subsection (d), the Commission shall enter its order no later than the earlier of 240 days after the utility's filing of its annual update of cost inputs to the performance-based formula rate or December 31.
>
> . . .
>
> A participating utility's first filing of the updated cost inputs, and any Commission investigation of such inputs pursuant to this subsection (d) shall proceed notwithstanding the fact that the Commission's investigation under subsection (c) of this Section is still pending and notwithstanding any other law, order, rule, or Commission practice to the contrary.

Id. Section 16-108.5(d) further specifies the requirements for the reconciliation filing as follows:

> The filing shall also include a reconciliation of the revenue requirement that was in effect for the prior rate year (as set by the cost inputs for the prior rate year) with the actual revenue requirement for the prior rate year (determined using a year-end rate base) that uses amounts reflected in the applicable FERC Form 1 that reports the actual costs for the prior rate year. Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission for the prior rate year, the charges for the applicable rate year. Provided, however, that the first such reconciliation shall be for the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section and shall reconcile (i) the revenue requirement or requirements established by the rate order or orders in effect from time to time during such calendar year (weighted, as applicable) with (ii) the revenue requirement determined using a year-end rate base for that calendar year calculated pursuant to the performance-based formula rate using (A) actual costs for that year as reflected in the applicable FERC Form 1, and (B) for the first such reconciliation only, the cost of equity, which shall be calculated as the sum of 590 basis points plus the average for the applicable calendar year of the

> monthly average yields of 30-year U.S. Treasury bonds published by the Board of Governors of the Federal Reserve System in its weekly H.15 Statistical Release or successor publication. The first such reconciliation is not intended to provide for the recovery of costs previously excluded from rates based on a prior Commission order finding of imprudence or unreasonableness. Each reconciliation shall be certified by the participating utility in the same manner that FERC Form 1 is certified. The filing shall also include the charge or credit, if any, resulting from the calculation required by paragraph (6) of subsection (c) of this Section.
>
> Notwithstanding anything that may be to the contrary, the intent of the reconciliation is to ultimately reconcile the revenue requirement reflectedin rates for each calendar year, beginning with the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section, with what the revenue requirement determined using a year-end rate base for the applicable calendar year would have been had the actual cost information for the applicable calendar year been available at the filing date.

Id.

III. AIC'S PROPOSED REVENUE REQUIREMENT

AIC proposes a net revenue requirement (after consideration of the filing year and reconciliation year revenue requirements, with interest and the return on equity collar) of $998,448,000. Overall, AIC's proposed update to its formula rate delivery service revenue requirement results in a decrease of $17,339,000 from the electric revenue requirement ordered by the Commission in Docket No. 16-0262. AIC's calculations use a rate of return of 7.040% for the filing year and 7.040% for the reconciliation year.

Staff agrees that AIC's proposed revenue requirement, and the costs reflected in that revenue requirement, as adjusted by Staff and agreed to by AIC, are prudent and reasonable and should be approved by the Commission.

IV. RATE BASE

A. Uncontested or Resolved Issues

1. Cash Working Capital

Staff and AIC agree on the methodology to calculate Cash Working Capital ("CWC") for the final revenue requirements ordered by the Commission in the instant case, and for all leads and lags. AIC agreed to Staff's proposed adjustment to cash working capital to reflect Staff's proposed level of operating expense.

The Commission finds that the parties are in agreement on this issue, and therefore adopts the parties' agreed amount of CWC.

2. Projected Plant Additions

In supplemental testimony, AIC identified a project in its 2017 plant additions that would not be in service by the end of 2017 as originally intended. The deferred project will be replaced by other electric distribution projects of similar cost, which will be in service by the end of 2017. Thus, the amount of projected plant additions remains the same as originally filed. However, the replacement projects have different depreciable lives than the original project, which results in derivative impacts to depreciation expense, accumulated depreciation, and accumulated deferred income tax ("ADIT"). Staff and AIC, therefore, agreed to a corresponding adjustment to projected plant additions based on AIC's supplemental testimony.

The Commission finds that the proposed adjustment to AIC's 2017 projected plant additions is uncontested, and therefore adopts the adjusted level of projected plant additions for use in this proceeding.

3. Accumulated Deferred Income Tax (ADIT)

Staff and AIC agreed to an adjustment to ADIT based on an inadvertent omission of ADIT associated with a July 2016 storm cost deferral.

The Commission finds that the proposed adjustment to ADIT is uncontested, and therefore adopts the adjusted level of ADIT for use in this proceeding.

B. Original Cost Determination

Staff and AIC agree that the Commission's Order should state the following with respect to the Original Cost Determination:

> (x) the Commission, based on Ameren's proposed original cost of plant in service as of December 31, 2016, before adjustments, of $6,582,534,000 and reflecting the Commission's determination adjusting that figure, approves $6,582,534,000 as the composite original cost of jurisdictional distribution services plant in service as of December 31, 2016.

The Commission finds that this issue is uncontested, and that it would be reasonable to use the parties' agreed original cost determination in this Order.

C. Incremental Plant Investments

AIC provided the actual and projected incremental plant investment that is included in the revenue requirement in compliance with Section 16-108.5(b)(2) of the Act, as ordered by the Commission in Docket No. 12-0293, to which Staff agrees. The Commission will therefore adopt the following agreed conclusion for use in this proceeding:

The Commission is setting a revenue requirement in this proceeding for the recovery of $102.6 million in actual 2016 plant additions and $128.4 million of projected 2017 plant additions in compliance with Section 16-108.5. The detail of these actual and projected plant additions by categories as required by Section 16-108.5(b)(2) are as follows:

	Category	Actual (In Millions)					Projected (In Millions)	Cumulative 2016 (In Millions)
		2012	2013	2014	2015	2016	2017	
(A)(i)	Distribution Infrastructure Improvements	$7.3	$3.5	$26.1	$54.8	$36.9	$49.5	$128.6
(A)(ii)	Training Facility Construction or Upgrade Projects	$5.8	$1.6	$0.0	$0.0	$0.0	$0.0	$7.4
(A)(iii)	Wood Pole Inspection, Treatment, and Replacement	$0.0	$0.0	$0.0	$0.0	$0	$0	$0
	Total Electric System Upgrades, Modernization Projects, and Training Facilities	$13.1	$5.1	$26.1	$54.8	$36.9	$49.5	$136.0
(B)(i)	Additional Smart Meters	$0.0	$0.4	$51.0	$48.4	$37.8	$67.8	$137.6
(B)(ii)	Distribution Automation	$6.5	$5.6	$20.1	$19.7	$24.8	$10.7	$76.7
(B)(iii)	Associated Cyber Secure Data Communications Network	$0.0	$2.5	$2.8	$2.2	$1.1	$0.4	$8.6
(B)(iv)	Substation Micro-processor Relay Upgrades	$0.3	$0.0	$2.5	$1.7	$2.0	$0.0	$6.5
	Total Upgrade and Modernization of Transmission and Distribution Infrastructure and Smart Grid Electric System Upgrades	$6.8	$8.5	$76.4	$72	$65.7	$78.9	$229.4
	Total Plant Additions in Compliance with Section 16-108.5(b)(2) of the Act	$19.9	$13.6	$102.5	$126.8	$102.6	$128.4	$365.4

D. Recommended Rate Base

1. Filing Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable rate base for the filing year is as shown on Appendix A, Schedule 2 (per Staff Ex. 4.0, Schedule 4.03 FY).

2. Reconciliation Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable rate base for the reconciliation year is shown on Appendix B, Schedule 2 (per Staff Ex. 4.0, Schedule 4.03 RY).

V. OPERATING REVENUES AND EXPENSES

A. Uncontested or Resolved Issues

1. Staff Adjustment to Ameren Services Company Costs

In discovery, AIC and Staff agreed to an adjustment of ($3,000) to reduce administrative and general expense for office supplies costs allocated from Ameren Services Company ("AMS"), which AIC determined should not be recoverable in electric distribution rates.

The Commission finds that the adjustment is uncontested, and therefore approves it. There are no other proposed adjustments to AIC's AMS costs.

2. Lobbying Costs

In discovery, AIC agreed that certain administrative and general expenses for lobbying costs should not be recoverable. Staff proposed an adjustment to lobbying costs, and AIC agreed that this adjustment is reasonable.

The Commission finds that AIC's proposed adjusted level of lobbying costs is uncontested, and therefore approves it.

3. Rate Case Expense

Section 9-229 of the Act requires the Commission to assess the justness and reasonableness of AIC's rate case expenses. 220 ILCS 5/9-229. The Commission's Part 288 Rules are intended to guide that assessment. 83 Ill. Admin. Code, Part 288. AIC explains that consistent with that authority, it supplied for the Commission's review extensive documentation supporting the justness and reasonableness of its 2016 formula rate case expenses. Staff and AIC agree that the Commission's Order should state the following with respect to those expenses:

> The Commission has considered the costs expended by AIC during 2016 to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense in the revenue

> requirements of $1,254,203 is just and reasonable. This amount includes the following costs: (1) $624 associated with Docket No. 15-0305; (2) $1,252,241 associated with Docket No. 16-0262; and (3) $1,338 associated with Docket No. 17-0197.

The Commission finds that the total rate case expense that AIC incurred to litigate its formula rate cases in 2016 is supported by the evidence and is just and reasonable. The Commission, therefore, adopts Staff and AIC's suggested language in this Order.

4. Interest Synchronization

Staff proposed an adjustment to interest synchronization, reflecting the tax effect of the difference between the interest expense used by AIC to compute income tax expense and the interest expense computed based on Staff's proposed rate base. AIC agreed to this adjustment.

The Commission finds that the proposed adjustment to interest synchronization is uncontested, and therefore approves it.

5. Gross Revenue Conversion Factor

Staff proposed a gross revenue conversion factor ("GRCF"), which is used to derive the change in AIC's revenue requirement. The GRCF is based on the applicable federal tax rate, state income tax rate, and uncollectible rate. AIC does not contest Staff's proposal.

The Commission finds that Staff's proposed GRCF is uncontested, and therefore approves it for use in this proceeding.

B. Recommended Operating Revenues and Expenses

1. Filing Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable total amount of operating revenues and expenses for the filing year is shown on Appendix A, Schedule, 1 (per Staff Ex. 4.0, Schedule 4.01 FY).

2. Reconciliation Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable total amount of operating revenues and expenses for the reconciliation year is shown on Appendix B, Schedule 1 (per Staff Ex. 4.0, Schedule 4.01 RY).

VI. COST OF CAPITAL AND RATE OF RETURN

A. Uncontested or Resolved Issues

1. Cost of Capital and Overall Rate of Return on Rate Base

a) Filing Year

As shown in the table below, Staff and AIC agree that a capital structure comprising 48.82% long-term debt, 1.18% preferred stock, and 50.00% common equity is reasonable for setting rates for the filing year and the reconciliation year. Staff and AIC further agree that a cost of short-term debt of 0.9%, a cost of long-term debt of 5.619%, and a cost of preferred stock of 4.979% are reasonable for both the 2018 rate setting and the 2016 reconciliation. In addition, Staff agrees that AIC's bank facility costs add 3.8 basis points to AIC's weighted average cost of capital. Finally, Staff and AIC agree that the cost of equity is 8.399% for the 2018 revenue requirement and for the 2016 reconciliation year revenue requirement. The 8.399% return equals the 2.599% monthly average 30-year U.S. Treasury bond yield, plus 580 basis points, as required under Section 16-108.5 of the Act. 220 ILCS 5/16-108.5(c)(3). Staff and AIC agree that the Commission should find that a reasonable overall rate of return for the filing year is 7.040%.

The Commission finds that the overall rate of return of 7.040% for the filing year is reasonable and uncontested, and it will be adopted for use in this proceeding.

Component	Weight	Cost	Weighted Cost
Short Term Debt	0.000%	0.900%	0.000%
Long Term Debt	48.820%	5.619%	2.743%
Preferred Stock	1.180%	4.979%	0.059%
Common Stock	50.000%	8.399%	4.200%
Bank Facility Costs			0.038%
Total Capital	100.000%		7.040%

b) Reconciliation Year

Staff and AIC also agree that the Commission should find that a reasonable overall rate of return for the reconciliation year is 7.040%.

The Commission finds that the overall rate of return of 7.040% for the reconciliation year is reasonable and uncontested, and it will be adopted for use in this proceeding.

VII. RECOMMENDED REVENUE REQUIREMENT

The Commission finds, based on the determinations presented above on the various uncontested issues, that the reasonable revenue requirement for the filing year is shown on Appendix B. The Commission further finds, based on the determinations presented above on the various uncontested issues, that the reasonable revenue requirement for the reconciliation year is shown on Ameren Exhibit 13.1, Schedule FR A-1 REC.

The Commission finds that no party contested AIC's cost of service or pricing proposals, and, therefore, adopts those proposals for purposes of this proceeding.

VIII. OTHER ISSUES

A. Uncontested Issues

1. Income Tax Rate Changes

The Illinois General Assembly enacted a change to the state income tax rate, effective July 1, 2017, that increases the rate applicable to AIC from 7.75% to 9.50%. AIC did not reflect any changes to the Formula Rate Revenue Requirement calculation as a result of the tax change. Since the first Formula Rate proceeding in Docket No. 12-0001, the Formula Rate schedules have been designed to apply the same state and federal income tax rates to both the filing year and reconciliation year calculations. Section 16-108.5(d)(1) of the Act, which authorizes use of a performance-based formula rate, states in pertinent part: "[t]he inputs to the performance-based formula rate for the applicable rate year shall be based on final historical data reflected in the utility's most recently filed annual FERC Form 1 plus projected plant additions and correspondingly updated depreciation reserve and expense for the calendar year in which the inputs are filed." 220 ILCS 5/16-108.5(d)(1). Since the most recently filed FERC Form 1, at the time of filing, was for the 2016 calendar year, the 7.75% state income tax rate in effect in 2016 is used for both the filing year and reconciliation year calculations. In next year's Formula Rate update filing, when AIC reconciles 2017 costs (and subsequent year reconciliations, to the extent applicable under the Act), the actual state income tax rate(s) in effect for the applicable calendar year will be used to reconcile actual costs, with any differences in actual costs, and costs included in rates for the reconciliation year, reflected in the reconciliation with interest adjustment.

B. Contested Issues

1. IIEC/CUB Proposed Independent Third-Party Audit of Ameren Services Company Costs

a) IIEC/CUB's Position

IIEC-CUB assert that the Commission has never had the benefit of an independent audit of total AMS service costs, or costs billed to AIC, arguing that such an audit could determine whether AMS reasonably manages its costs, and is able to provide services to AIC at just and reasonable prices. IIEC-CUB suggest that the audit would review the reasonableness of total AMS costs, and allow for a full and complete review of these costs and their allocations to AIC in future rate cases and formula rate filings. Accordingly, IIEC-CUB recommend that the Commission order AIC to perform an independent third-party audit of total AMS costs and the related allocations to AIC. IIEC-CUB note that the only Commission review of Ameren's AMS costs has been in the truncated formula rate proceedings that address all areas of revenue requirements in a period of 240 days.

IIEC-CUB note that AMS organizes the business and support services provided to AIC and other Ameren Corporation affiliates into functional areas including Ameren Services Center, Controllers, Corporate Communications, Corporate Planning & Environmental, Energy Delivery Technical, Executive, General Counsel, Human Resources, Information Technology ("IT"), Internal Audit, Supply Services & Safety, Tax, Transmission, and Treasurer. IIEC-CUB state that AMS charged total service company fees of $386.2 million to Ameren affiliates in 2016, of which $175.5 million, or 45.4% of the total charges, was allocated to AIC. IIEC-CUB note that in 2015, the total AMS cost was $364.4 million, of which $162.6 million was charged to AIC; again, approximately 45% of the total AMS charges. IIEC-CUB note that from 2015 to 2016 there was an increase in total AMS cost of $21.9 million (6%) and an increased AIC share of $12.9 million (8%).

IIEC-CUB note that total AMS costs have increased over 22% since 2012 — from $316 million to $386 million, a $71 million increase, and that AMS costs have increased every year since 2012, including in 2013 when Ameren Corporation sold its merchant generation businesses. IIEC-CUB state that these costs increased not only in the year after the sale, which, might be attributed to the need to recover fixed costs that were borne by the merchant company, but they also increased each and every year after that, as well. In 2012, the year prior to the sale, the merchant generation affiliate had been subject to $51 million in AMS charges, or over 16% of the total AMS charges in that year. IIEC-CUB posits that these charges to the merchant generation company were for services AMS employees provided to it, and given the size of those charges, the sale of that company should have reduced the need for a substantial number of AMS employees or services, resulting in a decrease in total AMS costs, however this has not occurred. IIEC-CUB aver that in order to maximize profits, Ameren Corporation has a financial incentive to ensure that AMS costs are passed along to its other subsidiaries, including its regulated subsidiaries - AIC, Union Electric Company, and Ameren Transmission Company of Illinois.

IIEC-CUB note that it is well recognized that the purpose of allowing a regulated utility to take services from an affiliated service company is to allow the utility to provide essential services to its customers in a least cost manner by allowing it to take advantage of economies of scale that the service company is supposed to provide, as opposed to utilizing a third-party provider or the utility itself to provide those services. IIEC-CUB believe however, that the constant, significant annual increases in both total AMS costs and costs charged to AIC raise substantial doubt that AMS is achieving its purpose as a service company in providing essential services to AIC customers in a least cost manner. IIEC-CUB state that the record in this case shows that no regulatory commission, including this Commission, has conducted an audit of total AMS "actual" costs underlying the charges for services provided to AIC and other affiliates, or whether the total cost of services provided to affiliates and AIC is prudent and reasonable.

AIC asserts that the General Services Agreement ("GSA") and other protocols are sufficient to ensure proper charges are being assessed by AMS to AIC. Ameren claims that it employs cost controls like AIC buyers' joint planning process, in which AIC buyers meet with AMS Business & Corporate Services providers to review certain AMS services, discuss costs, explore outsourcing opportunities, cost containment, and savings opportunities, service reduction opportunities and other matters. IIEC-CUB suggest that these procedures provide no assurance that AMS charges or costs are reasonable, and note that the record is devoid of any specific instance in which AIC seriously disputed any significant charge from AMS or refused to pay a charge.

IIEC-CUB state that there is a fundamental difference between overseeing the allocation of AMS costs that the GSA governs, and determining whether AMS costs are reasonable and prudent, and argue that an audit is critical because AMS costs are either directly assigned or allocated to AIC based on services provided to AIC and other affiliates. While AIC does undertake internal audits to determine whether the allocation and assignment of AMS costs to AIC are reasonable and consistent with the GSA, IIEC-CUB note that AIC does not conduct a formal audit itself of AMS total costs to ensure that AMS is effectively managing its costs, via budgeting and operating assessments, and is able to provide services based on effectively managed and reasonable costs.

In Docket No. 16-0287, the GSA approval Order, the Commission rejected IIEC-CUB's proposal for an independent third-party audit of AMS costs in part because it expected that the reporting requirement of new Appendix C would provide the means to determine if the service company charges are just and reasonable. Ameren Illinois Co., Docket No. 16-0287, Order at 25 (April 7, 2017). Mr. Gorman explained that this internal audit requirement does not provide the type of independent assessment that an independent audit would.

IIEC-CUB note that AMS service charges to client companies are based on recovery of all AMS costs, and are classified as either direct costs, which are applicable to one or more affiliates and are directly charged to the affiliates; or indirect costs, which are general overhead costs that are not applicable to a single affiliate or group of affiliates. IIEC-CUB avers that evidence of what AMS actual costs are, does not establish whether those costs are just and reasonable. Without a review of total AMS costs, it is not possible to ensure that the proportion of AMS costs charged to AIC are appropriate.

While AIC suggests that audits of AMS costs are conducted by FERC, IIEC-CUB note that the audits provided by AIC do not include an audit of total AMS costs, nor do they include an assessment of whether AMS costs are reasonable based on the services provided to client companies, including AIC. It appears to IIEC-CUB that AIC witness Russi agrees with the limitations of the FERC audits, stating that they do not distinguish between direct and direct allocated AMS charges, noting that AMS direct charges to other affiliates do not affect AIC.

While Ms. Russi offers that the newly approved GSA and internal audit requirements provide AIC customers sufficient protection in the manner of a report, IIEC-CUB disagrees, asserting that there are several reasons why the internal audit requirement and its report cannot accomplish the objective of providing the Commission with independent assessments of the reasonableness of AMS total costs, and a demonstration that AMS's prices for services provided are reasonable. Those include the following:

1. Ameren internal audits will be overseen by executives of Ameren. As such, these are not independent audits, but rather the audits are controlled by Ameren executives who have an economic interest in the outcome of the audit.

2. The requirement to conduct the audit specifically states that the internal audit will review charges billed by the Service Company pursuant to the agreement during the calendar year. As such, the audit does not require an independent audit of the reasonableness of AMS total costs. Rather, the audit is limited to ensuring that AMS bills to AIC are performed consistent with the GSA. The GSA does not control AMS or direct how it manages operating costs.

3. Allocation of AMS costs will not show that AMS total costs are reasonable. In order to ensure that costs paid by AIC retail customers are reasonable, there needs to be both a demonstration that AMS total costs are reasonable, as well as the allocations of total costs are reasonable. A review of allocations would include allocation of common costs and direct assignment of AIC direct charges.

IIEC-CUB assert that the audits under the GSA do not address the reasonableness or prudence of AMS costs to AIC, but instead address allocations, time reporting, GSA training, and an investigation of whether all charges under the GSA reflect AMS's actual costs. Verifying that AMS is charging all of its "actual" costs is not the same as a determination that actual costs are just and reasonable. IIEC-CUB note that the audit is being conducted by AMS for AMS, of the AMS activities as described, and cannot be considered an independent third-party audit of AMS costs being charged to AIC.

IIEC-CUB note that when the Commission declined to order an independent audit in the Order in Docket No. 16-0287 approving the GSA, it did so in part because it "intends that the reporting requirements of Appendix C will provide the means to determine whether the service company services are provided at rates that are just and reasonable." Ameren Illinois Company, Docket No. 16-0287, Order at 25 (April 7, 2017). IIEC-CUB suggest that the record in this docket demonstrates that neither the GSA, nor the protocols relied upon by AIC, in fact test the reasonableness of total AMS costs and their allocation to AIC.

IIEC-CUB assert that an independent review of these AMS total costs is necessary in order to ensure the Commission is in a position to protect the public interest from the affiliate transactions that constitute a significant portion of AIC's cost of service. It appears to IIEC-CUB that Ameren relies on the assumption that, because the Commission has not made an explicit finding that particular AMS costs are unreasonable or imprudent, they are conversely deemed prudent and reasonable. The purpose of the audit, however, is to provide the Commission with the opportunity to review the reasonableness of total AMS costs, which review has not previously been done. IIEC-CUB suggest that the fact that AMS costs have been recovered in AIC rates is more an indication of the lack of objection to those costs than it is to the depth and breadth of Commission review of those costs. IIEC-CUB aver that the material increases in AMS service costs to AIC in the last five years has not been fully explained or justified by AIC, and believe that these material increases in AMS allocated service costs demand more detailed and focused justifications for changes in the cost of service provided by AMS, and an explanation of the additional services provided to AIC by AMS over this time period.

IIEC-CUB note that part of the process by which AMS charges AIC is a reliance on service project requests, and while the number of service requests from AIC to AMS changes from year to year, it appears there is no clear disclosure on the number of service requests produced by AMS for all its client companies. IIEC-CUB believe that this information, along with the costs of such requests, would assist in showing that the allocation of service requests to AIC from AMS reflect reasonable rates for services.

IIEC-CUB believe that there are flaws in the allocation process, and suggest that there has also been a showing of disproportionate AMS costs being charged to other Ameren affiliates when compared to AIC. IIEC-CUB state that through direct charges, other affiliate companies do receive some AMS costs related to human resources, information technology and corporate communications, however in 2016, the other affiliate companies combined only receive 2% of all the AMS charges related to human resources and information technology; and only 6% of all the AMS charges related to corporate communications. IIEC-CUB note that little of the AMS costs associated with functions that are common to the operations of any business are being charged to any affiliate companies other than the regulated retail utilities.

IIEC-CUB note that in a comparison of allocated costs for AIC to those of Ameren Transmission Company of Illinois ("ATXI"), AIC is charged nearly $5.4 million for human resource services as compared to ATXI, which was only charged approximately $322,000. Additionally, ATXI was charged $1.7 million for IT services while AIC was charged almost $39 million. ATXI was also charged about $144,000 for corporation communication services while AIC was charged over $2.9 million.

IIEC-CUB state that in 2016, AIC used 33 allocation factors that applied to more than one affiliate company, however 17 of those allocation factors applied AMS costs to only the regulated retail utilities. IIEC-CUB argue that this in itself is dubious given the nature and extent of AMS services purportedly available to all Ameren affiliates, and highlights once more the financial incentives at stake.

IIEC-CUB propose a structure of an audit to review the prudence and reasonableness of AMS total cost for services provided to take a form similar to the following:

1. AMS total costs by functional area should be audited over the last five years.

2. The number of service requests from AIC to AMS, and other client companies that procure common services from AMS should be audited to determine the volume of services provided by AMS to affiliate companies. An assessment should also be made of how AMS costs are impacted by the volume of affiliate service requests.

3. AMS direct services charged to AIC should be audited and compared to the cost of similar services from non-affiliated providers.

4. AMS common service costs allocated to AIC should be compared to the cost of similar services provided by non-affiliated providers.

5. An assessment should be made of AMS's effectiveness in managing service costs. This should include a comparison of budgeted to actual AMS costs for services recognizing the volume of service requests from affiliate companies to AMS.

IIEC-CUB opine that the significance of the cost of the audit must be weighed against the magnitude of the increase in AMS costs to AIC since 2012, which amounts to a total of $64 million, or 57%, and it appears that with this substantial increase, the cost of an audit is worthwhile and justified. IIEC-CUB aver that the cost of the audit can be overseen by the Commission and administered by Staff, and the Commission has the authority to limit audit costs to an amount it finds to be reasonable. IIEC-CUB recommend the Commission require an independent third-party audit of AMS costs.

IIEC-CUB suggest that there is ample legal authority upon which the Commission may rely in ordering the audit, noting that Section 7-101(2)(ii) of the Act provides the Commission with ". . . jurisdiction over affiliated interests having transactions, . . . with electric and gas public utilities under the jurisdiction of the Commission, to the extent of access to all accounts and records of such affiliated interests relating to such transactions, including access to accounts and records of joint and general expenses with the electric or gas public utility any portion of which is related to such transactions. . . ." 220 ILCS 5/7-101(2)(ii).

IIEC-CUB state that the Commission is also able to require a third-party management audit or investigation of any public utility or any part thereof under Section 8-102 of the Act (220 ILCS 5/8-102), which provides that the Commission may conduct or order a management audit or investigation under two circumstances. First, when "... it has reasonable grounds to believe the audit or investigation is necessary to assure that the utility is providing adequate, efficient, reliable, safe and least-cost service and charging only just and reasonable rates therefor." Second, when ". . . the audit or investigation is likely to be cost-beneficial in enhancing the quality of service or the reasonableness of rates therefor."

In addition to the above statutory provisions, IIEC-CUB state that the Commission has broad general supervisory authority – and responsibility – under Section 4-101 of the

Act to inquire into the management of the utility. Pursuant to this provision, the Commission "shall inquire into the management of the business thereof and shall keep itself informed as to the manner and method in which the business is conducted." 220 ILCS 5/4-101.

IIEC-CUB assert that along with the substantial escalation in the AMS costs allocated and/or directly charged to AIC, and the failure to provide a clear description of the number and type of services provided by AMS, it appears that the current protocols and internal audits do not scrutinize or test the justness or reasonableness of total AMS charges or costs being passed along to AIC customers, therefore the Commission is justified in requiring a third-party audit.

IIEC-CUB argue that it is unclear from the record whether AIC is exercising due diligence to control unnecessary AMS costs from being passed along to its customers, nor does it appear that AIC has ever informed AMS that it was charging too much or that a particular cost would not be paid. IIEC-CUB also submit that there has been no showing that service company costs are routinely lower than what might be procured from outside service providers.

IIEC-CUB state that the Commission has a continuing obligation to ensure that AMS costs passed along to AIC customers are reasonable and prudent, however in the 20 years in which various iterations of the GSA have been in place, there has been no independent audit of AMS total costs or charges to AIC.

IIEC-CUB note that the Commission has previously ordered an audit of affiliate management service company costs in other utility rate cases, and thus an audit of the type and magnitude suggested by IIEC-CUB is not unprecedented. In Illinois-American Water Company's 2007 rate case, Docket No. 07-0507, the Commission addressed the propriety of IAWC management fees being passed along to IAWC customers by the utility's service company, much like that which is at issue here. IIEC-CUB note that the Commission ordered the utility to perform a study, including an analysis of the services provided by its Service Company to all of IAWC's affiliates.

In IAWC's 2009 rate case, Docket No. 09-0319, the Commission found, based on its review of the record, that IAWC had not justified the increase it requested for the Service Company fees, and that the studies IAWC submitted in compliance with the Commission's directive in Docket No. 07-0507 were inadequate. The Commission held, "[w]ith no basis for comparison of the lower of cost or market for these services, the Commission cannot adequately determine whether the increases in management fees proposed in this case by IAWC are just and reasonable." Illinois-American Water Co., Docket No. 09-0319, Order at 47, (April 13, 2010). IIEC-CUB note that the Commission then ordered the audit pursuant to Section 8-102 of the Act as follows;

> The Commission agrees that an independent audit is of benefit and necessary in evaluating whether the Service Company fees assessed to IAWC, are in fact provided on a lower of cost or market basis as we directed in the 07-0507

> Order. Therefore, pursuant to our authority under Section 8-102 of the Public Utilities Act, the Commission directs IAWC to engage outside consultants to perform a management audit of its Service Company fees to compare the cost of each service obtained from the Service Company to the costs of such services had they been obtained through competitive bidding on the open market.

Id. at 48.

IIEC-CUB state that the Commission then entered an Amendatory Order in Docket No. 09-0319, which directed Staff to conduct a management audit to evaluate whether the Service Company's fees assessed to IAWC are in fact provided on a lower of cost or market basis. If Staff was unable to perform the audit, the Commission directed Staff to select an independent firm to do so. Illinois-American Water Co., Docket No. 09-0319, Amendatory Order at 1-3 (May 5, 2010).

IIEC-CUB suggest that the 2009 IAWC rate case shows that the study by IAWC ordered by the Commission in 2007 proved to be inadequate. The Commission then required an independent third-party audit pursuant to Section 8-102 of the Act. Thus, IIEC-CUB argue that internal audits and monitoring activities – much like IAWC's study, have proven to be inadequate when independently testing for the reasonableness or prudence of AMS costs. IIEC-CUB therefore urge the Commission to order an independent audit of AIC's AMS costs.

IIEC-CUB suggest in their Reply Brief, that the purpose of the proposed audit is not necessarily to identify specific costs for the purpose of disallowance, rather the audit is needed to confirm that total AMS costs are reasonable, and the related allocation of those costs to AIC is reasonable. IIEC-CUB argue that the proposed audit will provide the Commission, and the customers who must pay for AMS services, with the confidence that AIC is doing everything possible to manage and control these costs, so that the AMS services are provided in a least cost manner and comparable to the cost for similar services had they been provided by an unaffiliated third party or by the utility itself.

IIEC-CUB assert that while the proposed audit may not ultimately result in a determination that any costs should be disallowed, it may well identify areas where AIC's procurement practices regarding necessary services could be improved, or its management and cost control practices could be enhanced, which would help hold down future costs. In the face of repeated significant increases and the other matters discussed herein, IIEC-CUB believe that ratepayers are entitled to know these answers, and, contrary to AIC's position, there is no legal authority that bars the Commission from seeking these answers.

IIEC-CUB also disagree with AIC that the scope of the proposed audit is unclear from the testimony, noting that Mr. Gorman proposed the scope of the audit set forth above.

IIEC-CUB differ with the position taken by Staff as well. IIEC-CUB aver that postponing the audit to await compulsory compliance with the requirements of the approved amended GSA will accomplish nothing more than what the current GSA reporting requirements provide. Furthermore, as AIC acknowledged in its brief, Ameren voluntarily provided the GSA reports, of 2016 AMS cost, in this proceeding. Staff and other interested parties have already had the opportunity to evaluate the GSA reports for AIC's 2016 costs. IIEC-CUB argue that this does not now, and will not in the future, provide an assessment of whether AIC is doing everything possible to manage and control AMS costs, or that those costs are being provided in a least cost manner and comparable to the cost for similar services had they been provided by an unaffiliated third party or by the utility itself, without relying on AMS.

b) Ameren's Position

Ameren notes that the only contested issue in this proceeding is one the Commission has already decided - whether it should order an independent audit of AMS costs. Ameren states that in Docket No. 16-0287, the Commission approved an amended GSA between AIC and AMS, and the Commission "note[d] IIEC/CUB's concern about the growth of AIC's AMS costs and [IIEC/CUB's] proposal for a third-party audit of AMS costs." Ameren Ill. Co., Docket No. 16-0287, Order at 25 (Apr. 7, 2017). Ameren states that the Commission concluded in Docket No. 16-0287 that the reporting requirements of the new GSA will provide the means to determine whether service company services are provided at rates that are prudent and reasonable, and the Commission therefore declined to order an independent audit at this time.

Ameren suggests that nothing has happened in the last six months to change that conclusion. Nevertheless, IIEC/CUB witness Gorman in this proceeding again has proposed that the Commission order AIC to perform an independent third-party audit of AMS costs. In support of his proposal, Mr. Gorman offered largely the same reasons that IIEC/CUB offered in support of their independent audit proposal in Docket No. 16-0287: concern regarding an increase in historical AMS costs, and belief that the statutory formula rate case timeframe is too short to enable the Commission to assess the prudence and reasonableness of AMS costs. Ameren urges the Commission to again reject IIEC/CUB's independent audit proposal, for various reasons.

AIC notes that it obtains many of the business and corporate services that it needs to operate and provide electric distribution, electric transmission, and gas distribution services to its customers from AMS, an Ameren-affiliated centralized services company organized under the Public Utilities Holding Company Act and regulated by the FERC. AMS charges AIC, and the other Ameren affiliates that obtain its services, AMS's actual costs to provide those services.

AIC states that pursuant to the GSA recently reapproved by the Commission as amended in Docket No. 16-0287, AIC is required to submit several annual reports to the Commission regarding AMS charges. In particular, beginning in 2018, AIC must provide the Commission a report summarizing monthly AMS charges to the Ameren affiliates during the preceding year. AIC must also provide a detailed report of every prior-year AMS charge by the service description (or service request project name and number); the AMS functional area (or department) that provided the service; the affiliate(s) charged; whether the charge was a direct or indirect charge and, if a direct allocated charge, the allocation factor used to allocate the charge among multiple affiliates; the FERC account the charge was recorded to; whether the charge represents AMS employee labor costs or non-labor costs, such as unaffiliated vendor costs; and whether the charge was attributable to AIC's gas distribution operations or its electric transmission and distribution operations. Additionally, AIC must provide, among other reports, a variance report that identifies and explains any material variance—10% or more and $1 million or more—in any AMS functional area cost charged to AIC over the previous year's cost.

This year, before the Commission issued its Order in Docket No. 16-0287, AIC states that it voluntarily provided these reports, for 2016 AMS costs. AIC also provided the reports to the parties in this proceeding, and AIC will begin compulsory compliance with the newly-amended GSA's extensive reporting requirements in 2018.

Using the AMS cost reports, AIC identified the drivers for the 2015 to 2016 increase in its AMS costs, noting that the increase was largely attributable to investments in 30 new or upgraded software assets needed to support AIC's operations and the attendant increased need for IT services. AIC states that it provided additional information in discovery regarding the drivers of the increase, including the software investments. AIC also suggests that it explained significant variances in the Administrative and General expenses recorded to its electric FERC Accounts 920-935, which include AMS charges, noting that the total AMS charges recorded to those accounts remained flat from 2015 to 2016.

AIC notes that no witness disputed any explanation that AIC provided for the increase in total AMS costs charged to AIC in 2016, nor has any party identified a 2016 AMS service to AIC as imprudent or a 2016 AMS charge to AIC as unreasonable. Accordingly, AIC states that there is no contested adjustment in this proceeding to disallow any of AIC's 2016 AMS costs.

Despite the lack of any adjustment, IIEC/CUB witness Gorman complained that an increase in total AMS costs charged to AIC from 2012 to 2016 is unreasonable, focusing specifically on an increase in total AMS costs charged to AIC after the 2013-2014 divestiture of Ameren's merchant generation business. AIC asserts that Mr. Gorman's complaint is meritless, noting that he ignores the Commission's order in AIC's 2016 formula rate update proceeding, which found that AIC's AMS costs were reasonable and prudent. *See* Docket No. 16-0262, Order at 17-18.

AIC states that while Mr. Gorman proposes no adjustment to AIC's 2016 AMS charges, and those costs are not in dispute, Mr. Gorman nevertheless proposes that the Commission order an independent audit of AMS costs. Mr. Gorman believes that, without his audit—and despite AIC's rate case proceedings—the Commission cannot ensure the prudence and reasonableness of AMS costs.

AIC suggests that one of the first problems with Mr. Gorman's proposed independent audit is that its scope is unclear. For example, while Mr. Gorman has consistently maintained that the audit should review historical AMS costs, his proposal has otherwise fluctuated from his direct testimony—where he focused on an audit comparing the cost of AMS services to the costs of unaffiliated provider services—to his rebuttal testimony—where he focused on a far broader audit of "total AMS costs" and general AMS management practices. AIC notes that Mr. Gorman leaves the "ultimate scope of the audit," as he terms it, to the Commission to work out.

AIC submits that regardless of the indefinite scope of Mr. Gorman's proposal, one thing is certain: his independent audit is unnecessary, unlawful, and would not be cost-beneficial to AIC's electric distribution customers who—Mr. Gorman concedes—would have to pay for it. The Commission, therefore, should reject Mr. Gorman's proposal.

AIC submits that an independent audit of AMS costs is unnecessary, given the extensive reporting requirements in the newly-amended GSA, noting that the amended GSA that the Commission approved in Docket No. 16-0287 is the result of a three-and-a-half-month, eight-workshop process and a year-long docketed proceeding, with AIC, Staff, and IIEC/CUB participating.

AIC states that under the newly-amended GSA, the Commission now requires AIC to annually submit AMS cost and cost allocation reports, as well as requiring AIC to annually submit an AMS Internal Audit report, which is an enhancement of the Internal Audit report of AMS's Service Request System, Service Request policies, operating procedures, and controls that AIC has provided the Commission, every year, since AIC's predecessors' 2006 rate cases. Specifically, AMS Internal Audit must now test, and report to the Commission, that: (i) internal controls are adequate to ensure costs associated with transactions under the GSA are properly and consistently allocated and billed; (ii) AMS employees' time reporting is properly charged to service request projects for allocation to AIC; (iii) allocation factors are correctly calculated; (iv) all costs charged under the GSA are determined in accordance with allocation factors; (v) all charges under the GSA reflect AMS's actual costs; and (vi) AMS employees are trained with respect to their responsibilities under the GSA at least biennially.

AIC believes that the newly-amended GSA's extensive reporting requirements and enhanced annual Internal Audit report render Mr. Gorman's proposed independent audit unnecessary and submits that in Docket No. 16-0287 the Commission reached the same conclusion.

AIC states that in Docket No. 16-0287, the Commission concluded that it expects that the new and enhanced reporting requirements in the amended GSA will facilitate the prudence and reasonableness assessment of AMS costs that already occurs in AIC's rate cases: "[t]he Commission intends that the reporting requirements of Appendix C [to the amended GSA] will provide the means to determine whether service company services are provided at rates that are prudent and reasonable." Docket No. 16-0287, Order at 25. The Commission, therefore, found an independent audit to undertake the same assessment unnecessary.

AIC avers that Mr. Gorman's audit proposal does not afford the newly-amended GSA an opportunity to operate. Although AIC voluntarily complied with the reporting requirements this year, it will not begin compulsory compliance with GSA Appendix C's reporting requirements until 2018. While Mr. Gorman attempted to cure his failure to acknowledge newly-amended GSA Appendix C's reporting requirements by asserting that those requirements are insufficient to ensure that AIC's AMS costs are prudent and reasonable, AIC argues that Mr. Gorman fails to acknowledge the Commission's Docket No. 16-0287 conclusion.

AIC further suggests that Mr. Gorman's proposal doesn't meet the legal criteria for an independent audit under Section 8-102 of the Act, which defines the Commission's authority to order an independent audit. AIC submits that Section 8-102 of the Act provides that the Commission may order an independent audit:

> only [i] when it has reasonable grounds to believe that the audit . . . is necessary to assure that the utility is providing adequate, efficient, reliable, safe, and least-cost service and charging only just and reasonable rates therefor, or [ii] that the audit . . . is likely to be cost-beneficial in enhancing the quality of service or the reasonableness of rates therefor.

220 ILCS 5/8-102. AIC avers that Mr. Gorman's independent audit proposal fails these statutory prerequisites.

AIC notes that in Docket No. 16-0262, the Commission found that AIC's 2015 AMS charges were prudent and reasonable, and that AIC's Administrative and General ("A&G") expenses, which include the AMS charges, were reasonable when compared to other utilities' expenses. Docket No. 16-0262, Order at 18. While the Commission at the same time acknowledged the increase in Ameren's A&G expenses, specifically AMS expenses, AIC notes that the Commission did not order an independent audit of AMS costs, but instead concluded that AIC's rate case proceedings provide an adequate opportunity to assess AIC's AMS costs.

In this proceeding, AIC submits that it has shown that the 2016 AMS charges recorded to its A&G accounts remained flat from 2015 to 2016, and notes that there is no proposed prudence and reasonableness adjustment to AIC's 2016 AMS costs, despite the ample AMS cost data provided in AIC's direct testimony, exhibits, and discovery.

Thus, AIC submits that Section 8-102's first prerequisite is not met: there are no "reasonable grounds" to believe that an independent audit is necessary to assure that AIC is providing adequate, efficient, reliable, safe, and least-cost service and charging only just and reasonable rates therefor, per Section 8-102 of the Act.

AIC opines that ratepayers must bear the cost of an independent audit, which would be recovered as an expense through normal ratemaking procedures. AIC submits that the Commission is required, therefore, to find that an independent audit is "likely to be cost-beneficial" to ratepayers before it orders the audit. AIC avers that Mr. Gorman could not say whether his audit proposal was likely to be cost-beneficial to AIC's electric distribution customers, and Mr. Gorman admitted that "[t]he benefit or cost to customers from such an audit cannot be determined at this time." IIEC/CUB Ex. 2.0 at 3. AIC states that Mr. Gorman also admitted that if the audit confirms that AMS charges to AIC are just and reasonable, then the audit cost will increase costs to retail customers. AIC suggests that such a speculative benefit is far short of what Section 8-102 of the Act requires.

AIC notes that under EIMA, AIC's formula rate "shall . . . [p]rovide for the recovery of the utility's actual costs of delivery services that are prudently incurred and reasonable in amount consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(1). EIMA further provides that "[t]he Commission's determinations of the prudence and reasonableness of [such] costs incurred for the applicable calendar year shall be final upon entry of the Commission's order and shall not be subject to reopening, reexamination, or collateral attack in any other Commission proceeding, case, docket, order, rule or regulation . . . ." 220 ILCS 5/16-108.5(d).

AIC believes that Mr. Gorman's independent audit proposal ignores these EIMA mandates, noting the Mr. Gorman's proposed audit would review historical AMS costs over a five-year period. Mr. Gorman testified that "if the audit uncovers costs charged to AIC from AMS that the Commission finds to be unreasonable or imprudent, . . . the reduction in AMS charges to AIC that are included in retail cost of service may offset the cost of the audit." IIEC/CUB Ex. 2.0 at 10.

Yet, insofar as historical AMS costs have been included in AIC's historical formula rate revenue requirements, AIC suggests that they have already been approved by the Commission as prudent and reasonable, and per the EIMA, they are not subject to reexamination or attack in another Commission proceeding, including an audit proceeding, pursuant to Section 16-108.5(d) of the Act. AIC argues that the Commission cannot lawfully find historical AMS costs, which it once found prudent and reasonable, imprudent or unreasonable in a later, separate audit proceeding.

Likewise, AIC believes that future AMS costs included in future formula rate revenue requirements—which are actually incurred and shown to be prudent and reasonable—cannot lawfully be reduced by a hypothetical level of historical AMS costs that, again, the Commission once found to be prudent and reasonable, but later—in violation of EIMA—found to be imprudent and unreasonable. 220 ILCS 5/16-108.5(c)(1).

AIC states that Section 7-101 of the Act establishes the Commission's jurisdiction over AIC's transactions with affiliated interests, and that jurisdiction is limited to transactions that affect AIC: "The Commission shall not have access to any accounts and records of, or require any reports from, an affiliated interest that are not related to a transaction . . . with the electric or gas public utility." 220 ILCS 5/7-101(2)(ii).

AIC submits that Mr. Gorman's proposed independent audit ignores Section 7-101's jurisdictional limits, noting that it would review AMS costs that do not affect AIC. AIC states that Mr. Gorman emphasized that his audit would review total AMS costs, and Mr. Gorman defined "total AMS costs" as "'the total costs AMS incurs to provide services to all client companies, and other affiliate companies, including AIC.'" Ameren Ex. 14.0 at 2.

As explained, however, "total AMS costs" include AMS costs that are direct charged to affiliates other than AIC, for services that do not affect AIC. Those costs, therefore, are not related to AIC. In 2016, for example, "total AMS costs" included approximately $39 million in direct charges to Ameren Missouri, which reflect transactions between AMS and Ameren Missouri that are not related to AIC. Yet, Mr. Gorman's proposed audit, in reviewing "total AMS costs"—a review that he insists is necessary—would review those transactions.

AIC argues that Mr. Gorman's proposed independent audit would increase costs to Illinois customers, without a corresponding benefit, and that the cost of Mr. Gorman's proposed audit would be substantial. AIC asserts that Mr. Gorman's testimony and Commission precedent suggest that the cost of the audit that Mr. Gorman proposes would be substantial. AIC notes that Mr. Gorman admits that the period of his independent audit would be lengthy—at least longer than the statutory nine-month period of this formula rate case, since Mr. Gorman contends that period is too short to assess the prudence and reasonableness of AMS costs.

AIC states that the Commission has routinely approved full recovery of independent audit costs in rates, including incremental audit costs, and notes that when the utility incurs audit costs beyond the cost of the independent auditor, like outside consultant and counsel fees, printing costs, and affiliate expenses, those costs are also recoverable by the utility. Given this Commission precedent, and Mr. Gorman's testimony regarding the duration and complexity of his proposed independent audit, AIC is concerned that the cost of an audit of AMS costs would be substantial.

AIC does not believe that the substantial cost of the audit would result in a corresponding benefit to AIC's customers, believing that the audit would constitute nothing more than a duplicative layer of AMS cost review, especially in light of the extensive AMS cost reporting requirements that the Commission has imposed on AIC via the newly-amended GSA.

AIC asserts in its Reply Brief that the Commission has successfully reviewed AIC's AMS charges in every EIMA rate case to date, noting that the information to enable that review was available and even expanded for this proceeding. AIC avers that the parties with the necessary expertise to undertake the review were present in this docket, and suggest that the statutory process affords those parties and the Commission ample time to perform that review, as the Legislature has deemed.

AIC argues that because IIEC/CUB did not fully utilize the information available in this case, the discovery process, or the rate case period is not a reason to order an independent audit, or to impose the cost of an independent audit proceeding on AIC's customers. AIC believes that this docket (and AIC's future formula rate cases) provide the appropriate vehicle to review AMS charges, and suggest that another layer of review is wholly unnecessary.

In its Reply Brief, AIC also opines that IIEC-CUB are incorrect in arguing that the circumstances which caused the Commission to order an audit of IAWC in Docket No. 07-0507 are at all similar to the facts in this proceeding. AIC asserts that IIEC-CUB's description of the IAWC audit is misleading, and overlooks the context of, and the impetus for, the IAWC audit.

AIC states that in IAWC's 2007 rate case, the Commission expressly "question[ed] whether IAWC [was] doing everything possible to ensure low costs for ratepayers . . . ." Illinois-American Water Co., Docket No. 07-0507, Order at 30 (July 30, 2008). Therefore, the Commission directed the utility to include a services company cost study in its next rate case filing. *Id.* at 30-31.

AIC notes that in IAWC's next rate case, Docket No. 09-0319, the Commission found that the utility had not complied with its directive. Illinois-American Water Co., Docket No. 09-0319, Order at 47 (Apr. 13, 2010). The Commission further found that the record lacked justification for the 22.5% increase in IAWC's service company expenses. *Id.* Thus, the Commission concluded, it could not find IAWC's requested cost increase just or reasonable, and the Commission adopted an adjustment proposed by the AG and intervening municipalities, capping the increase at 5% and disallowing the remainder of IAWC's test year service company expenses as unreasonable and imprudent. AIC notes that the Commission also ordered, under Section 8-102 of the Act, Staff, or at Staff's direction an independent party, to conduct the service company cost study that the Commission had directed IAWC to conduct in Docket No. 07-0507. Illinois-American Water Co., Docket No. 09-0319, Amendatory Order at 1 (May 5, 2010).

AIC notes that none of that has happened here. The Commission has not disallowed AIC's AMS charges as imprudent or unreasonable. Moreover, the Commission found that the benchmarking study that AIC provided in Docket No. 16-0262 further supported the reasonableness of AIC's AMS charges.

AIC notes that Mr. Gorman did not identify a single 2016 AMS service that is imprudent, a single 2016 AMS cost that is unreasonable, or a single 2015 to 2016 AMS cost variance that is unjustified. AIC suggests that there are no facts or valid arguments presented by the evidence that would warrant AIC, Staff or any other parties expending the time and resources demanded by a lengthy and complex independent audit.

c) Staff's Position

Staff notes that previously, IIEC proposed a third-party audit of AMS charges in Docket No. 16-0287, a proceeding in which the Commission approved a new affiliate services agreement for Ameren. In that proceeding, Staff recommended that the Commission reject the proposal for a third-party audit, and suggested that the third-party audit would duplicate the validation efforts that are already provided for in the Illinois Provisions of the proposed GSA. Staff stated that this specifically references the compliance testing in the internal audit provision.

Ameren notes in this proceeding that it will not begin compulsory compliance with the requirements of the approved amended GSA until March and April 2018. Staff asserts that Mr. Gorman's proposal for a third-party audit does not afford the amended GSA an opportunity to operate, therefore Staff believes that for the Commission to order a third-party audit prior to evaluation of Ameren's compliance with the amended GSA would be premature.

Staff recommends that the Commission reject IIEC/CUB's proposal for a third-party audit of AMS and defer consideration of a third-party audit until (1) compulsory compliance with the amended GSA has begun, and (2) Staff and other interested parties have had the opportunity to evaluate and respond to the reports required under the amended GSA.

d) Commission Analysis and Conclusion

In Docket No.16-0262, the Commission noted that in future rate case proceedings, it would continue to closely examine AIC's A&G Expenses, which include AMS charges. In this proceeding, as in that docket and AIC's other electric formula rate update proceedings, AIC suggests it has explained any significant variances from 2015 to 2016 in the expenses recorded to its electric distribution A&G expenses accounts (FERC Accounts 920-935).

The Commission further notes that, as in AIC's past electric formula rate update proceedings, AIC explained in direct testimony in this proceeding how it evaluates, processes, and controls AMS services and their costs, and how the costs for AMS services are charged to AIC under the General Services Agreement between AIC and AMS. The Commission notes that it recently re-approved the GSA, as amended, on April 7, 2017 in Docket No. 16-0287. The Commission's order in that docket requires AIC to, beginning in 2018, annually submit to the Commission extensive AMS cost data reports. Those reports include a detailed report of every prior year AMS service and AMS charge as well as an explanation of any material variances in AMS functional area charges to AIC over the prior year's functional area charges. The Commission notes that AIC voluntarily submitted the extensive AMS cost data reports for 2016 AMS services and charges as a compliance filing in Docket No. 16-0287, and AIC provided that AMS cost data in direct testimony and discovery to the parties in this proceeding.

The Commission notes that in this proceeding, there is no proposed adjustment to AIC's 2016 AMS charges, with the exception of an agreed to adjustment proposed by Staff. The Commission notes that although there is no contested adjustment in this proceeding to AIC's 2016 AMS charges, IIEC/CUB propose that the Commission order an independent third-party audit of total AMS costs over a historical five-year period. IIEC/CUB argue, namely, that the increase in AMS charges to AIC from 2012 to 2016, the truncated statutory period of AIC's formula rate update proceedings, and the need to review total AMS costs support their independent audit proposal.

In addressing IIEC/CUB's audit proposal, the Commission finds that it must start with Section 8-102 of the Act, which defines the Commission's authority to order an independent audit of a utility's services company costs. Section 8-102 provides that the Commission may order such an audit:

> only when it has reasonable grounds to believe that the audit . . . is necessary to assure that the utility is providing adequate, efficient, reliable, safe, and least-cost service and charging only just and reasonable rates therefor, or [ii] that the audit . . . is likely to be cost-beneficial in enhancing the quality of service or the reasonableness of rates therefor.

220 ILCS 5/8-102.

The Commission acknowledges that it may not exercise its Section 8-102 authority lightly; Section 8-102 also provides that "[t]he cost of an independent audit shall be borne initially by the utility, *but shall be recovered as an expense through normal ratemaking procedures*." *Id.* (emphasis added).

The Commission has determined in AIC's past electric formula rate update proceedings, based on the record evidence in those proceedings, that AIC's 2012 to 2015 AMS charges, including year-over-year increases in those charges, are just and reasonable. As explained, the prudence and reasonableness of AIC's 2016 AMS charges in this proceeding are not in dispute. The Commission reminds the parties that, per the EIMA, "[t]he Commission's determinations of the prudence and reasonableness of the costs incurred for the applicable calendar year shall be final upon entry of the Commission's order and shall not be subject to reopening, reexamination, or collateral attack in any other Commission proceeding." 220 ILCS 5/16-108.5(d)(3). The Commission further reminds the parties that the discovery process is available to them in AIC's annual electric formula rate update proceedings, and, if they dispute a cost of service, the EIMA requires that "each objection shall be stated with particularity and evidence provided in support thereof." *Id.* The Commission rejects IIEC/CUB's suggestion that if the rate case parties do not particularly object to a cost of service, then the Commission has not reviewed the cost or determined that it is prudent and reasonable, as inconsistent with the law.

The Commission notes that the Illinois Legislature has determined in the EIMA that AIC's annual electric formula rate update proceedings continue to provide the appropriate opportunity for the Commission and the parties to review the prudence and reasonableness of all of AIC's costs of service, including AMS charges. 220 ILCS 5/16-108.5(d)(3). The Commission believes that those proceedings have to date provided the parties an appropriate avenue of review.

The Commission also recognizes that in Docket No. 16-0287, it found that the extensive AMS cost data reports and enhanced internal audit of AMS processes that AIC is required to annually submit per the re-approved, amended GSA "will provide the means to determine whether service company services are provided at rates that are prudent and reasonable." Docket No. 16-0287, Order at 25 (Apr. 7, 2017).

The Commission does not believe that it is necessary, at this time, to order the independent audit as proposed by IIEC-CUB. The Commission notes that the audit ordered in Docket No. 16-0287 has not as yet occurred, and the Commission believes that it would be premature at this time to adopt IIEC-CUB's independent audit proposal in this docket without the opportunity to judge the results of the audit adopted in Docket No. 16-0287. The Commission will therefore not adopt IIEC-CUB's independent audit proposal, at this time.

Because the Commission is not adopting IIEC/CUB's proposed independent audit, the Commission does not believe it is necessary to make any findings pursuant to Section 8-102 of the Act in regards to such an audit. Should this issue be before the Commission in a future proceeding, the Commission will make any necessary findings under Section 8-102 of the Act at that time.

The Commission also finds that it is not necessary at this time to adopt any finding regarding IIEC/CUB's argument that it must review total AMS costs to ensure the prudence and reasonableness of AIC's AMS charges. The Commission notes that AIC argues that to adopt IIEC-CUB's argument would be inconsistent with Section 7-101(2)(ii) of the Act, which provides that "[t]he Commission shall not have access to any accounts and records of, or require any reports from, an affiliated interest that are not related to a transaction . . . with the electric or gas public utility."

The Commission notes that the level of A&G expenses charged to AIC has been a contested issue in several previous dockets, and the Commission has previously indicated that it will continue to observe the level of A&G expenses closely in future dockets. The Commission believes that the audit process adopted in Docket No. 16-0287 will aid the Commission in its review of those expenses, however the Commission will certainly entertain a discussion in future dockets of a more rigorous process should the audit ordered in Docket No. 16-0287 be found to be wanting.

The Commission does note that in Docket No. 16-0287, IIEC/CUB proposed that the Commission order an independent audit of AMS charges, as it did in this proceeding, arguing that historical increases in AMS charges and the truncated statutory period of AIC's formula rate update proceedings supported their independent audit proposal. The Commission notes that it rejected IIEC/CUB's independent audit proposal and the arguments supporting that proposal in its Docket No. 16-0287 order, which IIEC/CUB did not appeal.

IX. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the record herein, is of the opinion and finds that:

(1) Ameren Illinois Company d/b/a Ameren Illinois is a corporation engaged in the distribution of electricity and natural gas to the public in the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq.;

(2) the Commission has jurisdiction over Ameren Illinois and of the subject matter of this proceeding;

(3) the recitals of fact and conclusions of law reached in the Commission conclusions of this Order are supported by the evidence of record, and are hereby adopted as findings of fact and conclusions of law; the Appendices attached hereto provide supporting calculations for the approved rates;

(4) AIC's proposed update to its Rate MAP-P should be approved, subject to the conclusions contained herein;

(5) the rates herein found to be consistent with Public Acts 97-0616, 97-0646, and 98-0015 are based on AIC's FERC Form 1 for 2016;

(6) for purposes of this proceeding, the net original cost rate base for AIC's electric delivery service operations is $2,608,938,000 for the 2016 reconciliation year and $2,738,545,000 for the 2017 filing year;

(7) the rate of return that AIC should be allowed to earn on its net original cost rate base is 7.040% for the 2016 reconciliation year; this rate of return incorporates a return on common equity of 8.399%;

(8) the rate of return that AIC should be allowed to earn on its net original cost rate base is 7.040% for the 2017 filing year; this rate of return incorporates a return on common equity of 8.399%;

(9) the rates of return set forth in Findings (7) and (8) result in base rate electric delivery service operating revenues of $998,448,000 (reflecting the reconciliation and ROE Collar adjustments) and net annual operating income of $192,784,000, as shown on Appendix A;

(10) AIC's electric delivery service rates which are presently in effect are insufficient to generate the operating income necessary to permit AIC the opportunity to earn a fair and reasonable return on net original cost rate base consistent with Public Acts 97-0616, 97-0646, and 98-0015; these rates should be permanently canceled and annulled;

(11) the specific rates proposed by AIC in its initial filing do not reflect various determinations made in this Order regarding revenue requirement;

(12) AIC should be authorized to place into effect amended Rate MAP-P Informational Sheets, consistent with the findings of this Order;

(13) AIC should be authorized to place into effect the Rate MAP-P tariff informational sheets designed to produce annual base rate electric delivery service revenues of $998,448,000, which represents a decrease of

$17,339,000 or (1.71%); such revenues, in addition to other tariffed revenues, will provide AIC with an opportunity to earn the rates of return set forth in Findings (7) and (8) above; based on the record in this proceeding, this return is consistent with Public Acts 97-0616, 97-0646, and 98-0015;

(14) the new charges authorized by this Order shall take effect beginning on the first billing day of the January billing period following the date of the Final Order in this proceeding; the tariff sheets with the new charges, however, shall be filed no later than December 15, 2017, with the tariff sheets to be corrected thereafter, if necessary;

(15) the Commission, based on AIC's proposed original cost of plant in service as of December 31, 2016, before adjustments, of $6,582,534,000 and reflecting the Commission's determination adjusting that figure, unconditionally approves $6,582,534,000 as the composite original jurisdictional distribution services plant in service as of December 31, 2016;

(16) the Commission has considered the costs expended by AIC during 2016 to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense in the revenue requirements of $1,254,203 is just and reasonable pursuant to Section 9-229 of the Act. This amount includes the following costs: (1) $624 associated with Docket No. 15-0305; (2) $1,252,241 associated with Docket No. 16-0262; and (3) $1,338 associated with Docket No. 17-0197; and

(17) all motions, petitions, objections, and other matters in this proceeding which remain unresolved should be disposed of consistent with the conclusions herein.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets at issue and presently in effect for electric delivery service rendered by Ameren Illinois Company d/b/a Ameren Illinois are hereby permanently canceled and annulled effective at such time as the new electric delivery service tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that Ameren Illinois Company d/b/a Ameren Illinois is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (12) and (13) of this Order, applicable to electric delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Ameren Illinois Company d/b/a Ameren Illinois shall update its formula rate in accordance with this Order.

IT IS FURTHER ORDERED that all motions, petitions, objections, and other matters in this proceeding which remain unresolved are disposed of consistent with the conclusions herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 6th day of December, 2017.

(SIGNED) BRIEN SHEAHAN

Chairman

Docket No. 17-0197
Appendix A
Summary

Ameren Illinois Company

Revenue Requirement Summary
For the Test Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Granted in Prior Case (16-0262)		Company Proposed Changes (e) - (b)		Company Proposed Changes (c) / (b)	Company Proposal FR A-1		Adjustments (h) - (e)	Adjustments (f) / (e)	Net Revenue Requirement Per Staff	
	(a)	(b)		(c)		(d)	(e)		(f)	(g)	(h)	
1	Base Revenue Requirement - Filing Year	$ 944,155	(1)	$ 29,260			$ 973,415	(2)	$ (639)		$ 972,776	(8)
2	Reconciliation Adjustment with Interest	71,632	(1)	(45,598)			26,034	(3)	(362)		25,672	(9)
3	ROE Collar Adjustment	-	(1)	-			-	(4)	-		-	(10)
4	Total Net Revenue Requirement	$ 1,015,787	(1) & (6)	$ (16,338)	(7)	-1.61%	$ 999,449	(5)	$ (1,001)	-0.10%	$ 998,448	(11)
5	Total $ Change - Total Net Revenue Requirement										$ (17,339)	(12)
6	Total % Change - Total Net Revenue Requirement										-1.71%	(13)

Notes
(1) Commission Order in Docket No. 16-0262, Appendix A, Summary, Column (h)
(2) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 22 + line 26
(3) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 28
(4) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 29
(5) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 30
(6) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 31
(7) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 32
(8) Appendix A, Schedule 1, line 1
(9) Appendix A, Schedule 1, line 3
(10) Appendix A, Schedule 1, line 4
(11) Appendix A, Schedule 1, line 5
(12) Column (h) line 4 minus Column (b) line 4
(13) Line 5 divided by Column (b), line 4.

Docket No. 17-0197
Appendix A
Schedule 1

Ameren Illinois Company
Statement of Operating Income with Adjustments
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Company Pro Forma Jurisdictional Operating Income (Ameren Ex. 13.1, p 2)	Adjustments	Pro Forma Present (Cols. b+c)	Effect of Proposed Rates Per Company (Ameren Ex. 13.1, p 2)	Gross Revenue Conversion Factor	Proposed Rates With Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Operating Statement Per Order (Cols. g+h)	Net Revenue Requirement Per Order
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Base Revenue Requirement - Filing Year	$ 943,980	-	$ 943,980	$ 28,796	$ 2	$ 972,778	$ (2)	$ 972,776	$ 972,776
2	Other Revenues	32,888	-	32,888	-	-	32,888	-	32,888	
3	Reconciliation Adjustment	-	-	-	-	-	-	-	-	25,672
4	Return on Equity Collar Adjustment	-	-	-	-	-	-	-	-	-
5	Total	976,868	-	976,868	28,796	2	1,005,666	(2)	1,005,664	$ 998,448
6	Uncollectibles Expense	9,084	-	9,084	241	$ -	9,325	-	9,325	
7	Distribution	267,200	-	267,200	-	-	267,200	-	267,200	
8	Customer Accounts	41,317	-	41,317	-	-	41,317	-	41,317	
9	Customer Services and Informational Services	6,834	-	6,834	-	-	6,834	-	6,834	
10	Sales	-	-	-	-	-	-	-	-	
11	Administrative and General	123,895	-	123,895	-	-	123,895	-	123,895	
12	Depreciation and Amortization	241,047	-	241,047	-	-	241,047	-	241,047	
13	Taxes Other Than Income	53,151	-	53,151	-	-	53,151	-	53,151	
14	Regulatory Asset Amortization	2,712	-	2,712	-	-	2,712	-	2,712	
15	Pension Asset Funding Cost	-	-	-	-	-	-	-	-	
16	Other Expense Adjs	(9,116)	-	(9,116)	-	-	(9,116)	-	(9,116)	
17	Total Operating Expense									
18	Before Income Taxes	736,124	-	736,124	241	-	736,365	-	736,365	
19	State Income Tax	(7,081)	-	(7,081)	2,213	-	(4,868)	-	(4,868)	
20	Federal Income Tax	(29,501)	-	(29,501)	9,220	-	(20,281)	(1)	(20,282)	
21	Deferred Taxes and ITCs Net	101,665	-	101,665	-	-	101,665	-	101,665	
22	Total Operating Expenses	801,207	-	801,207	11,674	-	812,881	(1)	812,880	
23	NET OPERATING INCOME	$ 175,661	-	$ 175,661	$ 17,122	$ 2	$ 192,785	$ (1)	$ 192,784	192,784
24	Rate Base (Apendix A, Schedule 2, column (d), line 24)								$ 2,738,545	
26	Overall Rate of Return								7.040%	

Docket No. 17-0197
Appendix A
Schedule 2

Ameren Illinois Company
Rate Base
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Company Pro Forma Jurisdictional Rate Base (Ameren Ex. 13.1, pp. 7-8)	Adjustments	Rate Base per Order (Col. b+c)
	(a)	(b)	(c)	(d)
1	Distribution Plant	$ 6,246,643	$ -	$ 6,246,643
2	G & I Plant	554,113	-	554,113
3	Accumulated Depreciation on Distribution Plant	(2,925,960)	-	(2,925,960)
4	Accumulated Depreciation on G & I Plant	(199,466)	-	(199,466)
5	Net Plant	3,675,330	-	3,675,330
6	Additions to Rate Base			
7	Materials and Supplies	37,802	-	37,802
8	Construction Work in Progress	1,068	-	1,068
9	Plant Held for Future Use	411	-	411
10	OPEB Liability	3,547	-	3,547
11	Cash Working Capital	15,933	-	15,933
12	Deferred Charges Greater Than $3.7M	15,279	-	15,279
13	Other Deductions From Rate Base	-	-	-
14	Accumulated Deferred Income Taxes	(947,416)	-	(947,416)
15	Accrued Vacation Reserve	-	-	-
16		-	-	-
17		-	-	-
18	Accumulated Misc. Operating Provisions		-	-
19	Asset Retirement Obligation	-	-	-
20	Other Deferred Credits	(15,880)	-	(15,880)
21	Customer Advances	(14,935)	-	(14,935)
22	Customer Deposits	(32,594)	-	(32,594)
23		-	-	-
24	Rate Base	$ 2,738,545	$ -	$ 2,738,545

Docket No. 17-0197
Appendix A
Schedule 3

Ameren Illinois Company
Gross Revenue Conversion Factor
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Rate	With Bad Debts	Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.8450%	0.008450	
3	State Taxable Income		0.991550	
4	State Income Tax	7.7500%	0.076845	0.077500
5	Federal Taxable Income		0.914705	0.922500
6	Federal Income Tax	35.0000%	0.320147	0.322875
7	Operating Income		0.594558	0.599625
8	Gross Revenue Conversion Factor (Line 1 / Line 7)		1.681922	1.667709

Docket No. 17-0197
Appendix A
Schedule 4

Ameren Illinois Company
Reconciliation Computation for the Year Ending December 31, 2016
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Source	Amt				
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Actual Revenue Requirement	Appendix B, Schedule 1, col. (i), line 1	$ 942,829				
2	Revenue Requirement in effect during Reconciliation Year	Ameren Ex. 1.1, p.6 [Sch FR A-4]	920,521 (1')				
3	Variance - Reconciliation Before Collar	(Ln 1) - (Ln 2)	22,308				
4	ROE Collar Adjustment	Appendix A, Schedule 5, Col (b), Ln 43	-				
5	Variance with Collar	(Ln 3) + (Ln 4)	$ 22,308				
6	Monthly Interest Rate	Staff Ex. 3.0, Wtd. Cost of Debt/12	0.5866%				
			Variance	Interest Rate	Months	Interest	Surcharge (Refund)
			(Ln 5) / 12	Ln 6		(c) * (d * (e)	(c) + (f)
	2015						
7	January		$ 1,859	0.5866%	11.5	$ 125	$ 1,984
8	February		1,859	0.5866%	10.5	115	1,974
9	March		1,859	0.5866%	9.5	104	1,963
10	April		1,859	0.5866%	8.5	93	1,952
11	May		1,859	0.5866%	7.5	82	1,941
12	June		1,859	0.5866%	6.5	71	1,930
13	July		1,859	0.5866%	5.5	60	1,919
14	August		1,859	0.5866%	4.5	49	1,908
15	September		1,859	0.5866%	3.5	38	1,897
16	October		1,859	0.5866%	2.5	27	1,886
17	November		1,859	0.5866%	1.5	16	1,875
18	December		1,859	0.5866%	0.5	5	1,864
19	Total	Sum of (Ln 7) thru (Ln 18)	$ 22,308			$ 785	$ 23,093
			Balance	Interest Rate	Mons	Interest	Balance
				Ln 6		(c) * (d * (e)	(c) + (f)
	2016						
20	January - December	Col G Ln 19	$ 23,093	0.5866%	12	$ 1,626	$ 24,719
			Balance	Interest Rate		Amort	Balance
				Ln 6		(2')	(c) + (c) * (d) - (f)
	2017						
21	Jan	Col G Ln 20	$ 24,719	0.5866%		$ 2,139	$ 22,725
22	Feb	Col G Ln 21	22,725	0.5866%		2,139	20,719
23	Mar	Col G Ln 22	20,719	0.5866%		2,139	18,701
24	Apr	Col G Ln 23	18,701	0.5866%		2,139	16,671
25	May	Col G Ln 24	16,671	0.5866%		2,139	14,630
26	Jun	Col G Ln 25	14,630	0.5866%		2,139	12,576
27	Jul	Col G Ln 26	12,576	0.5866%		2,139	10,511
28	Aug	Col G Ln 27	10,511	0.5866%		2,139	8,433
29	Sep	Col G Ln 28	8,433	0.5866%		2,139	6,343
30	Oct	Col G Ln 29	6,343	0.5866%		2,139	4,241
31	Nov	Col G Ln 30	4,241	0.5866%		2,139	2,127
32	Dec	Col G Ln 31	2,127	0.5866%		2,139	0
33	Variance with Interest	Sum of (Ln 21) thru (Ln 32)				$ 25,674	
34	Remove ROE Collar Adjustment (3')	Ln 4				$ -	
35	Reconciliation with Interest	(Ln 33) - (Ln 34)				$ 25,672	To Sch. 4.01 FY, col. (j), line 3

Notes:

(1') Calculated in accordance with Section 16-108.5 (d)(1) of the Act. Reconciliation for 2016 will reflect the amount shown on Sch. FR A-4 Ln 2 of the calculation used to determine revenue requirement in effect during the reconciliation year.

(2') (-1.0) * (PMT((Ln 21 Col (d)),12,(Ln 20, Col (g)))

(3') Remove ROE Collar Adjustment from calculation as this amount is included on Appendix A, Schedule 1, Col (j), Ln 4.

Docket No. 17-0197
Appendix A
Schedule 5

Ameren Illinois Company
ROE Collar Computation for the Year Ending December 31, 2016
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description (a)		Amount (b)	Column (b) Source (c)
1	DS Rate Base	$	2,688,938	Appendix B, Schedule 2, Column (d), Line 24
	Capital Structure:			
2	Common Equity %		50.00%	AIC Schedule WPC-5.4, Line 4
3	Preferred Stock%		1.16%	AIC Schedule WPC-5.4, Line 3
4	Short-Term Debt %		0.00%	AIC Schedule WPC-5.4, Line 2
5	Long-Term Debt %		48.82%	AIC Schedule WPC-5.4, Line 1
6	DS Equity Balance		1,304,469	Ln 1 x Ln 2
7	DS Preferred Stock Balance		30,785	Ln 1 x Ln 3
8	DS Short-Term Debt Balance		-	Ln 1 x Ln 4
9	DS Long-Term Debt Balance		1,273,684	Ln 1 x Ln 5
10	Cost of Short-Term Debt (%)		0.00%	
11	Cost of Long-Term Debt (%)		5.62%	
12	Cost of Preferred Stock		4.98%	
13	DS Operating Revenue	$	950,637	FERC Form 1, p. 300, line 12 and Note (1')
14	[blank]			
15	Accrued Reconciliation and Collar Revenues Included on Line 13	$	24,205	FERC Form 1, p. 300, line 12 and Note (1')
16	Updated Reconciliation Amount before Collar	$	22,308	Appendix A, Schedule 4, line 3
17	Other Revenue	$	32,888	Appendix A, Schedule 1 Column (i) line 2
18	DS Applicable Operating Revenue	$	981,628	Ln 13 - Ln 15 + Ln 16 + Ln 17
19	Total DS Operating Expenses	$	719,227	Appendix B, Schedule 1, Column (i), line 18
20	DS Operating Income Before Interest & Taxes	$	262,401	Ln 18 - Ln 19
21	DS Short-Term Interest Expense	$	-	Ln 6 x Ln 10
22	DS Long-Term Interest Expense	$	71,568	Ln 9 x Ln 11
23	Credit Facilities Expense	$	997	Line 1 times 0.038% Credit Facility Fees
24	DS Operating Income before Taxes	$	189,836	Ln 20 - Ln 21 - Ln 22 - Ln 23
25	Income Tax Rate (%)		48.038%	Appendix B, Schedule 3, Column (d), Ln 4 + Ln 6
26	DS Income Taxes	$	76,006	Ln 24 x Ln 25
27	Impact of ITCs & Permanent Tax Differences	$	(1,349)	Company Sch FR C-4, Ln 12
28	DS Income Taxes	$	74,657	Ln 26 + Ln 27
29	DS Net Income before Dividend	$	115,180	Ln 24 - Ln 28
30	DS Preferred Stock Dividend	$	1,533	Ln 7 x Ln 12
31	DS Net Income	$	113,647	Ln 29 - Ln 30
32	DS ROE (%)		8.71%	Ln 31 / Ln 6
33	ROE Collar			
34	Allowed ROE (%)		8.40%	Company Sch FR D-1, Col. (D), Ln 17
35	Maximum Allowed ROE (%)		8.90%	Ln 34 + .5%
36	Minimum Allowed ROE (%)		7.90%	Ln 34 - .5%
37	Percent Above Maximum Allowed ROE (%)		0.00%	
38	Amount Above Allowed ROE Collar	$	-	Ln 6 x Ln 37
39	Percent Below Minimum Allowed ROE (%)		0.00%	Ln 38 - Ln 32
40	Amount Below Allowed ROE Collar	$	-	Ln 6 x Ln 39
41	ROE Collar Adj After Tax	$	-	Ln 38 + Ln 40
42	ROE Collar Tax Gross-up	$	-	Ln 41 x Ln 25/(1- Ln 25]
43	ROE Collar Adj	$	-	Ln 41 + Ln 42

Docket No. 17-0197
Appendix B
Schedule 1

Ameren Illinois Company
Statement of Operating Income with Adjustments
For the Reconciliation Year Ending December 31, 2016
(In Thousands)

Line No.	Description	Company Jurisdictional Operating Income (AIC Ex. 13.1, p. 3,6)	Adjustments	Adjusted Jurisdictional Operating Income (Cols. b+c)	Reconciliation Adjustment Per Company (Ameren Ex. 13.1, p 6)	Gross Revenue Conversion Factor	Company Proposed Revenue Requirement (Cols. d+e+f)	Adjustment To Reconciliation Adjustment	Actual 2016 Revenue Requirement Per Order (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Revenue Requirement	$ 920,521	-	$ 920,521	$ 22,308	$ (1)	$ 942,828	$ 1	$ 942,829
2	Other Revenues	32,888	-	32,888	-	-	32,888	-	32,888
3	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	-	-
5	Total	953,409	-	953,409	22,308	(1)	975,716	1	975,717
6	Uncollectibles Expense	6,597	-	6,597	-	-	6,597	-	6,597
7	Distribution	267,200	-	267,200	-	-	267,200	-	267,200
8	Customer Accounts	41,317	-	41,317	-	-	41,317	-	41,317
9	Customer Services and Informational Services	6,834	-	6,834		-	6,834	-	6,834
10	Sales	-	-	-	-	-	-	-	-
11	Administrative and General	123,895	-	123,895	-	-	123,895	-	123,895
12	Depreciation and Amortization	226,637	-	226,637	-	-	226,637	-	226,637
13	Taxes Other Than Income	53,151	-	53,151	-	-	53,151	-	53,151
14	Regulatory Asset Amortization	2,712	-	2,712	-	-	2,712	-	2,712
15	Pension Asset Funding Cost	-	-	-	-	-	-	-	-
16	Other Expense Adjs	(9,116)	-	(9,116)	-	-	(9,116)	-	(9,116)
17	Total Operating Expense								
18	Before Income Taxes	719,227	-	719,227	-	-	719,227	-	719,227
19	State Income Tax	(7,310)	-	(7,310)	1,729	-	(5,581)	-	(5,581)
20	Federal Income Tax	(30,456)	-	(30,456)	7,203	(1)	(23,254)	-	(23,254)
21	Deferred Taxes and ITCs Net	101,665	-	101,665	-	-	101,665	-	101,665
22	Total Operating Expenses	783,126	-	783,126	8,932	(1)	792,057	-	792,057
23	NET OPERATING INCOME	$ 170,283	-	$ 170,283	$ 13,376	$ -	$ 183,659	$ 1	$ 183,660
24	Rate Base (Appendix B, Schedule 2, column (d), line 24)								$ 2,606,938
25	Overall Rate of Return per Order								7.040%
26	Reconciliation Balance Before Interest (column (i), line 5 minus column (b), line 5) (Agrees to Appendix A, Schedule 4, line 3.)								$ 22,306

Docket No. 17-0197
Appendix B
Schedule 2

Ameren Illinois Company
Rate Base
For the Reconciliation Year Ending December 31, 2016
(In Thousands)

Line No.	Description	Pro Forma Jurisdictional Rate Base (Ameren Ex. 13.1, pp. 7-8)	Adjustments	Rate Base per Order (Col. b+c)
	(a)	(b)	(c)	(d)
1	Distribution Plant	$ 5,876,632	$ -	$ 5,876,632
2	G & I Plant	494,321	-	494,321
3	Accumulated Depreciation on Distribution Plant	(2,733,972)	-	(2,733,972)
4	Accumulated Depreciation on G & I Plant	(168,507)	-	(168,507)
5	Net Plant	3,468,474	-	3,468,474
6	Additions to Rate Base			
7	Materials and Supplies	37,802	-	37,802
8	Construction Work in Progress	1,068	-	1,068
9	Plant Held for Future Use	411	-	411
10	Deferred Debits	15,279	-	15,279
11	Cash Working Capital	16,084	-	16,084
12	OPEB Liability	3,547	-	3,547
13	Deductions From Rate Base		-	
14	Accumulated Deferred Income Taxes	(870,318)	-	(870,318)
15	Accrued Vacation Reserve	-	-	-
16		-	-	-
17		-	-	-
18	Accumulated Misc. Operating Provisions	-	-	-
19	Asset Retirement Obligation	-	-	-
20	Other Rate Base Adjustments	(15,880)	-	(15,880)
21	Customer Advances	(14,935)	-	(14,935)
22	Customer Deposits	(32,594)	-	(32,594)
23		-	-	-
24	Rate Base at End of Year	$ 2,608,938	$ -	$ 2,608,938

Docket No. 17-0197
Appendix B
Schedule 3
Appendix B

Ameren Illinois Company
Gross Revenue Conversion Factor
For the Reconciliation Year Ending December 31, 2016
(In Thousands)

Line No.	Description	Rate	With Bad Debts	Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.0000%	0.000000	
3	State Taxable Income		1.000000	
4	State Income Tax	7.7500%	0.077500	0.077500
5	Federal Taxable Income		0.922500	0.922500
6	Federal Income Tax	35.0000%	0.322875	0.322875
7	Operating Income		0.599625	0.599625
8	Gross Revenue Conversion Factor (Line 1 / Line 7)		1.667709	1.667709

4

KENTUCKY POWER
CASE NO. 2017-00179
STAFF'S FIRST SET OF DATA REQUESTS
DATED MAY 22, 2017

REQUEST

KPSC_1_61 Provide all wage, compensation, and employee benefits studies, analyses, or surveys conducted since the utility's last base rate case or that are currently utilized by the utility.

RESPONSE

AEP has participated in benefits surveys performed by Alight (previously Aon Hewitt), Willis Towers Watson and Havens & Company. The Company uses these results to benchmark its benefit plans for reasonableness in terms of plan design and value as compared to other non-affiliated utility employers. It is standard practice in benefits design work to rely on resources such as survey data to gauge the reasonableness of employee benefit plans. Please refer to

KPCO_R_KPSC_1_61_Redacted_Attachment1.pdf,

KPCO_R_KPSC_1_61_Redacted_Attachment2.pdf,

KPCO_R_KPSC_1_61_Redacted_Attachment3.pdf, and

KPCO_R_KPSC_1_61_Redacted_Attachment4.pdf.

AEP also conducted a nearly company-wide compensation study and redesign of the Company's compensation structure. Please refer to KPCO_R_KPSC_1_61_Redacted_Attachment5.pdf and KPCO_R_KPSC_1_61_Redacted_Attachment6.pdf.

The HR Committee of the Board of Directors annually conducts an executive compensation study covering approximately 25 executive positions. These studies are conducted by the HR Committee's external compensation consultant, which is currently Meridian Compensation Partners LLC and previously was Pay Governance LLC. Please refer to KPCO_R_KPSC_1_61_Redacted_Attachment7.pdf.

The market compensation surveys are voluminous and are subject to the Company's motion to deviate. KPCO_R_KPSC_1_61_Redacted_Attachment8.pdf.

The Company is seeking confidential treatment for all attachments provided in this response.

KENTUCKY POWER
CASE NO. 2017-00179
STAFF'S FIRST SET OF DATA REQUESTS
DATED MAY 22, 2017

KPCO_1_61 (Cont'd)

Supplemental Response filed January 2, 2018:

As part of AEP's ongoing analysis and review of the Company's benefits plans and programs, AEP recently become aware that the United States military, in an effort to reduce costs and increase retirement savings by its members, is modernizing its retirement benefits effective for 2018 in a fashion similar to the approach A.E.P. is currently utilizing. https://www.military.com/benefits/military-pay/upcoming-changes-to-military-retirement-system-explained.html. The changes are based on a recommendation by the Military Retirement Modernization Commission which conducted a long-term study of the military retirement benefit and made a recommendation to Congress. The Commission's recommendation was included in the National Defense Authorization Act of 2016 and will be effective in 2018.

The new U.S. military retirement system is known as the "Blended Retirement System" or BRS. The "blending" in BRS comes from the blending of two sources of retirement income: the existing defined benefit provision, plus a new defined contribution "Thrift Savings Plan" (TSP). The TSP is a government run retirement plan that offers the same types of savings and tax benefits that are provided under 401(k) plans. It allows members to invest their own money in either stocks or government securities and also get a contribution to that account from their employer. This new structure will now be similar to what AEP offers through its defined benefit cash balance retirement plan and defined contribution 401k retirement savings plan.

Witness: Curt D. Cooper
Andrew R. Carlin

VERIFICATION

The undersigned, Andrew R. Carlin, being duly sworn, deposes and says he is the Director, Compensation and Executive Benefits 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.

Andrew R. Carlin

Andrew R. Carlin

STATE OF OHIO)
) Case No. 2017-00179
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Andrew R. Carlin this the 2nd day of January 2018.

NOTARIAL SEAL STATE OF OHIO

MARTIN ROSENTHAL
Attorney at Law
Notary Public, State of Ohio
My Commission Has No Expiration
Section 147.03 R.C.

Notary Public

My Commission Expires: ____________________

VERIFICATION

The undersigned, Curt Cooper, being duly sworn, deposes and says he is the Director of Employee Benefits for American Electric Power, 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.

Curt Cooper

STATE OF OHIO)
) Case No. 2017-00179
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Curt Cooper this the 2nd day of January 2018.

NOTARIAL SEAL
STATE OF OHIO

Attorney at Law
Notary Public, State of Ohio
My Commission Has No Expiration
Section 147.03 R.C.

Notary Public

My Commission Expires: ____________________

5

Test Year Rockport ROE Charge

If AEG Rockport Earned the Allowed 12.16%

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Total
Total at 12.16%													
Return on Common Equity	1,201,957	1,223,410	1,227,178	1,197,901	1,207,061	1,216,348	1,225,874	1,239,881	1,247,632	1,252,014	1,264,019	1,270,384	14,773,659
Return of Interest	272,022	250,771	267,787	333,178	303,634	309,077	313,510	309,558	363,956	338,013	361,689	334,936	3,758,131
Total Return Component	1,473,979	1,474,181	1,494,965	1,531,079	1,510,695	1,525,425	1,539,384	1,549,439	1,611,588	1,590,027	1,625,708	1,605,320	18,531,790
I&M Portion	1,031,785	1,031,927	1,046,476	1,071,755	1,057,487	1,067,798	1,077,569	1,084,607	1,128,112	1,113,019	1,137,996	1,123,724	12,972,253
KY Portion	442,194	442,254	448,490	459,324	453,209	457,628	461,815	464,832	483,476	477,008	487,712	481,596	5,559,537

Actual Amount Billed Out - Limited by Operating Ratio

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Total
Total AEG Bill													
Return on Common Equity	901,644	888,132	866,416	785,407	844,866	818,688	822,593	823,462	785,063	786,749	819,297	793,239	9,935,556
Return of Interest	204,056	182,047	189,064	218,449	212,524	208,030	210,374	205,591	229,016	212,366	234,435	209,137	2,515,089
Total Return Component	1,105,700	1,070,179	1,055,480	1,003,856	1,057,390	1,026,718	1,032,967	1,029,053	1,014,079	999,115	1,053,732	1,002,376	12,450,645
I&M Portion	773,990	749,125	738,836	702,699	740,173	718,703	723,077	720,337	709,855	699,381	737,612	701,663	8,715,452
KY Portion	331,710	321,054	316,644	301,157	317,217	308,015	309,890	308,716	304,224	299,735	316,120	300,713	3,735,194

Estimated Operating Ratio	75.01%	72.59%	70.60%	65.57%	69.99%	67.31%	67.10%	66.41%	62.92%	62.84%	64.82%	62.44%
Estimated Monthly ROE	9.12%	8.83%	8.59%	7.97%	8.51%	8.18%	8.16%	8.08%	7.65%	7.64%	7.88%	7.59%

For the test year period, Kentucky received a $1,824,343 benefit due to the reduction of the AEG Rockport ROE due to the limiter.

KPCo ex. 8

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

VOLUME I

Transcript of December 6, 2017, hearing before Michael Schmitt, Chairman; Robert Cicero, Vice-Chairman; and Talina R. Mathews, Commissioner, at the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615.

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C O N T E N T S

C O N T E N T S
(Continued)

* * *

E X H I B I T S

	Marked	Admitted
KCUC Exhibit 1	62	116
KCUC Exhibit 2	65	116
KCUC Exhibit 3	77	116
KCUC Exhibit 4	99	116
KCUC Exhibit 5	99	116
KCUC Exhibit 6	114	116
AG Exhibit 1	136	--
AG Exhibit 2	140	--
AG Exhibit 3	169	--
AG Exhibit 4	191	--
AG Exhibit 5	339	--
KPCO Cross Exhibit 1	210	251
KPCO Cross Exhibit 2	210	251
KPCO Cross Exhibit 3	215	251
KPCO Cross Exhibit 4	219	251
KPCO Cross Exhibit 5	223	251
KPCO Cross Exhibit 6	226	251
KPCO Cross Exhibit 7	241	251
PSC Exhibit 1	361	--

* * *

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ALSO PRESENT:
Ms. Pam Hughes, Videographer

* * *

(Hearing commenced at 9:02 a.m.)

CHAIRMAN SCHMITT: We are now on the record. This is the Kentucky Public Service Commission. My name is Michael Schmitt. I'm Chairman of the Commission. Seated to my right is Vice-Chairman Robert Cicero, and to my left, Commissioner Talina Mathews.

We are here this morning to receive evidence in Case Number 2017-00179, the Application of Kentucky Power Company for General Adjustment of its Rates for Electric Services; for an Order Approving its 2017 Environmental Compliance Plan; for an Order Approving its Tariffs and Riders; an Order Approving Accounting Practices to Establish Regulatory Assets or Liabilities; and an Order Granting All Other Required Approvals and Relief.

At this time would counsel for the respective parties please identify themselves, those who are with them today, and their witnesses who are here? Beginning with Mr. Overstreet, please.

MR. OVERSTREET: Thank you, Chairman.

Mark Overstreet, Stites & Harbison, PLLC, 421 West Main Street, Frankfort, Kentucky.

Appearing with me here today is Ken Gish of the Lexington office of Stites & Harbison, and Katie

Glass, who splits her time between Lexington and Frankfort.

And -- I'm sorry. And then Hector Garcia, who has been granted admission pro hac vice.

CHAIRMAN SCHMITT: Okay. The Office of the Kentucky Attorney General, Office of Rate Intervention, please.

MR. COOK: Good morning, Mr. Chairman.

On behalf of the Attorney General, Lawrence Cook and Kent Chandler, Justin McNeil, Rebecca Goodman.

Our witnesses are Dr. David Dismukes, Dr. Randall Woolridge, Mr. Ralph Smith, and we have with us Roger --

VICE-CHAIRMAN CICERO: McCann?

MR. COOK: McCann. Sorry. It's early in the morning.

It's my understanding, however, that the Commission has excused Mr. McCann, but we don't know yet whether the Company or any of the other intervenors has excused him.

CHAIRMAN SCHMITT: Well, we might -- I might want to ask Mr. McCann --

MR. COOK: Okay.

CHAIRMAN SCHMITT: -- a couple questions too, so --

MR. COOK: Certainly.

CHAIRMAN SCHMITT: -- if it's not inconvenient.

MR. COOK: Certainly.

CHAIRMAN SCHMITT: But if it is, we might be able to reschedule him. You know, we're going to be here, it looks like, three days, so he might not have to sit through the whole thing, especially today.

MR. COOK: Yes, sir. Thank you, sir.

CHAIRMAN SCHMITT: All right. The Kentucky Industrial Utility Customers.

MR. KURTZ: Thank you, Mr. Chairman.

Mike Kurtz and Jody Cohn for KIUC. The KIUC members who are participating in this case are Marathon Petroleum, AK Steel, Airgas, and Air Products & Chemicals. Combined, those four large industrials buy about 20 percent of the electricity that Kentucky Power sells at retail.

Thank you.

CHAIRMAN SCHMITT: Thank you.

Kentucky Commercial Utility Customers.

MR. GARDNER: Good morning, Your Honors.

Jim Gardner and Todd Osterloh from the

Lexington law firm of Sturgill, Turner, Barker & Moloney for KCUC.

Our witness, Kevin Higgins, will be here tomorrow by agreement of the parties.

CHAIRMAN SCHMITT: Okay.

MR. GARDNER: And the two representative members are BPM Lumber Company, of which its principal owner is here in the courtroom today, Richard Sturgill, as well as Appalachian Healthcare.

CHAIRMAN SCHMITT: Thank you.

MR. GARDNER: Thank you, Your Honor.

CHAIRMAN SCHMITT: Kentucky School Boards Association.

MR. MALONE: Good morning, Your Honor.

Matt Malone for the Kentucky School Boards Association of the law firm of Hurt Deckard & May, 127 West Main in Lexington.

And Mr. Willhite, my witness, is actually across the street, but will be here about 10:30.

CHAIRMAN SCHMITT: Thank you.

MR. MALONE: Thank you.

CHAIRMAN SCHMITT: I don't -- we'll probably get -- won't get to Mr. Willhite until the end of the --

MR. MALONE: I figured.

CHAIRMAN SCHMITT: -- proceedings, so fine.
Kentucky League of Cities.

MR. DUTTON: Good morning, Commissioners.
Gregory Dutton from Goldberg Simpson here on behalf of the Kentucky League of Cities. Morgain Sprague is my co-counsel, and she'll be joining me later this afternoon.

CHAIRMAN SCHMITT: Thank you.
Wal-Mart East, Sam's Club East.

MS. HARRIS: Good morning, Your Honor.
Carrie Harris, joined by my colleague, Don Parker, with the law firm Spilman Thomas & Battle on behalf of Wal-Mart Stores East, LP, and Sam's East, Inc.
Our witnesses are not present today as it's my understanding that all parties and the Commission have waived their presence.

CHAIRMAN SCHMITT: I think that's correct.

MS. HARRIS: Thank you so much, Your Honor.

CHAIRMAN SCHMITT: Kentucky Cable. Cable Communications. Yes, sir.

MR. ZIELKE: Good morning.
I'm Larry Zielke. I represent Kentucky Cable Telecommunications Association. I'm at 1250 South Fourth Street, Louisville, Kentucky 40202.

CHAIRMAN SCHMITT: And for Public Service Commission Staff.

MS. VINSEL: Nancy Vinsel, Quang Nguyen, Jenny Sanders, and Richard Raff for the Commission Staff.

CHAIRMAN SCHMITT: Thank you.

Have I left anybody out?

Okay. I notice that in the record the notice of hearing has been filed and that evidence of publication has been given.

MR. OVERSTREET: That's correct, Your Honor.

CHAIRMAN SCHMITT: So we will -- I guess the next order of business would be for public comment, but I understand a state representative, someone is here, I guess, that wants to make a -- could you please come forward?

And we would normally at this time, and I guess this is the beginning of it, ask for comment from any member of the public, and I'd ask only that you come forward, state your full name, your address, and then provide, either in writing or orally, any statement that you might wish the Commission to receive.

Yes, sir.

MR. SINNETTE: Thank you very much.

May I proceed?

CHAIRMAN SCHMITT: Yes.

MR. SINNETTE: Thank you.

I'm Kevin Sinnette, State Representative for the 100th District, Boyd County. This general region will be affected by this rate increase.

I think you have to historically look at what has transpired over the last ten years, and it appears that AEP has continuously gotten rate increases, and these affect the people who can least afford these rate increases.

Now, reading some of the propaganda that has been promulgated by AEP, the reason for these rate increases is the fact that they have lost ratepayers, and it's due to the economy.

But let's look at the big picture. One of the reasons that we have a loss of population and decline in the economy is directly a result of AEP's actions. We are coal country. Boyd County, not necessarily we mine coal, but as you well know, in deep Eastern Kentucky it's mined, it comes down 23, and it's made into steel.

What we have seen due to the result of AEP first saying they were going to continue burning coal, has decided to switch to natural gas. As a result, that's going to put another nail in the coffin of the declination of the economy in Eastern Kentucky, which means that we've lost coal miners, that we've lost truckers, that we've lost mechanics, that we've lost barge travel. We've lost all of these elements as a result of AEP's direct transformation from coal to gas. As such, we have so many unemployed people.

Now, what really bothers me is the -- I guess is really the propaganda that goes around this economic development board or entity that they have created that they say that they're going to use to bring in jobs, to entice jobs, to bring back Eastern Kentucky. Well, what really puts insult to injury is, they're adding it as a line item on the bill. So it's not this goodwill act of saying we're going to put money back in Eastern Kentucky to create jobs. The people who can least afford the rate increase are also responsible for this money that has no criteria on how it's going to be dispensed, given out, and they can least afford it.

Now, I understand that the PSC, when they look at a rate increase, it's a business. It has to make money. I understand that. But you can't really separate out. You have to look at the big picture. AEP, American Electric Power, you have Appalachian Power and you have Kentucky Power. They are the subsidiaries. But at the end of the day, the revenue they get is through AEP.

Yes, they've lost money in our region, no question about it. We have seen devastation in regard to employment. But you have to look at the overall big picture when it looks to shareholders, and that's really what they're all looking out for. And if you look at the period since 2005, the increase of the share has gone up, I believe a hundred percent, dividends 70 percent.

So we're not talking about a company that is losing money. What we're talking about is a company that's taking advantage of the least fortunate that can afford to pay a rate increase and not using the smoke and mirrors of saying that we're developing an economic board to entice businesses. Because one of the things we have in Eastern Kentucky that would entice businesses is the low rates of electricity that we currently have. When you put on this additional rate of electricity, that's going to be an impediment to businesses locating in Eastern Kentucky.

I think that we have to step back, and I implore the PSC to look at the overall corporate picture, because it's easy to say when you have any type of business that maybe services different areas, you're going to have revenue that's higher in one area and lower in the other, but you don't go and you increase the cost of whatever you're selling to the ones that can least afford it to try and make up the big corporate profit and hoping that you're going to get more businesses and ratepayers.

I get the fact that they have lost the revenue. I get that. I see it every day in my community, of the people who have lost jobs. But I just got finished talking to an 89-year-old lady who can't afford her electric bill, and it's going to go up. They're on a fixed income. I have individuals who have lost their jobs at AK Steel, who can't find any other job, but they're hoping that AK Steel is going to reopen and start pushing out steel.

We have new industry coming in, Braidy Industry. What effect is this going to have on new businesses that we have, because they're going to be telling them, "Oh, by the way, you're locating here because of the low cost of utilities, but now you're going to get an additional cost on top of that."

I just think that there has got to be a

bigger picture in the whole scheme of American Electric Power, not just Kentucky Power.

I've been in the General Assembly going on ten years, and I remember vividly that American Electric Power, Kentucky Power were going to put scrubbers on down in Louisa to continue using coal. Got a rate increase. It was a hard pill to swallow, but my constituents and the citizens of Eastern Kentucky took it because that meant that, number one, there was going to be people employed in Lawrence County at the Big Sandy plant, coal was going to continue to be mined and business was going to be as usual. We don't have that situation now.

We have an economic development fluff board with no criteria on how they give out money. And the worst thing about it is, the ones that are going to be hit with the rate increase are paying for that economic development board.

We want low-cost, bare-bone energy. Electricity.

It's a sad day. And I know families that have to pick and choose what they're going to pay. If their electric bill is high, I've seen families that have stoves, gas stoves, they turn on the stoves for heat because their electric bill was just too high.

And like I said, I get it. There's a balance, that a corporation has to make money, but there's also a balance as to the livelihoods of the individuals that they serve.

Thank you.

CHAIRMAN SCHMITT: Thank you.

Is there anyone else here who would like to come forward and either make an oral statement or file a written statement into the record?

If not, we'll move forward, then, with --

MR. COLEMAN: I'd like to say something.

CHAIRMAN SCHMITT: I'm sorry? Yes, sir.

MR. COLEMAN: I'd like to say something.

CHAIRMAN SCHMITT: Well, you need to come forward to the microphone, identify yourself by name and address, and then you can make whatever statement you choose.

MR. COLEMAN: My name is Freddie Coleman, and I'm from Whitesburg, Kentucky, and I just want to make a statement.

Don't forget the customer. I'm a customer of both -- Kentucky Power. Don't forget the customers, because we cannot afford no more.

And also I'd like to speak about the Rockport

1 plant, one of the towers that they are wanting to put on us. That has nothing to do with Kentucky Power customers, and they -- and we already paid for the plant at Louisa, and we paid for the plant at Moundsville. Let's see. Moundsville, West Virginia, we paid on that plant. We cannot pay no more and that should not be put on us. Kentucky Power's just price gouging. I mean, we just cannot -- people just can't pay no more.

That's all I got to say.

CHAIRMAN SCHMITT: Okay. Thank you.

MR. COLEMAN: You're welcome.

CHAIRMAN SCHMITT: Anyone else care to come forward and make a statement, provide a comment?

Okay. If not, then we'll move forward with the -- with the hearing. I note that there are, I think, seven motions for confidentiality that have been filed but have not been ruled on.

MR. OVERSTREET: I believe that's --

CHAIRMAN SCHMITT: Is that approximately correct? And for the people in the -- here who may not know, if a matter which is the subject of a pending confidentiality motion comes up or comes before the Commission, then counsel will so advise the Commission and we'll go into confidential session so that the Company's position can be preserved.

So I take it -- I notice there's about -- a lot of different areas, so please be vigilant and let us know --

MR. OVERSTREET: Certainly.

CHAIRMAN SCHMITT: -- in the event that something might come up that -- so you could protect your position. Okay?

MR. OVERSTREET: Thank you, Your Honor.

CHAIRMAN SCHMITT: There is also, I guess, at least two pending motions to strike the testimony of Kevin Higgins, which was filed in opposition to the proposed partial settlement of the case.

Are there any other pending motions at this time?

MR. OVERSTREET: To my mind, no, Your Honor.

CHAIRMAN SCHMITT: Okay. Let me ask Mr. Gardner and Mr. Osterloh. Those motions were filed yesterday. We have read them. Would you care to respond? Or if you need more time, then at some point in time before the proceeding is over we can -- we can entertain it, but if you're prepared to respond now, we'll let counsel argue it or just submit it on the record if you choose.

MR. OSTERLOH: Yes, Your Honor, we are prepared to orally respond to those motions.

CHAIRMAN SCHMITT: Okay. Would you like to -- your position and that of Kentucky School Board Association is in the record, but I'd like to offer you and counsel for KSBA, Mr. Malone, the opportunity to argue it if you'd like.

MR. OVERSTREET: Thank you, Your Honor. I'll be very brief, but before doing that, my co-counsel reminded me, we also have a motion for deviation that would allow us to file the 2,600 pages of data request responses that were filed on Friday in electronic form instead of providing about eight feet of paper, and so that's also pending.

CHAIRMAN SCHMITT: Okay.

MR. OVERSTREET: But it would not have to be resolved right now.

CHAIRMAN SCHMITT: All right. Well, before we get to that, then, is there any objection to the filing of the motion -- the filing of the data electronically rather than by paper?

MS. VINSEL: No, Your Honor. It would be consistent with previous orders in this case.

CHAIRMAN SCHMITT: And if no one else has any objection --

MR. COOK: No objection.

CHAIRMAN SCHMITT: -- then that motion will be sustained.

MR. OVERSTREET: Thank you.

CHAIRMAN SCHMITT: And it will be so filed.

Would you like to move forward?

MR. OVERSTREET: I'll be very brief. We've set out our position in our papers that we filed yesterday.

On October 3, in conformity with the Commission's procedural schedule, KCUC filed Mr. Higgins' testimony, and in that testimony Mr. Higgins took the position that in terms of class -- class revenue allocation, that 50 percent, as opposed to the five percent proposed by the Company, of the residential subsidy should be eliminated, and the -- that those savings, if you will, be allocated among the remaining classes.

After the close of business on Monday, two days before this hearing, Mr. Higgins filed supplemental testimony purporting to respond to the settlement agreement, but in fact what he's done is he's changed his theory. And his theory is now that instead -- or perhaps in addition to shifting the 50 -- or reducing the residential subsidy by 50 percent, that if, if, the Commission were to reduce the Company's revenue requirement, that the first $500,000 of that reduction should be allocated to the LGS class.

In filing its testimony, KCUC did not seek leave of the Commission, it did not file a motion to amend the procedural schedule, nor did it address this Commission's October 24th order denying the Attorney General essentially the same relief. And we think that there's simply no basis in the record for this late-moment filing.

CHAIRMAN SCHMITT: Thank you.

Mr. Malone.

MR. MALONE: I would just echo the comments of Kentucky Power. I can't say it any better.

CHAIRMAN SCHMITT: Okay. Thank you.

Mr. Osterloh or Mr. Gardner.

MR. OSTERLOH: Thank you, Mr. Chairman and Commissioners.

Being an attorney in this field, I'm frequently called on to argue what's fair and reasonable. Usually that's in -- on a substantive issue like rates, but right now it's actually a procedural issue.

And it may go without saying that I was

surprised yesterday to receive the motions to strike, because when we filed Mr. Higgins' testimony, we thought we were doing what was fair and what was reasonable. We considered filing the testimony and determined it was most appropriate to provide the Commission, the parties, and the public with notice of what Mr. Higgins' belief and response was to this proposed settlement. And the alternatives that we had would simply not be as fair or as reasonable.

I mean, what would you prefer? Would you prefer to know Mr. Higgins' position on that newly filed settlement before he gets in that witness stand, or would you prefer and would the parties prefer to have him in that witness stand and be asked the question, "Now, you've seen that settlement, what's your response to the settlement?" Clearly it would be better off to have that in advance of the hearing.

The motion suggested an all-or-nothing approach, really. Either accept the settlement that's dictated by other parties or adhere to the originally filed position. But the more reasonable approach is to allow movement after seeing that settlement.

And that's really what the settling parties did. They had their initial position and they moved off of that position. And so Mr. Higgins' testimony in response to that reviewed the settlement and moved from that position.

If you were to follow the motions' analysis to their logical end, it essentially advocates for only two possible settlement options: Either a unanimous settlement, which we don't have here, or all the parties going forward with their original position. And I don't think that that's really what is in the best interest for this Commission. We want to encourage advocating settlements that all the parties, or as many parties can get behind.

Now, the motions argue that Mr. Higgins should not be able to propose a different allocation. To be clear, Mr. Higgins proposes an option, a unique option, to rule upon the issues. And you know what, that's exactly what Mr. Satterwhite says with respect to the settlement in his settlement testimony. He says, "You know what, this is a unique option that the Commission can consider." That's the same thing that Mr. Higgins is doing.

Moreover, the settlement completely changes the way that Kentucky Power proposed its allocation. So to the extent that they are arguing, "Well, Mr. Higgins is changing his," that's exactly what Kentucky Power is doing as well. And setting aside some of the more general aspects, that they may have changed it to, like, IGS or the lighting classes, there's a $500,000 component that LGS will have to pay on top of what may have otherwise been required, to the benefit of the public schools.

Likewise, there's a complete change to the rate design for the Kentucky Economic Development surcharge that disproportionally impacts the commercial GS customers.

Neither of those things were initially proposed by the Company in its application.

So when a company proposes a new settlement with new terms, changing its position, isn't it reasonable for a nonsettling party to come in and provide -- or have an opportunity to respond to that? In fact, isn't that what due process dictates? But at the very fundamental level due process requires notice and opportunity to be heard. Kentucky Power gave us notice of what their settlement proposal was. Don't we have an opportunity to be heard on that?

And just an aside. I mentioned the $500,000 subsidy that the LGS would be contributing as a part of that settlement if it was accepted. The School Boards in their motion indicate that Mr. Higgins is somehow attacking that, which, if you read his settlement testimony, that's not what he's saying. In fact, he doesn't ask that that be rejected at all.

The other point that was made by the motions was that it was filed outside the time allotted for by any certain procedural schedule. Well, isn't the same thing true, and, in fact, I think the School Board points this out, that the Company's testimony in support of the settlement agreement wasn't filed with any -- within any certain timeline for the procedural schedule. Neither party filed a motion to accept such testimony outside the procedural schedule.

So if the Commission is inclined to strike Mr. Higgins' testimony, wouldn't it have the same grounds to strike Mr. Satterwhite's or Mr. Vaughan's settlement testimony?

As I have stated before, what we have tried to do from day one is propose and do what is most reasonable. So if the Commission deems it appropriate, what we'd like to do is move orally for acceptance into the record of Mr. Higgins' direct settlement testimony.

We mentioned it before: If you would prefer us to file something in writing, we're happy to do that. We believe that there is good cause to accept that testimony for the reasons that I mentioned as well as a few others.

We would also ask that the motions to strike be denied. At the end of the day, we wanted to provide Mr. Higgins' position to the Commission, to Commission Staff, to the parties, so that they knew what he would be saying on the witness stand before he got there. We think that that is the most fair and reasonable approach, and that's what we were trying to do.

Appreciate your time.

If you have any questions, we'll be happy to answer those. We'll also entertain the arguments that counsel may have.

Thank you.

CHAIRMAN SCHMITT: Anything further, Mr. Overstreet?

MR. OVERSTREET: I think not, Your Honor.

CHAIRMAN SCHMITT: Mr. Malone.

MR. MALONE: Just briefly, Your Honor.

You know, the suggestion that there wasn't notice or opportunity to be heard, I tend to disagree with that, frankly, because Mr. Willhite, our witness, the School Board's witness, proposed the allocation from the get-go. That was always in the record, so they always had the chance to attack that. Well, when they initially filed their testimony, they didn't. So now, merely after the settlement, it's sour grapes and here we are, and that's where we're -- that's where we are now with respect to their newly filed testimony.

So I think the due process notice, opportunity to be heard, they had the chance, they simply have changed their position as time has gone on here after the settlement was filed.

Thank you, Your Honor.

CHAIRMAN SCHMITT: Well, here's what -- here's what we think: As I recall, and correct me, Mr. Overstreet, if I'm wrong, when Kentucky Power filed its application for the rate increase and for other relief, the -- it was Kentucky Power's -- initially it was Kentucky Power's position that this K-12, PS, or whatever tariff should be eliminated and that schools should be included in the LGS classification or some other; is that correct?

MR. OVERSTREET: That's accurate, Your Honor.

CHAIRMAN SCHMITT: And ultimately, I guess as time went on and throughout the course of the proceeding and the settlement negotiations, positions changed, and through the give and take of negotiations, a partial agreement was reached between Kentucky Power and some, but not all, of the intervenors. And that agreement, of course, is about as -- is worth about what -- as much as the paper that it's written on, because the Commission ultimately will set the rates and the terms of service and will acknowledge or incorporate all or some part of that agreement based upon the evidence we hear today and tomorrow and Friday and that's already in the record.

But I do think that there is nothing in the procedural order that would permit or deny Kentucky Power or any other intervenor the opportunity of filing testimony in support of the settlement, which was done.

And by the same token, I think any intervenor that would protest or disagree with the proposed settlement would have an opportunity to file something else.

I do understand the position of Kentucky Power and Kentucky School Boards, but it does occur to me that the utility, the commercial customers could put on Mr. Higgins and questions could be asked which would involve the same sort of thing on the cross-examination.

So I think what it is -- I understand your position and appreciate the movants' positions, but I think the motion ought to be overruled because in the end the witness is going to be here and testify, and if he had never filed anything, it is more likely than not, in my opinion, that we would ultimately get into this testimony under a wide-open cross-examination rule anyway.

So with that being the understanding, the motion to strike the testimony of Mr. Higgins will be overruled. Okay?

Now, as -- before we get started, I understand we have a lot of witnesses here, and a number of witnesses, particularly experts, can't always be here at the time when a party might otherwise call them.

So as I understand it, maybe Kentucky Power would like to call Mr. -- its witness Mr. McManus, then Mr. Satterwhite, and then the Attorney

General's witness Mr. Smith; is that correct?

MR. OVERSTREET: That's accurate, Your Honor.

CHAIRMAN SCHMITT: And then I know tomorrow there are a couple of other witnesses, maybe, that -- maybe one that Kentucky Power has and --

MR. OVERSTREET: She's been excused.

CHAIRMAN SCHMITT: She's been excused. Okay. But the Attorney General's office will have a couple of witnesses tomorrow, Mr. Dismukes and someone else, I think, that has to be on stand.

MR. CHANDLER: We'll do our best trying to herd cats. Mr. Dismukes will be here today and for a good portion of tomorrow. Dr. Woolridge will be here at lunch and will need to leave by lunch tomorrow. But they will be available.

CHAIRMAN SCHMITT: So we can put Mr. Woolridge on first thing in the morning? Is that the --

MR. CHANDLER: I believe so. And I think that Mr. Baudino will be here as well, so that may be the best --

CHAIRMAN SCHMITT: Well, we'll try -- if we have a problem, just bring it to our attention and we'll try to accommodate everybody so that all witnesses have an opportunity to be subject to cross-examination.

MR. OVERSTREET: Thank you, Your Honor. And I think we've been able to give and take and work things out. Mr. Cook and Mr. Chandler called me yesterday and indicated that they would like to speak to Mr. Pyle, they had previously excused him, and we made Mr. Pyle available. So I think we can work together and get this accomplished.

CHAIRMAN SCHMITT: Yes, Mr. Kurtz.

MR. KURTZ: Mr. Chairman, we have -- excuse me -- three out-of-town witnesses that will all be here tomorrow.

CHAIRMAN SCHMITT: Okay. Well, we'll try to accommodate and get everyone on as best we can, and if something comes up in the meantime that changes things or alters the order of witnesses, if you'll just let us know, we'll do our best.

Now, what we had planned on trying to do, because of the number of witnesses available, is, at least for today, to maybe go to 6:00 o'clock, and we'll go two hours, take a break for ten minutes or so, 10 or 15 minutes, come back, maybe have a lunch break for an hour at 1:00, come back and then go to 3:00, or, you know, 1:00, 2:00 -- 2:00, and then go to 4:00 and 6:00, and then adjourn at 6:00, and then we can see how much time we need for maybe tomorrow and Friday . Is that acceptable ?

MR . OVERSTREET : Very much so .

CHAIRMAN SCHMITT : Okay . Thank you .

Now , I know we have a -- Kentucky Power filed a motion to have a court reporter present to take -- to make a transcript , and the only thing I would ask is, is if Kentucky Power asks the reporter to provide daily copy that that also be offered to any of the other intervenors at their cost . All right . Is that a problem ?

MR . OVERSTREET : That 's -- we've done that in the past and that 's perfectly acceptable .

CHAIRMAN SCHMITT : Thank you .

Well , with that understanding , let 's move forward then , and , Mr . Overstreet , would you like to call your first witness ?

MR . OVERSTREET : Yes . Your Honor . Our first witness is John McManus , and Mr . Gish will present .

CHAIRMAN SCHMITT : Mr . McManus , will you please raise your right hand ? Do you solemnly swear or affirm , under penalty of perjury , that the testimony you are about to give will be the truth , the whole truth , and nothing but the truth ?

MR . MCMANUS : Yes , I do .

CHAIRMAN SCHMITT: Please be seated.

Mr. Overstreet, you may ask.

MR. OVERSTREET: Is it okay if Mr. Gish asks?

CHAIRMAN SCHMITT: Oh, yes, Mr. -- I'm sorry. Apologize.

MR. GISH: Thank you, Mr. Chairman.

JOHN M. MCMANUS, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Mr. McManus, can you state your full name for the record, please?

A. John M. McManus.

Q. Can you please state your position and place of -- place of business?

A. I'm Vice President of Environmental Services for American Electric Power Service Corporation.

Q. And your business address?

A. It's 1 Riverside Plaza, Columbus, Ohio.

Q. And did you file direct and rebuttal testimony and responses to data requests in this case?

A. Yes, I did.

Q. And do you have any updates to your testimony or responses to data requests?

A. Yes, I do. I have an update to my direct testimony. I have one small correction to the direct testimony as well.

Q. And what is that?

A. On page 6, line 9 of the direct testimony, there's a reference to three modifications of the consent decree. There actually have been four modifications to the consent decree, so that three should be four.

The fourth modification was finalized in January of this year, and it was solely to address the sale in January of the Gavin plant in Ohio and to bring the new owner of that plant into the consent decree as a party, and there was no other changes to the consent decree.

Q. And do you have any updates to your testimony?

A. Yes. I have an update to Section VI of the testimony. It begins on page 8. That section discusses three EPA regulations: the clean -- the CCR rule, Coal Combustion Residual Rule, the Effluent Limitation Guidelines Rule, and the Clean Power Plan.

Since the testimony was filed, EPA has taken action on all three rules. I thought it might be helpful to just update where the -- those regulations stand at this point.

The Coal Combustion Residual Rule, an industry group asked EPA to reconsider the rule, filed a petition for reconsideration. EPA has accepted that position for reconsideration and has indicated the schedule by which they will revise that regulation.

They're going to embark on rulemaking to propose changes to the regulation and to finalize that regulation over the next couple of years.

So that regulation is in effect now. It has not changed at all, but EPA has indicated that they may be making changes to that rule.

On the Effluent Limitation Guidelines Rule, the testimony indicates that an industry group had filed a petition for reconsideration to EPA and that EPA had accepted that.

They have subsequently identified the schedule that they will undertake to revise the Effluent Limitation Guidelines Rule, and they have changed the initial compliance deadline.

That rule initially had a November 2018 compliance deadline, they have delayed that by two years till 2020, and have indicated they will do a rulemaking and complete that rulemaking sometime in 2020.

So there may be changes to that rule and the compliance deadline has changed.

Then on the Clean Power Plan, EPA has issued a proposal to repeal the Clean Power Plan. That is now in a public comment period until about mid January, and then they will issue a final rule taking into account the comments that they receive.

Q. With the updates and minor correction to your testimony, if I were to ask you the same questions in your direct and rebuttal testimony, would you give the same answers today?

A. Yes, I would.

MR. GISH: With that, Mr. Chairman, I tender the witness for cross-examination.

CHAIRMAN SCHMITT: As I understand it, counsel for all of the parties participating in the proposed partial settlement have agreed to waive cross-examination; is that correct? Or waive hostile cross-examination.

MR. GISH: That's correct, Mr. Chairman.

CHAIRMAN SCHMITT: Retain the opportunity to -- to gild the lily by asking the questions that would support the settlement; is that correct?

MR. GISH: That is correct, Mr. Chairman.

MR. OVERSTREET: You apparently have practiced law.

CHAIRMAN SCHMITT: All right. Then before we get to the other side, does any other party that has agreed to the proposed partial settlement desire to ask this witness any questions? If so, you may do so now.

If not, then we'll move to the Attorney General.

MR. CHANDLER: We have no cross for Mr. McManus.

CHAIRMAN SCHMITT: Okay. What about counsel for the commercial customers, utility customers?

MR. GARDNER: No questions, Your Honor.

CHAIRMAN SCHMITT: Staff?

MS. VINSEL: We have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Mr. McManus.

A. Good morning.

Q. When -- because the consent decree is rather complicated and has had these modifications, can you give us a brief, or as brief as possible, overview of the consent decree?

A. I will certainly try. You're right, it's long and it's complicated.

The consent decree initially was entered into by all of the parties in December of 2007, and it culminated a number of years of litigation between the federal government, some state plaintiffs, and some environmental groups and AEP related to claims that we had undertaken modifications to our -- certain of our power plants without getting the appropriate permits.

We understood at the time -- and the litigation started in 1999. We understood the applicable regulations and permit requirements at the time. The work that we did at our power plants we considered to be routine maintenance of the plant, common maintenance that is done at coal-fired boilers all across the country, and so we believed that the claims that the government was -- brought against us were not correct.

After, what, eight years or so of litigation, the parties all reached agreement and entered a settlement that identified certain requirements that we would have to apply to our plants, installation of pollution control technology, caps on emissions of sulfur dioxide and nitrogen oxide, and there were some other provisions. But that was the core of the consent decree was the schedule for the installation of pollution controls and putting caps on emissions across our eastern fleet of coal-fired power plants.

Q. And the -- you mentioned the fourth modification in January. The first three modification -- the first three modifications, can you briefly tell us what they covered?

A. Yeah. The first two modifications were relatively minor and dealt with the schedule for certain pollution control installations, and one in particular, I think at our -- at our Amos power plant in West Virginia. We had dates for installation of scrubbers on Units 1 and 2. We actually completed those scrubbers in the opposite order that was in the consent decree, so that modification was simply to adjust those dates to reflect the actual physical work at those units.

The third modification was more meaningful in making changes to the schedule, in particular for the Rockport unit in Indiana, which had dates for installation of nitrogen oxide controls and sulfur dioxide controls the latter part of this decade.

That modification changed the schedule for the sulfur dioxide controls to require a relatively low capital cost technology to be in place in 2015, but the delay, a potential requirement for a full sulfur dioxide scrubber until the mid -- the latter part of the next decade. So that modification was more significant specifically for the Rockport plant.

Q. One of the Attorney General's witnesses was -- Ralph Smith, has argued that but for the consent decree, the retirement of Big Sandy Unit 2 and then the purchase of that 50 percent undivided interest in the Mitchell Plant by Kentucky Power might not have been necessary.

Can you explain what considerations are involved in decisions regarding the retirement of generation facilities in a vertically -- vertically integrated regulated state versus a nonregulated state?

A. Yeah. I'm --

Q. Well, let's -- let's take a --

A. I'm not sure I quite understand the question.

Q. Okay. Let's take a step back.

Are there -- are there -- in your opinion, are there any differences in making a determination whether or not a generation is -- a generation facility is retired in a state like Kentucky where it's vertically integrated as opposed to a state where it's non regulated ?

A. I guess based on my understanding and the area that I work in, in environmental , decisions on retirement are based on sort of the economics of the unit regardless of the state it might be in.

And in the case of Big Sandy , looking at the economics of installing very expensive pollution control equipment , it does that make financial sense for that facility . I would think you would consider the same factors regardless of the state that you're in.

Q. And Mr. Smith has recommended that the Commission deny recovery of the Big Sandy Unit 2 Retirement Rider . Can you speak to that in your response , or is there someone else that you think should answer that ?

MR. GISH : Ms. Vinsel -- I'm sorry .

MS. VINSEL : Yes .

MR. GISH : Ms. Vinsel , Mr. Wohnhas testified about the -- in response to Mr. Smith 's testimony regarding the Big Sandy Retirement Rider , so perhaps the questions might be better addressed to him .

MS. VINSEL : I will save that . I will save that . Thank you .

We have no further questions at this time.
CHAIRMAN SCHMITT: Commissioner Cicero, any questions?

EXAMINATION

By Vice-Chairman Cicero:

Q. You've indicated that there are major changes occurring in terms of rules like the CCR and the Clean Power Plant rules that are being modified by the EPA, and you also just made the comment that it's economics of the unit that determine whether or not they continue to operate.

So I understand that there's always the fuel cost comparison between coal and gas, and you've got your O&M costs.

Has the fact that the environmental picture has changed in terms of EPA compliance made a difference in how AEP looks at the coal generation for their future plans?

A. I would say it hasn't made a change yet because we don't know what EPA may do with these rules. I think we're optimistic that when EPA undertakes its rulemaking for the coal ash rule and the effluent limitations guidelines rule, they will issue a final rule that has maybe a little less stringent requirements, which would make it more --

would make compliance come at a lower cost.

So that's what we hope will be the outcome, but we won't know until we see at least a proposed rule from EPA. But at this point it hasn't really changed how we view the economics of the coal units.

We try and factor in our -- some of our future look at what environmental requirements might be and what that cost might be as we look at the economics of our units. We always try and look out down the road if we see rules that we think may be coming.

Q. So how often do you go through that process?

A. We look at the -- what we call sort of our environmental capital plan probably a couple times a year, to look at has there been any change in the regulations at all, has there been any change in the compliance deadlines that we face, has there been any change in what we think the cost of a compliance technology might be as we evaluate technology options and try and find the best compliance solution and do more detailed engineering and design work, sometimes those costs might come down.

So I would say probably a couple times a year we try and update that information to make sure it's current.

Q. So your process is very current, very up-to-date, you look at these costs on an ongoing basis. And do you know that the EPA and with this administration, the focus on how compliance with the CCR and Clean Power Act generally are change -- going to change dramatically. I don't know what the timing is going to be, but it appears that it's going to change dramatically.

So based on that, it would appear that your planning cycle would dictate that you'd be looking at this very closely on how you approach your coal generation.

A. That's correct.

Q. Is that an accurate statement?

A. Yes.

Q. So based on that, I don't know how far out you look, but given that scenario and the potential for a short timeline, how would AEP look at coal generation, say three years from now or four years from now? Are they looking to retain coal generation or are they moving more towards gas?

A. I guess I would -- I would look at -- you know, come back to what do the economics of the units look like going forward and where we think -- and I'm getting a little bit out of my area here, but looking forward, where we think power markets might be, natural gas markets, coal price forecasts, technology, and look at that as a whole on a facility-by-facility basis to see what makes economic sense.

Q. Do we have your assurance that you're going to evaluate coal versus gas purely on an economic basis and not on some kind of movement towards gas because it -- in terms of gas pricing out projections, if coal maintains an economic and viable factor in terms of pricing, they'll be compared and the assessment made if economic -- or the Environmental Protection Agency backs off on some of their rules, then you're going to give coal a fair assessment?

A. That's my understanding of what we would do, yes.

VICE-CHAIRMAN CICERO: I don't have any other questions, Mr. Chairman.

CHAIRMAN SCHMITT: Commissioner Mathews, questions?

MS. MATHEWS: I don't have any.

CHAIRMAN SCHMITT: I have no questions.

MR. GISH: I have one redirect question.

CHAIRMAN SCHMITT: Mr. Gish.

REDIRECT EXAMINATION

By Mr. Gish:

Q. Mr. McManus, Ms. Vinsel asked you a question about the relationship of the New Source Review Consent Decree and the retirement of Big Sandy Unit 2.

Would the evaluation that led to the retirement of Big Sandy Unit 2 have occurred in the absence of the consent decree?

A. Yes.

Q. And why is that?

A. The consent decree did have a requirement related to Big Sandy 2 and a deadline in it, but subsequent to the consent decree being entered into in 2007, EPA conducted rulemaking to address air toxic emissions from coal-fired power plants.

That rule, when EPA finalized it, they called it the Mercury and Air Toxics Standards rule, MATS. We kind of use MATS as a shorthand for that. That rule went into effect -- or that rule was issued as final in early 2012, with a compliance deadline in April of 2015.

The MATS rule established very stringent unit-specific emission limitations for mercury, for acid gasses, for particulate matter. For Big Sandy to comply with the MATS rule, it would have had to install a flue gas desulfurization system on both of the units or it could not have complied.

So the MATS rule itself was a major driver in looking at options available to the Big Sandy plant.

MR. GISH: I have no further questions, Mr. Chairman.

CHAIRMAN SCHMITT: Any questions from any of the settling intervenors?

MR. KURTZ: Can I ask one question, Your Honor?

CHAIRMAN SCHMITT: Yes, you may.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Had Big Sandy 2 -- had a scrubber been placed on Big Sandy Unit 2, what type of coal would it -- would it have burned? A high-sulfur coal or a low-sulfur coal?

A. I mean, ultimately it would be whatever was most economical, but a scrubber provides a unit the ability to burn a much wider range of coal than it might otherwise. Big Sandy had an SO2 emission limit that had been in place for many years that was tied to lower sulfur content coal. A scrubber would have opened up the range of coals that it could have

potentially burned.
Q. And that would include Illinois Basin coal as well as East Kentucky coal?
A. Potentially, yes.
MR. KURTZ: Thank you, Mr. Chairman.
MR. CHANDLER: Just one question.
CHAIRMAN SCHMITT: Yes, sir.

CROSS-EXAMINATION

By Mr. Chandler:
Q. Was Kentucky Power named as a party in the litigation that led to the consent decree?
A. Initially the complaints were filed against a number of our coal-fired units in West Virginia, Ohio, and Indiana. Kentucky Power was not named in that.
The settlement, though, brought all of our operating companies and all of our coal units into it. The purpose for that was the claims that the government made related to what we considered routine maintenance at our plants, we did that maintenance at all of our coal units because it's pretty routine, and the government could have subsequently filed the same claims against our units that weren't initially named. So we felt that it was in the interest of all of our units to bring all

of the units in the companies into the settlement.

Q. So Kentucky Power is not a named defendant in the litigation?

A. Not initially.

Q. And the Big Sandy units were not named as, I guess, defendant generators in the initial complaint?

A. That's correct.

MR. CHANDLER: That's all the questions we have.

CHAIRMAN SCHMITT: Staff?

RECROSS-EXAMINATION

By Ms. Vinsel:

Q. We do have a follow-up question, Mr. McManus. In your rebuttal testimony you discussed the expectation that litigating each of those units that were part of that litigation but also including Big Sandy and Rockport and other units would lead to a less favorable outcome as compared to the settlement.

Could you explain in more detail the risks that were in regards to a full litigation of those, which includes Big Sandy and Rockport?

A. The risk that we saw at the time was an outcome could have been establishment of stringent unit-specific emission limitations for nitrogen oxide, sulfur dioxide at our units.

The value that we saw in the system settlement was, while there was a schedule for installation of our pollution control, there were not -- with maybe one exception, there were not unit-specific emission rates. We addressed emissions with a systemwide annual cap for sulfur dioxide and nitrogen oxide.

So that provided a lot more flexibility in how we could comply and how we would then operate the units going forward to stay within that system cap as opposed to unit-specific emission rates, which was the government's objective initially.

MS. VINSEL: We have no further questions at this time.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

VICE-CHAIRMAN CICERO: No questions at this time.

CHAIRMAN SCHMITT: No questions.

Anything further?

MR. GISH: No, Mr. Chairman.

CHAIRMAN SCHMITT: Is there any reason why -- does anyone object to this witness being permanently excused ?

MR . COLEMAN : Could I ask a question ?

CHAIRMAN SCHMITT : No, you cannot .

MR . COLEMAN : Okay .

CHAIRMAN SCHMITT : Any objection to this witness --

MR . CHANDLER : We have no objection to excusing Mr . McManus .

MS . VINSEL : We have no objection .

CHAIRMAN SCHMITT : Thank you .

Mr . McManus , you may be permanent -- step down and permanently excused .

MR . MCMANUS : Thank you . And I appreciate the Commission accommodating my scheduling needs . Thank you very much .

MR . COOK : Mr . Overstreet , before -- and Mr . Chairman , before we proceed , I'm just wondering procedurally , these monitors here that usually are on during a hearing , they 're not in operation , and I don 't know if it 's possible for them to be in operation or not , but they 're very helpful to intervenors , and I'm sure Company counsel too , to note the time references .

CHAIRMAN SCHMITT : Is your monitor on ?

MR . OVERSTREET : It is not on, Your Honor , but I don't think they have been on, like during the fuel adjustment clause hearings for some time.

MR. CHANDLER: Do we maybe just need to turn them on? I don't know, it may just be as simple as --

CHAIRMAN SCHMITT: Before Mr. Satterwhite, why don't we take five minutes and ask our technical person here --

MR. OVERSTREET: Surely.

CHAIRMAN SCHMITT: -- about the situation.

We'll be in recess for perhaps ten minutes.

(Recess from 10:00 a.m. to 10:06 a.m.)

CHAIRMAN SCHMITT: All right. We're now back on the record.

Mr. Overstreet, please call your next witness.

MR. OVERSTREET: Thank you, Mr. Chairman. We call Matthew J. Satterwhite.

CHAIRMAN SCHMITT: Mr. Satterwhite, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. SATTERWHITE: I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Overstreet, you may ask.

MR. OVERSTREET: Thank you, Mr. Chairman.

MATTHEW J. SATTERWHITE, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Satterwhite, please state your name and position.

A. My name is Matthew J. Satterwhite, and I'm the President and Chief Operating Officer of Kentucky Power Company.

Q. And when did you become President and Chief Operating Officer of Kentucky Power Company?

A. Officially my first day was December 8th, 2016.

Q. And where is your business office?

A. My office is located at 855 Central Avenue, Ashland, Kentucky 41101.

Q. Okay. And, Mr. Satterwhite, did you cause to be filed in the record of this case direct testimony, rebuttal testimony, and settlement testimony?

A. Yes, I did.

Q. And did you also cause to be filed in this

case responses to data requests ?
A. Yes .
Q. Do you have any corrections to those filings ?
A. No .
Q. And if you were asked those same questions here today , would your answers be the same ?
A. Yes .
MR . OVERSTREET : Your Honor , the witness is available for cross -examination .
CHAIRMAN SCHMITT : Any -- counsel for any of the settling intervenors have any questions ?
MR . KURTZ : Yes , sir . I have a question to Mr . Satterwhite that 's sort of been raised by the commercial group promotion that 's not addressed in the settlement agreement .

CROSS -EXAMINATION

By Mr . Kurtz :
Q. Mr . Satterwhite , you believe that the revenue requirement contained in the settlement agreement is reasonable , correct ?
A. Correct .
Q. And you believe the Commission should approve it , correct ?
A. Yes .
Q. Now , if the Commission does not approve it

and creates what's called new money, the type of new money that the commercial group was talking about, the Commission would have discretion as to how to allocate that new money?

A. Correct.

Q. And the proposal from the commercial group is to give the first 500,000 to rate LGS, correct?

A. That's my understanding. I have not read their stuff in detail.

Q. Now, would the Commission also have discretion, in your opinion, to give all the new money to the residential customers, for example?

A. That's ultimately in the Commission's decision. I guess the one caveat I would put in there is if the -- I think there's fair balance amongst the parties that did reach a settlement agreement in this case, and if the Commission were to decide to change something in one area, it would be to provide that balance still and change something else in the settlement agreement in a different area to still provide that overall balance that the parties have met.

But ultimately it's up to the Commission's discretion, and I think it's perfectly reasonable if there is something to apply that to the residential class.

Q. Would Kentucky Power object if 100 percent of any new money was allocated to the residential customers?

A. Again, with seeing my previous answer of hoping there's balance overall, because it was tough to reach a settlement, we wouldn't object to anything being applied to the residential class.

MR. KURTZ: Thank you, Mr. Chairman.

CHAIRMAN SCHMITT: Thank you.

Any other intervenor, settling intervenor, have any questions of Mr. Satterwhite?

If not, Mr. Chandler, questions.

MR. CHANDLER: If the Commission doesn't mind if Mr. -- is it okay if Mr. Gardner goes first?

CHAIRMAN SCHMITT: He certainly may.

MR. CHANDLER: Thank you.

CHAIRMAN SCHMITT: Mr. Gardner.

MR. GARDNER: Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Gardner:

Q. Good morning, Mr. Satterwhite.

A. Good morning.

Q. You -- is it fair to say that your participation during the settlement was active, that you were an active participant in the settlement?

MR. OVERSTREET: Your Honor, those settlement negotiations are confidential, and there's certainly no problem with this particular question, but I would strongly object to any discussion of the substance of representations and comments.

CHAIRMAN SCHMITT: Point taken.

You may ask, but with the understanding that, you know, settlement -- the details of the settlement negotiations won't be admissible.

MR. GARDNER: The -- this is the full extent of my questions regarding his involvement in the settlement.

A. With all those caveats, I guess what I'd say is yes. We manage as a team at Kentucky Power, so I rely on my team, and I try to build that culture that I want to hear what the input is of everyone, and I have a lot of people that are a lot smarter than me that I rely on, but I was actively involved in the discussions and making decisions as we moved through the settlement discussions.

Q. And you were physically here?

A. Absolutely.

Q. Okay.

THE WITNESS: And let me just say one more thing. It's sort of a point of privilege. I've informed the court reporter that sometimes I talk fast, and if she would just raise her hand if she gets -- if I start talking too fast, if that's okay with the bench.

CHAIRMAN SCHMITT: That's fine.

THE WITNESS: Just so she can keep up, or to tell me to slow down probably is more --

Q. Mr. Satterwhite, do you have your testimony in front of you in support of the settlement agreement?

A. Yes.

Q. The second one or the more --

A. Yes.

Q. Okay. If you would turn to page 5 of your testimony. In the bottom, the very last sentence in it, that -- on that page beginning on line 19, if you could read that one sentence, please, that begins with "Representatives."

A. (Reading) Representatives of KCUC attended all three settlement conferences, and the signatory parties provided copies of all term sheets to KCUC.

Q. Okay. Thank you.

MR. GARDNER: Your Honor, if we may approach with respect to an exhibit.

CHAIRMAN SCHMITT: Yes, you may.

MR. GARDNER: Okay. It's -- we're going to label this as KCUC Exhibit 1, and Mr. Osterloh is going to hand everybody a copy of it, if it could be marked that way.

CHAIRMAN SCHMITT: Yes. Let it be marked as --

MR. GARDNER: Thank you, Your Honor.

CHAIRMAN SCHMITT: At this point for identification.

MR. GARDNER: Only.

(KCUC Exhibit 1 marked for identification.)

MR. OVERSTREET: And, Your Honor, just so I can understand, the -- that yellow highlight does not indicate confidential information?

MR. GARDNER: Correct. Correct.

MR. OVERSTREET: Okay. Okay. Just --

MR. GARDNER: There is -- as far as I know, there is nothing --

MR. OVERSTREET: Okay.

MR. GARDNER: -- in any of our exhibits.

Q. So, Mr. Satterwhite, are you familiar with this document from the Public Service Commission called Annual Report Statistics?

A. I have not reviewed this document before, no.

Q. Okay. Let me ask you -- I have highlighted the line Kentucky Power showing the number of customers, and it shows in there commercial customers 30,293 and industrial customers 1,191.
Do you have any reason to dispute those numbers from the -- from the 2016 annual report statistics, in rough -- roughly?
A. I'm checking my initially filed testimony to see if I actually discussed this. Give me one second. Maybe it's not in my testimony, maybe it's in somebody else's testimony in the case.
What I can say is, I am familiar and my testimony does include the around 168,000 customers total. How that breaks down between commercial and industrial I can't testify to, but I'm sure somebody can for the company. But I can't -- I can't validate this for sure.
Q. Sure. And do you have any reason to doubt that this came from the PSC's website, the annual report statistics for the different utilities?
A. I'm not going to say it didn't. I see it's page 1 of 2. I imagine page 2 is other utilities. I don't -- I don't like to -- I have a one page with nothing on the back, so I can't say either way.
Q. Okay. Do you have any objections to me

saying in this -- in my questions of you of approximately 30,000 commercial and approximately 1,000 industrial customers in your territory?
A. You know, I guess we can treat it sort of as a hypothetical and someone later on can validate.
Q. Subject to check. Subject to check.
A. So I'd rather someone validate it within the record. There's always problems with subject to check of, when the hearing's over, how do you check it, how do you get something back in the record, but --
Q. Do you know --
A. For purposes of your questions, we can assume that, I think.
Q. Okay. I mean, do you want me to ask you specifically as to whom at Kentucky Power would have submitted this data that is on the website with the annual report? Do you want me to -- in order to validate it, is that what you would like to happen, at a break you determine who --
A. That's probably the best way. And I can even validate it at the break as well.
Q. Okay.
A. I'm not trying to be difficult, I just don't want to --

Q. Okay.
A. Because I haven't seen it before, I just want to be clear I haven't, but I'm sure we can validate this rather quickly.
Q. Well, we'll make sure that that happens at a break, and we'll have plenty of breaks over the next couple days, so we'll make sure that that happens.
But for purposes of my questions of you, I'm going to just refer to approximately 30,000 commercial customers and approximately 1,000 industrial customers.
A. Okay.
MR. GARDNER: All right. Your Honor, I have marked KCUC Exhibit Number 2, if we may approach and also provide that to the witness.
CHAIRMAN SCHMITT: Let it be so marked as KCUC Exhibit 2 for purposes of identification.
MR. GARDNER: Thank you, Your Honor.
(KCUC Exhibit 2 marked for identification.)
Q. What I have handed out in your -- are the tariff sheets for general service, the tariff sheet for large general service, and the tariff sheet for industrial general service. Are you familiar with these tariff sheets that were submitted as part of the settlement?

A. Yes. And these are the ones that are, on the bottom, date effective January 19th, 2018, so these are the proposed tariff sheets, correct? That's my understanding.

Q. Okay. So what I want to do is ask you a couple questions just to make sure I understand what -- how these tariffs will work and are supposed to work. One of the things is that, under the as-filed, the small and the medium general service, the small and medium commercial customer classes are being combined into Tariff GS, General Service?

A. Correct.

MR. GARDNER: Okay. And again, all of these highlights are mine, Mark, to make it ease -- Mr. Overstreet, to make it easier for the witness.

Q. So I've also highlighted that, this general service, which is the new where small and medium get put. Could you read that, how long -- or what's the upper limit until their maximum demand exceeds that in the GS?

A. So on the front page here under Rate, you're asking for the over 4,450 kilowatt hours?

Q. No. On the highlighted in the first paragraph about availability --

A. Oh, I'm sorry.

Q. -- for service.
A. I had should have taken your cue that you highlighted stuff for my ease.
Q. I'm trying to make this easy and fast.
A. It says maximum demand exceeds 100 kilowatts.
Q. Okay. So if there -- as it says in that first paragraph, if there's a general service customer and they have less that 100 kilowatts, this is the tariff that they would be served by?
A. And to be specific, it says, (Reading) Customers may continue to qualify for service under this tariff until their normal maximum demand exceeds 100 kW, excluding the demands served by the load management time-of-day provision.
Q. Perfect. You're allowed to read more than just -- just what I highlighted.
Okay. So let's turn to the next sheet, which is large general service, and could you read the first paragraph there? And, of course, read it all.
A. Sure. Under Availability of Service, the top of regional tariff sheet 9-1, (Reading) Available for general service to customers with normal maximum demands greater than 100 kW but not more than 1,000 kW, excluding demands served by the load management time-of-day provision.

Q. Okay. And let's go to the third sheet there, which is Tariff IGS, the industrial general service. Could you read that same language, please?

A. Sure. (Reading) Available for commercial and industrial customers with contract demands of at least 1,000 kW. Customers shall contract for a definite amount of electrical capacity in kilowatts which shall be sufficient to meet the normal maximum requirements.

Q. Okay. So let me -- let me repeat, just to make sure this is correct. Up to 100 kilowatts, and I understand that, it's you're in the general service. Between 100 and 1,000 you're in large GS, large general service. And above 1,000 you're in IGS, the industrial general service?

A. Those would be the qualifications listed in these tariffs, yes.

Q. Okay. And is there any reason why a -- that a -- for example, a large -- well, is there any reason why a manufacturer, for example, that has less -- a small manufacturer, a small industry, has a load that does not reach above 1,000 kilowatts, would that person be served under the large general service?

A. I'm not sure if there's other criteria that would put them in beyond a special contract , but clearly here the availability for these tariffs depends on the maximum demand of what they would use, so whatever that is, they would fall into that tariff .

Q. Okay . So -- but -- so again , if it was a manufacturer , except for what you've described , that person would be served under this as opposed to a large industrial -- the large industrial class ?

A. Yes . Their usage would match with which tariff is in here , and that 's how they would be served .

Q. Okay . So the way that these tariffs are set up, they 're really not set up on the type of business , the function of the business , whether it's a manufacturer , whether it's retail , whether it's a large Wal-Mart , it's not set up that way? These tariffs are driven by the -- the actual maximum K -- the normal maximum demands , that 's what determines which of these classes ?

A. Maybe , I would say . The caveat is, I have some really good customer service people and they get very creative working with people located in our territory . So I think this is the standard that 's used . I don't want to say this is absolute . There might be something else that I'm just not aware of in my position, but as a general sense, the first line here is sort of the eligibility of how they would -- how they would be used, and the type of business I don't think would enter into this, but the caveat being that the people that do this every day might -- might know of something I'm not thinking of.

Q. Okay. So -- one second. So -- and let's go back to the -- the third one, the industrial general service with the demand, maximum demand -- excuse me. And would it -- the tariff says industrial general service, but the first -- how it describes who's eligible, it says available for commercial and industrial customers. So if a commercial customer had more than a thousand kW, that commercial customer would be served under the industrial -- this industrial tariff?

A. Yeah. I think this isn't trying to pick labeling what class a customer fits in. It's trying to say for purposes of if you use a certain amount of power, this is the tariff that's available to you, sort of the contract with you that you can count on if you're going to be operating in our territory.

Q. Okay. And this -- other than what I described with respect to the combining of the two smaller general tariffs, this is the format that you-all already use? This isn't new for Kentucky Power with this rate case?
A. You mean the tariffs that we use and the --
Q. Correct.
A. -- the values? That's my understanding, yes.
Q. Okay. And another approach might have been to use NAICS? I mean, there may have -- the North American Industrial, whatever those standards are, to determine which is in -- which customer is served by which class, but these do not -- but these tariffs you're looking at load; is that correct?
A. Yeah. I'm not familiar with the NAICS example that you brought up. I will say that when I came in, I took our entire company across the board and said, "I want to understand everything we're doing here and what options we have in the case," and that didn't come up as a change --
Q. Okay.
A. -- that would want to be proposed.
Q. Okay. So if a -- so it wouldn't surprise you if, in fact, there were some retail customers serviced under the Tariff IGS, the Industrial

General Service?
A. My expectation would be that we look at the sentences that we've talked about, and if a customer fits in there, that's available to them. It's not that we're labeling and saying -- judging customers, I guess. The purpose of tariffs, as you know, is to put a contract out there for customers in the public domain so they can count on something and know what tariff class they fit into. And so people can fit in here regardless of what they may label themselves in their every day business.
Q. Okay. So it wouldn't surprise you if one of the representative members of the commercial class being Appalachian Regional Health Care is served -- part of their load is served under this tariff, the IGS?
A. Under the IGS tariff?
Q. It wouldn't surprise you if that were true?
A. I guess I'm just struggling with the word "surprise." If someone is served under the IGS tariff, we consider them an IGS customer, because that's the tariff that's guiding them.
Q. Okay.
A. So while they may call themselves commercial or IGS for purpose of the company, if you fit within

the tariff, we're considering you IGS.
Q. Okay. And that's very precise. I mean, I hear you say that there are -- you know, you could have asked -- you know, you could get your customer service to see if there's some creative way to get somebody to a favorable tariff, but other than that, these -- this 1,000 and this 100, I mean, those are precise?
A. This is the standard way of looking at how you fit into a classification of tariff.
Q. Okay. Likewise, in part of the testimony later on there's testimony about the importance of manufacturing jobs and that one of the reasons for that being so and to the -- to the company, but not all manufacturers, not all people who add value to products necessarily end up in the industrial class, correct?
A. Customers can end up anywhere. The industrial class really is the economic driver in the region. The way I look at it is, someone that's typically an IGS customer could probably locate anywhere in the country, and so the competition is not just regionally around population centers, it's more of a type of industry, a larger manufacturer that could go across the river to Ohio or West

Virginia, could go to California. So an IGS customer is someone I think could be more mobile.
Q. Okay. But they -- but that doesn't mean they are more mobile? I mean, you're -- I mean, that's just your -- your summation -- your belief that that's the case?
A. Nothing -- nothing's an absolute. I'm just saying in general how I look at the customers, and typically the ones with IGS are the ones that I know we're competing with with other states, now that I've been so involved in economic development. So we'll look at that tariff. That's really what we're comparing to someone that is competing nationally.
Q. Okay. But those are not necessarily the only customers that fit into that particular class?
A. No. You talked about the hospital. Obviously the hospital wants to be near where patients are going to be, and they might not be in California serving Eastern Kentucky, so obviously there's exceptions.
Q. Okay. And so your tariff structure is really just a convenient sort of general way of looking at the different classes, commercial and industrial; is that correct?
A. Again, I think the label you're putting on,

is a convenient way to look, that's what I'm struggling with in your question. It's based on usage and it's a convenient way to put a tariff out there for the public to understand what their price is going to be if they locate there.

Picking whether you're commercial or industrial as a label, quote, unquote, the Company really isn't interested in. It's a matter of letting companies know, when you run your metrics and you run your dollars and your usage, where are you going to fit when you locate.

Q. Okay. And, I mean, you've already talked about this, but economic development is very important, is an important -- is important to you, it's important to the Company, and you've spent a lot of time with economic development on behalf of the Company; is that correct?

A. It's not just important, it's vital. I mean --

Q. Okay.

A. -- you know, when I -- when they asked me and I was considering becoming president of Kentucky Power, I looked at the financials and knew a rate case was needed. And the regulatory compact says a company has the ability to file rate cases because they have a right to earn a fair return. But I knew over time you can't just constantly come in and file rate cases, so you have to change the denominator overall to be respective of your community and your whole region.

And so I came in as my number one goal, after the safety of my employees, is economic development. We've gotta put all of our efforts into there. We gotta tear down county lines, political lines and everything and be one big region. And I think we've been successful in that so far.

A lot of the groundwork was laid before I even got there. But it really is what we're focused on every day, because we need to change the face of Eastern Kentucky and bring the diversity of industry there. And that's going to help heal not just the concerns people have with the electric rates but everything else. All the social issues that sometimes get mixed up when someone comes in and asks for an increase under the regulatory compact, those social issues also get taken care of when we rise all boats with economic development.

Q. The -- do you remember speaking at a Leadership Kentucky presentation in Hazard that I happened to be at?

A. I do remember, yes.
MR. GARDNER: All right. So we'd like to hand out, if we may, Your Honor, KCUC Exhibit 3.
CHAIRMAN SCHMITT: Let it be so marked as KCUC Exhibit 3.
MR. OVERSTREET: I'm sorry, Your Honor. Did you say 2 or 3?
CHAIRMAN SCHMITT: This is 3.
MR. OVERSTREET: Three. Okay. That's what I thought you said. Thank you.
(KCUC Exhibit 3 marked for identification.)
Q. (By Mr. Gardner) Mr. Satterwhite, are you familiar with this document, this Exhibit 3?
A. Yes. I was just flipping through. Yes, this is the document I presented to your group.
Q. And if you would turn to page 7 of that doc -- unnumbered 7. It doesn't have a number.
A. I apologize. That makes me a bad presenter, right? I didn't number my pages.
Just for clarification, is that the defense of aviation?
Q. Yes. Yes. And in the middle of the page on the left it talks about those skills that are existing there, and it talks about transition into these industries. And one of those industries is

automobile part manufacturing , one is aerospace .
And by the way, you're pretty aggressive in pursuing aerospace as an industry , right ?
A. It's the -- it's the leading opportunity we have to diversify the economy in Eastern Kentucky , so yes .
Q. Okay . And you also mention in this wood product manufacturing .
A. I'm sorry , I missed that last part .
Q. You -- right beside aerospace you mention wood product manufacturing .
A. I'm not seeing where that is on here .
MR . OVERSTREET : May I?
MR . GARDNER : Sure . Sure .
A. Oh, in the -- yes . Okay .
Q. Do you see that ?
A. I see that now . I was looking on the side , the language on the side . Yes , I see that .
Q. Okay . And you're aware , aren't you, that one of the representatives for KCUC is, in fact , in wood product manufacturing and operates mills in east -- in the territory of Kentucky Power ?
A. Yes . And, in fact , one of the first meetings I had before I was president was with that individual .

Q. Okay. And you know that in spite of the fact that they are adding -- that's an important industry, isn't it? Because it meets the qualifications of adding value that could be exported.

A. It's an important industry because any industry in Eastern Kentucky is important.

Q. Okay.

A. So -- and also it can be exported as well.

Q. Okay.

A. I don't want to pick winners and losers of what's not an important industry. I want to support everything.

Q. The -- are you aware that that is serviced not under the industrial but under the commercial class?

A. I have not reviewed their bill to see what class they're under.

Q. Okay. Do you remember also at that meeting where you indicated that at the current time you're not recruiting as -- businesses that you're looking at do not include data centers because data centers are not producing -- although they generate a lot of kilowatt hours, they're not -- they don't provide many jobs?

A. Yeah. What I was explaining there was what I look at when I go to look for companies, and my goal was to bring large users that have a lot of jobs. So if they have very few jobs, I don't want to use the precious flat ground we have in Eastern Kentucky for something that would just help the utility company with usage, I want to provide the balance to make sure I bring a lot of the jobs would that to bring people -- put back -- people back to work that are there and bring people back that have left.
Q. Okay. As you go out recruiting, is -- do recruit -- do companies ask about the education, or is the education that they'll be going to important?
A. Yes. Brad Hall, who talks with more companies than me -- I tend to get involved when it's a likely prospect to come in. Brad Hall, who hopefully you'll get the chance to talk to and can really tell the story of all the work that's been done here, because it's exciting, he might have a better explanation for that. But the companies that I have met with, education is important. Absolutely.
Q. And I'll ask him that as well, but if I could ask you likewise, is high-quality health care such as ARH important when they -- for companies that

would be coming to Eastern Kentucky?
A. The companies I've talked with, the education is really focused on training the skilled worker and can it be adjusted. We have the best -- you know, the technical schools that we have here in Kentucky are the best I've seen anywhere I've lived, and I've lived a lot of states, and they have really been open to changing their curriculum.
If I bring a company in, let's say from Germany, and they want to have a specific system put in place, all the technical schools have said, "We'll change our curriculum directly for that."
So on education, that's really what the focus has been.
I'm sorry. Was your question, though, health care? Was that a separate question?
Q. Health care. Yeah, second, is that --
A. Health care has not come up in the conversations I've had with these companies as something that they're looking for. I'm sure it's a concern every company has.
As an executive, I know that's a concern, but that's not come up in the lead conversations. That's not why someone's locating in Eastern Kentucky. They're locating for the skilled

available workforce that we've documented that we have and the opportunities that they have in the area.
Q. Is it an important asset to have high-quality health care?
A. I think benefits are always an important thing that any company, hopefully, with a good corporate culture is looking for for their -- for their employees.
Q. So the answer is yes?
A. Well, is your question about what people -- are you asking me individually or for what companies have --
Q. Well, I'm asking you individually or as the president of Kentucky Power, is having high-quality health care such as ARH of value?
A. Absolutely.
Q. Okay. Kentucky Power -- excuse me. KIUC had a particular witness named Barry Kornstein who talked about economic development. Do you know him?
A. I do not know him.
Q. Okay. Did you read his testimony?
A. I'm trying to think. I don't remember that name. I'm sure I read it, but I don't remember specifics right now.

Q. Okay. He indicates in his testimony, and I'm just going to say this generally, that manufacturing is important because of its in the global market, you're exporting products, and he also mentions sawmills and wood product processing.

Do you have any --

MR. OVERSTREET: Your Honor, could I show the witness that page of the testimony?

MR. GARDNER: Sure. It's page -- he mentions that -- yeah, you can do that. It's page 6 of his testimony.

MR. OVERSTREET: May I approach?

CHAIRMAN SCHMITT: Yes, you may. Yes, you may.

THE WITNESS: Thank you.

MR. OVERSTREET: Mr. Gardner, I think you said page 6?

Q. Page 6 of his testimony, and lines 16 through 20. And among others he mentions wood product processing.

A. So here it's referring to the top 13 industries that he's found in the territory, and he mentions chemical manufacturing, food processing, wood product processing, tire manufacturing, and metal production.

Q. Okay.
A. Is that what you're referring to?
Q. Yes, sir. And then in his report, which is attached as an exhibit, on page 3 of his report.
A. Okay.
Q. That very last line in the first paragraph that begins with "Though not necessarily labeled in the chart, the industries include." Do you see that sentence? Page 3 of his report, the economic importance of industries in Kentucky and electric --
A. I see a paragraph that starts "However" and a paragraph that starts "With." Which one are you referring to?
Q. This is page 3 of his -- of his attachment to his testimony.
A. Yeah. Does the last paragraph start with the word "With"?
Q. No. I'm sorry. I'm talking about the paragraph that says "The figure below."
A. Okay. Now I'm with you.
Q. And then I'm talking about the last sentence in that paragraph.
A. Okay.
Q. If you could read that.
A. Let me read the whole paragraph real quick.

Q. Sure.
A. Okay. I've read it.
Q. And if you could read out loud that last sentence.
A. Though not -- it talks about the industries in the overall paragraph, what's found in the counties, and then it says, (Reading) Though not necessarily labeled in the chart, the industries include chemicals, both human and animal food manufacturing, sawmills, and iron and steel plants.
Q. Okay. Thank you.
A. If you have further questions, I think, again, Mr. Brad Hall would -- he's more in touch with the exact industries at every level in the territory.
Q. As -- if you could turn to your own testimony, the same one that we were -- on page 9 of your testimony, please.
MR. OVERSTREET: And this is the settlement testimony?
MR. GARDNER: Settlement testimony.
MR. OVERSTREET: Thank you, Mr. Gardner.
MR. GARDNER: And that's the only testimony that I'll be asking questions from.
MR. OVERSTREET: All right. Thank you.

Q. And at the top of page 9, if you could read the sentence beginning "The signatory parties."
A. Sure. (Reading) The signatory parties used the decrease in the revenue requirement first to remove the subsidy provided to the residential customers by the industrial customers receiving Tariff -- receiving service under Tariff IGS.
Q. So what -- tell me what that means. What happened?
A. The settlement provided a unique opportunity with an idea that was first raised in the KIUC testimony to reduce the revenue requirement by using a creative option for deferral of some Rockport costs and some other things that we worked in through settlement. We found a level that we could be comfortable with with the balance of everything else in the settlement testimony, and so there was an overall decrease in the revenue requirement.
So we took that -- and one of the goals of the Company overall has always been -- and the Commission in the past has been to gradually move away from the subsidies that a lot of classes have provided to the residential customers.
And this provided an opportunity to start with that economic sort of theme that we have

economic development, remove the subsidy from the industrial class, the largest sort of national-view companies, and remove that subsidy and then still apply some of that benefit that you can only get through that settlement to the other classes as well to reduce overall the rates for everyone.

Q. Okay. So in other words, what the settlement did, which was not asked for in the -- you-all's original application, was came close or approximately made that industrial class, those thousand or so, quote, industry or commercial customers in that class were reduced basically to cost?

A. Yeah. The goal was to reduce the subsidy on them to fit the overall theme of the economic development and attracting new industry from all over the country and all over the world in Eastern Kentucky. So that's where we applied the first part.

And then we made sure that the impact of the creative balance in the settlement agreement could also help all the other classes as well by decreasing the cost. But it started with the industrial class, trying to remove that subsidy.

Q. Okay. And that first reduction was not

applied to all the other classes, correct?
A. Correct.
Q. Okay. And you --
A. You can't -- you really can't, in one case, probably do that for everyone. As we said -- as I said before, the Commission has talked about gradualism of moving towards that, but the uniqueness of this settlement provided an opportunity really to hear and respond to what we have heard in the public hearings and every where else: How are you going to attract major business, major industrial customers? And so this gave us a chance to apply that to the IGS rate.
Q. But that was not gradualism with respect to that class, that was basically with one fell swoop that was done, right?
A. It was not -- because there was such a big movement and balance provided by the settlement agreement, there was a large an opportunity to really take care of an issue that -- I don't want to get too close to what we talked about in settlement discussions, but I think publicly people would all say, you know, new rates, there's concern about industry moving in, the large, high-volume, lots-of-employee industries, and so we took -- we

seized upon that opportunity, as you can see reflected in the settlement, to take away that subsidy to try to make sure we don't have that risk as we move forward with all the companies I'm talking to every day.

Q. Even though some of the -- I don't know how many, but even though I can -- I would assume many, some of the -- those who take tariff under IGS are not these -- do not have large amounts of jobs, and people on the other side of that 1,000 kilowatt line, such as wood products manufacturing or sawmills, provide jobs, lots of jobs, they export, and they're not on that line, so -- across that line, right?

A. They're not on the IGS?

Q. Yeah.

A. That's correct. That doesn't mean that there's, you know, any less concern for those businesses. This was just a matter of -- you know, they all received, as a result of the balance in the settlement, a decrease in the expected increase that comes from this rate case.

The settlement, though, goes above and beyond that and really supports the overall -- overall efforts of what we're trying to do in the region, and you can't take away everything for everyone in subsidies from the beginning, because then the residential customers are paying a lot more.

What this did was not add to the residential customers and allowed them to also have a decrease but also still support the overall theory of the IGS customers. The large 900, 1,000 jobs that could come in, I can go attract those now. I have a better chance of doing that. Which a lot of the commercial customers, there are some that look more, walk and talk like an IGS customer and are served under that tariff, but also a lot of those are really dependent on me and the communities and the judge execs and everyone else working together to bring in those large companies so that the hair salons, the fast food places, the restaurants, all those can open up because they can cluster to when I bring in those IGS customers.

Q. So it's your opinion that giving that subsidy to that class was -- and that others who are close to that -- who had some of the characteristics that you want which are not in that class, that that's fair, just, and reasonable?

A. I wouldn't say I have given a subsidy to any class. It's removing a subsidy.

Q. Excuse me. Correct.
A. So what it does is it starts to work towards sort of where most commissions want to be, you know, cost-causer, and it starts with the IGS. That's where we started with this.
So we had an opportunity, because we were decreasing the revenue requirement, to start with that largest class, and that's just where we started.
Q. So you believe that's fair, just, and reasonable?
A. Yes. Absolutely. It's good for economic development, it's good for Eastern Kentucky, and I know it's going to help me bring more jobs to the region.
Q. Let me ask you if you could turn to your testimony, please, again, or keep it there. And on page 2 and 3 -- starting on line 18 of page 2 you say, "The major terms of the settlement agreement," in your testimony.
A. Page 2, line 18, that's where I start to summarize the major terms, yes.
Q. Okay. And the next page, item number 8 is the Kentucky Economic Development Surcharge?
A. Yes.

Q. And this was where -- so do you recall what was in the -- in the application with respect to KEDS --
A. Yeah.
Q. -- and what the change was in the settlement?
A. Let me start with what we have currently today in rates.
Q. Great.
A. That's a 15-cent charge that customers pay, and then shareholders match that dollar for dollar.
Q. All customers, no matter what the class?
A. It's been per meter.
Q. Okay.
A. And in the application that we filed, we proposed, after talking with our community groups -- and they were very encouraged by this and thought it was a great program, and we knew there was lots of need for it. We increased that to 25 cents per meter.
Through settlement negotiations, that changed to what's reflected here, where it decreased that amount to 10 cents overall for residential customers per meter and increased it to $1 for nonresidential customers.
Q. Okay. So that that -- so -- and that was

done in the settlement, where the per meter was -- for the nonresidential customers was increased to $1?
A. That's a result of the balance of the overall settlement agreement, correct.
MR. GARDNER: And we'll hand out Exhibit Number 4, please, Your Honor, KCUC Exhibit 4. And this is part -- or Exhibit Number 1 to the settlement agreement. And again the yellow is what I marked.
A. Just to be clear, this is what's already in the settlement -- the attachment to the settlement agreement?
Q. Yes.
A. This is the same document?
Q. This came from that, yes.
A. Okay.
Q. And your attorneys can check that, but --
MR. OVERSTREET: I have. Thank you.
Q. Okay. So this is -- so in -- so I've highlighted HEAP KEDS. And so what you see here is what the -- if you look at SGS and you look at the lines MGS and you add those two together, you get the 316,830, which is the new category GS?
A. Correct. SGS and MGS are just shown for ease

of understanding what changes were, but GS is the category.

Q. Okay. And where -- and the total, then, in GS, the small- and medium-size customers is what, the increase?

A. The amount listed here is $316,830, and that represents the $12 a year that each commercial customer would pay for the program.

Q. Okay. And that's, in broad terms, consistent with this notion that there are 30,000 commercial customers serving -- served?

A. Yes. I could probably do the math and see --

Q. Okay.

A. -- divide that and see how many customers there are, but yes.

Q. Okay. So --

A. It's the $12 times the number of commercial customers.

Q. Okay. And the increase -- what is the increase to IGS?

A. IGS is $694.

Q. Okay. So my question for you is: Do you believe that that big increase to small and medium commercial customers of 316,000 is fair, just, and reasonable?

A. Yes.
Q. Okay.
A. The overall theory of this, again, is, you know, we want to -- we want to help all our communities. A lot of the grants that we're able to give out do help commercial customers, a lot of very small customers.

Mr. Hall can talk about the organizations that have already opened up. I'm thinking of the helicopter manufacturing company, Thoroughbred, and others that would fit into that classification. There's a real benefit, a lot of opportunity for them there. And also, again, if this is -- this is --
Q. And, excuse me --
A. -- a matter of the number of customers, and it's the $12 a year for the number of customers to benefit the whole region.
Q. So -- I'm sorry. So the manufacturing one that you described, that takes service under commercial?
A. I'm not sure. I think they do, because it's not a large company. It's a small -- really it's a maintenance facility.
Q. Okay. If you could turn to your testimony

again, please, Mr. Satterwhite, pages 13 and 14. I'm sorry. The settlement. Excuse me. The settlement.
A. The settlement agreement?
Q. Yes.
A. I am there.
Q. Okay. So the last sentence on page 13 of the settlement, continuing over to the top line on the next page, could you read that, please?
A. Sure. This is under the Tariff K-12 School, extension of what we were doing before, and it says, (Reading) Tariff K-12 School shall reflect rates for customers taking service under the tariff designed to produce annually in the aggregate $500,000 less from Tariff K-12 School customers than will be produced under the new LGS rates to be established under this settlement agreement from customers eligible to take service under Tariff K-12 School.
Q. Okay. So this is the 500,000 that was discussed earlier that basically came out of the settlement? The 500,000 came from LGS to public schools?
A. Yes. I would state it a little differently. This is the continuation of what was in existence with the rates that we have today. That wasn't

proposed by the Company in the case, but at a settlement, it was a term that was decided by the parties to continue.

Q. Okay. And so in addition to LGS not getting to participate in that first line of reducing their -- the IGS costs, this is -- LGS is actually -- their subsidy of other classes actually increases with this $500,000 subsidy?

A. Not from the rates in existence today.

Q. Okay. It is nonetheless a -- it was added during the settlement to take -- to reduce -- to increase the subsidy that -- I'm not -- it's -- get that right.

But it -- this 500,000 provides, in effect, that LGS is then subsidizing the public schools to the extent of 500,000?

A. That's -- you know, I don't know if I agree with the terms, but the impact of the result of continuing the program that we have now, that $500,000 comes from that LGS class, yes.

Q. And that was not in the original application?

A. Correct.

Q. That arose out of the settlement?

A. Yes. It's here now because of the settlement, but it's also in existence today with

our rates. That's where I'm struggling with the "arose out of."
Q. You can tell you're a lawyer. And I'm not trying --
A. I try not to be.
Q. So I'm -- and you believe that that is fair, just, and reasonable --
A. Yes.
Q. -- to -- and although these -- this -- although in your major terms, bullets, at the beginning of your testimony, you talk about the -- in paragraph 10 you talk about the school energy manager and Tariff K Through 12. You don't mention as a major term that that 500,000 to support that program is coming just from LGS, do you?
A. The purpose of the major terms is to sort of give a quick summary of here are the topics, you can read more about the details. If I had all the details in the major -- in the sort of executive summary, there would be no reason to have a summary. You wouldn't have a summary.
So, no, it doesn't include it, but it includes it later in the testimony.
Q. Okay.
A. Especially since I -- you know, to me, when I

was preparing this, since it's a continuation of what we already have in existence, it was sort of -- I was able to just display that.

Q. One second. If we could turn to your testimony on page 23.

A. I'm there.

Q. And so -- and in the middle of that page you're talking about these two tariffs, the Tariff CS-Coal -- Coal, and Tariff CS-IRP.

MR. GARDNER: And I'd like to have marked KCUC Exhibit 5, which are likewise those tariffs.

MR. OVERSTREET: Excuse me, Mr. Gardner. Are these the currently filed tariffs, or they appear to be the --

MR. GARDNER: Yeah, they're attached to the settlement.

MR. OVERSTREET: Okay.

CHAIRMAN SCHMITT: Let 4 and 5 both be marked for identification.

MR. GARDNER: Thank you.

(KCUC Exhibits 4 and 5 marked for identification.)

Q. So there are two different tariffs that you're talking about, and I've handed you those two tariffs. So the first is Contract Service-Coal

Power and the second one is Contract Service - Interruptible Power.

And I'd like to ask you -- and I understand the purpose of this in general, and you're welcome to, you know, elaborate if you like, but it's to encourage coal companies to reopen or so that -- so that they -- so that that benefits the customer base, and so I understand that, but I'm trying to -- so in conditions of service on that page, on the first one of Contract Service-Coal Power, that last paragraph that begins with, "The customer shall contract for capacity sufficient," if you could read that, the rest of that, and then I need to ask you a question about that.

A. Sure. It says, (Reading) The customer shall contract for capacity sufficient to meet normal power requirements, but in no event will the amount contracted be for less than 1,000 kW at any delivery point.

Q. So does that mean that a mining operation, a coal mine that is not served under IGS because of the 1,000 kilowatt would not be eligible for this?

A. Well, I have to check here. Yes, that would mean that. I just paused because what -- as you said, the goal of this really was to do what we could do to see what -- how we could help the coal industry in Eastern Kentucky. And there was a sense that some of the tariffs that we had available currently coal companies weren't eligible for.

And so I sat down with my team and I said, "Assume -- presume nothing. What can we do to reduce barriers for coal operations, to get the regulatory world out of the way and let the coal companies tell us what they can do to operate and reopen?"

And so some of these -- I don't know if these were clarifications for preexisting conditions just in the interruptible and the general tariffs and they just followed this to make it clear that coal now also fits in that territory -- in that category.

Witness Wohnhas might know better, because he's the one that helped put this together for me so we could provide this benefit for coal.

So yes. The short answer is yes, that's what that means. I don't know if that's because it's parroting a different tariff we had in place and we're just clarifying to let the coal companies know they are now eligible for this.

Q. But it's only the large coal mines?

A. The ones that are above this category of

1,000 kW, correct.
Q. Okay. Even though on line 16 of your testimony you state, (Reading) Many of the coal operations are served under Tariff IGS.
So you acknowledge that there are coal mine operations that are not served under IG -- Tariff IGS, which is the -- you know, the 1,000 kilowatt IGS?
A. I'm not sure I understand your question. Can you ask it again?
Q. Well, my question is: So there are coal operations that are not served -- in your territory that are not served by Tariff IGS?
A. Correct.
Q. Okay.
A. And I think the goal of this overall was to let coal companies know -- was to open a conversation so that they would approach us. If there's someone that fits under less than this, they can approach us and then we have opportunities, under the provisions the Commission allows us, to approach the Commission if it makes sense.
We knew we couldn't do a bunch of, you know, quick hits, tiny things overall and sort of create a new tariff class for coal in the absence of a rate

case, but certainly one of the tariffs that we proposed and the Commission approved was -- you know, there's no pride of authorship with us. If they have a great idea, bring it to us. And the ultimately the Commission is the check and balance to make sure it makes sense for all customers, but any customer, any coal customer can come to us, and if it makes sense, we'll present that to the Commission for their decision, to see how we can all be supporting coal.

Q. So you're saying that that 1,000 kilowatt is -- should not be viewed as a barrier to participation by a small -- a smaller man -- a smaller coal company to participate in because you then present -- you have to come to the Commission to get approval for that?

A. What I'm saying is, I don't know if this is all three of the tariffs that were approved. It's sort of a suite of options for the companies. And this will let a company know -- and the Commission approved it, so companies would know they could automatically count on this. And that's what the tariff sheets really are, it's the contract with the customers. You can do it, you can take advantage of it.

But we also wanted to tell companies , "If you have other ideas , come to us, and we're more than willing to talk to the Commission about presenting those ideas ."

So if a coal company is watching and sees this , they're less than 1,000 kW and they have an idea , I'd say at least come talk to us. It might not work , but we want conversation to go, we're succeeding at that with a lot of companies , and we could present something to the Commission .

Q. So you do not view this 1,000 kW as truly a barrier ?

A. For these tariffs , the 1,000 kW is a barrier to take service under these tariffs .

Q. But you to not believe it's a barrier for the company to potentially participate in this ?

A. I don't want any -- I don't want any company that could open up a coal facility or any kind of industry in Eastern Kentucky to think there's a barrier without talking to me. That's kind of the culture change we're trying to do in Eastern Kentucky .

If you have an idea and we can get the regulatory rolled out of the way and it makes sense and other customers aren't subsidizing that , I want to talk to you and problem solve that together versus having coal tariffs somewhere that someone says, "I guess I'm not eligible, so I guess I can't do something." We're not going to rebuild Eastern Kentucky that way.

So I'm advertising, "Come talk to us. Bring every" -- I tell people, "Bring me crazy ideas. It's okay. We're willing to talk about them, because we gotta get a little crazy to build up Eastern Kentucky."

They're going to have to be smart, and this Commission is going to check that, and we'll file it with them to make sure it makes sense, but we want all ideas.

Q. So if you have a company that is, say, 700 -- not coal. If you have a company that's 750 kilowatts that describe the demand, you know, usual, whatever that language was that we looked at, and they are -- they're a small manufacturer, could they qualify with your blessing in going to the Commission to be tariffed under IGS?

I mean, how do you define -- or is your description about being flexible -- you used "flexible" earlier. I mean, I'm trying to understand what the standard is that -- I mean, it sounds as if on these tariffs they're not quite as a strict line as I was led to believe. Is that true or --

A. Absolutely not. If I gave that impression, I apologize. These tariffs are exactly the words that are in these tariffs, and eligibility, because the Commission has approved these, are bound by this.

I'm saying beyond these tariffs, I'm trying to create a culture in Eastern Kentucky of businesspeople talking to each other and seeing what they can do to create jobs in Eastern Kentucky.

So if you're looking to come through here and say, "I want to take advantage of this. Can you waive something directly in here and do that unilaterally?" I can't do that. I can only do what the Commission gives me permission to do. But if somebody has an idea, I'm saying come talk to us.

I think the other -- I think the point you were confused on is you said would we reallocate and call someone an IGS customer. We wouldn't do that either. That's not what we're saying. We're not going to relabel someone an IGS customer that's not an IGS customer.

Q. Even if they have a manufacturing capability, or even if they're a manufacturer?

A. Based on -- it's based on the usage for those categories. What I was talking about is there's a provision that we can talk to customers, and if the Commission agrees there's some kind of special circumstance, then the Commission can bless something different for them. I can't do that. I can only offer what's in my tariffs.

Q. No. I understand that.

A. That's what I was referring to.

Q. Sure. Sure.

A. If I was confusing, I apologize.

Q. But you don't view these as barriers to doing what might be best -- in the best interest of the individual customer, right?

I mean, if they convince you of a crazy idea, you're willing to go to the Commission to try to have that example that I gave you?

A. Yeah. And when I say "crazy," I --

Q. Manufacturer of widgets who has 750 is the maximum demand and they're not going to be in IGS, I mean --

A. Right. When I say -- I'm sorry.

Q. No, I mean, I'm just trying -- again, I understand you don't have the power to do it and only the Commission could make exceptions to that, but you -- you're sort of the gatekeeper, as you describe it. If it meets with your approval, you're willing to go to the Commission to try to, you know, alter some of these lines?

A. And that sort of -- I think you're trying to put stuff too much into a box where you can check it or not check it. I don't know that I'm the gatekeeper. I'm trying to facilitate free thought in Eastern Kentucky. I think there's some places, "It's never going to get better." That's what people think, and so people don't even try and have discussions.

A lot of crazy ideas, I use that facetiously because I don't want people to feel inhibited by -- it might be a perfectly logical idea, but it's been told no six times before. So all I'm asking for is an open conversation on ideas.

When I raise these tariffs, these tariffs are exact, they're in writing, follow them to the T for the Commission. But I don't want people that think only inside the box that's on the -- on the page, to treat that as we can't talk about other ideas.

So when I talk about bringing other ideas, I'm saying it's beyond these tariffs, but, you know, we can't just bring a -- just because someone says, "I want to pay a cheaper rate, that's my crazy idea," that doesn't make sense. It has to make sense for the region overall, this Commission has to approve it, so we have to bring them something that we agree upon, makes sense, that would really help Eastern Kentucky.

But I don't want to be -- I don't want to ever be perceived as limiting someone from bringing up an idea. Some of the best ideas that have been brought to me in my company, you know, are just someone has been told no three or four times before, and so I want to make sure people are sharing their ideas.

Q. Yeah, and I appreciate that. But you understand there are this line at 1,000 megawatts between upper level load commercial or manufacturers. There's a lot of rate differences on that line, and this -- and this rate case exacerbates that. It increases more and the increase is a lot greater than it is for the industrial class.

So there's going to be people on the -- I mean, I don't know how many of the 30,000 are going to say, you know, "I think I should be under there because I've got these characteristics, you know, because I'm a wood -- I'm a sawmill and I produce -- you know, I have 250 employees and I export half of my product overseas."

I mean, are you -- are you saying that people like that should come talk to you to see if you will make an exception to going on that -- you know, what that line is?

A. If this was about opening -- yes, in short, with the caveat that this was about new operations opening up, not existing operations that are just looking for a break for what they're doing right now.

And I guess when you talk about exacerbating the situation, I look at it completely different. I think what this case is doing is allowing a vital corporate partner to provide safe, reliable service, which is a key component for companies located in Eastern Kentucky, and bring more companies in so that the commercial companies, the commercial customers that help serve all the employees that come with those are vibrant and pop up and there's a lot more of those customers.

So it's really an overall strategy of: Do you stick where you are or do you want to have a strategy that grows the entire region and helps the commercial customers overall? And I think that's the strategy we have.

Q. So, just to conclude on this, you believe that notwithstanding that there's -- there are -- there are coal companies who are serviced under the -- or excuse me. You said it's future. So future company is going to be serviced under the commercial -- large commercial tariff. You think it's fair, just, and reasonable even though they're not eligible for these -- this CS tariffs?

A. You're using "fair, just, and reasonable." I think it's fair, just, and reasonable for people to have conversations. What those lead to and the result of that will then be provided to the Commission to decide if it's fair, just, and reasonable.

So I can't -- I can't pre-bless everything someone brings to me now that I haven't seen. This is just the concept of these tariffs have already been declared fair, just, and reasonable, and companies can take advantage of those. Something else, let's talk about it. Let's see if it makes sense.

Q. So you believe as these are -- as this is, that it is fair, just, and reasonable?

A. What are you referring to as "this"? Are you going back to the coal tariffs?
Q. The tariffs, these --
A. The coal tariffs, yes.
Q. These -- these -- okay.
A. Absolutely. These are just an extension of what the Commission has already approved as fair, just, and reasonable.
Q. Okay.
CHAIRMAN SCHMITT: Before we go on to another topic, let's take a break for about 15 minutes. Okay? We'll come back -- be in recess until 11:30.
(Recess from 11:14 a.m. to 11:28 a.m.)
CHAIRMAN SCHMITT: We are back on the record, but just a second before we start. We will -- at 1:00 o'clock we'll recess for lunch. So I know there's a little restaurant up on the hill here at the 300 Building, but the reason I say that, if someone wanted to order now or get your group together, if you had to bring something in, now would be the time to do it, because otherwise you may not have much time from 1:00 to 2:00.
Mr. Chandler, your witness this afternoon, does he have to leave? Does he have a flight out this afternoon?

MR. CHANDLER: Yes, sir.

CHAIRMAN SCHMITT: What time?

MR. CHANDLER: What time is your flight?

MR. SMITH: If I leave by 5:30 or 6:00, it should be okay.

MR. CHANDLER: As long as he leaves Frankfort by 5:30 or 6:00, he should make it. I think it's at 7:30, 7:40 out of Lexington.

CHAIRMAN SCHMITT: Okay. Well, we just need to think about getting him on the stand. Depending on how long Mr. Satterwhite goes after lunch, we may have to interrupt and --

MR. SATTERWHITE: I'll assume that's not a comment on me.

CHAIRMAN SCHMITT: Oh, well, just don't let us -- make sure you keep track of your time so you can get your witness.

MR. CHANDLER: We'll be watching the monitor. Thank you.

CHAIRMAN SCHMITT: All right. Mr. Gardner, you may proceed.

MR. GARDNER: Thank you, Your Honor. We have tendered KCUC Exhibit Number 6.

CHAIRMAN SCHMITT: Let it be marked.

MR. GARDNER: Thank you.

(KCUC Exhibit 6 marked for identification .)
Q. Mr. Satterwhite , I am showing you an exhibit from Mr. Buck that was attached to Kentucky Power Company 's Supplemental Request to KP -- Kentucky Public Service Commission Data Request Number 1, question 73.
Is Mr. Buck here? Is he going to be here this afternoon ?
MR. OVERSTREET : Mr. Buck is here.
MR. GARDNER : Okay. Well, let me --
MR. OVERSTREET : I doubt he'll get on this afternoon .
MR. GARDNER : Okay.
Q. Well, let me just ask you this question : Does this table where column 4 is Current Income , is that the income to the Company that is produced by the particular rate class?
So if you would -- so IGS is 12 million , the commercial classes of roughly 20, 21 million .
A. I did not review this with Mr. Buck. He would probably be the better person to ask. It would be a guess . I believe so, but Mr. Buck could confirm .
Q. So -- okay. I'll ask him, but if that's correct , then this shows how much actual income the

Company makes from different rate classes ; is that right ?
A. If that 's what this means , then yes .
Q. And if it shows that the income that the Company is receiving from the commercial classes is already roughly $8 million in excess of IGS, do you think that 's fair , just , and reasonable ?
A. That that 's the income that we get from commercial customers , are you asking if that 's fair , just , and reasonable ?
Q. Right .
A. If the rates are fair , just , and reasonable , then the income that comes from that is fair , just , and reasonable .
MR . GARDNER : Okay . So that 's all I have , Your Honor . If I could move to admit the --
A. If I may , I did confirm something you asked me earlier . Do you want me to do that now ?
Q. Sure . That 's great .
A. On the 30,000 customers , I conferred with Company Witness Vaughan , who confirmed that that 's right around what those customers are , and he also offered that if you have any questions about the variation and what changes when you get from a large commercial customer to an industrial customer and

some of the line of questioning that you had, he can discuss that, and if you make a change, the impact of how that change is being -- IGS cost as well as the commercial cost.

MR. GARDNER: Okay. Great. Thank you.

Your Honor, that concludes my cross-examination of Mr. Satterwhite, and if I could move for the KCUC Exhibits 1 through 6 to be admitted.

CHAIRMAN SCHMITT: Any objection?

MR. OVERSTREET: No objection.

MS. VINSEL: No objection.

CHAIRMAN SCHMITT: Let them be admitted, KCUC Exhibits 1 through 6, into evidence.

(KCUC Exhibits 1 through 6 admitted.)

CHAIRMAN SCHMITT: Mr. Chandler, do you have cross-examination?

MR. CHANDLER: Thank you.

CROSS-EXAMINATION

By Mr. Chandler:

Q. And for this line of questioning, Mr. Satterwhite, I believe I handed you a binder earlier with some -- just to have on hand.

A. Okay.

Q. There may be --

A. Is there a surprise on each page.

Q. What's that?
A. Is there a surprise on each page?
Q. On each and every one. You only find out when you open it.
A. All right.
MR. CHANDLER: And, Your Honor, just as a precursor, these -- some of these are for reference and some of these may not be needed at all, so if it's okay if I wait to the end to -- or as I introduce them to number each one, if that's --
CHAIRMAN SCHMITT: That'll be fine.
MR. CHANDLER: -- fine with the Commission. Thank you.
Q. Ready, are you?
A. Yeah. Please.
Q. Mr. Satterwhite, how long have you been in your current position?
A. I officially started my current role on December 8th of 2016.
Q. And so I'm going to assume from that date that this is your first rate case in this position, correct?
A. Correct.
Q. And was this rate case initiated before assuming your position by a predecessor or did you

initiate this rate proceeding ?
A. It was not filed until after I became president .
Q. It was not filed until you became president . Was -- I have to assume that there 's a little bit of legwork leading up to filing of a rate case ; is that correct ?
A. Absolutely .
Q. So did you --
A. More than a little .
Q. Did you initiate that legwork or was it initiated prior to you being there ?
A. The Company 's earnings over the past few years have been well below the authorized return in the last rate case , so there was consideration of when to file a rate case already .
When I came into office , for lack of a better term , I guess -- when I took this position , there was consideration of what would go into a rate case . I asked that to sort of being restarted so I could take a fresh look at how we could minimize the impact of what we were going file and talked to our community groups .
We have a community advisory panel . We actually surveyed them and talked with them a lot

about some of the ideas that we had, to see what we could put into a rate case that provided the balance for the Company, for the regulatory compact, but still respected the community.

Q. So is it fair to say that one of your -- one of your first actions in office, in your position, was to -- was to initiate this rate case?

A. No. My first action in office, I remember very specifically, was I emailed all the superintendents at the high schools in my 20 counties and said, "I can't pay for everything, but let's be partners. I really want to focus on education. It's a -- it's a big point for me."

I went off and fought for half a million dollar grant for the schools to do video distance learning. We call it the GOAL program, Go Online and Learn.

But there were a number of things I did right away. The finances of the Company, making sure we're operating properly and earning the return that we should be earning under the regulatory compact, which is one of the many things I worked with.

Q. So let me reask my question, because I said one of the first things. I think you had alluded to that earlier. Do you disagree that it was one of

the first things?
A. Can you restate the question of what one of the first things was, just so I make sure I'm answering?
Q. You initiated Kentucky Power to begin changing the way they look towards filing a rate case?
A. I don't think it was specifically on a rate case. I think I asked everyone to look overall at all of our financials. I wanted explanations for what we do and how we do things.
The rate case that we filed is a result of that overall look at everything, but it wasn't come in and file a rate case, it was look at the overall financials, see where we are, what we should be doing going forward.
Q. And that's looking at the Company's financials, correct? And the word "looking," study, is that how you would --
A. I wouldn't say it's a study, I'd say it's leadership. I looked at the financials of -- to the best I could, of the region of the Company even before accepting the position.
That's one of the reasons why I talk about I knew -- if I didn't think I could help change the

denominator on economic development, I wouldn't have accepted the job. Whoever took the job in Eastern Kentucky, the corporate leader out there, you have to be committed to economic development.

So I was looking at the region as a whole, of how we could impact that, because we're all in it together, you know, it's all one team, and I want to make the whole region -- so it's not just the Company, it's the region as a whole.

Q. So would you agree that the Company provided quite a few figures in this case?

A. You mean like financial figures?

Q. Figures. Numbers, studies. I mean, I think it's a pretty hefty document, would you agree?

A. As with every rate case, there's a lot of documents and a lot of figures, yes.

Q. So I'm just going to run down here and refer to some of the figures or studies that the Company provided in support of its application and see if you agree that -- subject to check, that these things were filed in the case.

So a cost-of-service study, do you agree that there was a --

A. Yes.

Q. -- cost-of-service study filed? And there

were numbers and figures provided, I think in your testimony, to show that there has been a loss of customers?
A. Yes.
Q. And a study that determined -- or I say determined. An amount that was determined that -- an estimated amount that -- of increased revenues from deterred theft from adding additional employees?
A. Say that part again.
Q. A determination of an estimate of increased revenues from deterred theft from additional employees. I believe the Company looked at hiring a couple of employees to investigate things like that?
A. Yes. I believe that's in Witness Wohnhas' testimony.
Q. And I think in your testimony you provided the number of contractors at Kentucky Power --
A. Correct, in general.
Q. -- and employees? And the number of employees the Company employs?
A. Correct.
Q. You provided the AEP Foundation grant totals?
A. Correct.
Q. You provided -- given a 25-cent KEDS

increase, you provided the amount that that would total to the -- the amount that would equal to to be provided for -- in the K-PEGG program, correct?
A. I believe the detail was in Witness Hall's testimony. When you say "you," am I thinking the royal you?
Q. I'm -- as the president of the Company, I kind of -- I think I'll be specific, if I --
A. To me specifically?
Q. To you, yeah.
A. Okay.
Q. The Company provided estimates of what their OATT charges will be in 2018?
A. Correct.
Q. And then that was later revised, correct?
A. Correct.
Q. And then this is all without getting Mr. McKenzie's testimony, which I will try my best not to.
So where in the application or in the case did the Company provide studies on the ability for customers of any class to pay the proposed rates?
A. I don't think that's part of the filing requirements up front, so I don't think we did provide a study overall of going through all of our

communities and seeing what the direct impact will be.

What we did was provide testimony recognizing the economic situation in Eastern Kentucky and talking about how we're trying to change the denominator on economic development to really make sure we can not just deal with the charges we have as a utility, which is a service that people need, but for everything that people need, change in the overall environment in Eastern Kentucky.

Q. So you mentioned that, but you didn't file any studies in the application. Did you file any studies in response to data requests as to customers' ability to pay any of the proposed rates?

A. We gave a lot of information in the data requests. I can't say I've read through them all. I know there were questions on a lot of things. "Studies" is the word I keep getting stuck on that you keep providing. We provide information.

I don't know if the word "studies" is supposed to have a special connotation, but there's lots of information that was provided. I don't know anything specifically to what you're asking about, though, of an overall study of ability to pay.

Q. I guess -- and to clarify -- so maybe I can ask it again. To clarify, I believe study, maybe the next step is: Has the cust -- has the Company looked at the information that it has or can get and conducted an analysis as to whether or not customers can pay the proposed rates?

A. I don't know of a study that has that as, like, its purpose and the objective and then what is the outcome of that study. I would say overall, you know, we're in all our communities with our customer service representatives and our leadership. I'm talking to the county judges.

There is an understanding of what the situation is, but as far as applying the regulatory compact to that and saying, "This class is going to have this increase. What's that exact impact going to be?" I don't think we've done that study.

But I don't want to make that seem like there's a lack of understanding by the Company of the economic situation we have, and that's why we're so focused on what we're doing in Eastern Kentucky.

Tomorrow there's going -- I've asked for another grant from the foundation for $50,000 for a low-income weatherization and senior citizens with the Christian Appalachian Project. These are the type of things we're constantly looking for to see

what we can do to help the situation.
Q. Did the Company look at the effect that IGS rates may have on economic development, the expansion of coal mining, or Marathon's discussion about combined heat and power?
A. Can you ask your question again? I'm sorry.
Q. Has the Company looked or studied the effect on the IG -- that -- on -- that's probably the mistake.
Has the Company studied the effect that the increase of IGS rates will have on economic development, coal mining, or Marathon's discussion about combined heat and power?
A. We've discussed overall, in general, the impact it's going to have on customers that fall under the IGS tariff. It's part of the reason why we think the balance of the settlement agreement is very helpful going forward.
We've had some discussions with Marathon that I -- on the side. We're -- they're a good partner, right? And the head of Marathon lives about four houses away from me in Ashland. So we're constantly discussing to make sure we're in partnership of how we move forward to make sure they stay in Eastern Kentucky.

Q. But there's been no specific studies the Company has conducted?

A. Again, it's that word "study." We haven't done a formal "Here's the purpose of the study," there's -- it's constantly with what we do. We talk about the impact it's going to have on our customers. We talk with those customers directly. But a formal study, no, we haven't done that.

Q. Has there been any -- has the Company done any analysis about what the increase in uncollectibles may be due to either the proposed increase in the application or the stipulated amount?

A. Not that I know of.

Q. Did the Company determine what the overall impact would be on the average customers in each class and provide it in the rate case?

MR. OVERSTREET: Could you clarify your term "impact"? You mean -- because we published that in the newspapers.

MR. CHANDLER: Sorry. I'll restate that.

Q. Did the Company determine what overall -- overall. Not just base rates, but overall increase in rates would have on the average customer in each class?

A. I believe if you look at Exhibit 1 to the settlement agreement, it gives the impact by class, the percentage increase. And it figures in from the settlement agreement -- if that were to be accepted by the Commission, it goes beyond just the revenue requirement in this case to apply that impact to the -- how those might impact surcharges that are also charged.

So I sort of look at that second column of increase incorporating surcharge changes as the total bill impact. I wanted to make sure we reflected that and not just stick solely to a cold revenue requirement number.

Q. So that is the proposed -- that settlement column is the one you're referring to?

A. Correct.

Q. And can you --

A. Wait. Not -- the increase incorporating surcharge changes, that column. So the second big box, I guess.

Q. And so you think that includes all riders and trackers that the Commission --

A. I think that --

Q. -- or that the Company may have?

A. I think that includes the changes that might

come to riders as a result of what's in the settlement agreement.
Q. But that doesn't reflect the actual percentage change, the actual dollar or percentage change to the total bill? That includes things like DSM, the Big Sandy -- the Big Sandy Decommissioning Rider, things like that, right?
A. The --
Q. There's nothing in the record that shows the effect of the all-in impact of this rate case?
A. DSM is not considered as part of this rate case, that wouldn't be on here, but everything else that's changed in any manner as in relation to what's in the settlement agreement is reflected here on this exhibit.
Q. Again, I'm asking: Has the Company provided anything that says, "This is what the average customer's bill is going to look like. This is what -- the average rate they're going to pay"? At the bottom of the bill, the amount that's payable to the Company in a check form, has the Company provided that in this case?
A. I don't believe that's in any of the testimony. What's represented is the percent increase on this chart.

Q. Is the Company aware of any businesses that may be shuttered or expanded due to this rate case?

A. No one's come to me and said, "I am closing down because of your rate case."

Q. Okay.

A. That I can remember. People -- no one's called me up, I don't -- I've been in a lot of public hearings. I don't think people even said -- they might have said it's going to be difficult, but I don't know of anyone that says, "I'm shutting down because of this."

Q. Has the Company explored working with low-income advocates to develop rate structures to mitigate the effects of rate increases on low-income customers?

A. Yeah. We -- this was started earlier this year, I believe, in our regulatory office to work with low-income advocates to see how we can better cooperate. And it started with our DSM program, but then our other programs, how we can better partner.

One of the big things they told us is, there's always going to be customers that need the ultimate help and maybe aren't paying their bills at all. They want to find ways to help those senior citizen customers or customers that are right on the edge and find some way that we can maybe just get them past that one month.

We also talked with our community groups, our community advisory panels when we talked about what should or shouldn't be in a rate case that we would file. And they also talked about the low income and senior citizens as being their main concern. That led to our increase in the HEAP funds that we put in there to try to provide for those agencies.

But there hasn't been a discussion on a specific rate class, if that's your question, of a tariff for that.

Q. And do you know how a nine percent increase to the residential customers will help those efforts?

A. Help what efforts?

Q. The efforts that you just described.

A. Yeah. That'll provide the extra HEAP funds to help them provide help to those low-income customers.

Q. And how much --

A. That's part of that.

Q. How much -- how much -- is it five cents a meter per month? Is that the increase?

A. It's going up five cents.

Q. Going up five cents. It's going to be at 20 cents; is that correct?
A. I think it's 15. I'm not positive.
Q. It's going up to 15 or going up to 20?
A. I think it's at 10 now and going to 15, subject to check. I know --
Q. Subject to check, would you --
A. Or it's five --
Q. Do you know how much additional --
A. Or it's five, going to ten, one of those two.
Q. Do you know how much additional revenue that that'll --
A. That's reflected, I think, in the chart here. HEAP and KEDS are put together for the 326,000. So I'd have to do the math to separate those two out, but I believe that's in --
Q. You had a -- sorry. KCUC 4 had that amount, I believe.
A. Yeah, I think that's the same chart that combines the KEDS and the HEAP together.
Give me a second. It's definitely in my testimony, I just can't remember off the top of my head.
It goes from five to ten cents. That's on page 12 of my initial testimony.

Q. Five to ten cents?
A. Correct. And that estimates a combined increase of -- we'll add $284,891 to the annual amount, and the Company then matches that, for lack of a better term, shareholder dollar.
Q. And that's for HEAP --
A. Correct.
Q. -- correct? Has the Company explored working with any customers to develop rate structures or other ideas to mitigate effects of rate increases or poor economic conditions?
A. As far as a new tariff class?
Q. Let's make it maybe a little bit more broad than that.
A. I guess I'd have to understand what you're asking, then, because I'm not sure. That's -- when I hear that question, I hear, "Would you create a special tariff class?" Because that would be how we would reflect something like that.
Q. So you would agree that Mr. Gardner cross-examined you on the coal tariffs, correct, on the --
A. Yes.
Q. I think you refer to them as coal plus, the coal-plus tariffs?

A. Correct.

Q. And those are modifications of tariffs that apply to a specific class, right?

A. Correct.

Q. And did you -- can you -- can you tell me how those modifications came about in terms of the process before the Commission?

A. Sure. It started with me. When I came down here, I quickly noticed a perception that people perceive Kentucky Power as being against coal, which surprised me, because 80 percent of our generation is still supported by burning coal.

So as I reached out into the communities, you know, I knew a bit of the past, but I thought, you know, for economic development overall, we're not leaving coal behind. That's part of economic development. There's a big infrastructure there already. So what can we do to show we're a good partner and create more jobs in Eastern Kentucky?

So I had asked our staff to sit down and say, okay, like I -- as I said before, let's take away all barriers. People get confused with the regulatory process and tariffs. They hear "tariff" and they think tax, because that's the old English word for tax. That's something we found in our communities.

So I asked what can we do. And some of the questions and things that my staff brought up were, we have things like the interruptible tariff that in the past the coal association and the coal companies didn't know if they were eligible for. And I said, "Well, let's pull that thread. What else is out there that we can just make it perfectly clear that coal could be eligible for these things?" I said, "And let's take that to the Commission and file those to make sure it's clear and get the Commission's agreement that we could be doing these -- have these type of offerings."

So we did that as a way to say that Kentucky Power is a partner, the Commission is a partner, we all want to support coal operations and bring jobs if we can, and here are some possibilities if you're a new and you can put coal miners back to work, a possibility for you to take advantage of tariffs, most of which were already in existence, but it just clarified that the coal companies would be eligible.

Q. So you filed an application?

A. Yes.

Q. Thank you.

MR. CHANDLER: Can I make the tab A in the binder AG Exhibit 1, please?

CHAIRMAN SCHMITT: Yes, you may.

MR. CHANDLER: Thank you, Mr. Chairman.

(AG Exhibit 1 marked for identification.)

Q. And will you let me know when you're at tab A?

A. I'm there.

Q. And so -- I guess subject to check, but given that it has the stamp at the top of it as received, would you agree that this is the application that Kentucky Power caused to be filed in support of the -- as you refer to it, the coal-plus tariff changes?

A. Yeah, subject to verification of the document, this looks like it, yes.

Q. And for expediency I've left out the -- and to save the state a little bit of paper and money, I've left out the tariffs, but we have the new tariffs in the record in the current case, the stipulated tariffs.

So can you kind of -- to the best of your knowledge, did this application include requests to have certain accounting treatments that are different than the average accounting treatments the Company has?

A. I think you'd have to ask Witness Wohnhas that. He'd know better exactly what was in. I was more involved in the conceptual concept of what could we do, and then he sort of carried that out with his team of what to put into this filing, how that -- how what we wanted to do is impacted and reflected for accounting rules for the Commission to approve.

Q. Okay. Would you agree that this application is supported by economic data that is looking at the Kentucky Power service territory and the companies that Kentucky Power operates in?

A. Which parts of the application are you talking about?

Q. I would say parts -- page 2 through -- 2 through 9. I think on page 2, would you agree that you note that it discusses the amount of coal produced in given years historically?

MR. OVERSTREET: Can you direct him to a paragraph?

Q. Paragraph 3. It notes that Kentucky in 1988 was the largest coal-producing state in the union, on page 2.

A. I have no reason to argue with the footnotes that are here that give the sources.

Q. I'm asking: Is this -- would you agree that this is economic data?
A. I'm not sure what that term means, "economic data," so I'm --
Q. Data that analyzes the economy. Data that annualize -- that looks at production, that looks at sales, that looks at -- I didn't -- I didn't have economic data on me as a definition.
Would you agree that on page --
A. I think these are facts that are -- there's references for where those facts come from. That's how I would look at this.
Q. Would you agree that on page 4, in paragraph 7, it explicitly -- paragraph 7, line 3 and 4, that the Company's application explicitly cites total wages and benefits and GDP of 31 coal-producing counties?
A. The footnote says that comes from footnote 7, Coal Facts, directs that -- so any of that information is a fact that came from that document.
Q. Would you agree that the Company included it in their application?
A. Yeah, those are the word -- yes, those are the words here. Absolutely.
Q. Thank you. And would you agree that on page

8, in the table, that the Company included percentage change in employment in support of its application?
A. Yes.
Q. And so are you -- was it your position that if I had any questions about accounting treatment due to perceived risks of some of these tariffs, that those questions you would not be able to answer, those would be for Mr. Wohnhas?
A. I believe he would be the right witness, just because -- or he would know who the right witness is, because he's in charge of the regulatory group that put this together. I don't know if he'd need an accounting witness to -- that he relied upon, but that's who I relied upon to put this together after the concept was decided.
Q. And you supported the settlement -- or the stipulation with your testimony, correct?
A. We're talking about in this case now?
Q. In this case now.
A. Yes.
Q. Yes. And in that stipulation it included the continuation of the tariffs that were approved in this coal-plus docket, correct?
A. Correct.

Q. Did that also -- would -- does the stipulation speak to any specific accounting treatments regarding the coal-plus tariffs?
A. It speaks to just the Commission-approved tariffs. It speaks to continuing -- what the Commission approved really had an expiration date for the end of this year, and so the sole purpose was to say -- to extend that.
Q. Would you go to 3 three -- to tab B --
A. Sure.
Q. -- in your binder, please?
A. I'm there.
MR. CHANDLER: And, Your Honor, can I make this AG Exhibit Number 2?
CHAIRMAN SCHMITT: Let it be marked as AG Exhibit 2.
(AG Exhibit 2 marked for identification.)
Q. On page 10 of this order -- let me know when you're there.
A. I'm there.
Q. On the second full sentence that starts, "The Commission further."
A. Okay.
Q. Will you read that into the record, please?
A. Sure. One second. (Reading) The Commission

further finds that Kentucky Power should be able to defer any financial loss incurred in connection with the proposed amendments to Tariff CS-IRP and Tariff EDR and the proposed new Tariff CS-Coal for review and recovery at its next base proceeding -- next rate proceeding. Sorry.

Q. And do you know if anybody has taken advantage of the coal-plus tariffs?

A. I believe there's three companies that have so far.

Q. And do you know which of the tariffs they have taken advantage of?

A. I know the one for sure I'm thinking of took advantage of the CS-IRP.

Q. Subject to check, would you agree that all of them have taken under CS-IRP?

A. I don't know. It wouldn't surprise me.

Q. And the KCUC Exhibit 4 earlier, which is just the proposed Tariff CS-Coal, are you aware if any -- any customers have opted to take advantage under this tariff?

A. I know of the one that's taken advantage of the CS-IRP. That's all I know.

Q. Of the contract service?

A. I'm not sure what you're asking right now.

Q. There's a Tariff CS-Coal?
A. Right. Of the one -- the one I know of, they took advantage of the CS-IRP. If there's something else, I'm not sure what it is. I've talked to other customers about using it, but nothing else has been used yet.
Q. Is it your understanding that these tariffs were temporary because there is an inherent risk for possible financial loss in connection with them?
A. I think that's always a potential concern. I think that it was temporary to try to jump-start and show the coal industry that the utility company and the Commission were supportive of trying to find answers and taking out barriers.
We proposed it as a year because we didn't know how it would work, if customers would even want it. Some customers have, others have talked about it. So we thought it was a good idea to extend it again and see what we get from there. Just trying to help coal.
Q. You mentioned earlier that you proceeded to -- one of the things -- I don't want to put words in your mouth.
That the Company's goal with CS-Coal is to start a conversation, with the coal-plus tariffs is

to start a conversation; is that correct?
A. I think that whole conversation kind of got conflated. My overall statement was: I want to talk in general in Eastern Kentucky about how we succeed. This is an example of one of the tools I'm using to talk to coal companies, but we want to start a conversation with all companies to focus on success.
Q. Right. But you're -- I guess your point, though, was that when these are filed, people know where they stand, right? That a coal operator or a potential coal operator would know -- knew where the Company stood; is that --
A. Correct. We wanted to sort of demystify. We heard -- some of our own people that deal with customers had heard companies saying they weren't eligible for certain tariffs, so we thought we could demystify that so that we weren't just hiding in our office, but we were out there explaining to customers what they can do.
And then the final tariff was sort of catchall, that if there were ideas that we hadn't thought of, we could bring those back to the Commission, and if they made sense to the Commission, we could move forward with those.

Q. Is the Company unable to -- is Kentucky Power unable to enter into special contracts with coal operators in the absence of the Tariff CS-Coal?
A. Yes.
Q. They're unable to enter --
A. Oh. They're able to. I'm sorry.
Q. They're able to enter into a special contract?
A. Yes.
Q. So this is just a -- you're kind of raising a flag, is that -- I mean, this -- the Tariff CS-Coal doesn't do anything other than say "Come talk to us," right?
A. Is that the third tariff, the catchall tariff?
Q. The catchall tariff.
A. Yeah. That was -- as we introduced this concept, as I said, there was confusion in the market, and people hear about a utility and hear about the Commission, and sometimes they shy away and don't want to look any closer. And there was some thought that they weren't eligible for certain tariffs.
We tried to clear that up, and as continuation of that filing we also tried to say,

"Let's continue the conversation. If theirs is something else that you're thinking of that we don't know, here's the -- here's the Commission and the Company saying we want to talk about those."

Q. So it's your understanding that the Company's filed tariffs were keeping coal operators from opening brand-new coal mines?

A. Absolutely not. It was the -- it was the concept out there that some coal operations thought they weren't eligible for certain tariffs that we had. We wanted to make sure that was clear.

There's a lot of confusion in the regulatory world, a lot of people don't understand it, and so we wanted to make sure that we weren't going to get in the way, and we didn't want the Commission in the way, so there was any perception at all that the regulatory industry was stopping coal operations from reopening. And so we thought this was good to file and take away those misconceptions and also sort of advertise that the Commission is here and it's able to support coal as well if the idea makes sense, but bring the new ideas and let's talk about them.

Q. So in your direct testimony you note that Kentucky Power considered the effect of the rate

increase on your customers.
MR. OVERSTREET: I'm sorry. Can you direct him to a page?
MR. CHANDLER: I sure can.
Q. It is your direct testimony, page 14, line 8.
A. Yes, I'm there.
Q. So line 8 you note, the question you asked yourself was: Did Kentucky Power consider the effect of its requested rate increase on its customers, right?
A. Correct.
Q. What was -- your answer was yes, correct?
A. Correct.
Q. What was that based on?
A. Understanding of the economy. We have a community advisory panel, as I talked about before. We -- after I asked our whole company and everyone that has a different part of the case to kind of go through it again with a finer tooth comb, because they had already gone through with a fine tooth comb, to see what the impact was sort of -- you know, each individual item that we have, does that actually necessarily need to be in this case? Does it need to be in this case or could it be held off in the future? Can we try to manage the Company to

cover those costs somewhere else?

Our community advisory panel, we actually -- we had ideas internally, and we sent a survey out to them so we could meet and say, you know, "Here's the idea. What do you think of this?"

And that was important because the concept was great. As we first met with these people -- and it happened before I even came on, with the previous president. They kind of came in, and the thought all along was, "We should get free electric service." And then we kind of talked to them about what it takes to be in a regulatory compact, what the regulations and statutes are, and they started to understand the dilemma that we have of making sure we get a return for our shareholders and so that we continue to invest and still be honorable to our community.

And so as we moved through, we then put the decisions we have to make every day sort of in a survey to kind of see -- it'll be interesting to see what kind of feedback we get.

Some things we took out of the case. There was one issue, customers can pay their bill with a credit card online. AEP doesn't want to take the liability, with all the data breaches, of holding their credit card, but -- so we used a third party that they could use. But there's a cost to that. It was about $4 or 2.80 or something like that. We thought, "That makes sense. If you buy a pizza, that's already socialized, we should just put that in general rates."

As we talked to our communities and our community advisory panels, they said, "Nope. You know, it's a good thought overall, but if people want to pay with their credit card, that's on them. Don't put that in the case."

So we pulled that out. We didn't file that with what we put in the case.

So it's conversations like that, talking to our community.

And on the flip side, as I said, we've been so involved in economic development, it's a what-can-we-do-to-get-out-there for economic development.

And our community groups said -- when we talked about increasing the charge per customer for the KEDS grant, they said, "Absolutely. We all see impact in our cases -- in our local communities, and we'd like to see that increase. That's actually a great investment we're putting in our communities

through the electric company ."
So those are some of the examples of what we did .
Q. On page 19 of your direct testimony , will you please read into the record the question that starts on page 6 and your first sentence of your answer , or -- page 6? Sorry . Line 6, and the first sentence of your answer .
A. Page 19?
Q. Page 19, direct , line 6, please .
A. The question is, on 6, (Reading) Are there other options the Company is exploring to mitigate future customer bill impacts ?
The answer starts on 8. (Reading) The Company continues to explore all possible approaches to provide safe and reliable power in compliance with all applicable regulations in the most cost-effective manner .
Q. And so, you know , I guess I go back to my original question : Have you provided any studies to that effect ? Have you provided any analysis that you're providing power in the most cost-effective manner ? Is there anything in the record other than direct testimony saying you did so or saying you explored or saying you considered ? Is there any

hard evidence to show that you are providing power in the most cost-effective manner?

A. I'd say the hard evidence is every witness you're going to see here today and every employee that I have. I mean, what you're asking is: Do we do our job every day? And the answer is absolutely yes, and I'll be evidence to that. This is what we do. We manage a company. Everything we look at is how we can be more efficient.

Some of the things we have done are, you know, we have contract crews that we employ. There's opportunities sometimes to maybe slim down the contract crews because we don't have a lot of work in that area. We don't like to do that because we like to have the investment in the local community, but it decreases the cost that we have.

We could be more efficient in how we route our meter readers. They go out and they have a certain system. We looked a that and though, huh, we could be more efficient if we reroute this.

Every day we want to make sure we're running this company properly, and all of the employees that I have look closely at doing that, to make sure that we're being efficient.

You know, AEP overall talks about we want to have continuous improvement. What are we doing to make sure we're always challenging everything.

That's sort of been, I think, sort of refreshing with me coming in brand new as well, because I've empowered every employee. You know, I have people calling me that are at the lowest pay grade we have, and they have an email address directly to me that they can get in contact with me directly. The public doesn't get it, anything else. It's to every employee. They can call me, but if they're not comfortable, email me anything and I'll look into it and I'll bring the supervisors in, because we want to have that whole team atmosphere that everybody is involved in making sure it's safe, reliable service. If it's just management only, it doesn't work.

So we're really creating buy-in and changing the culture overall that we're efficient, that we're smart with the customers' money, and the investments we make are prudent.

Q. What I'm asking for, and I want to make this clear in response to your answer, is: Have you provided evidence in the record that are in the form of studies or analysis to the effect of your previous answer?

A. And, see, that's where I get stuck on, when you say "studies and analysis." I think what we do every day are the studies and analysis. It's just the normal course of running a business. That's what it takes to run your business.

So my testimony, if you want to call that a study or analysis, that's what I do. I manage a company. All my managers that work underneath me, they help manage a company. We make sure we're being as efficient as possible.

In discovery I know we provided a lot of detail that talked about the efforts that we do to make sure we're being efficient and constantly improving our process. So to me that's evidence in the record.

Q. And I believe this may be a question you don't need to refer to your testimony for, but if you need to, it's on page 19. You talk about the best opportunity to address increasing rates is increased economic development. Is that a fair --

A. Where are you, just so I get the context of what I -- why I said it this way?

Q. I kind of -- I kind of assumed you'd agree. I apologize.

A. I definitely agree in general, I just want to

make sure I'm referring to --
Q. Yeah. That's fine.
MR. GISH: Line 12.
MR. CHANDLER: What's that?
MR. GISH: Line 12.
Q. Line 12. I think it begins, "Ultimately, it is increased economic development."
A. Correct. And we're going to -- I mean, the people before me managed the Company. I'm taking a fresh approach at managing the everyday, but with the situation we find overall outside the Company, with the local economy, with people leaving the territory, economic development is going to help overall as the biggest push forward to help in this area.
Q. Do you mind to -- do you have a copy of the stipulation?
A. Yes.
Q. Do you mind to go to page 13, paragraph 11?
A. The backup and maintenance service?
Q. Yes, sir.
A. Yes.
Q. I have read this a few times, and I guess I'm sort of confused. What does -- what is the -- what is Kentucky Power's -- why is this in the

settlement ? Why is this in the stipulation ?
A. Well , I can't get into the settlement discussions . This was something that was included in KIUC's testimony .
Q. That's --
A. So I guess I'd refer you maybe to Brad Levi's testimony , to their concern . This is an example , I would say, on a greater , higher scale , I'm constantly working with my customers , especial -- all customers , but Marathon , you know, very large customer , I want to make sure I'm being a utility that serves my customers .
I'm in customer service , and this is something that concerns them , and so I want to make sure I'm in partnership with them . I never want to be at opposite ends with my customers , I want to be making sure we're working together in what we do for the economy .
Q. And so can you tell me what you've agreed to here ?
A. We've agreed to talk . If Marathon moves forward and has some concept that there is a need for backup and maintenance service , that we'll review that , and if we can't come to some kind of agreement of what that looks like , we'll bring that

to the Commission to decide how we should move forward.
Q. You -- I'm going to -- I assume that Kentucky Power is more than happy to talk with their customers; is that correct?
A. Yes.
Q. And does Kentucky Power need, in a settlement or a stipulation, to necessarily bring them to the table to have discussions with customers?
A. Again, I can't say. The reason this was put in the stipulation, because we -- I'm not -- I'm never going to say it's because we weren't talking to our customers. I've been talking with Brad Levi, who I said is my neighbor, for a long time about these general concepts.
This was just, I think, a term in the settlement agreement to formalize if something happens and we can't come to some agreement, let's go to the Commission and see what ground rules we should have to govern this going forward. That's all.
Q. And what would that agreement be to?
A. I don't know. We'll have to see what Marathon wants to do.
Q. Well, it explicitly says here that it's for

backup and maintenance service, that that's what the discussion will be about. So what does that mean?
A. This is written broadly. Marathon, I don't want to get too closely into my discussions with them, because I don't -- I know they're doing some work, and I want to respect that, because I've had private, probably confidential conversations with Mr. Levi.

And, you know, I don't know if KIUC has an opinion, but I don't want to expose even what Marathon is thinking about or what they have done so far, because it's a competitive world for capital. But we've talked in general about, you know, cogeneration, of possibilities of what they can do. And I look at this as a path forward, just to whatever they come up with. They're always studying.

Brad Levi is a great guy, very smart. If they come up with some idea, we're going to talk about what that means overall to the the system. And if we can't come to some kind of agreement of a change that might happen in the future, that would ultimately come to the Commission to say, "Give us guidance on which way we should go here."
Q. I mean, isn't this sort of the discussion

that you can have with any customer? We talked about Coal-CS earlier, about entering into special contracts. I mean, these sort of negotiations, these sort of discussions can happen outside of a settlement or a stipulation, right?
A. Absolutely.
Q. And so why does it need to be in this stipulation?
A. Again, I think you're asking me why something in the settlement discussions were put --
Q. No. I'm --
A. -- into the stipulation.
Q. I'm sorry. Let me clarify. Why is it reasonable for this to be in the stipulation?
A. Two parties thought it was okay to -- all the parties to the settling -- settlement agreement thought it was okay to put it in there, so it was put in there. It's not precluded to have outside --
Q. So that is -- that's your basis for the reasonableness of it being included in the settlement agreement?
A. Well, what it does is --
Q. Because everybody got together and agreed on something, it's reasonable?
A. No. It's reasonable because there is a

concern put in testimony in this case about what a company in Eastern Kentucky could - should do if it's moving forward down a path in these different areas.

So it was an issue raised by a party. We respected that issue that was raised by a party, treated that at the settlement agreement with a path forward with how we would talk about it.

Why they included it in their settlement -- why they included it in their initial testimony, I can't say. It wasn't my testimony.

Did I listen to it and we talk about it in the settlement discussions and make sure it was talked about in the settlement agreement? Absolutely. It was important to my customer.

Q. Is it your understanding that if Marathon builds a combined heat and power generator, I guess, a combined -- a CHP, I guess is how it's referred to in some testimony, that that will ultimately reduce the load that Marathon buys from Kentucky Power?

A. There's the potential for that, yes.

Q. And subject to check, would you agree that Mr. Levi notes that Marathon -- excuse me.

A. If you're going to be reading from Mr. Levi's testimony, can I get a copy too?

Q. You're more than happy to. I'm more than happy to let you, sir.
MR. OVERSTREET: May I approach?
CHAIRMAN SCHMITT: Yes, you may.
Q. And it's on page 3 of Mr. Levi's testimony.
A. Okay.
Q. Subject to check, and in accordance with Mr. Levi's testimony, does the fact -- does his assertion that Marathon is currently the largest customer of Kentucky Power, with the Catlettsburg Refinery purchasing more than 19 percent of the energy sold at retail by Kentucky Power?
A. Yeah. That's what that says, yes. And really, I mean, if I may, the reason I think you sort of insinuate that it's improper to memorialize that we talk to our customers, that's kind of that mind-set I'm trying to get over in Eastern Kentucky. We want to make sure we're talking with our customers. They can move forward without us, and we don't have any input or we can move forward as a team to see how it impacts all customers and how it impacts the grid. I much prefer a customer that respects the fact that we should move forward together, I think we have that with Marathon, and this is just respect for that.

Q. But you can move forward together without it being in the settlement , correct ?
A. Ultimately something has to come to the Commission . Absolutely .
Q. But you're asking them to -- I think the term you used earlier , in a different context , but bless this before you might actually come back later with tariffs , correct ?
A. All this is, is if Mar -- it was an important issue to Marathon , they wanted to talk about this , they put it in their testimony , and so the settlement agreement says , "Yes, we'll talk about it . And if for some reason we can't work something out amongst ourselves , we'll bring it to the Commission to say, 'Hey, what's your input on this ?'"
That's all this is saying . Could we do that without this agreement ? Absolutely . But there's -- I don't think there's harm of putting it in this agreement to show the camaraderie and the constructive working together that we have in Eastern Kentucky with our largest customer .
Q. So throughout your testimony and on the stand today you talk about your goals to -- and I think it's -- I want to get the quote right -- change the

denominator ?
A. Correct .
Q. And so changing the denominator is selling more electricity , right ?
A. Changing the denominator refers to the -- basically the rules and statutes of the regulatory compact , that there 's a certain amount of costs that are recovered from customers to make sure that a utility can provide safe and reliable service . The less customers we have , the more spread out amongst the customers that are left behind .
So it's really changing that equation to have more customers , more load , more customers ' ability to pay . All of that comes together to change the denominator .
Q. But it's not necessarily customers , it's electricity , right ? I mean , that 's what --
A. That 's how it manifests it -- sorry . I cut you off .
Q. That 's all right . In kilowatt hours and in kilowatts , your goal is to ultimately increase those , right ? And those are your denominators when you 're talking about price ?
A. For the regulatory compact equation , yes , but I think you can explode that beyond that to talk

about customers' ability to pay as well, change the denominator of what customers have, how many customers there are. That manifests itself for the cold equation we have for regulatory purposes as usage, but overall it's about reinventing the entire area so the denominator for everything we do is better.

Q. So how will the rates in the stipulation or in the testimony affect your economic development efforts?

A. Can you be more -- can you clarify that? I'm not sure what you're asking.

Q. How will an increase in rates affect your economic development efforts?

A. Included in this rate is an increase in the KEDS program, which will allow us to invest further in our local communities and our partners, to attract more companies to the area, help with the infrastructure that we have.

Mr. Hall can talk a lot about the insights that we had and really the need of developing the area so that we were attractive and can actually attract these other companies, and also building up our local economic development departments all across our 20 counties so that they could really attract those as well, because it doesn't take one -- it's not just one of us that's attracting it. If we're all working together, we're going to have a better chance to do it. So that's a big impact of this case.

Q. So if you'll refer to KCUC Exhibit Number 4, and that was just the allocation that Mr. Gardner provided, it states that both HEAP and KEDS funds combined end up being an increase of $326,000. Is that correct?

A. Yes. For a total of, I think, about 550.

Q. For which one?

A. For KEDS.

Q. For KEDS. So you think that the total KEDS funding from customers would be about $550,000 a year?

A. I think -- that's what I'm trying to remember, and I think that's right, and then shareholders will match that to double the fund.

Q. So you think an increase of a couple hundred thousand dollars or a few hundred thousand dollars in KEDS funding, and with the caveat of it'll be doubled with shareholder money, is going to offset the 30 plus million dollar increase in the stipulation and the 60 plus million dollar amount in

the application ?
A. No .
Q. So you think it'll be -- the rate -- any -- either rate increase would be a net negative on economic development ?
A. No .
Q. So in the question I asked earlier about how will the increase in rates in either the stipulation or the testimony affect your economic development efforts , you just spoke to KEDS .

So do you not think that the increase in rates will affect the -- whether or not companies want to come and relocate in your -- in your territory ?
A. You know , rates are always a factor in a company deciding to relocate to anywhere , including Eastern Kentucky . The overall package that we have has tried to take , you know , that into consideration . The allocation and the balance that we have in the settlement agreement tries to decrease that burden upon the IGS customers so that we can continue to attract those , to get the overall number of jobs up .

But I guess overall economic development is part of what the Company wants to give back and be involved in and provide leadership in Eastern Kentucky from the corporate side.

I mean, at the basis of what this rate case is, it's about the regulatory compact. It's about making sure that the Company can operate and provide safe and reliable service, which we have a duty to do, to every customer that's in our service territory. That's what this rate case is paying for.

On top of that, we've gone an extra step. We've gone above and beyond and said, we're going to really focus on economic development. Hopefully that, in the future, avoids us having to file something or avoids us having to file something with such a large increase, because we have changed that denominator.

So we're not just sitting here in a shell, turtle shell saying we can just file rate cases whenever we want, take care of ourselves. We've said let's go out and invest in our community.

There's costs to having safe, reliable service. We think we do a good job of that. That's what this case is about. But we're not cold to the idea we need to be out there leading, and that's what we're doing right now, leading to make sure

we're changing that denominator for the future.
Q. If I ask you a question about KEDS, would it confuse you to interchange KEDS and K-PEGG, just in a question? Is that -- the KEDS funds are used for the K-PEGG grants, I mean, that it's the -- it's the same money, just -- it's different --
A. I understand what you mean.
Q. -- it's a different name coming in and a different --
A. As opposed to the KEAP program --
Q. -- name going out, correct?
A. -- which is a different economic development program?
Q. That's correct.
A. Correct.
Q. So the KEDS -- the K-PEGG program, I'll try to be -- the K-PEGG program is half funded by customers through KEDS funding and half from Company donations; is that correct?
A. Correct.
Q. And the purpose of economic development is to -- at least one of them, and I know you said there's many, but is to expand the load and sell more electricity than you currently are, correct?
A. Say that again.

Q. One of the purposes for the -- for economic development , one of the reasons for economic development is to sell more electricity ?
A. Yes .
Q. And to expand load ?
A. And to grow the entire region and increase the -- and better the lives of everyone in Eastern Kentucky . Absolutely . They all go together .
Q. So are there any customers on the KEDS review team , the K-PEGG grant review team ?
A. I know there 's someone from -- and Brad Hall knows specifically , so he 's the better person to ask , but I know there 's a member of the state Economic Development Cabinet , a representative from that , and also another , I believe , statewide -- or I don 't know if it 's a regional or statewide economic development group .
Q. And they 're there due to their official positions , I assume , right ?
A. Just when we put together the program , asked the Commission for approval , that 's how we set it up , to put someone outside the Company on the board as well .
Q. Are those two individuals customers of the Company ?

A. I'm not sure.
Q. So, if you will, do you mind to turn to tab E? And it's a data request response. I believe it was from Mr. Hall. And I'll give you a second to look it up.
A. Okay.
Q. So will you read the first question there, 395 a.?
A. Well, this isn't -- I didn't respond to this. This isn't my data request.
Q. Right. But you-all have filed testimony in support of the settlement, and the settlement specifically discusses a --
A. Yeah, I understand.
Q. -- total increase in K-PEGG funding.
A. I understand. But if you have questions about this data request, it might be better to ask the witnesses that sponsored, that's all.
Q. I promise I think you can -- you can answer the question I'm going to ask you. I just want --
A. Okay.
Q. I want you to read the first question there, if you don't mind.
A. So just the question that you -- that the AG had asked --

Q. That the AG had asked, the a.
A. (Reading) Identify the incremental revenue generated --
Q. Oh, I'm sorry. The tab E. It should be a response to -- I believe it's tab E. Excuse me.
A. Let me read it again, then. Sorry. I was on --
Q. AG 1 395.
A. Let me review this real quick. I was reviewing --
Q. That's fine.
A. -- a previous one.
MR. CHANDLER: And while he's reviewing, Mr. Chairman, can I make this AG 3, Exhibit 3?
CHAIRMAN SCHMITT: Let it be marked as AG Exhibit 3.
(AG Exhibit 3 marked for identification.)
A. Okay. I've reviewed it now.
Q. And do you mind to actually just read a. through c. there, just to kind of get an understanding of what the questions were about?
A. Sure. It says, (Reading) Refer to the testimony of Brad Hall at page 14, then it asks the following questions: How was the K-PEGG program review team chosen? B., were customers provided the

opportunity to nominate or choose any members of the team? And, c., did the Public Service Commission approve the positions to be represented or individuals chosen to be representatives?

Q. And so in response to b., the question that states, (Reading) Were responses provided the opportunity to nominate or choose any members of the team, did Mr. Hall provide an answer?

A. Yes, he did.

Q. And can you -- do you mind, just for the record, to read that answer into the -- into the record?

MR. OVERSTREET: Just for purposes of clarification --

MR. CHANDLER: Just --

MR. OVERSTREET: -- you said were --

MR. CHANDLER: B.

MR. OVERSTREET: You said "Were responses," I think you meant "Were customers."

MR. CHANDLER: Oh, I'm sorry. "Were customers." Yeah. Sorry. I got a -- yeah. Thank you.

Q. "Were customers." The question says "Were customers." Do you mind to read the response to b. Into the record, please?

A. Sure, with the caveat that Mr. Hall would have the context of this, because this is his response and I wasn't with the Company --
Q. I'll accept that Mr. Hall was the -- responsive to the data request, the witness in the data request.
A. (Reading) No. The Company selected the team based on experience and understanding of the community and economic development as well as availability to participate in the process confidentially, frequently, and reliably. Economic development and community development are technical processes and require understanding of the process to evaluate applications appropriately.
Q. Subject to your checking with Mr. Vaughan earlier, in a response to Mr. Gardner, would you agree that there are roughly 30,000 commercial customers in Kentucky Power's territory?
A. I believe that was the understanding, yes.
Q. And the document that Mr. Gardner provided stated that there were over 1,000 industrial customers in Kentucky Power's territory, correct?
A. I believe so, yes.
Q. And so the answer here talks about technical processes that require understanding of the process

to evaluate applications appropriately.

Is -- I guess what I'm confused about or what I'm hoping you can clear up, does Kentucky Power -- what is Kentucky Power's issue with including customers in the decision-making to determine where customers' money goes for -- where customers' money goes for economic development purposes?

A. First of all, you seem to say there's an issue. I don't know that there is an overall issue. This is how the program is structured, and I think -- you know, again ask Mr. Hall, but in the answer a. it talks about economic development cabinet and the other members that are on the committee. There's a lot of confidentiality in this stuff. There's big companies coming in that want to come into the area, and we're dealing with our local representatives in Hazard, Pikeville, elsewhere to make sure that we can maintain that confidentiality and make sure that we have the best chance to attract these big companies coming in.

Q. And you're --

A. Sometimes these could be competition of customers that we already have in the territory, so I believe, and you can talk to Mr. Hall, as I said, the concept here was to look at this from a global point of view and involve the economic development cabinet, whose job it is to make sure the entire state is healthy and move forward so we have actual strategy.

And I think it's worked. I think what we've shown over the past few years is the benefit from it. So there's -- this is a good program that's worked, and that's why we're asking to sustain it.

Q. So the only involvement the customers have, aside from the benefits of economic development, are to pay the money to the Company, correct?

A. No.

Q. So where in the K-PEGG review process do they get to determine where their KEDS grants go?

A. It's not formally in the review process, but I don't even have final say over this. The committee has final say. I get to have input on how this is carried out.

One of our community advisory panels had some concerns with how we were using some of the money, and he raised that. And he actually wrote an op-ed piece in the Pikeville paper criticizing us.

And he called me up and said, "I'm going to resign from your committee because I've criticized you."

And I called him up and I said, "Please don't resign. That's exactly what I want to hear. This is the input I want. What's the concern?"

He said, "I don't like where you're putting this money."

I said, "Well, that's on me, then. I need to start bringing some of these concepts for my review, because I get to have input to the committee. Here's where we're thinking about things going. What do the community advisory panels think, to the extent I can share some of that information."

So customers do have input. It's not in the formal process, but it's not like we're hiding something behind a curtain. What we can share with customers, we're sharing, because, again, we're all trying to work together to build the local economy.

Q. But doesn't that anecdote provide evidence that customers want to be involved in this process and the Company's not giving them the opportunity?

A. We're giving them the opportunity now. In those meetings I said, "I will bring what I can bring to you to those meetings and we can talk about that."

Q. So only in an informal manner, none of the decision-making?

A. What do you mean?
Q. So their involvement is only in an informal manner and it's not in the decision-making of who gets the grants and how much and for what purposes?
A. Yeah, the system setup, and approved by the Commission, is exactly what's outlined here in Mr. Hall's testimony.
The customers have input by talking with me, just like I have input. The final decision is made by this committee with people from the state economic development cabinet overall to make sure it's moving forward with the strategy. When we can share things, we will share things with customers.
Q. And this -- the K-PEGG and the KEDS program are in front of the Commission for modification in this case, correct?
A. I believe the funding is, correct.
Q. So you -- are you saying that the Commission can't -- I guess I'm confused, then. When you said a second ago that this K-PEGG was set up by the Company and approved by the Commission?
A. Uh-huh.
Q. So are you saying that in this case the Company -- that the Commission cannot modify the K-PEGG grant review program?

A. No, I didn't say that. I said as proposed, we're continuing what we have already.

Q. So -- but it's up for modification? The KEDS funding and the K-PEGG, that system is -- the funding is up for modification in this case?

A. Well, there's -- I guess I would say there's been no testimony saying there should be a proposal to change it that we've had an opportunity to respond to and say that -- why that would be good or bad.

But, yes, the Commission has control of the Company and they can do what they want in an order, but I don't think there's been a lot of evidence and a big proposal to change this with the opportunity for us to say what the impact would be.

Q. Do -- was the Company provided the opportunity for rebuttal testimony?

A. Yes.

Q. Thank you. So you've very generally here stated that the customer base has been shrinking in terms of number of customers over the past few years, correct?

A. Correct.

Q. And the result of that, all things equal, is that fixed costs are being spread over fewer

remaining customers?
A. That is the result of that, yes.
Q. As a result of that. If a company in a competitive market, or any competitive market, not talking about utilities specifically, was losing customers and the sales of its products or services were declining, would you agree that the Company may have to look at cutting costs to survive?
A. Are you talking about just a general business, not a regulated utility?
Q. Theoretically. I'm talking about shirt makers and concrete guys.
A. I think any company, even if its client base is increasing, is always looking at what it can do to control costs. So I don't think that's just in the -- in the presence -- a good company, at least, that isn't just in the presence of declining sales.
Q. And you've noted earlier your hopes of changing the denominator for Kentucky Power, correct?
A. Correct.
Q. And that includes selling more electricity, correct? I know we're going back over it, but correct?
A. Yes.

Q. On the other side of that, what specific studies has the -- what specific studies or analysis has the Company conducted and provided in the record to look at the numerator in those equations, which are costs?

A. I think in a lot of data requests we responded the things that we've done to try to control costs. And, I mean, this kind of gets down to the same line of questioning you were asking earlier about what we've done within the Company.

So a lot of data requests. That goes on to our active management of what we're doing. That's what I do every day, try to see if there's a better way, more efficient way to do things, and challenge and empower our employees to raise those.

Q. Has the Company looked at reducing the number of contractors that work for them --

A. Always.

Q. -- and doing more work in-house?

A. I don't know that that's a decreased cost, but that's one of the things we do look at, yes.

Q. But I guess that's -- ultimately my question is: Have you looked at it and determined if it is or is not a decreased cost? Those are the sort of studies I was asking about.

A. Yeah, you keep -- I think you're kind of stuck on, "Is there an absolute study that you did on this date certain?" And what I'm trying to explain to you is, this is management of a company. That's what I look at all the time.

I've sat down with my people in the operations and said -- like when we were putting together this rate case, "What are our options? Why do you do that?"

Even in this case we provided options for the Commission that we think aren't the right way to go on the vegetation management, depreciation, but we wanted to show that we're looking at these things constantly to lower impact to customers.

So is it a formal study? It's our job. That's what we do every day. That's what we ask our people to look at every day. So I don't think it's a formal study that we would, you know, publish in a paper or something somewhere, it's just the ongoing job duties that we have involved in doing our job properly.

Q. But you keep talking about the regulatory compact and talk about recovering costs, but the Commission is limited in the record -- to the record in determining what's fair, just, and reasonable for

costs, correct?
A. The Commission has access to data requests and everything else we file. All the numbers you were talking about earlier of all the documentation that we file, we file all of our financials and the Commission has access to all of those, and if they want to ask more questions, they can. But we provide all that financial information to show what we've been doing. As you said, there's no shortage of numbers in this case.
Q. So we spoke about it earlier, but will you confirm that the Company in this case is requesting to add five more employees?
A. Yes. As part of an adjustment, I'll probably -- you know, if the Commission approves the settlement agreement, I've got three years. I'll add more employees than that. You know, I've got a real issue down in Hazard, Kentucky. A lot of my linemen that climb poles are between 55 and 65. They're great guys, they know the work. I've gotta bring more people in to make sure we have people that can climb poles and fix things. I'm going to constantly have to be adding, but I'm going to have to manage with what we have in this rate case.
So employees will be added. What was added

in this case was, there were five that we absolutely knew we were going to add, it was absolutely certain, and so it was a proper adjustment for the case.

Q. And subject to check -- well, we'll just go to your -- do you mind to turn to your direct testimony?

A. Sure.

Q. Page 5. You're waiting on me now. Sorry.

A. That's okay. I'm there.

Q. Will you -- from page 4 to 5, will you read the sentence that runs from one to the other, please, that starts with "The Company"? Like all of them start with "The Company." "The Company proposes to."

A. Sure. (Reading) The Company proposes to adjust the test year complement of employees in this case to add five employees to meet safety and efficiency needs.

Q. And would you agree that we discussed earlier that some of those safety and efficiency needs are the reduction in the amount of stolen electricity?

A. One of the positions that we've added is some support for our revenue recovery, to go after them for fraud on the system.

Q. And did you include an amount in the -- anywhere in the record that you expected how much -- the amount of electricity you expect to convert from nonrevenue electricity to revenue electricity due to the -- due to the addition of these employees?
A. I'm not positive. Mr. Wohnhas would probably have a better answer to that, of what was included in that area.
Q. And in this case you're also requesting to increase wages; is that correct?
A. Correct.
Q. And do you think that wages -- I guess a better way to ask it is: How much are wages increasing around you in your service territory with other employers?
A. It's dangerous for me to answer here. I think we definitely have witnesses that can speak directly to the wage increases, I know, because there's a union increase and then there's a nonunion increase, so they -- they're probably better prepared to talk about the comparison we've done to people around us.
Q. Yeah. And I'm asking you sort of a different question, and maybe you may pass this to Mr. Hall, but you do a lot -- you talk about how often you go

out, you meet with customers, you meet with commercial customers, industrial customers, prospective customers. How much are those employers giving wages generally? Do you hear them talking about increasing wages --
A. Two things --
Q. -- three and three and a half percent?
A. -- one, I have the advantage of talking to companies that are here and ones that are coming here, and even the ones that hopefully are announced soon coming here, and those are some pretty exciting wages for the region that I think all of Eastern Kentucky is going to be excited about. But I think you can't just compare it to potentially a commercial customer we might have in Pikeville right now.

A regulated industry is a highly regulated and highly dangerous industry. It takes specialty. And if we aren't paying along with the national average -- and I think you can, you know, talk to Mr. Carlin about this -- we're not going to have top talent, it's not going to be safe for our customers, it's not going to be safe for our employees.

And so that's why it's important, when you're in a regulated industry, you make -- you can hire the people that can do the job and do it well so you have safe, reliable service and everyone is safe.

You can't compare the two, I don't think.

Q. I'm going to ask you a question that maybe we've covered before, but it's a very specific one. Has the Company ever conducted a formal study of its -- all of its expenses and formed a formal plan to reduce those expenses, to the best of your knowledge?

A. I guess my answer is, that's what I do every day. Is there a -- on my shelf a volume where we started with something a date certain, finished a date certain? There's not that type of study. But every day I'm with an employee, when we're going to build our budgets, budget from the bottom up, making sure people justify every dollar that we spend. And we have -- I brought in a director of business operations and services to make sure someone is bird-dogging this stuff and making sure they're watching it. That's all part of what we do in the general management, but there's not a single study with tabs in it if that's what you're asking for.

Q. You noted that you came on December the 8th, 2016, officially, right?

A. Yes.

Q. And you talk about kind of shaking things up a bit and having people look at things differently , correct ?
A. I like to think so.
Q. And would you agree -- and this is not part of this record , but would you agree that the Company has also looked at its processes and -- its different processes to make them more efficient or better for customers , such as changing the way that they handle customer complaints ?
A. So I thought you were going somewhere different , so I'm not sure , customers complaints to -- so can you ask the question again ?
Q. Yeah . Does streamlining processes and making them better and making them better for the customers , you know --
A. Has that been part of the --
Q. Has that been part of what you've been -- what you've been looking to do since December the 8th?
A. That is on the table right now. There's an opportunity -- we have someone retiring that's very involved in our complaint process , so I'm directly involved in how we're going to do that going forward to make sure we're being responsive to the

Commission. There's a requirement to get back to the Commission, I believe within 24 hours, whenever a customer raises any complaints, or making sure we have the right staff assigned to that and they have the resources to make sure we're interacting with customers. So absolutely that's something we're looking at now.

Q. And so you talk about kind of looking at things differently. With you kind of coming in and having this -- this fresh set of eyes on Kentucky Power at the local level, have you considered initiating any sort of independent management or audit with an outside, nonaffiliated group or entity of Kentucky Power?

A. No. I think that's what my role is, and I've brought resources in from the Service Corp to give me fresh look in other areas, to also see what my impact is, because I'm part of the elements now that lead to what we do, and so I wanted fresh eyes to what my impact was and how my leadership was affecting that.

But that's just part of good management overall to make sure you're getting different points of view within your organization. But, no, we've not thought about an independent auditor to come in.

Q. Do you know if Kentucky Power has ever had a independent management audit, either initiated by the Company or initiated by the Commission that's from a nonaffiliate?

A. I guess I should rephrase that. That's the nonaffiliate. We have -- AEP overall has an independent audit group internally that answers only to the CEO of the Company, and so we -- every year there's a matter of what are they going to come in and audit, what process should they audit, and they come in and do that. But that's all internally with the Company.

And then we also have auditors that come in from the outside. Deloitte and Touche were the previous ones. I forget, we -- I think we just switched to a new auditor. And they do audits as well and look at our systems. So I guess there is an external auditor as well.

Q. But that's more for financial and processes, correct? For -- more for financial rather than management processes?

A. Correct.

Q. And I'm going to ask you one question about expenses. I'll save the rest for Mr. Wohnhas. You-all have a test year relocation expense that

reflects the expenses in the -- in the test -- in the historical test year?
A. Correct.
Q. And do you mind to turn to tab -- and this is just for reference. Tab G. And this is just an excerpt from the direct testimony of Ralph Smith, the Attorney General's witness.
Subject to check, would you agree that the amount in C-11, line 4, of $318,073 is the amount of test year relocation expense?
A. It's clearly referencing something with a very specific line. I don't have that in front of me. So I don't know that this is wrong, but if Mr. Wohnhas covers this, I'd prefer him to --
Q. Well, would you agree that that amount is cited by Mr. Smith in response to a Company data request?
A. This document speaks for itself. Mr. Smith has that number in his testimony. I'm not really challenging it, I'm just not saying I -- I don't know why you need me to corroborate that.
Q. That's okay. So would you agree that -- looking at the historical test year, that within that time period Kentucky Power moved its headquarters from Frankfort to Ashland?

A. Absolutely.
Q. And does Kentucky Power intend on moving its headquarters again in the next year?
A. Well, moving the headquarters was the sum and substance of two employees moving from Frankfort on the employee account that's caught up here.
Q. And --
A. So I think your deeper question is about is it a reasonable amount for employee relocation, and that can happen in any year.
Q. I think my question is: Does Kentucky Power intend to move its headquarters again in the next year?
A. No, not from -- not out of Ashland.
Q. So if you'll turn to tab I. And I'll give you a chance to look. These are 11 documents printed directly from the Commission's website, and if your counsel or yourself would like to stipulate that these figures may or may not be correct, I'm more than --
A. I can stipulate they may or may not be correct.
Q. I can only print them, so --
MR. OVERSTREET: I'm sorry. Mr. Chandler, what -- where on the Commission's website could this

be filed -- found?

MR. CHANDLER: These is in the -- these are directly from the Commission's records and the annual report, and this is page 5. The first one is page 5 of 163 of Kentucky Power's annual report for the year January 1-December 31, 2016.

MR. OVERSTREET: Okay. That's what I need.

MR. CHANDLER: And they're for the next 11 years -- or for the past 11 years, as long as I didn't reprint any two of them. But they are directly from the Company's annual report.

MR. OVERSTREET: All right.

Q. A few minutes ago we talked about costs. I made the assertion that it's sort of the numerator when you're talking about if kilowatt hours are the -- or kilowatts are the denominator.

Do you mind to look at what the revenues number for -- in the line that states Total Sales to Ultimate Customers?

A. So third from the bottom?

Q. Third from the bottom, that's correct.

MR. OVERSTREET: In which of the 11 pages?

MR. CHANDLER: Oh, I'm sorry. This is the first page.

And I'm kind of getting ahead of myself. Mr.

Chairman, can I make this, I believe it's Attorney General 4.

CHAIRMAN SCHMITT: Yes, let it be so marked.

(AG Exhibit 4 marked for identification.)

Q. Will you read that amount into the record?

A. Sure. Is this the $572,810,777? That number?

Q. Yes, sir.

A. Okay.

Q. So this is the -- would you agree that this is the retail annual sales for the year 2016 for Kentucky Power, according to the Kentucky Power's own annual report?

A. That's what I would believe it would be. Mr. Wohnhas might be a better witness to talk about exactly what's in these reports, because his group helps put them together, so I don't want to, you know --

Q. Would it make sense that the --

A. -- mislead. That's what it appears. That's what it appears.

Q. Would it make sense that that line is to retail sales and the one that says Sales For Resale is off-system sales? Is that --

A. That I don't know.

Q. Okay. So assuming -- pending confirmation from Mr. Wohnhas, but assuming that those are retail sales for that $572 million number you read in, do you mind to go to that line on the very last page of the exhibit? Do you mind to note what the corresponding amount is in the year 2006?
A. 181,168,000 --
Q. I'm sorry. I believe that's the sales for resale. Do you mind --
A. Oh, sorry.
Q. -- to read in the retail?
A. 391,934,420.
Q. So subject to check, would you agree that the retail revenue for Kentucky Power has increased almost 120 -- or roughly 120 -- excuse me. I have the number here. 180 -- almost $180 million?
A. If there's one thing I --
Q. That's not right.
A. I'm sorry.
Q. No, I'm completely wrong. Yes. $180 million over 11 years?
A. If there's one thing I've learned as I've been here, it's that if I'm not sure what's in a financial number, to have the person that knows what's in the financial number talk about it.

So I really can't speak to that. I would rather have Mr. Wohnhas understand what's in that number. There could be other things that aren't reflected in the report that need to be considered in here, so I wouldn't want to -- I wouldn't want to guess.

Q. Would you agree that those two numbers are the difference of 100 -- over $180 million?

A. I can do math between these two numbers and subtract them and say that's 180 million.

Q. So you would agree that that's roughly $180 million?

A. Whatever you plug into the calculator between those two numbers, it's probably 180 million. That's fine. I'm just saying I wouldn't count on that for anything for me. If you want to talk about those numbers and what they mean, you need to talk to Mr. Wohnhas.

Q. Well, I think as long as -- and I will follow up with Mr. Wohnhas to confirm those numbers, that they are what they are for the record, but you started -- you have spoken about the regulatory compact today, and you mentioned recovery of reasonable costs; is that correct?

A. Yes.

Q. And so would you agree that in a -- this is taking a step back.
A. Okay.
Q. In a regulated utility, as revenues increase, so too must costs have increased? Since revenues are limited by the regulatory compact, I think as you noted earlier, in regulated states to reasonable return and reasonable costs, would you agree that as revenues rise, costs have probably also risen over time?
A. It depends. It's not always the case. O&M can stay flat for a company for a long time, and there's other factors that factor in, like overtime.
You're talking between a ten-year period. There's all kinds of other things that figure into what a revenue might be, including all the capital that's been added in, all the income that comes from -- hopefully people are investing in their system. I don't know if that's reflected in here or not.
Q. But those are costs? Those are expenses?
A. Expense, yes.
Q. Those are costs?
A. Absolutely.
VICE-CHAIRMAN CICERO: May I interject just

for a second? So if revenues increase, typically the cost of goods sold number is going to increase, which is a cost of the sale of the product, which is a cost that he's referring to? So typically the costs will increase? Is that an accurate statement?

THE WITNESS: Yes.

VICE CHAIRMAN CICERO: Thank you.

Q. So you have stipulated that the difference between the number on the first page and the number on the last one is 180 and -- roughly $180 million?

A. Yes.

Q. Okay. That -- just --

A. That's a math --

Q. -- talking numbers. Talking numbers.

A. That's a math --

Q. It's math.

A. -- math answer, correct.

Q. $180 million. Okay. Thank you. That's perfect. That's what I was looking for. I'll take the rest up with Ranie.

A. And I -- the reason I say that is, I don't want to attribute something to this and have that be wrong. I just want the person that has the knowledge to speak to what it is, the full knowledge, to make sure it's correct for the

Commission .
Q. That 's perfectly fine . And if you had a calculator in front of you, would you agree that that 's a roughly 46 percent increase over the number on the last page ?
A. If that 's what the math turns out to be, that 's a simple equation .
Q. Okay . When you look at the corresponding amount on that same line on the first page , that is a 5.8 billion number ?
A. You 're on the first page for 2016 , right ?
Q. That 's right .
A. All right . Where are you now ?
Q. The Total Sales to Ultimate Customers , under the column KWHs Sold , 5.5 --
A. Gotcha .
Q. Will you read that amount into the record , please ?
A. Again , the number here is 5,862,696,815 .
Q. And will you also read the corresponding amount on the last page , under line Total Sales to Ultimate Customers , under column Kilowatt Hours Sold ?
A. The 7,122,459,000 , that number ?
Q. Yes , sir .

A. Yes.
Q. Subject to check, would you agree that that's roughly 1.25 billion kilowatt hours' difference?
A. I will trust your calculator is correct.
Q. And --
CHAIRMAN SCHMITT: Mr. Chandler, it's 1:00 o'clock. That's --
MR. CHANDLER: I can -- I have about ten more seconds on this line of questioning if you don't mind. Sorry.
CHAIRMAN SCHMITT: You may complete.
Q. So subject to check, would you agree that that's roughly 17.7 percent difference between 2006 to 2016 as these numbers --
A. If that's how the math checks out.
MR. CHANDLER: Okay. I'm fine to take a break.
CHAIRMAN SCHMITT: Thank you. We'll take our lunch break now, come back at 2:00 o'clock, when we will continue with Mr. Satterwhite.
(Recess from 1:02 p.m. to 2:01 p.m.)
CHAIRMAN SCHMITT: We're now back on the record.
Mr. Chandler, do you have any idea about how long Mr. Smith will take? Or let me ask Mr.

Overstreet too, because he'll will be conducting cross-examination.

MR. OVERSTREET: I think -- I think I can get through Mr. Smith in an hour.

MR. CHANDLER: I think that I may have maybe another 30 to -- 30 minutes with Mr. Satterwhite, and then I think the rest would just depend upon how many questions Staff and the Commissioners may have --

CHAIRMAN SCHMITT: Well, I think --

MR. CHANDLER: -- of Mr. Satterwhite and Smith.

CHAIRMAN SCHMITT: I just asked -- I just asked Ms. Vinsel, and she said maybe she had a half an hour. So, I mean, if we went, we did that, we're talking maybe 3:30, and then we have -- you know, I don't want to fix it so -- have it turn out that Mr. Smith can't testify or can't finish.

So maybe the best thing to do would be to -- if we could let -- you think you have how much? Another --

MR. CHANDLER: Do you mind if we just take one second to converse about it?

CHAIRMAN SCHMITT: Yeah. Sure.

MR. SATTERWHITE: Are you that sick of me?

CHAIRMAN SCHMITT: You don't count.

MR. OVERSTREET: You don't count.

MR. SATTERWHITE: I don't count. That's right. I feel like I'm at home.

CHAIRMAN SCHMITT: Your opinion doesn't count.

MR. SATTERWHITE: It's good to know.

MR. CHANDLER: I'm just -- that's what the Commissioner -- the Chairman said. I'm saying that it will not affect my cross-examination of Mr. Sat -- I'm at a -- I was at a very good stopping point with Mr. Satterwhite. I can pick back up at any time.

CHAIRMAN SCHMITT: Well, what I want to do is just make sure that your witness -- you have an opportunity to have your witness speak and everybody has a chance to cross, so maybe --

MR. CHANDLER: And as long as -- as long as the Company is fine with that, I mean, we would be fine with tendering Mr. Smith at this time and come back to Mr. Satterwhite.

MR. OVERSTREET: That's fine.

CHAIRMAN SCHMITT: Okay. I hate to do this, but we're going to have to probably patch this together --

MR. OVERSTREET: Absolutely.

CHAIRMAN SCHMITT: -- as we go along because of scheduling problems.

MR. SATTERWHITE: No problem.

CHAIRMAN SCHMITT: Mr. Satterwhite, would you please step down --

MR. SATTERWHITE: No problem.

CHAIRMAN SCHMITT: -- temporarily.

Mr. Chandler, would you like to introduce and call your witness?

MR. CHANDLER: I'll let Mr. Cook. That's fine.

CHAIRMAN SCHMITT: Mr. Cook.

MR. COOK: Your Honor, at this time we'll call Ralph C. Smith.

CHAIRMAN SCHMITT: Mr. Smith, will you please raise your right hand? Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. SMITH: I do.

CHAIRMAN SCHMITT: Please be seated.

Counsel, you may ask.

* * *

RALPH C. SMITH, called by the Kentucky Attorney General, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Cook:

Q. Could you state your name and business address for the record, please?

A. My name is Ralph C. Smith. My business address is Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

Q. Thank you. And are you the same Ralph C. Smith who caused to be filed direct testimony into this case?

A. I -- yes.

Q. Okay. And did you have any changes to your testimony?

A. Yes. There was a qualification appendix that was filed, I believe later this week, and I also had an errata sheet, which I believe was also filed yesterday.

Q. Okay. In addition to those changes that were filed of record, did you have any other changes?

A. No.

MR. COOK: Okay. Mr. Chairman, the witness is available for cross.

MR. OVERSTREET: Thank you, Mr. Chairman.

CHAIRMAN SCHMITT: Mr. Overstreet, cross-examination.

CROSS-EXAMINATION

By Mr. Overstreet:

Q. Mr. Smith, please turn to page 68 of your testimony, line 5. Just let me know when you're ready.

A. Yes.

Q. Would you read the two sentences beginning "Thus the initial impact"?

A. (Reading) Thus the initial impact on KPCO customers of Big Sandy's inclusion in the consent decree was to shutter their own Kentucky in-state generation, which had provided significant -- significant economic benefits to the service territory and the state as a whole. This was done to benefit AEP and its other AEP operating companies at the expense of KPCO and its customers.

Q. Okay. And that second sentence, you -- well, let me back up. By (Reading) shutter their own state -- by "shutter their own in-state generation," am I correct in assuming you're referring to the retirement of Big Sandy Unit 2 in mid 2015?

A. Yes.

Q. And then that second sentence , you have footnote 25 appended to it. And is the purpose of that footnote to provide support for that sentence ?
A. It is.
Q. Okay. And that sentence refers to the Sixth Circuit 's opinion in the Wilmington Trust case and which is attached to your testimony as RCS-20?
A. Yes.
Q. Okay. Isn't it true that the dispute before the Sixth Circuit in the Wilmington Trust case involved the owners and lessees of the two Rockport generating units?
A. That was the subject matter of that dispute, yes.
Q. And isn't it true that Kentucky Power was not a party to that litigation ?
A. Yes, that's true.
Q. And isn't it true that the dispute involved the requirements of the documents governing the sale and lease back of the two Rockport units?
A. That and the other issue of one additional pollution control retrofits would need to be installed at that plant.
Q. Okay. Would you please turn to page 3 of RCS-20?

A. Yes, I have it.
Q. Okay. And you see the first complete paragraph on that page, "With this complex deal"?
A. Yes.
Q. Am I reading this correctly, (Reading) With this complex deal came several interlocking instruments. Two sections from two of these instruments are at the core of the owner's claims, each providing some protection to the plant's residual values.
Do you think Judge Griffin properly characterized the dispute in those sentences?
A. I think that's part of the dispute, yes.
Q. Okay. Would you agree that that's the core of the owner's claims, as Judge Griffin indicated?
A. That was part of the dispute. The other part of the dispute related to the timing of the installation of additional environmental controls on the Rockport units, which came out of the consent decree.
Q. So when Judge Griffin said that these two instruments were at the core of the owner's claims, he was mistaken?
A. No. Interpreting the sale-leaseback agreement was at the core.

Q. Okay. Thank you. And isn't true that the Big Sandy generating unit is not subject to the several interlocking instruments Judge Griffin indicated at page 3 of the Sixth Circuit's opinion were at the core of the owner's claims?
A. The Big Sandy unit is part of the consent decree, but it wasn't part of the Rockport sale-leaseback arrangements.
Q. And isn't it true that the Big Sandy generating station and Unit 2 of Big Sandy are not even mentioned in the opinion?
A. Those are not mentioned, but it does refer back to the consequences of the consent decree.
Q. Units weren't mentioned in the agreement, correct? I mean, excuse me, in the opinion.
A. I believe that's correct.
Q. Thank you. Mr. Smith, you were a witness, were you not, in the Company's last rate case, Case Number 2014-396?
A. Yes.
Q. Okay. And did you read the Commission's order in that case before you -- before preparing your testimony in this case?
A. At some point I did, yes.
Q. Okay. Do you have that order in front of

you?
A. No, I don't believe so.
MR. OVERSTREET: Your Honor, may I provide?
CHAIRMAN SCHMITT: Yes, you may.
MR. OVERSTREET: Mr. Smith and Attorneys General, I'm going to provide you and Staff and the Commissioners with the entire order as well as the specific pages I'm going to be asking about.
May I approach, Your Honor?
CHAIRMAN SCHMITT: Yes, you may.
MR. OVERSTREET: Would you give that to the Commissioners?
Q. And does that -- and just let me know when you're ready, Mr. Smith.
A. If you're referring to the skinny document, I'm ready.
Q. Okay. And that's what I'm going to refer to. I just wanted to make sure that --
MR. GISH: Want these in?
MR. OVERSTREET: Oh, I'm sorry. I thought you did. I apologize. These -- one moment.
Q. All right. And if you'll turn to -- the first page of the skinny document is the -- is the cover page of the order, and then the next page is page 67, and then the last sentence of the first

complete paragraph provides -- well, why don't you just read that into the record? It starts, "Due to the planned."

A. The last sentence on page 67?

Q. 60 -- I'm sorry. It's the first complete paragraph on 67. So the paragraph starts, "Kentucky Power removed previously-approved environmental."

Do you see that?

A. Okay. I see it.

Q. Okay. Then I'm asking --

A. What's the --

Q. -- about the last sentence of that paragraph.

A. The last sentence of that paragraph?

Q. Okay. It starts, "Due to the planned."

A. (Reading) Due to the planned retirement of Big Sandy Unit 2 by June 1st, 2015, to comply with the Mercury and Air Toxics Standards, MATS, rule, Kentucky Power removed the Big Sandy Unit 2 projects it previously recovered through the environmental surcharge.

Q. So in its order in the last rate case, the Commission stated that the Big Sandy Unit 2 was retired to comply with the MATS rule that Mr. McManus discussed earlier today, correct?

A. That's what it says here, yes.

Q. Okay. And if you'll turn to the next two pages, which happen to be pages 68 and 69 of the same order, the Commission, in fact, discussed the MATS rule.
And if you'll look at page 69 -- and take your time, read as much as you need, but what I'd like you to do when you're ready is to read the final sentence above the heading Consent Decree.
A. (Reading) The closure of Big Sandy Unit 2 and the conversion of Big Sandy Unit 1 to a natural gas-fired generating facility were precipitated by the MATS compliance deadline.
Q. Thank you. Back to your statement. (Reading) Thus the initial impact on Kentucky Power customers of Big Sandy's inclusion in the consent decree was to shutter their own in-state generation, which had provided significant economic benefits to the service territory and the state as a whole.
And I'm sorry, I didn't mean to get ahead of you.
A. Okay. I'm back at page 63.
Q. Okay. And that sentence "Thus the initial impact." It's that first sentence of that paragraph.
A. Yes.

Q. Do you see that? Are you aware that in Case Number 2011-401 Kentucky Power sought a Certificate of Public Convenience and Necessity authorizing the Company to scrub the Big Sandy Unit 2 and thus avoid retiring it?
A. I don't remember the docket number specifically, but I do recall that other options for Big Sandy had been presented.
Q. Right. In fact, the Company filed a case without regard to that, the docket number, and asked for a Certificate of Public Convenience and Necessity to do that.
A. I recall a filing of that nature, I just don't recall the case number.
Q. Okay. Fair enough. Are you aware that the -- your client, the Attorney General, opposed the Company's efforts to scrub Big Sandy Unit 2?
A. From what I can recall, I think there was concern about the cost of doing it.
MR. OVERSTREET: Okay. Your Honor, could I have that skinny document --
CHAIRMAN SCHMITT: Yes.
MR. OVERSTREET: -- marked Kentucky Power Cross Exhibit 1?
CHAIRMAN SCHMITT: Let it be so marked.

MR. OVERSTREET: Okay.
MS. HUGHES: Mr. Overstreet.
MR. GISH: I'll get it for you.
MR. OVERSTREET: I'm sorry.
MR. GISH: I'll give it to her.
MR. OVERSTREET: And -- thank you.
(KPCO Cross Exhibit 1 marked for identification.)
MR. OVERSTREET: May I approach the witness, Your Honor?
CHAIRMAN SCHMITT: Yes, you may.
Q. Mr. Smith.
MR. OVERSTREET: Oh.
MR. GISH: I got those two.
MR. OVERSTREET: And there's -- there's the complete document.
MR. GISH: Hold on.
MR. OVERSTREET: Okay. That'll be 2.
MS. HUGHES: This is 2?
MR. OVERSTREET: Yeah.
(KPCO Cross Exhibit 2 marked for identification.)
Q. Are you ready, Mr. Smith?
A. I think so.
Q. Okay. Great. Okay. If you look at page 6,

which is the second page of the skinny document.
A. Okay.
Q. And your memory of the reason for the Attorney General's concern was very accurate. Could you read the last sentence on that page?
A. (Reading) KPCO's customers can thus ill afford, if at all, the whopping 1.65 billion pretax bill for the proposed Big Sandy retrofit promises to bring.
MR. COOK: Your Honor, I'm just going to introduce an objection, for the record only, because this document that has been passed out is very selective in the pages that it has attached to it, and I believe the document that is on record with the Commission, the entire document, will speak for itself. So that's -- just want to get it into the record.
CHAIRMAN SCHMITT: I assume that the larger document is the complete version.
MR. OVERSTREET: It is, Your Honor, and I apologize. I thought I had enough copies for the Attorney General. Apparently --
MR. COOK: I don't believe we got the full one, no.
COMMISSIONER MATHEWS: Here's a copy of it.

CHAIRMAN SCHMITT: Here, you can use mine if you'd like.

COMMISSIONER MATHEWS: Here you go.

CHAIRMAN SCHMITT: Have someone to come forward and get it.

MR. COOK: Thank you, Your Honor.

MR. OVERSTREET: I apologize, Mr. Cook.

Q. Your statement from your testimony that we discussed a few minutes ago in which you indicated that Big Sandy Unit 2 had provided significant economic benefits to the service territory and the state as a whole, you remember that statement?

A. Yes.

Q. Okay. Would you turn to pages 9 and 10 of the skinny -- of either -- it's 9 and 10 of the brief. It's the next two pages of the skinny document.

A. Okay. I have those in front of me.

Q. Okay. And on page 9, the final sentence starts on page 9 and continues into page 10. Would you please read that?

A. (Reading) As such, it is clear that whatever economic benefits the Big Sandy retrofit option could or may maintain are insufficient factors in determining whether the incident ECR plan and the accompanying CPCN petition meet the clear legal standards set forth in KRS 278.183 and 278.020.

Q. Thank you. Mr. Smith, would you turn to page 60 of your testimony?

A. Yes.

Q. Actually, I think we've covered that. We don't need to go there.

Page 62 of your testimony, please.

A. Okay. I'm there.

Q. Okay. And at line 13 you list as one of the consequences of the consent decree as, quote, the operation of 50 percent of the Mitchell Plant.

Do you see that statement?

A. Yes.

Q. Okay. Did the Attorney General make you aware that in Case Number 2012-578, which is the Mitchell Transfer case where the Commission authorized Kentucky Power to require a 50 percent undivided interest in the Mitchell Generating Station, that the Company -- excuse me, that the Commission found that doing so was the least-cost alternative?

MR. CHANDLER: Objection, Your Honor. It's attorney-client privilege. Any discussion the Attorney General had with its witness is confidential.

MR. OVERSTREET: I can rephrase the question.

CHAIRMAN SCHMITT: Please do.

Q. Would you look at -- well --

MR. OVERSTREET: May I approach, Your Honor?

CHAIRMAN SCHMITT: Yes, you may.

MR. OVERSTREET: Be three.

Q. And could you turn to -- I'm sorry. Could you turn to page 31, which is the second page of the skinnier of the two?

A. Yes, I'm there.

Q. Okay. And read the first sentence in the -- the paragraph that starts on page 31 that starts "Lastly."

A. (Reading) Lastly, the Commission finds that Kentucky Power's comprehensive economic analysis sufficiently supports the Company's conclusion that the Mitchell acquisition is the least-cost alternative and would not result in wasteful duplication.

Q. And then drop down to the bottom of that page, and then the -- start at the third from the last sentence. It starts, "The economic analysis showed that the Mitchell proposal," and read those three sentences.

A. (Reading) The economic analysis showed that the Mitchell proposal, combined with the conversion of Big Sandy Unit 1 to gas, was the least-cost alternative by a wide margin. Sensitivity and break-even analyses also demonstrated that the Mitchell acquisition is the least-cost option. Accordingly, we concluded that the proposed Mitchell acquisition represents the least-cost alternative to meeting Kentucky Power's capacity and energy needs and would not result in wasteful duplication of facilities.
Q. And you have no basis to disagree with that, do you?
A. No.
Q. Would you refer --
MR. OVERSTREET: And, Your Honor, may I have that marked as Kentucky Power Cross 3?
CHAIRMAN SCHMITT: Yes. Is that 3?
MR. OVERSTREET: I -- 3, the --
(KPCO Cross Exhibit 3 marked for identification.)
Q. And then if you'll refer back to Number 2, which is the Attorney General's brief in the scrubber case, the 401 case. And look at page 14, which would be the last page of the skinny version.

A. Okay. I have it.
Q. And there's a paragraph that starts at the top of that page, "The option of obtaining power from the Mitchell Plant." And would you read that paragraph down to the "begin confidential"?
A. (Reading) The option of obtaining power from the Mitchell Plant is very important and highly relevant for several reasons, none of which is more important than the fact that it is already compliant with all of the new EPA standards. Additionally, Mitchell's power cost is only $640 per kW on a net book value basis, as contrasted with the projected $1,175 per kW cost of power from Big Sandy 2 following the proposed retrofit. Despite the fact that purchasing power generating at the Mitchell Plant is a highly attractive and highly viable option.
Q. And then the confidential?
A. And then there's some confidential.
Q. Okay. Right. And you have no reason to disagree with what your client, the Attorney General, wrote in that case, do you?
A. No.
CHAIRMAN SCHMITT: Has that post-hearing brief, has that been marked as Exhibit 2? Is that

your --

MR. OVERSTREET: Yes. I'm sorry. If I failed to do that, that should be Cross Exhibit 2.

CHAIRMAN SCHMITT: All right. Thank you. Let's let that be marked.

MR. CHANDLER: Mark the Mitchell? Is that going to be Number 3, the Mitchell Transfer?

MR. OVERSTREET: Yeah. Maybe we'll --

MR. CHANDLER: I'm sorry.

MR. OVERSTREET: Get caught up.

MR. CHANDLER: Sorry.

Q. Okay. Now, could I get you to turn to pages 63 to 66 of your testimony? And there -- are you there, Mr. Smith?

A. Yes.

Q. Okay. And there you discuss your proposal that the Commission consider writing down some or all of the Big Sandy Retirement Rider, soon to be known as the Big Sandy Decommissioning Rider, regulatory asset; is that correct?

A. Yeah. We think that the Commission needs to take a look at the Big Sandy Retirement Rider. That's providing a large burden on KPCO's customers. We think, at minimum, the financing cost component of that rider needs to be reviewed --

Q. Well, let's talk --
A. -- if not some more drastic changes --
Q. Excuse me. I'm sorry. I didn't mean to cut you off. I thought you had paused.
And you were actually asked a data request about that testimony by the Staff. It would be 1 -- Staff's Request 4. Do you remember that?
A. I don't remember the number offhand, but I do remember being asked.
MR. OVERSTREET: May I approach, Your Honor?
CHAIRMAN SCHMITT: Yes, you may.
MR. OVERSTREET: That would be 4, Your Honor, or 5? I've lost track.
CHAIRMAN SCHMITT: I think that would be 4.
MS. HUGHES: Four.
MR. COOK: Mark, I don't know --
MR. CHANDLER: That's why I was asking. I don't think you've mentioned 3 yet.
MR. GISH: Yeah, we did. Three was the --
CHAIRMAN SCHMITT: Three's been -- yeah, 3 has been marked.
MR. CHANDLER: Okay. That's what I was asking. Sorry.
COMMISSIONER MATHEWS: 578. 2012-578.
MR. CHANDLER: Okay. Thanks.

(KPCO Cross Exhibit 4 marked for identification.)

MR. OVERSTREET: Ken, can you bring one of those back to me?

Q. And just to help you get oriented, Mr. Smith, the first page is just the title page, and then Question 2 is the second page. I'm not going to ask you about that right now. And then the remaining five pages are Question 4 that was posed to the Attorney General that you answered on behalf of the Attorney General. Okay?

A. Okay.

MR. CHANDLER: I missed the end of your question. I'm sorry.

MR. OVERSTREET: I was just orienting him.

Q. Are you ready, Mr. Smith?

A. I think so.

Q. Okay. So 4 a. asks, (Reading) State whether the Attorney General is aware of any cases in which this Commission or another state public utility regulatory agency has denied the recovery of costs that are similar to the Rockport and Big Sandy costs that the Attorney General proposes be denied in this proceeding.

Did I read that correctly?

A. Yes.
Q. Okay. And then in response -- and you're listed as the witness, right? Is that correct?
A. I am listed as the witness.
Q. Okay.
A. Although the attorneys were the ones that researched the cases.
Q. Okay. So you didn't compile the list?
A. I did not compile the list. It was compiled by counsel.
MR. OVERSTREET: Okay. I would move that it be stricken from the record since the data request needs to be sponsored by the witness who's -- who could be cross-examined and testify concerning it.
MR. CHANDLER: Your Honor, I don't believe that's what was said. I think it was said that it was compiled, but the respondent clearly states Ralph C. Smith. I think that's a distinction.
CHAIRMAN SCHMITT: Well, I think it is a distinction. You need to --
MR. CHANDLER: To --
CHAIRMAN SCHMITT: -- clear it up, though.
MR. CHANDLER: Thank you.
CHAIRMAN SCHMITT: I assume he's seen the documents or information or he's done something to

verify this; isn't that correct?

MR. CHANDLER: I mean, I -- Mr. Smith reviewed all of these and provided his affidavit to that effect. I don't --

Q. Well, let me just ask this question: Have you read each of the referenced sources? And --

A. I don't think I've read every single one, no.

MR. OVERSTREET: Okay. I'll move -- move to strike it again, Your Honor.

MR. CHANDLER: Well --

CHAIRMAN SCHMITT: Well, if the witness is not familiar with the instances set out in the response, I think it should be stricken. I mean, it all depends on what knowledge he has. He hasn't -- says he hasn't -- he hasn't read it all, but he may or may not have read enough to qualify him. I'm not certain.

MR. CHANDLER: I would -- I would -- it would be our position that it's Kentucky Power's counsel's task to determine what he does and doesn't know about these. I mean, he filed an affidavit to the effect that this is his response. I think it's a bit interesting that it's expected that -- of these 18, that he's read the entirety of every single case.

I don't want to get in trouble with my own counsel, but I think there are portions of certain cases that you skim and read certain sections. I don't think that that should equate to striking a response.

CHAIRMAN SCHMITT: Here's what -- here's how it's handled: Mr. Overstreet, why don't you -- if you desire to, you can cross-examine him on one, more, or all of these instances to test his knowledge and understanding, and when you are through, if there's something -- before we proceed further, if you want to ask the witness questions on direct to try to rehabilitate him, I'll let you do that.

MR. CHANDLER: Thank you.

CHAIRMAN SCHMITT: They might have to do something.

So please proceed if you'd like

MR. OVERSTREET: Thank you, Your Honor. I'm prepared to do that.

May I approach the witness, Your Honor?

CHAIRMAN SCHMITT: Yes, you may.

MR. OVERSTREET: And would this be 5?

CHAIRMAN SCHMITT: It will be 5.

MR. OVERSTREET: Thank you.

(KPCO Cross Exhibit 5 marked for identification .)

Q. Mr. Smith --

MR. OVERSTREET : I'll get you copies of all of these .

Q. And I want to direct your attention to the tenth case you list there . And, Mr. Smith , I think Mr. Raff and I are the only ones in the room who spent three weeks in December of 1986 that turned out to be -- feel like three years in this particular case , but this -- you list In re Big River Electric Corporation 's Notice of Changes in Rates and Tariffs for Wholesale Electric Service , and a Financial Workout Plan , Case Number 96-13 .

And your synopsis of that case is, (Reading) in which the Commission excluded the cost of the Wilson plant from rate base . Order dated March 17, 1987 .

So first of all , will you check to make sure that I gave you the correct order ? And the date will be on the last page .

A. I think I only have the two-page --

Q. Okay . You only have the two-page one ? I apologize .

A. Okay . Got a whole stack of those .

Q. Oh, okay. I thought that was the whole thing. I'm sorry.
A. Okay. I do see the date on the last page.
Q. Okay. And it's March 17, 1987?
A. Yes.
Q. And the case number on the first page is 96-13?
A. Yes.
Q. Okay. Did you read this?
A. Not the whole thing.
Q. Did -- can you tell me where in there the Commission excluded from Big Rivers' rate base the Wilson plant?
A. I may have to take a couple minutes to peruse it.
MR. CHANDLER: Your Honor.
CHAIRMAN SCHMITT: Yes.
MR. CHANDLER: The Attorney General is willing to stipulate that number 10 in this list was written in error and would agree to strike number 10 of the data request response.
CHAIRMAN SCHMITT: All right. So noted, and the response that is designated number 10, In re Big Rivers Electric Corp. Notice of Changes in Rates and Tariffs for Wholesale Electric Service, Case 96-13,

is hereby stricken.
MR. OVERSTREET: Okay. Thank you, Your Honor.
May I ask one follow-up question about that?
CHAIRMAN SCHMITT: Yes, you may.
Q. Mr. Smith, would you turn to page 16?
A. Of what?
Q. Of that 90 -- that order in 96-13.
A. Okay. I'm there.
Q. Okay. And you see the dot at the top, or the bullet, I guess they call them?
A. Yes.
Q. Okay. Could you read the sentence that follows that, or the -- yeah, the two sentences.
A. That start with the dot or --
Q. The "Wilson is not a half-finished."
A. (Reading) Wilson is not a half-finished nuclear station. It is revenue-producing, state-of-the-art coal-fired unit that may be capable in the long run of producing enough revenue as part of the Big Rivers system to repay a substantial portion or possibly all of the creditors' investment.
Q. And you would agree that that doesn't sound like a unit that's going to be excluded from the

rate base?
A. Again, it may have been temporarily excluded.
Q. Well, it's been stricken.
MR. CHANDLER: Your Honor, we've already asked for it to be stricken.
Q. All right. I'd like to ask you about your second example.
MR. OVERSTREET: May I approach, Your Honor?
CHAIRMAN SCHMITT: You may.
MR. OVERSTREET: And this, I think, is Number 6.
(KPCO Cross Exhibit 6 marked for identification.)
Q. Mr. Smith, this is an article from Columbus Business First that you footnote as support for your second example. And do I have the right article?
A. I believe you do, yes.
Q. Okay. Now, the subject matter of this article is the write-off of -- by American Electric Power Company, Inc. of certain unregulated units in the state of Ohio; is that not correct?
A. That's correct.
Q. Okay. And the question was -- the data request was to provide, quote, cases where the Commission or any other state public utility

regulatory agency has denied recovery of costs that are similar to -- and end of the quote, to the Big Sandy regulatory asset that we're talking about.

Is -- did I capture the question correctly?

A. The question says "similar to the Rockport and Big Sandy costs."

Q. That you proposed.

A. Right.

Q. Okay. To disallow.

A. Right.

Q. Okay. So tell me, Mr. Smith, what state public utility regulatory agency denied the recovery of those costs?

A. This write-off was a consequence of the deregulation in Ohio of generating -- of electric generation.

Q. Right. And so the Ohio Public Utility Commission did not sanction the write-off of those costs; isn't that correct?

A. No, it was an economic consequence of having these units deregulated.

Q. And that was done by the Ohio legislature, right?

A. Correct.

Q. Thank you. All right. I'd like to talk about the remaining 16 instances you or your counsel list in response to this data request. And first of all, I'd like to ask you some questions about the Big Sandy regulatory asset that you're proposing to write off.

A. Well, I think that might be a mischaracterization. I think we want it reviewed, and particularly the financing component. This Big Sandy Regulatory Rider is a large burden on the customers of Kentucky Power Company. We think that, at minimum, the financing cost component needs to be reviewed and probably reduced.

Q. Okay. Sorry.

A. And maybe, depending on how that can be dealt with, reducing the financing costs we would suggest as one option. If securitization would be available to deal with these costs, which are basically for units that are not providing service at this point to customers. It's essentially like sink costs. If securitization were available, that might --

MR. OVERSTREET: Well, Your Honor, may -- the witness is not -- he's giving a speech. I asked him a question and now he's giving a speech.

MR. COOK: Your Honor, I believe he should be allowed to continue his answer.

CHAIRMAN SCHMITT: Go ahead and finish the answer and then we'll --

A. So we would suggest reviewing that, examining the financing costs, considering if securitization might be an option that some of the other AEP affiliates have applied to their sunk costs, various types, and that depending on the regulatory treatment and what adjustment is made, that may lead to some kind of impairment recognition on the Company's books. Impairment would -- is another term for write-down.

Q. Is that -- are you complete?

A. Yes.

Q. Thank you. So the question was: State whether the Attorney General is aware of any cases in which this Commission or another state public regulatory agency has denied recovery of costs that are similar to the Rockport and Big Sandy costs that the Attorney General proposes to be denied in this proceeding.

Can you show me where in your response you gave any of the information that you just provided or that you told Staff that it had mischaracterized your testimony?

A. Okay. I think you're asking a different question than the one you just asked. In response to this data request from the Staff, the attorneys did research, identifying cases that were believed to be similar where costs of various types associated with utility generation was either disallowed or, as a result of consequences such as in Ohio, where electric generation was deregulated, where large impairment write-downs occurred.

Q. The question is cases where public utility regulatory agencies denied the recovery of costs that are similar to the Big Sandy costs that the Attorney General proposes to be denied.

Now, with respect to the Big Rivers case, your counsel has indicated that was a mistake, so we know that's not one.

With respect to the AEP write-down, you indicated that wasn't as a result of a -- of the Ohio Public Utility Commission's order.

Now I want to talk to you about the remaining 16, and in particular I want to talk to you about your proposal in your testimony, as characterized by Staff, not by me, that the Big Sandy costs be denied in this proceeding.

And so in that regard, would you agree that the regulatory -- Big Sandy regulatory asset was

established in Case Number 2012-578, the Mitchell Transfer case we talked about a minute ago? Would you agree with that?
A. I agree that the Big Sandy Regulatory Rider was established in a prior case.
Q. Okay.
A. I'll have to accept the document number that you --
Q. Okay. And that the cost of retiring Big Sandy Unit 2 and the coal-related plant and assets of Big Sandy Unit 1 make up that regulatory asset; is that correct?
A. That's my understanding, yes.
Q. Okay. And those costs are to be recovered on a levelized basis over 25 years?
A. Over 25 years, including a very, very high financing cost. We think that, at minimum, the financing cost needs to be examined again.
Q. So the -- and the Commission sanctioned that, right?
A. Yes.
Q. Okay. And then the regulatory mechanism for actually recovering those costs, the Big Sandy Retirement Rider, was approved by the Commission in Case Number 2014-396, the case you testified in, the

Company --
A. Based on my recollection --
Q. -- the Company's last rate case?
A. It does agree with my recollection.
Q. I apologize. I didn't mean to talk over you.
Mr. Smith, Big Sandy Unit 1 went into service in 1963; isn't that correct?
A. I believe so, yes.
Q. And that it provided service to Kentucky Power's customers as a coal-fired unit for at least 52 years prior to its conversion to a gas-fired unit?
A. I'll accept that, yes.
Q. Okay. And even now, as a gas-fired unit, it continues to provide service to Kentucky Power's customers; isn't that correct?
A. As a gas-fired unit it is providing service.
Q. And then Big Sandy Unit 1 -- I mean, excuse me, Big Sandy Unit 2 went into service in 1969; is that correct?
A. I don't recall the exact date, but I'll accept 1969 sounds about right.
Q. And then it retired in the May-June 2015 time; is that correct?
A. That's my understanding.

Q. Okay. And so for approximately 46 years it provided service to Kentucky Power's customers; is that correct?
A. That would be correct, yes.
Q. So can you please identify for the Commission which of the 18 instances you list in this response to Staff 1-4 where this Commission or some other state public utility body required a public utility to write off some or all of the cost of the Big Sandy regulatory asset -- excuse me, cost of a regulatory asset like the Big Sandy regulatory asset previously approved by a regulatory body?
A. Again, I'm not sure that there's --
MR. CHANDLER: Objection, Your Honor. That's not the question that was asked in the data request. He's asking him to apply his answer to a data request to a completely different question he just asked.
CHAIRMAN SCHMITT: I think you're correct. Yeah, I mean, you changed the question.
MR. OVERSTREET: No, I -- I --
CHAIRMAN SCHMITT: You said previously -- which had been previously approved by the -- by the Commission. Isn't that correct, Mr. Chandler?
MR. CHANDLER: That's correct, but he's also

specifically talking about a regulatory asset, but the question specifically cited that are similar to the Rockport and Big Sandy costs.

MR. OVERSTREET: Okay. May I respond?

CHAIRMAN SCHMITT: Yes, you may.

MR. OVERSTREET: Okay. The question, as I understand it, asked the Attorney General to provide authority for Mr. Smith's testimony that the Big Sandy Retirement Rider regulatory asset should be written off.

And Mr. Smith has agreed to the following: Number one, that the establishment of the regulatory asset was approved by this Commission; number two, that its amortization over a 25-year period was approved by this Commission; number three, that it was to be recovered on a levelized basis over that period; and, number four, that the regulatory mechanism for amortizing that asset was approved by this Commission.

Mr. Smith has also agreed that Big Sandy Unit 1 provided service for over 50 years, and Big Sandy Unit 2 provided service for more than 45 years.

So what I propose to do is ask him, given what he's already agreed to, which of those cases involved any of those characteristics.

CHAIRMAN SCHMITT: I think you can ask him that.

MR. OVERSTREET: Okay.

Q. Okay. Mr. Smith --

CHAIRMAN SCHMITT: I'm not sure that -- but I won't say anything else. You can answer.

Q. Mr. Smith, which of those cases involved any of those characteristics?

A. I might have to go back and read more carefully, but I think the characteristics would include that the units -- components of the units' costs that went into the regulatory asset are no longer -- those components of costs are no longer providing service.

Q. Okay. Well, let's talk about some of those specifics, then, because Case Number -- the very first one you list there. Do you have that in front of you?

A. Yes.

Q. Okay. In Case Number 2013-199 this Commission denied immediate recovery of depreciation costs associated with the Coleman and Wilson generating stations owned by Big Rivers and instead ordered that those costs be deferred in a regulatory asset.

The Commission didn't require Big Rivers to write off that regulatory asset and, in fact, it did the exact opposite, right? It established the rate.
A. It established a regulatory asset, yeah.
Q. Was that one of the cases you read?
A. Parts of it.
Q. Number eight, A Formal Review of the Current Status of Trimble County Unit Number 1, Case Number 9934, again this Commission, disallowed 25 percent of Louisville Gas & Electric's interest in the Trimble unit.
Isn't it true that the reason that that was disallowed was that the Commission concluded that that 25 percent interest was not needed to provide service?
A. I believe it was something to that effect.
Q. And, in fact, it was in connection with the start-up. It had not -- Trimble Unit 1 had not been providing service to LG&E's customers; isn't that correct?
A. If I recall correctly, and I may be getting some of these confused, but I think that one may have been a determination that it wasn't needed because it was excess capacity.
Q. Thank you. And then number 14, Petition of

Public Service Company of New Hampshire. That's a New Hampshire -- 1988 New Hampshire Supreme Court case. Did you read that case?

A. Not the whole thing.

Q. Isn't it true that the issue in that case was the constitutionality of New Hampshire's anti-CWIP statute?

A. I think that that's correct, yes.

Q. Okay. And, in fact, the unit had never -- at the time of the decision of the Public Service Commission of New Hampshire, that -- the unit had not even gone into service?

A. It appears it was dealing with the precommercial operation regulatory treatment.

Q. And were you aware that, in fact, the New Hampshire Commission was reversed by the New Hampshire Supreme Court, and so the Commission decision was to allow the recovery of the CWIP costs?

A. That's not what I got out of that particular decision.

Q. Okay. Well -- and then the next one, the Citizens Action Coalition versus NIPSCO. I think that's Northern Indiana Public Service Company. Your summary -- have you read that case?

A. Ports -- parts of it, not the whole thing.
Q. Okay. Your summary -- did you write the summary or did counsel write the summary?
A. Counsel drafted the summary and I reviewed it.
Q. Okay. The summary provides that the state, the Indiana Commission -- or let me back up.
The case involved the recovery of $205 million on the proposed Bailey 1 nuclear generating unit before canceling the project; is that correct?
A. Yes.
Q. And the state utility commission allowed the utility to amortize the sunk cost; isn't that correct?
A. Yes.
Q. Okay. But, again, that unit had never gone into service, right?
A. It was my understanding it was canceled before becoming commercially operational.
Q. Thank you. All right. Can you turn to page 10 of your testimony?
A. Okay. I have it.
Q. Okay. And at line 3 you state a purpose of your testimony. Could you read that, please?
A. (Reading) The purpose of my testimony is to

present the Commission an appropriate test period rate base, capitalization, overall rate of return, and utility operating income, as well as an overall revenue requirement.

Q. Okay. And I take it you believe that you accomplished that objective successfully?

A. We gave it our best effort.

Q. Okay.

A. I mean, there's probably some more adjustments we could have proposed.

Q. So you continue, at line 6 on the same page, (Reading) In the determination of the AG's recommended overall revenue requirement and revenue increase, I have relied on and incorporated the recommendations of AG Witness Dr. J. Randall Woolridge concerning the appropriate capital structure ratios, cost rates for short- and long-term debt, and common equity, and the resulting overall rate of return for the Company in this proceeding.

Is that correct?

A. Yes.

Q. Okay. And I take it that -- I think you filed your testimony on October 3rd, but are you -- are you still relying on Dr. Woolridge's testimony

and work?
A. For the cost of capital?
Q. Yeah.
A. Yes.
Q. Okay. Thank you. And as part of your reliance and incorporation of Dr. Woolridge's recommendations, am I correct that you incorporated his recommendation of an 8.6 percent return on equity for the Company? Is that correct?
A. That's correct.
Q. Okay. And then once the Company's cost of debt is factored into the capitalization, it produced an overall rate of return for Kentucky Power of 6.03 percent; is that correct? And that's on page 11, numbered paragraph 3 of your testimony.
A. 6.03 percent, yes.
Q. Thank you. Do you have Mr. Woolridge's testimony in front of you? Excuse me, Dr. Woolridge. I didn't mean to slight him.
A. I don't have his testimony in front of me.
Q. Okay.
MR. OVERSTREET: It's in the record, Your Honor, but I'm going to provide him with the subject pages. And may I approach?
CHAIRMAN SCHMITT: Yes, you may.

MR. OVERSTREET: This would be 7?
CHAIRMAN SCHMITT: It'll be 7.
(KPCO Cross Exhibit 7 marked for identification.)
MR. OVERSTREET: Did it again. I'm sorry.
Q. And I think this is going to be an easy question, but on line 18 on page 2, you write -- I'm sorry, Dr. Woolridge writes -- and you've read his testimony, of course?
A. Yes.
Q. Okay. (Reading) The United States Supreme Court established the guiding principles for determining an appropriate level of profitability for regulated public utilities in two cases: Number one, Bluefield, and, number two, Hope. And then you provide the citations to those two cases. He provides the citations to those two cases.
(Reading) In those cases the Court recognized that the fair rate of return on equity should be: One, comparable to returns investors expect to earn on other investments of similar risk; two, sufficient to assure confidence in the company's financial integrity; and, three, adequate to maintain and support the company's credit and to attract capital.

Did I read that correctly ?
A. Yes .
Q. And do you have any reason to disagree with Dr . Woolridge with respect to what I just read ?
A. Not with respect to what you just read .
Q. Okay . Do you have reasons to disagree with Dr . Woolridge about anything else ?
A. I can 't think of anything , no .
Q. Okay .
MR . COOK : That 's a leading statement .
Q. Okay . Now , if you'll turn to -- please turn to pages 10 to 12 of your testimony .
A. 10 to 12 ?
Q. Yeah .
A. Okay .
Q. And there you kind of lay out your findings and conclusions ; is that correct ?
A. That 's correct .
Q. Okay . Do you believe that there 's anything questionable about the merits of those findings and conclusions ?
A. I don 't know if I'd use that term , but I believe there were a bunch of other deferral items that could have been incorporated . Certainly it would have produced a lower base rate revenue

requirement --
Q. Okay. Do you believe there's any --
A. -- be calculated.
Q. I'm sorry. I thought you had finished.
Do you believe there's anything questionable about it?
A. Again, I wouldn't use the term "questionable." I mean, I believe we've given reasons for each of our recommendations --
Q. Okay.
A. -- and provided references to the supporting documentation.
Q. And that is your recommendation, right?
A. Yes, as of the date that this was filed.
Q. Okay. And do you think there's anything questionable about the calculations that you used in arriving at those findings and conclusions?
A. I think we used standard calculations for calculating a base rate revenue requirement --
Q. Sure.
A. -- and revenue deficiency.
Q. And, in fact, you do it in a step-by-step basis and lay it out in your testimony, don't you?
A. It's laid out in the testimony and exhibits, yes.

Q. You know, for example, in pages 23 to 52 of your testimony, you detail 18 -- I mean, excuse me, 15 adjustments; isn't that correct?
A. We do detail each of our adjustments in the testimony.
Q. Right.
A. I didn't catch the specific page references, but we do.
Q. Okay. And now if you'll turn to line 3 on page 12 of your -- of your testimony. Are you there?
A. I'm here. Yeah.
Q. Okay. (Reading) Applying the updated gross revenue conversion factor of 1.643342 indicates the Company has an annual base revenue requirement excess. And then in your errata you corrected that, said it was the deficiency. Do you remember that?
A. Yes.
Q. Okay. Of approximately 39.9 million, as shown on Exhibit RCS-1, Schedule A, column B, line 7. Is that correct?
A. That's what it says, yes.
Q. Now, you were also listed as the witness in the Attorney General's response to Staff 1-2 b. And you should have that up there. I think it might be

4, Mr. Smith.
A. I still have it, yes.
Q. Okay. And in that data request Staff asked you to, quote -- asked the Attorney General to, quote, Reconcile the Attorney General's support for a revenue increase of approximately 40 million, or eight percent, with the Attorney General's October 4, 2017, press release in which he recommends that Kentucky Power, and then there's an internal quote, forego the requested increase on ratepayers by implementing stronger controls on spending and by decreasing the amount returned to its shareholders.
And then did -- did you provide the response or did counsel write that?
A. I'm listed as the responsible witness. I think counsel helped to draft it.
Q. Okay. Sure. And so in that response you point to a sentence on page 3 of Dr. Dismukes -- am I pronouncing that correctly?
A. I've heard it pronounced that way.
Q. Okay. Dismukes' testimony where he states Kentucky Power's customers are unable to afford any increase. Right?
A. Yes.

Q. Okay.
A. That's part of the response.
Q. Okay. That's right. And then you go on to say, (Reading) Having made his position clear, the Attorney General also has a duty to point out to the Commission that Kentucky Power's requested increase is unreasonable and unsubstantiated even if customers could afford it, which they cannot. As such, Mr. Smith's testimony provided evidence that the Company's request was unsupported and unreasonable.
So you would agree that in both of those sentences, I think, you refer to Kentucky Power's requested increase; is that correct?
A. The approximately 60.3 million that was in the Company's supplemental filing, that's what is being referred to, I believe, here.
Q. Right. And would you also agree that the data request asked not about Kentucky Power's request but your testimony in which you indicated that the Company's current base rates produced a revenue deficiency of approximately 39.9 million?
A. That's what part a. asks.
Q. Right.
A. And then we --

Q. And that's what you answered?
A. -- confirmed that that was a -- 39.9 million was a deficiency.
Q. Right. But what the -- part b. asked you to reconcile the 39 -- your statement of approximately 40 million revenue deficit, deficiency, with the Attorney General's press release.
Do you -- and your response talks not about your testimony but about the Company's application, correct?
A. And the concerns about affordability, which I think you've heard from -- not only from the Attorney General, but also from other parties.
Q. Okay.
A. And you'll be hearing more about when Mr. -- when Dr. Dismukes testifies.
Q. Okay. But the answer you provided did not purport to reconcile the $39.9 million revenue deficiency with the Attorney General's statement, those two sentences; is that correct?
A. I think it explained that notwithstanding -- this is my paraphrasing of it. Notwithstanding the calculation of a $39.9 million revenue deficiency, there remains serious concerns about the affordability of any rate increase for this

particular service territory at this particular time under these particular economic conditions.

Q. So tell me, Mr. Smith, is it your testimony that your calculation of the $39,876,068 revenue deficiency that you identify at Exhibit RCS-1, Schedule A, column B, line 7, and about which the Commission inquired in data -- AG Data Request 1-2 b. is unreasonable and unsubstantiated here?

A. It's a number that was calculated at that point in time using adjustments that are documented and supported in the record.

Now, there could very well be additional adjustments, primarily a series of deferrals, such as there's a number of deferral items in the settlement agreement. Had those been incorporated on top of our number, which didn't really include wide-ranging deferrals, the revenue deficiency could be lower.

And notwithstanding the calculated number, there remains a serious concern about affordability, which is the subject of Dr. Dismukes' testimony.

Q. Are you standing behind your calculation of the $39.9 million number or not?

A. At that point in time it was the number we had calculated and supported. Had we done it at this point in time, we would probably stack on a bunch of the deferral items as additional creative thinking among the parties or other ways of reducing the impact on customers in this service territory at this point in time due to the economic conditions and the affordability concerns.

So we could come up with a much lower number by stacking some other adjustments on top of what we had calculated.

Q. But you didn't come up with that much-lower number when you filed your testimony; isn't that correct?

A. We came up with a number of 39.9 million, and it wasn't -- it didn't involve a whole bunch of adjustments to defer costs off into the future where they would be -- result in future rate increases.

Q. Okay. Have you calculated, Dr. Smith -- excuse me, Mr. Smith, based on the test year ended February 28th, 2017, which is the test year in this case, but adjusted for the 15 adjustments you identified at pages 23 to 52 of your testimony, what Kentucky Power's return on equity would be if the Commission were to accept the recommendation of Attorney General Andy Beshear that the Commission deny the Company's rate increase in its entirety?

A. No, I haven't calculated that.

MR. OVERSTREET: That's all I have, Your Honor.

CHAIRMAN SCHMITT: Thank you.

I'm going to pass -- I mean, we've already finished some of this testimony, I guess, about the 15 or 18 different parts, and when -- I am now going to change my ruling to overrule the objection.

I think you -- Mr. Overstreet has done a good job in testing the witness on those parts, and some he has tested and some he hasn't, so I'm going to let it stand unless there's something else.

MR. CHANDLER: We're fine with the number 10 being stricken, if that's -- if that's how we understand the --

CHAIRMAN SCHMITT: Well, that's the only -- yeah, the motion that's been made to this point.

Now, at this point, then, is there any -- I guess that leaves Kentucky Industrial -- or Kentucky Commercial Utility Customers. Do you wish to ask the witness questions?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff.

MR. KURTZ: Your Honor --

MR. OVERSTREET: Your Honor --

CHAIRMAN SCHMITT: Oh.

MR. OVERSTREET: I don't mean to bust in, but may I move the admission of those exhibits before I forget?

CHAIRMAN SCHMITT: Yes. And is there any objection to introducing the exhibits?

MR. CHANDLER: No objection.

CHAIRMAN SCHMITT: If not, then let them be introduced into evidence as Kentucky Power Cross-Examination Exhibits, I think 1 through 6?

MR. CHANDLER: I have a 7.

MR. OVERSTREET: Seven.

CHAIRMAN SCHMITT: Seven. One through 7.

(KPCO Cross 1 through 7 admitted.)

MR. KURTZ: Very briefly, I have some questions for the witness.

CHAIRMAN SCHMITT: Okay. Well, I would have taken you before, I guess, cross-examination. I apologize. I'll go ahead with -- go ahead now and ask him questions.

MR. KURTZ: Thank you. And I actually prefer going after the Company, so that's fine.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. But, Mr. Smith, your revenue -- your

testimony indicates that Kentucky Power justified a $40 million rate increase? 39.9 million?
A. That's the number we had calculated as the revenue deficiency.
Q. And that includes an 8.6 percent return on equity?
A. Yes.
Q. Okay. And the settlement agreement is 9.75 percent?
A. Yes.
Q. Okay. If you're -- with your -- if we put a 9.75 percent return on equity -- let me back up.
Are you aware of any decision by this Commission in the last 10, 15, 20 years that the ROE was as low as 8.6 percent?
A. No. The last decision I'm aware of I think was the settlement of the Kentucky Utilities and Louisville Gas & Electric, and I think they used 9.7 there. I think that might have been part of a settlement.
Q. The settlement was 9.75 and the Commission knocked it down to 9.7, correct?
A. My recollection is it ended up at 9.7. I don't recall exactly how it got there.
Q. If we use a 9.75 percent ROE and kept all of

your other adjustments, isn't it correct that your recommendation would be a 40 -- $49 million rate increase?
A. I haven't calculated that number, but it would be higher.
Q. Well, every one percent ROE is about eight percent -- or, excuse me, $8 million in revenue requirements --
A. Approximately.
Q. -- base rates?
A. Yes.
Q. So the 9.75 is 1.15 percent higher than the number you used of 8.6?
A. Yes.
Q. So 1.15 times 8 is about 9.2 million?
A. The math is roughly correct, yes.
Q. Okay. So if we -- if you had ever -- if you got every adjustment that you testified to, but the Commission used a 9.75 ROE, the rate increase would be 49.2 million?
A. That's how the math would work out. I think if the number was that high, we would have had to do some other work and come up with some other adjustments.
Q. And the settlement was 31.8?

A. With a bunch of loading rate increases on to future years, but, yeah, that's the base rate increase.

MR. KURTZ: Okay. Thank you.

Thank you, Mr. Chairman.

CHAIRMAN SCHMITT: Are there attorneys for any of the other settling intervenors who would like to ask any questions of this witness?

If not, then is there cross-examination by Staff?

MR. NGUYEN: Yes, Your Honor, just a few.

CROSS-EXAMINATION

By Mr. Nguyen:

Q. Good afternoon, Mr. Smith.

A. Good afternoon.

Q. Is it -- just for clarification, is it your testimony that you are standing by your prefiled testimony with respect to the adjustments that you recommended?

A. Yes.

Q. Okay. So you're not recommending any other adjustments that result in an approximately 39 -- $39 million -- or identified a $39 million revenue deficiency for Kentucky Power Company; is that correct?

A. No. That would be the result of applying a 9.75 ROE. As I just had the exchange with KIUC counsel, that's how we got up to the 39 million, and that's not what is being recommended by myself. And Dr. Woolridge, as I understand it, is still recommending the 8.6 percent ROE, which is reflected in our number of approximately 39.9 million.
Q. Okay. So you're standing by that recommendation?
A. Yes.
Q. Okay. You also recommended a specific adjustment with respect to rate case expense; is that correct?
A. Yes.
Q. There were two parts to it. One was the removal of the expenses associated with Communication Council of America, Inc. --
A. Yes.
Q. -- correct? And then you also recommended that the remaining rate case expense be disallowed as well; is that correct?
A. That is correct.
Q. Okay. Can you provide the basis for that recommendation?
A. Yes. And I admit that one's a bit extreme,

but the basis of it is that an issue was raised in the last case concerning affiliated charges, and nothing was done about that issue.

The Company has a unit power sales agreement with an affiliated company for the Rockport units, and it is paying over a 12 percent return on equity.

We've identified in the last case, and have done so again in this case, approximately how much annual savings could be provided to customers of Kentucky Power Company by various levels of reduction from that extremely high ROE on that unit power sales agreement.

So we would like to see that reduced before -- we would have liked to see that reduced before Kentucky Power came in and filed this rate case. And we just want to highlight that issue.

And one of the remedies we've come up with, since that appears to be an issue that needs to be addressed at FERC, and if it's not addressed, we're suggesting as an alternative to the Commission to disallow the rate case expense.

Q. Okay. So the total rate case expense as of now is around 1.3 million; is that correct?

A. Yes. And it's amortized, I believe, over three years.

Q. Okay. So your disallowance would be approximately about 450, $460,000?
A. Yes. Which was in line with the -- roughly in line with the amount of reduction to Kentucky Power's expenses that would result from addressing that excessively high, extremely high ROE on the Rockport unit power sales agreement.
Q. Okay. Would you -- how would you properly characterize the rationale for that type of disallowance? Would that be a penalty, penalizing Kentucky Power for not doing what you think would have been prudent in the past, or would that be an incentive for them to do so in the future?
A. I guess I like to think of things positively, so I would probably frame it as an incentive, but I suppose you could view it as -- you know, the opposite way, as a penalty for not addressing this affiliated cost and attempting to reduce the costs that they're requesting to pass on to their ratepayers.
Q. And then to the extent that -- if the Commission does do this, to the extent that Kentucky Power is prompted to file something at FERC, what do you envision the results would be at FERC?
A. I would envision the results would be a lower

ROE and lower charges to Kentucky Power Company from that affiliated contract.

Q. Another adjustment that you had recommended was the disallowance for corporate aviation expenses; is that correct?

A. That's correct.

Q. Okay. And looking at your schedule, Exhibit RS -- RCS-1, Schedule A, page 2 of 2, that amount was -- well, you tell me. Was that identified on this exhibit?

A. On Schedule A, page 2 of 2?

Q. Yes.

A. Yes. It's on line 18, Affiliate Charges for Corporate --

Q. Okay.

A. -- Aviation Expense.

Q. And how much was that amount?

A. The pretax operating income amount was $382,769, and then operating income amount was $234,185, and the revenue requirement estimated impact amount was $384,845.

Q. Okay. And what was the basis for your recommendation for that disallowance?

A. That these are affiliated charges. They're not necessary for Kentucky Power Company to provide

utility service.
When you look at the use of this AEP Corporate Aviation Department, I believe there's data requests, and I believe they're in the record, that show the people that are traveling on this, it tends to be heavily used by AEP officers. There's very little that appears to be directly related to Kentucky Power, so we just think it's an unnecessary cost. It's an affiliated cost which deserves heightened regulatory scrutiny, and it could even be viewed as additional perquisite for the AEP officers and the directors that are using a number of these flights.
Q. You were allow -- you recommended a disallowance of all of that expense that's been --
A. All of the affiliated --
Q. -- allocated to Kentucky Power?
A. All of the affiliated charge for the AV -- the AEP Corporate Aviation Department that flows through from the AEP Service Company --
Q. You say that --
A. -- to Kentucky Power.
Q. -- there were -- the majority of that was not Kentucky Power-related; is that correct?
A. The majority of it was not.

Q. But there was some that were Kentucky Power-related business?

A. Some appear to be directly Kentucky Power-related flights. I think that's about 50 or 60,000, 40 -- 40 to 60,000.

Q. But for those, you're still recommending that those be disallowed as well?

A. Right. When you look at the cost of some of these flights -- I mean, this is corporate aircraft. Right? I don't know if you remember the scandal recently about -- I forget which department, cabinet position, flying on the military jets, but, I mean, the cost of some of these flights is very high. So there's a concern over the cost too. Even the Kentucky Power-related stuff, you know, there may be a lower cost that would be associated with a different form of travel.

MR. OVERSTREET: Your Honor, I'm going to object. I don't think it's proper to compare cost of flying on a military aircraft, with the security required for public officials, to flying on corporate aircraft, and to the extent that Mr. Smith is trying to conflate the two, it's improper and I would move to strike his testimony.

CHAIRMAN SCHMITT: I understand, but I'm

going to let him complete his answer and then we can move on to something else.
A. Yeah. Even with respect to the Kentucky Power-specific items, there's a concern about the cost. You know, was there a more economical form of transportation?
MR. NGUYEN: Those are all the questions. Thank you.
CHAIRMAN SCHMITT: Commissioner Cicero, questions?

EXAMINATION

By Vice-Chairman Cicero:
Q. Mr. Smith, you've indicated that although your review indicates a $39.9 million revenue increase for Kentucky Power, I think you're saying you stand behind it, but there's been a lot of back and forth here.
Are you -- are you standing behind the 39.9 million?
A. We stand behind the 39.9 million and the adjustments that are included in that. I just wanted to make sure the Commission is aware that there's another basket of adjustments, including many adjustments that essentially defer costs out of the test year into future periods that could be

utilized , and if they were utilized , that would reduce the base rate revenue requirement in this case even further .
Q. So you're referring to deferral of costs , which really aren't savings , it's just pushing things out into the future . It's kicking the can down the road , is it not ?
A. Yes , and there's quite a bit of that going on in the stipulation .
Q. There is, and you believe there should be more ?
A. No . All I'm saying is, we didn't do those types of adjustments as a general matter in our coming up with the 39 million . Had we done various types of adjustments that would shift the cost out of the test year into the future , you know , potentially doing those could have gotten the number down lower .
Q. So you indicate --
A. And some of those are definitely worthwhile considering for the Commission .
Q. You indicate that the rate filing expense , including it as an adjustment , was a bit of a stretch . I think that was the word you used , or the words you used .

A. Yeah, I think under normal circumstances we wouldn't have recommended a total disallowance of the rate case expense.

Q. And the reason why I ask that is because it sounds like you reached for every bucket of money that you could in order to come up with the number you came up with, including the 8.6 ROE, and yet there was still a $39.9 million revenue justification according to your calculation?

A. Yeah, I don't want to leave you with that impression. I know on the rate case expense, I would characterize that as being probably aggressive. The 8.6 return on equity is recommended by Dr. Woolridge. You know, he presents a lot of support for coming up with that number. He'll be a witness here, you can ask him.

But I don't want to create an impression that we exhausted all of the potential adjustments, because we clearly did not. There were a bunch of other things that could have been adjusted. A lot of those would involve, say, lengthening amortization periods, lengthening useful lives over which the Big -- for example, the Big Sandy plant is being depreciated over, creating deferrals that push cost -- take costs out of the test year and push them off into future periods.

So there were -- you know, that kind of creative regulatory thinking could have produced additional adjustments. And there are some in the record, and I want to leave the Commission with an impression that we think that you should definitely look at those and consider the merits of each one.

Q. Did you have a chance to read Mr. Woolridge's testimony before you completed the report or during the time you were completing your report?

A. I don't know if I read the whole thing prior to completing my report. We work with Dr. Woolridge, have worked with him on a number of cases, and I think his stuff tends to be similar. Like he presents it in a similar manner and shows the building blocks of how he comes up with the ROE.

So I know we had some discussions about what the numbers would be, how we were coordinating on what the capital structure was. So -- and I've definitely totally read his testimony in other cases. I don't remember if I read his complete draft here.

Q. I think you referenced back and said that there would be -- there should be economic considerations given to the rate increase in terms of how it could be modified.

In other words, I believe what you're saying is that Eastern Kentucky, because of its economic dilemma, there should be consideration given to how the increase is structured or whether there's an increase at all. Is that paraphrasing correctly or not? Correct me if I'm wrong.

A. I think that's an issue -- definitely an issue in this case, and the Attorney General is presenting another witness, Dr. David Dismukes, who addresses the affordability concerns. And I think that that is something else that is the overall presentation of the Attorney General's case, that the Attorney General is definitely asking the Commission to consider the affordability factor as well as, you know, the calculated numbers of the revenue deficiency, to also consider affordability.

Q. So statutorily, what power does the Public Service Commission operate under in order to make adjustments for economic depravity or economic conditions in general?

A. Again, I'm probably not to ask -- the person to ask about, you know, the Commission's statutory authority. I know in some other jurisdictions in which we operate that have similar issues, perhaps not as severe as Kentucky Power has, with low-income customers and difficulty in paying electric bills, sometimes special rates are developed for low-income customers with discounts or forgiveness periods. So rate design would be one element.

Potentially one solution, or at least partial solution might be to carve out a subset of residential customers meeting certain income criteria, say some multiple of the poverty level, and creating a special rate for them that they can actually afford. And I've seen that done in other jurisdictions.

Now, I don't know what the boundaries of, you know, the Commission's ability is, because I haven't attempted to analyze that, but I would think that rate design might be something the Commission could consider that could be helpful in addressing the affordability situation.

Q. Well, given that the residential class is already heavily subsidized by the rest of the rate classes and the fact that your review indicated a $39.9 million increase, do you believe the rest of the rate classes should subsidize to the tune of 39.9 million? Is that what you're stating?

A. I don't think that's what I'm stating.

Generally, you know, when you have a group of customers and the issue is that they just can't afford to pay the utility rates, you have to consider different options for trying to deal with that.

One of the options is to try to create a special rate class, create some rates that the people can actually afford to pay. That's one option.

The other option is to just, you know, continue on with the rates and then they won't be able to pay, and that builds up uncollectibles, which then becomes part of the cost of service that is then paid for by other customers.

Another option that's not usually a very good one is, I mean, if they're not paying, to cut off their electric service, and I don't think people want to do that if that can be avoided.

You know, other options are, you know, trying to come up with other ways of reducing costs that go into rates. There have been several creative suggestions that are now presented to the Commission in terms of cost deferrals.

You know, part of what the customers are paying is this Big Sandy Retirement Rider that has a -- you know, this very high financing cost built into it. One of the things that we're suggesting is that the Commission relook -- reexamine that and figure out a way of getting the financing cost down.

So there's -- there's a lot of different ways that this issue can potentially be addressed.

Q. The Big Sandy financing cost is probably a situation that's not going to be addressed in this base rate case that we're going through right now.

What I heard you say was -- the only item that I heard you say that's not a socialization of costs upon other rate cases is the cutting of costs, which I agree that's a valid way to try to reduce the revenue requirement is reduce the amount you spend.

Other than that, do I understand correctly, you have a $39.9 million recommendation that you developed for the Attorney General, and absent spreading costs on to other rate classes, I don't know how you reduce rates to the residential portion where there's an economic situation where they can't pay. So I'm not sure what your recommendation is other than socialization of costs to other rate classes.

A. Yeah, I guess I haven't developed a specific recommendation, but since there's definitely, I believe, an interest in trying to find a good solution for this issue, I've been trying to present ideas for the Commission's consideration.

Again, the developing of a special rate for low-income customers is one idea. That probably will involve some kind of subsidization by other customers if the Company is going to collect the approved revenue requirement.

Again, if you think the economic conditions are going to improve two or three years down the road, the cost-deferral idea, you know, is probably worth consider -- considering.

There's been some degree of -- you've used the term "subsidization," so I'm going to use that same term -- shifting of cost responsibility that's been built into the settlement agreement, where it's not just an across-the-board, same -- all the classes get the same percentage increase.

The residential increase is higher than any of the other classes, so maybe apply more gradualism to removing those interclass subsidies might be one way of helping the residentials.

Q. I would just leave you with the fact that I think in the agreement that has been presented, there is an increase in the HEAP program, which an attempt to at least provide some assistance to low-income ratepayers. Other than that, I'm not sure how to resolve the problem.

But I don't have any other questions. I thank you.

CHAIRMAN SCHMITT: Commissioner Matthews, questions?

MR. MATHEWS: I have none.

CHAIRMAN SCHMITT: I have no questions.

Would you like, Mr. Chandler, to interrogate your witness further?

MR. CHANDLER: Hopefully it's not an interrogation, but just a couple. Thank you.

REDIRECT EXAMINATION

By Mr. Chandler:

Q. The document that Kentucky Power provided you, I believe it's Kentucky Power's Number 1, do you have that in front of you?

A. Yes, I still do.

MR. CHANDLER: Sorry.

MR. OVERSTREET: Just trying to hear.

Q. Do you mind to turn to page 69 of that? And I believe it may be in the smaller version, but Larry has my copy.

MR. OVERSTREET: And, I'm sorry, which one was 1?

MR. CHANDLER: The 20 -- the last rate case final order.

MR. OVERSTREET: 396.

MR. CHANDLER: 396.

MR. OVERSTREET: Yeah.

Q. On page 69 there's a paragraph titled Consent Decree. Just let me know when you're there.

A. Yes, I have it.

Q. Were you in the room when Mr. McManus provided testimony earlier?

A. Yes.

Q. And do you remember me asking him if any of the Kentucky Power units were named in the complaints that led to the con -- that ultimately led to the consent decree?

A. Yes.

Q. And do you remember his answer?

A. Not word for word, but I think the answer --

Q. Do you remember if he indicated that the Kentucky Power Big Sandy units were included in the complaints that ultimately led to the consent decree?

A. They were not included in the original complaints that led to the consent decree.

Q. And since we're reading sentences in from this order, will you read that first sentence into the record, please?

A. Starting under Consent Decree?

Q. Yes, sir.

A. (Reading) Kentucky Power's generating units are subject to requirements imposed by the consent decree entered by the United States District Court for the Southern District of New York in an action arising under the CAA, Clean Air Act, United States versus American Electric Power Service Corp., Civil Action C2-99-1250, and all modifications there to, the consent decree.

Q. Thank you, Mr. Smith. Will you also go to page 10 of Kentucky Power's Exhibit Number 2? It seems to be the version -- or the small or the big version of the -- a CPCN, Case 2011-401.

A. Okay. I think I have it. What page did you say?

Q. 2011-401.

A. Yes, I have what I think is the order, but what page number? Or the brief.

MR. OVERSTREET: This.

Q. Yes, it's -- yeah, it's either one. It's

just page 10 in the 2011-401 final order. It state -- oh, I'm sorry. I apologize it is the Attorney General's post-hearing brief. I apologize. Sorry.
A. Yes.
Q. It's been a long day already.
Let me know when you're at page 10, please.
A. I have page 10 of the brief.
Q. Will you read -- of the first full paragraph there, will you read the last sentence into the record?
A. (Reading) KPCO's ratepayers simply cannot afford the gargantuan increase in rates, especially when other feasible, lower-cost options exist and were not fully explored.
Q. Can you also go to page 64 of your direct testimony, please?
A. Okay. I have it.
Q. Just one second, please. Will you read -- just quickly look at that first paragraph there. Starting from line 1 to line 11, that question and answer. Will you -- can you confirm in that paragraph that you do not use the terms "recommend"? Term "recommend," excuse me. It's just one word.
A. I don't use the word "recommend" in that Q

and A on page 64.
Q. Thank you. And have you had an opportunity to look at the stipulation that's been filed in this case?
A. Yes.
Q. And to your understanding, did the stipulation include any of the adjustments you provided in your direct testimony in the amounts that you provided in your direct testimony?
A. Only the incentive compen -- stock-based comp. It included a revenue requirement amount that was similar to what we had recommended in our testimony.
Q. But it wasn't the exact amount, that's correct? It was the amount that Mr. Kollen provided; is that right? Subject to check.
A. It was pretty close to our amount.
Q. Okay.
A. It might have been based on Mr. Kollen's amount.
MR. CHANDLER: The AG has no more questions.
CHAIRMAN SCHMITT: Mr. Kurtz?
MR. KURTZ: Thank you, Your Honor.
* * *

RECROSS -EXAMINATION

By Mr. Kurtz:

Q. Very briefly, Mr. Smith. The deferral and the kick the can down the road and that whole discussion, do you think that considering the deferral -- first of all, the settlement would defer $50 million of Rockport costs over a five-year period, correct?

A. Yes.

Q. Okay. With carrying charges, at the end of five years it would be 59 million?

A. Yes. It has a very hefty carrying card -- charge cost on top of it.

Q. Okay. And so the recovery of the $59 million deferral balance would begin when the Rockport unit power agreements expire on December 8th, 2022, correct?

A. I believe that's the intent of it, yes.

Q. Are you aware that the fixed costs in the Rockport contract that would end on December 8th, 2022, are $54 million?

A. I know they're very high, and the ROE on the Rockport is very high.

Q. So essential --

A. I don't know what the exact number is.

Q. Okay. So all else being equal, customers would start paying off a $59 million deferral balance in five years but would also get a $54 million rate reduction per year beginning in five years, all else equal? I know lots of things change, but just looking at losing the Rockport fixed costs and starting to pay off the Rockport deferral. Is that accurate?
A. It's -- I'm not sure if it'll actually happen, but it's, I think, one of the things that might happen.
Q. Now, hopefully there will be new customers and Mr. Satterwhite will, you know, invigorate the economy and so forth and there will be more load to pay off the $59 million deferral in five years. That would be your hope, would it not?
A. That would, I think, be everybody's hope, but with Marathon talking about putting in their own generation, there may actually be less. I mean, that's the Company's biggest customer, and, you know, there's -- they're at risk of, maybe not losing them, but losing a significant part of the service that they're providing.
Q. You know, customers are allowed to make their own electricity under federal and state law, and the

utility is required to provide backup service. That's the PURPA law, 1978. That is law, isn't it?
A. It's my understanding they have that option, yes.
Q. And one reason Marathon might justify building its own power plant, essentially, would be its electric rates are just too high for its business purposes? That's a reason you would --
A. Businesses of that magnitude are generally very concerned about the power costs.
Q. So one last thing. Hopefully there will be a rate reduction for all customers, really across the whole state, because of a reduction in the corporate income tax rates, and that would help the situation here, would it not?
A. If the corporate income tax rate is reduced from the current 35 percent to the 20 percent that's -- is my understanding is in both the House and Senate bill, although kicking in at different points in time, that could provide a nice pool of cost savings that I would hope would be passed on to customers.
Q. With no effect on the utility's earnings, because it would just be passing through a cost reduction, correct? I mean, it wouldn't -- it

wouldn't come out of the utility's earnings, it would just be flowing through a reduction in cost just like flowing through an environmental cost is a flow-through of an increase in cost?
A. It could be a very significant cost reduction, and that could provide a significant source of savings that, if passed back to customers, could certainly lighten the impact of a rate increase.
Q. So that, again, would be something that would happen in the future, but let's keep the rate increase down as low as possible today and maybe that will be a rate reduction in a year or two. Would that be your hope?
A. Would it be my hope that corporate income taxes are reduced?
Q. Yeah.
A. I'm not sure. I have -- you know, I don't know all the -- I've studied certain aspects of the bills. I mean, it seems like there's a lot of concerns about some of the other aspects. But if it does happen, I would certainly hope that the utility savings would end up getting passed on to their customers in a fairly responsive manner.
Q. In the settlement agreement, the three-year

base rate freeze excludes a tax change. In other words, the base rate stay out would not preclude the Commission from flowing through tax savings. Is that your understanding of the settlement?
A. It sounds like it would require a legal interpretation.
Q. It's black and white right in the settlement that the rate case stay out does not preclude flowing through tax savings.
A. Oh, was there something about flowing through tax savings in the settlement?
Q. Yeah.
A. I don't know if I noticed that part, but, yeah, I think recent settlements that I've seen have contemplated, if this happens, how the impact would be flowed through so it doesn't end up flowing to the company shareholders.
Q. Couple last points. Are you aware that in 1986, when the corporate income tax rate went from 46 to 34 percent, the Commission lowered rates for all of the investor-owned utilities, not the co-ops or the munis, which they don't regulate, but for all the investor-owned utilities when the income tax rate went down in '86?
A. I don't recall exactly what happened in

Kentucky. I think throughout the country, though, there were efforts to quantify what the savings were and to figure out how to adjust rates to reflect those savings.
Q. One last point. And you're the revenue requirements expert. There's two elements of tax savings, just a reduction in the tax expense, plus the flow-through or the giveback of excess ADIT, correct?
A. Current income tax expense would be reduced if the corporate income tax rate is reduced.
Q. And wouldn't there be excess ADIT that would have to come back there?
A. There would also be excess ADIT, and that would also be available to be flowed back in some manner.
Q. And the ADIT is money that customers have prepaid the utility under the assumption that they are going to pay the government at 35 percent, but they would have over prepaid if the tax rate goes down to 20 percent, hence excess ADIT. Is that your understanding?
A. That's one way of looking at it, yes.
MR. KURTZ: Thank you, Mr. Chairman.
CHAIRMAN SCHMITT: Staff, any questions?

MR. NGUYEN: Yes, Your Honor. Just a couple.

RECROSS-EXAMINATION

By Mr. Nguyen:

Q. Mr. Smith, just want to reference you that the Vice-Chairman asked you a couple questions regarding interclass subsidies. Do you recall those?

A. Yes.

Q. Okay. And were you here earlier for the -- when Mr. Satterwhite was testifying with respect to the $500,000 subsidy that the public schools would receive by all other customers in the LGS class under the settlement agreement?

A. I was here this morning, yes, and I did hear questions to that effect.

Q. Okay. Do you support or oppose that $500,000 subsidy to the public schools as proposed in the nonunanimous settlement agreement?

MR. CHANDLER: Your Honor, I hate to object to Staff's question, but Mr. Smith provided testimony on revenue requirements and not allocation or rate design.

CHAIRMAN SCHMITT: I understand, but I think --

MR. CHANDLER: We have tendered him.

CHAIRMAN SCHMITT: -- he is permitted to be asked questions on any subject relevant to this proceeding.

So you may ask and you may answer if you have an opinion.

Q. Just based upon your own knowledge, your own expertise, and your understanding of the nonunanimous settlement agreement, do you support or oppose the $500,000 subsidy being received by the public schools as proposed in that settlement?

A. I don't know if I really support or oppose that position. I really haven't taken a position on that particular component of the settlement agreement.

Q. Have you reviewed the settlement agreement --

A. Yes.

Q. -- in total? Okay.

A. Yes.

Q. Again, based upon your background and expertise, do you -- do you think that the settlement agreement produces a fair, just, reasonable resolution to the issues addressed in the settlement and in this case?

A. No. I think it has some good components in it. Definitely some creative thinking went into the compromise that the other parties reached, but I don't think it goes far enough in reducing the rate increase, and it also creates concerns about some of these deferrals that are being pushed off into the future with, you know, financing costs components piled on top of them.

So we don't think the settlement is adequate, but it does include some good ideas.

Q. So on what basis are you -- think that the settlement agreement does not go far enough in terms of reducing the revenue requirement?

A. Well, out of all the adjustments that we've identified, it basically only picked up the one for incentive compensation and stock-based compensation. We certainly think there's merit in some of the other adjustments, so that's kind of a disappointment. And reflecting some of the other adjustments would serve to further reduce it.

The deferral with additional financing costs creates concerns. I mean, to me that's one of the main problems and issues with the Big Sandy Retirement Rider is the very large financing cost that's been included in that.

So to create another situation that essentially applies a similar formula with, you know, a weighted average cost of capital financing cost with the equity return grossed up and charging that to ratepayers I think is just going to result in further rate increases down the road.

You know, there's -- while everybody might hope that the economic conditions in this particular service area are going to improve, we've heard testimony that the Company's largest customer, Marathon, is considering other options.

You know, the loss of some of the service that the Company is providing to Marathon is going to have a major impact. I don't know, you know, what -- spending a couple thousand dollars of economic development dollars, seems like that's not going to make up for something that Marathon might do to curtail the types of services that they're currently taking from Kentucky Power Company.

And even beyond that, I think there's the affordability concerns that Dr. Dismukes is testifying on and that I believe you may have heard from some other, you know, members of the public that are Kentucky Power customers.

MR. NGUYEN: That's all the questions I have.

CHAIRMAN SCHMITT: Commissioner Cicero.

* * *

REEXAMINATION

By Vice-Chairman Cicero:

Q. Well, I didn't have any questions until you contradicted yourself in your answers to Staff.

When I asked you prior about what other adjustments could be made, you said there could be deferrals, and then in responding to Staff you just made the comment that the deferral, the primary one, which is $15 million, puts a burden on future rates because you're not sure what the future is going to hold, but that contradicts your statement about how other pieces could be stacked into this to reduce the amount of revenue that was required of the 39.9 million. So now I'm -- now I'm confused.

Are you saying the kicking-the-can-down-the-road theory is bad or good? Because you said you could reduce your revenue requirement by kicking the can down the road, but then when we talk about deferring through this -- the deferral of the nonenvironmental expenses that that's not a good thing.

So what -- what exactly are you saying? Because I want to understand your position.

A. Okay. I think if the major concern is reducing base rates, the base rate increase in the current rate case, that one of the ways you can do that are by deferring costs out of this rate case and into future rate cases.

I'm just saying that that is one way you could deal with it, but there is a cost of these deferrals. These deferrals are going to require rate recovery in future proceedings.

This deferral of the unit power sale cost, the $15 million in the first couple years amounting to about 50 million over the entire deferral period, is going to have financing costs piled on top of it.

These financing costs are at the Company's weighted average cost of capital, including the 9.75 percent return on equity, which then gets a tax gross up on top of that.

Some of the other deferrals, like linking an amortization period for some storm costs, you know, that's a modest thing that could be done.

Q. But same theory.

A. It's a similar theory, but there's different gradients of this, and on some of these other ones you're not necessarily locking in for the Company the recovery of its -- all of its financing costs, including the return on equity.

The way I understand it, some of these

components of the settlement agreement essentially lock in a 9.75 percent return on equity for the Company, in addition to kicking the can down the road and piling financing costs on top of it.

So, I mean, this is kind of a balancing act, and, you know, you're the people that have to do the balancing. But if the main objective is keeping rates down now, the deferrals serve that purpose, but, you know, in a few years the chickens come home to roost and the rate pressures --

Q. The main -- the main objective is to have a fair and reasonable settlement for all the parties involved. That's the main objective. How we get there depends on the testimony that's provided by witnesses like you.

I've heard the Attorney General say that there should be no rate increase whatsoever, yet I've got a witness that says it should be 39.9 million, and I'm trying to judge, on that 39.9 versus zero, where it should actually be.

And that's where I -- there's a conundrum here. I'm trying to figure out what actually you're supporting and what you're not supporting.

But Staff asked you a question that said, "Do you support the settlement agreement of 31.985," or whatever it is, it's close to $32 million, and you said no. And one of the reasons why you said no is because all of the adjustments you proposed weren't put into that 39.9 million calculation, which I look at as being about $2.5 million.

So if I take the $2.5 million and I reduce it out of there, I still don't come close to your 39.9 versus 31.2. And the only difference is whether we amortize costs into the future, which you're objecting to, and I -- so I don't know how I -- I can't reconcile your position. That's my problem. I can't get to where you are.

A. Some of the cost deferrals I think are fine. The ones that involve also locking in the 9.75 return on equity, I think there's more of a concern with those.

Q. So it's okay to kick the can down the road as long as there's no carrying cost or return on equity?

A. Not totally. I think it's okay to kick the can down the road, especially if there's concern about holding rates down in this particular case, but if you could manage to do that without guaranteeing that ratepayers will be paying this 9.75 percent equity on some of the cost deferrals, I

think that would be a better way to go.
Q. We're still not going to get to your -- to your two numbers reconciling, but that's okay. I've beat this horse to death, I think.
VICE-CHAIR CICERO: I have no more questions.
CHAIRMAN SCHMITT: Commissioner Matthews.
MR. MATHEWS: None.
CHAIRMAN SCHMITT: I have none.
Mr. Overstreet.
MR. OVERSTREET: Just a very few.

RECROSS-EXAMINATION

By Mr. Overstreet:
Q. Mr. Smith, in response to data requests from the KIUC, I think it's 1-43, the Company provided to KIUC and all of the parties in this case its Rockport Unit Power Agreement billing statements, and I'm just going to ask -- you don't have to -- I'm not going to ask you about specifics of it, so you don't have to go look for it.
Did you have an opportunity to review those billing statements?
A. Are you asking me if I reviewed the billing under the Rockport Unit Power sale?
Q. Right. And they were provided in response to -- I think it was KIUC 1-43.

A. Yeah, those were included in Exhibit RCS-15.
Q. Okay. And do you know what the actual return on equity that Kentucky Power paid in connection with those billing statements during the test year was?
A. It provides for a 12.16 percent ROE.
Q. But do you know what the Company actually paid?
A. Well, I've added up all the invoices that were billed to the Company and show that result for the test year ending February 2017 on my Exhibit RCS-14.
Q. Right. Did you calculate the actual ROE that Kentucky Power paid in connection with its Unit Power Agreement bills for the Rockport station?
A. Again, I didn't calculate the ROE, I took the amounts directly off the invoices, which were billed at 12.16 percent ROE.
Q. And that's your testimony, it was billed at 12.16 percent?
A. Yes, per the invoices and per the contract.
Q. You're sure of that?
A. Pretty sure that the invoices were billed in accordance with the contract, and that's what is provided in the contract.

MR. OVERSTREET: Thank you. I have no further questions.
CHAIRMAN SCHMITT: Mr. Kurtz, questions?
MR. KURTZ: No. No, Your Honor.
CHAIRMAN SCHMITT: Anything, Mr. Chandler?
MR. CHANDLER: One last.

REDIRECT EXAMINATION.

By Mr. Chandler:
Q. In your testimony did you address the affordability of any increase?
A. No. That issue is being addressed by Attorney General Witness Dr. David Dismukes.
Q. And isn't it true that in your testimony you actually stated that?
A. I think near the end of my testimony, I did.
MR. CHANDLER: That's all we have.
CHAIRMAN SCHMITT: Any --
MR. OVERSTREET: Nothing further.
CHAIRMAN SCHMITT: Anything further?
May this witness be finally excused?
MR. OVERSTREET: He certainly may.
CHAIRMAN SCHMITT: All right. Mr. Smith, you may -- you may stand down and you may be permanently excused.
MR. SMITH: Thank you.

CHAIRMAN SCHMITT: Thank you.

MR. COOK: Mr. Chairman, may we take a quick recess?

CHAIRMAN SCHMITT: I'm sorry?

MR. COOK: May we take a quick recess?

CHAIRMAN SCHMITT: We're going to take a recess until 4:30 and come back, and Mr. Satterwhite will then retake the stand.

(Recess from 4:13 p.m. to 4:29 p.m.)

CHAIRMAN SCHMITT: We are back on the record. I guess it's been brought to our attention that maybe Kentucky Power has a witness who needs to get back this evening or something.

MR. OVERSTREET: Well, we will obviously do what meets the Commission's schedule. My thought was is that if -- depending on how much longer everyone has with Mr. Satterwhite, if we could go a little bit past 6:00, perhaps we could complete Mr. Phillips.

CHAIRMAN SCHMITT: The only problem with going past 6:00 is that basically we have told Pam and the -- and then we have the court reporter, and out of deference to them, I'd like to have 6:00.

MR. OVERSTREET: That's fine.

CHAIRMAN SCHMITT: And, you know, we talked about tomorrow, if we needed to, maybe we can go to 7:00 or so, but I'd like to stop at 6:00.

MR. OVERSTREET: That's fine.

CHAIRMAN SCHMITT: But if there's a problem, and everybody's gotten along real well, and Mr. Satterwhite doesn't care, he's here for the duration anyway, if you wanted to call Mr. Phillips, we could do that.

MR. OVERSTREET: Okay. Well, let's see how far we get with Mr. --

MR. CHANDLER: Mark, we have no objection if you would like to go ahead and call Mr. Phillips now.

CHAIRMAN SCHMITT: Why don't you -- we don't know how long Mr. Satterwhite might take.

MR. CHANDLER: Okay.

CHAIRMAN SCHMITT: Since Mr. Satterwhite has nothing to say about it.

MR. COOK: He's a patient man.

MR. SATTERWHITE: I can go home for this treatment.

MR. PHILLIPS: It's not often I get to knock my boss out of his seat.

CHAIRMAN SCHMITT: Mr. Phillips, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. PHILLIPS: I do.

CHAIRMAN SCHMITT: Please be seated.

Counsel.

MR. OVERSTREET: Thank you, Mr. Chairman.

EVERETT G. PHILLIPS, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Phillips, state your name and business address for the Commission, please.

A. Everett G. Phillips, 855 Central Avenue, Ashland, Kentucky.

Q. And, Mr. Phillips, what is your position with the Company?

A. I'm Managing Director of Distribution Operations for Kentucky Power.

Q. Okay. And does that entail the Company's Vegetation Management Program?

A. Yes, it does.

Q. Okay. But it has a whole lot of other --

A. A lot more, yes.

Q. Yeah. And did you cause to be filed in the record of this case direct testimony?
A. That is correct.
Q. And did you cause to be filed responses to data requests?
A. Correct.
Q. But you did not file any rebuttal testimony?
A. Correct.
Q. Okay. And do you have any corrections to your direct testimony or data requests?
A. In my direct testimony, page 54, line item 9, the 24 months should read 18 months.
Q. And with that one modification, if you were asked those same questions here today, would your answers be the same?
A. Yes.

MR. OVERSTREET: The witness -- excuse me. The witness is available.

CHAIRMAN SCHMITT: Mr. Kurtz.

MR. KURTZ: No question.

CHAIRMAN SCHMITT: Any questions from counsel for any of the settling intervenors?

If not, Mr. Cook, Mr. Chandler.

MR. COOK: The AG has no questions.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Staff has a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Phillips.

A. Good afternoon.

Q. Is it fair to characterize the Vegetation Management Plan presented in this case as a modification of the Vegetation Management Plan approved by the Commission in the last rate case?

A. I don't know -- not -- it is a modification, but only in that we're completing the task early from what we originally had planned. We're completing our Task 1 or the initial clear, we're completing that approximately nine months early. And Task 2, the reclear, which was started after the last rate case, we are completing that six months early.

Q. Let me jump into, then, a few things that are changed in the plan.

A. Okay.

Q. And as you just said, that both Task 1 and Task 2 -- Task 2 are being completed early, what is the impact, that impact on the plan, the current Vegetation Management Plan?

A. What that'll do is reduce the overall expenses early, 18 months early. We'll be able to reduce from a 27.6 million that we're currently spending to a 21.465 million going forward, starting in 2018.

Q. And just to confirm, the reduction of the O&M expense in the Vegetation Management Plan in the current -- is being achieved because the work is being completed early?

A. That's correct. The initial clear, Task 1, is the most expensive. That's where the vegetation is the heaviest. There's been several years growth in that, so there's a lot of tree volume to remove.

To date we've already removed one and a half million trees, which is double -- basically double from what we originally estimated when the vegetation plan started back in 2010.

So the plan does allow us -- or not -- doesn't allow -- it does allow, but the plan is for us to get Task 1 completed, which then focuses on Task 2, which is at a lesser expense than Task 1, and we're able to complete that and move on to Task 3, which will be our maintenance cycle.

Q. So -- and I want to be clear. I think it -- I think Staff has been working on this, understand this. Task 1 was the original clearing, Task 2 is

the reclearing, and then Task 3 is the ongoing maintenance; is that correct?
A. That's correct. That's correct. Task 3 is the ongoing, if you will. If you'd look at Table 8 in my testimony, it shows that the Task 3 is the one-fifth of the mile, the primary mile. There's a little over 8,000 primary miles, so when you're on that maintenance cycle you're going to be clearing one-fifth of that or about 1,622 miles a year. So that will be the maintenance cycle, using our terms.
Q. Now, one of the changes that's been requested is to -- and I'm going to read from my notes to make sure I say this correctly.
A. Sure.
Q. (Reading) To modify the Commission preapproval for deviations of more than ten percent when expenditure is anticipated to deviate from the forecasted projections by more than ten percent.
Am I saying that correct?
A. The -- if I understand you correctly, you're asking about the deviation requirements when we're -- when we're required to file a deviation --
Q. Yes.
A. -- from our plan? Yes. To give a little bit of background, we file a plan each year, the

preceding year for the following work plan, or for the following year. And then in -- by April 1 of the -- after that year, we then file how we completed that plan and how we worked toward that plan, what we accomplished toward that plan.

If for some reason -- the way it is set up now in the settlement agreement from the 2014 case, if we deviate more than ten percent of the cost for any one district of the three districts that we serve, Ashland, Pikeville or Hazard, we have to file for a deviation. So that's the way it's set up today.

What I have proposed in the -- in this rate case is to change that deviation requirement to be anytime the Company deviates from ten -- more than ten percent from the entire plan, the 21.465 million.

Q. So, and just to be clear, the proposal is to change from a deviation from one of the -- you know, looking at each of the three areas as discrete sections and instead now looking at it in the aggregate?

A. That's correct. One of the challenges that you have in looking at the three districts is the work that you have. If you're -- if you're -- for example, we have -- you know, we had one deviation that we filed, and the Commission acted very quickly on the deviation, but it allowed us -- what we had to do, if we weren't -- if we weren't successful in that deviation request, we would have had to have either laid crews off in the Hazard district, because they were -- had completed more of their plan than the Pikeville district, for example.

So we wanted to shift crews from Hazard to Pikeville, but in order to do that, we were going to have to deviate from the plan, and so we were able to finish it, all three districts, roughly about the same time, so this way we're treating our customers more fairly, or more equally, if you will, amongst all three districts.

But if we -- if we had to focus on keeping the plan the same for all three districts, or the plan that we had filed, rather, then we would have -- we would have essentially had to probably lay off some contract crews in Hazard and either had to -- we would still be working on the Pikeville district, we'd still be further behind than Hazard district would be, as an example.

Q. So it's a question of efficiency?

A. That's correct. Correct. Thank you.

Q. Another one of the proposed changes -- let me think. I'm going to check my notes to make sure I get this correct.
A. Sure.
Q. The expenditures, the reporting of the expenditures, you're currently -- currently Kentucky Power is planning on a vegetation management year which doesn't line up with the calendar year; is that correct?
A. That's correct. Because of the last rate case, the settlement, that started in July of 2015, so that was -- so we're trying to keep track of it both on a calendar year, which is the way we operate, and on the July 1 to June 30th year.
Q. Let's call it the vegetation management year.
A. Okay. Thank you.
Q. So the proposal is then to switch it to a calendar year. Can you -- can you just explain briefly why, what the benefits are to change it?
A. It's because we operate on a calendar year, all of our reporting, our annual reports that we file with the Commission is done on a calendar year basis, be it reliability or be it Vegetation Management Plan, both of those are filed on a calendar year. So it's easier for us to keep track

of our spending on a calendar-year basis.

Q. So is this again a question of administrative efficiency, but also perhaps is it economic efficiency?

A. Yes, it would be, because you're not having to keep track of it based on any one given month, 'cause things happen. For example, you know, we've had -- the country's had several hurricanes this year. We were able to send crews out and help through mutual assistance. That's what we do. And then at times they have come and helped us. We've had major storms ourselves in the past.

But doing so, you know, that -- your plan fluctuates and you have to adjust, and it's just much easier to do that on -- looking at it at one 12-month period, and for us, because that's the way we've operated, it's best for us to do it on a calendar year. That's the way our reporting is done to the Commission, and so it's just -- it's just more efficient that way.

Q. If the Commission approves Kentucky Power's request in this case in regard to the Vegetation Management Plan, can you confirm that any undercollection of the Vegetation Management Plan, of that monies, will be refunded or credited to the

customers?
A. That is not -- that's not my -- you have to speak to Witness Wohnhas.
Q. Okay.
A. I deal with expenses, so I -- you know, we will -- we will report those expenses in our annual reports and at such time, but -- but I can tell you we spend every dollar that we can, because it's very important for us to remove the trees from the lines. It's a safety concern to our public, to our employees, to our customers.
Trees and electricity do not -- you know, do not go together. I'm sure everybody's aware of that. But -- so from that perspective, we try to use -- utilize the funds that we have as efficiently and as effectively as we can to remove as many trees as possible.
Now, we're willing to replant trees, and we have a lot of tree programs to replant, so, I mean, we -- I love trees, I mean, they're beautiful, they just don't go together with electricity.
Q. The replanting, is that -- is it replanted in a different location or is it -- there's probably no one ground rule, is there?
A. No, there's not. There's -- it's at the

customer's request, but we will provide -- and we have tree day every year during Earth Day, sometime in April usually, I think is when it is, subject to check. But we have tree day, we give away trees, but they're normally the small-growing trees, dogwoods, redbuds, those type of things.

And so we will -- anytime we go on a customer's property, if they request it, we will provide them some trees in -- you know, in replacement of removing their other trees, their tall-growing trees.

Q. And there wasn't an option that was presented in this plan, the -- as I understand, the primary, the best choice, or what seemed to be best choice is a five-year cycle, correct?

A. That is --

Q. For Task 3.

A. The five-year cycle is what we agreed to in the last settlement case on a request by the Staff in the last -- in the 2014 case.

Now, I will say that the industry standard is a four-year cycle. Our -- we have compared other utilities. We went onto Kentucky Utility property in Pineville prior to the last rate case to look at their program, and that's how we established our estimates at that time. It was one of them, our sister company, and PSO, Public Service Oklahoma, that was also on a four-year cycle -- a four-year cycle, and then that's what the industry standard recommends.

But through the settlement agreement in the 2014 case, we agreed to a five-year cycle, and we think that, for now, is the best for our customers.

We did look at a six-year cycle at the request of Witness Satterwhite, my boss. He did challenge my staff and I to look at all avenues of where we could reduce our expenses. That's how we came up with this plan to reduce expenses early, and which I think will be a great benefit to the customers.

Q. If the Commission should decide to go with the six-year cycle rather than the five-year, what kind of changes would occur to the plan?

A. I would not recommend the six-year, because the additional year's growth will allow the trees to get back into the power line. We would lose ground of what we've gained, and we've gained tremendous ground.

We have seen over a 60 percent reduction in interruptions of -- a 60 percent reduction in customer outages. You know, that's significant. And I don't want to see us lose ground.

You know, a silver maple, for example, can grow as much as 15 feet in one year. A distribution line typically is only about 35 to 40 -- 35 to 45 foot off the ground. And so, you know, a silver maple in three years is back up in that primary. And again, that's a -- that's a huge safety concern, notwithstanding it'll start causing operations on the line and causing outages and disrupt power to the customers.

So while we looked at that program to try to reduce expenses further, that's not recommended.

Q. My next question is about the one-way balancing account that was established in the last rate case, the 2014 rate case.

A. Okay.

Q. And my overarching question is: What is Kentucky Power proposing to do with any balance that is in that one-way balancing account? However, before we go there, perhaps can you give a thumbnail description of what the one-way balancing account is?

A. I will attempt to. That is -- may be better asked by Witness Wohnhas. He loves getting things passed off to him. But the one-way balancing account was established in the last settlement case to track the expenditures, both on a calendar year basis and the vegetation management calendar year from July 1 to June 30th.

And so from beginning July of 2015 to June 30th of 2019, so in that four years it had to equal -- if we spent the $27.6 million on an annual basis, if we spent that times four -- I can't do that in my head at the moment. Normally I can, but at the moment I can't.

But whatever that value is -- I think it's in my testimony, but if we were over -- in my terms, if we spent more than that, that was at the Company's expense. If we were under that amount, we would -- then the expenses would be -- that's where you need to talk to Mr. -- Witness Wohnhas as to how that -- the expense then would have to be handled through whatever Witness Wohnhas does.

Q. I'll reserve that question --

A. Okay.

Q. -- for Mr. Wohnhas.

A. All right.

MS. VINSEL: And with that, we have no more questions at this time.

CHAIRMAN SCHMITT: Commissioner Cicero.

EXAMINATION

By Vice-Chairman Cicero:

Q. Just one question.

A. Okay.

Q. How many times did you exceed and have to have a deviation from each of the individual districts in the past 12 months?

A. I think it was one, if I recall.

Q. Once in the last 12 months?

A. Yes.

VICE-CHAIRMAN CICERO: That's all I have.

CHAIRMAN SCHMITT: Commissioner Mathews.

MR. MATHEWS: I have none.

CHAIRMAN SCHMITT: I have no questions.

Mr. Overstreet, any questions?

MR. OVERSTREET: Just one question.

REDIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Phillips, that deviation, would it surprise you to learn that it was longer than 12 months ago?

A. You're correct. That's right. It was over 12 months ago.

MR. OVERSTREET: That's all I have.

THE WITNESS: Yeah.

VICE-CHAIRMAN CICERO: I was just trying to --

MR. OVERSTREET: I understand.

THE WITNESS: Yeah.

MR. OVERSTREET: I just wanted to make sure the record was clear.

THE WITNESS: Yeah.

REEXAMINATION

By Vice-Chairman Cicero:

Q. Looking at the individual districts versus the whole, looks like it's not a big deal?

A. It's been one since the last rate case was what I was thinking in my head.

CHAIRMAN SCHMITT: Anything further?

MR. OVERSTREET: Nothing further.

CHAIRMAN SCHMITT: Mr. Cook?

MR. COOK: No questions.

CHAIRMAN SCHMITT: Attorney General.

MR. GARDNER: No questions.

CHAIRMAN SCHMITT: Okay. May this witness then be permanently excused?

With no objection, then you may be excused.

MR. PHILLIPS: Thank you.

CHAIRMAN SCHMITT: Okay.

MR. OVERSTREET: Mr. Satterwhite.

CHAIRMAN SCHMITT: Mr. Satterwhite.
I'm not sure where we left off. Had you finished, Mr. Chandler?
MR. CHANDLER: Your Honor, as much as some might have hoped, I have not, although I don't -- I do believe that the intervening witnesses may have negated the need for some of my questions, so if I could just have one second, I'll start right back up.
CHAIRMAN SCHMITT: If you need to take a minute or two, go right ahead.
MR. CHANDLER: Mr. Chairman, are you --
CHAIRMAN SCHMITT: Ready?
MR. CHANDLER: Yes, sir.
MATTHEW J. SATTERWHITE, called by Kentucky Power Company, having been previously sworn, testified as follows:

FURTHER CROSS-EXAMINATION

By Mr. Chandler:
Q. So, Mr. Satterwhite, I believe that when we last spoke, we had been discussing some of the figures from the Company's annual report. Do you remember that?
A. Yes.
Q. Have you had a chance to speak to anyone at

Kentucky Power about those annual reports ?
A. Not really .
Q. Do you mind to go back to them ? They 're tab I in the binder , and it's AG Exhibit Number 4.
A. Okay .
Q. Let me know when you 're there .
A. I'm there .
Q. So we had discussed the line on the first sheet regarding the two numbers , the first two columns regarding total sales to ultimate customers , correct ?
A. That 's what you had pointed me to, and I pointed out I wasn 't familiar and there 's probably a better witness to talk about this with .
Q. But you had read in both of those figures into the record ?
A. I read numbers on the sheet in front of me, yes .
Q. And on the last page you had also read in too the line for the 2006 period , the same line for the same two columns , correct ?
A. I believe so, yeah . We didn 't go through each year by year , we just picked -- you had picked two and I had -- I read those .
Q. Just '16 to '6, right ?

A. Correct.
Q. Just kind of skipping all the other ones?
A. Correct. And I believe you gave a percentage, and I believe you said it was annual, but it was the total amount between '6 and '16, some 40 some percent I think is what you said, but if you break it down, it wasn't 40 percent, it was like three percent a year or something like that.
Q. So subject to check, would you say that the change between the first year to the last year, not on an annualized basis, from the '6 to '6 for column Revenues, and we're not -- we'll ignore the dollar sign for a second. Just talking math. The column on revenues and the line Total Sales to Ultimate Customers, subject to check, the difference there is 46 percent?
A. Well, again, that's why I pointed out I'm uncomfortable. I don't know if you can really do the comparison between '6 to '16, what changes in the middle, what's impacted by these numbers.
So all I can say is, the numbers you had me read, that's the statistical difference between those, but I'd have to have a different witness come up and make sure that it means what you think it means.

Q. So what was the number you said -- you said a second ago about the annual change?
A. I believe you had me calculate a number, and you said the difference between the two was 42 or some percent like that between --
Q. 46 percent?
A. 46 percent.
Q. You mentioned another percentage.
A. And I think if you annualize that between '6 and '16, I was just saying that wasn't a -- you didn't take it on an annual basis what the increase would be per year.
Q. Right. But you mentioned a number. What was that number?
A. I didn't -- it was three percent or three point something percent.
Q. So you haven't had a chance to ask anybody what these represent, but you've had a chance to figure up what the annual percentage change would have been?
A. I didn't talk in detail to anyone. Someone pointed out that -- I believe the word they used is the AG is cherry picking numbers, and if you actually look at it and you annualize it, it's not the big percentage that you said.

Q. Okay.
A. But that's the only conversation we had.
Q. So will you go to the 2006 numbers?
A. Okay.
Q. Let me know when you're there.
A. I'm there.
Q. So on column Revenues, line Total Sales to Ultimate Customers, if you compare that number to the line on the next year, for 2007, column Revenues, Total Sales to Ultimate Customers, does the number go up or down?
A. So the 391 number on '6 and then the 406 number --
Q. Yes, sir.
A. -- on the '07? That's -- it's a larger number on the next page.
Q. Larger number. And do you mind to go to 2008?
A. That goes from 406 to 476.
Q. Is that a larger number?
A. Yes.
Q. And will you go also to 2009?
A. It goes 476 to 487.
Q. And will you go into 2010?
A. Then to 541.

Q. And is that a larger number?
A. Yes.
Q. And the next year?
A. 559.
Q. And the next year?
A. 501.
Q. 501. So that goes down a little bit that year?
A. Correct.
Q. Okay. And then it goes to --
A. 512.
Q. And the next year?
A. 556.
Q. And the next?
A. 537.
Q. 537. So the 2015 is 537. And then the '16 we just spoke about is --
A. 572.
Q. 572. Okay. And you mentioned -- and I don't know if you've had a chance to calculate the annual change, but I mentioned earlier, subject to check, would you agree that the change from the year 2006 to the year 2016 for column Kilowatts Hours Sold at line Total Sales to Ultimate Customers, subject to check, that that's decreased 17.7 percent? Just the

math.
A. Can you go through that again? Sorry.
Q. From 2006, which is a $7.1 billion number.
A. And which column are you in?
Q. Column Kilowatt Hours Sold.
A. Okay. Gotcha.
Q. And compare that to 2016, which is a 5.8 billion difference. A 5.8 billion number. Is that --
A. I will agree the difference between 7.1 and 5.8 is whatever the calculator says.
MR. OVERSTREET: Your Honor, we're -- the numbers are what they are. He's testified that he doesn't know what is represented by these numbers and has suggested that the Attorney General ask Mr. Wohnhas or another witness. You know, we can continue doing this, but it seems at 5:00 o'clock we'd have a better use of our time.
MR. CHANDLER: Your Honor, I have -- if I may reply, I have no more questions on this issue, but I would just like to note that we had a two-hour difference between the last time Mr. Satterwhite was there, and he easily could have asked what these two lines were from the witness he referred to.
CHAIRMAN SCHMITT: I understand. Overruled.

Q. You've mentioned in your direct testimony on page 18 that transmission costs to Kentucky Power have increased $20 million since 2014 case?
A. I'm sorry. You -- which testimony are you in? Are you in the initial testimony?
Q. Your direct at 18.
A. Direct. Okay. I can say yes as I go there, but yes, I'm familiar with that.
Q. Okay. 20 sounds about right to you since the last rate case?
A. Yeah. It was 50 some million dollars in the last case and it's 70 some in this case.
Q. And you updated -- and I think you confirmed this earlier, but you updated in your settlement, your, I guess, errata, or not technically errata, your new settlement testimony that you expect in 2018 for the transmission costs to increase 14 million; is that right?
A. Yeah. These are volatile, so initially we thought it was going to be $17 million. There was an update in a filing from another state, which that now we believe to be $14 million.

The way we've asked to take care of that in the rate case, though, or in the settlement, is to track part of that, so the actual cost will be

actually what's reflected.
Q. So it's 14 million next year? That's your estimate?
A. That's the estimate right now, yes.
Q. That's the estimate. Okay. Is that $14 million included in the test year?
A. As far as the LSC owed costs?
Q. Yeah, that $14 million amount that you referred to in the settlement testimony, is that included in the test year?
A. No. That's the anticipated coming year. What's included in the test year is the LSC owed costs that were known during the test year.
Q. And why isn't that amount included in the test year? Is it because you filed a historical test year?
A. Yes.
Q. And that's the Company's election to file a historical or a future test year, right?
A. Yeah, that was one of the my decisions as well. When I sat down to see what kind of case we were going to filed, I wanted to make it as skinny as possible, and sometimes future test years are met with more concern. I wanted to be very straight forward, a very basic case to move forward,

so I decided a historic test year with some adjustments was more appropriate to move forward.

Q. So when you filed a historical test year but asked for a tracker, that would just take that exact cost and pass it directly on to the customers, right?

A. Yeah, it's an expense that comes directly to the Company, so the concept was, we know this expense is coming up, it's a highly volatile cost, it's completely outside the regulatory compact. It's not as if I could take a snapshot in time from a test year and have less employee lunches and put up a few less generators or transformers and cover that cost. It's completely outside that, my management ability.

So it's such an extreme cost, we thought it was appropriate to say let's track that. Customers will pay no more, no less than the actual costs that actually come from that, and we can take care of that now versus having to turn around and have the expense of filing another case to deal with that.

Q. You mentioned that it's kind of -- well, I don't want to -- you've made your answer.

Hypothetically, if you are dealing with a vendor and you believe that the costs are too high,

you have an opportunity as a company to either try to renegotiate that contract or to maybe go out and bid it with a different vendor, right?
A. Potentially, yes.
Q. Okay.
A. Hopefully.
Q. And these costs are determined at FERC, correct?
A. Yeah, these are PJM costs, costs --
Q. So they're --
A. Part of the number --
Q. -- they're determined --
A. I'm sorry. I didn't mean to cut you off. Go ahead.
Q. Go ahead. No, I interrupted you.
A. These are load -- load serve -- we're a load serving entity, so under the federal jurisdiction and as a member of PJM, we have a responsibility as a load serving entity to pick up a share of these costs that flow through.
It's really what keeps the entire transmission system up and running and allows the power to move and congestion to be low and cheaper power to move all over the system.
But as part of that membership, we have a

responsibility to pay a percentage of those costs --
Q. And --
A. -- and that's what's represented here.
Q. And those are determined at FERC?
A. It's a PJM cost. Yes, it's FERC jurisdictional.
Q. It's a FERC -- that's a better -- thank you. That's a better way to explain it. Thank you.
A. Yeah. I'm not sure which room they're in, so --
Q. So -- and I know that this is a bit broader question than just the PJM LSE costs that you were mentioning, but how many times in the last five years has Kentucky Power been a plaintiff to case at FERC to attempt to lower OATT charges or transmission costs that would eventually be costs to its customers?
A. I'm not aware of us being a plaintiff in that. We have the ability, as part of the AEP network, to, you know, work overall what the transition system should look like. I think we understand the importance of building up the transmission system.
We have like over 7,000 miles, I think, in the AEP system the life of the facility is over 70

years old, and so we know there's a need to invest in transmission system.

And then you have things like coal plants retiring all over the system, which creates a lot of problems with congestion, and you really need to make sure you're investing in the network and the transmission system so that you can move power how you need to move it.

So I don't know of any -- I don't know of any times where we appeared, because I think we understand that it's important to have a robust transmission system.

Q. So is it fair to say that you've not advocated at FERC for lower OATT charges to your customers?

A. Correct. I've not been part of a filing that says we want to -- well, I'm trying to think.

Q. I think --

A. There's a --

Q. As a plaintiff.

A. As a plaintiff, correct.

Q. Would you like me to make that distinction?

A. Yes. There is a case pending right now that deals with some of the ROE attached to the PJM costs.

Q. And what is that -- what is that complaint by the complainants ?
A. That they just want to lower the ROE that's attached to those trans mission costs .
Q. And is the ROE like the -- let's just say the settlement ROE and the stipulation ROE here, is it like in that range , the 9.75 range , or is it higher than that ?
A. It's above 11 percent . It's the -- when we have the trans mission off set , what I call it, the part that brings down the federal rate down to the 9.75 we have proposed in this case , it's that ROE . It's the difference between those two that we have contemplated in the settlement agreement .
Q. And so who -- who's getting these -- I guess for my own personal investment , who's getting these 11 percent ROEs ? Who are these other -- is it Kentucky Power that gets an 11 percent ROE at FERC or is it AEP affiliates of Kentucky Power ? Who is the -- who are the other defendants in the case ?
A. That's two different questions , I guess . The -- globally , it's how the trans mission system is set up . FERC wants to incent because there is such a need , to make sure it's a trans mission system that doesn't fall apart . And they're doing a good job

making sure it's not. So to incent that, that's where the ROE comes from, to make sure that companies will invest.

So if a company -- like here in Kentucky, I've recently advocated for more transmission investment to upgrade the transmission system here in Eastern Kentucky. So as a transmission owner, if I make that investment, that ROE will be attached to receiving that.

And that's -- again, that's what's in the stipulation, where if it moves forward and the Commission approves it, we actually wouldn't be earning that 11 percent, it would be -- that would be refunded to customers, the PPA, the difference between the -- what the Commission approves in this case and the FERC rate.

Q. And so in the stipulation you've -- and the stipulation notes that Kentucky Power had only earned a 9.75 for the jurisdictional -- for the Kentucky jurisdictional transmission, right?

A. What it says is --

Q. It's own transmission. Excuse me.

A. What it says is part of the -- the balance, the overall balance -- and, you know, I appreciated Mr. Smith saying there were some creative ideas in there. It was hard to get to that point.

But part of the balance is to take the revenue that Kentucky Power would get as a transmission owner, and rather than receive the 11.4 or whatever it is, take that down to what the Commission approved in this case of 9.75 and provide it as a credit for customers for the Tariff PPA.

Q. So 9.75 is, in your opinion, a reasonable amount for transmission?

A. No. This is part of the overall balance. Believe me, I think, you know, with the territory that we have overall, 10.31 is the right ROE for this Company.

And I think if you look at Mr. Vaughan's testimony, around page 18 he has a graph that talks about, you know, we have about 17 customers per mile. LG&E, KU, and Duke have 41 and 43. Just there's so much more risk.

I think we've all talked about ability to pay too. The flip side of ability to pay is, you know, we might not get paid, so there's risk there as well.

So the 9.75 is something that we've agreed to that -- you know, that's a compromise that we've made by the Company. The case that we've supported supports 10.31. I think that's appropriate for the territory that we're in. It's tough.

But for purposes of settlement and the overall package and the affordability of all the partners to the stipulation put together, 9.75 is where we ended up.

Q. So do you think the 11.4 that Kentucky Power customers are paying to affiliates for transmission is reasonable?

A. That's the FERC-approved rate.

Q. Do you think that the FERC-approved rate of 11.4 percent is reasonable for your customers to pay?

A. That's up for the FERC to decide, based on what they want to incent. Current -- in the past, if you read some of the orders in that case, even opening up when the plaintiffs filed it, the Commission recognizes that they wanted to have a higher premium on that to make sure they were incenting transmission.

So that's really a matter before FERC right now to decide, based on what it wants to incent, what the right amount is.

Q. I guess I'm asking -- you know, you talk about the regulatory compact a lot and recovering costs, but it seems that if you're -- you're asking for customers to pay for transmission costs, I'm just curious, and you've noted it, and you don't remember a time or know of a time when you've been a plaintiff at FERC to argue for the lower rates there, who's -- what are -- what are customers left with? Who's going to be fighting for a lower ROE that they have to pay on transmission?

A. Certainly the FERC process allows anyone. The AG from Kentucky could absolutely intervene if they were very concerned and do that.

I looked at it on the flip side. You know, not everything's a problem, some things can be an opportunity, and so I looked at as it how I could advantage customers here in Kentucky. That's why I fought for more capital dollars, to have more transmission invested. Not only does it bring jobs to our local communities, but it allows potentially that higher ROE to be earned by Kentucky Power so that there's less burden upon the customers that we have within Kentucky.

Because that ROE is being -- and that cost is being recovered from the entire zone. We only pay for six percent of the actual costs that go through there. Other jurisdictions, the customers from

other places are paying 94 percent of the cost.
So I really made it a strategy, with all the other things I was doing, to go out and get more transmission investment, both for the immediate impact and also to offset some of the concerns we have with the rates.
Q. And so this would be transmission that you-all think is necessary, right?
A. It's a combination of all kinds of transmission.
Q. Well, so I guess I ask because you talk about only paying six percent. Isn't it true that the six percent would only require -- would only be required of baseline PJM projects that are mandated by PJM for reliability purposes, but isn't it true that a supplemental project that's at the Company's behest would be paid mostly by the customers in the local LSE?
A. There's different variations. I don't remember all the different levels, but a lot of the projects -- the projects that we have moved forward on in the near future here in Kentucky are not just solely our sole decision, like we've just decided to do this. We have to show that there's some benefit to the overall system overall, and so those do fall

into the only six percent we're paying for here, customers in Kentucky.
Q. I'd like to transition to the stipulation for a second.
A. Great.
Q. I'm confused about something. I'm hoping since you filed the stipulation testimony you can explain it to me. The -- on page 13 of the stipulation, and it's regarding the Rockport credit and offset, I believe is what the exact quote is. And it's not on 13.
MR. OVERSTREET: It was there earlier.
A. Around line 11.
Q. Is it on 13?
A. In the -- oh, I was on the testimony.
Q. Oh. We'll just go to your testimony. That's fine. Yeah, that's exactly where it was.
You discuss the Rockport offset and credit on line -- beginning -- explaining -- discussing it on line 13, correct?
A. Yes, it's discussed there.
Q. And you mention that it'll be a -- the credit will be a -- if you don't mind to read into the record the sentence that starts on line 14, please.
A. "If Kentucky Power"?

Q. Yes, sir.
A. (Reading) If Kentucky Power does not extend the Rockport agreement, then it will begin to credit the Rockport fixed cost savings through Tariff PPA until new base rates are set.
Q. So is it true -- is it correct to state that at the end of the Rockport UPA, when -- if rates are set into effect assuming that the Company has certain costs under the Rockport UPA, that the savings -- the savings to the Company, since they no longer have those expenses, will be flowed back to customers through Tariff PPA?
A. Absent this agreement, no. That wouldn't automatically happen. That's a term of the settlement agreement that we've allowed for that, so when we get to that day, there's already consideration for those costs, and that's effectuated through Tariff PPA.
Q. So absent this agreement, the Company would end up receiving how much money in excess that they no longer have expenses for?
A. The fixed costs at Rockport, I believe, of UPA are about $54 million, I think is what we talked about earlier. So that would still be considered in base rates, because the unit power agreement, which

is what we're paying for, is already -- is in base rates in this case. So it's a question of how do you remove that from base rates. And so what the stipulation does is provide a mechanism to allow that to happen versus us having to try to figure out at that time how we're going to deal with it.

Q. So if the Company had, all things equal, an increase -- or, excuse me, the same level of revenues and a decrease of $54 million in revenue, $54 million in expenses, they wouldn't feel -- you -- Kentucky Power wouldn't feel compelled to come back in to the Commission to adjust its rates?

A. That's not what this says. I mean, that's --

Q. No, I'm asking --

A. We're not at that point.

Q. -- what you said earlier, to your comment earlier.

A. You asked -- I -- you said what does this do, and this provides the mechanism now. As we got closer in time, if we didn't come in, I'm sure someone would bring us in, or the Commission might bring us in. We'd have to deal with it at the time.

What this does is say, looking at -- trying to wrap all of these intricate elements of this balance that we have together and consider all these things, let's deal with it now. So if there's not another base rate case that comes in that says a future test year and we're not going to have Rockport, the UPA, in there, we have something on paper now that says how we are going to deal with that.

But it was not -- it was not saying that, you know, I was just hoping that no one would ever know that we had $54 million extra. That was not the insinuation.

Q. So after it expires, the savings of, and I'll take your word, $54 million flows back to customers, correct?

A. Absent the offset, the one-year protection that we put into the settlement agreement.

Q. And what is the protection?

A. Because we don't know what we'll be dealing with, typically you would have an entire rate case to deal with something like this, such a big impact. The offset is put in there to make sure that the Company is recovering the Commission-approved ROE.

So for one year there's an offset in there where some of those costs will be held to the side, just to make sure the Company can earn its ROE for that one year as it transitions away from having the

Rockport on its bill and the Rockport generation in its portfolio. So there's that one year just to make sure.

And then what happens at the end of -- because this ends in 2022, so 2023 is the year we're looking at. At the end of 2023, we then take that balance, and in February we file something with the Commission to say -- if we collected too much over that past year that we held back, we give that back to customers over three months, or if it was too little, that we collect that over the next three months.

It's basically a security mechanism for the unknowns of what happens, because we're talking about unwinding such a big deal at $54 million in 2022 as we sit here in 2017.

Q. So let's just assume that -- arguendo, that you have a 9.75 ROE. This credit offset guarantees that you'll earn the ROE in that given year?

A. It can't go above the amount of the fixed costs from Rockport. There's a barrier there, or a protection, I guess, a cap on that. But what it does is it makes sure that there's not some unintended consequence, that the fact that we've lost or no longer have the Rockport generation in our portfolio, that there's not a catastrophic event that impacts our ROE.

So the Commission is setting rates that says we should have the opportunity set up to earn a 9.75 ROE if they were to accept this agreement. This just says for that one year, and that one year only, because we're willing to deal with this now and provide that automatic payback of this fixed cost, let's make sure that the ROE for that one year is protected and then we'll figure out how we go from there, potentially with a new rate case or something.

Q. So where in the stipulation does it talk about the determination of whether the expenses in that year are reasonable, that you're -- you're talking about using this $54 million to offset whatever delta there is between what your ROE is and what you would need it to be at 9.75 up to the amount of the $54 million.

A. Yes.

Q. So --

A. I'm sorry.

Q. -- my question is: What determination is -- who makes a determination as to whether the expenses that were incurred in that year were reasonable as to whether or not you should earn your ROE at that point?

A. Well, we're an open book. The Commission can look at our information all the time. They can call us in whenever they want. We make perfectly clear in the stipulation that nothing bars the Commission from saying come in and show us -- and changing our rates for any reason.

What this really is, and, you know, as your own witness testified earlier, this is a creative stipulation that I don't know that it could even be ordered on its own by a Commission unless you have all the agreement of the parties involved.

And what we've done is tried to create all the balance, think of all the things that might happen, and make sure that, if you're going to go to this extreme to make sure you're trying to provide affordability for customers in the near term, what are the protections that are needed on the back end? I mean, we need to make sure there's protections, otherwise we have parties that are claiming -- like the Big Sandy rider, you know, Commission approves something, you count on it, Wall Street counts on it, everyone counts on it, and then someone comes in and says, "Let's just do away with what everyone has counted on under the regulatory compact."

So that's why it's so intricate in this settlement agreement, to make sure we have balance, the ying to the yang of all the points in here, to make sure the parties could agree on something.

Q. And the agreement ends up that the year that Rockport amounts -- the year that the Rockport costs end, the Company is guaranteed its rate of return up to the $54 million amount?

A. No. It's the year after. The way it works is because we're agreeing to deal with those Rockport fixed costs the day the unit power agreement expires, in exchange for that there is a little backstop protection to make sure the following year there isn't some unintended consequence that just completely wrecks the return that the Commission says is reasonable.

So those costs will be refunded to customers, some of that will be held back just to be sure that we can get to that ROE, and then that will all be trued up in early 2024.

Q. So you will -- as long as the delta is not more than $54 million, you will receive a guaranteed rate of return on equity that year?

A. That's --

Q. The year after the UTA expires?
A. The difference -- yeah, and there's an exhibit in my testimony that kind of describes how -- what the math is on that, so you can look at that.
But, yes, the way it works out in the end is, the Company's ROE that's recorded will be compared to what the Commission approves in this case, which we believe should be the 9.75 that the parties agreed to. And for 2023, this mechanism, this balance for the overall part of the settlement agreement, will allow that to happen.
Q. And you've mentioned a handful of times the regulatory compact. Do you believe that the regulatory compact guarantees a return on equity?
A. I believe the regulatory compact and commissions set rates to provide companies for an opportunity to earn what's set. There's no guarantees.
Q. And what should those rates cover?
A. Everything we filed in this case.
Q. Excuse me. Sorry. Revenue covers -- generally would you agree that revenue generally covers expenses?
A. Yes.

Q. So it's a -- it's fair to say that you're -- to determine whether rates are fair, just, and reasonable under the regulatory compact, one of the things you have to look at is whether or not the expenses are reasonable, correct?
A. Expenses are one of them, correct.
Q. And --
A. Investment, capital investment, what we put in the system.
Q. Absolutely. And -- but it's the reason -- whether or not those expenses are reasonable, would you agree?
A. Yes. Correct. And that's my job to make sure that they are.
Q. Do you mind to turn to tab K in your binder, please?
A. Oh, your binder?
Q. It's our binder.
A. Okay. That's so nice of you. Okay. I'm there.
Q. In your direct testimony, the very last page, I believe, of the testimony portion, I believe it's page 20.
MR. OVERSTREET: Can you just give me a second, Mr. Chandler? I gotta get over there.

MR. CHANDLER: That's fine.
MR. OVERSTREET: Thank you.
MR. CHANDLER: And, Your Honor, I believe this is going to be AG Exhibit Number 4. Or, excuse me, 5.
A. Tab A is?
CHAIRMAN SCHMITT: Let it be marked Exhibit 5.
(AG Exhibit 5 marked for identification.)
Q. Do you mind to look at your testimony on page 20 and your response to your question that starts at line 11. Your response is on line 14. Would you mind to -- or I'm -- excuse me. I'm sorry. The question on page -- on line 4, the response starts on line 6. Do you mind to take a second and read that?
A. Sure. But before that, I'm in tab A, which is the coal.
Q. Oh, I'm sorry. Tab K.
A. Oh, I just misheard you. Okay.
Q. As in Kentucky Power.
A. Thank you. Sorry. Okay. I'm there.
Q. You'll be thrown for a loop tomorrow where there's an E where there should be a G, so -- on line 6, there's a response there. Do you mind to take a second to familiarize yourself with it?

A. Yes.
Q. And would you agree that you reference KRS 278.040 there?
A. Yes.
Q. And under tab K is 278.040, correct?
A. Correct.
Q. Would you be able to provide exactly what it is under that statute you were referring to in the sentence that states, (Reading) Kentucky Power's proposed adjustments yield fair, just, and reasonable rates that will allow it to continue to provide the service that customers in KRS 278.040 require?
A. Sure. Before looking at it, I can tell generally that the goal here was to provide sort of the general overview of the Commission's jurisdiction, because the Commission has primary jurisdiction, and we do what the Commission allows us to do. So the point was really to sort of provide the statutes that have the Commission the general jurisdiction. But I can take a look and see what in here was specific.
Yeah, like -- and just really quickly, in 2, (Reading) The Commission shall have exclusive jurisdiction of the regulation of rates and service

of utilities.

It talks about what the Commission shall adopt. So really it's just -- it's recognition of the Commission's overall jurisdiction of public utilities. That was the -- that was the goal.

Q. But their determination of whether rates are fair, just, or reasonable are located in a different portion of the statute, correct?

A. Well, this was meant to be a representation of the Commission's overall authority. I'm not licensed to practice in Kentucky and I wasn't trying to give a brief.

MR. CHANDLER: Pass the witness, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh, any questions?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff?

MS. VINSEL: Yes, we have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Before we begin, Mr. Satterwhite, I have an exhibit I want to pass out. I may have two, depending on your answer to this.

A. All right.

Q. Can you speak to the content of the proposed

tariff provision regarding denial of service?
A. Can you give me --
Q. Sure.
A. -- more detail what you're talking about?
Q. Sure. I can read to you from the tariff. There's a new provision in one of the tariffs, sheet number 210, denial or discontinuance of service. (Reading) The Company reserves the right to refuse service to any customer if the customer or any member of the customer's household is indebted to the Company for any service therefor rendered at any location.
A. I think there's probably -- I don't know if it's Steve Sharp --
Q. Okay.
A. -- is probably the proper witness to talk to about that. He's the tariff expert.
Q. That make makes the passing out easy.
A. He had a baby yesterday, so hopefully he's -- he doesn't know I -- his wife, let me rephrase that, had a baby yesterday. I'm not going to let him take credit.
Q. Congratulations. Before I pass it out, I want to touch base on a couple other exhibits from other parties. I believe it's Attorney General's

Exhibit Number 2, but it's tab B in the Attorney General's binder.
A. Okay.
Q. And this is the final order in Case Number 2017-00099. That approved the new Tariff CS-Coal and also approved modifications of two other.
A. Okay.
Q. In earlier testimony you had referenced that you believed that there were three companies that were taking service under these -- under one or both -- or all three of these tariffs, correct?
A. That's my -- that's my belief. And when I said, "Oh, I need to know that," and I think someone told me three. I know the name of one, and I know there's definitely another, and I thought there was a third.
Q. Who can best speak to how many entities are taking service?
A. I could make sure Witness Wohnhas is prepared to --
Q. Okay.
A. -- answer that.
Q. Well, I'm going to give him a spoiler. In that final order there are two provisions for filing with the Commission. One is in -- and I'll let you

turn. It's ordering paragraph number 7.
A. Okay.
Q. And in that, that ordering paragraph requires Kentucky Power to file a report of the activity generated as a result of the tariff changes, and I do note that Kentucky Power has filed one of those reports with two, two entities taking service.
A. Okay.
Q. And then right above it, ordering paragraph number 6, (Reading) All contracts related to these three tariffs shall be submitted to the Commission for approval.
And Staff reviewed and could only find two contracts that were filed with the Commission.
A. There's -- sorry.
Q. So our question -- our question is: We would like to verify how many con -- how many entities are taking service, what the contracts are, and make sure the contracts are filed.
A. Absolutely. Yeah. And I might have just misspoke, but we'll get to the bottom of that.
Q. Okay.
A. Thank you.
Q. I will -- I will also check with Mr. Wohnhas when his turn comes up.

A. Great.
Q. And also, if I ask you something and it really should be directed to someone else, please feel free to go ahead and just tell me.
A. Okay.
Q. Now, is it correct that Kentucky Power has a Tariff NUG which is applicable to non-utility generators seeking to remotely provide start-up and station power?
A. I'm not sure where that tariff would be. Again, Mr. Sharp might be the person to talk to about that.
Q. Okay.
A. Did you say NEG?
Q. Tariff NUG.
A. NUG. Oh, okay. That sounds more --
Q. Non-utility generator.
A. That sounds more familiar, but I can't speak to the specifics of it. I know there is an NUG.
Q. Okay. I will put that one to the side.
In your settlement testimony you discussed the interclass subsidies. When Kentucky Power originally filed the application, the proposed rates were set up to have a -- to reduce the interclass subsidies by five percent, correct?

A. Correct.
Q. What effect, if any, does the settlement have upon the reduction of interclass subsidies?
A. It starts off mainly with the -- taking the -- a large part of the savings from the change in the deferral and taking away the subsidy that the industrial customers are currently paying, and then the rest of the savings from that deferral and the other items that we agreed to and the decrease in the revenue requirement then go to decrease everyone's bills. But the subsidy change I think is mainly focused on the IGS.
Q. So it sounds like -- no. Strike that.
Is there still a five percent subsidy reduction in the rate design?
A. Ooh, math. I believe there's more than that, I think is my simple president answer. Alex Vaughan really gets into how these work and can provide a -- probably a better answer, but, yeah, I think it's larger than that.
Q. Okay.
A. When we were deciding to put together the case overall and when I had all of my staff in in different parts of what to put together, you know, we thought about what we need to do for this

gradualism that the Commission had talked about, and, you know, it was a large rate for residential customers, and we were really concerned about the impact of that, but we thought we needed to continue for our economic development theme, and just to continue the theme of cost cause or paying the costs, we went ahead and put a five percent in the initial.

The settlement agreement allows us -- part of the balance of that is to do even more and sort of speed that up for the industrial customers, because it really marries into what we need to do overall in the territory to bring more jobs in.

Q. Speaking of economic development, this is KCUC Exhibit 3. This is your PowerPoint presentation, I believe from just a few weeks ago?

A. Correct. At the Kentucky Leadership --

Q. And this is --

A. -- or Leadership Kentucky.

Q. -- an unnumbered page, but it would likely be 11, because it's right after pages 9 and 10.

A. Okay.

Q. I'm going to hold it up just to make sure it's clear.

A. Thank you.

Q. It says Kentucky Power Master Plan?
A. Correct.
Q. And this is referring to an economic development -- or is this referring to an economic development master plan?
A. Sure. This is kind of the -- what goes through my mind of what I need to be doing as anchors in each of the territories, and this kind of outlines that overall theory.
Q. Is there a master plan that's written down?
A. Sort of. Right here. It doesn't have A leads to B which leads to triple Z. Brad Hall and I and Jacob Colley and all of our partners in our economic development, One East Kentucky, Ashland Alliance. It's not a Kentucky Power-only plan. We try to bring in all of our partners. This is more conceptually as I look at what I think I need to do as from a corporate side with my partners to lead, impact full change.
I want to make sure I have large anchors in each of these areas and then have things cluster around them, but I want to start -- you know, obviously Braidy is coming up in the northern part. Hopefully very soon we'll all see some press and be like, "Oh, that's what he was talking about," if it

works out for something in the Pikeville area. And I've got some ideas for what to do in the Hazard area as well to make sure we're sort of rising in all the areas. I didn't want one area only to get the benefit of our efforts. I want to partner with everyone in all the 20 counties that we have.

And so that's probably a long answer to say it's right here and it's in my head.

Q. Okay. Well, if I were to ask for a post-hearing data request of a copy of such a master plan, could one be produced?

A. I think it would be collections of individual items. There's no -- I haven't written down, "Here's everything I'm going to do." It's kind of we're going off in this direction, and we're nimble enough that it's not written down as it has to be this, because as things change, as influence changes, as, you know, funds available, I don't think -- it's not written down in a nice, neat plan, so that would be difficult.

Q. So I will not ask for a post-hearing data request for this, then.

A. But call me at any time, I'm happy to talk about what I'm thinking.

Q. You know, we need things in writing.

A. I understand .
Q. Can I flip back to page 9? We've got the total investment in economic development . Now, I will admit this may already be in the case record , but I'm not a hundred percent certain . Who can best provide a breakout from that -- that total , almost $3.7 -- $3.7 million investment , what the breakout is between what 's shareholder funds , as we called them , and customer funds ?
A. Sure . I can attempt to, but I believe it is within the -- Mr. Hall has like a hundred pages attached to his testimony , so if it's not in his testimony , it's attached there , but the KEAP program , I believe , is all shareholder funds . That 's a result of the Mitchell settlement for the counties around that area . And the K-PEGG , if form holds , really should be half and half . That should be -- again , Mr. Hall 's testimony , I'm sure that 's reflected .
The other investments I believe are just investments made in the normal course . We gave , for instance , 100 ,000 -- $120 ,000 recently to the City of Pikeville to make sure the geotechnical work was done and we could show that the site was ready for the type of jobs . Silver Liner announced their

jobs, and we're hoping something else there really soon.

So it was $100,000 of the K-PEGG money, so it was 50,000 from shareholder, 50,000 from customers, and an extra $20,000 just that we got from AEP in general for investment in the territory.

So the question is whether that's reflected in base rates or not, depending on the year that you invest that. Most utilities, if they invest in economic development and they do it in their test year, they'll recover that as the snapshot in time. It doesn't mean they're going to spent it on economic development in the future.

This was outside the test year, so I don't think it was captured, but it was 20,000 extra dollars that was spent.

Does that help?

Q. A bit. Let me do some follow-up.

A. Okay.

Q. So the other investments, are you saying that the other investments comes from customer funds?

A. It depends. Mr. Hall probably covers this more. A lot of the stuff I take, we work very closely together. He does all the real work and then I speak. So -- but essentially that would be from -- you know, I can make decisions as the president right now. My rates are based on a snap shot in time from the last rate case. I'm not spending the hundred dollars on pencils that we spent during that test year. I have to manage the Company and what I want to do this year based on that snapshot in time.

So technically it could come from customers. It could come from the AEP parent corporation. We've been very successful, the whole Company sort of bought into what we're doing here. It's kind of ride the wave, people have talked about, of what we're doing in Eastern Kentucky. So we're actually getting more resources even from the overall AEP dedicated to making sure Kentucky gets stronger.

Q. I will follow up with Mr. Hall on those figures.

A. Thanks.

Q. What criteria is used for deciding which projects will receive a grant from K-PEGG? Is there a written-down criteria?

A. Yes, I believe so. Again, Mr. Hall will have that, but my understanding is, I believe in his testimony he talks about three criteria. We try to, one, look at infrastructure, to make sure that we can build up the infrastructure. Some of the problems that we had in our territory is we had, for lack of a better term, a lean-to on a flat piece of ground and we thought that was an industrial park. So some of this is to going to make sure that when someone comes and they're looking all across the country, that we have the facilities in place, that we can impress them and locate.

Another big part in the first few years when we had this program, because I was involved, really was making sure the capacity of our local partners were there, that they could talk to prospects that might come in. I mean --

Q. Can I -- I don't want to interrupt you, but could you explain that a little more?

A. Absolutely.

Q. The capacity of the local partners?

A. Absolutely. We might have someone come in from Germany or Japan, and they really don't know the difference between Kansas and Kentucky, and -- but they're talking to every state.

And we didn't have a regional approach before, where we were training, sending to economic development school all the different economic development directors and people that are in charge in all of our different counties, and so someone would call them first, wouldn't call Kentucky Power, and they'd just be scared away and wouldn't come back because it didn't sound like we knew what we were talking about.

So we recognized that as one of the early problems to say, "We need to fund that." Because the funds that we give aren't to companies, the funds that we give to this are to our partners in the region, as part of the overall plan that we have and we've talked about with them. And so part of it was just simply sending people to school so they could talk the lingo to get past that. It's not even getting to first base, it's getting up to plate, and sometimes that's half the battle, and some states are behind in that. We wanted to make sure the whole region could be taught. So that was the first few years of this.

We have now seen benefits from that. We have partners in all our communities. Now the leads are coming in. If they talk to them first, they bring us in as well, as well as our other partners. You know, Appalachian Regional Hospital, Appalachian Wireless. There's a bunch of corporate partners on One East Kentucky that are involved, and the Ashland

Alliance as well. And so we're all working better together as a region to make sure we can get all the way back home, to home plate and have all those jobs.

Q. And I'm trying to keep an eye on the time so that we don't go over too much.

A. Okay.

Q. So I'm going to try to be as concrete as I can.

A. Okay. And I'll talk faster.

Q. Oh, that may not be -- that will not be the best solution. We've talked to -- or other witnesses today have talked about corporate aviation. How many -- back up.

Does AEP own or lease its corporate plane, or planes?

A. I'm not positive what we do now. I know in the past we owned. We -- my guess is, I think we own two, and then we probably have a contract that if we need to have access to others, we can.

Q. And did I hear, you've got -- there are two planes?

A. Yes.

Q. And is AEP the sole owner of both planes, or is there any shared ownership of those two planes?

A. I believe that's by the AEP parent corporation. Now, we're a company underneath that --
Q. Yes.
A. -- of 16 to 17,000 employees, but I believe it's an AEP asset.
Q. Okay.
A. And then our costs are, I think, five percent of that, that are represented in the case.
Q. I have a question about the sale of accounts receivable.
A. Okay.
Q. Can I ask you that?
A. You can try.
Q. Okay. And again, if it's not your bailiwick, please tell me, or that may not be the term to use, but --
A. Absolutely.
Q. If you need to, pass it on. From the case record we know that when Kentucky Power sells accounts receivable, the uncollectible accounts, the bad debts, tend to stay with Kentucky Power while the rest of it goes on. Why is that?
A. I'm looking to see who to tell you to talk to.
Q. Okay.

A. I want to say that would be Steve Sharp. So if it's not, we will follow up and tell you.
Q. Could Mr. Miller speak to that?
A. I think that's more of a Kentucky Power direct issue. He's a Service Corp employee.
Q. Uh-huh.
A. So --
MR. OVERSTREET: And I believe it's Mr. Ross.
MS. VINSEL: Mr. Ross?
Q. I do have a post-hearing data request, and I'm going to make sure that I say it completely. However, as I believe counsel now knows, I believe within two business days after the end of this hearing Staff will provide a written copy of all post-hearing data requests.
What we would like is schedules with the express cost amounts and calculations in an Excel spreadsheet for all costs charged to and allocated by Kentucky Power to the Service Corp, AEPSC.
VICE-CHAIRMAN CICERO: Do you want the opposite way?
MS. VINSEL: Oh, I was going to say, we want both.
VICE-CHAIRMAN CICERO: Yeah, you definitely want from the parent to the subsidiary, the

allocation .

MS . VINSEL : That was my next one .

Q. So the cost charged to and allocated by Service Corp , AEPSC , to Kentucky Power .

A. So schedules with express --

Q. Costs .

A. -- costs and calculations for all costs charged to and allocated by the Service Corp to Kentucky Power ?

Q. Yes .

MR . GISH : Do you want that during the test year ?

MS . VINSEL : Yes .

MR . GISH : Test ?

MS . VINSEL : Yes .

MR . GISH : Test year ?

MS . VINSEL : Test year .

THE WITNESS : Thank you .

MS . VINSEL : I'm sorry for not clarifying . Yes .

Q. In regard to Tariff K-12, can you explain exactly what customers are eligible to take service under Tariff K-12 ? And we know we've got this big expanse of K-12 . Is it in elementary schools , high schools , in between ? Can you talk about that ?

A. I believe it's all schools, the school accounts, and it's public and private. And I believe that's a change. I believe before it was just public, but now we've made sure private was included.

Q. Now, I suspect you're going to have to direct me to someone else on this one, but are there schools currently on Tariff LGS and not on Tariff K-12, recognizing it was a pilot?

A. Witness Vaughan did a lot of that assessment for me, so I think he'd probably be the person to talk to.

Q. And the Attorney General asked you -- the Assistant Attorney General, excuse me, asked you some questions about the Rockport deferral mechanism, and I just have a few follow-ups.

A. Okay.

Q. Has Kentucky Power considered the impact of the deferral if the lease is renewed?

A. What I personally have thought about -- I think about stuff like that every day. If we renew the lease, that's a decision I think we filed with the Commission in the past to say there's a 2019 integrated resource plan. While we monitor that every day, we think that'll be the time we really

make that overall decision.
So if we are -- if we are -- if we are renewing that, I guess to get to the point, to be more concrete, it's because we've been so successful with economic development and it's the least-cost resource for customers.
Q. What will happen with the deferral mechanism?
A. That still stays in place, yeah.
Q. And can you confirm that no decision has been made yet whether to renew the Rockport lease or whether not to renew the Rockport lease?
A. There was a -- the owners are, you know, working with the consent decree, and they filed -- I guess that doesn't even apply. Let me say it this way: It's a unit power agreement. I make that decision based on where we are, with where we're going to be when that expires in 2022, and that decision hasn't formally been made because I want to see where we are and how economic development moves forward and what the options are at the time. It's probably too early to say emphatically we're not going to do that, but that would be something we'd, you know, discuss with the Commission as we move forward.
Q. I've got another question about Rockport UPA.

A. Okay.
Q. Is there a window for making that decision?
A. Off the top of my head, I can't think in the UPA if we have -- how much notice we have to give. I imagine there is something in there. I know 2019, because that's sort of what we've targeted as to make the decision, would be before any of that.
Q. And if no decision is made, what does the agreement say? Does it continue? Is there an evergreen provision?
A. Not knowing, my belief is that it's an agreement that ends on December 8th of 2022. It's certainly going to be on my radar to make sure nothing just happens to us. That's something that we'll definitely be watching, but my assumption is it does end.
Q. As opposed to in a data request, could we get specific information about what happens with this agreement if no decision is made?
A. Absolutely.
Q. I'm writing that down also to make sure I get it.
MS. VINSEL: This will be PSC Exhibit 1.
(PSC Exhibit 1 marked for identification.)
MS. VINSEL: May I approach the witness?

CHAIRMAN SCHMITT: Yes, you may.

Q. Just last Sunday the Lexington Herald-Leader published this article, and this is a printout taken from the website. This information came from the U.S. Census Bureau, and it's a discussion about poverty rates, particularly in Eastern Kentucky.

As you can see from the headline, 9 of the 30 poorest counties in the entire U.S. are in Eastern Kentucky, and the article then goes on to name them as Owsley, Clay, Martin, McCreary, Knox, Lee, Bell, Knot, and Harlan County.

Can you confirm that five of those nine counties are in Kentucky Power's service territory?

A. I believe that's correct. There's a similar -- in KCUC 3 there's a similar map from the ARC as well, if that helps you.

Q. Thank you. I was going to -- I was going to point that out, because it gets to my next piece.

A. Yes.

Q. This insert map which looks at poverty by color, poverty rates by county, would you agree that this map depicts a poverty rate of at least 24.5 percent in the counties served by Kentucky Power?

A. Yes. I believe that's what that represents, that color.

Q. Now, the Commission held three public meetings for public -- to receive public comment in this case. Did you attend all three public meetings?

A. The first one I was unable to attend, but I did the second two.

Q. The second two?

A. Yes. In Ashland and in Hazard.

Q. And at those two you attended, would you agree that the overwhelming majority of customers in attendance were opposed to any increase in electric rates?

A. "Overwhelming" is such a strong word. I think especially in Hazard, a lot of the comments were more of, "We understand that the utility needs these costs, but can we push these off somehow," and pleading to the Commission what can we do in the short term. So that's what we tried to do with the settlement.

And then in Ashland there were a number of commenters that are the Red Cross, the Ashland Alliance, the unions, a number of speakers that really talked about support for Kentucky Power overall and didn't really comment on the rate increase.

Q. Would you say of the comments at these public -- the two public hearings, there were more comments in opposition to raising the electric rates?
A. When it came to should the Commission increase rates or not, I would say the comments were definitely, "Please, we don't want to have a rate increase."
Q. And subject to check, will you agree that the Commission's docket for this case, that we've received over 100 public comments in this case?
A. Absolutely. And my staff and I have -- someone's read every single one that's come in.
Q. That was going to be my next question. Have you read all of them?
A. Absolutely.
Q. You or a staff member?
A. Correct.
Q. Do you have any reason to doubt the sincerity of the comments, particularly from those who said they can't afford to pay an increase in rates?
A. Absolutely not. I think no one wants to pay a rate increase for anything that they're doing, and so that's why we're out there trying to do other programs. Like I talked about tomorrow, $50,000

we're hoping we can get for low-income weatherization for seniors, and we have the HEAP addition in here.

We know it's tough. We want to make sure we're doing our part to help solve the problem. That's why you hear me so passionate about economic development, because I want to take map and flip it.

You know, the top of the article is "Not enough jobs." That's exactly what I live with every day of trying to bring those jobs. I don't think you can say, "So you should basically nationalize the utility and not have them recover their costs and not follow the regulatory compact," you know, because of that. I think that's the bad sign. You don't want to send that signal that you're not taking care of the companies that are there.

So do I doubt the sincerity? Absolutely not. And that's why I try to work every day to bring those jobs.

Q. And I really don't -- I don't want to cut you off, please understand that --

A. Okay.

Q. -- but I'm keeping an eye on --

A. Okay.

Q. -- on the time and the need so that --

A. I'm passionate about this, so I apologize.
Q. I can understand.
A number of the comments filed into the record made reference to AEP's financial position, particularly a strong financial position.
Do you have an opinion as to whether the Commission can legally set rates for Kentucky Power based on the financial condition of AEP?
A. I absolutely do have an opinion.
Q. Please share it.
A. The Commission regulates Kentucky Power Company, and the books and records and expenses that we file with the Commission are based on Kentucky Power Company. I think people see AEP, again, 16, 17,000 employees, regulated and unregulated business, and they think, "Oh, they should just take care of us because their stock is doing well," potentially from unregulated business.
But this Commission is charged with regulating just what happens to Kentucky Power in the state. And the benefit of that really is, something could happen in Oklahoma next year, and this Commission wouldn't want suddenly me to put something on my bills to pay for a problem that's happened in Oklahoma or somewhere else. That's why

you have the jurisdiction that has control of the state utilities, and that's exclusively Kentucky Power with this Commission.

Q. And you answered my second question about could the Commission set rates -- if AEP had a worse condition, could Kentucky Power's rates be reflected to improve AEP's? And you've already answered that one, so --

Given Kentucky -- given Kentucky Power's excess capacity, has Kentucky Power undertaken any evaluation regarding its participation in PJM as an FRR, a fixed resource requirement, versus the RPM, reliability pricing model?

A. It's something we -- I think we look at every year. We currently are selling excess capacity that we have. That flows through the off-system sales clause.

There's also a baseline in rates under current rates. I think it's about $15 million now, the assumption that we're going to have that amount of off-system sales to benefit customers on the energy side. And that comes down to, I think, about $7 million in this case, assuming we're going to sell that.

But we participate in forward auctions for

the capacity. We want to make sure we have enough of our length to protect us from penalties that might come, because if you say you're going to provide something and you don't, it's a huge penalty, so we want to have that protection, but we're doing everything we can to maximize those assets for the benefit of customers.
Q. When you make this evaluation on an annual basis, who all is involved in that discussion or decision?
A. We have some experts, part of the Service Corp, that know this stuff, that they're involved with PJM very closely, and so they advise me. They bring the facts to me and my team and talk about things to consider.
One thing is, if you go to RPM and you leave FRR, you can never go back. So if you leave that, you lose the benefit of that, and so so far FRR has made more sense for us.
Q. What time -- roughly what time of year do you make that decision? Is it in the spring?
A. I'm not sure, to tell you the truth.
Q. Okay.
A. It feels like that, but I'm not --
Q. When was the last time a detailed review took

place?
A. I'm not sure.
Q. Has it been since you took this job at Kentucky Power?
A. I believe -- I want to make sure I'm not mixing up the how much we're going to sell in the forward auctions with FRR and RPM. In my previous job I represented Indiana Michigan, and I am familiar with some analysis we did there, so I want to make sure I'm not misspeaking.
So I believe this year we did do this, did talk about this in my role here, but I don't know if it was the how much are we going -- how much are we going to make available in the forward auctions or FRR and RPM.
So I don't know I guess is the short --
Q. Without having to recall you to the stand, could you look into that and provide us an answer?
A. Sure. When we look at that, yes.
Q. And it can be in a post-hearing data request.
A. Okay.
Q. I should be clear. Now, the Assistant Attorney General spoke to you about the PJM OATT. We're just going to call it OATT.
Given that Kentucky Power's load has

decreased, can you explain why Kentucky Power will be incurring additional transmission expense?

A. Yeah. That transmission expense is to -- the wires or the transmission grid overall. As I said, you have to keep investing in that system, and we're part of the overall grid and the eastern footprint in PJM. So we have six percent cost associated with that.

But as I mentioned earlier, we have such vintage lines, over 70, 60, 50 years old, that you want to make sure you continue to invest in that to make sure the transmission system is robust.

There's also, you know, as we saw -- you know, a long time ago a branch fell on something in First Energy's territory in Akron and New York City was without power. So you want to make sure you're investing in the overall grid.

And so as those investments continue to happen, to make sure we have a robust and safe, free from cyber security system, costs will be added.

Q. Can you estimate how much additional transmission expense Kentucky Power will incur over the next five years?

A. I'm not sure if that's in Witness Vaughan's testimony. I know it's the $14 million, what we

think for next year, but he might have more of an estimate of what's coming up in the future.
Q. How much of the additional transmission expense will be for projects located in Kentucky Power's service territory?
A. That I'm not positive about. I know we have a Hazard-Wooton project that we've filed with the Commission right now. There'll probably be some projects that we file soon for the big job creators that have come into Eastern Kentucky. Again, hopefully another one here next week we can -- we can talk about. So there could be some transmission associated with that.
But to me, that's sort of a -- that's a good problem to have, because they're bringing a bunch of jobs in and increasing the transmission system.
Q. Within the AEP system, who's the decision-maker for additional transmission, or these transmission projects?
A. If it's in Kentucky, it's -- well, we have a transmission group overall that's independent that runs, really, the transmission for AEP.
But as I said earlier, I didn't like the level of investment that was happening in Kentucky, so I went to AEP parent company and demanded more

investment in the -- in the Commonwealth of Kentucky. So I, as the president, advocated and got more investment here.

So each of the different operating companies will advocate if they're putting it under their name in their particular state. But overall our transmission company doesn't just limit themselves to our territories. They can go in other territories as well, help co-ops out and go off our system. Because they're so good at what they do, they're investing in and building transmission everywhere.

Q. Can you tell me how much the AEP parent company is projected to spend on transmission projects in the next five years?

A. That I don't have off the top of my head.

Q. Is there someone who might know that? Mr. Vaughan?

A. He might.

Q. Okay.

CHAIRMAN SCHMITT: This might be a good place to just break for this evening and come back and try to finish up in the morning, because I'm sure there will be other questions that counsel will have.

So we'll recess for this evening and come back at 9:00 a.m. and try to finish with Mr. Satterwhite.

And Mr. Cook and Mr. Chandler, your witnesses will be here, so if we need to put -- we can put them on in the morning when Mr. Satterwhite is finished, if that's the preference.

MR. CHANDLER: I think we can -- counsel can discuss that.

CHAIRMAN SCHMITT: You can work it out among yourselves.

Mr. Kurtz, your witnesses will be here tomorrow too?

MR. KURTZ: Yes, sir. All day.

CHAIRMAN SCHMITT: All right. Then we'll recess until 9:00 in the morning. Thank you.

MR. OVERSTREET: Thank you.

(Hearing concluded at 6:09 p.m.)

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STATE OF KENTUCKY)
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) SS.
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COUNTY OF JEFFERSON)

I, Laura J. Kogut, a Notary Public within and for the State at Large, my commission as such expiring 25 July 2019, do hereby certify that the foregoing hearing was taken before me at the time and place stated and for the purpose in the caption stated; that witnesses were first duly sworn to tell the truth, the whole truth, and nothing but the truth; that the hearing was reduced by me to shorthand writing in the presence of the witnesses; that the foregoing is a full, true, and correct transcript of said hearing; that the appearances were as stated in the caption.

WITNESS my hand this 13th day of December 2017.

Registered Merit Reporter
Certified Realtime Reporter
Notary Public, State at Large

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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

VOLUME II

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Transcript of December 7, 2017, hearing before Michael Schmitt, Chairman; Robert Cicero, Vice-Chairman; and Talina R. Mathews, Commissioner, at the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615.

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C O N T E N T S (Continuing)

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ALSO PRESENT:
Ms. Pam Hughes, videographer

* * *

(Hearing commenced at 9:01 a.m.)

CHAIRMAN SCHMITT: Okay. We are now back on on the record. Mr. Satterwhite, as we left I guess last evening, was still on the stand undergoing cross-examination by Ms. Vinsel.

Ms. Vinsel, are you ready to proceed?

MS. VINSEL: Yes, I am. Thank you, Your Honor.

CROSS-EXAMINATION (Continuing)

By Ms. Vinsel:

Q. Good morning, Mr. Satterwhite.

A. Good morning.

Q. I'm going to start by clarifying something that we talked about yesterday about the tariffs on CS coal contracts. Staff went back and looked again last night, and we did find all three contracts, so that issue has been resolved.

A. Yeah, I think the confusion probably was one happened after the report that we filed in July, so the end of report will have that. That's probably why there was a mixup. Perfectly explainable.

Q. Thank you very much. Now, when we left off yesterday we were talking about the PJM OATT. I'm going to switch topics just for a few minutes and get back to that.

A. Okay.

Q. When we talked yesterday about the proposed tariff about denial of service, I think that we probably should go ahead and have some -- I have some questions just in general for you.

A. Okay.

Q. If I can get my colleagues to help me. This packet, I'm going to call it the cover sheet, but the first page is the proposed tariff that's already in the record. The other three documents are exhibits that I will introduce.

Just to refresh our discussion from yesterday, under number 18, the denial or discontinuance of service, and we're really looking here at the denial of service.

That first part of that sentence before the semicolon, (Reading) The company reserves the right to refuse service to any customer if the customer or any member of the customer's household is indebted to the company for any service theretofore rendered at any location.

So can we unpack that together?

A. Sure.

Q. See if you agree with me. Just that part of the new tariff seems to indicate four different scenarios: two scenarios involving a customer in whose name the account is held, and then two scenarios involving a member of the household of that customer.

The first is denial of service at the service address where the debt was incurred by the customer. The second is any location where that customer may ask to receive service.

Similarly, for any member of the household it seems to indicate denial of service at that address, service address, where the other customer first became indebtedness. I'm trying not to make this sound like an algebra calculation.

A. Two trains.

Q. There you go. And then the fourth is if that member of a household where the debt was incurred applies for service at any location.

So I want to walk through those pieces and Commission precedent in regard to them. Let's start with the customer in whose name the account is held.

Let me have you turn to, it's tab number 2 because this is Exhibit Number 2. Yes, the Exhibit Number 2 I'd like to introduce, and this is an order dating back from 2001 in which the Commission accepted a settlement agreement that provided for denial of service only for a customer in whose name the account was held and that's now could be at any location.

Now, I will tell you I did not want to print out all of the tariffs, but we're aware that there are at least three other utilities that have similar provisions where service can be denied to any customer who is indebted, the customer in whose account is held, and I know there wasn't a question in there. I'm trying to do this as background.

(PSC Exhibit 2 marked for identification.)

A. I appreciate the background.

Q. So there is precedent for that particular piece.

(PSC Exhibit 3 marked for identification.)

Can I have you turn to Exhibit Number 3, PSC Exhibit Number 3. This is an administrative case, again from the past, in 1984. Rather than asking you to read this into the record, I'm just going to read some significant parts and see if you concur that this is what the order says.

On the first paragraph on the first page, (Reading) On April 6, 1984, the Commission issued an order inviting public comment on the recurring issue of whether the husband and wife should share the liability for payment of utility bill where the contract for the utility service was made by only one spouse.

Do you agree that's what is on this paper?

A. Yes.

Q. If you turn to page 2, paragraph 2, and it's the fourth line down beginning -- again talking only about, if you will, a member of the household that did not sign the contract for the account.

(Reading) The factual situations that give rise to payment liability problems among family members are virtually infinite, and it is the Commission's opinion that no specific regulation can possibly address even the majority of these problems. Instead, a flexible case-by-case approach in resolving these complicated situations is often fair to both the customer and the utility.

Would you concur that that is what is on this page that I've given you?

A. Yes, from this order.

Q. From this order.

A. Right.

(PSC Exhibit 4 marked for identification.)

Q. And let me have you turn to PSC Exhibit 4. It's the customer bill of rights. And that very first bullet point. See if you would agree that what it reads is, (Reading) The customer, you have the right to service provided you or a member of your household in whose debt -- excuse me, a member of your household whose debt was accumulated at your address are not indebted to the utility.

Correct?

A. That's what that says, yes.

Q. So just a little bit that we've read from the order in the administrative case, the customer bill of rights goes to three of those scenarios for the customer, would you agree, and let me walk through what those three are. The customer -- let's just say the indebted customer.

A. Customer of record.

Q. The customer of record, much better. The customer of record, so denial of service at the service address or in any location.

A. Yes.

Q. And potentially denial of service for a member of the household at that same service address.

A. Yes.

Q. So what is the basis for the broader version for denial of service for a member of a household at any address?

A. As I stated yesterday, I'm sure this changed.

I'm familiar with this overall theory across many jurisdictions. This is a common question that comes up. It's been developing over the years. I think Mr. Sharp would know the exact circumstances that probably led to us wanting to make a change from a general higher policy overall position, not the examples that probably Mr. Sharp would have for why we're requesting the change.

There's something in many jurisdictions called the benefit of service rule. What we find is that customers have, you know, husband, spouse, and grandparents in the house, and they sort of play a game where they put service in one person's name, don't pay their bill, and then put it immediately in somebody else's that's an adult in the house, and sort of play the game where they're not paying their bill, so all the other customers are picking up that charge, but they have received the benefit of service because they've lived in that house.

So that's sort of the global approach of how this is developed since the '80s when the original order came out, and probably maybe even before that. Customers can be very creative.

So an overall policy is that concept of people trying to game the system, and the rest of the customers then picking up the tab because we have, you know, unpaid liabilities from customers sort of staying one step ahead because the rules allow them to.

Q. And acknowledging that, and again I did not want to print out reams of cases, but we do have a case -- we do have cases where the Commission has addressed a member of a household who attempted to get service at that same address where the customer of record had incurred debt, and fact by fact, case-by-case basis, there's Commission precedent for that.

Are you aware of any Commission precedent for a benefit of service argument for a member of -- denying service to a member of a household where the customer of record incurred debt at any other service location beyond the service location where the debt was incurred?

A. Well, as I said, I'm not into the every day. Steve Sharp might have better examples of that. I'm more grabbing from in my former career I was the legal director for the enforcement department for the Public Utilities Commission of Ohio, oversaw the call center, the complaints, the investigators.

This is a common issue that came up, and as the

Commission in Ohio, you know, you try to balance protecting customers, but also making sure customers aren't gaming the system, and so that's where I dealt with a lot of these issues, so when I speak about it I speak more globally from multiple jurisdictions. The exact Kentucky precedent, I'd have to defer to my people that have more expertise in dealing with this.

Q. Okay. I'll ask Mr. Sharp about those questions.

A. Okay.

Q. Because it would be helpful to know. Also some indication as to, for example, how you indicate that someone actually was a member of a household when service is denied at an address other than where the debt was incurred.

There are cases on record where the Commission has made it clear that there was no evidence to support that type of conclusion. I'll just put that out for you right now.

A. Okay.

Q. And I will follow up with Mr. Sharp.

A. And I'm familiar there's been some discussion. I've heard about that. I try to work with our customer service reps a lot because that is my history, that there has to be some amount of proof.

Can't just be by fiat we just declare it, so how that works Mr. Sharp would know better.

Q. Okay. Thank you.

VICE-CHAIRMAN CICERO: May I ask a question and interrupt here for a second?

MS. VINSEL: Yes.

EXAMINATION

By Vice-Chairman Cicero:

Q. So if I understood the language, does the tariff state that say there's a person in the household, he's a minor, he ends up graduating, goes off to find his own place of abode and tries to set up service for himself. He was a member of a household that was delinquent.

Does this tariff say that he can't establish service because of a delinquency in the prior residence? It says any location, any member of the household.

A. Typically when I've dealt with this in the past, and again deferring to Mr. Sharp, it's been people 18 and over that it's applied to. There's probably examples that led right to this, and there was a reason why we put it in there, so short answer is I don't know. That's what that says. In the past it's been people, non-minors.

Q. Well, you can have somebody that turns out to be a non-minor that moves out of the household at a different location and be denied service --
A. I imagine --
Q. -- based on that tariff, if I hear it correctly.
A. Correct. Correct. And maybe, you know, there needs to be clarification to make that clear. Again, Mr. Sharp would know better. The concept I'm familiar with for the benefit of service is it's people that are not minors receiving the benefit of service as a general statement.
Q. I think their only object is to make sure that for legal purposes that the utility doesn't overstep its bounds and try to become all encompassing, and sometimes the goal is to protect the utility, and attorneys get carried away, and they put this big bubble over it, and they're protected from everything, so --
A. Yeah, correct, and I think the root of it is not protecting the utility. It's protecting customers because these costs are out of control.
Q. I understand. They shoulder the bill.
A. Yeah, but clarification is always good, so I appreciate the conversation.

VICE-CHAIRMAN CICERO: Thanks.

RECROSS-EXAMINATION

By Ms. Vinsel:

Q. And my follow-up question, I think would be, would Kentucky Power consider revising the proposed language in the tariff to address these issues?

A. I want to talk to Mr. Sharp to see why, but if there's holes like this that we need to clarify, absolutely.

Q. Thank you.

I would like to talk about the HEAP surcharge, the heating assistance program, and this is more logistical how the program works. We know that it's been in operation for quite a number of years, but it would help to refresh all of our understanding of how this operates.

A. Okay.

Q. So the surcharge is collected by Kentucky Power, and this goes to provide monies to customers who meet, I presume, certain criteria to receive financial assistance with their energy bill, with their -- particularly their electric bills.

A. Correct, and it goes to -- sorry, I'll follow you. Yes.

Q. No. Let's take this step by step. Kentucky

Power collects the money. Is it community -- primarily community action agencies in the Kentucky Power service territory that administrate these funds?

A. That's my understanding. Again, Mr. Sharp deals with this on a regular basis. He's even met with them to talk about improvements, but yes, that's my understanding.

Q. And again, understanding that this may be more of -- your understanding is more global. Does the money remain at Kentucky Power, or is the money actually forwarded to community action agencies?

A. I'm not aware what account it sits in, like the electronic transfer, how long it sits in one place. I don't have those facts.

Q. And this is for year-round assistance; is that correct?

A. I believe so. Typically there's the winter heating season. I know from reading and talking with agencies, you know, by February they say typically they're even out of funds.

I know typically they have federal funds as well. They try to use those first because they could lose those, but they know our funds are going to be there, so we tend to get used on the second half of the heating season, so I think it's pretty much the heating season.

Q. And when you talk about the federal funds, are you talking about the LIHEAP program?

A. Yes, yes.

Q. So even though they share -- these two programs share similar names, they are, in fact, different programs?

A. Where the funding sources come from.

Q. Okay.

A. We're trying to provide a benefit to help the local agencies help the customers. They might get funds from other places as well, so it's a funding source to try to do that public good.

Q. Do you know if there's an administrative fee included in the HEAP funds?

A. That I'm not sure of.

Q. Okay. I'll follow up with Mr. Sharp on those.

A. Thank you.

Q. And last I'd like to get back to the PJM OATT. Is it correct that if the Commission were to deny that recovery, that Kentucky Power would have to come in for another rate case?

A. Most likely, yes.

Q. So is this a binary decision? The Commission authorizes -- or authorizes recovery in this case or Kentucky Power comes in for another rate case?

A. Yeah, have to obviously look at what the overall decision is of the Commission. Hopefully it respects the balance of what we have in the settlement agreement, but I know there's something that's going to immediately impact my ability to earn the authorized return that the Commission says I'm authorized to return.

It's a large amount, and I have to make sure I'm managing the company properly and taking care of that, so my testimony has really been we know it's out there, we can protect against if the number fluctuates up and down, we expect it to by, you know, waiting until October to see what the number is and then applying it on a going forward basis by tracking it, but I'm going to have to deal with it right away. It's such a huge financial, volatile number it's something I have to deal with.

Q. Why is it such a huge number and a volatile number?

A. The way the regulatory compact works, as you know, a test year, historic test year is a snapshot in time. So as I said yesterday, I might spend a thousand dollars on pencils in that test year. It doesn't mean in the future I'm going to spend a thousand dollars on pencils. It just means that's a representative amount of money that I need to manage the company properly and still sort of walk within those parameters and manage the company.

When you introduce something that is 14, 17, who knows how many million more, that's not something I can adjust what I do day to day to work within that snapshot. It's completely volatile and outside that paradigm of that historic test year view, so that volatility forces me to deal with that.

That's why we defer to the tracking mechanisms. The customers pay no more, no less. The settlement agreement has us still not recovering 20 percent of that. That's a big deal. That's a lot of money, but with the overall balance and everything else that's in the agreement, we think we can move forward with that and avoid having to file another case right away, and as you see in the settlement, there's the three year stay-out as well tied to that, but it's volatile because it's completely outside the construct of that snapshot in time. It's such a volatile number.

Q. I have two follow-up questions to that.

A. Okay.

Q. Which I'm sure you expect. Why didn't Kentucky Power file a forecasted test year instead of choosing to do -- to file under an historical test year, knowing that this money was out there and that it's huge and it's volatile?

A. That was one of my decisions. It was certainly on the table of how to decide what to file in this case. As you heard from other witnesses, I sort of sat everyone down and said let's relook at everything. What can we do to decrease the immediate impact on customers.

Mr. Phillips yesterday talked about how he wanted to finish phase one of the tree trimming to give money back to customers as soon as possible.

Knowing that I have this vision and this plan of working on the denominator affecting the economic development over time, you know, I'm sort of betting on ourselves and betting on the region that we're going to do better, and the future test year, which is part of this as well, I really tried to skinny down this case and take out things that the credit card, the amount I talked about yesterday and other things, to really just put in front of the Commission a very basic case.

You know, there's not really a lot in here.

It's our expenses, which all of our witnesses that are here can talk about every single expense that's in the case and justify those, and it's the basics of the regulatory compact.

There's no, you know, interesting pilots that are going to do strange things. And a future test year was part of that. If we filed a future test year, you know, that's something different for our company. We've always done historic test years.

It's something different for the Commission, I think, although others have done it. It is different than the historic model, and I really wanted to come in and say, "Here's the basics, here's what we need. Bet on us. We're going to bring industry here," and not try to put a bunch of extra facts into the case, so that was part of my decision to keep it very focused.

And that's why the tracking of the OATT costs, it's not saying we're going to put this in base, and we're going to get this no matter what. It's saying whatever the costs are, that will be what's flowed through to the customers. Could be a credit, you never know, probably won't be, but the tracking allows customers to pay no more, no less, and it treats it like -- it gives the Commission the surety to know that it's going to be just those costs and nothing else.

If I do a future test year I'm saying it's going to be this, and if it changes that's what's in base rates, so if we assume $17 million and it comes in at $14 million, our base rates have $17 million of collection. The tracker makes sure that this huge volatile cost is tracked, and so the Commission is assured the customers just pay that amount.

Q. Let's talk about the volatility. AEP has had news releases indicating that they are investing in significant transmission projects. Can you tell us what that amount is across the AEP footprint?

A. Yeah, I didn't look for that last night. I know we talked about that yesterday. I think that's a post-hearing data request. Or maybe it was Mr. Vaughn is going to talk about later. That's not one of the things I looked up last night, but yes, there is an intention to do significant investment in the transmission system, and as I testified to yesterday, I'm trying to get as much of that in the state of Kentucky.

(PSC Exhibit 5 marked for identification.)

Q. I have PSC Exhibit Number 5 to help indicate what those amounts are. What we're handing out is

PSC Exhibit Number 5. It's a printout from AEP's website, one of the news releases.

Would you agree that the headline of this reads "AEP to fuel growth with increased investment in regulated operations and renewables"?

A. That's what that says, yes.

Q. If I could have you turn to, at the top it's listed as page 2 of 4, and in the third paragraph where it says, "Is it correct," it says, (Reading) AEP plans to invest approximately $9 billion in its transmission business over the next three years.

A. You mind if I take a second to read this?

Q. Please do.

A. Thank you. I assume I don't need to read the renewable part. We'll just talk about the transmission part.

Q. No, no, that's true.

A. Okay. Then I'm ready.

Q. And again, on the first page this indicates this press release was issued November 1, 2016.

A. Correct, and if it helps, this looks consistent with my understanding of AEP, I can validate this.

Q. That's what I was going to ask, is that consistent, the $9 billion investment?

A. Absolutely.

Q. So of this projected volatility and cost, how much of that comes from this AEP's system-wide investment in transmission?
A. You're saying how does this fit into the equation of the volatility?
Q. Yes.
A. I know -- I'm not sure how many of these projects. The overall transmission spend for AEP could be out of the AEP zone as well, so I'm not sure how much is in. I imagine a lot of it is in the AEP zone.
I know the flip side of transmission investment is reliability for customers, so the network, transmission network needs help or needs to be rejuvenated everywhere, so I know when I look at a transmission project for Kentucky I'm really looking at how I can alleviate our SAIDI metrics to make sure I'm improving service for customers and looking where there is congestion. So I imagine a lot of this is within the AEP overall zone, but the exact number I don't know.
Q. And I like the term you used earlier about two trains.
A. Uh-oh.
Q. In this case with transmission investment there

are two trains, are there not, in that you've got reliability on one side, and then you've got earnings for the company on the other side. And it's not to say that one or the other is wrong.
A. Right.
Q. But can we acknowledge that there are two trains?
A. I think there's probably 12 trains. Those are the two maybe some of the major buckets. I know right now there's the fact that FERC is really incenting and saying please, please invest in the transmission system, and through their actions cyber security probably goes along with reliability as well in the other areas, so there's probably multiple chains, but absolutely those are two of the trains involved on the system.
Q. Thank you. And not to beat a dead horse, I want to be clear about that, but going back to the historical year versus forecasted test year. What would have been the consequences had Kentucky Power not included the tracker -- or the request in this case, but waited until however, one year out, whatever, to see what the costs were and then come back to the Commission? Explain to me what impact that would have had.

A. It probably would have been a continuation in the company not earning a fair rate of return. I think this year we're earning, to date we're scheduled to earn about 4.8 percent for a year. That's well below. During the test year I think it was 5.8.

If it were 14 or $17 million, just off the top of my head I think it was like 150 basis points or something off of whatever, whatever else it turned out to be the return that we would receive, and, you know, even if the Commission approves a 9.75 that's provided by the balance of the settlement agreement, the nature of a test year is there's still lag.

It would almost be impossible to get to a 9.75, so we're already behind that, and then this would further take it down, and then you'd have the expense again for the customers of another rate case, trying to put that in just to deal with that issue we know about.

Q. So what benefits -- what benefits does Kentucky Power gain from being a member of PJM?

A. That's probably a three-day question and answer.

Q. Oh, God, we don't want to do that. Let me -- let me ask this a different way. The benefits that

Kentucky Power gains from being a PJM member, how do they counteract the OATT costs that will be passed on to customers?

A. You have the generation, and you have the transmission side, so there's multiple facets to PJM. Just speaking on the transmission side, the whole network across the country is changing with retirements.

Really what I look for, and all utilities look for, is stability and certainty for customers. Safe, reliable service. Part of that reliability is making sure we have the system that can deliver the power.

We think we have the capacity now to handle for our customers. We hope to change that and make that a problem with economic development, but you could have another polar vortex, and you need to make sure the system is up to date and you have access to all types of generation and you can move that.

So a robust and vital transmission grid is really vital to every citizen in the United States, and the PJM is a large one that allows us to capitalize on the diversity of generation all across the system, that there won't be congestion, and we can get power to our customers.

The things that happen, you know, in back rooms for cyber security that they're constantly trying to stay one step ahead at PJM to make sure the grid is reliable. It's beyond now just a tree branch falling in Akron and putting New York City out. The things that they're doing are pretty amazing to make sure that we have a secure grid for the country, so being part of PJM overall provides us that security. I guess I'll stop there.

Q. In terms of financial benefits, and recognizing you were here when the Commission approved a case approving Kentucky Power becoming a PJM member. One of the guiding principles of the decision was that the potential to save money to customers.

So how does this, these OATT costs, how does that implicate the issue of saving money for Kentucky Power's customers?

A. It's that stability and certainty to make sure that customers, when they flip the switch at their house they're going to have power because the overall transmission system that we're a member of is securing that. It's the backup to make sure if something happens with our internal operations that something is always going to be there.

I used to represent Indiana Michigan Power. They have the Cook Nuclear Plant, gives all kinds of capacity and all kinds of energy. One thing happens and a turbine goes down, they're out for like 18 months. When you have a system there to back you up to make sure that customers aren't beholden to market.

Sometimes when you really need it the most, it's when you have a polar vortex and prices go through the roof, and when you're part of a system like that you have the backup in place to make sure you have the chance to keep costs down for customers.

Q. And building on what you said about keeping costs down for customers, how does the PJM OATT help to keep costs down for customers, other than stability in the general sense?

A. It's making sure the grid works. It's paying our part, and, you know, our share for most of the costs is 6 percent of what goes into the zone, which another benefit, I guess, for Kentucky customers is when I am successful in getting transmission built here and providing local jobs, someone outside of Kentucky is paying for 94 percent of what we put here in Kentucky.

So there's balance overall because there's a recognition that the entire zone is important to make sure -- the entire region is important to make sure

there's a transmission system, or one state far away can affect another state, so the overall benefit is if we're successful in investing here others are paying for that investment, but we also have a duty to pay our share of the rest of the grid to make sure it works properly.
Q. When you -- the 6 percent, that is Kentucky Power's part of the AEP zone, correct?
A. Correct.
Q. Is there any relation between the customer size, customer base at Kentucky Power that goes into that 6 percent? How is that determined?
A. I believe so. Witness Vaughn is more into exactly what's in the PJM bill. He might be a better person to ask. And then beyond the AEP zone that's lower, it's like a 5 percent and maybe even 4 something percent for the total PJM footprint, but he'd know more about that.
Q. Thank you. Switching -- switching topics. If the Commission were to lower the revenue requirement from that contained in the proposed nonunanimous settlement, does Kentucky Power have any suggestions how the lower revenue requirement should be allocated between the classes, or among the classes?
A. Before I give an idea, let me just say I don't

think you should, but like I said before, the balance in the agreement, it was tough to get to the agreement that we have. Giving up 20 percent of these OATT costs, it's a big deal. It's a big impact. So I would hope the Commission wouldn't disturb that and respect the balance we have in the settlement.

How the Commission would apply it, as I said before, I would hope they would then say if we want to change that we'll look at something else in the settlement to make sure the balance is still protected and lower the ROE, but change something else, but at the end of the day, you know, it's up to the Commission. I think applying that to the residential class to further decrease that is a fine idea.

A lot of the things we did in this case, like I talked about before, the tree trimming, that doesn't hit all customer classes, and a past large rate increase from a rate case it was putting $27 million, and that mainly hit the residential customers largely, and that's why I asked Mr. Phillips and Greg Bell and the good people that work for me, "I know the Commission is giving you permission to implement the program this way, and you're allowed to spend

$27 million a year, but do you have to?"

So there were some long days, a lot of spreadsheets, but we looked at that, and that's where it came at in this case, that we could end phase one early and save money for customers, so I think it's perfectly reasonable to apply that to the residential class to further lower that. They were at about 15 percent with our case filed.

One of the benefits of the settlement agreement is the overall bill impact, even beyond the case, where everything that it touches takes that down to about 9 percent. Further decreasing that, I think, is a good application.

MS. VINSEL: We have no further questions at this time, and Commission Staff would like to move that PSC Exhibits 1 through 5 be entered into the record.

CHAIRMAN SCHMITT: Any objection?

MR. OVERSTREET: No objection.

CHAIRMAN SCHMITT: Let the Exhibits 1 through 5 be entered into the record.

(PSC Exhibits 1 - 5 were admitted.)

CHAIRMAN SCHMITT: Mr. Cicero, questions?

* * *

REEXAMINATION

By Vice-Chairman Cicero:

Q. I want to follow up a little bit on the last portion of her conversation. You continue to talk about the 6 percent versus 94 percent, and I'm curious, you talk about zones and the spending in zones and that's how it's determined what portion of the Kentucky Power's 6 percent versus the 94 percent.

What is the transmission capital spending on average per year in the zone that Kentucky Power is in?

A. For the entire AEP zone or the entire PJM footprint?

Q. If Kentucky Power is contributing 6 percent to, what is that capital?

A. I believe that's in the record, but I don't know that off the top of my head. Witness Vaughn would probably have that. That's what leads into the projection for the $14 million.

Q. How much is the spending that Kentucky Power has managed to obtain for capital projects?

A. Going -- when I came in it was about, I believe the estimate was to be about $20 million, and I think we've raised that to $80 million, and then next year I believe it's close to that as well, for Kentucky

Power to make that investment in the Commonwealth.

Q. So just for a point of looking at numbers, 6 percent of a billion in spending is $60 million, so when we talk about 6 percent versus 94 percent, it's really Kentucky Power -- Kentucky rate payers are not enjoying some huge benefit from this 6 percent versus 94 percent split. That's my only point. I was just pointing that out.

A. Yeah. I agree with that, and the more I can get spent in the zone in Kentucky, the more we get both benefits. We get the benefit of the overall benefit of the system, we get the local investment in Kentucky, and it kind of shifts the payment a little bit.

Q. Okay. So now I'm going to kind of start fresh here. I want to go back to yesterday's conversations. You made the comment to the Attorney General that as all Kentucky Power employees and yourself, your stewardship is to control all costs and make sure that nothing is being spent that shouldn't be spent. Is that a pretty accurate statement?

A. We have to manage the company and make sure all costs are reasonable, absolutely.

Q. Okay. Kentucky Power has a defined benefit

pension program?
A. That's my understanding, yes.
Q. Is it still active, has it been grandfathered, has it been locked and frozen, or what is its status?
A. The detail of the pension is probably better left to Mr. Carlin. He knows better the details and the nuances if something is changed or grandfathered, what that is.
Q. Are there participants being admitted into the program now, or have you transitioned into a 401(k)?
A. Again, the nuances of that I would defer to Mr. Carlin.
Q. That's a pretty straightforward question for the president of the company. That's a pension -- are the employees currently being engaged into a defined dollar benefit plan, or do you have a 401(k) plan, or do you have both?
A. I believe there's both, but Mr. Carlin would know for sure. Honestly, you know, I've spent this past year being the new president. I rely on Mr. Carlin, I talk to him a lot. We have an overall benefit of having part of the AEP system of really having a benefit plan that I know is very vigorous and focused on.
I know the company is constantly looking at how

to update that and change that. We've really controlled costs. Costs have not gone up overall the past few years, I know that, so I really rely on the service corps at this point.

Certainly there's many things I'm going to get deeper into as we move forward. I've spent a lot of this year focused on economic development, at this point trusting what Mr. Carlin and the AEP company has set up for our benefits because I think that's not the area I started in of turning over stones, but it's absolutely something I plan to get into.

Q. Let me ask it from a different approach. Are you a member of the defined dollar benefit pension plan?

A. I'm not sure what I'm in.

Q. I don't know what to say to that. Are you a member of the 401(k) plan?

A. I believe -- yes, I have a 401(k).

Q. I was going to say, because usually you have to direct your investments, so if you're not participating -- if you are participating in that and you haven't directed your investments, then you're --

A. I've elected for the moderate risk, so there's different levels you can elect to be in, if you want to be aggressive, moderate, or very low risk, so I know I've elected for the moderate risk for someone to help make those decisions.

Q. So I'm fairly certain that there's a defined dollar benefit plan, at least I'm told that by staff. You're serving one of the poorest economic areas in the country, not just in Kentucky, but in the country. Do you think that you're being a good steward of spending if your employees are enjoying two pension plan benefits when a defined dollar benefit plan by itself is something that's gone the way of the dinosaurs? There's about ten percent of corporations in America today that actually have a defined dollar benefit plan. Most utilities have it. I found that out.

It's the double dipping and allowing employees to both have a 401(k) matching and a defined dollar benefit plan that the Commission has been looking at and saying wait a minute, your rate payers probably don't even have a pension plan, let alone have two pension plans. What is your comment to that?

A. I think part of your question answers part -- is part of the answer, what most utilities have. I know Mr. Carlin -- I know he's done multiple studies he's provided to the Commission.

I know ours is based on really what the

national average is. I don't think you can compare working at the utility with comparing any other business in our territory. It's sort of a national competition level, and you want that because I want safe workers working for me.

If I just say I'm going to do something completely different than the norm in the utility industry, then I might train people for a year, and they all leave for Ohio or California or Florida, and then I'm constantly just the double A team for every other utility, and I don't have safe, reliable service for my customers.

So Mr. Carlin can talk more about why we believe that's appropriate based on the studies that we have, but I know from a management point of view I need to be competitive so I don't keep losing people or in the future lose people to other utilities.

Q. Well, first of all, I would say that your greatest potential for losing employees is in the administrative side because they're more transient and they're willing to work across lines because it's more common to be an accountant or even an engineer, but when it comes to local people that utilities keep referring to on the safety aspect of it, you're referring to your linemen and electricians and those people that are a craft that are supposedly unique to the utility industry.

I would challenge if there's those types of hazardous occupations that occur all across the country. Railroads is not the safest occupation to be in. You could go through a whole litany. Working in a chemical factory. There's all kinds of jobs that are hazardous just by their nature, and those companies can make the same argument, but the benefit that utilities have, especially in a regulated industry, is the fact that you can charge rate payers for it, and I think that's where utilities get off track here.

It's okay to have a good pension plan. I don't think anybody would argue against that. It's where utilities believe that there is this extra bonus that they have to pay to their workers because they work in some special environment that's different or unique than other hazardous occupations, and I think that's where utilities have to start looking at these double dipping.

401(k) matching and a defined dollar benefit plan are a little bit of a stretch for the Commission to look at, and I would challenge Kentucky Power to start looking at those kind of costs to be more competitive and more conscious of the people you serve because many do not have a pension plan.

A. I appreciate that, and that's absolutely something I'll look into. I know from talking to Mr. Carlin, and you can talk to him more, he tells me that utilities in California are advertising extra premiums, even above what is the norm in the industry, to try to get skilled workers out there, and my operation in Kentucky Power, I mostly field field guys, climbing poles.

We've tried to really skinny down the administrative side and rely on the service corps because you don't want me with a company of 168,000 customers and accounts having my own staff that's going to be trading off system sales, my own staff doing all the HR work.

It's better for me to kind of take and pay just a pro rata share of that with the AEP system. So most of what I employ are my customer service folks and linemen in the field. It's vital. I've got very good people that work safely.

Safety is the number one concern across all the AEP. We've expanded that recently. I have a lot of contractors, we want to look at contractor safety. This Commission recently had a case where there was a fatality with a contractor, so it's not in this case we've gone above and beyond.

We're actually -- I'm going to be employing another inspector for safety that's not included in the rates of this case, but I've got to make sure that the contractors, if they're under my flag, are safe, so I can't speak to the other industries, the chemicals and everything else.

I know that someone dealing with a wire and electrons, it's very unsafe, and we're also seeing a rise in the public going into poles and having deaths there as well, so what I'm concerned about is making sure what we do is very safe, and if I'm the one that first starts and says, okay, we're going to end it here in Kentucky, and we're not going to -- we're going to be below the national average, I can look at that.

I can look at that as what employee pool I'm going to have and what that does to safety and what it does for customers. So I appreciate the comment, but that's what I have to weigh as I look at all of this.

Q. So if you walked into AK Steel, what would they tell you the first priority is for AK Steel?

A. There would probably be something on the wall

that says how many days safe they're working.
Q. Exactly. The same thing that you're arguing. They're competing against that same worker pool. The problem is you can't just define it as a pool in the universe of utilities because that's not the case.
A. I appreciate that, but, you know, it takes five years for someone to come from the first lineman up to actually get to journeyman to be trusted to be fully on their own doing things. I know from dealing with the Braidy Industries and the aluminum plant they're going to have, safety is going to be their number one concern. There's a two-year program at ACTC to be certified to work on any piece of equipment there.
So I'm glad everyone is committed to safety. It's just in an area where I am working, it's an economically depressed area, and so I need to be able to attract the top talent to make sure I, the safety I'm responsible for, is at the forefront.
And so I think if you talk to Mr. Carlin he'll tell you this is what I need to do to make sure I can attract that talent. But I understand what you're saying, it's truly a balance, and it's something I need to look at.
Q. One last comment, and then I'll leave that one

go, but you're serving an economically depressed area with a higher unemployment rate, which should make it easier for you to obtain, especially coming out of the coal industry, electricians and those type of crafts to be able to fill your workforce, and you're not competing in the state of California.

And that's a benefit to you, so going overboard on the benefits and the healthcare and whatever else that seems to be prevalent in the utility industry, there has to be a balance in that, I agree, but there doesn't have to be a double down on insurance.

You know, everybody assesses a risk, there's a certain level, and we don't have to be a hundred percent on everything because if we did everybody would be overinsured.

A. I appreciate that. I just look at retention as well. All that factors in there as well.

Q. So now I want to talk about AR, and I know that you yesterday indicated to Ms. Vinsel that it would be more appropriate to ask Mr. Vaughn, or I'm not sure who. Maybe it was Mr. Hill, I'm not really sure.

A. With what subject, I'm sorry?

Q. Accounts receivable, sale of accounts receivable.

A. Yeah, Mr. Ross I think is who.

Q. But I'm going to approach you because we're talking about a policy that's being implemented at either the tariff level or at the executive level of Kentucky Power, so it's more appropriately addressed to you.

A. Okay.

Q. You're selling receivables to the parent company credit corporation. Normally when factoring of accounts receivable is done you transfer the bad debt along with it. You don't retain the bad debt at the organization selling that receivable. That's part of the transfer, which is how you can justify a higher interest rate than what you could attain if you went ahead and just borrowed short-term rate because right now you're paying a premium on it, so I'm trying to understand why Kentucky Power is selling their receivables at a premium and not transferring the bad debt portion with it, or why they're not just utilizing the short-term debt, which is lower.

A. Again, I apologize, I don't have the answers to that. Mr. Ross would have a better response.

Q. So that portion of the interest that they're making off Kentucky Power at the AEP level by purchasing the receivables and charging Kentucky Power for it, I presume that benefit is going to shareholders and not being reallocated back down to the local level as part of an offset to any other costs that are incurred.

A. I don't know that it is or is not. I'd be guessing if I did. Part of the relationship, I think, that might be factored into what the purchase rate is of the receivable that's set along, but I don't know the answer to that.

Q. I just know that I have a table here that talks about a pool that's set up for funds borrowed, funds loaned, and the average interest rate for funds borrowed from the utility money pool is .48 percent, that Kentucky Power is paying 1.94 percent or somewhere thereabouts on the sale of their receivables to sell it to AEP, so I'm not quite sure why there would be this activity going on, especially when Kentucky Power on the sale of receivable to AEP were 528 million, 604 million, and 522 million for the years '15, '14 and '13. That's -- there's a premium that's being paid on a significant amount of money that I would like to have an answer to.

A. Absolutely.

Q. Lastly is on allocations, and I know yesterday

Ms. Vinsel asked that there be calculations provided to us with specifics that show the portion at AEP that's being allocated in total and how the calculation is being performed.

I understand there's a FERC methodology, and that AEP and Kentucky Power have a very good policy in terms of explaining how it should be allocated based on what, but I would like to see what those allocations are, and I know it's probably not going to be an easy thing to provide, but I'm interested in, since there's a stewardship that's occurring at Kentucky Power, how much control do you have over what's allocated down to you?

Do you discuss it between AEP and Kentucky Power, or do they just dictate to you the amount that's been incurred at the corporate level or the parent level that Kentucky Power is going to take?

A. It's an active conversation. There's a formula that determines what our pro rata share is based on all the companies, and I don't know if that's based on a customer count or revenues that we produce, but I know it's a conversation.

I meet with all the other presidents from all the other operating companies, and we're constantly talking about how we can -- you know, we manage our costs, we manage our O&M, and then we talk to the service corps about how they're managing their O&M.

There's been a change recently in AEP overall of how the assets that we've had, we've sold off some assets in some other areas, and we have some generation personnel. We've looked very closely, as all the presidents, how are they using those employees, are they providing value for the operations of the service corps overall now, so we ask those questions all the time.

So we're managing beyond our own companies, we're managing what we see as a third-party vendor providing a service to us as well. It's a question we're constantly looking at to make sure that the costs are reasonable that they're passing down to us.

So we look at how they're spending, we ask questions, we're actually involved in all that, and then the formula that comes out of how that's allocated to us. Mr. Ross might be able to tell you exactly how that works, but I believe that's just based on the representative of what each company as a subsidiary provides to the company, the share of the usage.

Q. So I'm happy to hear that there's feedback that goes up rather than just down because if it just flows from the parent to the subsidiary, then the cost incurrence is just a matter of being dictated and allocated.

A. Yeah.

Q. There's no input in terms of how to control that cost.

A. I am constantly questioning that.

Q. So I'm just going to pick one, because it's a favorite one, the aviation and the planes and the crews. Is that a discussion that occurs, to say here's the cost to fly commercial, here's the cost to fly on corporate jets, and I'm sure the argument is time is valuable, we can fly people from Columbus to wherever it is and get them there and save time and bring them back.

Is there any type of input that flows back from Kentucky Power up through the corporate office that says we don't think our share is fair, we don't really utilize corporate jets? What kind of discussion occurs?

A. Yeah. Personally I think that allocation is fair. I think there's great value in the aviation costs. We only get five percent of those costs, but I think that one really starts at a board level.

We have executives that are in charge of 16, 17,000 people. There's a safety aspect as well to make sure, even if they're flying the same, you know, to make sure they're safely getting where they need to get with the pilots that we have.

One follow-up from yesterday, I did find out it's three planes, and we lease those three planes, just something to correct from yesterday.

But the overall benefit for Kentucky Power, I mean, I have 168,000 customers. Earlier this year, it's not in the test year, but this is a good example, Nick Akens flew to Washington, D.C., for the EEI conference, which is the meeting of all the executives.

He's also President Trump's head of the energy infrastructure business roundtable where President Trump wants to spend a trillion dollars in the country, and our CEO of AEP is one of the chairs of that committee, so he had to make sure he was in the right place at the right time. With the safety and security he used the corporate jet to go there.

I actually drove up from Ashland, Kentucky, to make sure I could fly out with the executives to that rather than fly commercial myself when the plane was already going. We received a five percent share of that trip, but more importantly while we were there

Mr. Akens took me to the White House, to the executive offices, and for half an hour I talked with the executives on President Trump's staff about the workforce in Eastern Kentucky and the possibility for economic development in Eastern Kentucky.

I don't know any other company with 168,000 customers that can get a half an hour in the White House talking about why jobs and manufacturing and infrastructure needs to come to Eastern Kentucky.

So it's examples like that, using the aviation gets the executives, important executives, in the right place, and we benefit from that, and that wasn't charged to Kentucky Power as a Kentucky Power trip. That was what everyone else paid for so that I could go and advocate for Eastern Kentucky.

Q. That almost sounded like a commercial.

A. It's -- that's the benefit. That's the real benefit of what we're getting here and, you know, you say what have I been working on? That's what I've been working on because that rises everything, and it's that important, and I'm screaming and yelling and kicking my way every -- kicking down every door I can get into, including the White House.

Q. I don't think anybody is questioning Kentucky Power's intent to increase its customer base and try

to improve the economy in Eastern Kentucky. You have definitely gotten your message out over time.
A. Thank you.
Q. What we're trying to do is to make sure in getting your message out we can also understand the basis for the rate increase.
A. Absolutely.
Q. So those are the reasons for the questions.
A. Absolutely fair. I guess I will say, you know, we were supposed to -- we have a leadership conference where the executives try to tell everyone that manages someone in the company, and they try to locate and move that around.

This past year, you know, weather, it's been a different year for utilities, I guess I'll put it that way. Really challenging. The weather has been very moderate, and that's really hurt utility companies because people aren't -- they can open the windows. It's been nice days.

An example, one of the presidents from one of the companies was supposed to host the leadership conference. Everyone was supposed to go to, I think, Roanoke, Virginia. The entire leadership, they would have taken planes there, and the president of APCO said, "Is this really appropriate? I know it's important to get out, get into our communities. We like Nick Akens to come here as well, but is this the best use of our money right now?"

And what we ended up doing was canceling the trip to Roanoke, doing that from 1 Riverside Plaza in Columbus, and just putting that out on video so everyone could see it live, but that's an example of feedback from an operating company president saying maybe we don't need to have this expense right now. There's value to it, but let's pull back a little bit right now. So definitely goes both ways.

Q. Those are decisions that have to be made, and those are made in good conscience because utilities, especially in regulated states like Kentucky, enjoy a position that's enviable by a lot of companies, and that is the opportunity to earn a guaranteed rate of return. The opportunity. I didn't say earn a guaranteed rate of return, but the opportunity to.

But you have the opportunity also to pass costs on to your rate payers, something that if you look at a lot of other businesses, don't have the opportunity to say, oh, I incurred additional costs, so I'm just going to pass them to the rate payers.

You enjoy a benefit, and therefore that is why you have to come before the Public Service Commission to justify those costs, and that's why I'm sure this is going to be a three-day affair because there's lots of questions.

A. Absolutely, and there's lots of evidence in the record. You know, the Attorney General asked me a lot of questions about studies and what evidence do we have. The companies provided a lot of information. We're providing a lot of witnesses. That's the evidence. That's what the regulatory system has.

And the other side of the other businesses you talked about, what also comes with that, with that opportunity, is a responsibility to serve every single customer. We can't say, "You don't look like you can't pay overall, so we're not even going to talk to you and try to provide you a product." We have a responsibility to serve everyone.

As I said, Mr. Vaughn's testimony shows you on page 18, 17 customers per mile, where Duke and LG&E, 41 and 43. It's tough to serve. It's a hard business. It's riskier in Eastern Kentucky. I think we all know that, but we take it seriously. We serve every corner.

Q. I'm going to save the rest of my questions for the rest of your staff.

A. Thank you.

CHAIRMAN SCHMITT: Commissioner Mathews, questions?

COMMISSIONER MATHEWS: I have a couple.

EXAMINATION

By Commissioner Mathews:

Q. Back to the OATT, and I --

COMMISSIONER MATHEWS: Thank you, Ms. Vinsel, for reminding me that one of the criteria for transmission investment in PJM is to facilitate renewable generation across the footprint, and that also is, I think, quoted as being part of the thought process behind AEP's corporate transmission build-out.

Q. Does Kentucky have an RPS, renewable portfolio standard?

A. No, it does not.

Q. Does Ohio?

A. They did, and then they didn't. I'm not sure where the legislation --

Q. Okay. I don't know any more than that.

A. Ohio's kind of been all over the place.

Q. They did, they didn't, they did, they didn't. West Virginia has a target -- I forget what it's called.

A. Yeah, some states have suggestive --
Q. Suggested target, and Glencoe counts toward that renewable, I think theirs there is an alternative portfolio standard. And Virginia?
A. I want to say I think Virginia does, but I'm not positive.
Q. Just, you know, and that brings me to how projects are chosen within PJM. I believe it's a stakeholder process?
A. Yes.
Q. A very lengthy stakeholder process?
A. Yes.
Q. Are the projects that AEP is building in its footprint, in the zone, I'm not so concerned about the projects outside the zone, are they in the regional transmission expansion plan or are they nominated projects by AEP on an economic basis?
A. This is where we got to yesterday of what the exact names are, I'm not positive. I know there's multiple buckets. There's the PJM sort of mandated projects, and then there's in the zones can be recommended projects that move forward.
I think a lot of what is in the AEP zone are the -- like I would come to the Commission and say I think there's a need to get a certificate to do

something to show the benefit.
Q. Are there any projects in the zone that would fit that facilitate renewable generation development?
A. I haven't reviewed the projects right now. I imagine there are. Mr. Vaughn might be able to give a better answer to that, but definitely I know there's been a big movement to renewables and other areas of the zone, partially to support economic development, so I would imagine there would be.
Q. Okay. Is anyone from Kentucky Power participating in the PJM stakeholder process on what projects get built or how costs are allocated?
A. Absolutely.
Q. Okay. And who is that?
A. Dan Snider and Dana Horton really head up our PJM operations. I'm sure there's a bunch of people --
Q. And that is Kentucky Power or that is AEP?
A. That is the service corps. With 168,000 customers we don't have someone dedicated to that. We really focus on them, and yesterday there was some discussion about what we get involved in, and we're involved every day. We make comments on anything PJM does. We have the benefit of all the operating companies working through the service corps to make

sure our voice gets heard.

Q. And how important is cost containment on those PJM projects? That's one of the concerns that I believe some state commissions have had, is that perhaps there's -- on time may mean more than on budget?

A. I can speak to working with our transmission group, and I know they're very cost conscious in making sure that we're doing stuff as economically as possible.

My understanding as to the PJM stakeholder process, anyone can raise those issues, and I know we always look at that, and to the allocation side I know Mr. Vaughn mentioned something in his testimony about a proceeding where America Electric Power is involved, talking about the allocation, to try to lower the allocation for -- across the system.

Q. And you've said that maybe without the tracker there wouldn't be as much development -- you wouldn't be as successful in getting transmission development in Kentucky? I think maybe -- maybe paraphrasing what you said yesterday?

A. I think the tracker is more a focus of the financial liability of the company moving forward. Overall I'm trying to be a transmission owner as well. I'm not trying to attract the capital that AEP might spend anywhere in the zone. I'm trying to get that to be attracted -- or spent right here.

Certainly having the track will allow me to make the arguments when I go forth for capital and competing against all the other operating companies, give me a better chance to attract it here.

Q. That brings me to the criteria for transmission expansions or transmission builds in the Kentucky Power footprint. Are there market or reliability concerns that we need to have made in Kentucky?

A. I'm not sure I understand your question.

Q. I guess drawing transmission capital to Kentucky, is that to solve a market problem or a reliability problem or a resilience problem within the Kentucky Power footprint?

A. I would say all of the above. It's something we look at to, one, to the age of our assets that we have. Two, it's to make sure, you know, I look at it as when I came down I asked all of our engineers what have we done to impact reliability, what plans do we have on the shelf that we can provide better service for our customers. That's sort of the criteria I start with for my transmission investment.

It's improving reliability, and are there places for economic development. We need to make sure the system is robust, that we can deliver the megawatts that hopefully large IGS customers will need.

Q. Okay. So maybe there are projects that you would like to have that aren't being funded now that you would like to go lobby for in Columbus. I mean, that's again paraphrasing.

A. Yeah, where I can get capital. The AEP system allows me to get capital and, one, keep it from being spent somewhere else in the zone and have it spent here, but it's all focused for me on economic development and reliability. Then we file certificates here at the Commission before we build those, for permission.

Q. And back to that and have it spent in Kentucky rather than someone else -- rather than somewhere else, how are the projects chosen to be built? I mean, are there -- I mean, if I think AEP transmission, I look at a great map that has a 765 line going across Northern Kentucky, that's, I think, one of the more 765 extra-high-voltage transmission lines than all other U.S. transmissions combined, I think is what your advertisement at the bottom of the article is.

A. Uh-huh.
Q. So I'm -- I guess I'm wondering in Kentucky where are those -- I mean, where are those transmission problems that --
A. Certainly. The system in Eastern Kentucky is -- obviously covers a broad area, and it's very old, so I know that I'm not familiar with the exact aspect of what's in the Hazard-Wooton that's before the Commission right now, but I know there's something that talks about the need for that, and really for me overall it's because we're so mountainous and so populated with trees, our SAIDI, our metric for measuring reliability is higher than it might be here in the middle of the state.
There's transmission fixes for that to improve the quality and reliability for customers, and that's something, if I can get the funds allocated to have that done here, and the Commission approves those with certificates, we would build those.
Q. How are the transmission revenues that flow back to Kentucky Power computed?
A. From a transmission --
Q. Is that also in the 6 percent?
A. From a transmission owner?
Q. As a transmission owner.

A. So as a transmission owner, if I am able to invest as Kentucky Power, that goes to -- and I make revenue from that, that goes to offset my overall return that I'm getting, so when I come here for a rate case that's all factored into customer rates, and if I get revenues from that, that's for the benefit of all the customers. They receive that benefit. That's all calculated in the overall rate base.

Q. How are the administrative costs of PJM allocated across? Is that the 6 percent?

A. The administrative costs are part of, I believe, that LSE OATT, it's all figured in there as well, so it goes into sort of that -- I say bucket because it's not a individual line item, it's multiple line items.

Mr. Vaughn can talk to you more about the PJM bill and everything that's on there, but I consider it a bucket of costs that go together.

Q. And I have one more question that's not OATT related, and I'm certain I've seen it somewhere, but the K through 12 subsidy, the $500,000, where is that being allocated now?

A. I think we're continuing exactly where it is right now, to the LGS customer. My understanding, it's a continuation of what we're doing.

COMMISSIONER MATHEWS: Okay. Thank you. That's all I have.

CHAIRMAN SCHMITT: No questions. Any follow-up?

REDIRECT EXAMINATION

By Mr. Overstreet:

MR. OVERSTREET: Thank you, Mr. Chairman.

Q. Mr. Satterwhite, Ms. Vinsel toward the end of last night's session, I think it was Staff Exhibit 1, showed you an article from, I think it was Sunday's Herald-Leader, and it had a map on that.

A. Yeah.

Q. And she asked you some questions. Have you had a chance to study that map better?

A. Yes, I have.

Q. And do you have anything you'd like to further address?

A. Yeah, I think yesterday when I was asked, in the article underneath it mentions the five highest poverty counties, and I was asked to confirm -- or multiple counties, I was asked to confirm that there were five in my service territory.

I looked down, and I saw these counties that I operate in and do things in, but there's actually only three of these, not five, that are actually in my service territory. That would be Clay County, where I have 17 customers; Martin County, where I have 4,831 customers; and Knott County, where I have 7,906 customers.

I'm in the other counties because my economic development efforts. I can't look at my territory alone. I go beyond the territory because anything for the region is good, is how I look at it, so I thought there were more counties in, but those are the three counties I was able to confirm definitely were involved.

And then I believe there was a question about -- the map is kind of hard to read about the pink, and can't see the clear lines of where the counties are, and I thought the question yesterday about being in pink dealt with the counties, the five counties that we had talked about in the article.

I would just point out, to make sure it's perfectly clear in case I was mishearing the question, if you look to the top of the map you see Greenup and Boyd County, I believe, that are in blue, so it's not every county in our jurisdiction that are in those pink categories, and my hope is through the economic development that we get more of these in the blue. Some excited announcements I think are coming soon.

Q. Okay. Thank you. And with regard to Staff Exhibit 5 and the $9 billion, AEP's plans to invest approximately $9 billion in its transmission business over the next three years, does AEP have transmission operations outside of PJM?

A. Yes.

Q. And would -- and where are those located?

A. I believe, you know, all over the country. The transmission, we have a PJM group that works in our own operating companies, operating territories, but I believe we're the largest transmission owner in the country as far as line miles, and we can operate anywhere, so we could be building transmission across the United States.

Q. Okay. And would you be building transmission in the AEP West companies?

A. Yes.

Q. And are they in the PJM footprint?

A. No, they are not.

Q. And to the extent that you build transmission, invest some of that $9 billion in those AEP West companies or otherwise outside the PJM footprint, would those investment costs flow back to Kentucky

Power?
A. No, they would not. In fact, there's a very large project, I don't know if the Commission is familiar with it, called the Wind Catcher Project that's in Oklahoma, Texas, and Louisiana, and the numbers are so large it's kind of astounding, but they're taking advantage of the tax credit, and I think it's, you know, $4 billion to build, but it's only going to cost half that actually to customers because of all the benefits and efficiencies it builds for moving renewable across that territory, so that's a big investment that the AEP corporation is making that doesn't fit this zone and would never impact Kentucky Power.
Q. And yesterday, Mr. Satterwhite, Mr. Gardner was asking you about Exhibit 1 to the settlement agreement and then the combined large general service, slash, public school line. Do you have that in front of you?
A. One second. Yes.
Q. And what does that settlement exhibit show as the base case settlement increase for the combined LGS/PS classes?
A. I'm looking at everything impacted, so I'm in the middle column, and that would be 5.4 percent.

Q. And still looking in that middle column, what does it show is the average base rate settlement increase for all classes?
A. 6.16 percent.
Q. So that's -- that is greater than the combined LGS/PS; is that correct?
A. Yes, correct.
Q. Okay. After Mr. Gardner asked you these questions, did you have an opportunity to ask somebody to pull apart the percentage increases for that combined LGS/PS class?
A. Yes.
Q. And what is the -- when you pull it apart and the PS class stands on its own, what is the increase that the PS class will receive through the settlement?
A. Yeah, so the 5.4 is sort of combining all those together, so I don't remember the exact number, but the PS class was above 6 percent, above the 6.16 percent average overall, and the LGS was around a little over 5 percent, somewhere between 5, but definitely lower than what the public service -- public school increase is going to be, and definitely lower than the average.
Q. Okay. Thank you. Yesterday I think it was

staff asked you some questions about Kentucky Power and your involvement in deciding whether Kentucky Power will be an RPM or FRR entity in the PJM. And you were a little foggy on that. Have you had a chance to update your understanding?

A. Yes. In fact, I knew that in the spring we talked about what I mentioned, should Kentucky Power go alone or go in the group, and I didn't know if that was -- I couldn't remember if that was what I was thinking about, FRR or RPM, or if that was something different.

I went back and looked through what I had in that time period. This was also during the major storm we had during that time period, so there were a lot of things happening, and I was actually able to find the documentation of what we look at. And we do tend to look in the spring. This one was a little bit later. This was in March.

Typically we try to look a little earlier to level set this as whether we should stay at FRR or become RPM as we look out into the future, so I was able to get that documentation of the recommendation made by our experts at the service corps of how we should look forward that we used to have the conversation about what we should decide to do.

Q. And based on that documentation, what was Kentucky -- what was your decision?
A. We decided to stay an FRR again.
Q. And was there another aspect of that analysis that you undertook?
A. Yeah, I asked a lot of questions because we are long in capacity, whether it makes more sense for me to sort of leave the other AEP companies behind and go alone, for lack of a better term, or stick with the other AEP companies as sort of a group.
So that was part of the discussion I raised to talk about, challenged our people to prove to me why. You know, is there a reason I should stay or should I go alone.
Recently PJM has put in the penalties that if you commit to something and don't meet that, there are high penalties for what you put into the capacity forward, so for this year I decided to stay with the group to manage that risk and give us some certainty, but that's something I made sure our group know I'm going to look at every year to see if it makes more sense to go alone with the length that we have.
Again, like I said, I hope to eat into that length with economic development, but there's an opportunity there to potentially go alone without the

others.

There's more risk involved for me if I do that, but it's a matter of like everything else we do, managing that risk and deciding if it makes sense to do that, but for this year we decided to stick in the group and to be decided next year if we're going to go alone or not.

Q. If Kentucky Power were not a member of PJM, would it incur OATT-like costs for transmission services outside of Kentucky Power's footprints?

A. My understanding is, and again, Mr. Vaughn is the expert on PJM, no matter -- you can't just operate and be insulated from costs from a transmission system, so whenever you want to access or access power that comes through the system, there's definitely cost.

If we were to leave PJM there's extreme costs of even leaving that as well, so that's part of the calculus too, to see if you're going to stay on the system or not.

Q. Okay. And yesterday there was some discussion about the Rockport Unit Power Agreement and the 12.16 ROE that's provided for by that agreement. Do you remember that discussion?

A. Yes.

Q. And did you remember me asking Mr. Smith if he had examined the Rockport Unit Power Agreement bills that were provided in response to KIUC 1-43 to determine whether, in fact, Kentucky Power paid an ROE component of 12.16 percent?
A. Yes.
Q. And as I understood his answer, it was yes, and in fact he had appended those bills as RCS-15. Do you remember that?
A. Yes.
Q. Did Kentucky Power, in fact, pay during the test year, as part of its Rockport Unit Power Agreement, an ROE component of 12.16 percent?
A. No.
Q. And what did it pay?
A. By my calculation it's about an 8.18 percent is what was actually charged to Kentucky Power.
Q. So if the agreement provides for a 12.16 percent ROE, why did it pay this approximately one-third less amount?
A. The 12.16 is what's embedded in the Unit Power Agreement as sort of the starting point. There's something called an operating ratio in there which can lower that, what's actually charged and what comes through on the bill to Kentucky Power.

The operating ratio represents this other construction going on at the time that lowers that 12.16 percent, and so in this case I believe part of the, what -- I believe it's what's in this case the Rockport scrubber was being built, that lowered the operating ratio for the units overall, and so by month if you look, add those up from once you apply that formula to the 12.16 starting spot, that's where you get the 8.18 percent.

So that's what's in the test year, so if we -- if the Commission were to approve the settlement agreement and the balance in there, that means for the next three years it wouldn't be 12.16, it would lock in that 8.18 percent because we're making as a base rate item, so we're taking the test year amount of the Rockport bill that has that 8.18 and making that the cost over the next three years. That's reflected in rates.

Q. And did you have an exhibit prepared showing that calculation?

A. Yeah, I asked someone because I thought there was confusion, so I asked someone to prepare for me what the 12.16 percent would reflect in the bill and also take the actuals, and they prepared that, and it shows that it's actually $1.8 million less than the

12.16 assumption if you take what actually is reflected on the bills.

MR. OVERSTREET: I'm going ask Mr. Gish to pass this out. Can I have this marked as -- I believe it's -- well --

CHAIRMAN SCHMITT: Yes.

MR. OVERSTREET: It would be --

CHAIRMAN SCHMITT: 8.

MR. OVERSTREET: 8, thank you.

(KPC Exhibit 8 marked for identification.)

Q. And do you have that in front of you, Mr. Satterwhite?

A. Better take your copy to make sure.

CHAIRMAN SCHMITT: I hate to butt in again, but let me ask Mr. Cook and Mr. Chandler, are you still okay on time?

MR. CHANDLER: I think it would all depend on Mr. Overstreet at this point, if he would be going much longer. I just don't know.

MR. OVERSTREET: No, and that's a very fair question, and the answer is no, I don't intend to go much longer.

Q. Mr. Satterwhite, do you have that in front of you?

A. Yes, I do.

Q. And in the interest of conserving time, can we go down to the bottom line that is grayed? It's called estimated monthly ROE?
A. Yeah.
Q. Do you see that?
A. Yes.
Q. And could you scan across there quickly and tell me what month had the highest ROE and what that was?
A. Sure. I believe that was March of '16, and that's a 9.12 ROE.
Q. Okay, and then what month had the lowest ROE?
A. That appears to be 764, and that's December of '16.
Q. And if you went two months --
A. 759, I'm sorry.
Q. Yeah.
A. Most recent, the last month of the test year 759, February '17.
Q. And then how did you arrive at your 8.18 percent?
A. I added up these numbers and divided by 12.
Q. Okay. Thank you.
MR. OVERSTREET: That's all I have, Your Honor.
CHAIRMAN SCHMITT: Mr. Kurtz?

MR. KURTZ: No questions, Your Honor.

CHAIRMAN SCHMITT: Any other -- any counsel from any of the other intervenors, any friendly cross-examination?

MR. GARDNER: Yes, sir. This is a brief question.

CHAIRMAN SCHMITT: You're not friendly, but you can go ahead.

MR. GARDNER: I'm sorry.

MR. OVERSTREET: Mr. Gardner is always friendly.

CHAIRMAN SCHMITT: You're hostile.

MR. GARDNER: I'm not usually described that way, but I'll take it.

RECROSS-EXAMINATION

By Mr. Gardner:

Q. Just a couple of sort of brief questions, Mr. Satterwhite. When you were referring to a question by Mr. Overstreet about KCUC Exhibit 4, you said you talked to someone who gave you some information about different percentages if LGS and PS were separated. Who was that person you talked to?

A. Yeah, Mr. Vaughn is really the person that can walk through all of these and give more details, so I reached out to him to see what the difference would

be if you separated those.
Q. Okay. And is Mr. Vaughn the same -- so he's the person who could say why in this exhibit LGS and PS are lumped together. He's the one I can talk to about that?
A. Correct.
Q. Okay. And one more similar question. In the settlement agreement itself, item 14, I believe. Item -- excuse me. Item 13 --
A. Before you get there, can I make sure my last answer was clear? They're grouped together as a result of the settlement agreement and the balance of all the parties. Mr. Vaughn can talk about what that means and how the allocations are in there, but overall that's a result of the settlement.
Q. Okay. Sure.
A. Just wanted to be clear.
Q. No, that's fine. That makes sense because you all didn't propose them as one class, did you?
A. Correct.
Q. Okay. I'm asking you about this one line at the end of 13 and 14, which I read to you before. (Reading) Tariff K-12 schools shall reflect rates for customers taking service under the tariff designed to produce annually in the aggregate 500,00 less, and

then it goes on, so that also is --
A. I'm sorry, where are you again? I was thinking about my last answer. Tell me where to go.
Q. Bottom of page 13 of the settlement agreement and the top of page 14 where it's basically talking about the 500,000 number?
A. Yes.
Q. That's also Mr. Vaughn?
A. Well, that -- what that is, it's a continuation of -- the reason why, I guess, is a continuation of the past and the settlement agreement. Mr. Vaughn can apply that and say how that's reflected in the numbers.
Q. Okay.
A. I believe in the initial presentation of the case we didn't pull out the schools separately, and that came out through the settlement discussion of continuing what we do right now.
Q. So again, the person to ask those questions in detail would be Mr. Vaughn?
A. If you want an understanding of unbundling the numbers and doing a lot of math and focusing on that and how it works, Mr. Vaughn is the one to talk to, yes.
Q. But you obviously thought it was important

enough to make that distinction from the stand just a few minutes go, what differences were, right?

A. Absolutely, I think it's -- yeah. I think that's important to show. There's been some concern about, from yourself, about the commercial customers, and I thought it was important to show that the schools are actually -- how that relates to what the LGS if you were to separate them.

Q. And had that, that number or approximate numbers that you gave in response, was that -- had that been previously filed in this case in some form or fashion, whether direct testimony or data responses, that you're aware of?

A. I believe you can get there by doing math on what Mr. Vaughn's provided. I think he has Exhibit 3 to his testimony. It just wasn't, you know, down to the total column, so I asked him to look through what he's provided and provide that to me.

Q. Okay. Thank you.

MR. GARDNER: That's all.

CHAIRMAN SCHMITT: Mr. Chandler?

RECROSS-EXAMINATION

By Mr. Chandler:

Q. Who determines -- under whose jurisdiction are the amounts that Kentucky Power pays for

transmission?
A. I'm not sure I understand your question.
Q. If Kentucky pays transmission costs under an open access transmission tariff, do individual state commissions determine those amounts or does FERC?
A. That's a FERC jurisdiction.
Q. So the amounts that the company estimate in 2018 of $14 million, those are amounts that are FERC jurisdictional; is that fair?
A. The oversight of those costs are FERC jurisdictional, correct.
Q. And those costs would be approved by FERC.
A. Yes.
Q. Through the tariffs.
A. That's who has jurisdiction for those, yes.
Q. And so the proposal by Kentucky Power, and in the stipulation, would be to pass along 80 percent of those costs one for one through tariff PPA; is that correct?
A. It's delayed a little bit. The way we have it we don't reset that until later in the year, but it's to track those, and we don't recover 20 percent of those costs, but 80 percent, yes, would come in through the tariff PPA.
Q. And so when you file that with the Commission,

you just tell them how much those costs were, here's an 80 percent number, these are the rates we're putting into effect with tariff PPA, and you update your tariffs with the Commission?

A. Essentially it's a little deeper than that. I mean, there's these costs in this rate case right now that's provided as part of this. It's in the record. That can be looked at to make sure that those are allocated properly, that those really are the transmission costs, that something else isn't in there, so there's some review by the Commission, but someone can challenge those costs, other than costs that aren't supposed to be in there, that would happen at FERC.

Q. So the Commission would just look at them and say these are OATT charges, they're in the PPA. That's essentially what your understanding would be.

A. And are these the costs that are eligible to fit in here? That's what's part of this case right now. Are these the appropriate costs to fit in here, yes.

Q. Are these the OATT charges. Thank you.

You mentioned earlier that the -- I think your quote was that the nature of a test year is lag, that that's the nature of a test year, is lag?

A. The point I was trying to make is when we're talking about earning an ROE, when you have a historic test year, naturally fit in is some lag to that because expenses can go up in that year, unless you have that's known, fixed, and measurable, or you don't have a tracker, you don't tend to update those unless you do a future test year, so my point is as a base standard typically there's some lag involved in what you're not recovering.

Q. That's what I wanted to clarify. I think you had just mentioned test year. You hadn't distinguished between historical and fully forecasted or a forecasted test year, so if you had requested -- in determining what the best way for Kentucky Power to go about recovering these, and I'm talking about the 2018, the $14 million amount of OATT charges you were referring to, you could have filed a fully forecasted test year and included them into the amount and determined what rates were, or you could have filed a historical test year and then asked for this tracker to pass through those costs, and you chose the latter, correct?

A. Correct. And as we've seen from the updates we've had so far --

Q. So --

A. -- it was assumed at a higher level, and now we know it's going to be a lower level, so I think it's beared out the tracking was the appropriate way.

Q. You mentioned that it's hard to compare the folks that work at a utility with other, maybe with other industries in the region because it's more of a national -- everybody -- everybody in the United States is served by electricity, I guess, basically. It's a national thing. You have 300 something million people, and 300 something million people have electricity. Right? Is that kind of your --

A. Yeah, I think the skills translate anywhere in the country, and so when we look at benefits and pay, well, we think more of a national standard.

Q. Do you have KCUC's Exhibit 3 available?

A. Yes.

Q. And do you mind to turn to the page, and I believe it's unnumbered, 1, 2, 3, 4, page 8?

A. What I have is Appalachian Sky on top? The picture.

Q. Yeah, let's go back one, yes.

A. Okay, the one with the picture on it, yes, of the coal miner.

Q. So I'm going to ask you about some of these, and I just want to confirm that what I say, that

these are, I guess, attributes of the workforce in Eastern Kentucky that you market for potential employers, correct?
A. Correct, and this was focused on the defense and aerospace industry.
Q. Right. So you mentioned an average desired hourly wage of $17, correct?
A. Yeah, we did a workforce study. That's where all this stuff comes from.
Q. Okay.
A. And this was a study that was produced that gave us these documents.
Q. Okay. And you noted that at the bottom two they have skills in manufacturing, correct?
A. Yes.
Q. And the bottom three, again, wood product manufacturing, three in manufacturing. Over to the right you have one that states that they're highly skilled in multiple trades?
A. Yes.
Q. And they're mechanically inclined, but they're at the top.
A. Yes.
Q. Okay. Does Kentucky Power have the opportunity to file taxes on a stand-alone basis or in the

aggregate with AEP?
A. I'll again defer you to our Mark Pyle, our tax expert, to talk more about what we did.
Q. That was only going to be my question. Do you-all have the option to either file on a stand-alone basis or file a joint return with AEP?
A. I'm not sure.
Q. You mentioned earlier, and you went back to the questions I had asked regarding studies, and you noted that the company had provided a lot of information. Not maybe specifically studies, and I think that's a distinction that you've made before, correct?
A. Correct. It's what you consider study is what I consider study. I just wanted to make sure we were talking the same language.
Q. And so you had mentioned that you believe that you've provided a lot of information, but not necessarily maybe studies per my definition.
A. Not knowing what your definition is, I wanted to make sure I was just being clear. I know Mr. Carlin has a number of studies that he relies on for the competitiveness of our wages and our pensions, and I was pointing out, as you had said, there's lots of documents and lots of numbers in this

case, and you had asked what the evidence is to support those, and I was pointing out all those documents and the fleet of witnesses that we provided here to explain what those are.

So I didn't know if you would consider those studies, but I was just saying there's lots of evidence in the record to support all that information, which really are, as you were saying, we have to look at expenses. Those expenses are supported by a number of witnesses.

Q. And yesterday I asked if you had conducted a study specifically about whether customers could afford a rate increase, either in the stipulated amount or the application amount, correct?

A. Correct.

Q. And you had -- and your answer was not a study, specifically a study to that effect.

A. Right. That was my answer when I talked about, and what I was trying to make sure wasn't confusing, we deal with customers all the time. It's certainly something we're sensitive to, but there wasn't a formal study how you were asking that's been done.

Q. So where in the application did you provide information that shows that customers could afford the increase?

A. Again, I don't think we did a study that said that. I think what we talked about is the testimony of myself and other witnesses that talked about how, you know, there's a regulatory compact, and utility has to operate, and what we've done to sort of lower that amount so that we can continue to operate and have an opportunity to get our return without having the price tag be higher.

Examples I used were I called everybody in, tried to skinny the case down more. Mr. Phillips, I brought him in and said, again, you're allowed to spend $27 million. Do you have to spend $27 million?

I think the settlement and the stipulation, as your own witness Mr. Smith testified to, was very creative to look in the short term for customer affordability and defer things down the road.

We're not crazy about deferrals, we try to minimize the level of that deferral, but we realize, just like the customers in Hazard that spoke at the public hearing said, is there something you can do just to push this off a little bit. We're focused on that to try to minimize the impact right away as we all work together to change the denominator that we talked about.

So that's an example of some of the evidence of

what we tried to do to address the affordability. We have to have utility service. The question is what do we do to minimize and make that affordable, and the only thing I'd add on to that is what we're doing in economic development is our other effort to make it more affordable. The more jobs we bring, the more industry we bring to the territory help that as well.
Q. Right, but that entire answer was about what you did to determine what the amount the company needed was, what the level of expenses or return would be. I'm asking, and just to clarify, did you provide any information about whatever level was determined, whether customers would actually be able to pay that amount?
A. We didn't do the study that you're asking for. The answer I gave was --
Q. I'm asking for information, just to be clear.
A. I guess I'm not sure what you're asking for.
Q. Well, yesterday I asked for studies, and you told me you provided information. Now I'm asking for information, and you're saying that you didn't do studies. So I just want to clarify, if you did provide information, where can I find it in the application?
A. Yeah, I think we're kind of stuck in a circle

on studies. I mean, I guess I testified to the information we did look at. There wasn't a witness that testified exactly to the point that you're talking about, but I think if you take everything that we've done overall with our application, which is supposed to just support the expenses that we have, and then the other testimony we have, how that impacts the region, it will show you that we're a leader in the region focused on affordability for customers.

Q. You mentioned that you have 168,000 customers, correct?

A. Correct. That's the customer account.

Q. Not trying to catch you up, but roughly 168,000 accounts?

A. Correct.

Q. But you mentioned that Kentucky Power itself doesn't have someone at PJM to focus on PJM, that it's somebody at AEP.

A. We have the benefit of having experts at AEP that we can share the costs with all the other operating companies, but they're available to me at any moment.

You know, just last night I had a question. I asked somebody. They're out in Oklahoma participating in another proceeding, and they got back to me at 2:00 in the morning with information, so it's a real advantage we have.

Q. Can you remind me how many employees Kentucky Power has?

A. We have about, I believe it's 500 -- around 550 direct employees, and we have a little over 570 contractors, I believe.

Q. And when you mentioned that you said you had a team, or you asked people to look into going -- basically going it alone if you were to go or transition, Kentucky Power was transition from FRR to RPM, you had someone look at that on a stand-alone basis rather than as the AEP zone, correct?

A. Those are the questions I asked. That's what I thought was proper to ask as we looked whether we're going to be FRR or RPM, and it's a deeper question of whether we want to go alone with what we put into the capacity market.

Q. And who did you ask that of?

A. The experts at the AEP Service Corps to run that information for me.

Q. Okay. You mentioned the Hazard-Wooton line. Do you know if that's a baseline or a supplemental project for Kentucky Power?

A. No. Sorry.
Q. Do you know who I can ask for that?
A. Probably Mr. Wohnhas in charge of my regulatory group. Mr. Vaughn might know too.
Q. And you were able to look at some things last night, it seems like. Were you able to determine whether -- what the amounts on the annual reports that I provided, what those represented?
A. I didn't look any deeper into that exhibit.
Q. Okay.
A. I left this book here.
Q. Okay. So you got answers -- okay.

MR. CHANDLER: That's all the questions we have.

CHAIRMAN SCHMITT: Thank you.

Ms. Vinsel?

MS. VINSEL: Yes. Staff has a few questions.

RECROSS-EXAMINATION

By Ms. Vinsel:

MS. VINSEL: First, because you did provide that answer that I had asked for a written data request, we withdraw that particular data request.

MR. OVERSTREET: Ms. Vinsel, I'm sorry, which one?

MS. VINSEL: Oh, I'm sorry, yes. Mentally thinking of something else. The data request in regard to when a decision was last made.

MR. OVERSTREET: Oh, okay, thank you.

MS. VINSEL: When it was last adopted regarding staying at PJM as FRR or RPM.

MR. OVERSTREET: Sure.

Q. And when you mentioned this took place in the spring, are there any written reports or PowerPoint presentations or memorandum addressing Kentucky Power's continued participation in PJM as FRR versus RPM?

A. Yeah, when I referred or when I asked for the document I had it with me. It's the report that came out making the recommendation about what we should do. That sort of keyed up the conversation that I have, so I have that report.

Q. And would you be willing to provide that to us as a post-hearing data request?

A. Absolutely.

MR. OVERSTREET: No. I can do that right now.

MS. VINSEL: Okay. Even better.

A. Just to be clear, it's marked confidential because as we talk about it it's considered confidential, but I think we -- now that the decision has been made it's okay to share that analysis, but it does have a confidential marking.

Q. So it doesn't need to be filed as confidential?

MR. OVERSTREET: It is not confidential.

A. Anymore.

MR. OVERSTREET: Anymore.

Q. Anymore, okay.

A. But each year as we go through the process it's confidential until the decision is made.

MR. OVERSTREET: That would be number 9?

CHAIRMAN SCHMITT: Number 9.

(KPCO Exhibit 9 marked for identification.)

Q. While the remainder of these are being passed out I'll ask my next question.

A. Okay.

Q. You mentioned part of that discussion was whether or not Kentucky Power would go it alone, in your own words. When you say "go it alone," did you mean that Kentucky Power would leave PJM, or was a consideration whether Kentucky Power would leave the Power Coordination Agreement with other AEP entities?

A. Good clarification, thank you. It's the Power Coordination Agreement. It's looking at the assets that I have as Kentucky Power and deciding whether in the forward market it's better to offer the capacity solely by myself or stay under the protection of the coordination agreement that would cover me in case there's penalties, in case we should fall short.

Q. Thank you. And following up on one of Commissioner Mathews's questions regarding PJM, does PJM determine the amount of revenue transmissions received by Kentucky Power, or does PJM only determine the amount of transmission revenues for the AEP zone, and then AEP allocates the amount to its affiliates?

A. Not sure I understand the question. Let me answer it this way and see if that -- if we're talking past each other or not.

PJM is the jurisdictional entity that oversees what's done. They don't pick where -- other than the mandated projects, they don't say we've decided that Kentucky is going to do this much or Ohio or Pennsylvania is going to make this much investment. That's just the clearinghouse for the stakeholder process for reviewing that, but they don't dictate where that's going to be for a number of the projects, other than the mandated ones. Does that help?

Q. Perhaps not quite.

A. Okay.

Q. Transmission revenues get allocated throughout

the PJM footprint. Would that be correct?
A. From the transmission owner point? There's costs that come from, like, the LSE.
Q. Yes.
A. That as a transmission owner, as I make an investment there's a revenue that comes along with the decision to make that investment. There's a return on that, so that comes from the nature of making the investment.
Q. So I think we may be lining up here. So any transmission revenues are tied only to those investments. There's no particular larger allocation? Is that what you're saying?
A. I believe so. If I'm getting over my skis a little bit Mr. Vaughn can clarify, but yeah, the revenues that come from are from the investments made in the transmission system.
Q. I will follow up with Mr. Vaughn on this question.
A. Thank you.

MS. VINSEL: And with that, Commission has no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero?

VICE-CHAIRMAN CICERO: No further questions.

CHAIRMAN SCHMITT: Commissioner Mathews?

COMMISSIONER MATHEWS: No.

CHAIRMAN SCHMITT: I just have a couple of -- I don't know if they're questions or statements.

EXAMINATION

By Chairman Schmitt:

Q. Mr. Satterwhite, in your testimony I guess on redirect or re-redirect by Mr. Overstreet, you talked about the, I guess, poverty levels in your service area, and you seem to indicate that really you had two counties at least you referred to, Boyd County and Greenup County, which were not as, I guess, economically depressed as the rest of the area, but only three of the 30 counties, poorest counties in the United States, were in your service area, and of those you indicated Clay County, you only had 13 customers, seven customers or something?

A. Seventeen.

Q. In any event, I would like to point out to you or ask you if you've seen the testimony of Roger McCann, the executive director of Community Action Kentucky, at page 7, and I'll just read part of it and ask your thoughts on it.

At page 7, quote, (Reading) Many of these counties -- and it lists every county and the poverty rate, and they go from a low of 19.7 percent in

Carter County to a high of 42.4 percent in Owsley County, and most of the counties are like Knott 33.8, Leslie 33.7 percent, Fletcher 33.2, Clay 46.8, Floyd County 29.5 percent.

But it says, (Reading) Many of these counties report some of the highest poverty rates in Kentucky. 18 counties served by Kentucky Power Company report poverty rates above 20 percent, a rate that the census bureau defines as extremely high. 19 of the 20 counties have reported poverty rates higher than Kentucky's poverty rate of 18.3 percent. Every county in Kentucky Power's territory is in the highest 50 percent of poverty rate for Kentucky. Not only are these some of the poorest counties in Kentucky, but they are also ranked as the poorest nationwide in a state that is 47th in the highest poverty rates. Every county in Kentucky Power Company's service territory surpasses the 2015 national poverty rate of 14.7 percent. These counties are in the top 50 percent of highest poverty rates of the 3,142 counties nationwide included in the site data.

Do you have any reason to believe that those figures aren't correct?

A. I haven't checked the sources. I'm not going to say that there's not an economic situation and poverty in my territory. Absolutely is. I know Greenup County and Boyd County, I don't know if that was considered in those numbers or if the old data.

Q. Well, that was considered in those numbers, and they also have poverty rates that are higher than the national average.

A. Right. What I was going to say is there's been some development there in the recent past since 2015. I'm not sure when the dates were, but I don't want to argue that, you know, to make it seem like there's not poverty issues in Eastern Kentucky because there absolutely are.

I think my job is to make sure I'm running a utility so we don't further exacerbate the problem by not having power to these people. We want to make sure we have safe, reliable service, and my job is to sort of do what I've done in this case, to sort of skinny it down to make sure I can provide that.

And then beyond that, you know, I can't solve every social issue by being the electric company, but I have a duty to make sure I'm responsible in doing something, and we're doing that with our economic development efforts to make sure we can really help change all of this.

And we've done that recently. There's been success in the past. You'll hear about success in the future. So I'm focused on changing that. It's a reality, and we're very sensitive to it, and I realize any increase in any costs for my customers is difficult, and so I take that personally, and when we make decisions we want to make sure we're making the best decisions, but at the end of the day under the regulatory compact I have to provide safe, reliable service, and I think that's what we provided to the Commission to make sure we can take care of this community.

Q. I know in your -- in your testimony relative to the, I guess, the Kentucky Economic Development Surcharge you made a statement that, and I know that basically it's changed a little, but you made the statement that the -- to the effect that the charge on customers' meters gave the rate payer, the residential rate payer, the opportunity to participate or partner along with Kentucky Power in economic development in the area, but I would suggest to you that some of these rate payers are old, disabled people on fixed incomes and Social Security, perhaps shouldn't feel like or don't feel like they ought to bear the burden of participating in economic -- in economic development, and I know it's only that you have the 10 cent per meter charge, but I noticed I think in the HEAP program the per meter charge maybe has been 15 cents, and according to Mr. McCann in his testimony, that hasn't been raised since 2006, in 11 years.

And the proposal was in your proposal, or in your application, to raise that meter charge to 20-cents per meter. Is that still -- it wasn't addressed in the settlement, but is that -- what is your position now?

A. Let me check because I believe it was 5 cents before, and it's being raised to 10.

Q. I was thinking it was maybe 15, but whatever it was, let me ask you this: What would Kentucky Power's position be if the Commission determined to eliminate the 10 cent per meter charge for the economic development surcharge and add that on to HEAP? Would Kentucky Power be willing to match that additional HEAP surcharge? It wouldn't cost it any more money one way or the other.

A. Interesting. Would the shareholder match switch as well?

Q. Shareholder match. Shareholder match. It just takes it from economic development for residential customers only and puts it on to the HEAP program to provide additional funds for individuals who have trouble paying their bills, poverty level and below.

A. Yeah, if the Commission wanted to make hopefully the only change to the balance of the settlement agreement that we have, but switch something from an economic development over to the HEAP, I think as long as, you know, the shareholder matching moved as well with the same and didn't still exist in the economic development side, I think that's something that I could be comfortable with as the president to provide more benefit.

That would have lower dollars for the economic development efforts that we're trying to do that have an impact on that, but I think that's something that if the Commission wanted to make that change it wouldn't disturb the overall balance, I think, that the parties have put into the settlement agreement.

Q. Well, the reason too, and I don't know if you've seen these statistics because they're in the evidence in the case, that Kentucky Power has approximately 136,344 residential customers. 26.22 percent of those are at or below the poverty level. That's 35,756 customers of Kentucky Power. 35,756 out of 136 are at or below the poverty level, and during the year 2016 Kentucky Power disconnected 11,438 customers because of their inability to pay their bills, and all I'm suggesting is maybe there's some help somewhere for some of these people who actually during the winter months have a life or death decision on whether they can make their power bill payment or not.

A. Yeah, I understand what you're saying, and to the senior citizens, that's something that came up in our community advisory panels as we talked about rates overall and the impact on senior citizens.

What I would add is that I talk to a lot of grandparents who talk about help rebuild the economy here so my grandkids come home, you know, there's more work around here, so I think it impacts everyone.

The uniqueness of the position we have with the economic development rider and the HEAP rider is it's a guaranteed spend. A lot of utilities can do a lot of things in their test year, and then they don't do it in future years.

Because it's earmarked and approved by this Commission, whether it's HEAP or economic development, it's guaranteeing that I can't move that money somewhere else because I have a need somewhere else. It's locking that in, so I think the path you're going down is locking more in.

Might be interested to talk to Steve Sharp. We've talked to the agencies in the past, as I mentioned before, about trying to find those customers that might need a month or two versus I don't know if they're handcuffed when someone comes to them, and they have to pay the entire bill for someone that they know might be a serial person that doesn't pay their bill, so there might be some room in there, but I think we can continue to work with the agencies if there's more funds available maybe to make sure we're helping those that need help for a month or two versus those that maybe are just unwilling to pay their bill.

CHAIRMAN SCHMITT: Thank you. I have no further questions.

Commissioner Mathews?

COMMISSIONER MATHEWS: Sorry.

REEXAMINATION

By Commissioner Mathews:

Q. The FRR versus RPM, the information made me have more questions. I apologize. I know we would like a break, and I know the Attorney General's folks wanted to get their witness on the stand, but my question is: Was this decision made with all four companies as a whole, or did you -- because it doesn't seem that it was evaluated as Kentucky Power separated out from the other four because the language talks to it's recommended that all four elect FRR, if any or all were to -- the PJM rules would require they have to stay for five planning years. You said yesterday that once you made the decision you didn't go back.

A. Correct.

Q. But it just seems like forever.

A. Yes.

Q. And it keeps saying by combining them into a plan, the company's capacity position can be managed collectively. My question is, and you are welcome to put this in a post-hearing data request, what are the reserve margins of the other three companies, and are they winter or summer peaking, and how would that change a decision about Kentucky Power versus the other three?

A. Yeah. I'll give the exact information in a post-hearing data request for you. I believe APCO is winter peak as well. I think they might be because they're a lot like us, so we'll get the other information in that post-hearing data request, but this is what -- the operating committee, which has the presidents of every one of those companies. I asked a lot of questions before this to kind of analyze what my position overall was to see how that related.

Q. Just I would ask that.

A. No problem.

CHAIRMAN SCHMITT: Mr. Overstreet?

MR. OVERSTREET: No, no further.

CHAIRMAN SCHMITT: Anyone else any questions? If not, let's take a ten minute break until 11:15, and then Mr. Chandler and Mr. Cook can call their witnesses.

MR. OVERSTREET: I think we indicated Dr. Woolridge would be the next witness.

(Recess from 11:02 a.m. to 11:17 a.m.)

CHAIRMAN SCHMITT: We are now back on the record.

Mr. Chandler, as I understand it, we're taking one of your witnesses out of order; is that correct?

MR. CHANDLER: That's right, Chairman.

CHAIRMAN SCHMITT: Do you have anything else to bring before the Commission?

MR. CHANDLER: I do. I'd like to move to introduce AG Exhibit 1 through 5.

CHAIRMAN SCHMITT: Any objection?

MR. OVERSTREET: I would have an objection to number 4, which was the -- I think it's number 4. It was the document that Mr. Satterwhite was unsure of, and so could we just hold up on its admission until Mr. Wohnhas has a chance to testify about it?

CHAIRMAN SCHMITT: Do you have any objection to that?

MR. CHANDLER: I don't have any objection. I just note that I asked about it yesterday before lunch, and he obviously was able to check on quite a few things, and was unable to look into this specific one, but I have no problem asking Mr. -- I think Mr. Cook will ask questions of it and ask to be introduced at a later time. That's fine.

CHAIRMAN SCHMITT: Okay. And let's just -- let's not forget and leave it unaddressed if we otherwise forget it, so but we'll rule on it. I'll let 1 through 5 in, with the exception of 4, and we'll address 4 at a later date.

Do you also have something?

(AG Exhibits 1, 2, 3, and 5 admitted.)

MR. OVERSTREET: Yes, I move the admission of Exhibits 8 and 9.

CHAIRMAN SCHMITT: Any objection, AG?

MR. COOK: No.

CHAIRMAN SCHMITT: So I'll let those be admitted into evidence.

(KPCO Exhibits 8 and 9 admitted.)

CHAIRMAN SCHMITT: Okay. Sir, will you please stand and raise your right hand?

J. RANDALL WOOLRIDGE, PH.D., called by the Kentucky Attorney General, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Chandler:

CHAIRMAN SCHMITT: Please be seated.

Mr. Cook, Mr. Chandler, whoever is asking questions, you may proceed.

MR. CHANDLER: Thank you, Chairman.

Q. Dr. Woolridge, can you please state your name for the record?

A. My name is the initial J. Randall Woolridge, and that's spelled W-O-O-L-R-I-D-G-E.

Q. And with whom are you employed, and what is your position there?

A. I'm a professor of finance at the Pennsylvania State University.

Q. And are you the same Dr. J. Randall Woolridge who caused to be filed prefiled direct testimony and

certain data requests in this case?
A. I am.
Q. Do you have any additions or corrections to your testimony?
A. No.
Q. And if we were to ask you today the same questions, would your responses be the same?
A. Yes.
MR. CHANDLER: The witness is tendered, Mr. Chairman.
CHAIRMAN SCHMITT: Thank you. Cross-examination?
MR. OVERSTREET: Mr. Garcia will do so, Your Honor.
MR. GARCIA: Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Garcia:
Q. Good morning, Dr. Woolridge. How are you?
A. Good morning. Good to see you again.
Q. Likewise. I would like to start with some basic building blocks. Would you agree that a riskier investment requires a higher ROE than one that is comparably lower risk investment?
A. As a general concept, yes.
Q. And other things being equal, a company with a

capital structure with more equity and less debt capital is comparably less risky, correct?
A. Yes, everything else equal.
Q. Right. And correspondingly, one that has a capital structure with less equity and more debt is comparably more risky, correct?
A. Yes.
Q. Okay. Can you turn to credit ratings -- are you familiar with Moody's long-term credit rating such as A3, Baa2, and so forth?
A. Yes, I am.
MR. GARCIA: And, Your Honor, before we went on the record I tendered to Dr. Woolridge two documents that I would like to circulate and mark as exhibits, please.
CHAIRMAN SCHMITT: Yes. Would these be sequentially 10 and 11?
MR. OVERSTREET: Yes, Your Honor.
MR. GARCIA: Thank you, Your Honor.
(KPC Exhibits 10 and 11 marked for identification.)
Q. And, Dr. Woolridge, if I may --
CHAIRMAN SCHMITT: Let's make sure Kentucky Utilities would be 10 and Louisville Gas & Electric 11?

MR. GARCIA: Thank you, Your Honor. That's correct.

Q. Dr. Woolridge, if I can ask you, would you agree that if you were going to compare the credit ratings in the Moody scale from, say, A3, if you were to compare that with Baa2, that A3 represents a credit rating that is stronger and therefore implies less risk, less --

A. Yes, it would be -- according to Moody's it would be two notches. In other words, you go from A3 to Baa1 in Moody's and then Baa2, yes.

Q. And the less risky investment of the two would be the A3 --

A. Yes.

Q. -- investment, and the riskier investment would be Moody's Baa2?

A. Yes.

Q. Thank you. Dr. Woolridge, are you familiar with the documents that have been marked as Kentucky Power Exhibits 10 and 11?

A. No.

Q. Those are the credit opinions from Moody's Investor Service --

A. Oh, okay.

Q. -- for Kentucky Utilities is number 10, and for

Louisville Gas & Electric it's number 11?
A. Sorry, yes. I'm sorry, yes, I am.
Q. Okay. And would you agree that these documents indicate that both for Kentucky Utilities and for Louisville Gas & Electric, the Moody's long-term credit rating is A3?
A. Yes.
Q. Okay. Were you a witness in the most recent case, base case that Kentucky Utilities and Louisville Gas & Electric had here in Kentucky?
A. I was. I was.
Q. Do you recall whether the capital structure for these entities was more heavily equity or more heavily debt?
A. As I remember, as the companies proposed they had a higher common equity ratio than in this case.
Q. Okay. And if -- just to clarify, that would imply that they are a less risky investment than a company that has a capital structure more heavily debt, correct?
A. Yeah. Again, assuming all else equal.
Q. That's correct.
A. Yes.
Q. Is there a benefit for customers from a cost point of view for a company to have less equity and

more debt capital than if it was otherwise, from the point of view of the impact of, say, every basis point in the ROE?

A. I mean, there's a tradeoff. If there's more debt, then your overall cost of capital can be lower, but it may mean that because you have less equity and more debt that you have a lower credit rating, and as a result, you know, there's a tradeoff in terms of the cost of capital versus your cost of, say, debt and equity, and it's just, you know, it's kind of a normal tradeoff when you're talking about how you capitalize a business.

MR. GARCIA: Thank you, Your Honor. That's the cross-examination that I have at this point, and I would move for the admission of exhibits -- Kentucky Power Exhibits 10 and 11.

CHAIRMAN SCHMITT: Any objections?

Let them be admitted as Kentucky Power Exhibits 10 and 11.

(KPCO Exhibits 10 and 11 admitted.)

CHAIRMAN SCHMITT: Any cross-examination from staff?

MR. NGUYEN: Staff does, Your Honor, yes. Just a few.

CHAIRMAN SCHMITT: Any other -- any other party have any cross-examination of this witness?

You may proceed.

MR. NGUYEN: Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Nguyen:

Q. Good morning, Dr. Woolridge.

A. Good morning.

Q. I take it that you've read Dr. McKenzie's rebuttal testimony; is that correct?

A. Excuse me?

Q. I take it that you've read Dr. McKenzie's rebuttal testimony?

A. I have.

Q. Okay. And do you recall that on his rebuttal testimony that he suggested that the ROE that you had recommended would be the lowest in recent history. Do you recall that statement?

A. I don't recall exactly that statement. I would say, given yesterday, there was an order in Illinois for Ameren Illinois, and they came in at 8.4 percent ROE, so at least, I mean, as of yesterday it wasn't the lowest ROE.

I said in my testimony, my -- my ROE, recommended ROE is low, and it's low relative to -- you know, because interest rates have been falling, capital costs have been low. Despite forecasts for years that interest rates were going up, interest rates have stayed low.

I think that's why you see authorized returns have been about 9.6 percent for the last three years for electric utilities, as it turns out, but I think people believe all these forecasted interest rates are going up, and as I always say, if you can forecast interest rates you run a hedge fund and you live on a yacht, you know. No one can forecast interest rates.

So anyhow, I think that's why, but it is low, and I just believe, you know, authorized returns have been stuck because of the belief that interest rates are always going up, and but after yesterday, no, there's one lower than me.

Q. Do you know what case number for that Illinois proceeding is?

A. I do not know. It was yesterday. The Illinois Commerce Commission came out with a 8.4 percent ROE.

Q. Okay. As a post-hearing data request could I request that you obtain and provide that case number?

A. Okay.

Q. That docket number or the ICC?

A. Okay.

Q. Are you familiar with that proceeding at all?
A. Just what I've read about it.
Q. Okay. Are you aware if Illinois has a formula rate process?
A. They do. They do.
Q. And outside of the interest rates, is it your belief that the risks associated with Kentucky Power and investors' expectations supports an ROE of 8.6 percent?
A. In my testimony I look at the credit ratings of Kentucky Power relative to the proxy groups. Kentucky Power is -- in terms of they have an A minus S&P rating and Baa2. Moody's, I look at the average of the proxy groups is BBB plus for S&P, Baa1 for Moody's, so their S&P rating is one notch above it, their Moody's rating is one notch below it, so I say they're kind of similar. So I assume that credit ratings reflect risk.
I mean, there's different risk measures. The trouble is a lot of them you can't attribute to Kentucky Power because they're all based on stock market measures, so credit ratings are the one risk measure you can use you can compare with other companies.
Q. So what would the impact on investors'

expectations if the Commission were to accept the recommendation of an 8.6 percent for Kentucky Power?

A. Well, I mean, there is a couple things. I mentioned in my testimony when I summarized my results, the whole thing, does it meet Hope and Bluefield standards. Okay? I point out, look, electric utilities in recent years have been earning about a 9 percent ROE, okay.

Now, with a 9 percent ROE, if you look at the graph I show their credit ratings have gone up. The percent of upgrades in the last three years have been like 70 percent upgrades, so their credit ratings are going up with a 9 percent ROE.

I said, number two, they're raising $50 billion a year in capital with about a 9 percent ROE, and number three, you look at their stock prices, I mean, they're not bitcoins, but they're doing awfully well. They're hanging with the S&P 500. So a return of about, you know, 9 percent is close to where it should be.

I mean, you know, Mr. Baudino, the industrials, he was 8.85. He's a little higher than me, but still, I mean, that's -- you know, there's a lot of market indicators suggest that capital costs are low, whether it's interest rates, whether the performance of utility stocks earning a 9 percent ROE, there's a lot of indicators that suggest that, you know, about 9 percent is about what it should be.

Q. So basically you're saying that it would not have a detrimental impact for Kentucky Power at 8.6 percent.

A. Well, no, I mean, yesterday Ameren Illinois got 8.4 percent. They have credit ratings which are about in line, maybe a little above Kentucky Power, so, I mean, 8.4 percent, I mean, and last year they were at 8.6 percent or something like that. I forget.

I mean, they kind of redo these yearly, but, you know, they have good investment grade credit ratings which are in line with other electric utilities. Like I say, electric utilities on average BBB plus from S&P, Baa1 from Moody's.

Q. So in Illinois, you're saying in Illinois they would recalculate the ROE on an annual basis?

A. They have annual cases where they go through and redo the ROE.

Q. Okay. And for Ameren last year was 8 point --

A. I forget.

Q. -- six percent, you said?

A. It was slightly higher. I forget exactly what it was. 30-year treasuries, it's tied in weight to 30-year treasuries, and they were a little higher last year.

Q. Okay. So do you support an ROE of 8.6 percent given recent indications by the Federal Reserve of a December interest rate increase, which could in turn imply higher long-term capital costs?

A. I explained my testimony. The difference between short-term interest rates, which the Fed runs, and long-term interest rates. Short-term interest rates can be influenced by the Fed. The Fed has increased the discount rate. I explained my testimony four times in the last year.

What has happened to long-term interest rates? They've fallen. Beginning of the year they were about 3 percent or so, 3.2 percent. Today they trade -- 30-year treasuries are trading at 2.7 percent, so that's about a 50 basis points decline in long-term interest rates.

We're interested in long-term capital costs. The Fed can increase short-term rates, and they're going to impact short-term rates, but long-term rates are driven by two factors: Economic growth, projected economic growth, and expected inflation, and especially inflation remains low. Economic growth has picked up the last two quarters or two, so but still, long-term investors see muted economic growth.

As a result, you know, that's why long-term rates have declined 50 base points despite the Fed increasing short-term rates.

Q. Okay. So given that, you don't see any impact with respect to a potential increase in -- by the Federal Reserve in its interest rate on your recommended 8.6 ROE.

A. The Federal Reserve is increasing short-term rates. Investors know that the same time they're starting to reduce the size of their balance sheet, and long-term treasures are still 2.7 percent.

Q. Okay. So --

A. I mean, if investors -- as you know, there's an inverse relationship between interest rates and bond prices. If interest rates go up bond prices go down, okay. So what would happen?

If investors expected long-term interest rates to go from 2.7 to 4 percent, the price of those bonds has to go down, so as an investor I wouldn't buy a 30-year treasury at 2.7 percent today if I thought interest rates were going to 3 and a half to 4 percent because the price of my bond would decline

20 to 30 percent. Investors don't invest with the expectation of having a negative return.

So in the end the market says this is what we think long-term rates should be based on inflation and expected growth. The Fed is going to increase the short-term rates, we know that, but so far in the last year they've increased it a full percent, and long-term rates have come down.

Q. If I can refer you to Dr. McKenzie's rebuttal testimony. Do you have that, by chance?

A. I do not have that.

MR. NGUYEN: Do you have --

MR. CHANDLER: We don't have a copy.

Q. Let me provide you with it. Well, let me try to walk you through it without having to refer to specifically, to his rebuttal.

Do you recall his testimony with respect to how ROEs are implied by the expected earnings approach with respect to the utility proxy group? Do you recall that?

A. Yes, yes.

Q. Okay. And --

MR. CHANDLER: Chairman, may I?

CHAIRMAN SCHMITT: Yes, you may.

Q. This may be a little bit easier if you can refer to the rebuttal testimony. On page 12, lines 14 through 18.

A. Okay. Yes.

Q. Okay. Did you have a chance to read that?

A. Yes.

Q. Okay. So what is your opinion on Dr. McKenzie's analysis based on the expected earnings approach?

A. The expected earnings approach, I mean, I haven't seen a utility commission -- that's how -- this was something that was used decades ago. It's not a market-based approach, and I think that's why it hasn't been used.

It's basically saying, you know, what are the expected ROEs from these different utilities. Now, you know, there's several issues with that. One, it's not market based. You don't know if that's what's required by investors, okay. That's why we use things like stock prices and that sort of to see, see what investors actually require.

Also, these business -- these utilities have unregulated businesses. A number of them have like generation riders or incentives, that sort of thing, and as a result you see ROEs for some of these utilities of up to 17 or 18 percent, and that's

because of these -- it's not their regulated part of their businesses, and that's what we're looking at. It's the unregulated or the special, you know, some of the transmission with special riders from FERC and that sort of thing, so these ROEs are above what investors require, certainly above what the regulated part of the business would generate.
Q. Okay.
A. And I explain that in my testimony and my rebuttal. I say there's another reason why that marking the books of electric utilities are 2.25. It's because these expected ROEs that you get from the entire business are higher than the returns that investors require. That's why we use market-based models, and you really don't see this approach being used anymore.
Q. So you're saying that's not an apples to apples comparison because there's a premium built into the expects earnings approach?
A. Yeah, there's a premium built into the earnings that utilities are generating the returns that investors require, and that's why they're marking the books that are over 2.
Q. And you had testified that one of the criteria that should be included in the proxy group is

50 percent of the revenue must be from regulated activities; is that correct?
A. Regulated electric operations.
Q. Okay. So specifically regulated electric operations?
A. Yes.
Q. And Dr. McKenzie sort of questions that. Can you explain to the Commission why you believe this should be a criteria for inclusion in the analysis of the utility proxy group?
A. Well, two things. One thing, I think these should be primary electric utilities, and that's why I say 50 percent of revenues, so they're primary electric.
Number two is, I mean, I use Mr. McKenzie's proxy group, so I don't know why the proxy group is a real issue, and on JRW-4 I provide the operating statistics on percent of regulated gas, electric, that sort of thing, so I don't think the proxy group, especially because I use his, is a real big issue.
Q. But I guess my question is, is why the limitation or the factor to consider 50 percent of the electric operations group from a regulated operation?
A. Because there are a lot of utilities that have

merchant generation, which is unregulated, and as we've seen in the last couple years, it's much riskier than the regulated side of the business.

These are holding companies. We have to use the holding companies because they're the ones that have stock outstanding, so these are all holding companies. They have more than just regulated electric utilities.

So I'm trying to just, and again, I'm using a large sample. You use a large sample because, you know, you're going to have -- I believe you get a better measure of the cost of equity because individual company variations will average out when you use a larger sample, and again, I used Mr. McKenzie's proxy group too, so I don't think the proxy group is a real issue.

Q. And the 50 percent is -- how did you arrive at that 50 percent?

A. You comb through the 10Ks, and they --

Q. I mean why the basis for 50 percent?

A. I just -- that they're primarily a regulated electric utility. They're not primarily a merchant generator, so you don't have those in there, not primarily a gas distribution company. You do have combination electric and gas, and I provide those stats in JRW-4.

Q. Okay. Thank you.

MR. NGUYEN: Those are all the questions I have.

CHAIRMAN SCHMITT: Mr. Cicero, questions?

EXAMINATION

By Vice-Chairman Cicero:

Q. I think you made a statement, correct me if I'm wrong, that investors' expectations for long-term rates are impacted by their expectation on inflation; is that correct?

A. It's two factors: expected GDP growth and expected inflation.

Q. So would you agree that short-term rate increases typically impact inflation?

A. No. I mean, the only thing they could potentially do would probably mute inflation. I mean, as you probably followed, the Feds prefer inflation measure is just called -- they call PCE, personal consumption expenditures, and it's been below 2 percent for some time. Last I saw it was still 1.8 percent, and they've been trying -- they were hoping to go up. It hasn't gone up, and but that's a short-term measure.

But you look at measures of long-term

inflation, for example, you look at the tip spread, it's the relationship between the actual 10-year treasury yield and the treasury -- the inflation protected securities, it's still below 2 percent, so, I mean, obviously we're talking about GDP and inflation, I mean, those are the factors going to drive interest rates.

The reason long-term interest rates are still at 2.7 percent is there's muted expectations about expected economic growth the next five to ten years and expected inflation.

Q. So from a historical perspective would you say it's typical?

A. It's, you know, obviously inflation is lower than it was 5, 10, 15, 20 years ago. And but we know when we can see what the market's expectations are from the market, with like the tip spread and that sort of thing, what investors expect inflation to be, and it's still below 2 percent, even over the next ten years.

Q. We've enjoyed a period here of no rate increases on a short-term basis, and we've just started to see them implemented, and there's been announcements that this coming year there will be more short-term rate increases.

Is there any indication that this will catch up and sooner or later long-term rates will be impacted because of the inflation on the Fed increasing short-term rates?

A. Well, I mean, like I say, the Fed's reacting to primarily better economic conditions, and you read the Fed Minutes it's not because of inflation because they don't see the inflation yet. Their measures aren't picking up inflation.

I mean, obviously what you're having is a flattening of the yield curve. Short-term rates are going up, long-term rates are going down. You've seen a lot on -- a lot of commentary about the risk of a negative yield curve. Why? Because typically negative yield curves you see before a recession.

So, I mean, the data are what they are, and we can see, you know, that that's why -- you know, like I say, people wouldn't be buying long-term treasuries at 2.7 percent if they thought interest rates were shooting to 4 percent because they would get a 30 percent capital loss, and they would feel like they got fooled by a bitcoin, right?

Q. You would also agree that any investment opportunity is always subject to winners and losers.

A. Yeah. Well, the stock market is basically all been winners.

Q. Absolutely. So far.

A. Yes.

Q. But we've also had downturns and several cases that have experienced 20 percent or greater, and in those cases the stock market seems to bounce back, but it does have its dips, and there are losers during that period.

A. It's like one economist has said, is famous for saying, the stock market is like a gambling casino with the odds in your favor.

VICE-CHAIRMAN CICERO: I don't have anything else. Thank you.

CHAIRMAN SCHMITT: Commissioner Mathews?

COMMISSIONER MATHEWS: I don't have anything.

CHAIRMAN SCHMITT: I have no questions. Mr. Chandler?

MR. CHANDLER: Some redirect.

REDIRECT EXAMINATION

By Mr. Chandler:

Q. You mentioned a case with Ameren Illinois; is that correct?

A. Yes.

Q. And are you aware of what Ameren's Moody's rating is?

A.   Ameren's Moody's rating is A3, I believe.
Q.   And do you still have Kentucky Power's Exhibits 10 and 11?
A.   Yes.
Q.   Do you mind to tell me on Exhibit 10 what Kentucky Utilities's long-term Moody's rating was?
A.   It is A3.
Q.   It is A3?
A.   Yes. And Kentucky Utilities, their S&P rating is A minus, which is the same as Kentucky Power Company, so Kentucky Power Company has a slightly lower -- no. Let me double-check that. I might have misspoke. Yeah, Kentucky Power Company's S&P rating is A minus, and their Moody's rating is Baa2.
Q.   You mentioned about stock prices generally rising, and I think you kind of said that utilities kind of were joining the party.
       Is there any way to tell if the stock prices of Mr. McKenzie's and yours proxy group has increased since you provided testimony, or that Mr. McKenzie provided testimony, is there any metric that could show that?
A.   Well, probably the one that shows up most in our testimonies are the dividend yields, the annual dividend divided by the stock price, and so

generally -- usually when stock prices are going up the dividend yield goes down because utilities will only increase their dividend once a year, but, I mean, obviously in the last six months interest -- I mean utility stock prices are near an all-time high.

The Dow Jones Utility Index is about 750 or so, so you see dividend yields for electric utilities, which were maybe 3.5 or 3.6 six months ago, are like 3.2 percent. It's generally because the prices have gone up and the dividends haven't been increased yet.

MR. CHANDLER: Pass the witness.

CHAIRMAN SCHMITT: Mr. Garcia, questions?

MR. GARCIA: Yes, a few more, Your Honor. Thank you.

RECROSS-EXAMINATION

By Mr. Garcia:

Q. Dr. Woolridge, you were asked about the Standard & Poors credit rating, and you made some statement about Kentucky Power's credit rating from Standard & Poors. Those are done at the corporate, ultimate corporate parent level and not at the specific company level; isn't that true?

A. What's that?

Q. The Standard & Poors credit rating that you were talking a second ago about Kentucky Power, those

are done at the parent level, correct?
A. It's an integrated model, but if you go to standard&poors.com and you type in "Kentucky Power" it will come up A minus, and so it's an AEP/Kentucky Power Company S&P rating.
Q. But S&P gives the same rating to all the entities under that AEP umbrella, correct?
A. Generally they do, correct.
Q. Okay. The Moody's rating, it's company specific, correct?
A. It's probably more company specific, but obviously, you know, there's two -- you know, S&P is probably better known. I think last I saw two-thirds of the -- two-thirds of ratings are controlled by S&P, so I think S&P is probably the bigger brand name, so if you have an S&P rating.
Moody's is a little more company specific, and so that's why I kind of -- I think most people average them when they're trying to compare riskiness.
You go to FERC, they average S&P and Moody's ratings just because Moody's are a little more company specific, but S&P also will give individual company comments within the overall rating.
Q. Dr. Woolridge, if an investor wanted to get

information that was specific about the credit rating of Kentucky Power and not of any of its sister entities, they would go to the Moody's credit opinions that address them individually, correct?

A. Well, S&P does the same thing.

Q. The credit metrics that are represented in the Moody's credit analysis are specific to the operating company that they relate to, correct?

A. They're specific, and if you read them they also have -- I mean, but S&P has the same thing, and they mention, you know, we look at it as an integrated network, and they look at integrated network because obviously AEP controls everything Kentucky Power does, so they can make a decision about how they want to capitalize it, how they want to -- you know, so -- you know, the common equity ratio for Kentucky Power is not set by the marketplace, it's set by AEP.

So the reason you use an integrated approach is because the parent makes all the calls about the capitalization of financial risk of the subsidiary.

Q. Are you aware that in 2014 Moody's did a general upgrade of several electric utilities all at the same time as a result of a perception that the industry was essentially requiring a credit rating

upgrade of one notch?
A. Yes. Actually if you look at my testimony at page 61, I have the credit utility upgrades and downgrades from EEI, the Electric Institute -- Edison Electric Institute, and you can see in recent years the upgrades have been about 70 percent, but in 2014 it was like 97 percent because Moody's viewed -- views the industry as less risky mainly because of a lot of riders and that sort of thing, so the overall -- I mean, as I show, the overall health of the electric utility industry as measured by credit ratings has clearly gone up in recent years.
Q. Kentucky Power was one of the utilities that was left behind from that upgrade and that kept their credit rating from Moody's the same when everybody else's was upgraded; isn't that true?
A. I believe so. I don't remember.
Q. Can I turn your attention again to Exhibit 10 and 11 from Kentucky Power that I asked a few questions about before?
And if you go to the next to last page of each one of those exhibits, do you see a table there that includes the ultimate parent Moody's rating?
A. Yes.
Q. What's the ultimate parent of both Kentucky

Utilities and Louisville Gas & Electric? The ultimate parent is PPL Corporation, correct, and their Moody's rating is Baa2?
A. No, I'm sorry, I'm missing your point. What am I supposed to look at?
Q. The ultimate parent of both Kentucky Utilities and Louisville Gas & Electric, which is PPL?
A. Yes.
Q. Moody's gives them a rating as well, and that rating is reflected in this document, correct?
A. They do. And there's a reason for that.
Q. Okay. Actually --
A. And they do, and I'll tell you why. If you look at PPL, their common equity ratio is 34 percent. That means they finance a lot by debt, very heavy by debt, and as a result they have a lower overall rating because they -- again, they've made some acquisitions obviously, and they do that with debt, and so a lot of their rating issues are tied to the amount of debt they use.
Q. Okay. And that rating for the parent of both Kentucky Utilities and Louisville Gas & Electric is less strong. It's riskier than the ones that Moody's have assigned to the operating companies, Kentucky Utilities and Louisville Gas & Electric.

A. Yes.

MR. GARCIA: Okay. No further questions.

CHAIRMAN SCHMITT: Mr. Kurtz, questions? Anyone else? Any intervenor questions?

MR. NGUYEN: No further questions.

CHAIRMAN SCHMITT: Commissioner Cicero, Commissioner Mathews?

I have nothing. If nothing further, may this witness be excused?

MR. CHANDLER: Thank you.

MR. OVERSTREET: Certainly.

CHAIRMAN SCHMITT: You may stand down, and you're excused.

MR. GARCIA: Thank you, Your Honor.

CHAIRMAN SCHMITT: Do you have another witness at this time, Mr. Chandler, or is someone else scheduled to testify?

MR. CHANDLER: Do you mind if we take a two minute -- would it be okay if we took a two minute recess?

CHAIRMAN SCHMITT: Yes, let's do that. We'll take five. We'll be in recess for five minutes.

(Recess from 11:56 a.m. to 12:02 p.m.)

CHAIRMAN SCHMITT: We're now back on the record.

Mr. Chandler, do you have another witness to call at this time?

MR. CHANDLER: I believe Mr. Cook does.

CHAIRMAN SCHMITT: Mr. Cook.

MR. COOK: Yes. At this time we'll call Dr. David Dismukes.

CHAIRMAN SCHMITT: Dr. Dismukes, please raise your right hand.

DAVID E. DISMUKES, PH.D., called by the Kentucky Attorney General, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Cook:

CHAIRMAN SCHMITT: Please be seated.

Counsel, you may ask.

MR. COOK: Just one second, Your Honor. I'm sorry.

Q. Could you state your name and business address for the record?

A. David E. Dismukes, D-I-S-M-U-K-E-S. My business address is 5800 One Perkins Place Drive, Suite 5F, Baton Rouge, Louisiana, 70808.

Q. Are you the same Dr. David Dismukes that caused to be filed prefiled direct testimony in this case as well as responses to data requests?

A. Yes.
Q. And do you have any -- did you at any time have any changes to your testimony or responses?
A. I did have some editorial revisions, I think, that were provided to counsel yesterday or so, and a revised change on an exhibit that changed some markings on it.
Q. And other than those, do you have any other changes to your testimony?
A. No, sir, I do not.
MR. COOK: The witness is available for cross.
CHAIRMAN SCHMITT: Cross-examination?
MR. GISH: Thank you, Mr. Chairman.

CROSS-EXAMINATION

By Mr. Gish:
Q. Good morning. No, sorry, good afternoon, Dr. Dismukes.
A. Afternoon.
Q. I believe from looking at your resume that this is the first time you've testified in front of the Kentucky Public Service Commission; is that correct?
A. Yes, sir.
Q. Is this your first time in Kentucky?
A. No, not the first time in Kentucky.
Q. Are you familiar with the Kentucky Power

service territory?
A. Yes, sir.
Q. And what is the largest city served by Kentucky Power?
A. I don't know.
Q. Would you believe, subject to check, that it's Ashland, Kentucky, is the largest service territory?
A. Yes, I agree with that.
Q. And do you happen to know the population of Ashland, Kentucky?
A. No, sir, I don't.
Q. Would you believe, subject to check, that it's 21,000 people?
A. Sure.
Q. Do you know what the second largest city in the Kentucky Power service territory is?
A. No, sir, I do not.
Q. Would you believe, subject to check, that it's Pikeville, Kentucky, with a population of approximately 7,000?
A. I can agree, subject to check.
Q. Can you -- I have provided a copy for reference only. These are all documents that are already in the record, and I'll refer to them by their location in the record as well.

Can you refer to page 22 of your testimony, which is not in the packet, I apologize. I presume you have the testimony with you.

A. Yes. Okay, I'm there.

Q. This is in the section of your testimony regarding the company's proposed residential customer charge; is that correct?

A. Yes, sir.

Q. Okay. Can you look at page -- I'm sorry, line 19 of page 22?

A. Yes, sir.

Q. There's a sentence there that reads (Reading) The true driving factors of utility distribution system costs are much more complicated and depend on a host of other factors such as the size of a service territory and the population density within. Incremental costs of constructing an appropriate distribution system to serve an additional customer within an urban area with existing nearby infrastructure is substantially less than the cost to extend an existing utility system by potentially miles to serve an additional customer located in a rural area.

Then you go on to say that this fact was ignored by the company; is that correct? Did I read

that correctly?
A. Yes.
Q. Can you turn to what is the Attorney General's response to Kentucky Power's data request number 15, which is the first page of the demonstrative or referencing document I've provided?
A. Yes, sir.
Q. Okay. This question asked to identify the bases for selecting the peer utility group used in Exhibits DED-4 and DED-6; is that correct?
A. Yes, sir.
Q. And then the response talks about Dr. Dismukes developed his peer group for Exhibits DED-4 and DED-6 on mainly a geographic basis. Is that correct?
A. Yes, sir.
Q. And then it says, (Reading) Specifically the peer group chosen represents investor-owned utilities operating in the Appalachian region with a prior focus on neighboring states in the South Atlantic and East South Central regions.
Can you explain what you mean by "prior focus"?
A. That probably should be particular focus.
Q. Particular focus.
A. Not prior.
Q. And then the company requested whether or

not -- or requested the number of customers per distribution line mile and the nature of terrain for each of the utilities identified as peer utilities in your testimony; is that correct?
A. Yes, sir.
Q. And you had not done that analysis.
A. No, sir.
Q. Okay. Turn to the next page within this packet I've provided, which is Exhibit DED-6; is that correct?
A. Yes, sir.
Q. Okay. So Exhibit DED-6 identifies the utilities that are part of your peer group, correct?
A. Yes, sir.
Q. Okay. And you have identified, just looking at it, probably about 15 different utilities; is that correct?
A. Yeah, I think it was 13 or 14.
Q. 13 or 14?
A. Uh-huh.
Q. Okay. And so we discussed earlier that the largest city within the Kentucky Power service territory is Ashland, Kentucky, at 21,000. You have identified Alabama Power Company as a peer utility. Does Alabama Power Company serve Birmingham?

A. It does.
Q. And you identified Ameren Missouri as a peer utility. Does Ameren Missouri serve St. Louis?
A. Yes, it does.
Q. You identified Appalachian Power Company of Virginia, and that serves Roanoke; is that correct?
A. That's correct.
Q. And Appalachian Power Company West Virginia serves both Charleston and Huntington; is that correct?
A. I don't know for a fact, but I can agree subject to check.
Q. Duke Energy Carolinas, LLC, serves Charlotte, North Carolina; is that correct?
A. Yes, sir.
Q. And Duke Energy Carolinas, LLC, also serves Greenville, South Carolina?
A. Yes, sir.
Q. Duke Energy Kentucky serves the Covington and Northern Kentucky suburbs.
A. Okay.
Q. Correct?
A. Yes, sir.
Q. I don't know how familiar you are with those. The vice-chairman is familiar with this. Lots of

cities up there, but together they're a fairly dense urban area.

Duke Energy Progress serves the Raleigh area; is that correct?

A. Yes.

Q. Duke Energy Progress also serves Florence, South Carolina; is that correct?

A. I believe so.

Q. Entergy Arkansas serves Little Rock; is that correct?

A. Yes.

Q. Entergy Mississippi serves Jackson?

A. Yes.

Q. Kentucky Utilities Company serves Lexington.

A. Yes.

Q. Louisville Gas & Electric serves Louisville; is that correct?

A. Correct.

Q. South Carolina Electric & Gas Company serves Columbia, Charleston, South Carolina?

A. Yes, that's correct.

Q. The Virginia Electric Power Company serves the D.C. suburbs and also Norfolk, is that correct, Alexandria and the Norfolk area?

A. Yes.

Q. So Dr. Bonbright, who is the seminal work on public utility rates, identified the need to look at population density as one of the things in determining utility distribution costs, correct?
A. When you're -- yes, I think that was one of the things that he raised in terms of the shortcomings in minimum distribution studies, which is a methodology that was -- methodology that was comparable in what the company had used in calculating their customers' share off their primary and secondary voltage cost.
Q. But your peer group includes utilities that have much larger urban areas than Kentucky Power does, right?
A. They do, but I think something to keep in mind, though, is I think there's a little bit of mixing apples and oranges here. I mean, there's one discussion that we're talking about with regards to the distribution and the appropriate methodology for doing a minimum distribution study, and then there's this comparison that was made on customer charges, which was presented more from a perspective of affordability and relative ranking of customer charges to other types of utilities that operate in this region.
So one is really discussing methodological

issues on demand and customer-related costs with primary and secondary voltage, and others just making essentially an affordability and rate comparison, and I don't know that there's -- it's not that there's a disconnect between the two because rates often measure those costs, but they're not as closely aligned as I think is suggested between kind of this discussion here.

Q. Right, but in fact there are in these utilities, I mean the difference between Eastern Kentucky and the Washington D.C. suburbs is pretty significant, yes?

A. They are, but I think you need to keep in mind when customer charges are set, and it's been my experience in working in several hundred rate cases and regulatory proceedings throughout the country, is customer charges are often, if not most of the time, set with regards to public policy issues as opposed to cost-related items strictly.

So this is usually the case in my experience that not only are demand-related costs not included in a customer charge, but it's often the case that the full range of customer-related costs that I outlined in my testimony aren't usually included in there either.

It's very uncommon to see a utility that gets customer costs related -- customer charge-related revenues that are in excess of say 75, 76 percent of their customer-related costs, so that's where you get that disconnect between the costs that you're trying to get at here with the geographic differences and the customer penetration versus, you know, kind of the public policy of setting customer charges for residential customers.

Q. Can you turn to the third page that's in that document there in the package, the demonstrative?

A. Yes.

Q. This is an exhibit to the rebuttal testimony of company witness Vaughn, which compares the Kentucky Power current and proposed and residential basic service charges to those with the cooperatives and utility providers that are, in fact, immediately adjacent within the state of Kentucky to the company.

Are you familiar with what the residential -- proposed residential basic service charge is within the settlement agreement?

A. It's $14.

Q. $14. And the average of Kentucky Utilities here is $15.51; is that correct?

A. That's correct.

Q. So it's below average; is that right?
A. It's below this average that's been presented here, yes.
MR. COOK: Just want to enter an objection for the record as to this being an accurate reflection of customer charges of Kentucky Utilities. It's just for the record, not as to the admissibility.
CHAIRMAN SCHMITT: You may proceed.
MR. GISH: I would -- I would note that Mr. Vaughn will be available for cross-examination, but we can proceed as well.
Q. Okay. Can you please turn to page 30 of your testimony?
A. Okay.
Q. And there's a question that begins on line 3.
A. Yes, sir.
Q. And are you familiar with the HEAP program?
A. Yes.
Q. And that is the program through which customers are able to receive assistance on their electric bills?
A. Correct.
Q. And it's a -- would you assume -- or you would agree that it's a reasonable proxy for low income customers?

A. No.
Q. And why not?
A. Well, I mean, there's a participation requirement associated with the programs that are tied to low income households, but again, I think this gets to the questions that the Chairman had earlier. Those programs and the subscriptions to those programs don't match one for one to the poverty levels that you would see in a particular area.

So if you look at the participation rates of the HEAP program for the company, I think they have somewhere around 7 to 9,000 participants in there. That's probably about 5 percent of all customers, give or take.

As the Chairman pointed out, most of the counties in Eastern Kentucky have poverty rates that in excess of 20 percent, so you can't say that the HEAP program is a good reflection of overall low income population when it's at 7 percent and the census data is at 20 percent.
Q. But the people who participate within the HEAP program are low income customers.
A. That's true, but I think your question was does it reflect low income in that service territory, and I can't agree with that.

Q. Fair enough. On page 30, line 3, you were asked, (Reading) Have you conducted any analysis examining the relationship of electricity usage and income.
Is that correct?
A. Yes.
MR. COOK: Is this of his testimony?
MR. GISH: His testimony, I'm sorry.
MR. COOK: Thank you.
Q. Can you read the first sentence, or I guess the first two sentences, if "yes" is a sentence, of your testimony beginning on line 5 with "Yes"?
A. You want me to read it out loud?
Q. Please.
A. (Reading) Yes. Page one of schedule DED-7 provides the results of an analysis I performed using data from the 2009 -- should say 2005 and 2009 residential electricity consumption survey, or RECS, produced by the United States Energy Information Administration and household data from the census division in which Kentucky is located.
Q. And this census division includes Alabama, Kentucky, Mississippi, and Tennessee; is that correct?
A. Yes, sir.

Q. Okay. And that is what's shown in Exhibits DED-7 and DED-8, correct?
A. Yes, sir.
Q. Okay. So is it your testimony that the Commission should rely on data from a 12 and 8-year-old general survey of household data regarding the relationship between low income customers and electricity use over the actual data within the company's system?
A. Yes.
MR. GISH: I have no further questions.
CHAIRMAN SCHMITT: Questions?
MR. KURTZ: No questions.
CHAIRMAN SCHMITT: Anyone else? Any intervenors? Staff?
MR. NGUYEN: Yes, Your Honor.

CROSS-EXAMINATION

By Mr. Nguyen:
Q. Good afternoon, Dr. Dismukes.
A. Good afternoon.
Q. You recommended in your testimony to reject any increase to the economic surcharge and the elimination of the total charge and said that the program shifts performance risks onto the rate payer; is that correct?

A. Yes, sir.
Q. Have you had a chance to read any of the provisions of the nonpartial settlement agreement?
A. I have.
Q. Okay. And are you aware that the settlement agreement includes provision to decrease the economic surcharge to residential customers to 10 percent per meter per month?
A. Yes, sir, that's my understanding.
Q. Okay. And it also provides for an increase in a per meter charge for any nonresidential customers to a dollar per month; is that correct?
A. Yes, sir.
Q. Okay. So do you still believe this proposed allocation shifts the performance risk onto the rate payer, basically onto the residential class?
A. Yes. I mean, the performance has nothing to do with the fee itself. The fee could be 10 cents, could be 80 cents. It's the nature of what those dollars are being used for that addresses the performance risk issue, and that is if these funds don't yield the returns that they are anticipated, there's no accountability for going back and clawing those dollars back. Rate payers had to pay for it, and there's no accountability for that. So that's

the performance risk in all this.

It's not tied to the rate itself or who is paying the relative share of the rate. It's the fact that there's no way of going in and essentially figuring out whether or not these costs were prudently incurred because the company is taking those dollars, they're essentially taxing rate payers for them, and they're turning around and using and essentially filling in as a legislative function of allocating those dollars to various different categories of institutions in their region for economic development purposes.

Q. Do you have any recommendations for sort of mitigating against those performance risks?

A. Well, I don't because I don't think the nature of a plan like that probably lends itself very well to that kind of performance metric.

That's why those kinds of programs need to be left at the legislature and not with utilities. It's not that the utilities don't have a role to play in promoting economic development, but a lot of times these kinds of expenses, much like they are for private industries, just like Exon Mobile or Dow Chemical or PPG or others who help promote economic development in their regions, they do those below the line. If they want to make those grants or those kinds of contributions to their area.

So there is a role for the company. They have an economic development rider. There are performance guidelines that are included in that that require increasing load, that require increasing employees for the supplemental discount. It's a relatively generous program.

I mean, those are the kinds of things that you typically tend to see in economic development programs for utilities, at least that are regulated for surcharge or for rate-making purposes around the country.

Q. So there are no metrics that can be measured against for a private entity, corporation to measure to see whether the performance is producing some sort of return.

A. I don't because I think even as the company has testified, the purpose of these programs wasn't directly to create jobs, but to facilitate, for lack of a better word, the economic development infrastructure in those areas.

And again, it's well-intentioned, but for rate-making purposes I don't see how you can assure that rates are fair, just, and reasonable when you don't know how those dollars are being spent.

MR. NGUYEN: Yeah, those are all the questions that I have, by the way.

EXAMINATION

By Vice-Chairman Cicero:

Q. So given the fact that the settlement agreement talks about 10 cents and a dollar for the economic development where the residential is 10 cents, and the Chairman asked Mr. Satterwhite if he would be willing to move that 10 cents over into the HEAP program, which basically leaves it at zero at residential and a dollar on the other participants in the settlement who have agreed to that dollar per meter charge, do you still believe that it's an unfair rate-making decision based on the fact that the participants in the settlement agreed to that dollar, and you're moving the other 10 cents off?

A. I don't know if I understand your question. Try one more time. Are you saying does the Chairman's proposal to move it to low income support make it any better or different?

Q. Yes, that's my question.

A. I would say that that's a little different proposal because if those dollars were shifted into a social support program such as the Home Energy

Assistance Program, that has broader benefits for the broader class of rate payers.

It winds of helping rate payers generally, it could potentially help in reducing uncollectibles and disconnects. It could wind up keeping sales on the system in maybe by a very small amount, but at least some amount, reducing this attrition problem that the company has with its sales, so there are some external benefits that could be tied to that from a public policy perspective that I would argue are a little more strained, a little more tenuous relative to how those dollars are being used for economic development right now.

Q. Yeah, but the dollar remaining is being shared by those in the settlement agreement that believe that their classes can absorb that dollar per meter charge, and they don't believe that it's unreasonable, so the rate payers that are going to pay that fee are okay with that. So do you still believe that that's --

A. Yeah, subject to check, I don't think that's true with all the -- well, for the people who -- there's another class of customers, I think commercial customers that would be subject to that dollar increase and would --

Q. And I'll agree with you on that part, that there may be a participant that hasn't settled, that doesn't agree with the settlement that could be impacted by it, but looking at just the dollar for those that are in the settlement piece, you would agree that those rate payers have agreed that that is acceptable.

A. I don't think that's relevant, though, to my position in this, and that is it's your, the Commissioners', responsibility to determine what's fair, just, and reasonable in terms of setting rates and having the accountability for that.

The rate-making process isn't kind of up for vote. They may have agreed to that, but it's up to you to be able to account for those dollars, regardless of where they're spent.

Q. I think the question --

A. And it may be that some of those customers are benefited by that, but other customers are having to pay for it, and they have no way of going out to see what that benefit is that they're paying for.

Q. I think the question that was asked by staff, though, was did you agree as far as economic development if it was, based on the split, it was okay, and your answer was you didn't believe that --

you believed it was a legislative process. It was not left to private companies to make those determinations because there was no measurement of how those dollars were being spent or if they were actually beneficial, and so my comment is if you have a settlement agreement where the rate payers are actually paying the fee, believe it's beneficial enough to include it in the settlement, do you not believe that the rate payers believe that there's some benefit to that?

A. No, I don't. I mean, I don't know that those customers represent the entire class, customer class. They represent their intervenor group and the customers that are part of that, for one.

Secondly, residential customers are still making a payment in that and were not part of that settlement process.

Q. And I qualified mine by saying if you took the 10 cents and put it in HEAP, and took that off of there, I'm not quite understanding how you're defending your position.

A. Well, because if they think -- it doesn't matter if those customers think it's a good expenditure of money. What matters is do you think it is and can you justify the fact that those dollars are used and useful.

Q. And I agree it is the Commission's decision to make that determination.

A. And one other thing, if I could just interject. I mean, once you start going down this slippery slope as a policy perspective of delegating that authority and saying, well, customers agree with it, you start today with economic development, then tomorrow you add on renewables, the next day you start up with social programs, and before you know it you've got a host of a precedent that you've set up, and you're using essentially the regulated rate base for funding social programs that go well beyond the provision of providing electricity service.

Q. I can see you're obviously not familiar with this Commission because this Commission hasn't delegated anything to anybody. It has taken probably more than what people would like it to take.

I would say at this point we are trying to take testimony and make a decision based on all the parties participating and trying to work, at least reviewing the settlement and seeing if it has any valuable points to it, looking at the past rate, looking at the future rate, and trying to determine what our position should be on it, and that's why I'm asking the questions specifically about the economic development because while it's not a consensus settlement, we still have to take into account the parties that are most impacted by it to determine whether it has benefit or not, and I understand your comment that it's not measurable in terms of determining whether it did actually provide any benefit or not.

It's kind of like the stock market with the last witness we had, yes, it goes up and it goes down. If you can pick exactly what's going to happen you're going to make a fortune, but unfortunately it's all unknown, so we've got to base it on the testimony and what's presented to us. So that's the extent of my comments or questions.

CHAIRMAN SCHMITT: Have you completed your cross?

MR. NGUYEN: Yes, Your Honor.

CHAIRMAN SCHMITT: Commissioner Mathews, questions?

COMMISSIONER MATHEWS: I just had one.

EXAMINATION

By Commissioner Mathews:

Q. I believe your argument on the customer service charge was more on affordability and not whether or

not that was an attempt to shift more fixed costs into the service charge?
A. It was both. I mean, the company has attempted to take not only its customer-related costs, those costs such as metering the service drop, customer service expense, et cetera, and recover those through the customer charge, but they're also trying to recover a portion of their distribution-related investment costs and putting that into the fixed customer charge.
So the combination of what I would say is a methodologically inappropriate allocation of those costs into the charge is one issue, and the second issue is in addition to that and as a result of that it creates an affordability issue in terms of where that customer charge is going to be relative to other regional investor-owned utilities.
Q. And the $14 that was agreed to in the settlement, is that higher than the fixed costs associated with serving those customers?
A. That would -- I have not run the exact numbers, but it would likely be -- well, yeah, it was still less than that amount because I believe that the company actually reduced that amount from what was a full estimated cost of somewhere around $30 a

customer.

So they had already reduced it for gradual adjustment already, so the full cost was estimated I think $30.57 a customer or something like that. They reduced it down to a proposal of I think around 17, and now the settlement is down at 14.

So 17 would have been a 59 percent increase in the customer charge. You're still looking at an increase that is 27 percent, which is still well over two times the system average request that is in the settlement, and it's still relatively large, and the company is already recovering 100 percent of their customer-related costs anyways through those charges, so I would argue they don't need to be increased.

COMMISSIONER MATHEWS: Okay. Thank you.

THE WITNESS: Yes, ma'am.

CHAIRMAN SCHMITT: Mr. Cook? Mr. Chandler? Anyone?

REDIRECT EXAMINATION

By Mr. Chandler:

MR. CHANDLER: Thank you.

Q. Can we go back to page 22 of your testimony, Dr. Dismukes? And I believe you read into the record a sentence or two that runs from 22 to 23; is that correct?

A. Yes, sir.
Q. And can I ask do you know how Kentucky Power determined their customer charge?
A. Yes, sir.
Q. And what -- what did they use to determine the proposed customer charge?
A. They took their customer-related costs and a share of their essentially primary and secondary distribution costs and put them in the customer charge.
Q. And so did they take into account specifically density?
A. No.
Q. Okay. Can you also refer to, I believe it's your DED-6. It's the second page of what I assume is going to be an exhibit from the company, but I didn't write it down if they had announced it. Your DED-6.
Is it your understanding, I believe your testimony speaks to this, but is it your understanding that all of the companies listed on this are investor-owned utilities?
A. Yes.
Q. And is it your understanding that Kentucky Power is an investor-owned utility?
A. Yes.

Q. Can you turn the page to what I believe is Mr. Vaughn's Rebuttal 2, R2 exhibit?
A. Okay.
Q. And do you mind to -- let's run through this list, if you don't mind. Subject to check, would you agree that Grayson RECC is a rural electric cooperative?
A. Yes.
Q. And that the RECC part kind of stands for rural electric cooperative? So can we mark off Grayson and Meade, Licking Valley, Big Sandy, Farmers, Nolin, South Kentucky, Taylor, Pennyrile, Warren, West Kentucky, all those are RECCs by name?
A. Correct.
Q. And that Jackson Energy, Shelby, Owen are all, by name, cooperatives? Would you agree that none of these seem to be investor-owned utilities?
A. They don't appear that way to me, except for Kentucky Power.
Q. So it appears that in looking at this chart, none of the -- at a glance none of these appear to be investor-owned utilities.
A. That's correct.
MR. CHANDLER: May I?
CHAIRMAN SCHMITT: Yes, you may.

Q. Would you mind to turn to page 13 in this order, please?
A. Okay.
Q. This is a recent Commission order in 2016-365, Application of Farmers Rural Electric Cooperative Corporation for an increase in retail rates. Do you mind to look on that list for a second in AEVR-2 and see if Farmers is on there? I believe it may be three notches above Kentucky Power?
A. Yes, it is.
Q. Okay. Do you mind to take a second and read under Section Rate Design the first full sentence in the second paragraph on page 13?
A. You want me to read it out loud?
Q. Yes, sir.
A. (Reading) The Commission concludes that for an electric cooperative that is strictly a distribution utility, there is merit to the argument that there is a need for a means to guard against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in weather patterns, and the implementation of demand-side management and energy efficiency programs.
Q. Is it your understanding that Kentucky Power

has a demand-side management surcharge that it recovers?
A. Yes, that's my understanding.
Q. And is it your understanding that Kentucky Power is a vertically integrated utility as opposed to a distribution only utility?
A. Yes.
MR. CHANDLER: That's all we have, Chairman.
CHAIRMAN SCHMITT: Is there any cross-examination, Mr. Gish?
MR. GISH: No, Mr. Chairman.
CHAIRMAN SCHMITT: Anyone else have any further questions of this witness?
MR. NGUYEN: No, Your Honor.
CHAIRMAN SCHMITT: Commissioner Cicero? Mathews?
COMMISSIONER MATHEWS: Mr. Gardner does.
CHAIRMAN SCHMITT: Mr. Gardner? Mr. Gardner, I guess at the last break Mr. Rhodes, who operates our system, asked that you speak louder so that the equipment could pick you up on the video.
MR. GARDNER: Thank you, Your Honor. If I could approach the witness, please.
CHAIRMAN SCHMITT: Yes, you may.
COMMISSIONER MATHEWS: And raise that mike

because it's not working.

MR. CHANDLER: While we're waiting for Mr. Gardner, do you mind, if I can number this Exhibit Number 6.

CHAIRMAN SCHMITT: Yes.

MR. CHANDLER: Thank you.

CHAIRMAN SCHMITT: Would you like -- are you going to offer this into evidence or just have it marked?

MR. CHANDLER: I'm happy to move it into the record.

CHAIRMAN SCHMITT: Is there any objection?

MR. GISH: There's no objection.

CHAIRMAN SCHMITT: Then let it be marked as AG Exhibit 6 and filed into evidence.

(AG 6 admitted.)

CHAIRMAN SCHMITT: Mr. Gish, the handout that you had is not to be introduced; is that correct?

MR. GISH: That's correct, Mr. Chairman. Those are all documents that are in the record. I hope I referenced them by their proper location.

CHAIRMAN SCHMITT: Okay, Mr. Gardner, you may proceed.

MR. GARDNER: Thank you, Your Honor.

* * *

CROSS-EXAMINATION

By Mr. Gardner:

Q. Dr. Dismukes, I've handed you what has been marked and introduced KCUC Exhibit 4. Do you have that in front of you?

A. I do.

Q. And this is in response to Commissioner Cicero asking you a question about the KEDS, the economic development 10 cent and dollar. In looking at that chart, does it appear that GS category and LGS/PS category have by far the greatest percentage of the total dollars of 326,687 that appear to be going into these programs?

A. They're large, yes, relative to the other customer classes.

Q. Okay. And, in fact, is it your understanding that the customer, the commercial customers have not consented to the settlement?

A. Yes, sir, that's my understanding.

MR. GARDNER: That's all I have. Thank you.

CHAIRMAN SCHMITT: Any questions from anyone else?

MR. GISH: Still no.

CHAIRMAN SCHMITT: Anyone?

MR. NGUYEN: No, Your Honor.

CHAIRMAN SCHMITT: May this witness stand down and be permanently excused?

MR. OVERSTREET: Yes, Your Honor.

CHAIRMAN SCHMITT: Thank you. You may stand down.

We still have a few minutes. Maybe we ought to call another witness and get started if we can.

MR. OVERSTREET: I think that would work well. I think we're going to do Mr. Higgins next. Wasn't that the deal?

MR. OSTERLOH: That's correct. The parties have agreed that Kevin Higgins will be called on behalf of the commercial utility customers.

MR. CHANDLER: At this time can I move for Exhibit, AG's Exhibit 6 to be introduced?

CHAIRMAN SCHMITT: I think we just did that.

MR. CHANDLER: We did that?

CHAIRMAN SCHMITT: Attorney General Exhibit 6 will be filed into evidence.

MR. CHANDLER: I completely forgot about that. Thank you. It's been a long two days.

CHAIRMAN SCHMITT: Thank you. Mr. Higgins, will you please stand and raise your right hand?

KEVIN C. HIGGINS, called by the Kentucky Commercial Utility Customers, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Osterloh:

CHAIRMAN SCHMITT: Please be seated. Mr. Osterloh, you may interrogate or ask of your witness.

MR. OSTERLOH: Thank you, Mr. Chairman.

Q. Mr. Higgins, can you please state your name for the record?

A. My name is Kevin C. Higgins.

Q. And your business address?

A. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. Did you cause to be filed in this case direct testimony dated August the 3rd, 2017, and settlement direct testimony dated December the 4th, 2017?

A. Yes, I did.

Q. If the same questions in those documents were asked today, considering them collectively would your answers be the same?

A. Yes.

Q. Thank you, Mr. Higgins.

MR. OSTERLOH: Mr. Chairman, this witness is available for cross-examination.

CHAIRMAN SCHMITT: Mr. Overstreet? Oh,

Mr. Gish.

CROSS-EXAMINATION

By Mr. Gish:

MR. GISH: Yes, Mr. Chairman, I have a few questions.

Q. Can you turn to page 15 of your testimony?

A. Of my direct testimony?

Q. Direct testimony, yes.

A. Yes.

Q. Can you read the question -- the question on line 11 says, (Reading) Do you recommend any changes to Kentucky Power's proposed revenue allocation?

And your response begins, (Reading) Yes, I recommend that the current residential subsidy according to the Company's total cost-of-service study be reduced by 50 percent in this case.

Is that correct?

A. That is correct.

Q. Is that still your recommendation?

A. No. That is -- while I believe that that is a reasonable premise for rate making, my current testimony responds to the settlement agreement, and with respect to the settlement agreement, which is a compromise among other parties to this case, KCUC is also adopting a position of compromise, and, for purposes of response to the settlement agreement, no longer challenges the revenue allocation to the residential class, but rather focuses in on a specific element of the settlement agreement that we believe is unreasonable.

Q. And in your settlement testimony you suggest that if the Commission were to change the revenue allocation by reducing the return on equity, that that revenue allocation should first go to -- the first $500,000 of that should go to the LGS customers; is that correct?

A. That's correct, but if you don't mind I would like to clarify a little bit of what you said. If the Commission changes the revenue requirement below or what the stipulating parties agree to, then as part of the revenue allocation my recommendation is that the first $500,000 of any reduction in overall revenue requirement should go to reduce the rates for the LGS class.

Q. But you have not in this case provided any testimony regarding the revenue requirement itself, correct?

A. That is correct.

Q. And do you have any -- well, never mind. And do you have any testimony regarding the revenue allocation that's agreed to by the parties in the settlement agreement?

A. Is your question whether or not there are aspects of the settlement agreement that are consistent with my recommended testimony?

Q. I'm asking if you have provided testimony in this case regarding any potential change to the revenue allocation, the revenue requirement that was agreed to by the parties in the settlement agreement?

A. Oh. To the extent that the revenue requirement does not change as a result of the Commission's decision in this case, then my recommendation would not change the revenue allocation that's been stipulated.

Q. But you have not prepared or proposed any testimony on what changes should be made to the revenue allocation in the settlement testimony; is that correct? I'm sorry, not allocation, that was my mistake. The revenue requirement that was agreed to by the parties in the settlement agreement, correct?

A. Correct.

MR. GISH: I have no further questions.

MR. COOK: The AG has no questions.

CHAIRMAN SCHMITT: Mr. Kurtz?

MR. KURTZ: I do, thank you. Just a few.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good afternoon, Mr. Higgins.

A. Good afternoon, Mr. Kurtz.

Q. For full disclosure we've known each other quite a while?

A. That is quite a disclosure.

Q. We worked probably on cases in six, seven, eight states over the last 15 years?

A. Yes, we have.

Q. Okay. You did two additional cost of service studies in your initial testimony, the winter-summer peak as well as the 3 winter peak studies?

A. Yes.

Q. Is that correct? Okay. And those studies showed that the residential customers were even being more subsidized than the 12CP which the company relied on, correct?

A. Correct.

Q. Will you turn to page 16 of your original testimony?

A. Yes.

Q. Okay. I'm just going to ask you to read a little bit. On line 3 the sentence beginning "although." Can you read to the end of the

paragraph, please?
A. Sure. (Reading) Although the Winter 3CP and Summer/Winter CP methods indicate that a rate decrease for the IGS class would be warranted, I conservatively recommend that the IGS class revenue be set at full cost of service under the 12CP method. At Kentucky Power Company's proposed revenue requirement this will result in an increase of 4.38 percent for the IGS class as compared to the Kentucky Power Company's proposed 8.54 percent increase.
Q. Would it be fair to say what that means is instead of the 5 percent subsidy reduction for IGS, the Industrial General Service that the company recommends, you recommended a 100 percent subsidy reduction, correct?
A. Yes.
Q. Okay. And that was the same recommendation that KIUC witness Mr. Baron made, correct?
A. Correct.
Q. And your recommendation and Mr. Baron's recommendation found their way into the settlement agreement, correct?
A. Correct, with respect to the IGS class, yes.
Q. And you support that still?

A. Yes.
Q. Okay.
MR. KURTZ: Thank you. No more questions.
CHAIRMAN SCHMITT: Counsel for any intervenors?
Mr. Malone?
MR. MALONE: I've just got a couple.

CROSS-EXAMINATION

By Mr. Malone:
Q. Mr. Higgins, my name is Matt Malone. I represent the school boards.
A. Good afternoon.
COMMISSIONER MATHEWS: Let's see if that mike works now.
MR. MALONE: Hello? No?
MR. OVERSTREET: Let me stand up and he can sit here.
CHAIRMAN SCHMITT: Yeah, if someone would give up a seat. Mr. Overstreet, thank you.
MR. OVERSTREET: I've been glued there for two days.
Q. Sir, I've just got a few questions for you. I just was going through your -- I guess we call it the direct settlement testimony, the most recent testimony that you filed?
A. Yes.

Q. I wanted to ask you, as I understand it, KCUC represents a sawmill that's in rate LGS. Is that your understanding?
A. They are included in the membership, yes.
Q. And as I understand it, you've suggested that other benefits should be found to support a approximate $500,000 benefit to LGS; is that accurate?
A. I'm not sure what you mean by "other benefits should be found."
Q. Cutting expenses or some other way to support the 500,000. How are you suggesting that the Commission would come up with this additional 500,000?
A. My -- what my testimony says is that to the extent that the Commission changes the revenue requirement below the stipulated level, because revenue requirement is still an issue that's being contested in this case, and to my understanding the Commission also reviews the revenue requirements and stipulations and has on occasion reduced those revenue requirements.

To the extent that the revenue requirement is changed by the Commission, my recommendation is the first $500,000 of any reduction should go to correct what I believe is an inequity in the revenue allocation of the stipulation and should go to reduce the rates for the LGS class.

Q. Given that KCUC represents the sawmill, have you calculated basically what that benefit would mean for the sawmill?

A. Not specifically for the sawmill. It's approximately about a 1 percent reduction in the rates for the LGS class.

Q. Okay. Taking that logic, giving you a hypothetical question. Imagine that the reduction that the Commission -- let's say the Commission went along with that logic and suggested rather than a $500,000 benefit they did a $100,000 benefit, for easy math.

A. Okay.

Q. And let's imagine that the sawmill pays $100,000 in expenses, in electric costs per year. What does that mean to their bottom line?

A. Well, your hypothetical is you're assuming what the sawmill's usage is.

Q. Correct.

A. And I believe that would be quite a bit lower than what it actually is, but for $100,000 a year customer, if the Commission reduced the revenue requirement by $100,000 and that went to the LGS class, that would be a reduction of about two-tenths of one percent for the LGS class and two-tenths of one percent reduction on a customer that had a hundred thousand dollar bill.

Q. Okay. Going to the schools, do you know anything about the load profile of the schools versus the commercial class?

A. Well, I know something generally about the load profile of schools.

Q. Okay. Would you agree that the load profile of the schools is fairly homogeneous? In other words, most schools track similar load profiles?

A. That wouldn't surprise me.

Q. Okay. Turning to the commercial class, would you agree that there's much more level of difference between them compared to the schools?

A. They're more heterogeneous, which actually from a cost allocation standpoint is favorable because when you've got diversity in your load profile that actually brings down the unit cost of serving -- of spreading the fixed costs of a utility.

Q. But in determining rate design of a certain tariff, wouldn't you agree that a homogeneous class provides some benefit to the company in determining

how to design the rate?
A. It would -- I don't know that it provides benefit to the company. It would provide information to the company, but it doesn't necessarily, for example, by itself mean that that class should get a discount off of the rate that would otherwise apply, but the fact that its load profile looks a certain way may give the utility some information that it could use to design rates.
Q. In your testimony you pointed out some, and I'm speaking of your most recent testimony, you spoke of public policy benefits for economic development and whatnot with respect to the commercial class.
A. Yes.
Q. Would you not also agree that there are some significant, if not more significant, public policy concerns supporting schools here?
A. Well, certainly education is an important component of public policy, and I want to clarify that my recommendation does not object to the discount --
Q. Okay.
A. -- that schools receive as part of the settlement agreement. My recommendation points to the fact that it was only one group of customers, the

LGS customers, who pick up the tab for the discount.

So if it's a matter of broad public policy, then the right thing to do, in my opinion, is that you spread that discount cost across the system, or if the utility believes that that's an important matter of public policy, the utility absorbs the cost rather than a single class of customers.

So I just want to be clear. The KCUC position is not to object to the school discount. It's how it's funded, that is where the objection lies, and, you know, as evidence of the fact that we wish to be reasonable, we're not even asking the Commission to undo that discount as part of the stipulated revenue allocation. Simply to address the issue going forward to the extent the Commission has a -- reduces the revenue requirement.

Q. Understand. Okay.

MR. MALONE: No further questions. Thank you.

CHAIRMAN SCHMITT: Staff? Questions?

MS. SANDERS: Thank you, Your Honor.

CROSS-EXAMINATION

By Ms. Sanders:

Q. Mr. Higgins, so just to clarify one more time, you're no longer recommending that the residential subsidy be reduced by 50 percent, correct?

A. That is correct, not in the context of the settlement agreement that has been presented.
Q. All right. Which -- KCUC is representing two clients in this action; is that right?
A. My understanding is that it's an association, but there are two customers that I'm aware of that are served in Kentucky Power service territory.
Q. Okay. And which rates are each of those clients on?
A. The hospital -- hospital group is served under the industrial rate and the LGS rate, and BPM Lumber is served under the LGS rate primarily.
Q. Okay. So BPM Lumber is only under the LGS rate?
A. They have some load that is on medium and small as well, but the largest amount of their load is on LGS.
Q. For each one of those two entities, what percent of their power bill is a result of each one of those rate classes?
A. For the hospital, the split between their bill on LGS and the industrial rate is about 50/50. And for sawmill it is almost 100 percent LGS.
MS. SANDERS: No other questions.
CHAIRMAN SCHMITT: Commissioner Cicero,

questions?

VICE-CHAIRMAN CICERO: No questions.

CHAIRMAN SCHMITT: Commissioner Mathews?

COMMISSIONER MATHEWS: No.

CHAIRMAN SCHMITT: I have no questions. Anyone else?

MR. OSTERLOH: If I can just clarify two points.

REDIRECT EXAMINATION

By Mr. Osterloh:

Q. Mr. Higgins, you testified earlier to Mr. Malone's questions that if the Commission were to accept your recommendation of a $500,000 reduction in the LGS class, that you thought that would be approximately a 1 percent reduction; is that correct?

A. Yes.

Q. And just to clarify that, is that a 1 percent reduction to current rates or is that 1 percent less than what the proposed settlement proposes for the LGS class?

A. It's a 1 percent reduction to current rates.

Q. And then with respect to BPM Lumber, it was a suggestion that it may have been a sawmill. Do you know how many -- or whether BPM Lumber only operates one sawmill in Kentucky Power's testimony --

territory?
A. Let me just clarify the question, my answer to your question before. When I said 1 percent reduction, it's 1 percent of current rates. So it's not reducing current rates by 1 percent, so $500,000 is approximately 1 percent of the LGS current revenue requirement. Slightly more than 1 percent, but it's in that ballpark.
Q. In other words, your proposal would not result in a reduction of rates to the LGS class.
A. No, no. They would still get a rate increase. It would just be 1 percent less as a proportion of their total bill than as provided in the settlement agreement.
Q. Thanks for that clarification. And then do you know if BPM Lumber operates one or more sawmills in Kentucky Power's territory?
A. My understanding, they've got more than one operation.
MR. OSTERLOH: Thank you. That's all the questions I have.
CHAIRMAN SCHMITT: Mr. Malone, questions?
MR. MALONE: Nothing further, Your Honor.
CHAIRMAN SCHMITT: Anyone else? Is there any reason why this witness cannot be permanently

excused?

Okay. You may step down, and you're excused.

THE WITNESS: Thank you.

It's five till 1:00. Why don't we take a lunch break until 2:00 o'clock, and we'll come back and see how far we can get. Thank you.

(Recess from 12:55 p.m. to 2:00 p.m.).

CHAIRMAN SCHMITT: We're now back on the record. Mr. Chandler, Mr. Cook, as I understand it you've completed all your testimony; is that correct?

MR. CHANDLER: That's correct, Chairman.

CHAIRMAN SCHMITT: And that at this time then the parties have agreed that Kentucky Industrial Utility Customers will present its evidence. Is that right, Mr. Kurtz?

MR. KURTZ: Yes, sir.

CHAIRMAN SCHMITT: Did you have a witness to call at this time?

MR. KURTZ: He's up there, yes, sir. Mr. Kollen.

CHAIRMAN SCHMITT: Okay, Mr. Kollen.

* * *

LANE KOLLEN, called by the Kentucky Industrial Utility Customers, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Kurtz:

CHAIRMAN SCHMITT: Please be seated.

Mr. Kurtz, you may ask.

Q. Thank you. Mr. Kollen, will you state your name and business address for the record, please?

A. My name is Lane Kollen. My business address is J. Kennedy & Associates, Incorporated, 305 Colonial Parkway, Suite 570, Roswell, Georgia, 30075.

Q. Do you have in front of you a document marked "Direct Testimony and Exhibits of Lane Kollen"?

A. Yes.

Q. Was this prepared by you or under your direct supervision?

A. Yes.

Q. If I were to ask you the same questions as though contained therein, would your answers be the same?

A. Yes.

Q. Any corrections or additions?

A. No.

MR. KURTZ: Your Honor, I tender the witness for cross.

CHAIRMAN SCHMITT: Well, I guess we'll go with those of like mind. Mr. Overstreet?

MR. OVERSTREET: No questions, Your Honor, at this time.

CHAIRMAN SCHMITT: Any intervenors who participated in the proposed settlement have any questions?

If not, Mr. Chandler and Mr. Cook, do you have cross?

MR. CHANDLER: The Attorney General does not have any cross for Mr. Kollen.

CHAIRMAN SCHMITT: Okay. Mr. Gardner?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: No? Staff?

MR. NGUYEN: We do, Your Honor, just very brief.

CROSS-EXAMINATION

By Mr. Nguyen:

Q. Do you have KIUC's responses to Commission staff's data request, by chance?

A. I don't.

MR. NGUYEN: May I approach, Your Honor?

CHAIRMAN SCHMITT: Yes, you may.

Q. This is --

MR. NGUYEN: I'm not going to introduce it into evidence, so.

Q. This is KIUC's response to Commission Staff's

data request, item one; is that correct?
A. Yes, it is.
Q. And you are the witness that responded to these or this question and the subparts; is that correct?
A. Yes.
Q. Okay. 1A asks you to confirm that the revenue requirement for deferral of the expenses related to the Rockport Unit 2 Unit Power Agreement would be reduced by 20.307 million per year through 2021 and 341/365th of that amount in 2022 based upon your recommendation in your prefiled testimony; is that correct?
A. Yes, that's correct, and that's because the recommendation in my direct testimony was focused on the Rockport 2 unit only. That unit is under lease, and our proposal was for $20 million of that lease expense to be deferred through December 8 of 2022, and that's where the 341 divided by 365 comes into play, and that also is consistent with the termination date of the Unit Power Agreement, which covers both Unit 1 and Unit 2.
Q. Okay. So and when asked in part B, (Reading) Explain why the carrying charge should not be based on Kentucky Power's cost of debt, your response is that under KIUC's proposal Kentucky Power would be

required to finance nearly a hundred million dollars over the approximately five-year period until the lease is terminated in 2022, and that the company is unlikely to finance a deferral of this magnitude solely through debt given its present capital structure.

Is that correct?

A. Yes.

Q. Okay. But then it says, (Reading) However, it could be appropriate to assume that the deferral is financed through debt if such deferrals are significantly less than under the KIUC proposal.

Was that your response?

A. Yes.

Q. Okay. So with respect to the settlement, the nonunanimous settlement agreement that includes provision of the Rockport Unit Power Agreement deferral of those costs, is that for both Units 1 and 2?

A. It is not unit specific, so it's just a generalized deferral of the UPA expenses.

Q. Okay. And so those expenses associated with that provision to defer the cost associated with the Rockport UPA, would that be significantly less than the hundred million dollars over the five-year period as you had recommended in your testimony?

A. Well, it would be about half because we had recommended a $20 million deferral, and over five years that would be 100 million, and under the settlement it's 15, 15, 10, 10 and 5.

Q. Right.

A. And so that adds up to 50 million.

Q. Okay. So given your, I guess your qualification in responding to staff's question 1B with respect to Kentucky Power's ability to finance the carrying charge to be based upon cost of debt, would that reduction in the amount of expenses be considered a significant reduction such that Kentucky Power would be able to finance it based upon its cost of debt given its capital structure?

A. Well, I think it is a significant reduction in the deferral. That's no question about that. It's half of what my proposal was initially, but then the question is what is -- the next question is what is the likelihood of the company financing it with debt, and I think that right now if you look at their capital structure, and it's roughly 43 percent common equity, if they financed that additional $50 million with debt only, that would end up leveraging them more, and it could result in a down rating of their debt.

For example, now I didn't really investigate this. It wasn't our proposal. Our proposal was for a full rate of return, but in certain circumstances it could make sense to do it on a debt only. I don't think that it is appropriate to do that in this case.

Q. Okay. Even based upon the amount of the expenses associated with the settlement agreement?

A. Yes. I think it's unlikely that the company would finance this exclusively with debt.

MR. NGUYEN: Those are all the questions I have. Thank you.

CHAIRMAN SCHMITT: Commissioner Cicero, questions?

VICE-CHAIRMAN CICERO: No questions.

CHAIRMAN SCHMITT: Commissioner Mathews?

I have none.

MR. KURTZ: I do have one redirect a little bit.

REDIRECT EXAMINATION

By Mr. Kurtz:

Q. I know you're not a lawyer, but I do want to ask you this. In order --

A. Praise God. No, I'm just kidding.

Q. I'm sorry, what?

CHAIRMAN SCHMITT: He said thanks a lot.
Q. Okay. I don't want a legal --
A. I have a lot to be grateful for, yes.
Q. The Rockport Unit Power Agreement is a FERC approved rate?
A. It is.
Q. And under federal law, federal preemption, the Commission must give effect or allow the utility to recover the FERC approved rate, correct?
A. That's my understanding. The retail recovery can vary, but over time it has to provide recovery unless there's by determination of imprudence by the retail regulator, but that's not the case here for sure.
Q. Yeah, and that's not even really true. This is the Nantahala decision and Mississippi Power & Light, U.S. Supreme Court, correct?
A. Yes, that's correct.
Q. And full recovery would be the weighted average cost of capital pursuant to your recommendation and pursuant to what's in the stipulation.
A. I would agree with that, yes.
Q. And, in fact, if it was a debt only return, one might argue that the Commission is trapping costs and not giving full recovery and stepping into this

federal preemption minefield.
A. One might argue that.
Q. Okay. Thank you.
A. This is fair. It's equitable to provide an overall rate of return.
Q. And just for the record, it's a $9 million carrying charge on the 50 million over five years?
A. That's correct. And in conjunction with that, the company has agreed to amortize it on an annuitized basis over five years, so what that means is that rather than starting high and then amortizing a certain dollar amount each year, what you're doing is you're getting the same dollar amount of recovery from customers, just like paying off a home mortgage, and so that's extremely beneficial to customers, and it minimizes the effect on customers.
So essentially what we're doing now is we're cutting the peak of the rate increase, and then there would be a rate reduction in December of 2022 when the UPA is either -- Unit 2 portion of it is not renewed or maybe the entirety of it is not renewed.
There would otherwise have been a very significant rate increase. All this does is mitigate the amount of the rate -- I'm sorry, a rate decrease. All this does is mitigate the decrease to some

extent, so what you've done is you've cut off the peak of the revenue requirement for the next five years, and you've raised slightly the revenue requirement over the five years starting in December 2022. It's really a tremendous result.

MR. KURTZ: No further questions.

CHAIRMAN SCHMITT: Any cross-examination?

MR. OVERSTREET: None, Your Honor.

MR. CHANDLER: Just two questions.

CROSS-EXAMINATION

By Mr. Chandler:

Q. In your testimony when you discussed this, your deferral position, did you consider or include anything in testimony that looked like or was similar to the credit offset that's provided for in the stipulation, where following the five year -- the expiration of the UPA in five years, that the company will be allowed to essentially earn its ROE, guaranteed earn on its ROE?

A. I did not address that.

Q. You did not address that?

A. I did not.

Q. So that wasn't your proposal in your testimony?

A. That was not included in my direct testimony, that's correct.

Q. And generally the discussion has been about the weighted average cost of capital, and the weighted average cost of capital, there are generally two components, debt and equity, correct?
A. Yes.
Q. And does the debt portion contain a time value of money component?
A. Well, by definition it is a time value of money because you provide a rate of return on the investment cost for whatever period of time it's providing service to customers.
MR. CHANDLER: No more questions.
CHAIRMAN SCHMITT: Any other questions? Cross?
MR. NGUYEN: Just one additional, Your Honor.

RECROSS-EXAMINATION

By Mr. Nguyen:
Q. So in your follow-up to Mr. Kurtz's question with respect to the FERC preemption and, excuse me, the full recovery, Kentucky Power's full recovery of that cost under the EPA, in your response to Commission staff's 1B, even though you qualified it as it could be appropriate to assume that the deferral is financed through debt, if such deferrals are significantly less than the KIUC proposal there was no limitation with respect to FERC jurisdictional

grounds on the ability of Kentucky Power to recover fully those costs under the EPA.

A. In the response of the discovery, that's correct.

Q. So were you not aware of that limitation when you provided this response?

A. I was aware of that limitation. The only point here was that there might be certain circumstances where it could be appropriate. I didn't say it would be. I said perhaps it could be appropriate if there was a much smaller dollar amount.

And I can think of one instance. For example, if the deferral were a few million dollars, and it was for six months, you know, then you probably would assume that it was financed with short-term debt, but the longer the period of deferral and the greater the magnitude, the more necessary in effect it is that it would be the full weighted cost of capital unless there's an exclusive or dedicated type of financing associated with that deferral.

And just to add on to that a little bit, in some of the states that have gone to open access or deregulation, a portion of the costs have been considered stranded, and rather than allowing those utilities a full rate of return on the stranded costs, under state law or through some other mechanism the utilities have securitized those costs through lost cost forms of debt, and so there are certain circumstances where it makes sense to do a debt only financing.

In this one I don't think it is, given the magnitude still of the 50 million. The five-year time frame for the deferral and then another five years until the company fully recovers. So you're looking at a span of a ten year period. It's really kind of unlikely that it's going to be financed with either short-term debt or exclusively with long-term debt.

MR. NGUYEN: Those are all the questions. Thank you.

CHAIRMAN SCHMITT: Commissioner Cicero? Commissioner Mathews?

Anything further?

MR. KURTZ: No, sir.

CHAIRMAN SCHMITT: If there's no other cross-examination of this witness, may he be finally excused?

MR. OVERSTREET: Yes, he may.

CHAIRMAN SCHMITT: Thank you. Mr. Kollen, you may be excused.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Call your next witness.

MR. KURTZ: We call Mr. Baron.

STEPHEN J. BARON, called by the Kentucky Industrial Utility Customers, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Kurtz:

CHAIRMAN SCHMITT: Please be seated.

Counsel, you may ask.

MR. KURTZ: Thank you, Your Honor.

Q. Will you state your name and business address for the record?

A. Yes. Stephen J. Baron. My business address is J. Kennedy & Associates, Inc., 570 Colonial Park Drive, Suite 305, Roswell, Georgia, 30076.

Q. Do you have in front of you a document marked "The Direct Testimony and Exhibits of Stephen J. Baron"?

A. Yes.

Q. Was this prepared by you or under your direct supervision?

A. Yes.

Q. If I were to ask you the same questions as those contained herein, would your answers be the

same?
A. Yes.
Q. Any corrections or additions?
A. Not that I'm aware of.
MR. KURTZ: Your Honor, I tender the witness.
CHAIRMAN SCHMITT: Mr. Overstreet?
MR. OVERSTREET: No questions, Your Honor.
CHAIRMAN SCHMITT: Any counsel for any of the settling intervenors have any cross-examination of this witness?
If not, Mr. Cook, Mr. Chandler?
MR. CHANDLER: The Attorney General has no questions for Mr. Baron.
CHAIRMAN SCHMITT: Mr. Gardner, Osterloh?
MR. GARDNER: No questions.
CHAIRMAN SCHMITT: Staff?
MR. NGUYEN: No questions, Your Honor.
CHAIRMAN SCHMITT: Commissioner Cicero, Commissioner Mathews?
COMMISSIONER MATHEWS: None.
CHAIRMAN SCHMITT: I have none. In that case, may this witness be finally excused?
MR. OVERSTREET: Yes, he may, Your Honor.
CHAIRMAN SCHMITT: Thank you. You may stand down. You're our favorite witness.

THE WITNESS: This was one of my toughest appearances.

MR. OVERSTREET: In that regard, does that mean Mr. Satterwhite was your least favorite since he was on the longest?

CHAIRMAN SCHMITT: No comment.

THE WITNESS: I'm going to have to give Mr. Kurtz a discount.

MR. KURTZ: Yeah, we have a rate of return witness, Mr. Baudino.

CHAIRMAN SCHMITT: Please raise your right hand.

DIRECT EXAMINATION

By Mr. Kurtz:

CHAIRMAN SCHMITT: Please be seated.

Counsel, you may ask.

MR. KURTZ: Thank you, Your Honor.

Q. Will you state your name and business address for the record?

A. Yes, Richard Baudino. My business address is 570 Colonial Park Drive, Suite 305, Roswell, Georgia, 30075.

Q. Do you have in front of you a document marked "The Direct Testimony and Exhibits of Richard A. Baudino"?

A. Yes.
Q. Was this prepared by you or under your direct supervision?
A. Yes, it was prepared by me.
Q. If I were to ask you the same questions as those contained herein, would your answers be the same?
A. They would.
Q. Any corrections or additions?
A. No.
MR. KURTZ: Your Honor, I tender the witness for cross.
CHAIRMAN SCHMITT: Mr. Overstreet?
MR. OVERSTREET: No questions, Your Honor.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions of this witness? If not, Mr. Chandler, Mr. Cook?
MR. CHANDLER: We do have questions, Your Honor. May I approach and --
CHAIRMAN SCHMITT: Yes, you may.

CROSS-EXAMINATION

By Mr. Chandler:
Q. Good morning -- good afternoon, Mr. Baudino.
A. Good afternoon.
Q. It's a long day yet. So first I would like to

just confirm, you did provide testimony in this case, correct?
A. I did, yes.
Q. And your testimony was on the reasonable return on equity for Kentucky Power Company, correct?
A. Right.
Q. And what was the recommendation that you provided for return on equity?
A. 8.85 percent.
Q. Now, if you don't mind, can you please turn to tab B in the binder that I provided you?
A. Okay. I have that.
Q. Tab B, can you confirm that this is page 29 -- or subject to check it's page 29 of your testimony in this case?
A. Yes, this is page 29 of my testimony.
Q. So this table on page 29 notes the outcomes of your DCF results, the outcome of your DCF methodology and the CAPM, correct?
A. Right.
Q. And the CAPM stands for the capital asset pricing model, correct?
A. That's right.
Q. DCF stands for?
A. Discounted cash flow.

Q. Discounted cash flow. Now, can you look towards your CAPM results there, and can you provide what the CAPM results were based on the 5 and 20 year treasury bonds?
A. Sure. Those results ranged from 6.9 percent to 7.15 percent.
Q. And using historical returns, what was the range that you had there?
A. 5.99 to 7.32 percent.
Q. Now looking at those numbers, did you give any weight to those amounts when you recommended your 8.85 recommendation?
A. No.
Q. Do you ever give weight to CAPM results?
A. I haven't in my memory. I have not -- I just use it for additional information for the Commission since often CAPM and risk premium models are presented for the Commission's information and as also to form the basis for certain witness's recommendations. For me I primarily rely on the DCF.
Q. So other witnesses, though, do use the CAPM or variations of it like the empirical CAPM, correct?
A. Certain witnesses do use a variety of methods, yes.
Q. And with CAPM being one of them?

A. Yes.
Q. Now, if you had given weight to your CAPM, all things equal, would your 8.85 recommendation, would it have been higher or lower?
A. Well, if I had incorporated these results it would have been lower. I didn't really incorporate it. I'm sort of speculating in a way because, you know, I think 8.85 is reasonable, but obviously if you chose to give some weight to those lower results the number would have been below 8.85.
Q. All things equal, of course, the caveat.
A. Yes.
Q. Thank you. Now, on page 29 you asked yourself the question, or you asked -- you're asked the question in testimony. Mr. -- on line 9, (Reading) Mr. Baudino, are you concerned that your recommended cost of equity is too low?
How do you answer that question?
A. I can read, would you like me to read?
Q. Yeah, just the result of the answer.
A. Okay. No, I said I'm not concerned about it at all being too low. In fact I think it's very reasonable for a Baa A-rated utility like Kentucky Power in this current interest rate environment, as I said.

Q. And you stated that -- you stated that one of the basis for that is the low interest rate environment, correct?
A. Right.
Q. Do -- looking back to table 3 on page 29, do any of the amounts you have presented there support a 9.75 ROE?
A. No. In fact, the -- really the high end is 9.55 percent in the median growth rate method.
Q. If we turn one page in tab B to page 30?
A. Okay.
Q. Would you agree that on line 4 through 7 you address the inclusion of short-term debt in the Kentucky Power capital structure?
A. Yes.
Q. Was that incorporated in the settlement?
A. I believe it was. I believe the cost agreed to was 1.25 percent, I believe. I could double-check that, but I believe that's right.
Q. Okay. Now, I've provided you a copy on tab C of your testimony in this case. For everybody else it's just telling them that's what I did since it's already of record in this case, but in case you need to refresh your memory, but I'm just going to ask you a couple of questions about your direct testimony, if

that's okay.
A. Sure.
Q. So you discuss Mr. McKenzie's testimony in your direct testimony; is that correct?
A. Yes.
Q. So do you agree with Mr. McKenzie on the outlook for capital costs or using, incorporating an outlook for capital costs in your --
A. No, I did not. Definitely not.
Q. You agree with the forecasted interest rates of 4.2 percent that he used in his CAPM and URP studies?
A. Well, I mean, I agree that those are what the consensus interest rate forecasts are right now. However, I do not agree that they should be used in a risk premium or a capital asset pricing model analysis. They should use current -- current interest rates should be used for those analysis.
Q. Do you agree with Mr. McKenzie on admitting low end DCF results in his DCF study?
A. No, I think that was -- I criticized that on being sort of an asymmetric analysis, and I had -- if you can just hold on.
Q. I believe you discuss that on page 36.
A. Okay. Thank you. I'm just going to go to that. Right, in fact I presented an analysis on

table 6, page 38, where I incorporated all of the numbers and presented an average and median set of results from that.

Q. Using his proxy group; is that correct?

A. Yes.

Q. Did you agree with Mr. McKenzie's -- excuse me. Do you agree with the expect --

A. Well, actually, I'm sorry. Let me just -- yes, that's right. It was from his proxy group, yeah.

Q. Do you agree with the expected market return component of Mr. McKenzie's CAPM or empirical CAPM analysis?

A. No.

Q. Do you agree with Mr. McKenzie's application of the utility risk premium?

A. No.

Q. Why don't you agree with Mr. McKenzie's application of utility risk premium?

A. Now that -- I believe this was -- when you talk about utility risk premium, I just want to make sure we're talking about the same thing.

Q. I believe you discuss it on page 41.

A. All right, 41, yes. Okay. This was an historical analysis using Commission-allowed returns from '74 through 2016, and what I said on page 41 was generally the bond deal plus risk premium approach is imprecise and can only provide very general guidance on current authorized ROEs -- current authorized ROEs for regulated electric utility, and I say risk premiums can change over time, and they're sort of a blunt instrument.

Q. How can they change over time?

A. Investor perceptions of risk. Changes in interest rates. Those sort of general things.

Q. The idea being that maybe not relative, but individually the risk of a single utility changes between 1974 -- or let's just say the utility sector, the risk of utility sector may change between 1974 and 2016.

A. Well, it could. The other thing I think that, if I can, I'll give you my interpretation of what Mr. McKenzie did, was we know that interest rates change, required risk premiums change, so other things being equal, when interest rates rise the required risk premium in terms of the required return on equity tends to get smaller, and likewise as interest rates fall the required risk premium tends to get bigger, and I think that's what Mr. McKenzie was trying to measure with that.

Q. And in that risk premium he used forecasted

bond rates, correct?
A. He did.
Q. Okay. And those are forward looking for four years; is that correct?
A. I need to go back and see.
Q. That's okay. I'll withdraw the question.
A. Oh, okay.
Q. Do you agree with Mr. McKenzie's application of the expected earnings approach?
A. No.
Q. Why don't you agree with Mr. McKenzie's application of the expected earnings approach?
A. Well, now expected earnings, he used expected earnings, just to make sure we're talking about the same thing.
Q. The next page, I believe.
A. Yeah, on page 42. These were Value Line forecasted returns for the 2020 to 2022 period. I said the Commission should not rely on those for the same reason you shouldn't rely on forecasted interest rates, and instead really should be looking at current required returns from investors as measured by current stock prices through the DCF model.
Q. And is there any way to know whether, are there any metrics available to determine whether or not the

current market book -- the current value of stocks exceed investors' expectations such as possibly the use of -- of the relationship between book value and market value?

A. You can infer that -- you can infer some of it, but right now it's kind of a guess because one theory is if a utility company is expected to earn more than its required return, the market to book ratio would be greater than 1.

So in other words, since utilities earn on their rate base or earn on their capitalization, if the investor required return is set by the Commission according to their investor required -- what it really is in the marketplace, the market to book ratio should be about 1.

Now, for some time now, for some number of years, utility market to book ratios have been significantly above 1, and they certainly have been above 1 in this low interest rate environment, and I think a lot of that is due to investors reaching for yield, you know. Reaching for yield and safety in the current market environment.

Obviously you have very low, you know, treasury yields are quite low right now, and investors are looking for higher yield with some growth, which utilities offer, and safety. So some of that and, in fact, I would say is a good deal of that greater than market to book ratio of 1 now is being driven by the current low interest rate environment.

Q. Do you agree with Mr. McKenzie's -- I'll go ahead. Please refer to your page 43. Do you agree with Mr. McKenzie's application of the nonutility benchmark approach? I believe it's page 43.

A. Okay. No, I do not.

Q. And why don't you agree with the nonutility benchmark approach?

A. Because the nonutility companies he used are from unregulated companies, and I describe here beginning on line 18 utilities have protected markets, service territories, and may increase prices they charge in the face of falling demand or loss of customers, and unregulated companies cannot do that.

So and investors know that, and so other things being equal, you would expect unregulated companies to -- well, for investors in unregulated companies to expect and require returns on equity that are greater than regulated utility companies.

Q. Due to that additional risk, correct?

A. Yes. Yes.

MR. CHANDLER: That's all the cross I have of

Mr. Baudino.
CHAIRMAN SCHMITT: Mr. Osterloh? Staff, cross?
MR. NGUYEN: Yes, Your Honor.

CROSS-EXAMINATION

By Mr. Nguyen:
Q. Good afternoon, Mr. Baudino.
A. Good afternoon.
Q. I take it that you've read Dr. McKenzie's rebuttal testimony with respect to your recommendations in your testimony?
A. I've reviewed it.
Q. Okay. Do you recall his review of your dividend data use in the growth rate portion of the DCF analysis? Do you recall that?
A. What are you referring to? I don't have his testimony in front of me.
Q. You do not have his testimony?
A. I have it on computer. I have it on my computer.
Q. If you can bring that up. Can you bring that up really quick?
A. Sure.
Q. It's on page beginning 63 of Dr. McKenzie's rebuttal.
A. Okay. Which page did you say that was?

Q. 63, at the bottom of 63 and beginning top of 64.
A. Okay.
Q. It's the question and answer to number 88.
A. 63 and 64?
Q. Yes, sir.
A. Okay. I just need a few moments to review this.
Q. Sure. Go right ahead.
A. Okay. I've read that. What's your question?
Q. Okay. So Dr. McKenzie states that the growth rates in dividends per share are not likely to provide meaningful guide to investors' current growth expectations; is that correct?
A. That's what he said.
Q. Okay. But that professional analysts rely on growth rates provided by the earnings per share approach; is that correct?
A. That is what he said.
Q. Okay. Can you provide the Commission with your view of why also looking at dividends per share is appropriate in a discounted cash flow analysis?
A. Sure. It's because dividends represent the cash flows that are actually received by investors, not earnings. The DCF model assumes that dividends

and earnings and book value grow at the same rate, so investors obviously would take into account forecasted growth and dividends if they had that kind of forecast available.

Now, there is evidence in the literature that suggests that it's -- that earnings are important and perhaps the more important forecast that investors would look at, and I would agree with that, but I think it would not be a good idea to exclude or ignore dividend growth forecasts that are available to investors through the Value Line Investment Survey, so I have included that.

And really in my weighting I use four sources. Three sources are earnings growth forecast, one source is dividend growth, so dividend growth should be weighted. It's weighted 25 percent. The earnings growth forecasts are weighted 75 percent, so I do give greater weight to earnings forecasts, but I think you should have dividend growth in there.

Q. Okay. Are you saying that you should also -- one should also factor in the earnings approach as well?

A. Oh, absolutely. And I do that too. In fact, that's the bulk of the weight given to my growth forecast, is earnings growth forecast.

MR. NGUYEN: Okay. Those are all the questions. Thank you.

CHAIRMAN SCHMITT: Commissioner Cicero?

VICE-CHAIRMAN CICERO: No questions.

CHAIRMAN SCHMITT: Commissioner Mathews?

I have none. Is there any other questions to be asked of this witness?

MR. KURTZ: Well, I would do a very quick redirect.

REDIRECT EXAMINATION

By Mr. Kurtz:

Q. How many rate cases have you testified are return equity, about?

A. I was afraid somebody was going to ask me that one day. I haven't actually counted, but quite a few since I've been doing this work since 1982.

Q. Is it typical in your experience that the utility will bring in an expert that comes in high, the consumer advocates or rate payer interests will come in with an expert that comes in low, and the Commission typically ends up somewhere in between?

A. I'd answer that this way. I mean, that's sort of been like the end result, but I will say that, you know, Mr. McKenzie and I and Dr. Woolridge all really believe in what we're testifying to, and, you know, typically the utility is higher, consumer advocates and staff may be lower, and often I've seen Commission come in between those numbers, and sometimes they go for one of the witness's numbers.

Q. In the context of the settlement that's presented to the Commission here, in your opinion is 9.75 percent reasonable?

A. I think within the context of the global settlement like the parties have -- even though it's nonunanimous, that the parties have agreed to is certainly within the range of recommendations to this Commission.

MR. KURTZ: Thank you. No more questions.

CHAIRMAN SCHMITT: Any further cross-examination?

MR. CHANDLER: I don't believe so, Chairman. Thank you.

CHAIRMAN SCHMITT: Anyone else care to further question this witness?

MR. OVERSTREET: No, Your Honor.

CHAIRMAN SCHMITT: If not, may Mr. Baudino be excused?

MR. OVERSTREET: Yes, Your Honor.

CHAIRMAN SCHMITT: Thank you. You may stand down.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Mr. Kurtz, do you have any other witness, or does this conclude your proof?

MR. KURTZ: This concludes. We had two other witnesses, but they were not called by the Commission. We had Mr. Kornstein, who is an economic development kind of expert, as well as the plant manager at Marathon Petroleum, Brad Levi, who testified, but staff did not request them, nor did any of the parties, so their testimony, I guess, is in the record.

MR. OVERSTREET: Our next witness, Your Honor, is Mr. McKenzie.

CHAIRMAN SCHMITT: Mr. McKenzie, please raise your right hand.

ADRIEN M. MCKENZIE, called by the Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

CHAIRMAN SCHMITT: Thank you. Please be seated.

Mr. Overstreet, you may ask.

MR. OVERSTREET: Mr. Garcia.

CHAIRMAN SCHMITT: Mr. Garcia, you may ask.

MR. GARCIA: Thank you, Your Honor.
Q. Good afternoon.
A. Good afternoon.
Q. Would you please state your name and business address for the record?
A. My name is Adrien McKenzie, and my business address is 3907 Red River Street, and that's in Austin, Texas, and the zip code is 78751.
Q. And, Mr. McKenzie, did you submit in this case direct testimony consisting of 78 pages of questions and answers and 11 exhibits?
A. Yes, I did.
Q. Okay. And were these prepared by you or under your supervision?
A. They were.
Q. If I were to ask you the same questions today, would you provide substantially the same answers?
A. I would provide exactly the same answers.
Q. Do you have any corrections or changes to your testimony?
A. I have one small correction. This was actually addressed in a data request, but I'd like to go ahead and correct it formally here. On page 24 of my direct testimony, on line 13 the sentence reads, (Reading) A Value Line safety rank of 1 or 1.

That second 1 should be a 2.
Q. And does that change -- change in any way your analysis?
A. No, it does not. It was just a typographical error.
Q. Thank you. And did you also cause to submit rebuttal testimony consisting of 77 pages of questions and answers and appendix containing three exhibits?
A. Yes.
Q. And those exhibits were numbered 12, 13, and 14 to reflect that the last exhibit of your testimony had been 11 in your direct?
A. That's correct.
Q. And do you have any changes to that testimony or exhibits?
A. I do not.
Q. If I were to ask you the same questions today, will you provide substantially the same answers?
A. Yes, I would.
Q. And did you also cause responses to discovery answers to be submitted in this case?
A. I did.
Q. Do you adopt your direct testimony, rebuttal testimony, exhibits, and the discovery answers that

you provided as your evidence in this case?
A. Yes, sir, I do.
MR. GARCIA: Your Honor, the witness is tendered for cross.
CHAIRMAN SCHMITT: Okay. Mr. Kurtz, do you have any questions for this witness?
MR. KURTZ: No, I do not.
CHAIRMAN SCHMITT: Do counsel for any of the settling intervenors have questions for Mr. McKenzie? If not, Mr. Cook, Mr. Chandler, any cross-examination?
MR. CHANDLER: Yes, sir, and may I approach?
CHAIRMAN SCHMITT: Yes, you may.

CROSS-EXAMINATION

By Mr. Chandler:
Q. Good afternoon, Mr. McKenzie.
A. Good afternoon.
Q. You provided direct testimony in this case, correct?
A. Yes, I did.
Q. And your testimony was on your recommended return on equity for Kentucky Power Company, correct?
A. That's correct.
Q. And can you remind the Commission what that number was?

A. Well, the bottom line number was 10.31. It was based on a range of 9.71 to 10.91.
Q. 9.71 was the lower end of that range?
A. That's correct.
Q. In the company's last rate case, the case, to best of my memory 2014-396, you provided testimony for Kentucky Power along with Dr. Avera; is that correct?
A. Yes, it is.
Q. And in that case do you remember what your recommended ROE was?
A. I do not.
Q. Do you mind to turn to tab A in the binder I provided you?
A. Certainly.
Q. Subject to check, and you may check on your own at tab B that I provided you, has your entire direct testimony from that case, but subject to check would you believe that this is -- would you agree that this is page 4 of your testimony from that case?
A. Yes, I would.
Q. And do you mind to reacquaint yourself with the recommended ROE in that matter?
A. Yes, it's 10.62 percent.
Q. Based on your recommendations in the last two

cases, would you agree that the equity cost rates for the company have decreased?
A. Yes.
Q. If you would please turn to tab C. And tab C, and this is subject to your own check, but this is page 16 through, I believe, 23 of your testimony. Does that look right?
A. In the prior Kentucky Power case?
Q. In this case, excuse me, I'm sorry. I believe that anything in the prior case notes Avera/McKenzie in the top right-hand corner.
A. I understand. Okay.
Q. I've confused myself in the last week between them. Does this, subject to check, look like page 16 through 23 of your testimony?
A. Yes, it does.
Q. Now, on these pages, and it's starting with between line 17 and 18 on page 16, you discuss your opinion on the outlook for capital costs, correct?
A. Well, I clarify that somewhat. I don't regard it to be my opinion. I regard it to be my presentation of really what I see in the market. I'm not making a personal prediction.
Q. Okay. On page 21 that's there. I guess this will be five or six back, you cite to Blue Chip

Financial Forecasts, correct, which I guess you short reference there as Blue Chip.
A. That's correct.
Q. And you cite to Blue Chip as your reference to what you believe -- well, excuse me. Let me try to ask this question in light of your recent clarification.
You provide these figures as what Blue Chip expects interest rates to be between now and 2022, correct?
A. Well, Blue Chip is one of the sources that I rely on, and that's one of the forecasts that is considered in developing this graph, so I would agree with that, subject to the proviso that there are others included in there.
Q. And if you'll turn to page 22, I believe it's the -- no, excuse me, 23. Do you mind to read into the record the paragraph starting on line 12 through line 17?
A. Certainly. (Reading) Given investors' expectations for rising interest rates and capital costs, the Commission should consider near-term forecasts for higher public utility bond yields in assessing the reasonableness of individual cost of equity estimates and in evaluating the ROE for

Kentucky Power. The use of these near-term forecasts for public utility bond yields is supported below by economic studies that show that equity risk premiums are higher when interest rates are at very low levels.

Q. Now, do you mind to turn to tab D, please. And subject to check, would you agree that this is your Exhibit AMM-7 in this matter?

A. Yes.

Q. And in AMM-7, page 2, what is the risk-free rate that you use in your analysis there?

A. Okay. Well, first just to clarify, page 1 of this exhibit presents the capital asset pricing model using the current risk-free rate, so I do consider current rates.

Page 2 presents the CAPM using a forecasted rate of 4.2 percent, which is roughly comparable to the 4 percent that Dr. Woolridge used in his CAPM.

Q. So thank you for clarifying that. I wasn't -- I will follow up. On page 1 then, what's the risk-free rate you used for current?

A. 3 percent, and as I indicated in the footnote, that was based on the average yield for the six months ending May 2017 when I prepared my testimony.

Q. And are you aware of what the 30 -- and that's

based on the 30-year treasury bill, correct?
A.   30-year treasury bond, yes.
Q.   Treasury bond, sorry.
A.   Yes, sir.
Q.   Do you know what the current 30-year Treasury bond is today?
A.   I don't know today's yield, no.
Q.   How about do you mind to turn to tab E? What it was as of the 4th of December per the U.S. Department of Treasury?
A.   The 4th of December, just a one-day spot yield was 2.77 percent, by the look of it.
Q.   And would you be surprised to find out if yesterday the one-day spot yield was 2.71 percent?
A.   That wouldn't surprise me. It wouldn't be my recommendation to use a spot yield in this analysis. I used six-month averages.
Q.   Six-month historical averages, right?
A.   Correct, as one basis.
Q.   So what did you use, going back to tab D, what did you use as the current rate?
A.   3 percent.
Q.   3 percent. And on page 2, what was the forecasted amount you used as the risk free rate?
A.   4.2 percent.

Q. 4.2 percent, and that was based on a 2007 to 2022 time frame that we looked at previously, right?
A. I think you said 2007. 2017.
Q. 2017, excuse me. I'm sorry.
A. Correct.
Q. 2017 to 2022.
A. Yes.
Q. And so when you incorporate the forward looking forecasted risk-free rate, the expectation is that in the next four years -- excuse me.
When using that risk free rate, the calculation anticipates an increase from the current interest rate to the risk free rate you use in the calculation, correct?
A. Right. In other words, just as Dr. Woolridge did not use the current 30-year treasury bond yield in his CAPM, I used a higher rate in this example. My rate in the previous page is actually lower than the rate that Dr. Woolridge used, the idea being that the Commission is trying to establish a cost of equity that's going to present a meaningful estimate of investors' required return over the time when rates are set. So this is one gauge that I offer the Commission in making that determination.
Q. And so if we just assume that -- and I agree

the one-day snapshot, we'll throw out the one-day snapshot, that over the last few weeks, we'll say, the Treasury rate has been at roughly 2.8 percent; is that correct?

A. Yes.

Q. So the forecast on page 2 here anticipates 140 basis point increase over that time frame that you've applied.

A. Over the five years, yes.

Q. Over the five years. Do you mind to also turn to tab F, and on page 2 of that -- well, to be fair, we'll go to page 1. For your applied cost of equity, under implied cost of equity, under B, is that the -- is that -- what percentage does that represent? What number does that represent?

A. That's the six-month average yield on Baa utility bonds as reported by Moody's for the month end of May --

Q. So looking at corporate utility bonds, that rate is sort of comparable to the 3 percent we were discussing in the last --

A. That's correct.

Q. It's a six-month historic.

A. Yes, sir.

Q. And on the next page you use the same calculation. I believe the only difference between the two calculations is the -- is a different utility bond yield and the different adjusted equity risk of premium, correct?

A. Yes, because the equity risk premium moves inversely to the bond yield, so by substituting a new bond yield we need to calculate that.

Q. Yeah, you can't use the current interest rate and a future risk premium, and vice versa, right?

A. Right.

Q. Okay. So what does the 6.28 percent represent?

A. The 6.28 percent is a forecast of Baa utility bond yields for 2018, 2022. It's actually based on forecasts for AA utility bond yields. Those are the only forecast rates that are available, and then onto that I add an average spread, the difference between a AA and a Baa bond yield.

Q. Which -- would you agree that those -- is it your opinion that those -- that the difference between those two are very similar over time, the spread between the two?

A. They can fluctuate, depending on risk perceptions in the market.

Q. Do you feel the adjustment you made was reasonable?

A. Yes, I do.
Q. Now, if you'll turn to tab G.
MR. CHANDLER: And I apologize to additional counsel. We ran out of Gs, so for some of you it may be tab T.
Q. If you'll turn to tab G, and this is the Mergent -- a copy of the Mergent Bond Record. Are you familiar with this publication?
A. Yes, I am.
Q. And you -- this is a trustworthy publication for -- to determine what the bond yield has been?
A. Yes.
Q. Okay. On page 2 of that will you please note what the -- and this is the most recent version that we could come about, what the September 2017 Baa public utility bond yield was?
A. This reports it as 4.24 percent.
Q. And do you have any reason to believe that this is incorrect?
A. No.
Q. And so between the September rate, which a caveat is a snapshot in time, to the rate you use on AMM-9, page 2, would you agree that that's about a 200 basis point different -- difference?
A. Can you tell me which tab you are on?

Q. Yeah, I apologize. It's tab F, page 2 of tab F. I'm more than happy to give you time if you'd like to put it into the three-ring binder if it would make it easier.
A. No, that's correct.
Q. So 200 basis points?
A. Approximately.
Q. Approximately 200 basis points, and again with the caveat that the Mergent September is a snapshot in time. It's not an average of the past six months, it's just a snapshot of the day.
A. Correct.
Q. And so in this case you've given consideration and incorporated an outlook for higher capital costs in your ROE determination; is that correct?
A. Yes, that's one aspect of my recommendations.
Q. Now, do you mind to turn to tab H, which we had plenty of, so -- and I believe you have a copy of yours and Dr. Avera's testimony if you would like to check, but subject to check, from the 2014 rate case would you agree that this is page 19 of that testimony?
A. Subject to check. I don't have any reason -- I don't have any ability to confirm or deny, but I'm sure --

Q. I do believe -- you do have a copy of the full version up there, if you would like. I believe it's tab --

A. I'm going to trust you on this one.

Q. Okay. All right. I appreciate it. Do you mind to read into the record line 12 through 18?

A. Certainly. (Reading) Given investors' expectations for rising interest rates and capital costs, the KPSC should consider near-term forecasts for public utility bond yields in assessing the reasonableness of individual cost of equity estimates and in evaluating a fair ROE for Kentucky Power from within the range of reasonableness. The use of these near-term forecasts for public utility bond yields is supported below by economic studies that show that equity risk premiums are higher when interest rates are at very low levels.

Q. So would it surprise you to know that this is the -- nearly the exact same paragraph that you provided on page 23 of this current rate case?

A. No, not at all. In fact, the expectations for bond yields and what investors are looking for in the capital markets haven't changed substantially based on the projections that I've looked at.

Q. And it would be fair to say that you've been

consistent on this point since the last rate case.
A. Yes.
Q. So if you'll turn to tab I?
A. I'm there.
Q. This is Exhibit WEAAMM-8 from the last rate case. I believe this is your CAPM, your empirical CAPM work sheet from the last rate case. Subject to check, would you agree?
A. Yes.
Q. And can you provide the Commission with the number that you used in the current risk-free rate?
A. It was 3.3 percent at that time.
Q. And would you agree that we discussed earlier that at least recently in the last few weeks the 30-year treasury bond has been roughly 2.8 percent?
A. Yes, that's correct.
Q. And will you turn to the second page of that exhibit or that, yeah, your exhibit, and tell the Commission what the risk-free rate you used in the forward looking determination was?
A. It was 4.7 percent at that time.
Q. 4.7 percent at that time.
A. Correct.
Q. So the current risk-free rate is roughly 2.8 percent. Excuse me. The risk-free rate you use

is a 30-year treasury, correct?
A. Yes, sir.
Q. And we discussed that that is roughly right now at 2.8 percent?
A. Yes.
Q. And your forecast from the last rate case forecasted it, not your forecast, excuse me, the forecast you used that was provided pursuant to the -- I think one of the things you included was the Blue Chip Financial Forecast, correct?
A. Yeah, I've used those sources consistently. I'd have to look back to see if that source was applied then, but I expect it could have been.
Q. I think in footnote C there you note that it included Blue Chip Forecast Volume 33.
A. Thank you. Yes, sir.
Q. Okay. So your forecasted interest rate from the case 2014-396 in which you filed testimony in, the forecasted interest rate for the time period 2005 to 2019 was 4.7 percent, and the current risk-free rate of a 30-year treasury bond is 2.8 percent.
A. Right, that's correct.
Q. Thank you.
A. We don't have any dispute about the fact that the forecasts don't necessarily turn out to happen in

real time. Dr. Woolridge makes a big point about this in his testimony, and my point is it's expectations that matter, not the comparison of what people thought, and did it actually happen.
Q. Would you agree that the Commission used your ROE recommendation in the last rate case to determine whether the rates were fair, just, and reasonable?
A. I don't know that the Commission used our ROE determination in the last case solely. I'm sure they considered the evidentiary support in the record and made their own determination.
Q. Would it surprise you to know that the only ROE that came out of the last rate case was a stipulated 10.25 that applied to a single tracker?
A. No.
Q. And would it surprise -- and do you mind to reconfirm with the Commission what your ROE recommendation was in the last case? Subject to check, 10.62 percent sound okay?
A. Yes.
Q. And do you mind to turn to tab J. This is Exhibit WEAAMM-9 from the previous rate case.
A. I'm there.
Q. Go to page 2 and allow the -- tell the Commission what the BBB utility bond yield 2015 to

2019 that was used in the applied cost of equity in this, what percentage it was?
A. At that time it was 6.77 percent.
Q. And so according to Mergent, in September, a snapshot in time, it was 4.24 percent in September.
A. That's correct.
Q. And so it's 2000 -- it's 25 days away from 2018. Essentially three years through the time period in which Blue Chip forecasted interest rates; is that correct?
A. Yes. Well, it's not just -- again, it's not just Blue Chip. It's also Global Insight and the Energy Information Administration of the U.S. Government.
Q. Okay, the U.S. Government, thank you. And it looks like the -- okay. So we're three quarters of the way through the time period they estimated and forecasted through, and the current bond yield for a -- a comparable bond yield is 4 -- for comparable risk, excuse me, is 4.24 percent, and you incorporated -- as one of the items you incorporated to come to your 10.62 in the last rate case was a forecasted 6.77 percent, correct?
A. That's correct. We don't have any dispute about the fact that the forecast did not materialize.

The question is sitting here today what's the basis of an investor's expectations, and I'm telling you again that I believe it to be forecasts, not backward looking information.

Q. But you recommended the same thing in the last case, correct, using the same sort of forecasts, the same data?

A. My approach in this case is consistent with the last proceeding, yes, sir.

Q. Do you mind to turn to tab, hope I'm right here, tab F, please, and page 3 of that.

A. Okay. I am there.

Q. As a general proposition, has the investment risk of electric utilities gone up or down over the last 40 years?

A. It's gone up.

Q. You think it's gone up. And what studies do you have that --

A. Well, I've looked at bond ratings for the electric utility industry over time, and back in the '70s and early '80s probably the industry average was a AA. There's certainly, there was an A average, and much more companies -- much fewer companies in the BBB category.

Over time they've migrated, and today I would say there's the majority of firms in the electric utility industry are rated Baa, and fewer are rated single A or above. In fact there's really only one company I'm aware of that's rated AA, Madison Gas & Electric Company.

Q. Okay. Would you agree -- excuse me. Excuse me. What risk measures do you use for Kentucky Power?

A. Are you referring to the establishment of the proxy group?

Q. No, excuse me. I'm not trying to trip you up. Trying to ask it in -- what do you believe the most appropriate measurement of risk is to compare two different utilities to each other?

A. Well, that depends on what you're trying to compare. If you're trying to compare the risk of a utility bond, for example, the easy and most objective benchmark would be a bond rating.

On the other hand, two publicly-traded utility companies, you would presumably look to other risk measures such as financial strength ratings and other ratings that are published in the investment industry, which Beta is another example of a risk indicator that's related to the risk of common stock.

Q. Would you please turn to tab M, please? That's a lot of pleases. Would you please turn to tab M, and this is an exhibit that's located in Dr. Woolridge's, along with Dr. Woolridge's testimony, and as industry average Beta, according to Value Line Investment Survey February 2017, do you have any reason to believe that the information on this is incorrect?

A. I don't have any reason to believe it's incorrect, but I haven't verified any of it.

Q. Would you please look at the bottom right-hand corner of it?

A. Yes.

Q. And would you agree that Natural Gas, Water Utilities, Electric Utilities (Central), Electric Utility (West), and Electric Utility (East) have the five lowest Betas on this?

A. Yes, they do have the five lowest Betas on this.

Q. And as a general proposition, would you agree that in recent years that of the ratings changes, the credit changes -- excuse me. That the majority of credit rating changes in recent years have been upgrades to electric utility stocks? To electric utilities, excuse me.

A. I think you'd have to be more specific. I mean certainly, you know, there's a graph in Dr. Woolridge's testimony that shows over some period of time a general strengthening in credit ratings for utilities.

We spoke this morning about a Moody's article that actually involved a pretty much an industry-wide upgrade based on perceptions of support from regulatory mechanisms, although Kentucky Power was not upgraded at that time.

Q. And perceptions of -- why make the qualifier "perceptions"?

A. Well, it's the perceptions of the credit rating agencies in terms of their view of how those mechanisms impact the solvency and default risk associated with the bonds that they're rating.

Q. And do you believe that those rating agencies are a valid -- are a valid measure of actual risk?

A. Absolutely, yes, sir, and I rely on those in my testimony.

Q. And so if you'll turn to tab L in your testimony. I believe this is the page with Dr. Woolridge's testimony that you were just referring to. You note, and I believe Dr. Woolridge admitted this earlier, that in response to Kentucky Power counsel, that the single year upgrade that you

were just referring to was in 2014, correct?
A. Yes.
Q. And that was where 97.2 percent of utilities were upgraded?
A. Right.
Q. And since that in 2015, according to EEI, do you know if Kentucky Power belongs to EEI?
A. Kentucky Power? No. I imagine that American Electric Power Company does, but I don't know.
Q. Okay. So according to data from EEI, is it true that 70 percent of utility credit rating changes have been upgrades?
A. I haven't reviewed that report. I don't know that to be the case.
Q. Subject to check, does this chart depict that?
A. Yes. What time period were you referring to?
Q. The year 2015.
A. Yes, that's correct. According to this chart, that's what it says.
Q. Do you mind to turn back to tab F? Okay?
A. I'm there.
Q. And column A, allowed ROE?
A. Oh, excuse me, I must have the wrong tab.
Q. That's okay.
A. Column F?

Q. Column A.
A. Which page?
Q. It's tab F, page 3.
A. Page 3.
Q. ROE A. It's your authorized returns in the electric utility risk premium.
A. Yes, sir.
Q. Would you agree that you -- that the percentages in column A were taken from major rate case decisions regulatory focused from RRA?
A. Yes.
Q. And the 9.7 percent that you use there, is that the overall average for 2016?
A. Yes, I just used the overall averages in every year for this study.
Q. And in 2016, RRA reports authorized ROEs for individual cases; is that right?
A. Yes.
Q. But you did not use the individual cases. You just took the overall average.
A. I took the reported average in each year.
Q. Does RRA provide more than one average every year, one that incorporates Virginia surcharge -- Virginia cases that provide additional bumps to ROEs and one that does not?

A. They do now, although that's a recent feature of their reporting, so going back there would be no way for me to develop a comparable measure. For instance, they also report ROEs that include penalties like the Indianapolis Power Case last year where the company was penalized, so I just use the average.

Q. So this does incorporate cases from Virginia, for instance, where they add additional basis points to the ROE?

A. That's correct, it does.

Q. And do you know what the 2016 average ROE was without those Virginia cases?

A. I may be able to tell you that. 2016, I believe it was 9.6 percent.

MR. CHANDLER: That is all the questions the Attorney General has.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh, any questions? Staff, question?

MS. VINSEL: Yes. I have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. I'm going to pass out a packet. Mr. McKenzie, this is not all geared to you. This contains information that's in the case record for several of

the witnesses that will come up.
A. Now that I see the size of the stack, I appreciate the preamble.
Q. Mr. McKenzie, can I have you turn to tab number 14, and the very last page there. We'll discuss that in a minute, but I thought we might as well go ahead and do this.
As you know, in the nonunanimous -- the proposed nonunanimous settlement, it recommends a 9.75 return on equity, and your recommendation was 10.31, correct?
A. That's correct.
Q. Could you provide us with a general analysis of the 9.75 return as compared to your recommended 10.31?
A. Well, clearly I would view the 9.75 as a conservative return, given my recommendations and given the methodologies that I apply in my testimony. However, it is within the range that I identify in my testimony, albeit right at the bottom end of the range or close to it.
My view is that it's a very positive, reasonable settlement, although it's I think a conservative ROE for the company, both based on the evidence that's presented in my testimony and my

analyses, as well as comparisons to other recent decisions of the Commission, in particular the 9.7 percent ROE that was approved for Kentucky Utilities in June this year, and as was discussed earlier in the cross of Dr. Woolridge.

Kentucky Utilities is a less risky utility than Kentucky Power, so that argues for a higher ROE, and I think five basis points is really not enough to compensate for that risk difference.

Q. To follow up on what you've just said, is it your opinion that the 9.75 ROE reflects the risk and return requirements of investors?

A. Again, I think all things considered, which I think is the proper way to consider the ROE in this case, given that we have a settlement agreement, I think the settlement agreement inherently involves tradeoffs between all the parties to reach a comprehensive positive solution that the parties can agree to, so I would view this ROE as being somewhat on the low side, considering my recommendation.

I think it's, again, a little bit lower than it should be, given the differential and the risk between Kentucky Power and Kentucky Utilities, but I think if it's examined within the scope of all the evidence, that it would be reasonable.

I don't think it's the type of recommendation, the type of finding that would cause concern among the investment community, unlike an ROE of 8.6 or 8.82, which is essentially off the charts in terms of ROEs.

Q. Do you believe that the 9.75 ROE aligns with the current economic conditions, but also with the indications that the Federal Reserve will raise interest rates in December?

A. Again, I think it generally aligns with the present conditions given recent authorized returns in the utility space. I think my concern with it in light of widespread expectations for interest rates to rise, we have a very stimulative tax reform act that may come to pass, we have the Federal Reserve, which is winding down its balance sheet investments and raising short-term rates. All of those, in my view, are confirming the forecasts, the independent forecasts that are in my testimony which suggests investors expect interest rates to go up, and I think that's consistent with Dr. Woolridge's own analysis which uses a higher treasury bond yield for his CAPM.

What that suggests to me, given that there's a stay-out provision in the settlement, the investors are locked in at the ROE now and facing the prospects that capital market conditions could change and could ramp up, so I think in light of that it's a conservative value.

Q. Turning to the tab 14, and this is -- this is from your supplemental testimony, Exhibit Number 14. This is a chart with the expected earnings approach for this utility group.

A. Yes.

Q. Could you first explain for the Commission what the expected earnings approach measures?

A. Well, the expected earnings approach goes back to the comparable earnings standards that underlie the Supreme Court's Hope and Bluefield decisions, which basically say that the allowed return should be one that allows the utility to earn a return on its investment that's equal to other enterprises of comparable risk, and how the Supreme Court initially implemented that was actually looking at book returns, so the fundamental premise is that rates are established based on the book equity investment in the utility, and so if the allowed ROE is set less than what investors expect other utilities to earn on their book value, the company will be disadvantaged in the capital markets.

Dr. Woolridge pointed out that it's not a capital market-based method, and he's right on that. It's not. It's based on the regulatory standards that underlie the determination of a fair ROE.

He also -- on the other hand, he said that nobody uses the expected earnings approach, and I don't agree on that point. The Federal Energy Regulatory Commission has recognized the approach that's applied to my testimony in its evaluation.

The Virginia Commission is mandated to consider earning returns on book value for companies in the region, in an immediate geographical region, when they establish an allowed ROE.

Q. And according to your chart, you've got the average ROE under this approach as 11.8 percent.

A. That's correct.

Q. So can you again just discuss how that 11.8 percent compares to the ROE, proposed ROE of 9.75 percent?

A. Clearly it's much higher. As I talk about in my testimony, there's no single way to precisely estimate the cost of equity. It's an unobservable quantity, and so we have to use various quantitative methods to try to get a handle on what the investors' cost of equity is.

We've talked about earlier today the DCF approach. I was walked through some of my capital asset pricing model and risk premium approaches. This is another independent approach to try to get a handle on where the range is for investors' rate of return, so I'm not suggesting, obviously I wasn't recommending 11.8 percent return for Kentucky Power in this case, but it's another benchmark that I think is useful in trying to frame a zone of reasonableness from which we draw what we consider to be the best estimate.

Q. And this is a little bit different than what I've already asked you, but in your testimony you discuss investor risk, particularly that a utility needs to offer a return similar to returns available from other opportunities of comparable risk.

So in your opinion, does the proposed settlement ROE of 9.75 allow for sufficient investment and offer a return similar to returns available from investments with comparable risks?

A. In my opinion, it does. Again, given my analyses I believe it falls at the low end of a reasonable range. I know the Commission in the past has referenced RRA reports and recent allowed ROEs as a basis to at least benchmark a company's ROE.

The most recent publication from RRA, the range of returns is 9.2 to 10.25. The midpoint of that is 9.73. As I point out in my testimony, there's issues with using RRA for those purposes because as I point out, the 9.2 percent at the low end has some features that don't apply in this case, so again, it's a rough approximation, but what it tells me is that the 9.75 is certainly within a reasonable range, and I think conservative given its relative risk, Kentucky Power's risk vis-a-vis the KU.

Q. Thank you.

MS. VINSEL: That's all the questions we have.

CHAIRMAN SCHMITT: Commissioner Cicero, questions?

VICE-CHAIRMAN CICERO: Just two quick comments.

EXAMINATION

By Vice-Chairman Cicero:

Q. Did you say the Virginia Commission mandates geographical proximity assessment for ROEs within the area that they're contiguous to or somewhere thereabouts?

A. Yes. What they do is there is a geographical boundary. They look at publicly-traded utilities operating within that boundary, and they look at their average earned returns over the last three years, and then they develop a matrix, and they have -- they are required by statute to consider the majority of those values.

Now they obviously have a great deal of flexibility in terms of what the majority is. There's usually seven to eight companies, so the Commission has the flexibility to move that up or down as they see fit, but those -- those earned returns provide a basis upon which to set a floor and a ceiling for the actual allowed return, so there's some premium on top of those earned returns that's used to put a ceiling on it.

Q. So given the comments this morning about Illinois having a return of 8.4 and 8.6, should we be considering those returns, given the proximity of Illinois?

A. No. I don't believe you should. There's -- and this again is a good example of why I think you need to be very circumspect when you look at RRA data as a basis to establish the ROE.

This particular case, first off, involves a distribution only utility, so they have no generation. It's a different risk class from the company here. It's a different operating circumstance. There's structural differences.

Second, it operates under a formula rate plan with an annual true-up, so to the extent the company over earns or under earns, it's trued up every year. I think most importantly, the ROE established for Ameren Illinois and other -- there's other Illinois utilities that are under the same scheme, is determined based on a formula approach, and it's basically a fixed risk premium which is added to a 30-year bond yield. That risk premium doesn't change. If the 30-year bond yield changes the annual ROE changes.

Ameren's allowed ROE has been consistently the lowest in the industry. I think it was 8.64 percent last year as a result of this formula, and I don't believe that that's a very sound basis upon which to estimate investors' cost of money for a utility because it doesn't vary necessarily with treasury bond yields.

I mean, we can see a situation in the market where you have a flight to quality. There's some event that triggers fear in the markets. That generally drives treasury bond yields down, but on the other hand, the risks for common stocks would go up, so in this case we'd have exactly the opposite behavior in this allowed ROE based on this fixed formula.

Q. I just find it's interesting that the Illinois ROE is 135 basis points below the settlement and 190 basis points below your 10.31. That's a significant difference.

A. But I would proposition that it's really exception that proves the rule. I don't believe it's a sound basis. I can give you another example on the other side in the gas utility industry. I mean, basically if we look at the RRA data for the most recent -- the most recent quarter, you'll see that the allowed return for gas utilities averages 10.14. Well, on its face that seems a little high, but if we don't look behind it we're not going to get the whole story.

In fact, based in there is an 11.88 percent return for Enstar Natural Gas up in Alaska. Now, this is -- obviously we're not talking about a utility in Alaska today here, but what I'm suggesting is --

Q. Or in proximity to Kentucky.

A. Or in proximity to Kentucky, but there's a lot of differences between the individual cases that I think make setting an ROE based solely on RRA data tricky, and I think the example that Dr. Woolridge pulled out this morning is not indicative of investors' expectations for the industry as a whole.

VICE-CHAIRMAN CICERO: I don't have any other questions.

CHAIRMAN SCHMITT: Commissioner Mathews?

COMMISSIONER MATHEWS: I have none.

CHAIRMAN SCHMITT: I have no questions.

Mr. Garcia, redirect?

MR. GARCIA: Just a few, Your Honor. Thank you.

REDIRECT EXAMINATION

By Mr. Garcia:

Q. Mr. McKenzie, in your discussion with Commissioner Cicero about the Ameren case in Illinois, you described that that ROE was determined through a formula. Does that ROE in that case for Ameren Illinois take into consideration any of the type of analysis like DCF that you and the other witnesses in this case have provided?

A. No, it does not. It's just basically take a number, add it to the bond yield. There's been other instances in the past where, for example, FERC tried to develop a generic type of ROE approach to minimize controversy.

In every case my experience is those break down because the relationships don't hold over time. Risk

premiums aren't constant. Treasury bond yields behave in ways that don't necessarily match the cost of equity for a utility.
Q. You were asked during your examination by the attorney for the Attorney General, and one of the things that you were asked about was the ROE of 10.25 that was approved for certain tracker in the last base case of Kentucky Power. Do you recall that discussion?
A. Yes, I do.
Q. Are you aware of whether that last rate case was resolved through a settlement?
A. I believe it was resolved through a settlement, yes.
Q. Okay. And if you know, do you know whether the settlement provided for either a range or for an indication of what the ROE was for the company generally?
A. It did provide a range, yes.
Q. If I told you that the average --
A. I can't recall it.
Q. -- of that range was something approximately around 9.8 percent, would that be consistent with your recollection?
A. Yes.

Q. You were also asked about the comparison of different utilities, asked to -- the investment risk, and just to -- to clarify a basic building point, that's one of the requirements of the Bluefield and Hope decisions, correct?
A. Correct, yes, that the return reflect a risk -- or reflect the requirements for comparable risk investments.
Q. Now, when you said comparable risk investments, would you consider Baa2 Moody's credit rating to be a comparable risk investment in that sense as investment into a company that has a Moody's credit rating of A3, so just as Kentucky Utilities?
A. Well, as Dr. Woolridge discussed a little bit, there's gradations within the investment grade ratings scale, so there's two notches difference between a Kentucky Utilities bond rating, which is less risky, and Kentucky Power's bond rating. Now clearly that indicates higher risk for Kentucky Power, at least based on that indicator.
Bond yield spreads between Baa and A rated bonds are about 40 basis points. That entire span would be about three notches. We're talking about two here. So it would be something less than 40 basis points, but clearly there would be a

difference.

Q. And the 9.75 percent ROE that's provided for in the settlement in this case is just five basis points above that which was authorized for the settlement of the KU and Louisville Gas & Electric case, correct?

A. That's correct. And I think it's also important for me to point out that the 40 basis point bond yield spread is based on the risks of bonds, and when we move to the higher risks of common stock we would expect spreads to be higher.

Q. You were also asked about one-day spot yields, and I think that in your answer you started indicating that that was not something that could be used, and acknowledging that counsel indicated that those were out of the window.

If you could illustrate for the record a little bit why can those not be used as a reliable measure in order to determine the long-term return on equity for the company?

A. Well, just like we do with stock prices, when we apply the DCF model we typically use an average over some period like 30 days, 180 days. Analysts do it different ways.

The point is that in any given day yields and stock prices can fluctuate, so it doesn't necessarily provide a very accurate picture of investors' expectations that are consistent with current capital market conditions.

Now, that's why I use a six-month average bond yield. Some people could use shorter time periods, but I think a day would be a poor basis upon which to make those decisions.

Q. You were also asked about the table that has the average ROE, allowed ROEs that are published by the Regulatory Research Associates, or RRA?

A. Yes.

Q. Do you recall that?

A. Yes, I do.

Q. And there was some indication during the questions that for some period of time those averages would include Virginia authorized ROEs that may or may not include basis point increases based on Virginia law. Do you recall that?

A. Yes, that's correct. And actually in my rebuttal testimony, in Exhibit 12 to my rebuttal testimony I show the effect of that for the most recent two-year period, so if the Commission was interested in looking at RRA data for the last two years, the most recent -- and excluding the impact of those Virginia riders, they could look there, and as

I present there the range was 9.2 to 10.55 with a midpoint of 9.88 and an average of 9.73.

Q. Mr. McKenzie, do the ROEs that are included in that average calculation include ROEs for utilities that, for example, would be distribution only, or is that only for integrated ones?

A. The numbers I just discussed are integrated only, so they're comparable to Kentucky Power. The ROEs in the schedule that the AG was having me review earlier would contain ROEs for distribution only companies.

Q. Now, a distribution only company, all other things being equal, would be less risky investment than an integrated one?

A. That's generally the perception. Obviously you could have perhaps specific, company specific differences. Again, that's why I think it's important to look at the RRA data carefully, but in general, yes. The risks of distribution-only utilities are perceived to be lower than those of integrated companies.

Q. Okay. You were also asked about corporate bond yield averages for the year 2017 that were related, I think it was either tab T or tab G of that --

A. G, yes.

Q. When you analyzed that data, Mr. McKenzie, do you take into consideration the actual numbers from a historical point of view, or is this information more relevant to your analysis as it would be perceived prospectively by investors?

A. Well, again, I do rely on information very much comparable to what's included in this tab. And I would normally rely on a six-month average bond yield as the basis upon which to apply, for example the risk premium method in my testimony and as a benchmark in evaluating DCF methods.

My testimony also is that, however, given the current state of economic situation, the Federal Reserve policies, and expectations in the independent forecasts that are presented in my testimony, that the Commission should give some weight to the idea that interest rates will increase, and I think the Commission cited that fact in its recent decision in the Kentucky Utilities case.

Q. And if you were to go to the next tab that has an excerpt from your testimony and Dr. Avera's testimony. If I can draw your attention to something that is mentioned there on line 3, where it's talking about historically anomalous capital market conditions.

Would you mind elaborating a little bit on what those anomalous capital market conditions were at the time that this testimony was written and how they may affect the perception of investors as we sit here today in looking at the 9.75 percent ROE that is proposed in the settlement?

A. Well, the quotation in the testimony that you're referencing is actually a quotation from a FERC order, and there the FERC determined that because of the Federal Reserve's policies, in particular its actions to suppress interest rates, both short-term and long-term, Dr. Woolridge said that the Fed doesn't impact long-term rates. He's partly right. Their short-term monetary policies do not.

However, the QE measures that they undertook and the $4.2 trillion worth of long-term debt that they have on the balance sheet was specifically purchased in order to impact short-term rates and to suppress them.

FERC determined basically that these types of conditions and the disconnect between the low rates we have now and expectations of higher rates, were having some type of an impact on stock prices, and the resulting -- excuse me, on the resulting DCF results, and in fact that they were leading to downward biased DCF numbers.

Mr. Baudino spoke about the idea that chasing yield perhaps has led to higher stock prices, but we don't know what growth expectations are behind those. We don't know what those individual investors are expecting, and it's hard within all of the assumptions of the DCF model to know that we're accurately capturing those, so I think within this context, and given the stay-out provision of the settlement, to me the 9.75 is pretty much -- is a very conservative spot for the ROE for Kentucky Power, both given its risk relative to other utilities in the states, given the expectations for higher capital costs, which investors are assuming the risks of those currently under the stay-out provisions.

Q. Thank you, Mr. McKenzie.

MR. GARCIA: Your Honor, for the last question that I was going to ask Mr. McKenzie we have a demonstrative exhibit that may help follow what he's going to say. Can we take care of that?

CHAIRMAN SCHMITT: Yes.

MR. GARCIA: Thank you, Your Honor.

MS. GLASS: May I approach?

CHAIRMAN SCHMITT: Yes, you may.

MR. GARCIA: Well, this will relate to the settlement. May I approach?

CHAIRMAN SCHMITT: This will be marked as Kentucky Power what, 10, 11?

MR. GARCIA: I believe it is Exhibit 12, Your Honor.

CHAIRMAN SCHMITT: 12, yeah.

(KPCO Exhibit 12 marked for identification.)

Q. Mr. McKenzie, what has been marked as Kentucky Power's Exhibit 12, this is a document that was prepared by you?

A. Yes.

Q. And if you would describe what it represents, please.

A. This is analogous to figure 2 in my direct testimony which discusses this issue. Basically what this presents is the weighted cost of equity both for -- implied by the Kentucky Power settlement, 4.06, Kentucky Power's equity ratio is 41.68 percent.

The Kentucky Utilities case earlier this year where the ROE -- where the ROE was 9.7 and the company's equity ratio was approximately 53 percent, and I've compared those two with the resulting weighted ROEs for all companies in 2015 covered by

RRA where an ROE and a equity ratio was reported.

The reason I think this is important, again getting back to this risk concept, a lower equity ratio means greater risk. Kentucky Power's equity ratio is well below industry average. It's certainly well below Kentucky Utilities'.

And also as far as the rate payer impacts, the fact that Kentucky Power is using a much lower equity ratio basically dilutes down the impact of the ROE on customers, both through the tax impact, as well as just the fact that the cost of debt is lower than the cost of equity, so I think this graph helps to illustrate that the settlement, considering capital structure as well as ROE, provides a very conservative outcome, given other recent regulatory decisions.

Q. Thank you, Mr. McKenzie. So if I can ask you a few questions then about Exhibit 12. On the right side where it says the Kentucky Power settlement, that 4.06 percent, how does that relate to 9.75 percent ROE that it's --

A. That's the product of the 9.75 ROE and the company's capital structure equity ratio of 4.186, I believe.

Q. Okay. And asking you the same question about how the 5.22 percent on the right of the chart is established for Kentucky Utilities. If you can explain, how is that number calculated?

A. That is the product of the 9.7 percent ROE approved by the Commission multiplied by the company's equity ratio 53.85 percent.

Q. Now, since Kentucky Utilities has a capital structure that is more heavily weighted towards equity, does that mean that every basis point in ROE has potentially a revenue impact for customers, that it's greater that if its capital structure, for example, was flipped and it had more debt than equity?

A. Right. Certainly there's a lot of factors that go into capital structure decisions, so there's company specific reasons why capital structure would be right for one company and not for another, but all that equal, a higher equity ratio will result in higher costs just because of course the equity return is higher than the debt return, and there's the tax impact associated with it.

Q. And I'm not going to ask you about rates, but from a customer point of view, what you just said, does that mean that a 9.75 percent ROE as proposed in the -- as stipulated in the settlement for Kentucky

Power, because of Kentucky Power's capital structure will have a lesser impact on a basis point for basis point basis than the Kentucky Utilities 9.7 authorized ROE?

A.   That's correct, and I think this chart illustrates that.

Q.   Okay.

MR. GARCIA: No further questions, Your Honor. I would move for the admission of the Company Exhibit 12 as a demonstrative.

CHAIRMAN SCHMITT: Any objections? None? Then let the exhibit be introduced, filed into evidence as Kentucky Power Exhibit 12.

(KPCO Exhibit 12 admitted.)

Mr. Kurtz, questions?

MR. KURTZ: Can I ask a few questions?

CHAIRMAN SCHMITT: You sure can.

CROSS-EXAMINATION

By Mr. Kurtz:

Q.   I'm curious about this Illinois 8.4 percent. You said it's trued up with the over-earned or under-earned. Is it trued up to the 8.4?

A.   That's my understanding.

Q.   So that's not an authorized return. That's a guaranteed return.

A. Well, it's a formula rate plan, so that's why it's so much lower.
Q. Well, what kind of incentive does the utility have to control costs if you're guaranteed a return?
A. Well, they certainly still have regulatory oversight. They still have the -- they still operate under the purview of the regulatory commission, so there is obviously an incentive to make sure that they operate in an efficient manner.
Q. Well, let's contrast that to the settlement here. There's a three year stay-out with a 9.75 authorized. Wouldn't Kentucky Power have every incentive to control costs over the three years to maybe earn its authorized return?
A. Yes, and I think that's certainly the company's objective. It's been a problem in the past that the impact of attrition and the inability to earn the return, so clearly there's a motivation to do that.
Q. One last thing. The settlement includes a 1 percent cap -- imputed essentially short-term debt at 1.25 percent for 1 percent of total capitalization. Are you aware of that?
A. I'm vaguely aware of it, yes.
Q. Okay. Well, 1.25 percent is cheaper than long-term debt --

A. Yes.
Q. -- and certainly cheaper than an equity amount of the same 1 percent, correct?
A. Yes.
Q. One last thing. This QE2 Federal Reserve, how much money do they have on their balance sheet? This is a big news issue.
A. 4.2 trillion, give or take. Now they've started a process of normalizing the balance sheet holdings so they're reducing those up to a cap of 10 billion, I believe, per month.
Q. So as they sell bonds, that creates more supply of the bonds, which tends to drive down the price of bonds, which will tend to increase the yield, the interest rate.
A. That's correct. And then coupled with expectations of perhaps increasing deficit spending as a result of the Tax Reform Act, it's another factor that would contribute to expectations for higher interest rates.
MR. KURTZ: Okay. Thank you, Mr. Chairman.
CHAIRMAN SCHMITT: Counsel for any of the other settling intervenors have questions? If not, Mr. Chandler?
MR. CHANDLER: I do have some more questions,

Your Honor. But if I may, I believe I negated to, in my haste, number and reference the specific exhibits. Can I do that now?

CHAIRMAN SCHMITT: Yes, you may.

MR. CHANDLER: I think the only ones that I referenced that are not in the testimony would be the tab E, I'd like to make Attorney General Number 7. Tab G/T, Attorney General Number 8.

CHAIRMAN SCHMITT: This is under tab 2?

MR. CHANDLER: Yes. Yes, sir. Tab H, Attorney General's Number 9, tab I, Attorney General's Number 10, and tab J, Attorney General's -- no, excuse me. Tab -- no, that would have been all of them. Excuse me. Got ahead of myself again. Just ten, Your Honor.

CHAIRMAN SCHMITT: Any objection?

MR. GARCIA: Your Honor, the only objection that I have is to the extent that some of these tabs are excerpts from previously filed testimony, that the entire testimony be included instead of just the excerpts.

CHAIRMAN SCHMITT: Well, the entire testimony is already in the record anyway, so it will be a part of the official record, but what he's asking is, I guess, is for purposes perhaps later if it goes somewhere else or for briefing that this be filed as an exhibit, and I'm going to sustain his motion and let those exhibits be introduced.

MR. GARCIA: Your Honor, if I may clarify my observation. It's only for the testimony excerpts that are not part of the record in this case.

CHAIRMAN SCHMITT: Well, I understand. Okay. What part -- what part are you talking about?

MR. GARCIA: Like, for example, Exhibit H.

MR. CHANDLER: I believe there are excerpts from Mr. McKenzie and Dr. Avera's testimony in the last Kentucky Power rate case, which are on file with the Commission, and I've provided Mr. McKenzie with a copy of that on the stand for his references to check if they were correct. I'm more than happy to tender an entire one for the record for those pages, but one was tendered to the application -- to the witness.

CHAIRMAN SCHMITT: Well, I'm going to overrule your objection and allow it to be sustained. If in the future or at the conclusion of the case, if you have some reason to need the other testimony and want to use it, if you'll file a motion then we will allow that entire transcript to be introduced into the record in this case.

MR. GARCIA: Thank you, Your Honor.

CHAIRMAN SCHMITT: Before the final order is entered. Fair enough?

MR. GARCIA: Yeah. That was the only observation that I had.

CHAIRMAN SCHMITT: And I think you did have somewhere, Mr. Cook, maybe there was an Exhibit 4, but we were waiting on another witness. There was an objection from --

MR. OVERSTREET: That would be Mr. Wohnhas.

CHAIRMAN SCHMITT: Yeah, Mr. Wohnhas. So let's not forget that one.

MR. CHANDLER: I hope Mr. Wohnhas doesn't forget it, and if we do maybe he'll remind us, so --

CHAIRMAN SCHMITT: Well, if Mr. Wohnhas forgets it we'll introduce it anyway, okay.

Anything further?

(AG Exhibits 8, 9, 10 admitted.)

MR. CHANDLER: I do have just a little bit of recross.

RECROSS-EXAMINATION

By Mr. Chandler:

Q. Do you mind to turn to the Mergent, the excerpt from Mergent. I think it was tab T slash G, AG's Exhibit Number 8. Let me know when you're there.

A. I'm there.

Q. Do you mind to look at the area roughly between the column for public utility bonds, Baa, the end of 2005, would you agree that the bond yields then were essentially 5 and a half percent?

MR. GARCIA: I'm sorry --

Q. Excuse me, column under public utility bonds, Baa?

A. Which year?

Q. 2015. That's the second time today. Excuse me. 2015. Would you agree that they're roughly 5 and a half percent, in the neighborhood?

A. Well, at the end of the year they were.

Q. At the end of the year. And you've already agreed that right now they're roughly 4.24 percent?

A. Yes.

Q. What causes bond yields to go down?

A. There's any number of factors. There could be changes in risk perceptions for an industry or a sector that could cause risk premiums to change. Changing inflation rates can cause bond yields to change.

Preference for one asset class over another, for instance if people want to buy more stocks than bonds there could be more demand for stocks, less demand for bonds, and then obviously inflation, if I hadn't already mentioned that, and general conditions in the economy.

So if we have a economy that's running well, and there's demand for credit, then typically interest rates will go up, and I think then there's also competition between various kinds of bonds, so we have arguments about whether the treasury crowds out private issuers and causes bond yields to rise if there's deficit spending, those types of features.

Q. We've talked quite a bit, maybe not specifically, but around capital and capital markets.

A. Right.

Q. In the United States is there one big capital market, or are there a lot of different smaller capital markets as a general proposition?

A. Well, I mean --

Q. Can I rephrase the question? I know I'm putting you in a spot because I'm asking you -- for a company like AEP, is there generally just the capital market? Is there one big place, is that kind of how it's looked at by investors? Is everybody getting their money from the general same place by investors?

A. Yes, I think that's the question. It's really about investors when we're talking about capital markets, and in theory investors have any number of asset classes they can invest in, including fancy sports cars and paintings, so the class of assets that compete for an investor's capital is almost unlimited.

Now, of course to kind of get our hands on that, within that framework we've talked about U.S. capital markets or the U.S. stock market or the U.S. bond market or even Nasdaq versus the New York Stock Exchange, so --

Q. But so as a general proposition there's the U.S. bond market and the U.S. stock market, correct, and there may be subsets of those, but those are, as a general proposition, those are the two big ones, right?

A. Right.

Q. Would you agree that Ameren competes for capital in both of those markets?

A. Yes, I do, and again, as I discussed earlier, I think based on their specific risks, so they're a distribution-only utility, and they have a particular structural rate format that goes into that equation.

Q. Thank you. You mentioned earlier, and I just need to clarify, you were discussing different approaches earlier, and I believe it was one of your approaches, and you specifically mentioned something along the lines of it is an approach similar to that that the Supreme Court looked at and then followed up with book returns. What were you speaking about specifically?

A. The expected earnings approach.

Q. And when was that used by the Supreme Court?

A. Back in the -- in really before the advent of kind of what we would consider modern capital market methods, so, I mean, the DCF is a recent newcomer. It really wasn't used in the utility industry until the late '70s, so before that, and the capital asset pricing model and other models were nonexistent back in the early days of regulation, so that is what was typically relied on. It was often applied to nonutility companies as a basis to try to figure out what the comparable earned return on book value should be.

Q. And so because it was used then you believe that's a reasonable basis for looking at it now for direction?

A. No, my basis for using it now is not because it was used then. I think it's still a valid benchmark. I think when someone pulls up a Value Line sheet, a potential investor, and looks at an expected earned return on book value for utility Y, and it's

10.2 percent, and they look at an expected earned return on book value for utility Z, and it's 8.6 percent, they're going to go with the 8.2.

Q. And so if enough people look at stocks and make the decision like you were just discussing, what happens generally, all things equal, to stock prices, to those individual stock prices?

A. You'll have to clarify your question.

Q. When people purchase stocks as a general proposition, what happens to the stocks, the price of the stocks?

A. You're asking me what happens to the price? Stock prices can move up and they can move down. We could have capital gains or losses.

Q. All things equal, if it's purchased more often than sold, or if it's -- excuse me. If it's purchased for an increasing price, what happens to the price?

A. I think by default it goes up. I think what you're saying is if there's certainly more demand for a stock than current supply exists, then the price will be bid up until the market reaches equilibrium, or vice versa.

Q. You mentioned LG&E and KU as a global settlement; is that correct?

A. No, I don't believe I said that.
Q. Is it your understanding that the LG&E settlement that was offered to the Commission for acceptance or modification or denial was a global settlement and that it was a unanimous settlement?
A. That's my recollection.
Q. And do you -- is it your understanding that the current stipulation or non -- the current stipulation is a nonunanimous settlement?
A. Yes, sir, that's my understanding.
MR. CHANDLER: That's all the questions I have.
CHAIRMAN SCHMITT: Mr. Gardner, Osterloh, questions? Staff, question?
MS. VINSEL: Nothing further.
CHAIRMAN SCHMITT: Commissioner Cicero, Mathews?
COMMISSIONER MATHEWS: No.
MR. GARCIA: Your Honor --
CHAIRMAN SCHMITT: Mr. Garcia.
MR. GARCIA: -- actually just to clean up the record, I think there might be a number that was flipped.

REDIRECT EXAMINATION

By Mr. Garcia:
Q. Mr. McKenzie, when you were answering some of

the questions from the AG, and you were talking about expected choice of investment between -- I think that the numbers were presented to you is a 10.8 or a 10.2. I think that your answer might have referred to 8.2, and I just wanted to make sure if you could restate.

If you have an investor that is choosing between investment choices.

A. Yes.

Q. And say that both of them are of similar risk, and one is pricier than the other, what would the investor pick?

A. I think if we're going back to the example of the expected earnings approach, if I misspoke I apologize, but what I was trying to say is that for two investments of comparable risk, if one is expected to earn a return of 8.6 percent, and another is expected to earn a return of 10.2 percent, for example, the investors will prefer to purchase the stock of the company that's expected to earn 10.2 percent.

Q. Right. At the core of the Bluefield and Hope doctrine is that a company needs to be allowed to earn a return, that it's able to attract that investment against similarly -- similar risk

investments.
A. That's correct. One of the fundamental principles of Bluefield and Hope is the financial integrity principle, so the company should be allowed to maintain its access to capital in its financial integrity, which in my view is undermined if the allowed ROE is set far below what other utilities are expected to earn.
MR. GARCIA: Thank you. That's all, Your Honor.
CHAIRMAN SCHMITT: Mr. Kurtz?
MR. KURTZ: No, sir.
CHAIRMAN SCHMITT: Anyone else? Mr. Chandler?
MR. CHANDLER: I'm done, thank you.
CHAIRMAN SCHMITT: If there are no further questions, may Mr. McKenzie be excused as a witness?
MR. OVERSTREET: Yes, Your Honor.
CHAIRMAN SCHMITT: Thank you, Mr. McKenzie. You may step down.
At this time we're going to take a -- let's take a 15 minute recess, but when the gavel falls and we go off the record would Counsel please approach so I can have a brief conversation with you? Thank you. We'll be in recess until 25 after 4:00.
(Recess from 4:09 p.m. to 4:23 p.m.)

CHAIRMAN SCHMITT: Okay. We're now back on the record. Would Kentucky Power please call its next witness?

MR. OVERSTREET: Thank you, Mr. Chairman. Our next witness is Mr. Carlin, and Mr. Garcia will present.

CHAIRMAN SCHMITT: Okay. Thank you.

Mr. Carlin, please raise your right hand.

ANDREW R. CARLIN, called by the Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

CHAIRMAN SCHMITT: Thank you. Please be seated.

Mr. Garcia, you may ask.

MR. GARCIA: Thank you, Your Honor.

Q. Would you state your name and business address for the record, please?

A. Andrew R. Carlin, 1 Riverside Plaza, Columbus, Ohio, 43015.

Q. And by whom are you employed and what capacity?

A. I'm employed by American Electric Power Services Company in the capacity of director of compensation and executive benefits.

Q. Thank you, Mr. Carlin. Did you cause direct testimony consisting of 39 pages of questions and answers and ten exhibits be submitted in this case?
A. Yes, I did.
Q. And did you also cause rebuttal testimony consisting of 35 pages of questions and answers to be submitted in this case?
A. Yes, I did.
Q. And did you also submit discovery answers in this case?
A. Yes, I did.
Q. Do you have any corrections or additions to either your direct testimony or your rebuttal testimony?
A. No, I do not.
Q. If I were to ask you the same questions today would you substantially provide the same answers?
A. Yes, I would.
Q. And was that direct testimony and rebuttal testimony and the corresponding exhibits prepared by you are or under your supervision?
A. Yes, they were.
Q. Do you adopt your direct testimony, including exhibits, rebuttal testimony, and the discovery answers that you have provided in this case as your

evidence?
A. Yes, I do.
MR. GARCIA: Your Honor, witness is tendered for cross.
CHAIRMAN SCHMITT: Okay. Thank you.
Mr. Kurtz, questions?
MR. KURTZ: No, sir.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors, any questions of this witness?
If not, Mr. Chandler, Mr McNeil?
MR. CHANDLER: Mr. McNeil has some questions, but may I approach?
CHAIRMAN SCHMITT: Yes, you may.

CROSS-EXAMINATION

By Mr. McNeil:
Q. Good afternoon, Mr. Carlin.
A. Good afternoon.
Q. Let me know as soon as you've got that settled.
A. It doesn't actually fit in the binder, but I'm good. Go ahead.
Q. Okay. All right. Earlier today Mr. Satterwhite testified, and were you in the room for that?
A. I've seen it on video.
Q. Okay. At one point he said something to the

effect that you've dealt with lots of studies and as far as wage and pension competitiveness; is that correct?

A. Yes.

Q. Can you tell me, has the company prepared any studies regarding the ability of rate payers to afford the SERP, the Settlement Employee Retirement Program, expenses embedded in the application?

A. The company does study its nonqualified benefit expense and finds it to be a normal cost of doing business. We have not done a study specific to customers' ability to pay for those costs. I don't think anyone has ever done that study, but one would expect that as a reasonable cost of -- imprudent cost of doing business, that it would be included in the company's cost of service.

Q. Are the sort of studies you mention, are those company facing only? Do they address sort of the rate payers and customers?

A. They address the compensation benefits expense that we find in the marketplace for similar positions for similar companies, both in general industry and in the utility industry.

Q. Okay. Could you please refer to your rebuttal testimony? Do you have that available?

A. Yes, I do.

Q. At page 31, please. Let me know when you're there.

A. I'm there.

Q. Okay. So at lines 11 and 12. It's your sworn testimony that incentive compensation adjustments should not flow through to cause savings plan adjustments, isn't it?

A. Yes, it is.

Q. Okay.

A. The reason for that is that our incentive compensation expense is part of a market competitive compensation package, and if we were to change or eliminate incentive compensation, reduce it, we would need to increase base pay, and base pay would be included in that savings plan as well as the incentive compensation is currently included, so it wouldn't flow through. A change like that would not flow through to reduce savings plan expense.

Q. Would you please then turn to tab 1 in the documents I handed you. This tab consists of documents that are already in the record.

First two pages are 15 and 16 of Mr. Ross's direct testimony, and then the next two pages are from Section 5, Exhibit 2 of the company's

application, pages 33 and 37. Do you see those pages there?
A. Yes, I do.
Q. Okay. Prior to filing your rebuttal testimony, had you read the portions of the company's application and direct testimony filed here that related to savings plan expense?
A. Probably had not read all of it, no.
Q. Okay. Well, then isn't it true that company witness Ross's direct testimony on page 15, line 18, addresses the company's proposed adjustment to savings plan expense with the question, (Reading) Please describe the cost of service adjustment for savings plan expense.
And then it has the section relevant. Do you see that?
A. I do see it.
Q. Now turning to page 16 of Mr. Ross's direct testimony, lines 3 to 6, doesn't it say (Reading), This cost of service adjustment for savings plan expense is determined by taking the net forecasted decrease related to changes in incentives, et cetera?
A. Yes, it does say related to changes in incentives.
Q. So the company itself calculated an adjustment

to savings plan expense based on its adjustment to incentive compensation expense, didn't it?
A.   Let me carefully read the testimony here.
Q.   Sure, go ahead.
A.   I think there's a difference between the changes that Mr. Ross is contemplating here and the changes that I'm responding to, which would be to remove the substantial portion, or a substantial portion of the company's incentive compensation expense from its cost of service, and so the change I'm responding to would be much more substantial than what Mr. Ross is responding to here.
Q.   But you had said that, in your testimony, that compensation -- incentive compensation adjustments should not flow through to cause savings plan adjustments, right?
A.   It depends what those adjustments or those changes are related to. If it's related to replacing annual incentive compensation with base pay, which is what we would need to do if we eliminated incentive compensation expense to a substantial degree, then no, they should not flow through because base pay is included in the 401(k) match as well.
       If it's related to an adjustment related to head count or something like that, then yes, it

probably should flow through.
Q. So did you not make a distinction as to the amount?
A. Well, I was responding to the specific situation in which the intervenor testimonies, the AG and the industrials had suggested eliminating a very large portion of the company's annual incentive compensation expense, and I was pointing out that if we did that we would need to replace it with additional base pay, and therefore that adjustment would not flow through or should not flow through because base pay would also be included. The offsetting increase in base pay would also be included in the savings plan.
Q. Okay. But I just want to make sure before you had filed your rebuttal you said you hadn't read the application or direct testimony that was referenced here?
A. I've read a great deal in this case. I'm not sure if I've read this specific testimony of Mr. Ross or the application in total, but I've read a great deal.
Q. All right. If you would refer to the third page of that tab. It has a label of W32 at the top. Did you review either of these next two pages?

A. I see one that says page 33 of 60.
Q. Yes, and the next page. If you can just look at those and tell me if you remember reviewing those prior to filing your rebuttal testimony?
A. I don't recall.
Q. Okay. Well, that page that is 33 of 60, doesn't that show that the company's own proposed adjustment to incentive compensation is here on this page?
A. What line would it be on?
Q. Looks like line 29.
A. It reads, (Reading) Combined adjustment to incentive compensation cost.
I assume that's what it is.
Q. All right. And if you turn to the next page, which would be labeled 37 of 60, that shows the company's own proposed adjustments to savings plan expense, doesn't it?
A. Yes, it does.
Q. Okay. And it's clear from looking at line 1 at that page that the company itself calculated its own proposed adjustment to savings plan expense by, among other things, multiplying its adjustment to incentive compensation expense by the 4 percent savings plan loading rate. Right?

A. That's correct, but as I previously stated, that's not replacing annual incentive compensation with base pay, which was what I was responding to in my testimony.

What this is is it's bringing -- it's normalizing the value of incentive compensation to the target level, and that adjustment would flow through, as opposed to a replacement where you would substitute base salary for incentive compensation.

Q. But doesn't that still -- doesn't the application contradict your rebuttal testimony where you said any incentive compensation adjustments should not flow through to cause savings plan adjustments?

A. Well, not in the context in which I said that. It does not, no. I'm talking about replacing base salary with an annual -- or, I'm sorry, replacing annual incentive compensation with additional base salary, so in that context it should not flow through.

That's what was contemplated by the intervenors that I was responding to, and that was the discussion prior to that paragraph in my testimony. I think that's clear.

Q. Okay. Now, isn't it true -- turning to tab 2 actually, if you would. Isn't it true that the Commission made an adjustment to disallow some of the company's incentive compensation expense in its last rate case?

A. That is correct.

Q. Since the company's last rate case, was the company able to hire and retain competent employees?

A. Generally speaking, yes.

Q. What do you mean by "generally speaking"?

A. We are always in a constant struggle to hire competent and capable employees. It's -- it's something that we work hard at each and every day. Sometimes we win, sometimes we don't get the competent employees that we would like to get, and we get someone else, but most of the time we're successful.

MR. MCNEIL: Sorry. One second, Judge.

Q. So doesn't the stipulation in this case exclude incentive compensation?

A. It excludes a portion of incentive compensation, which was a management decision. The stipulation in this case makes it clear that it's part of a whole settlement, and the company is willing to reduce its costs in the manner described in that settlement as part of a whole package deal.

And that's a management decision, not a compensation decision, that I support, but I still am arguing and my testimony supports recovery of the full amount should the Commission decide not to agree to the settlement.

Q. Do you recall the total amount of that portion?

A. The way we divide the work load is that the accounting witnesses cover the dollars, and I cover the reasons for, so that may be in my testimony, but it would be better to rely on witness Ross for those numbers.

Q. Okay. So you don't know the total incentive compensation number that was disallowed in the stipulation?

A. 3.15 million was the dollar value that the company agreed not to include in its cost of service in the stipulation, if that stipulation is adopted.

Q. Okay.

MR. MCNEIL: That's all the questions we have at this time, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh, questions?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff?

MS. VINSEL: Yes, we have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Carlin.

A. Good afternoon.

Q. I don't know if you were here this morning when Vice-Chairman Cicero was asking Mr. Satterwhite about, particularly about the defined benefit plans. Were you here then?

A. I was not in the room, but I have heard about it, and we've discussed it, so I'm familiar with it.

Q. Okay. Could you first just give us an overview of all of the -- of these particular retirement plans, defined benefit, defined compensation?

A. Certainly. For details on that, I can cover it at a high level, but for details on that Mr. Cooper, who is up next, is the director of benefits, and he is the best witness on detailed questions on benefits in particular.

But the company does have defined benefit and defined contribution plans. The way I would describe it is that these plans are part of a market competitive benefit package that we benchmark against both utility industry, energy industry, and general industry companies.

It is market competitive. By that I mean it's a single serving. In total. We do have two different kinds of plans. Think of it as the soft serve swirl where half is chocolate and half is vanilla, still fitting in the same size cup. So it's a single serving cup. We paid the same for it as we might if we had all of one or all of the other, but it's a swirl of the chocolate and the vanilla in this case.

Q. Are there employees who qualify for both defined benefit and defined compensation?

A. Defined contribution.

Q. Contribution, excuse me, yes.

A. Is the word you're looking for there.

Q. Thank you.

A. Yes. In fact, almost all employees qualify for both of those. Again, it's part of an overall market competitive benefit package that's a single serving. It's not a double dip.

Q. Can I have you turn to -- do you have this packet that --

A. This one here?

Q. Yes.

A. What number?

Q. Tab 7. And this is an exhibit to your direct testimony. It's Exhibit ARC-4, and in this case it's

Kentucky Power's target total compensation versus market compensation for technical, craft, and clerical jobs, correct?
A. Correct.
Q. Okay. In looking at this exhibit, it indicates that Kentucky Power's total compensation for technical, craft, and clerical jobs lagged behind the survey medians; is that correct?
A. That is correct. 5.4 percent behind survey median.
Q. Can you explain the reason for that compensation lag?
A. The primary reason is that our base wage rates have lagged, and that is because we had a salary freeze back in 2009, and we've -- over the period since then we've had some years where we've done a little better than market and other years that we've done a little worse, and so we haven't really made up much ground, and we're trying to make up some ground now, but we got behind market back in '09, back in the great recession because we had a salary freeze, which we felt was the right thing to do for our customers at that point in time, but it's been difficult for us to catch up. Now seven, eight years down the road we still haven't caught up.

Q. So I think you may have answered this, but I'm going to ask it anyway. That compensation lag, has that played a role in recent years' payroll increases or salary increases?

A. Yes, that's -- that is the main reason why, we're trying to catch up, and we -- to catch up we necessarily have to provide bigger increases than the market median. Otherwise we won't make any progress in catching up to the market, but that's the whole reason we're behind, and we're trying to catch up.

Q. Okay. In your testimony you indicated that the salary structure, the overall salary structure is designed to reward performance through incentive compensation. Is there a similar lag in terms of the incentive compensation?

A. Well, incentive compensation is a product of base wages, so every employee has an incentive compensation target. The physical workforce that's used in this example, the target is 5 percent of their base wages. And so if base wages lag, then their total compensation will lag because 5 percent of a lower number is still a lower number.

Q. Point taken. I want to make sure I'm understanding the dates of the various surveys. The most recent salary surveys are from 2016, is that correct, or that were used, reported on this application.

A. Used in this case, that's correct. We have since gotten the 2017 surveys in, but they came in after we filed our testimony in this case.

Q. And then the incentive plan surveys, is the last date of that 2010?

A. It is. We're hoping to get an update on that, but these surveys cost money, and we don't have one at this time.

Q. So the reason that you haven't updated it since 2010 is just a question of money?

A. Yes.

Q. Primarily.

A. Primarily money. Participation. It also takes time to participate in these studies, and for whatever combination of those reasons we don't have it.

Q. Does Kentucky Power either conduct or contract with a third party to conduct a salary survey for regional companies, other than utilities, so getting a sense of a local or regional. Say, for example, in the Kentucky Power service territory?

A. We do benchmark jobs that are not unique to the utility industry to general industry, so about, I think it's either 40 or 60 of our jobs, 60 percent of our jobs, let's say that subject to check, are not unique to the industry, so we benchmark those against general industry, and we have general industry surveys that we do that against.

MS. VINSEL: That's all the questions I have at this time.

CHAIRMAN SCHMITT: Commissioner Cicero, questions?

EXAMINATION

By Vice-Chairman Cicero:

Q. Let me understand. The last survey you had was 2010?

A. No, that's the last survey we have that was specific incentive compensation designed. That's a pretty unique type of survey. It's not a survey of wages. It's just a survey of how incentive plans are designed and their prevalence, the prevalence of different design factors in them. It's an exhibit in my testimony if you wish to read it. We do benchmark our wages annually.

Q. Against?

A. Against the -- well, the utility industry jobs, there's only one place to benchmark them against, and that's utility industry data. If the job is

available in the general industry we benchmark it against general industry data, which is a wider cut.
Q. But your chart, table ARC-3, you indicate that -- I think that's where you were saying you were behind because you didn't give an increase in 2009, and then you have '10, '11, '12, '13, '14, '15, '16, and you compare only to the utility industry market. Are you saying that those percentage increases are strictly related to the hourly and craft employees?
A. So you've mixed a couple of things there. The wage increases that I showed in my testimony have really been the same for the utility industry as they have been for general industry. Those have been remarkably consistent since -- for years. There's very little variance in those surveys. The wages on the tab ARC-4 --
Q. This is ARC-3.
A. Well, the one that the staff handed me before, physical and craft positions, is marked ARC-4.
Q. I'm not talking to the one that -- I'm --
A. Oh, okay.
Q. I'm referring to your Carlin page 20, table ARC-3, and I don't have a handout for you.
A. Oh, okay. Yes. Let me just make sure I find that in my testimony. There's ARC-2. ARC-3. So

these are the wages for physical and craft positions, and the conference board is the source for this data. This is not, make sure, this is not -- no, this is specific --

Q. To utility.

A. -- to utilities. I would venture to say that there's very little difference in any of these years between the utility and general industry. The numbers have been quite consistent.

Q. Well, you chose to go back all the way to 2009 to do your comparison so I guess that you could show that the company was below the market?

A. Well, correct. We're still catching up. We haven't had an opportunity to fully catch up yet, so it felt that that period was relevant for that reason.

Q. So all the way back to 2009 because it appears, if you take the last five years, you're basically right on top of the market, 14 percent versus 15.

A. But that leaves out the year that we had the zero, and that's a big difference. When everyone else is moving by 3 percent and you're moving by zero.

Q. But I don't know what happened prior to 2009. It could have been above. At 2008 it could have been

3 percent and the rest of the market be 1 percent.

A. And that's a good point, but I would refer you to ARC Exhibit -- Exhibit ARC-4, which shows where we are in total relative to the market, so these are the increases we provided that you're talking about in table ARC-3.

The exhibit ARC-4 shows where we stand relative to the market for these physical and craft jobs, and it shows that we are also behind, so we have confirmation from two different points of view that we remain behind the market.

Q. First of all, I'd like to say that I believe that the utility industry should pay market price, but not just based on the utility industry. It should be a comparison that includes other salary surveys for geographic area and other industries, so I'm -- I personally am not opposed to you paying a market-based price for salaries, so I'm not even really arguing that point, but now I'm going to get into benefits, and that's where I think that the utility industry does tend to overreach in what they believe is a way to compensate their employees.

In my opinion, it's not necessary to overcompensate on the benefits side if you're paying market value on the salary side, and here's where we're going to come in to you talked about this -- your double twist, there's the vanilla and the chocolate, but the cone is the same size. When was the defined dollar benefit plan put into place? How long has that existed?

A. So the company's had a pension plan for at least two decades. Probably well before that, certainly before my time.

Q. As a defined dollar benefit?

A. Well, so I was going to explain that. I think we need some background there. So there are two formulas in the current company -- in the company's current pension program. There is a final average pay formula that was put in well before my time.

It was in -- 2000, at the end of 2000 we added a cash balance formula, which looks very much like a 401(k) defined contribution, but it falls under the rules of defined benefit plans. And we put that in, and we ran the two formulas. The participant got the two formula -- higher of the two formulas. We ran them side by side for ten years, but at the end of the 2000 we froze the final average pay formula for participation, so I think that's what you mean by --

Q. Thank you. So was it lock and freeze or was it grandfathered?

A. It was -- more background needed here.
Q. Okay.
A. We froze participation at the end of 2000.
Q. Grandfathered.
A. At the end of 2010 we froze the benefit.
Q. Okay. Lock and freeze.
A. Okay. So two different periods, but it's locked and frozen at this point. No -- there aren't any significant costs in this case related to that formula. There are still people who, myself included, that's still the higher benefit, so the cash balance has -- was loaded with an amount back in 2000 and has continued to grow, but because of the way interest rates have changed, have been low through the period 2000 through 2017, the final average pay formula grew pretty fast up until 2010 when it was frozen, and it remains, for me at least, the higher of the two benefit formulas, which means since 2010 my pension formula hasn't grown at all.
So my -- and there's a significant chunk of the employee population that's in the same camp that I'm in because I've got a frozen benefit that's the higher benefit, and it's the winning formula. The cash balance hasn't caught up, and so I've not gotten a bigger benefit. It's not grown at all since 2010.

Q. That's okay. That was a very good background because I understand what you're saying is the plan was locked and froze in 2010. You're not earning any additional benefit by being in that plan, and so now the company is offering another formula, if I understand correctly, that's basically a 401(k) type savings plan that for new participants, new employees, they go into that plan, and you're saying right now there's a parallel formula running.

You're not earning in both, you're going to catch up one way or the other to whatever the best benefit is. Is that a correct statement?

A. It's close. So a little bit more background. I apologize. I think -- well, the cash balance plan is not a savings plan. Employees don't contribute to it. Only the company contributes to it. We also do have a savings plan, which the employees do contribute to, and the company then matches their contribution.

Q. Okay. We're going to talk about that in a moment.

A. All right? So but the rates for the cash balance pension plan are set knowing what we're also contributing in the K plan, so that the total amount of the company's subsidy, or contribution on behalf of employees, is market competitive, so we know we're matching 75 -- well, it comes out to 75 cents on the dollar for a 6 percent contribution. That's not exactly the way it works, but it's close enough, in the K plan, and we know the rates, they start at 4 and a half percent of eligible compensation, and the pension plan, those two add up to a market competitive total retirement benefit.

Q. Yes, and you keep referring to market competitive plan, and here's where I'm coming from. A pension plan, either a defined dollar benefit or a cash value plan, I have no problem with that, or a 401(k) plan by itself with a company match, have no problem with that, or a 401(k) plan not matched by the company, that participants in a pension plan, defined dollar benefit or cash value where the company doesn't contribute, no problem with that.

I do have a problem if you're going to contribute a match into a 401(k) at the same time you're allowing an individual to earn a pension plan that is either defined dollar benefit or a cash value plan. That is double dipping. That's not one cone. That's two cones. That's whatever you want to call it, but it's two pension plans.

You're allowing -- and you're just saying that it's market competitive, and that's how you're justifying it, and I'm saying that you show me an industry outside the utility industry that allows people to earn two pension plans, and I'll show you something that exists on a very minute percentage basis because it doesn't exist out there.

I find it exists in the utility industry. I call the utility industry an incestuous industry because you compare against each other, and then it all looks like it's what you've got to pay for market, but you don't have to -- you can argue this hourly craft employee argument because those are very specific, highly valued people that work for you, but when you get into office personnel and the rest of the people who work there, those people don't have such a specialized craft or profession that they can't be found anywhere out in the marketplace, geographically or otherwise, and I don't understand why the company is incurring this greater cost and passing on to the rate payers. I don't see the justification.

A. Well, I disagree that it's greater cost. We are -- our cost is the market competitive cost. We have designed these two plans together to do what other companies are doing, to provide the median amount of pension benefits together as a total, and so yes, we have two plans, but they're not creating a value for participants that's any greater than if we had a full-blown 401(k) plan with 100 percent or 125 percent match or a full-blown pension plan with a greater employee contribution there as well.

Q. You're matching .75 up to 6 percent?

A. Yes.

Q. Okay. So you've got basically what some plans offer on a 401(k) plan just stand alone by itself because it can be 1 percent maxed on 4 percent or half half, and then another 3 to get the employee contributes 4 and ends -- or 5 and ends up with 4, but at the same time you're permitting earnings on a defined dollar benefit plan or a cash value plan, that those by themselves are a valid pension plan.

How much of the industry in general offers a defined dollar benefit plan? Is it about ten percent? I think that's what it is in private sector.

A. I think it's a little larger than that, but it's certainly been shrinking. It's been 25, 20 percent maybe recently.

Q. So even at 20 percent you're offering a plan that only 20 percent of the general industry offers

in the private sector, and you're saying that you have to offer an additional savings plan besides?
A. I'm saying that the total dollars that the company is contributing to these plans is what our peer companies are contributing. It's actually a little bit less.
Q. I know, and you keep referring to peer companies. It's the utility industry that offers this dual type of incentive to their employees. It's two pension plans. And you're calling it market valued.
A. If you look at -- and so you're not disagreeing, I don't think, that other companies in the utility industry are offering the same pension in total that we're offering, the same market competitive amount. Or you're not disagreeing that we're market competitive relative to the utility industry.
What I think you're saying is the utility industry should take into account other industries, and we do. Other large employers offer benefits very similar to those that we offer.
Q. I think what I'm trying to say is in the Commonwealth of Kentucky that utilities should start looking for the rate payers' benefit and saying this

is a reasonable compensation.

Again, I'm not arguing paying market price for salary. I just don't believe that utilities should be overpaying -- what I talked to Mr. Satterwhite about, doubling insuring yourself. What's the turnover rate for Kentucky Power?

A. It's four-ish, three and a half, four, somewhere in there.

Q. Three and a half to four?

A. Three to four, maybe three and a half. I'm not exactly sure, but it's low. I'll agree to that.

Q. It's low, yes. It's low because the benefits that are offered are probably in excess what they need to be, and I continue to argue, and I argued this point, and the Commission has argued this point with all the rate cases that have come before us in recent time about double dipping, having two pension plans.

There's no argument that employees deserve a pension plan. That goes without saying. I don't think any of us on the Commission would disagree that that is a benefit that's enjoyed by a lot of people, not all, but a lot of people, but certainly having the opportunity for two pension plans is considered to be a little excessive. I know you keep saying market, I hear that argument, but I'm not certain that it's valid.

A. So my other point besides it being market is that you certainly can design a pension, or a retirement program that would include both pieces that would be reasonable. I mean, you can have a K plan that didn't have a match, or you could have a pension plan with a very low contribution rate. They both have benefits to customers.

The K plan encourages employees to save because we know that the company's contribution to the retirement program isn't enough for most employees. They aren't going to be able to retire comfortably with that, so they need to be encouraged, and the K plan does that, encouraged to save for their own retirement.

The pension plan is managed by the company, and the employee doesn't have the investment risk. And that pension plan takes that investment risk away. We're able to do it much more efficiently and without taking on much risk ourselves when it's fully funded, so that --

Q. Who fully funds it?

A. The company funds it.

Q. Of course.

A. But I guess what I'm saying is if you were to design this so that you would think it's reasonable, in your view, that the two pieces would be small enough in total that they're reasonable, well, that pension plan has value because employees don't always make the best investment decisions, and they have a lot of control over what they do with those assets when they retire, and they may disappear.

The pension plan solves some of those problems, not all of them, and therefore it's got value that the K plan doesn't have. Both pieces together, we think, are the best way to go for employees.

Q. So I would agree that a defined dollar benefit plan is the best -- it's obviously the most benefit rich for the employee because a defined dollar benefit plan is just that. It doesn't matter how well the employee makes a decision because it's taken out of his hands.

There's a formula. It's run by the company based on an actuarial calculation. At the end of the day you're going to multiply the formula times earnings, and he's going to have a benefit; is that correct?

A. That's correct.

Q. That's correct. So I'm guessing one of the reasons why Kentucky Power decided to first grandfather in employees and then lock and freeze it was because it was an expensive plan, and so they decided to go to something less expensive. Is that pretty reasonable?

A. That's very reasonable.

Q. Yes.

A. That's exactly right. We also saw that the market was moving, and we wanted to move with the market, which is why we made the change.

Q. Uh-huh. But instead of doing what a lot of companies did, which was just eliminate any type of other pension plan and go to a 401(k) savings plan, Kentucky Power has retained, either through a cash value plan or a defined dollar benefit plan, one piece of the pension, and on the other side said, well, people aren't smart enough to invest on their own, even though we're going to allow them to match three quarters of a percent on every percent up to six percent, we don't know how good they'll do or how good the stock market will do, so we'll also going to protect them on the other side.

Go out to the industry and look. How many companies say, well, our employees aren't smart enough to do that, so we're going to have a backup

plan?
A. So what I would suggest, and what I think we actually did, was we looked at where the market was when we put in the cash balance plan for benefits in total, and at the time we froze -- or we froze participation and then we've ultimately froze the benefit from the final hours paid formula, put in the cash balance plan.
We made the decision that in total we're going to design the combination of the two going forward formulas to be market competitive rather than going all one direction or all the other direction.
That to me is not a material difference in terms of cost. It's just the administration. For the customers in Kentucky or anywhere else. It's the same total cost.
Q. Based on a market value that you consider to be cost competitive for your employees that that's what you need to do to maintain a good workforce, and here again, you're valuing it on a valuation to a market that basically at this point is the utility industry, and that's your primary comparison. Is that a fair assessment?
A. It's -- it's one of our comparisons. I'll let Mr. Cooper decide and tell you whether it's our

primary comparison or not. We use several comparisons.

Q. So let's just take one more step and go towards the benefit side, which is the healthcare, and I noticed that the chart that was supplied gave a blended formula on the company cost for different levels of healthcare.

So if you had employee, employee plus spouse, employee plus children, it still had the same value, and can you verify that the company is paying the same rate regardless of whether it's a single or a married with children or whatever, or whether that chart needs to be updated?

A. This would be a great question for Mr. Cooper.

Q. Okay. I'll save that for Mr. Goodwin?

A. Cooper.

Q. Cooper.

A. He's up next.

Q. I'll save that for him.

CHAIRMAN SCHMITT: He can't wait, can he?

Commissioner Mathews, questions?

I have none. Mr. Garcia?

MR. GARCIA: Just a few, Your Honor.

* * *

REDIRECT EXAMINATION

By Garcia:

Q. Mr. Carlin, you had a thorough discussion with Commissioner Cicero, and I wanted to ask you a couple questions about that.

But stepping back for a second, when we are looking at the question of employee benefits, does the company, and when I say "the company," in this case I mean Kentucky Power and the American Electric Power Service Corporation employees that provide services to Kentucky Power. When you look at the market value of total compensation, are you looking only at the benefits portion, only at the incentive compensation portion, only at the wages portion, or are you looking at everything as a whole?

A. We look at everything in total, and we also look at the individual pieces, so our primary benchmark on the compensation side is total compensation, but we also are looking at total cash compensation, which is base pay plus annual incentive. Total compensation also in addition to that includes long-term compensation for higher paid employees, and we look at base salary, so we want to make sure the mix of those elements is reasonable within the market practice and fits the company's needs and that in total the compensation is market competitive.

Q. And one observation that you make, just to clarify the record, when you're talking about market competitive, are you talking only about the market for employees for utilities, or is it a broader market?

A. It's broader. So obviously the jobs that only exist in utility industry you're going to have to benchmark against utility industry because that's the only industry they're in. You won't find line mechanics, for the most part, outside the utility industry.

But admin jobs we benchmark against general industry. That's because we can recruit them from across the street, to Your Honor's point, and so that's why we do benchmark against them, against a broader general industry survey data when we do that.

Q. Okay.

MR. GARCIA: Nothing further, Your Honor.

CHAIRMAN SCHMITT: Mr. Kurtz, questions?

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Anyone else?

Well, let me ask, we've been going to the Attorney General. Mr. McNeil, do you have any

questions?
MR. MCNEIL: I have a few follow up, Your Honor.
CHAIRMAN SCHMITT: Okay. Then Mr. Gardner, we'll let Mr. Gardner go after you do.

RECROSS-EXAMINATION

By Mr. McNeil:
Q. Mr. Carlin, as a general proposition are wages rising 3 percent in Kentucky Power's service territory?
A. So when we talk about the wage increases I'd say yes, wages are -- for salaried employees are going up 3 percent. There is attrition in the marketplace, so when you talk about the general rate of wage increases, it goes up by something less than that amount, and we've been moving our salary structure by two percent. That's -- that's very common practice of among companies in our industry and outside our industry.
Q. Well, specific to the Kentucky Power territory, what do you base that on?
A. Survey information for wage increases in general. I don't have a lot of survey information on specific positions for Kentucky because Kentucky doesn't have enough companies in our surveys that we

use to have a Kentucky only cut, so -- and in addition, we are in 11 states, 18,000 employees, and it is a problem when we have rates that are at different levels in different locations.

Our line mechanics, for instance, have been to, you know, they work in Kentucky, they've been to Maine, they've been to Texas, they've been to Florida, all in the last few months. We -- you know, it can cause issues. Our labor unions are negotiating with us to standardize our rates across our service territories, and we're working towards that.

Q. Would you be able to provide in a post-hearing data request that info that you have for the 3 percent -- wages are rising at a rate of 3 percent in this territory, in your service territory?

A. I think I said that the wages -- the wage -- I'm sorry, the salary increase budgets tend not to vary, and so I don't know that I have a Kentucky cut for that, but they've been very consistent throughout the U.S. by location and by industry as well, so I don't know that I have a Kentucky cut of that, but they've been consistently 3 percent. It's almost a foregone conclusion at this point.

Q. So what about in Hazard in Perry County, do you

think that holds true there?
A. For salaried employees, yes, I do. There may be more attrition, maybe the wages in general are going down in Hazard if population is shrinking because people are leaving Hazard, but those people that have jobs for the beginning of the period and the end of the period that we're talking about here, their salary increased budget for those companies probably was 3 percent. Not been a lot of variance around that.
Now, you know, any one company or any group of companies it could be different, but you get a statistically significant sample, they all seem to show 3 percent.
Q. Do you have a study that shows a sample like that that you're talking about to support this?
A. There are many studies. I don't have one specific to Kentucky. I'm using some of my general knowledge here to having looked at these studies throughout the years, and for the last number of years it's been 3 percent with very little variance, if any, by industry or geography.
Q. But hasn't the information in this case, testimony, studies, documents shown that Eastern Kentucky is not like the national trend, the national

average? Isn't it different in that it's not increasing in the same way?

A. Well, as I explained, the wage increase budgets of the companies in Hazard, it's a different thing from the wage level or the average wage level for any position, say welder or something like that in Hazard. Those are two different -- those are apples and oranges.

The companies in Hazard, if they're -- if it's a significant sample, statistically significant sample, I should say, they're probably following the trend throughout the U.S., which is 3 percent.

Q. I'm not trying to do apples to oranges here. I just mean as a general proposition you still think 3 percent is what that entire area is --

A. For the wage and increase budgets, which again is different from general wage levels, yes, I do.

MR. MCNEIL: That's all the questions we have, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner?

MR. GARDNER: Thank you. Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Gardner:

Q. Mr. Carlin, I just have a couple quick

questions. How many of the 30,000 commercial customers in the Kentucky Power territory do you think can afford a pension plan or pension plans as generous as Kentucky Power's?
A. I have no idea.
Q. How many of the 30,000 commercial customers can even afford one pension plan in Kentucky Power's territory?
A. Again, I would have no idea.
MR. GARDNER: Okay. Thank you.
CHAIRMAN SCHMITT: Staff, questions?
MS. VINSEL: Nothing further.
CHAIRMAN SCHMITT: Commissioner Cicero?

REEXAMINATION

By Vice-Chairman Cicero:
Q. Just one other. In your testimony on page 21, you talked about steps to control compensation expense in light of the great recession and weak recovery, and there was a list of about 1, 2, 3, 4, 5, 6 items, okay?
As a post-hearing data request, can I have those dollarized to see what the cost savings or what the company actually ended up saving through these programs, through these efforts?
A. Unfortunately, I don't know that there -- we

can get a dollarized amount for each of these. A lot of these programs were in years past that that information may never have been collected or may now be lost.

Q. Well, I understand that you go back to 2008 and 2009, which I think stretches the whole process, but it does say in light of the great recession, which did start in 2008, but there's items like reduce the employee workforce through staff reduction and severance programs, implemented efficiency measures such as Lean and other continuous improvement initiatives.

Those types of programs I would have thought as part of the corporate culture there would have been some dollarization in order to go back to management and say we implemented these programs, and here's the dollar savings associated with it.

A. There undoubtedly was at one point in time. Those may have been local management, not collected at a central location, especially the Lean programs. There's been many, many Lean initiatives, two or three in the HR department, for instance, over that long period. I don't know that those have been aggregated in a central location that I'd be able to provide to you the dollar impact.

Q. So how does Kentucky Power manage their costs if they don't somehow have an overview of savings programs or a way to go back to management to review whatever those savings that are associated with these type of initiatives? How can management determine whether they're doing effective job or not unless there's some kind of review?

A. Well, I didn't say there wasn't a review. I think there probably was at some point in time. Whether that information has been collected and aggregated in a central place that's now accessible to me is a much different question, and I don't think it probably is.

It may be that management knew that, for instance, we had the integrated disability center in the HR department went through a process improvement as part of the Lean initiative, and those budget dollars were baked into the budget two or three years ago. Don't know what that -- and that was -- it was implemented, we got the savings, the budget year went on, and I don't know now whether that's information is accessible.

That's one, that one probably is because it's in the HR department, but there may not be somebody at the corporate center that collected all the different initiatives from all the different departments and to be able to provide you a total.

Q. Let me approach it from the other direction. Typically when a program is implemented there's a target that says this is what we expect to achieve through this program, this initiative. Do those target dollars exist that are associated with this?

I mean, only reason why I'm asking is because from a managerial standpoint one of the worst things that I hate to see personally is when savings are referenced with no dollars, and I call them foo-foo dollars. They make things look good, but there's nothing to substantiate them, and it's always nice to have something that goes along with it that says, you know, we had savings, here's what our target was. I always like to see them make good on it, but this is what we actually achieved, but somewhere a measurement process that says we were successful, unsuccessful, this is we were trying to do, but shows an approach by the organization to reach some target.

A. So the Lean initiative is an example. A lot of -- and some of those had very explicit targets that were probably achieved. Others did not. They had sort of save ourselves targets.

If we've got 40 percent more work than we can really handle in our integrated disability center, and we can cut 30 percent of that out, we're cutting back nonexempt overtime, which is not paid overtime, so there's no dollar savings, but that process improvement enables us to get our work done without being there till 8:00 o'clock every night, and that's a huge improvement on company culture.

Q. But this specifically says take into control compensation expense. This wasn't an efficiency list. This was a control compensation expense list.

A. And many of the Lean initiatives were. The one example I just used was not, I'm sorry, but I still don't know that those have been collected in a central location. In fact I don't believe they have. You are not the first one to ask.

Q. Well, how about making an attempt to see what you can do?

A. I shall do so.

Q. Thank you.

CHAIRMAN SCHMITT: Commissioner Mathews?

I have none.

Mr. Garcia, any follow-up?

MR. GARCIA: Nothing further, Your Honor. Thank you.

CHAIRMAN SCHMITT: Any questions from anyone else? If not may, this witness be excused?

MR. OVERSTREET: Yes, Your Honor.

CHAIRMAN SCHMITT: Like to call your next witness?

MR. OVERSTREET: Our next witness is Mr. Cooper, and Mr. Garcia will present him.

CURT D. COOPER, called by the Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

CHAIRMAN SCHMITT: Please be seated. Mr. Garcia, you may ask.

MR. GARCIA: Thank you, Your Honor.

Q. Would you please state your name and business address for the record?

A. My name is Curt D. Cooper, business address 1 Riverside Plaza, Columbus, Ohio, 43215.

Q. By whom are you employed and in what capacity?

A. American Electric Power Service Corporation, and I'm the director of employee benefits.

Q. Mr. Cooper, did you cause in this case rebuttal testimony to be submitted consisting of five pages of questions and answers?

A. Yes.

Q. And if -- was that prepared by you or under your supervision?
A. Yes.
Q. And if I were to ask you the same questions today, would you provide substantially the same answers?
A. Yes.
Q. Do you have any changes or additions to your testimony?
A. No.
Q. Did you also provide answers to discovery requests?
A. I did.
Q. And do you adopt your rebuttal testimony and the answers to your discovery questions as your evidence in this case?
A. Yes.
MR. GARCIA: Your Honor, the witness is tendered for cross.
CHAIRMAN SCHMITT: Mr. Kurtz, any questions?
MR. KURTZ: No, sir.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions for this witness? If not, Mr. Chandler, Mr. McNeil, any questions?

MR. CHANDLER: The AG does not have any cross for this witness.

CHAIRMAN SCHMITT: Mr. Osterloh or Mr. Gardner?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff, questions?

MS. VINSEL: We do have just a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Also I'm going to hand out the filing that the Vice-Chair was just referring to. I will explain as I'm going along. This will not be introduced as an exhibit. This is a schedule that was filed into the record.

A. Thank you.

Q. This is an updated schedule of a schedule that was originally filed, Mr. Cooper, by you and Mr. Ross. Its updated version was filed only by Mr. Ross in staff's fourth data request.

I'll give you a minute to look at it. And this is a printout of an Excel spreadsheet.

A. Okay.

Q. If you look at, it's column number 3 called Blended Funding. It's underneath where it says Expected 2017 Employee Medical Benefit Cost.

A. Uh-huh.

Q. So that where you see -- let me give you example, lines 3 through 6. Employee only, the blended funding is $1,338.10. For employee and spouse, same amount. Employee and children, same amount. Employee and family, same amount.

So in this case it looks like Kentucky Power pays the same amount no matter if it's a single employee, an employee and his spouse, an employee and children, or an employee and family. And that continues through other of the entities -- other of the plans.

A. So, sorry, could you repeat the question then?

Q. So does in fact -- is there blended funding -- does Kentucky Power pay the same amount, for example, under the Anthem HRA, for a single employee as for an employee and the employee's family?

A. No, that's not the way it works. And because I didn't put together this chart I'm not sure exactly where all the numbers were derived, but I can tell you, describe in general the process that AEP uses to calculate employee contributions for medical coverage.

And so the starting point is we work with our actuaries to predict what the costs are going to be for our medical plans, and we have three different medical plans, so we predict costs for all three of the different plans, and then based on that overall cost we divide that by the number of employees that work for the company to get a per employee cost. But then we change that cost based on the coverage level of the family group, so an employee overall cost is going to be lower than, say, a family cost.

And once we get those tier rates, then we apply a percentage to that rate, and let's say the single rate, let's just say it's a thousand dollars. Then we apply a percentage to that overall thousand dollar rate to determine what the company will contribute towards that cost.

And, for example, for the HRA plan the company contribution is about 76 percent. So that would mean that the company would contribute $760, whatever is left over is what the employee would contribute, but we don't use the thousand dollars for all four tiers, so for a family it would be three times the thousand. But the same methodology is used for all of the different tiers.

Now that's the HRA plan. It's our starting point. What we have decided to do as a company and what we've done historically is that we've taken a plan that we see as the target plan, and that's the plan that has the sort of the broadest level of coverage, and we determine our subsidy based on that plan.

And then we contribute the same dollar amount towards the other two plans that we have. So we have three plans. They're all consumer-driven plans. We moved to all consumer-driven plans in 2016, so we do not have a traditional medical plan anymore.

We have three consumer-driven plans, and the way the -- because the -- well, the HRA plan is the target plan, and of the three plans that's the closest one to a traditional plan. We moved away from a PPO type plan, so the HRA is the closest to the plans we used to have. That's the most expensive plan. The company subsidizes a piece, and then the employee covers the rest.

Then we have two what we call health savings account plans, and under those plans, both of those plans, the deductible is higher, so that means the total overall cost for those plans is lower.

What we do as a company, though, is that we normalize our subsidies, so the same subsidy we provide to the HRA plan we provide to those two HSA plans, and we think that's fair because that results in a lower employee contribution for those plans.

So they're trading off a lower employee premium for probably more out of pocket. So that at high level is how we run through the methodology for coming up with both the company subsidy, as well as the employee contribution.

Q. Thank you. That was helpful in clarifying.

I will be asking for a post-hearing data request, but I will reserve it until Mr. Ross is on the stand.

A. Okay.

Q. And on a topic that gets to what Mr. Carlin was recently testifying to, in your rebuttal testimony in your responding to one of the Attorney General's witness recommendations to exclude certain retirement benefit costs, and in that testimony you distinguished Kentucky Power's retirement plans from -- there were some reductions in -- disallowance of portions in three other cases involving utilities, Kentucky Utilities, Louisville Gas & Electric, and Cumberland Valley.

Could you speak to that, and why, why you say that the Kentucky Power plant is not duplicative?

A. Sure, be happy to. So let's take, for example, the Cumberland Valley plan. Our understanding was that Cumberland Valley had both a defined benefit pension plan and a 401(k) plan.

With respect to the defined benefit plan, Cumberland Valley's company contribution towards that benefit was a little bit north of 30 percent, so that was the company's contribution to the defined benefit pension plan.

They also had a 401(k) plan. The information we had didn't describe what the match was there, but let's just take the 30 percent. So we compare that to AEP's contribution to both our cash balance pension plan and our 401(k) plan, and if I could, I think witness Carlin did a fine job of describing general terms how the plans work, but I think I'm a little bit more familiar, so let me try to fill in a few blanks.

So let's start with the cash balance plan first. The way that contribution works is it's based on employee's age and years of service with the company, and it can be as low as 3 percent for the younger new hires with the company, and it can go up to 8 and a half percent on the high end, so that's the most for the long service older employees, that's the most that contribution can be for the cash balance plan. So that's our cash balance plan.

Now let's move over to the 401(k) plan because as Andy was -- Mr. Carlin, sorry, was referring to, we sort of have a swirl here. We have vanilla and chocolate. So if we say the vanilla is the pension plan, now we'll talk about the chocolate.

The chocolate would be the 401(k) plan, and the company contribution there is based on what an employee contributes. So if an employee contributes 1 percent, say the company matches 1 percent all the way up to 6 percent. If the employee puts in 6 percent the company will match 4 and a half.

So if you look at the top end of both of those contributions, the 8 and a half percent for the cash balance, defined benefit pension, and I apologize for all the terms, plus the 4 and a half percent 401(k) contribution, you can see that in total the maximum the company would contribute, and this again would be for the longer service employees who are maxing out on their 401(k), would be 13 percent. So you compare that 13 percent to the 30 percent for Cumberland Valley, and it's pretty apparent that their benefit was significantly higher than ours.

So let's move over now to the Kentucky Utilities and the LG&E case. Now they're a little closer to what we have. Our understanding is that for a group of employees they did have a defined benefit pension that they made a contribution to.

They also had a 401(k) plan, but unlike AEP where we make one contribution based on what the employee contributes, those companies had two contributions. And so the first contribution was not based on what the employee contributed, and that could be between 3 and 7 percent, and that was strictly a company contribution in the plan for them.

They also had a 401(k) match component, and the maximum match, if an employee contributed 6 percent the company would match it 4.2 percent, I believe, was the max.

So again, if you look at the contribution amounts, and let's just look at the 401(k) contribution amounts. On the low end it's 3 percent and 4.2, so 7.2 percent. On the high end it could be 7 percent plus the 4.2, so that's 11.2.

So you can see that those percentages are close to what AEP's contributing under both our 401(k) and our pension, and that doesn't even factor in what Kentucky Utilities and LG&E were contributing towards the pension plan. We didn't have that information on their contributions immediately available, but it wouldn't take much of a contribution at all for them to significantly exceed what AEP is doing.

MS. VINSEL: We have no further questions.

CHAIRMAN SCHMITT: Mr. Cicero?

EXAMINATION

By Vice-Chairman Cicero:

Q. So I want to make sure that I understand your last explanation. It was good to compare to Cumberland Valley and LG&E and KU, obviously Cumberland Valley was out somewhere, I'm not even sure where they were.

Right now you've got a savings plan or a dollar savings plan that basically has taken the place of your defined dollar benefit plan.

A. I wouldn't say taking the place. I'd say it's the defined benefit plan in conjunction with the 401(k) provide a reasonable retirement benefit in total.

Q. Let me restate it. You have a defined dollar benefit plan that's locked and frozen as of 2010; is that correct or not correct?

A. Well, we have two formulas under the defined benefit plan.

Q. You guys get me right to the edge, and then you always say but.

A. Apologize for that. It's the benefit director full employment act: If we make these benefits complicated enough I always have a job.

So the old plan that we used to have was what we called a final average pay plan, and that plan was your traditional defined dollar benefit plan. And so the way that formula worked is if you looked at the employee's compensation in their last three years of employment, and then you applied a formula percentage to that, and because the last three years typically were their highest earning years, that created a benefit. So that's formula number one under our defined benefit program.

Q. Typically based on years of servicer determined the factor.

A. Right. Right. So that formula was frozen. No new employees were allowed into that program after 1/1/2001.

Q. Okay.

A. But between 1/1/2001 and 12/31/2010 we continued to run that formula.

Q. Uh-huh.

A. Then at the end of 2010 that formula was, as you say, frozen, so additional service after 2010 did not change the amount of that benefit. So that benefit is frozen as of the end of 2010.

The other benefit that we have, the one that I described the contribution can be between 3 percent and 8 and a half percent, that formula is still running, so that -- that formula is not frozen. That one is still, it still lives on, but the old final average pay formula is frozen.

Q. So I'm an employee that's hired after 2001. My service year is 2003. I never qualified for the defined benefit plan in its traditional form.

A. Correct.

Q. I only qualified for a dollar savings plan; is that correct? The 3 percent to the 8 and a half percent.

A. That's right.

Q. That's all I qualified for.

A. Dollar savings plan will work, yes.

Q. Okay. So I get 3 to 8 percent. In addition to that I can save an additional three quarters of a point up to 6 points as a company match. I can put in more than that, but the company is only going to match 4 and a half percent of whatever it is.

A. Right.

Q. So the two of those, if I'm employed -- if my employment service date is 2003 is 4 and a half percent, and if I hit my years of service it puts me at 8 percent, so I think you explained that these are

12 and a half to 13 percent or something?
A. Yeah, on the top end it's actually 8 and a half percent, so the 8 and a half and 4 and a half would get you to 13.
Q. Okay. I understand that piece. You can call that one cone, whatever, that's fine.
Now let's go back to the defined dollar benefit plan. My service year is 1995, okay, so now I'm in the old plan, I'm grandfathered through to 2001 cutoff date that doesn't mean anything, and I make it all the way up to 2010.
A. Yes.
Q. So in 2010 I've got 15 years of service under defined dollar benefit plan.
A. Yes.
Q. Okay. What happens? Where do I go to from there? What plan do I fall into?
A. At the end of 2010 you -- and now let's say you would retire, you want to retire in 2015, so in 2015 you'd become eligible for your defined benefit pension.
Q. Fifteen years of service, and the calculation is based on 15 years of service, and the average is three years at the 2008, '9, '10?
A. That's right, that's right. So here you are in

2015, so you've got that benefit under the final average pay, you described very well what that amount would be. You've also since your date of hire, which we -- well, the cash balance formula, we started running that in 2000.

Q. Okay.

A. So since 2000 you've also been accruing a benefit under the cash balance plan, that 3 percent to 8 and a half percent. So we contribute an amount into your account every year based on those contribution amounts, and then in 2015 when you retire we compare what that amount has grown to with what your old final average pay benefit was. Based on your 2010 date was when we locked in what that benefit amount was going to be, so we compare your 2010 final average pay benefit with your 2015 cash balance benefit. Whichever one of those is higher, that's what you're going to receive.

Q. And you will also receive whatever the balance is in your 401(k) that's accrued through your retirement date.

A. That's correct, yes.

Q. So you're not making a contribution into -- you're not making additional contributions -- you're not making an actuarial calculation into the plan, other than for what's determined to pay the benefits for employees up through 2010, which has already been actuarial calculated, and it should be minor.

A. Right.

Q. Shouldn't be much of a contribution into that plan whatsoever.

A. A contribution to cover that benefit, yes.

Q. Right. Because actuarially you should have already been -- I know there's -- no actuarial calculation is guaranteed, so I know there's going to be fluctuations, but it should be minor fluctuations.

A. Right.

Q. And then after that it's the cash value, which is a pretty straightforward number, and whatever the contribution is that is the match.

A. That's correct. And that dynamic is what Mr. Carlin was describing. The final average pay formula for a subset of employees has resulted in a higher benefit even up to the present day, so even though an employee is not accruing any more after 2010, for Mr. Carlin, and just so happens myself and I think about 1,500 employees, that final average pay benefit is still the winning benefit.

So what that really means is from an actuarial perspective, from 2010 to now there's no additional actuarial cost because we already accrued that back in 2010.

Q. Okay. So thank you for that explanation.

A. You're welcome.

Q. Now let's go to the blended formula that you've got here in healthcare. So I think the data request that was made --

VICE-CHAIRMAN CICERO: You asked for a data request; is that right?

MS. VINSEL: Yes.

Q. Requested a -- there was a spreadsheet requested to be filled out that lists the total cost for the company, the total cost for the employee by class, and I understand when we've done this with the smaller utilities they list it by employee, but I understand with the number of employees you have that's too difficult to do, so in the LG&E KU case they did it by employee class.

A. Okay.

Q. But it's still broken out by inside those classes what the coverage level is, whether it's single, employee and family. In your case you've got four different levels.

A. True.

Q. So the way you've presented it here, it

distorts the true contribution made by the employee because if I look at your target class, which is HRA --
A. Yes.
Q. -- it looks like the employee only is contributing 10 percent, and the employee plus family is contributing 30 -- 33 percent, but if I drop down to the next one it's 7 and 22, and the next one it's 3.3 and 10, but I'm pretty certain that if I looked at employee plus family, that blended rate, if I actually had the actual rate, would be much higher than 1,338, and the contribution that the employee is making to that on a family basis would be lower, and the employee only would be higher; is that correct?
A. That is correct, yes.
Q. So can I have those numbers so that I can see -- it looks like you don't have -- you've got 513 employees, doesn't look like it should be that difficult to split out what's associated by those classes and those, because your premium has to identify it.
A. It does, yes.
Q. Okay. Post-hearing data request?
A. Yes, absolutely.
Q. Thank you.

VICE-CHAIRMAN CICERO: I don't have any more.

CHAIRMAN SCHMITT: Mr. Mathews?

I have none. Mr. Garcia?

MR. GARCIA: Just one, Your Honor. Thank you.

REDIRECT EXAMINATION

By Mr. Garcia:

Q. Mr. Cooper, if you could explain in the context of what you are talking about a second ago, how do the HSA deductibles work and affect that calculation that you were talking about a second ago?

A. In Mr. Carlin's testimony, direct testimony, he -- we provided an exhibit, and that is exhibit ARC-10, and the third and fourth pages is where we weigh out -- is where he we lay out the plan design for the three plans that we offer: HSA Basic, HSA Plus, and the HRA plan.

So with respect to the HSA Basic plan, that as the name implies is our sort of basic low level plan, and for that particular plan there is a $2,700 deductible for single coverage, and that amount can go up to $8,100 if it's full -- if it's a full family tier. So what a deductible means is that is what the employee has got to pay out of his or her pocket before the plan will provide any benefit, so that's the HSA Basic.

With respect to the HSA Plus, the reason we call that a plus plan is because the company does make a small contribution towards the health savings account for the employee that helps them meet their deductible, but with respect to the HSA Plus, the deductible can go from 2,000 for a participant up to 4,000 for a participant and family.

Then the last plan is the HRA Plan, and that particular plan for single coverage, the deductible is $1,500. That goes up to 3,000 for family. Now with the HRA plan as well the company does make a contribution into the HRA account for the employee, and that amount varies from 1,000 to 2,000, so those are the deductibles.

As I mentioned, we moved to this approach in 2016. The idea was for us to increase the amount of deductibles, which in turn would make the employees more prudent with respect to their healthcare usage because they're going to be paying for the first portion of their costs, in effect out of their own pocket because of the application of the deductible. So we moved to that approach in 2016.

Another significant change we made in 2016 was we combined our vendors. We had two vendors previously. We had Aetna and Anthem, and we combined all of our coverage through Anthem, and as a result of that change as well we were able to reduce the admin fees because Anthem gave us additional discounts based on the higher volume, and that savings roughly was in the $8 million range annually, so the net effect of moving to the new plan design, as well as consolidating our vendors actually allowed us in 2016 to achieve a per person medical cost that was slightly below what we saw in 2015.

And that's significant when you talk about medical plans because medical plan inflation has been increasing five to six percent a year, sometimes more in a given year, so for us actually to reduce our cost slightly was a significant achievement, and I think it does speak to our broader approach, which is to continuously look for cost savings opportunities with respect to all of our benefit programs, and we focus a lot on medical because a significant portion of our benefit dollars is incurred under the medical plan, so I think that's an example of that.

MR. GARCIA: Nothing further, Your Honor.

CHAIRMAN SCHMITT: Mr. Kurtz?

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Counsel for any of the other parties wish to ask any additional questions of this witness?

MR. CHANDLER: Can I just ask one?

CROSS-EXAMINATION

By Mr. Chandler:

Q. The $8 million number that you just cited, that was a savings to AEPSC?

A. That was actually savings to the medical plan itself, and the medical plan costs are spread amongst all of the subsidiaries, so a portion of that savings would have flown through to Kentucky Power.

Q. And is that evidenced anywhere in the record as a reduction to a specific amount or a specific allocation?

A. We talked about in the -- in Mr. Carlin's testimony we referred to that total dollar amount of savings that I mentioned, the per person savings under the medical plan was about 13,000, so we did mention that in the testimony.

Q. I guess I just want to ensure that the savings -- that it wasn't a savings to -- is there any evidence that would show that it was a savings ultimately to Kentucky Power, that there was any savings ultimately to Kentucky Power pursuant to that?

A. Nothing that I provided in the case would

provide that evidence.
Q. Do you know if there's any evidence outside of the case that might provide that?
A. I'm not sure about that. I think, as Mr. Carlin indicated, we tend to be more focused on the design of the plans and the structure. With respect to the exact dollar amounts, we might want to -- you might want to ask witness Ross when he takes the stand. He might be able to show that.
MR. CHANDLER: No other questions.
CHAIRMAN SCHMITT: Anyone else have any questions?
MR. GARCIA: Nothing further, Your Honor.
VICE-CHAIRMAN CICERO: Yes, I do.
CHAIRMAN SCHMITT: Commissioner Cicero.

REEXAMINATION

By Vice-Chairman Cicero:
Q. So you were asked if -- you were asked about the different plans, and you mentioned that there's a contribution made by the company in the form of is it a debit card, or what do you give them to help them with their deductible?
A. So we establish an account for them and we contribute money into an account.
Q. So when you provide the company cost, that

should be included as company costs on the medical side because that's a medical expense to the company. You're contributing to the deductible, so please include that in your --

A. That's true. okay.

VICE-CHAIRMAN CICERO: Thank you.

MR. GARCIA: Actually if I may, a quick redirect on that very point.

REDIRECT EXAMINATION

By Mr. Garcia:

Q. Mr. Cooper, if you would indicate are the premium that the employees pay for these plans affected by the question that you just described?

A. Yes. So when we calculate the amount of the employee premium, we calculate what both the claims cost is projected to be as well as the administrative costs, so we add all those costs together, come up with a total, and then the premium is a based on -- or the contribution is based on that.

MR. GARCIA: Thank you, Your Honor. Nothing further.

CHAIRMAN SCHMITT: If there's nothing further, may this witness be excused?

MR. OVERSTREET: Yes, Your Honor.

CHAIRMAN SCHMITT: Thank you. You may step down.

All right. We're now at almost 6:00 o'clock, so we will recess until tomorrow morning at 9:00 a.m.

MR. OVERSTREET: Thank you, Your Honor.

(Hearing adjourned at 5:58 p.m.)

*   *   *

STATE OF KENTUCKY)
)
) SS.
)
COUNTY OF JEFFERSON)

I, Jennifer R. Janes, a Notary Public within and for the State at Large, my commission as such expiring 1 May 2019, do hereby certify that the foregoing hearing was taken at the time and place stated and for the purpose in the caption stated; that the witnesses were first duly sworn to tell the truth, the whole truth, and nothing but the truth; that the hearing was reduced by me to shorthand writing in the presence of the witnesses; That the foregoing is a full, true, and correct transcript of said hearing; that the appearances were as stated in the caption.

WITNESS my hand this 14th day of December 2017.

____
Registered Professional Reporter
Certified Realtime Reporter
Notary Public, State at Large

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

VOLUME III

Transcript of December 8, 2017, hearing before Michael Schmitt, Chairman; Robert Cicero, Vice-Chairman; and Talina R. Mathews, Commissioner, at the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615.

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C O N T E N T S

C O N T E N T S
(Continued)

C O N T E N T S
(Continued)

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E X H I B I T S

	Marked	Admitted
AG Exhibit 4	--	915
AG Exhibit 11	--	976
AG Exhibit 12	--	1062
AG Exhibit 13	--	1062
KCUC Exhibit 7	1005	1017
KIUC Exhibit 1	1018	1018
KPCO Exhibit 13	--	1103

* * *

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ALSO PRESENT:
Ms. Pam Hughes, Videographer

* * *

(Hearing commenced at 8:59 a.m.)

CHAIRMAN SCHMITT : We're now back on the record .

Mr. Overstreet , does Kentucky Power have an another witness to call this morning ?

MR. OVERSTREET : It does, Mr. Chairman . Douglas R. Buck .

CHAIRMAN SCHMITT : Mr. Buck, please stand and raise your right hand . Do you solemnly swear or affirm under penalty of perjury that the testimony you are about to give will be the truth , the whole truth , and nothing but the truth ?

MR. BUCK : I do.

CHAIRMAN SCHMITT : Please be seated .

Counsel , you may ask.

MR. OVERSTREET : Thank you, Mr. Chairman .

DOUGLAS R. BUCK, called by Kentucky Power Company , having been first duly sworn , testified as follows :

DIRECT EXAMINATION

By Mr. Overstreet :

Q. Mr. Buck, please state your name, position , and business address .

A. My name is Douglas R. Buck. My business address is 1 Riverside Plaza , Columbus , Ohio, AEP

Service Corp. My position is a regulatory case manager.

Q. And, Mr. Buck, did you cause to be filed in this proceeding direct testimony and answers to data requests?

A. I did.

Q. And do you have any corrections or modifications to those?

A. No, I don't.

Q. And if you were asked those same questions here today, would your answers be unchanged?

A. They would be unchanged.

Q. Okay. Thank you.

MR. OVERSTREET: The witness is available, Your Honor.

CHAIRMAN SCHMITT: Mr. Kurtz, any examination of this witness?

MR. KURTZ: No questions, Your Honor.

CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions for Mr. Buck?

If not, Mr. Chandler, Mr. Cook, questions?

MR. CHANDLER: We have no questions on cross.

CHAIRMAN SCHMITT: Mr. Gardner.

MR. GARDNER: No questions, Your Honor.

CHAIRMAN SCHMITT: Staff?

MS. VINSEL: Yes, we have just a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Mr. Buck.

A. Good morning.

Q. These questions are about the proposed reduction in the interclass subsidies. As you know, in the application Kentucky Power had designed the rates to have a five percent reduction in interclass subsidy --

A. Right.

Q. -- correct? Can you tell me what effect, if any, that the proposed nonunanimous settlement agreement has upon any reduction in the interclass subsidy?

A. I think Witness Vaughan prepared the allocation among classes, so I think that's a question for him to address.

MS. VINSEL: Then I have nothing further to ask.

CHAIRMAN SCHMITT: Commissioner Cicero, questions?

VICE-CHAIRMAN CICERO: No, sir.

CHAIRMAN SCHMITT: Commissioner Mathews?

COMMISSIONER MATHEWS: No.

CHAIRMAN SCHMITT: I have no questions.

Mr. Overstreet, anything further?

MR. OVERSTREET: No, Your Honor.

CHAIRMAN SCHMITT: Anyone else have any other questions of Mr. Buck?

Then may he be excused?

MR. OVERSTREET: Yes, Your Honor.

CHAIRMAN SCHMITT: Mr. Buck, you may be excused. Thank you.

MR. OVERSTREET: Our next witness, Your Honor, is Mark Pyle, and Mr. Garcia will present him.

CHAIRMAN SCHMITT: Mr. Pyle, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. PYLE: Yes, I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Garcia, you may ask.

MR. GARCIA: Thank you, Your Honor.

* * *

MARK A. PYLE, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

Q. Mr. Pyle, would you please state your name and business address for the record?

A. It's Mark A. Pyle, and the business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. And by whom are you employed and in what capacity?

A. Vice President of Tax for American Electric Power Service Corporation.

Q. Mr. Pyle, are you aware that Jeffrey Bartsch submitted direct testimony consisting of nine pages of questions and answers?

A. Yes, I am.

Q. And have you reviewed that testimony?

A. Yes, sir.

Q. Have you adopted that testimony in this case?

A. Yes, I have.

Q. Okay. And have you also caused to be submitted rebuttal testimony consisting of six pages of questions and answers?

A. Yes, sir.

Q. And did you cause to be submitted answers to discovery requests ?
A. Yes .
Q. And are you familiar with discovery requests that were submitted with Mr. Bartsch as far as a witness ?
A. Yes .
Q. Do you adopt -- well , let me ask you : Do you have any corrections to any of that information ?
A. No, I do not .
Q. If I were to ask you the same questions that are out lined in your rebuttal or the questions that are in the direct testimony that you have adopted for Mr. Bartsch , would your answers be substantially the same ?
A. Yes .
Q. Do you adopt the testimony of Mr. Bartsch as your own , your own direct testimony , your rebuttal testimony , and the answers to discovery questions by both you and Mr. Bartsch in this case as your evidence in this case ?
A. Yes , I do .
MR . GARCIA : Your Honor , Mr. Bartsch is available for cross .
CHAIRMAN SCHMITT : Mr. Kurtz , questions .

MR. KURTZ: No questions.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions for this witness?
If not Mr. Cook, Mr. Chandler, questions?
MR. COOK: We do, Your Honor.

CROSS-EXAMINATION

By Mr. Cook:
Q. Good morning, Mr. Pyle.
A. Good morning.
Q. I have a few questions for you.
A. Okay.
Q. The Company's filing Gross Revenue Conversion Factor and the Requested Revenue Requirement are all based upon applying a 35 percent federal income tax rate; is that correct?
A. Yes, sir.
Q. Thank you. And your rebuttal testimony addresses the calculation of the gross revenue conversion factor or GRCF?
A. Yes, it does.
Q. Okay. The GRCF is used to convert the net operating income deficiency into a revenue requirement amount, correct?
A. Correct.

Q. And the GRCF being used by the Company reflects a 35 percent federal income rate, correct?
A. That's correct.
Q. As the Vice President of Tax for AEP Service Corporation, have you been following developments in Congress concerning tax reform?
A. Yes, I have.
Q. Okay. And it seems -- are you aware that the U.S. Senate has advanced a tax reform bill that would -- at least as of today, would cut the corporate income tax rate from the current top rate of 35 percent to a new rate of 20 percent?
A. Yes, I'm aware of that provision.
Q. Thank you. And the House has also passed its own tax reform bill, correct?
A. Yes, it has.
Q. Thank you. The level of federal income taxes has a significant impact upon the revenue requirement being sought by the Company in the current rate case, correct?
A. Yes.
Q. If the corporate income tax rate is cut from 35 percent to 20 percent, that could result in a significant impact on the amount of income taxes going forward, would it not?

A. If the -- if the rate were cut, that would -- if that were the only thing that was in the provision, then I believe that, yes, it would have a significant impact. But I think if you look at the provisions that both the House and Senate have passed, there's more to it in the provisions than just the rate reduction. So I think you have to take the entire bill and reflect that in any changes that you would roll through.

Q. Understood. If the corporate income tax rate is cut from 35 percent to 20 percent, could that also result in the Company having excess deferred income taxes?

A. "Excess deferred" as defined as the amount of deferred taxes that are on the books that would be readjusted at 20 percent versus 35 percent?

Q. Yes.

A. Is that how you're defining it? Yes.

Q. Okay. Thank you. For some categories of excess deferred income taxes, the Company could rapidly flow those back to ratepayers and that could help reduce the amount of rate increase, could it not?

A. There -- the way the provisions currently exist in both bills reflect what is considered a definition of excess deferred taxes that must be flowed back to ratepayers no faster than the average book life. Those would be related to property.

And then there are other deferred taxes that are on the books that have an excess component. If the rate were at 20 percent, that would be something that would be, you know, addressed in some filing or procedure.

Q. Okay. Now, the settlement agreement in this case does not provide for flowing back to ratepayers the amount of federal income tax savings that could result if the income tax rate is substantially reduced from the currently applicable rate, does it?

A. I believe the settlement agreement has a provision in it. If I'm remembering correctly, it's on page 9 of the settlement, that does address any rate change and says that if Congress does pass a tax bill and there is a rate change, then the agreement addresses that as something that would be for future -- in a future proceeding that is at the pleasure of the Commission.

Q. And if -- would it be your understanding that only if the Commission initiates an investigation or a complaint is filed that those savings from the reduced income tax rate would flow back to

ratepayers ? Is that correct ?
A. I'm not sure that it would only be a complaint . I would have to defer to our legal counsel as far as the interpretation of how that provision would get triggered by the Commission .
Q. Could you refer to a copy of the stipulation ? I believe it is on page 9. I think your recollection was correct .
A. Okay .
Q. As I look to paragraph 5(c) under that , 5 is the rate case stay out , correct ? Do you see that ?
A. Yes .
Q. And under that there 's a (c). Do you see that ?
A. Yes , I do .
Q. Okay . Towards the bottom there is a sentence that starts up, "In the event the Commission ." Could you read that into the record , please ?
A. Sure . (Reading) In the event that the Commission initiates an investigation or a complaint is filed with the Commission regarding the Company 's rates , the Company retains the right to defend the reasonableness of its rates in such proceedings .
Q. And I apologize . Could you also , under that (c), read that very first sentence ?

A. Oh. (Reading) Nothing in this stay out provision should be interpreted as prohibiting the Commission from altering the Company's rates upon its own investigation or upon complaint, including to reflect changes in the tax code, including the federal corporate income tax rate, depreciation provisions, or upon request by the Company to seek leave to address an emergency that could adversely impact Kentucky Power or its customers.
Q. So having read that provision, then, would you agree that -- excuse me -- that only if the Commission initiates an investigation or a complaint is filed would the change, reduction in the income tax savings, be flowed back to the ratepayers?
A. I think that would be the case regardless of whether there is a settlement agreement or not. I mean, I think that would be the purview of the Commission.
Q. And the Company could always come in for a rate case if it wasn't for the stay out, right?
A. Correct.
Q. Okay. And given that -- as we discussed earlier, that both houses of Congress have passed tax reform, would you agree that it appears that -- likely that some kind of reform is going to come out

of Congress?
A. I'm not sure that I could say it's likely. Given this Congress right now, it's looking that way, but it also looked that way earlier this year when you had a Republican House and Senate and Administration and the Affordable Care Act was a priority for them, and it was not -- they weren't able to pass any amend -- anything -- changes to that.

The Senate is very closely divided, which wouldn't take much more than two senators to vote against a provision from the Republican side that would put it in jeopardy.

So the other part of it is, this bill is right now in the joint committee, a joint committee that is to resolve the differences. So it has to go back to both houses to be voted in.

So having -- just observing the way things have worked in the last year, I'm not sure I could say I would wager any probability as far as, you know, likelihood.
Q. If -- let's just say if a significant reduction was to go through and become law, signed by the President, would it not be reasonable for the Commission to require that reductions to the

Company 's federal income taxes be captured and returned to Kentucky Power ratepayers ?
A. Well , I think that it falls within the Commission 's purview to do such if they so choose . That 's --
Q. Thank you .
MR . COOK : Mr . Chairman , no further questions .
CHAIRMAN SCHMITT : Mr . Gardner , Mr . Osterloh , questions ?
MR . OSTERLOH : No additional questions .
CHAIRMAN SCHMITT : Staff .
MS . VINSEL : No questions .
CHAIRMAN SCHMITT : Commissioner Cicero ?

EXAMINATION

By Vice -Chairman Cicero :
Q. I don 't know that you were here earlier in the hearings when I asked Mr . Satterwhite about the accounts receivable and the bad debt . I know I'm going to be asking questions of Mr . Vaughan , but in the gross revenue conversion factor , there is a piece in there that I would think the .34 percent that addresses bad debt , that would go away if the bad debt went away , would it not ?
A. That percent would go away if the bad debt were to go away , but I'm not sure how we would have

that bad debt go away. That would be --
Q. That would be more --
A. -- something that would --
Q. I'll have questions for Mr. Vaughan. But theoretically if it goes away, that percentage goes away?
A. I mean, that percentage is purely a function of what's on our books, and if bad debts are on our books and it is a charge that we incur, then yes, it goes into the gross revenue factor. If that -- if we did not have bad debts, we would remove that from the factor.
VICE-CHAIRMAN CICERO: I don't have any other questions.
CHAIRMAN SCHMITT: Commissioner Mathews.
COMMISSIONER MATHEWS: None.
CHAIRMAN SCHMITT: I have none.
Mr. Garcia, any redirect?
MR. GARCIA: Just a second, Your Honor, if I may.
Okay. No further questions, Your Honor.
MR. KURTZ: Can I just follow up --
CHAIRMAN SCHMITT: Yes.
MR. KURTZ: -- Mr. Cook's very good cross-examination?

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Pyle?

A. Yes, sir.

Q. Did you review the testimony of Mr. Kollen in this case?

A. Yes, sir.

Q. He calculated the revenue requirement effect of going from 35 percent to 20 percent at $12.583 million on page 49 of his testimony. Did you verify that in any way?

A. What page is that on in his testimony?

Q. 40 -- 49.

A. Yes, I see where he indicated that calculation.

Q. Did you verify that in any way?

A. I didn't recompute it, no.

Q. Okay. Question: The excess accumulated deferred income taxes, do you -- at the end of 2016, we've looked at this and our number was $286 million. Does that sound like it's about correct?

A. What is 286 million?

Q. The excess ADIT on the Company's books at the end of 2016.

A. I think that -- the 286 million I think may

be the balance after the excess is taken off.
Q. I think it's the opposite.
A. Is it?
Q. That would be the excess.
A. Okay.
Q. Does that sound about right? Any idea?
A. I think -- I think that's really the balance. I think the excess was more like 215.
Q. Okay. Well --
A. Roughly.
Q. -- obviously the Commission will get into this. And that amount of money would be grossed up for income taxes then flowed back over the life of the property, as you indicated?
A. Yes.
MR. KURTZ: Okay. Thank you, Mr. Chairman.
CHAIRMAN SCHMITT: Any other questions by any party for this witness?
In which case, may he be excused?
MS. VINSEL: Yes.
CHAIRMAN SCHMITT: Thank you. You may stand down, sir, and you're excused.
MR. OVERSTREET: Our next witness, Your Honor, is Debra Osborne.
CHAIRMAN SCHMITT: Ms. Osborne, please raise

your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MS. OSBORNE: I do.

CHAIRMAN SCHMITT: Thank you. Please be seated.

Mr. Gish, I assume you're asking questions of the witness.

MR. OVERSTREET: No, he trusted me to do it.

CHAIRMAN SCHMITT: Oh, he trusted you.

MR. GISH: Just this once.

DEBRA OSBORNE, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Overstreet:

Q. Good morning, Ms. Osborne.

A. Good morning.

Q. Would you please state your name, position, and business address?

A. My name is Debra Osborne. I'm Vice President for Generation Assets for Appalachian Power and Kentucky Power. My address is 500 Lee Street East, Charleston, West Virginia.

Q. And did you cause to be filed in this proceeding testimony, rebuttal testimony, and answers to data requests?
A. I did.
Q. And do you have any corrections to those?
A. I do not.
Q. Or other modifications or updates?
A. No, sir.
Q. Okay. And if you were asked those same questions today, would your answers be the same?
A. They would.

MR. OVERSTREET: The witness is available for cross-examination.

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions for this witness?

If not, Mr. Cook, Mr. Chandler.

MR. COOK: No questions, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Yes, we just have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Ms. Osborne.

A. Good morning.

Q. Let me start with the depreciation study, and particularly in terms of the useful life, remaining life of Big Sandy Unit 1.

A. Uh-huh.

Q. Let's just give a little bit of background. Is it correct that Big Sandy Unit 1 went into service in 1963?

A. That is correct.

Q. And as a coal-fired unit?

A. Yes, ma'am.

Q. And then it was very recently converted to a natural gas unit?

A. Yes. It went into --

Q. And it -- I'm sorry?

A. That's okay. I was just going to say it went into operation June of -- May 31st of 2016 as gas-fired.

Q. That was going to be my question. Thank you.

A. Okay.

Q. And is it also correct that there are still some parts of Big Sandy that were original to --

have been there since 1963?
A. Yes. And that's very important to note in this -- in this whole conversation that there's major pieces of equipment, the drum, two generator step-up transformers, the generator rotor, for which there's not a system spare. These are major components that are original installation.
Q. Now, in determining the useful life, in your testimony you had indicated that instead of comparising Big Sandy Unit 1 to other units that were -- that are gas-fired and were always gas-fired, you said the better comparison is to the Clinch River Units 1 and 2, which like Big Sandy were coal-fired units converted to gas?
A. Yes.
Q. I know that was a compound question, but is that correct? And I can break it apart.
A. I was going to say, I believe you're asking me if the conversion at Clinch River was the same as the conversion at Big Sandy.
Q. Yes.
A. They were very similar in nature. All of those -- Clinch River 1 and 2 and Big Sandy 1 were all previously coal-fired generation that were converted to gas.

Q. And is it correct that it is your opinion that in comparising -- or trying to determine the useful life, a better comparison for Big Sandy Unit 1 would be to compare it to Clinch River rather than to look at a unit that has always been a gas-fired unit?

A. Yes, absolutely. I mean, as I referenced earlier, that the conversion to gas did not give it a new lease on life as a new installation of gas.

Q. Now, after the conversion to natural gas for Clinch River Units 1 and 2, what was the estimated service life for the units?

A. After the conversion was 2031.

Q. And how was that determined?

A. It's really an engineering assessment based on the age of the unit and the condition of the unit.

MS. VINSEL: And those are our questions.

CHAIRMAN SCHMITT: Thank you.

Commissioner Cicero.

EXAMINATION

By Vice-Chairman Cicero:

Q. So you said 2031 was the life that -- or the end of useful life for the Clinch River units? Is that what you said?

A. No, sir. Currently we have a proposal for the end of useful life for Clinch River at 2026.
Q. 2026?
A. And as used for the depreciation study upcoming.
Q. And how -- what would that make the useful life if it was 2026? When did those go into service?
A. It would give it a service life of -- I'm going to have to check. I'm pretty sure it's 1958 when the --
Q. Well, since the conversion to gas.
A. I'm sorry. I'm not understanding your question. What would that total --
Q. What was --
A. -- lifespan be?
Q. What was the extension of the life after being converted to gas? What did you come up with useful life?
A. Ten years.
Q. Just ten years?
A. Uh-huh.
Q. And you're saying that Big Sandy 1 is 20 years?
A. It's currently set at 15 years.

Q. 15 years?
A. Uh-huh.
VICE-CHAIRMAN CICERO: I don't have any other questions.
CHAIRMAN SCHMITT: Commissioner Mathews.

EXAMINATION

By Commissioner Mathews:
Q. That was 15 years from 2016?
A. Yes, ma'am.
Q. Okay.
A. Thank you for that.
CHAIRMAN SCHMITT: I have no questions.
Counsel.

REDIRECT EXAMINATION

By Mr. Overstreet:
Q. Ms. Osborne, could you turn to page 3 of your direct testimony, please? Or, excuse me, page -- to page 2 of your direct testimony.
A. Yes.
Q. Just let me know when you're there.
A. Uh-huh.
Q. Okay. And then do you see the question that -- at the bottom of page 2, (Reading) Do the service lives of plants represent a commitment to retire the units as of a date certain?

Do you see that question?
A. I think you're in my rebuttal testimony.
Q. Oh, I'm sorry. I'm in -- I am in your rebuttal testimony. I apologize.
A. I am there.
Q. Okay. And what is the answer to that question?
A. No, they reflect our -- Kentucky Power's best current estimate.
Q. Okay. And then on the top of page 3 of your rebuttal testimony you were asked a question, (Reading) Are service lives sometimes adjusted?
A. Yes. My answer is yes, they may be adjusted as economic conditions change.
Q. And is it reasonable to use a 20-year service life beginning in 2016 for Big Sandy Unit 1?
A. I believe that is reasonable.
MR. OVERSTREET: No further questions.
CHAIRMAN SCHMITT: Any other questions of this witness?
Mr. Chandler.
MR. CHANDLER: Can we ask just one question?
CROSS-EXAMINATION
By Mr. Chandler:
Q. Are you involved in the generation planning

process for Kentucky Power?

A. I have not yet been. I'm uncertain at this point. I have not -- I've been in this position since January, and I have not been a part of that integrated resource planning process.

MR. CHANDLER: That's all the questions.

CHAIRMAN SCHMITT: Does any party have any further questions for this witness?

MS. VINSEL: We just have one follow-up question.

CHAIRMAN SCHMITT: Yes.

RECROSS-EXAMINATION

By Ms. Vinsel:

Q. We need to clarify. I think that we may have misheard something you said about the useful life of both Big Sandy Unit 1 and Clinch River Units 1 and 2 after the conversion.

A. Uh-huh.

Q. With the extension of service life, if you will. Was it 15 years for both?

A. No, it was 15 years for Big Sandy 1, it was 10 years for Clinch River, and that would put the age of both of those units at that point at 68 years. So it's a relative point.

Q. Okay. And is -- you may have already just

answered it, but could you clarify again why that difference in the 10 years versus 15 years?
A. It was the 2031 date and the 2026 date would reflect a 68-year lifespan for those units.
Q. And we understand the concept of that 68-year lifespan, but why is it that Clinch River is depreciating faster than Big Sandy Unit 1?
A. I really can't speak to the depreciation calculation. What we do is we provide the end-of-useful-life number to the Witness Cash.
MS. VINSEL: I can follow up with Witness Cash with that.
MR. OVERSTREET: May I ask one follow-up question, which I think --
CHAIRMAN SCHMITT: Yes, you may.
MR. OVERSTREET: -- may assist Staff.

REDIRECT EXAMINATION

By Mr. Overstreet:
Q. Ms. Osborne, and I think the Vice-Chair brought this out, the reason that it's 10 years for Clinch River and 15 years for Big Sandy, both landing in -- well, Clinch River landing end of useful life 2026, Big Sandy 2031, that's a five-year delta; is that correct?
A. That's correct.

Q. And isn't is it true that Clinch River went into service five years before Big Sandy?

A. Yes, that is correct.

MR. OVERSTREET: Okay.

CHAIRMAN SCHMITT: Any other questions by any party of this witness?

In which case, may the witness be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Okay. Please stand down and you are excused.

MR. OVERSTREET: Our next witness, Your Honor, is Mr. Cash, and Ms. Glass will present him.

CHAIRMAN SCHMITT: Mr. Cash, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. CASH: I do.

CHAIRMAN SCHMITT: Please be seated.

Ms. Glass, you may ask.

MS. GLASS: Thank you.

* * *

JASON A. CASH, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Ms. Glass:

Q. Good morning, Mr. Cash. Can you please state your name, your position, and your business address, please?

A. My name is Jason A. Cash. I am a Staff Accountant under -- for account -- for AEP Service Corporation under Accounting Policy and Research. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. And did you cause to be filed direct testimony, rebuttal testimony, and answers to data requests in this case?

A. I did.

Q. Do you have any corrections or modifications to any of those answers?

A. I do not.

Q. If I asked you the same questions today, would you give those same answers?

A. Yes, I would.

MS. GLASS: Your Honor, the witness is available for cross-examination.

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have questions for this witness?

If not, Mr. Cook, Mr. Chandler, questions.

MR. COOK: No questions, Mr. Chairman.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Yes, we have just a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Mr. Cash.

A. Good morning.

Q. Can I follow up on the question that we asked Ms. Osborne?

A. Yes.

Q. In terms of the 10- and 15-year extension, if you will, of the service life Big Sandy Unit 1 versus Clinch River, can you explain why Clinch River has the 10-year, if you will, extension in service life and Big Sandy has the 15-year extension? And we do understand that both units,

the projected 68-year lifespan.
A. I can't attest to the -- why the useful life is different for both plants. That -- I mean, that was really a better question for Ms. Osborne, but I think you asked why it's being depreciated faster.
Q. Yes. Thank you.
A. Yeah. So in reality it is not being depreciated faster because West Virginia and Virginia have separate rates, and when the rates were both approved for Clinch River, they were -- it was actually a coal-fired generation unit. It has -- the depreciation rates have not been set since it has been converted to a gas-fired unit. The depreciation rates that are being used are the rates that were in place as a coal-fired generation unit.
Q. Thank you. Other than any -- other than the adjustments made in the settlement agreement regarding the service life of Big Sandy Unit 1 and the terminal net salvage value of Big Sandy 1 and Mitchell, are there any other changes to Kentucky Power's proposed depreciation rates?
A. Not that I'm aware of.
MS. VINSEL: Staff has no further questions.
CHAIRMAN SCHMITT: Commissioner Cicero.

EXAMINATION

By Vice-Chairman Cicero:

Q. So I'm just curious. On the Clinch River, you said --

A. Sure.

Q. -- it's still being depreciated at the same rate as if it was a coal-fired plant?

A. That's right.

Q. Because of statutory guidelines in West Virginia and Virginia?

A. No, I should clarify that it was -- the rates that were approved in both cases, the last rates that were approved, it was a coal-fired generating unit, and they have not been reset after -- since the conversion to gas.

Q. And what was useful life as a coal-fired plant?

A. The only one I know for Virginia that I'm -- that comes to mind, it was actually 2019 for Virginia. I am not sure for what -- what it was at West Virginia. I think -- I actually think they set the rates at 2040 is the --

Q. Which was how many years?

A. I mean, 60 -- what was it?

Q. 68 is what --

A. 63, I think, was Big Sandy and 58 was Clinch.
Q. As a coal-fired unit?
A. As a coal-fired unit, that's right. And I guess 2019 is probably the best representation as a coal-fired unit. I can't do the math in my head. Sorry.
Q. No, but I'm just curious why it's continued as a coal-fired depreciation rate.
A. It's just regulatory. I mean, we would have to go in and update our depreciation rates based off of the investment that has been made with the gas-fired unit.
Q. It just sounds like 68 years is being picked as a number to keep it uniform, not really -- absent of any other engineering or design or anything else that makes it 68 years.
A. I can't attest to the engineering life of the unit. I -- you know, I calculated the depreciation rates that are associated with that, with the life that is provided from our --
VICE-CHAIRMAN CICERO: I'll let it go at that. Thank you.
CHAIRMAN SCHMITT: Commissioner Mathews.
COMMISSIONER MATHEWS: I have none.
CHAIRMAN SCHMITT: I have nothing.

Ms. Glass, any redirect?
MS. GLASS: I do. I just have a couple of follow-up questions.

REDIRECT EXAMINATION

By Ms. Glass:

Q. Mr. Cash, what is the revised depreciation rate in the next West Virginia case?
A. That has not been calculated yet at this point.
Q. Would you request a new one in that case?
A. Absolutely.
Q. And that's similar to what we're doing here, correct?
A. That is right. That is correct.
MS. GLASS: Thank you. I have no further questions.
CHAIRMAN SCHMITT: Does anyone have any additional questions for this witness?
If not, may he be excused?
MS. VINSEL: Yes, he may be excused.
CHAIRMAN SCHMITT: Thank you. You may stand down --
MR. CASH: Thank you.
CHAIRMAN SCHMITT: -- and you're excused.
MR. OVERSTREET: Your Honor, the Company's

next -- excuse me -- witness is Steve Sharp, and Mr. Gish will present.

CHAIRMAN SCHMITT: Mr. Sharp, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. SHARP: I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Gish, you may ask.

MR. GISH: Thank you, Mr. Chairman.

STEPHEN L. SHARP, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Good morning, Mr. Sharp.
A. Good morning.
Q. Can you please state your full name, title, and place of business for the record?
A. Sure. Stephen Sharp. I'm a Regulatory Consultant with Kentucky Power. Address is 101 A Enterprise Drive, Frankfort, Kentucky.
Q. And did you file in this case direct and rebuttal testimony and responses to data requests?

A. I did.

Q. And did you file testimony in Case Number 2017-231, which was incorporated into this case?

A. I did.

Q. Do you have any corrections or updates to your testimonies or responses to data requests?

A. I do not.

MR. GISH: Mr. Chairman, the witness is available for cross-examination.

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions of Mr. Sharp?

If not, Attorney General.

MR. COOK: Your Honor, at this point I do not believe we do have any questions. We're going to continue looking through our notes and --

CHAIRMAN SCHMITT: Okay. Thank you.

Mr. Osterloh, Mr. Gardner.

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff, questions.

MS. VINSEL: Yes, we have a few questions.

* * *

CROSS -EXAMINATION

By Ms. Vinsel:

Q. Good morning, Mr. Sharp.

A. Good morning.

Q. There were a few questions we had asked Mr. Satterwhite that he suggested you might be the better --

A. Okay.

Q. -- person to answer.

A. All right.

Q. Let me start with the HEAP program.

A. Okay.

Q. It's been quite a few years since that program was started --

A. Uh-huh.

Q. -- and it would be helpful for us to have some information on the logistics of the program.

A. Okay.

Q. So we know that the surcharge is collected on the bill, the money comes to Kentucky Power?

A. Uh-huh.

Q. At that -- and we also understand that local agencies, community action agencies and so forth --

A. Uh-huh.

Q. Well, no, let me step back. What is the role

of local community action agencies or local agencies in regards to the HEAP program?
A. Their roles would be, probably the best way to word this, that once slots are determined by the community action, which is based off of the number of customers that are in each county and which community actions are participating, they'll determine through their application process and rank the people that have applied in application to determine who will fill in as far as those slots in those counties.
Q. So the local community action agencies are the -- they have the administrative function of --
A. Uh-huh.
Q. -- taking the applications, evaluating, verifying --
A. Yes.
Q. -- and so forth?
A. Yes.
Q. So once a customer --
A. Uh-huh.
Q. -- has been verified and --
A. Uh-huh.
Q. -- there's money available --
A. Uh-huh.

Q. -- does Kentucky Power retain the surcharge and then apply whatever the designated amount is to the customer's account, or is the money sent to a community action agency?
A. We designate it to a customer's account.
Q. So the money remains with Kentucky Power --
A. Yes.
Q. -- at all times?
A. And we fund it once community action advises us which accounts it would go to.
Q. And confirming: This is year-round assistance?
A. Yes. It's -- they would -- depending if it's an electric or nonelectric, they would get it four months for the winter months and then three months during the summer months.
Q. Now, is there any sort of a carveout for an administrative fee for the community action agencies?
A. Yeah, it's a ten percent.
Q. Ten percent?
A. Uh-huh.
Q. How was that number determined?
A. I'm unsure. That was what was agreed upon in 2005 between the community action and Kentucky

Power. That was approved by the Commission.
Q. And 2005, to confirm, is when the program was begun as a pilot program?
A. It began with the -- approved through the rate case at that time.
Q. And just to clarify, also subsequently the pilot designation was removed?
A. I'm sorry?
Q. And subsequently --
A. Uh-huh.
Q. -- the pilot designation was removed?
A. Oh, yes. Yes, it was.
Q. Thank you. I have some questions about the proposed revision to the tariff in regards to denial of service.
A. Okay.
Q. Do you have available to you this packet? It has -- on the cover of it, it is just that tariff sheet --
A. Tariff sheet.
Q. -- at issue.
A. I don't know if I have the packet. I do have the tariff sheet.
MR. GISH: We have it around. We'll find it for you.

MS. VINSEL: Okay.
MR. GISH: Here it is.
MR. OVERSTREET: May I approach, Your Honor?
CHAIRMAN SCHMITT: Yes, you may.
A. Okay. I have it.
Q. Is that -- I'm sorry.
A. That one?
Q. It is not that one, actually.
A. Okay.
MS. VINSEL: And may I approach the witness so I can show him up close?
CHAIRMAN SCHMITT: Yes, you may.
Q. It looks like this.
A. Thank you. Okay. Yeah.
MS. VINSEL: And I don't know if you-all have it.
MR. OVERSTREET: Does it have 17 tabs?
THE WITNESS: Just four.
MS. VINSEL: No, it's not. It's just the four.
MR. OVERSTREET: Four tabs.
MS. VINSEL: It is -- I'm going to --
MR. OVERSTREET: Do you have the tariff?
THE WITNESS: I have the tariff. I can look at it.

Q. Do you have the tariff? Okay.
A. I can look at that.
Q. I might just have to walk back and forth, I apologize --
A. Okay. That's fine.
Q. -- I gave out all my exhibits yesterday.
MR. GISH: Ms. Vinsel, the Attorney General has graciously handed us one of his copies.
THE WITNESS: Thank you.
MS. VINSEL: Thank you.
MR. CHANDLER: Don't forget it.
Q. Okay. And I won't make you read into the record, I will read the --
A. Okay.
Q. -- relevant parts. Under -- I'm looking at the tariff itself.
A. Uh-huh.
Q. Number 18, Denial or Discontinuance of Service. The first part of the first sentence up to the semicolon reads --
A. Uh-huh.
Q. -- (Reading) The Company reserves the right to refuse service to any customer if the customer or any member of the customer's household is --
A. Uh-huh.

Q. -- indebted to the Company for any service theretofore rendered at any location.
A. Uh-huh.
Q. Is that correct?
A. Yes.
Q. So this provides four scenarios for denial of service. Let me walk through and see if you agree.
A. Okay.
Q. Two scenarios involve a customer of record under whose -- who has the account?
A. Uh-huh.
Q. Two scenarios, a member of the household of the customer of record?
A. Uh-huh.
Q. So the customer of record can be denied service for indebtedness -- service at the service address where the indebtedness occurred, correct?
A. Right.
Q. And service at any address in Kentucky Power service territory?
A. If they were to have an old debt at another location and -- yeah. And really I think -- and I've listened to some of what Mr. Satterwhite -- when I was in the hospital with my wife, but --
Q. And congratulations.

A. Oh, thank you. Thank you.

The whole issue with our changing, it just affected name switching only, and that was our only, you know, reason for doing it.

And what we have found, and -- excuse me. Before I became a regulatory consultant, I was in customer service for 12 years, and the one issue that we would always find is that you would have customers that would call in to apply for service, they would have an old debt with the Company, and they were like, "Sure, I'll make the payment." And then 20, 30 minutes later a family member would call in, try to apply for service to avoid paying that old debt, so -- you know, basically defrauding the Company. So that's why we tried to add the language only to affect that name switching only.

And I know there's been a lot of confusion with it, and the Company is willing, in post-hearing data requests, to suggest new language that can maybe help clarify any of the confusion.

Q. That would be helpful. I've got another exhibit I'm going to pass out --

A. Okay.

Q. -- that is probably, in the end, more for information.

A. Okay.
Q. And I will explain that in this packet --
A. Okay.
Q. -- Exhibits 2, 3, and 4 have contained some Commission precedent. I will walk you through them very briefly --
A. Okay.
Q. -- just to -- so that you know.
A. Okay.
Q. Under tab number 2 --
A. Uh-huh.
Q. -- is PSC Exhibit 2 --
A. Uh-huh.
Q. -- this is a Commission order from 2002 --
A. Okay.
Q. -- that approved language in Louisville Gas & Electric/Kentucky Utilities tariffs --
A. Uh-huh.
Q. -- to permit -- essentially a customer of record could be denied service at the service address where the debt was incurred or any location.
A. Okay.
Q. Under tab number 3 we have an administrative case from the 1983-84 --
A. Uh-huh.

Q. -- in which the question came up in regard to a member of a household and denial of service --
A. Uh-huh.
Q. -- when the customer of record had incurred a debt.
A. Uh-huh.
Q. And in that case we said the Commission would not issue a regulation, a blanket regulation covering the situation because, for a member of household, the fact pattern, the circumstances were -- the issues were infinite --
A. Uh-huh.
Q. -- and so we said that we would not do so and we would look at it on a case-by-case basis.
A. Uh-huh.
Q. And then under tab number 4, this is the Customer Bill of Rights --
A. Uh-huh.
Q. -- as I am sure you are familiar with --
A. Uh-huh.
Q. -- which also provides that a member of a household where the customer of record has incurred debt --
A. Uh-huh.
Q. -- they can't do that name switching,

basically --
A. Uh-huh. Right.
Q. -- is what it said.
So what I'm passing out now is another Commission order.
A. Okay.
Q. And I just wanted to make sure I called your attention --
A. Uh-huh.
Q. -- to this particular order.
A. Okay.
Q. In this case, without going to excessive details, you had a member of a household --
A. Uh-huh.
Q. -- she had been a member, if you will, of three households --
A. Uh-huh.
Q. -- two in which her estranged husband was the customer of record --
A. Uh-huh.
Q. -- and allegedly a third where her son was the customer of record.
A. Uh-huh.
Q. And the utility had denied her service.
A. Uh-huh.

Q. And in the end the Commission said that -- and this is at the bottom of that very first page. It's the last sentence.
A. Uh-huh.
Q. Basically the Commission found that while benefit of service criteria has never been accepted by the Commission as a policy suitable for all utilities to follow in collecting past-due accounts, it is considered on a case-by-case basis where applicable.
A. Uh-huh.
Q. And Mr. Satterwhite had discussed the concept of benefit of service --
A. Uh-huh.
Q. -- being behind this. I thought it would be helpful, as Kentucky Power is looking at this --
A. Yeah.
Q. -- to see the various --
A. Okay.
Q. -- Commission rulings.
A. All right.
Q. And with that we'll move on.
A. Okay. Thank you.
Q. I'd like to move to the bill format --
A. Okay.

Q. -- issues. There -- one of the lines on the current bills --
A. Uh-huh.
Q. -- there is a line that says Rate Billing.
A. Uh-huh.
Q. What all is included in that?
A. Right now, as it currently stands, you have your base rate and your customer charge.
Q. And in response to some data requests --
A. Uh-huh.
Q. -- you had indicated that the customers had advised Kentucky Power that they wanted a simpler bill.
A. Uh-huh.
Q. Did the customers specify that they wanted fewer lines on their bills?
A. Through some of our meetings, yes. They appreciated our transparency in providing the information, but they wanted as far as less information on the electric bills.
Q. And did anyone quantify the number of customers that had made that request?
A. No. I mean, we've -- these have been through our meetings with the -- the CAP meetings and our public workshops. And I can attest, you know, when

I worked in customer service, that was one issue that I always addressed that customers who had called in had brought up.

Q. So if the Commission did not approve consolidation of the line items on customers' bills, would Kentucky Power incur additional cost to continue with the number of line items that are currently on the bill?

A. No.

Q. So no, no -- okay.

A. There's no additional cost.

Q. Okay. Could Kentucky Power have chosen not to be included in the bill format change, or was this something that was mandated by AEP?

A. No. All the other jurisdictions within AEP -- I believe Ohio was the only one that also needed Commission approval, along with Kentucky.

So the other jurisdictions, you know, they had discussed it, showed the -- their commissions what they were going to change it to, but Kentucky and Ohio were the only ones that needed Commission approval.

So if the Commission hadn't approved the redesign, the look of the bill, the remaining operating companies would have moved forward.

Q. Okay. Are you aware if any other AEP operating company subsidiaries --
A. Uh-huh.
Q. -- are consolidating the line items on their bills?
A. I'm not familiar if they are or not.
MS. VINSEL: Staff has no further questions.
CHAIRMAN SCHMITT: Commissioner Cicero, questions.

EXAMINATION

By Vice-Chairman Cicero:
Q. Just one follow-up on the --
A. Uh-huh.
Q. -- comments made by Staff regarding the line items.
A. Uh-huh.
Q. You indicated in your former position as a customer service representative or agent or --
A. Uh-huh.
Q. -- whatever the position was, that that was one of the primary complaints was the number of line items?
A. Complaints that I dealt with. When it was the line items, there was a lot of confusion of what each of the riders meant, and a lot of customers

that I spoke with, when that issue came up, was they just didn't understand the bill or what all the charges had meant. There was just a lot of confusion and they had wished that there was more of a simpler bill to look at.
Q. Was it because of the description of the line items or the number of line items?
A. It was both.
Q. The only concern I think the Commission would have is that --
A. Uh-huh.
Q. -- it's a -- it's a very subjective kind of survey that Kentucky Power has done in that they have your past experience, but it doesn't sound like there's any real survey to see what customers would like.
In other words, you're not going to receive complaints from people that are happy that there's that number of line items on there or receive --
A. Uh-huh.
Q. -- praise and say, "I'm glad you have this number of line items on there." So it's a one-sided survey.
A. Yeah. And I can understand that. And a lot of the customers we talked to, they just want to

know, "How much do I need to pay on my bill?" And that's their main concern, "How much do we owe?" And then when they see a breakdown of all the line items, there does get confusion with what all those charges are.

VICE-CHAIRMAN CICERO: Okay. We'll leave it at that.

CHAIRMAN SCHMITT: Commissioner Mathews, questions.

COMMISSIONER MATHEWS: I don't have any.

EXAMINATION

By Chairman Schmitt:

Q. Mr. Sharp, on the HEAP program --

A. Uh-huh.

Q. -- does -- the HEAP program apparently has not been updated, or the amounts collected have not been updated since 2006, when the program first began as a pilot. Is that correct?

A. When you mean the -- like the --

Q. There hasn't been any additional money charged to customers and matched by shareholders?

A. It did start at 10 cents and then it went to 15 cents --

Q. 15?

A. -- in 2009, I believe.

Q. Does the HEAP program run short of money before winter is over?
A. I would have to look. I don't believe it has before in the past, as far as with the matching, you know, with what the customers -- as far as pay each month.
Q. Well, you're saying, then, that the program, in your opinion --
A. Uh-huh.
Q. -- is adequately funded so that people who are eligible receive the full benefit of the program during the winter months?
A. Yes.
Q. Then why has the Company suggested increasing the funding of the program?
A. We just want to help more customers that we can. We've had discussions with community action, Roger McCann, and the one thing that they told us is that they do receive several applications from customers that just need that little bit more of help to just get over that little cusp. And we had worked with them ever since 2005. So those are the customers that we're trying to help just a little bit more. And while it is adequately funded, we're just trying to help more customers, that low-income

customers .
Q. I thought Mr. McCann 's testimony on direct was --
A. Uh-huh .
Q. -- that the increase in funding suggested by the Company wasn't adequate , wasn't adequate to even cover the proposed rate increase .
A. Yeah .
Q. Is that correct ?
A. I'm unfam -- I mean , it's -- we feel like it's adequate as far as to move it, you know , up from 15 to 20 cents .
Q. Insofar as this -- the language is concerned --
A. Uh-huh .
Q. -- in the proposed tariff on discontinuance of service , who drafted that ?
A. The discontinuance ? Legal .
Q. Legal drafted it ?
A. Yes .
Q. You've read it ?
A. Yes .
Q. Does it sound to you like it was intended to apply only to customers in the same location or the same household ?

A. Yes, it's --
Q. It sounds like that --
A. When I read it, yes, because of the whole name-switching issue. That's --
Q. And how --
A. That's how I perceived it to be.
Q. How do you explain, then, when it refers to any location?
A. The "any location" part would be if -- kind of what I mentioned to the Staff. If you have a customer that has an old debt at another location, they call to apply for the service.
Q. Well, if A --
A. Uh-huh.
Q. -- has service at his home --
A. Uh-huh.
Q. -- and his son or his wife owns a business somewhere else and goes out of business and owes a debt, under the way this language is drafted --
A. Uh-huh.
Q. -- you could cut off service at the home; isn't that correct?
A. For their old debt at the business?
Q. Yeah. For some other member of the household's debt at another location.

A. Yeah. No. And I think that's where the confusion is on that, and that's how it wasn't intended to be. It was intended to be if somebody was trying to defraud the Company by somebody applying for the service from a debt at another location and then somebody else calling in to try to put their name in to avoid paying that old debt.

So that's -- and I see where the confusion came in that with the language, and that's why the Company can provide a post-hearing data request and update it.

Q. Insofar as the bill format is concerned, and it's been a --

A. Uh-huh.

Q. -- a couple months, maybe, since I read your testimony, but --

A. Uh-huh.

Q. -- I didn't recall seeing any evidence or results of surveys in Kentucky Power's service testimony about the line items on the bill --

A. Uh-huh.

Q. -- in terms of reducing it because people were confused.

A. Uh-huh.

Q. Was there a -- do you have evidence that in

Kentucky Power's service territory people actually would prefer a bill without the 11 separate items and charges on it?

A. Those were through our Community Advisory Panels and our workshops, which the Community Advisory Panel members did speak for their constituents in their communities, and the workshops are when the customers did come in and spoken to the Company.

Q. Okay. And where were these? Where in Eastern Kentucky was that -- these surveys taken?

A. The workshops were held all over. I know -- and subject to check, I think they were in Hazard, Pikeville, Ashland, Grayson.

And our Community Advisory Panels are held monthly, and they're held in Ashland, Pikeville, and Hazard.

Q. Well, we had forums, I guess, or --

A. Uh-huh.

Q. -- hearings or sessions in Ashland, Hazard, and Prestonsburg for public comment, and there weren't many, but whatever comments there were did not suggest that anyone was confused or wanted the bills -- wanted the items on the bills to be consolidated.

A. Uh-huh.
Q. As a matter of fact, I could understand the Company's position of why you would want to have the charges consolidated, because if you did, then everyone wouldn't see all of the -- all of the attachments or all of the riders for the various charges that were incurred with closing Big Sandy --
A. Well --
Q. -- which has basically subjected the Company, rightfully or wrongfully, to a lot of criticism.
A. Well, but I think it's also important too that we're not trying to hide that information by rolling up the line items. I mean, the customers can always call in to our call centers and have a breakdown of the bill or their -
Q. Well, I don't think that's -- that doesn't make any sense, not to me. Nobody's going to call in --
A. Right.
Q. -- say, "Please, you know, I want -- we all wanted a simpler bill" --
A. Uh-huh.
Q. -- "but I'd like for you to explain what items are a part of this bill."
A. Well, and they can also -- if they don't want

to call in, they can get a breakdown of those information online through a bill calculation spreadsheet. We can even have local customer service representatives come visit their home and discuss their bill.

CHAIRMAN SCHMITT: No further questions.

Mr. Gish.

MR. GISH: The Company has no redirect.

CHAIRMAN SCHMITT: Okay. Anyone else? Any additional questions?

MR. CHANDLER: The AG has some.

CHAIRMAN SCHMITT: Yes.

MR. CHANDLER: Thank you. I know we're not friendly, but I do have some.

CHAIRMAN SCHMITT: Well, I'd be shocked if it was friendly.

MR. CHANDLER: I don't know how to take that. Thank you.

CROSS-EXAMINATION

By Mr. Chandler:

Q. Earlier the discussion was about denials of service.

A. Yes.

Q. Do you remember that conversation with Commission Staff?

A. Yes.
Q. Does the Company track denials of service?
A. No.
Q. And why not?
A. It's kind of a case-by-case basis. I mean, we get several phone calls throughout the year, so, I mean, it would be hard to know -- track as far as just the number of instances this occurs.
Q. So the number of times that somebody asked you for electric service and you denied them service is not tracked by Kentucky Power?
A. No, that's not tracked.
Q. Earlier you spoke about the advisory panel. What's the name of that panel?
A. The Community Advisory Panels, CAP.
Q. Who are on those panels?
A. They're local community leaders. I know some are from, like, senior citizen groups that work in nursing homes, hospitals, things of that nature.
Q. And how do they -- how do they get -- how do they become members of those panels?
A. There was a communications consultant firm that had sent out invitations to these customers -- or these leaders in the area and invited several people to come in to discuss, you know, what the

panels were going to be about, what everyone hopes to accomplish, and they decided if that was something they were interested in doing or if that was something that really wasn't of their interest. Many of the customers -- or community leaders that come in were interested in it. There were some that did decline.
Q. And those are the groups that Kentucky Power depends on in making certain policy decisions moving forward?
A. Not just those groups. I mean, we, you know, do take them into consideration, but we also go by, like, customer workshops, where customers could come in, listen as far as their concerns, and come up as far as if there's any policies that we think need addressed, you know, by --
Q. When were those workshops held?
A. When were the workshops held?
Q. Yes.
A. I know we had some earlier in the year. I want to say we may have had some late last year, but subject to check, I would have to --
Q. Do you know roughly when the last time when you -- that Kentucky Power had one of those workshops?

A. I want to say May, but I'm not a hundred percent sure.
Q. So is it -- do you think it's Kentucky Power's position that that was a -- and I hate to say a one-time thing, but a limited process? Or I guess you haven't had one in five or six months. Do you know that Kentucky Power plans to make that an ongoing?
A. Yeah. I mean, we still want to do ongoing. We still have customer service representatives that go and meet with communities at, like, the Moose Lodge. Our customer service representatives are large in the public area. So they do go around to other areas, it just wasn't those workshops.
Q. Do you know when the next workshop is planned for?
A. Not at this time, no.
Q. You mentioned that Kentucky Power's takeaway from some of the workshops and panels were that -- was that customers wanted fewer lines on their bills. Do you remember that?
A. Uh-huh. Yes.
Q. On the bill --
A. Uh-huh.
Q. -- the specific lines that are outside of

base rates, are those amounts that are recovered through base rates and then pulled out on the bill, or are they amounts that are recovered outside of base rates?
A. Well, they would be like your fuel adjustment charge, your environmental. Is that what you're talking about?
Q. Yeah, that's right.
A. Yeah. Yeah, those charges.
Q. And so those are recovered outside of base rates?
A. Yeah. I mean, they're some of the charges that, for instance, have a base amount that's in your base rate and then anything that's over or under.
Q. And so all of those amounts represent different costs to the Company that they're passing on through those unique, either surcharges or trackers --
A. Uh-huh.
Q. -- correct?
A. Yes.
Q. Is the DSM amount recovered through the base rate amount on the -- on the bill, or is it recovered through a separate tracker?

A. Separate rider.
Q. So, for instance, if there's a large fluctuation in the DSM amounts --
A. Uh-huh.
Q. -- if that's not explicitly noted on the bill, customers wouldn't necessarily know what that's due to, correct?
A. The fluctuation?
Q. The fluctuation.
A. Yeah. I mean, if it's -- I mean, unless a -- you know, a customer as far as wanting to know why the increase, they would have to call in, but we don't put any information on the bill stating why it's increased.
Q. Right. But -- so if, for instance, after a DSM factor may be updated --
A. Uh-huh.
Q. -- for the new year --
A. Uh-huh.
Q. -- and it's -- let's just say it's three to four times higher than it has been in the past.
A. Uh-huh.
Q. If that was recovered in a -- if that's recovered as an individual line, customers can look at the previous month and see that change, correct?

A. Yeah. I mean -- yes.
Q. But if it's grouped together with other items --
A. Uh-huh.
Q. -- they can look month to month, and if they're grouped, they know that that amount has gone up, but they don't necessarily --
A. Uh-huh.
Q. -- know the reason, right?
A. They wouldn't see it. But as I have stated earlier, that customers would have, you know, several ways of looking to see what charges, what riders, you know.
Q. They could call in --
A. Call in --
Q. -- I think is what you said?
A. -- customer service representative could come out, or they could go online and look at the bill calc spreadsheet.
Q. Is there any plan to use the new format to educate customers about the availability of assistance -- of assistance?
A. Are you talking about -- can you be more specific?
Q. With -- and specifically the HEAP funding --

A. Uh-huh.
Q. -- or with assistance that community action may provide, is there any --
A. Yeah. And -- and --
Q. -- anticipation with the -- sorry. Excuse me. Go ahead.
A. No. Sorry. We do put notes on the sides of our bills from Kentucky Power, and information is there that if a customer needs assistance, or also, too, when they call in, that information is also provided too, if they ask.
Q. If the -- if the bill format --
A. Uh-huh.
Q. -- is approved, you'll have more -- I don't want to -- more space on the bill, right?
A. Yes.
Q. And do you plan on using that space to highlight that assistance?
A. That's information that probably would be put on there. There's going to be probably several things that can be put on there, but that's something the Company would consider.
Q. Are you involved in preparing the annual reports that are filed with the Commission every year?

A. Yes.
Q. And are you familiar with those annual reports?
A. Can you date one in specific for --
Q. I sure can. There may be a binder up there that is labeled AG --
A. Witness binder?
Q. -- witness binder.
A. Yeah.
Q. Well, that one doesn't have anything in it.
A. It's empty.
Q. I'm going to refer you to AG proposed Exhibit Number 4.
MR. CHANDLER: And I'll, I guess, provide the Company with a copy.
THE WITNESS: Uh-huh.
MR. OVERSTREET: I'm sorry?
MR. CHANDLER: It's in section one, and it -- I believe it's tab I.
MR. OVERSTREET: Okay. Certainly. And, Mr. Chandler, you can ask whatever you want, but Mr. Wohnhas is going to address this issue.
MR. CHANDLER: That's fine.
THE WITNESS: Uh-huh.
MR. OVERSTREET: Go ahead.

MR. CHANDLER: Yeah, please. Please.
A. Okay.
Q. Now it's taking me a little bit. Sorry about that.
So do you mind to look at the first page there in Exhibit 4?
A. Okay.
Q. Is this familiar to you? This looks like the annual report that's filed with the Commission each year, or a page from that annual report.
A. Do you know which annual report?
Q. This would have been the year 2016.
A. But do you know which annual report?
Q. This is the --
A. We have several of them that we file, so I'm just wanting to make sure.
Q. This is titled Annual Report on the --
A. Okay. I know which one.
Q. -- the Public Service --
A. That --
Q. -- Commission's website.
A. Okay. Yeah, I know which one you're talking --
Q. It's a 163-page document.
A. Yeah. I know which one you're talking about,

yes.
Q. So this does look familiar to you, then?
A. Yes. Yes. Yeah, I know which one.
Q. And do you mind to turn to the last page of the exhibit? And let me know when -- it's year 2006.
A. Is that one that says 5 of 182 at the bottom?
Q. It is.
A. Okay.
Q. Can you confirm that the line -- it's the third from the bottom, Total Sales to Ultimate Customers. Does that represent, across that, the amount of retail revenues, the amount of retail kilowatt hours sold, or I guess the amount of retail energy and the number of retail customers?
A. By the end of the year?
Q. Yes, for that year 2006.
A. Yes.
Q. And on the first page, does that line also represent retail revenues, retail energy sold, and retail customers?
A. Yes.
Q. Can you confirm that in kilowatts hours sold, on the last page, that it is over 7 billion kilowatt hours sold by the Company in 2006 --

A. Yes.
Q. -- at the retail level? And can you confirm that in 2016 that amount is 5.8 billion?
A. Yes.
MR. GISH: Mr. Chairman, I think the Company will stipulate the numbers in this document are what the numbers are and that the ordinal math shows that 7 billion is greater than 5 billion, and Mr. Wohnhas can answer questions about what those numbers represent.
CHAIRMAN SCHMITT: Well, I understand, but overruled.
You may continue.
Q. And subject to check, would you agree that that is a 7 -- over a 17 percent decrease?
A. Subject to check.
Q. Now, in Mr. Satterwhite's testimony he states, (Reading) The Company's customer base continues to shrink, and that decline in usage requires the Company to spread the costs of operations over the smaller number of remaining customers. The effect of a decreasing customer base is the single largest driver of this -- of the rate request.
He states that in his direct testimony on

page 12, line 18 to 22.
A. Uh-huh.
Q. So would you say that the evidence -- that this is just additional evidence of that, of additional loading -- additional shrinking load?
A. To reflect the shrinking of the customer base?
Q. To reflect the shrinking amount of energy the Company has sold.
A. I mean, yes. I mean, this reflects that, yes.
Q. Okay. Now, do you mind to look at the revenues on the last page?
A. Okay.
Q. Will you -- would you agree that the total retail revenues in 2006 were $391 million -- 300 -- I'm not very -- $391,934,420?
A. Yes.
Q. Okay. And would you go to the first page in 2016?
A. Uh-huh.
Q. Would you agree that the total retail revenues are $572,810,770 -- $777?
A. Uh-huh. Correct.
Q. And subject to check, would you agree that

that's roughly an increase of 46 percent?

A. Subject to check.

MR. CHANDLER: That's all the questions we have, Mr. Chairman.

And we'd also like to move to introduce AG Exhibit Number 4.

MR. GISH: Mr. Chairman, we would again renew our objection to having this witness -- this exhibit entered before Mr. Wohnhas is on the stand and explain the context of it.

CHAIRMAN SCHMITT: We'll do that when Mr. Wohnhas testifies. Okay?

MR. GISH: Thank you, Mr. Chairman.

CHAIRMAN SCHMITT: Now, let me understand, though, what the objection is. That it hasn't been authenticated, is that --

MR. GISH: That's correct. It has not been authenticated by someone who can describe the context of these numbers in the full 160-page document that is --

CHAIRMAN SCHMITT: Of the annual report?

MR. GISH: Yes.

MR. CHANDLER: Mr. Chairman --

CHAIRMAN SCHMITT: I mean, we can all just bring it. I've got a copy in my office.

MR. GISH: Sure. Sure.

CHAIRMAN SCHMITT: We can bring it down here, if necessary.

MR. CHANDLER: I think the -- I think that Mr. Sharp has indicated he's familiar with the annual reports, is involved in compiling them. I don't think there's an issue with authentication.

Whether or not the Company believes that they have been provided proper context is -- I think they are more than -- it's their right to reintroduce the AG's exhibit to bolster Mr. Wohnhas or have him provide context if they would like when he's on the stand.

CHAIRMAN SCHMITT: Well, I think in reality, when you get down to just the bottom line of it, the annual report is a document that's filed with this Commission and as such is a public record.

I guess the difference is, is that -- the objection is that only part of the report is here and those parts haven't been authenticated.

So let's wait till Mr. Wohnhas testifies, and in the meantime I'm going to ask Staff if we can get a copy, an official copy of the, what, 2016 annual report?

MR. CHANDLER: I provided the -- this

individual page from 2006 to 2016, but I am only referencing -- I believe I did reference -- I had Mr. Satterwhite read through all 11 years, but I'm only referring now to 2006 to 2016.

CHAIRMAN SCHMITT: Okay. The two, '6 and '16?

MR. CHANDLER: Yes, sir.

CHAIRMAN SCHMITT: Okay. Well, let's see if we can get a copy, a complete copy of 2006 and 2016 reports and have them down here by the time Mr. Wohnhas testifies, presumably after our 11:00 o'clock recess. Okay?

MS. VINSEL: Staff will do that.

CHAIRMAN SCHMITT: Okay. Thank you.

MR. GISH: Thanks, Mr. Chairman.

MR. CHANDLER: That's all the questions we have.

CHAIRMAN SCHMITT: Anyone else have any questions of Mr. Sharp?

MS. VINSEL: I have no further question.

MR. GISH: Mr. Chairman --

CHAIRMAN SCHMITT: Direct?

MR. GISH: -- I have one follow-up question.

* * *

REDIRECT EXAMINATION

By Mr. Gish:

Q. Mr. Sharp, Mr. Chandler asked you some questions about the billing line -- the proposed billing item -- billing line item rollup.

A. Yes.

Q. Do you remember those questions?

A. Yes, I do.

Q. Can you turn to your -- page 6 of your testimony in case -- I always forget the number of this one.

A. 231?

Q. Yeah, 230 -- 2017-231.

A. Uh-huh. Which page?

Q. Six.

A. Six. Okay.

Q. And on the top of page 6 there's a table that shows the proposed billing format; is that correct?

A. Yes.

Q. And the DSM adjustment charge, the DSM charge --

A. Yeah.

Q. -- is separated from the proposed rate billing line item --

A. Yeah.

Q. -- correct ?
A. That 's correct . I did mis speak . That line item would be separate .
Q. So if there was a change in the DSM charges that were passed through to customers --
A. Yes , that 's correct .
Q. -- it would be identified there ?
A. Yes .

MR . GISH : No further questions , Mr . Chairman .

CHAIRMAN SCHMITT : Any other questions of this witness ?

If not , may he be excused ?

MS . VINSEL : Yes , he may be excused .

CHAIRMAN SCHMITT : Thank you , Mr . Sharp .

MR . SHARP : Thank you .

CHAIRMAN SCHMITT : You may step down and you 're excused .

MR . SHARP : Thank you .

MR . OVERSTREET : Your Honor , our next witness is Amy Elliott , and Mr . Gish will present her .

CHAIRMAN SCHMITT : Ms . Elliott , please raise your right hand . Do you solemn swear or affirm , under penalty of perjury , that the testimony you are about to give will be the truth , the whole truth , and nothing but the truth?

MS. ELLIOTT: I do.

CHAIRMAN SCHMITT: Please be seated.

Mr. Gish, you may ask.

MR. GISH: Thank you, Mr. Chairman.

AMY ELLIOTT, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Good morning, Ms. Elliott.

A. Good morning.

Q. Can you please state for the record your full name, your position, and business address?

A. Sure. It's Amy Elliott, I am a Regulatory Consultant for Kentucky Power, and my business address is 101 Enterprise Drive in Frankfort, Kentucky.

Q. Thank you. And, Ms. Elliott, do you have -- did you file testimony, supplemental testimony, responses -- and responses to data requests in this case?

A. I did, yes.

Q. And did you also adopt certain portions of the testimony and data requests of Company Witness

John Rogness?
A. Yes, I did.
Q. And do you have any corrections or updates to your testimony or responses to data requests?
A. Not to my testimony or data requests, but I do have one update to the tariffs that were filed with the settlement agreement --
Q. And what is that --
A. -- and that --
Q. Oh. What is that update?
A. The environmental surcharge tariff that I originally sponsored as an exhibit to my testimony was updated for the settlement agreement, but it needs to reflect the 9.75 ROE that was agreed to in the settlement agreement rather than the proposed rate in this case.
Q. And with that correction, if I were to ask you the same questions that are included in your testimony and responses to data requests, would you give the same answers?
A. Yes, I would.
MR. GISH: Mr. Chairman, the witness is available for cross-examination.
CHAIRMAN SCHMITT: Mr. Kurtz, questions.
MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions of this witness?

If not, Mr. Cook, questions.

MR. COOK: No questions at this time.

CHAIRMAN SCHMITT: Okay. Mr. Osterloh, questions.

MR. OSTERLOH: No questions.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Yes, we have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good morning, Ms. Elliott.

A. Good morning.

Q. Do you have a copy of this up there? It has 17 tabs in it. It says Case Number 2017-00179.

A. Yes, this is it.

Q. The gray cover. Okay. Thank you. Can I have you first turn to after tab 9?

A. Yes.

Q. And this is your direct testimony. If you turn to the second page after tab 9, this is an excerpt from your direct testimony. It is page 14.

A. Okay.

Q. Can I have you look to lines 11 through 13 on

that page?
A. Okay.
Q. So Kentucky Power is proposing to apply a gross-up factor for uncontrollable -- or, excuse me, uncollectible accounts and the PSC assessment fee to environmental-related operating, maintenance, and other expenses recovered through the environmental surcharge; is that correct?
A. That is correct, yes.
Q. What factors prompted Kentucky Power to apply a gross-up factor to those expenses?
A. So part of my job is to monitor our recovery mechanisms, and in that make sure that all of the environmental costs are properly recovered through the environmental surcharge. So if we don't apply the gross-up factor for PSC maintenance assessment fee and the uncollectible expenses, then we aren't fully recovering our costs, because we are -- we're not collecting all of the revenue associated with those costs.
Q. To your knowledge, do any other AEP operating companies have an environmental surcharge?
A. Yes. Give me just a second. I know there are a couple that do. I think it was Staff 23, maybe, that asked that question that I referred to.

Oh, it's the third set. No wonder.

So Staff 23 asked about other AEP operating companies that recover consumable costs through a rider, and I answered that Indiana Michigan Power, SWEPCO, and PSO recover costs of consumables through a rider, but I'm not sure if that's an environmental rider. Sorry, I don't know.

Q. No, that's okay. So it was item 23. Do you know which of the four Staff requests that was?

A. Yes. That was two. It was the second set.

Q. 23. Okay. Are you aware if there's a gross-up to any of those expenses -- or excuse me. Are you aware if there are included gross-up expenses in there?

A. Sorry, I'm not.

Q. Okay. And turning again to your direct testimony on lines 10 and 11. And I'm just going to read it to you to make it a little bit easier.

A. Okay.

Q. And here it says, (Reading) The Company is proposing to apply a gross-up factor to the costs incurred by the Company to operate approved environmental projects.

Can I have you turn, then, after -- it's tab 10, and these are your responses to Staff's fourth data request, item 7.

And in your response to 7 and 7C, you indicate that the gross-up will be applied only to the difference in the O&M, operating and maintenance, from the base level.

It appeared to Staff that there was perhaps a change, that in the direct testimony it seemed to be to all of the expenses as opposed to this, the reference in PSC 4-7, and we wanted to clarify if there was a change.

A. Give me just a second, please.

Q. Sure.

A. I think it was more of a clarification than a change.

Q. Okay. Okay.

A. I think there's another Staff data request from the fourth set that would be helpful, and that's the one that asked how those costs are currently included in the cost of service.

Q. Okay.

A. Let's see. Yes, the fourth set, number 8, that explains where the costs currently are.

Q. Oh, okay. Thank you.

A. So with the maintenance assessment fee and the uncollectible expenses, the test year amount being included in the cost of service study, we are trying to capture the difference in the test year amount and the amounts collected through the environmental surcharge.

Q. Thank you. If the Commission were to approve the proposal to apply a gross-up factor to the -- only to O&M expenses incremental to base rate amounts, will Kentucky Power remove this gross-up factor when calculating the incremental amounts rolled into base rates in its next base rate case?

A. Let me think about that. I think we need to make one clarification and then maybe ask you to repeat the question.

Q. Okay.

A. Because of the way that the FGD costs are only recovered through the environmental surcharge, we have to be careful when we talk about base level or test year in this case.

So if you could just rephrase your question and say considering that it -- we have to only -- or we have to include the test year amount rather than the base level amount.

Q. Okay. Let me move beyond that question and get to the Staff's concern.

A. Okay.

Q. And that was -- that was a concern about double recovery.
A. Okay.
Q. That if calculating the incremental roll-in amount with the gross-up factor and calculating base rates and the gross-up factor, if there would be a double recovery.
A. I understand your concern. We could address that in the cost of service in the next rate case, yes.
Q. Okay. I think you've already answered one of these questions. I apologize. I'm going to take a minute to look through.
A. Okay.
Q. So the Tariff EDS, though, will be revised to reflect the 9.75 rate?
A. Yes, it will be.
Q. I do have a question about tariff sheet 29-2, and this is in tab -- after tab 11, if that's helpful. And let me know when you're there.
A. I'm there.
Q. Okay. And at -- the environmental base period revenue requirement monthly amounts, the requirement is shown as $47,811,215, but -- and I'm going to have you turn -- we're going to flip back

and forth. I apologize for that.

A. That's okay.

Q. Under tab 12. And this is your Exhibit AJE-1S, as in Sam. Here the amount is listed at 4.9 million.

A. 49.9, just to clarify.

Q. 49.9. Thank you.

A. Or 48.9. Sorry.

Q. 48.9.

A. Okay.

Q. I apologize.

A. Yes, and I can tell you what the difference is.

Q. Please.

A. And the difference is that the base level amounts in the tariff that we filed with the settlement were updated to reflect the change in the weighted average cost of capital with the settlement agreement. I will happily provide that calculation.

Q. Oh, thank you.

MS. VINSEL: We have no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: No questions.

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: None.

CHAIRMAN SCHMITT: I have none.
Mr. Gish.
MR. GISH: No redirect.
CHAIRMAN SCHMITT: Does any other party have any questions of this witness?
Mr. Kurtz.
MR. KURTZ: No.
CHAIRMAN SCHMITT: Anyone else?
May she be finally excused?
MS. VINSEL: Yes, she may be excused.
CHAIRMAN SCHMITT: Thank you. You may step down and you may be excused.
MS. ELLIOTT: Thank you.
MR. OVERSTREET: Your Honor, our next witness is Brad Hall, and Mr. Gish will present him too.
CHAIRMAN SCHMITT: Mr. Hall, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?
MR. HALL: I do.
CHAIRMAN SCHMITT: Please be seated.
Mr. Gish, you may ask.
MR. GISH: Thank you, Mr. Chairman.
* * *

BRAD N. HALL, called by Kentucky Power Company, having been first duly sworn testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Good morning, Mr. Hall.

A. Good morning.

Q. Can you please state your full name, title, and business address for the record, please?

A. Brad N. Hall, Manager External Affairs. My business location is 855 Central Avenue, Ashland, Kentucky.

Q. And did you file direct and rebuttal testimony and responses to data requests in this case?

A. I did.

Q. And do you have any updates or corrections to your testimony or responses to data requests?

A. I do not.

Q. If I were to ask you the same questions today, would you give the same answers?

A. I would.

MR. GISH: Mr. Chairman, the witness is available for cross-examination.

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: I think so.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Mr. Hall, you're head of economic development?

A. Yes, sir.

Q. Okay. What type of companies do you recruit?

A. We primarily focus on larger industrial and large commercial operations.

Q. Manufacturers?

A. Absolutely.

Q. Okay. Why? Why do you focus on those companies?

A. Our focus in economic development is to focus on what we refer to as primary jobs, which are higher wage jobs that would then stimulate the economy for the secondary jobs, which includes retail and many other jobs.

Q. Okay. Is that the same type of process that the economic development, the state economic development department goes through?

A. Yes, sir.

Q. Let me give you an example. If a town has five barbers, or hairstylists, barbers, and two more move in, would that be -- that would be a 40 percent increase in the number of barber jobs, but they

would just be -- there wouldn't be any more haircuts, it would just be -- they would just be dividing the pie up seven ways instead of five ways.
A. Sure. Depending upon the demand for barbering, I think you're correct.
Q. But when you bring in a manufacturing job, there's no cannibalism of other jobs. That's incremental new jobs that weren't there and it doesn't take away other jobs, correct?
A. Sure. I mean, the real focus of economic development is to try to bring in jobs that are going to create a product that then would be exported that brings new money to the region and to the economy.
Q. And that's why states compete fiercely for new auto manufacturers and those type of things?
A. Correct.
Q. It brings in new money rather than just shuffling around the same retail dollars?
A. Correct.
Q. Okay. There was a press release yesterday.
A. Yes, sir.
Q. What was that about?
A. The press release was in relation to a large manufacturer that's locating into Pikeville,

Kentucky, at the Kentucky Enterprise Park. It was a very large announcement and our company, our efforts was very involved in.

I believe the company name is now public. As of yesterday the state provided incentive announcement. The company is EnerBlu, based out of Riverside, California. They are going to create 875 full-time jobs paying $81,000 a year to manufacture energy solutions such as batteries within the region. It's a $372 million investment.

Q. That's very significant. Congratulations.

A. Thank you.

Q. How much energy are they going to use, about?

A. The estimation is 25 megawatts.

MR. KURTZ: Thank you, Mr. Chairman. No more questions.

CHAIRMAN SCHMITT: Do counsel for any of the other settling intervenors have any questions of Mr. Hall?

If not, does the Attorney General?

MR. COOK: At this time we do not, Your Honor.

CHAIRMAN SCHMITT: Mr. Osterloh, questions.

MR. OSTERLOH: Mr. Gardner.

CHAIRMAN SCHMITT: Oh, Mr. Gardner. I'm

sorry. I didn't see you.

MR. GARDNER: Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Gardner:

Q. Mr. Hall, how many of the -- how many jobs are associated, do you believe, with the 30,000 commercial customers that are currently in your territory?

A. I didn't -- I have not done the math on that, but I know there is some that fall within the commercial tariffs, but I don't know the allocation.

Q. I mean, there would be tens of thousands of jobs associated with those 30,000 commercial customers, right?

A. Oh, I'm sorry. I thought you were asking in the jobs that we have created.

Q. No. No, sir.

A. Yes.

Q. Within the 30,000 commercial customers that are currently in your territory, that represents tens of thousands of jobs, right?

A. I'm sure, subject to check.

Q. Mr. Satterwhite referred a couple questions to you. Do you -- have you seen that KCUC Exhibit 3, which is the economic development plan that was

presented at the Leadership Kentucky?
A. I don't have that up here with me. I have seen it. If someone could provide me a copy of that.
MR. GARDNER: If I may approach him.
CHAIRMAN SCHMITT: Yes, you may.
Q. And I'm showing you unnumbered page 7. At the bottom of that you're listing wood products as one of the areas that are jobs that you would like to create.
A. Yeah. Let me clarify something on this document, if I can. This document is actually a production of Dale Boyett & Associates, which is a consulting firm that we played a part in with -- through our grant funds that we have, with multiple groups within the region, such as One East Kentucky, Ashland Alliance, the wood board within the region, to do a massive labor analysis of actually multiple counties, all of our counties in Eastern Kentucky.
And the idea was, was to look at the coal miner, to look at the steelworker, break out the skills that those particular individuals have, and then determine what best manufacturing opportunities and other opportunities that those skill sets would work and transition into, those particular jobs.

And so this document is a representation of those skill sets that those workers can transition into.

Q. So -- and sawmills or wood products is one of those areas?

A. Sure. And, in fact, this study is actually -- if you were to ask Braidy Industries or if you were to ask EnerBlu, this study is one of the primary reasons that they determined that they could locate in Eastern Kentucky, because we were able to prove the value of the workforce and not just say, "Oh, we have a lot of great people," which we do, but we were actually able to prove the skill sets with data.

Q. So are you familiar with BPM Lumber?

A. Slightly familiar, yes.

Q. Okay. So they current -- so they are currently providing wood products, which is the type of business that you like because it adds value and can be exported, right?

A. Sure. It's exporting a product.

Q. Sure. And subject to check, they have hundreds of employees in your territory?

A. I wouldn't know, but subject to check, I would agree.

Q. Okay. Let me ask you a question about your testimony and the attachment that you -- BHN -- BNH 1, which was the blue -- regional blueprint for economic development, and that was produced by Insight for you-all; is that right?
A. Correct.
Q. And were you in your current position at the time this was developed?
A. Yes, sir. I actually created the idea for the program, developed the criteria for the program, and worked directly with the consultant.
Q. And this was -- this report was produced five years ago, 2012?
A. This particular report, yeah. I think it was actually produced in 2013.
Q. Okay. And if you would turn to page 9 of that report, where you're listing assets for the area.
A. I'm there.
Q. And at the very -- and this is where you're listing the regional asset inventory, and one of those is -- the very bottom one is hospital and access to medical care; is that correct?
A. Yes, sir.
Q. And having high-quality health care is an

important asset as you try recruiting facilities; is that correct?
A. It is an important asset. If you look at national statistics that's usually provided by a site location magazine, it's usually lower on the list. Not that it's not important, but when locating an industry, you're typically going to find a hospital wherever you're going.
They're really focused on site quality, they're really focused on workforce skill sets, and they're really focused on the availability of assets like land and buildings. And once you get through that hurdle, then you start looking at quality-of-life issues, which are a little further down the list. And hospitals are in those lists, but typically a large employer, much like EnerBlu, they're going to bring in some management, but they're going to hire the local folks to work there, and so the majority of those employees already live there and love to live there.
So it's important, but it's a little further down the list.
Q. Sure. So you're not saying that having high-quality health care is not important?
A. Absolutely not.

Q. Okay. So the way Kentucky Power's tariffs are, those companies that have a demand of 1,000 -- a regular demand of basically 1,000 kilowatts are considered in the Industrial Tariff IGS, correct?
A. That's my understanding.
Q. Okay. And companies under your -- well, companies between 100 kilowatts and 1,000 kilowatt are determined to be large general service, correct?
A. That's my understanding.
Q. Okay. Give me some examples of the businesses around -- you know, what would be in those low 100 kilowatt, low 100s kilowatt? You know, at the 1,000 kilowatt, we know up in that range is going to be a business like Appalachian Regional Health Care, but at the low of that large general, what kind of business? Is that a service station? Is that a convenience store? I mean, what -- that's using -- that's kilowatt is roughly low 100s, what would that be?
A. So let me ask a question, if I may. Are you asking me if it's within the MGS tariff or --
Q. Well, what you're doing -- no. Right now what you're proposing is to consolidate small general and medium general into general, but what I'm focusing on is just the -- that large general

between 100 kilowatts and 1,000 kilo watts. That category has not changed with your rate case.

So my question -- so I'm asking in that large general service. At the very top of that size is something like Appalachian Regional Health Care. At the bottom of that category -- I'm not asking about small, I'm not asking about medium, I'm asking what kind of business would be in that, that category?

A. Well, I think the best way I can answer your question is to talk that we've actually announced several jobs that fall within that, that usage category that you're speaking of.

In fact, Wright way Mix Solutions is a company that's locating in Greenup County that we were very involved in. In fact, I had a personal relationship with the CEO. They were ready to go to Ohio, and I gave them a phone call and said, "Hey, give us a chance to keep you in Kentucky," and so because of that we are locating 130 jobs in Greenup County, Kentucky, at the Wurtland Riverport that -- and their usage will be somewhere around 350 to 380 kilowatts.

Q. Okay.

A. But those are valuable jobs. I think the wage is $15 per hour.

Q. Okay.
A. The minimum wage. And our grant funds were directly involved in that program through the Ashland Alliance and the Wurtland Riverport.
Q. Okay. Well, where would a gas station fit?
A. You would have to look at each individual gas station and determine what their usage is.
Q. Okay. What about mom-and-pop grocery stores, where are they?
A. It would depend on the size of the grocery store, how many freezers they have, and how much usage they have.
Q. Okay. But those -- okay. Now -- if I could have that back, please.
So did you -- Mr. Hall, were you here and did you hear all of Mr. Satterwhite's testimony?
A. Yes, sir.
Q. Okay. Did you hear him say that there was -- when asked the question from the slide, I think by Staff, that there was no master plan for economic development, that it was in his head?
A. I did hear him say that, and I would like to say that we do have a plan. There may not be an overall master plan, there is discussions about large things that we want to accomplish, like what

Mr. Satterwhite was referring to. But there is an annual plan that's composed every year. We plan this, our work, for every year.

The Insight Consulting study that you referred to as my Exhibit 1 has been our driving plan of work, if you will, almost a master plan, in that we are working to fill the gaps that were identified in that, that study, and we've been doing that since 2013. And I think we've had a lot of successes.

In fact, we talked about EnerBlu just a moment ago, and EnerBlu is there because of the work that we have done through Insight Consulting. In fact, the site that they're locating on four years ago was master planned to be a golf course and subdivision, and the mayor would not waver on that.

And through this study and the work that we did in this study, the city saw the opportunity, rezoned it to industrial, and as of yesterday that park will now be full with three projects that our grant funds have been directly involved in.

We have put in over $300,000 in that site, through geotechnical work, due diligence, and other things that were not done prior to our work as being a catalyst for economic development in the region,

and now there will be well over 1,400 jobs in that park providing great wages for people in Pikeville and Eastern Kentucky.
Q. Okay. I mean, I appreciate all the economic development that you-all are doing, but this -- we're in front of the Public -- the PSC, the Public Service Commission, not the Economic Development Cabinet, right?
A. Yes, sir; I'm aware of where I am.
Q. Okay. And you-all are not an economic development agency, you are a public utility, right?
A. We are a public utility, but I think if you look at the history of the electrical companies throughout -- we actually -- if you look at the history of economic development, power companies and utility companies actually created the practice of economic development, and historically our industry has always been involved in economic development.
And, in fact, our efforts in economic development are what's moving the denominator. If we were not involved, I think you can look at the history of decades of very little movement and diversity of industry in Eastern Kentucky, and today we can show proof of movement in Eastern Kentucky, with over 2,000 jobs being added in a very short

period of time, and most of those wages are over $50,000 a year.
Q. Let me ask this: Are there any -- and you obviously understand economic development. How do you -- are there metrics in the -- in the economic development business to measure the success -- how you are successful or not?
A. Yeah, there are metrics. You look at, you know, how many prospects are in your sales funnel. You look at how many site visits that you've had. You look at how many jobs are you creating. You look at all of those factors.
And if you look at those factors, I think you can prove that these grant programs, these economic development programs are being successful, because we are creating high-quality jobs.
Q. Do you have -- do you-all measure that on an annual basis?
A. We track the metrics that I spoke of.
Q. Do you measure those on an annual basis to know how successful you've been in a particular year or not?
A. Sure. I mean, we track the job counts. We track the investments that are made. We track each of the grants that have been awarded through

reporting mechanisms.

I have a spreadsheet of prospects and jobs, which many of those are confidential. As you understand in economic development, when you're working with a company, prior to it being announced, you can't talk about that company. In fact, until yesterday I couldn't have even talked about EnerBlu, because if that had come out before the announcement, then the state would not award them the incentives, and that is the practice of every state in economic development.

Q. How much -- so how --

CHAIRMAN SCHMITT: Stop just a second. I don't know about the -- we have a -- can you turn that down or turn the fan off?

Wait just a second, Mr. Gardner, we can reduce the noise level.

MR. CHANDLER: It feels very good, though.

COMMISSIONER MATHEWS: It feels great.

MR. CHANDLER: It feels great.

CHAIRMAN SCHMITT: While we're waiting, I'd like to ask a question, I guess of Mr. Gish or Mr. Overstreet.

MR. OVERSTREET: Yes, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner asked

questions, I think he wanted to know about what types of businesses one would expect to find in the LGS rate class, I guess, between -- the lower end, 100, 200, 300, 400 kilowatts. Is there a witness available from Kentucky Power who could address that issue, because I'd like to know myself.

MR. OVERSTREET: Surely. May I --

CHAIRMAN SCHMITT: If there is.

MR. OVERSTREET: May I turn around and inquire?

CHAIRMAN SCHMITT: Yes.

MR. CHANDLER: While we're taking a break, I know that Mr. Cook had passed on cross, but as it's not moved to Staff yet, I was wondering if opposing counsel would object or would they insist on us waiting for recross?

MR. GISH: Our answer would be whatever's most efficient.

CHAIRMAN SCHMITT: Well, we'll take that up, and we'll wait till Mr. Gardner is finished --

MR. CHANDLER: Thank you.

CHAIRMAN SCHMITT: -- and then see. I think probably the best way to do it would be to allow you to go ahead and cross, and then counsel could then redirect, if necessary, rather than go through

another layer. All right.
MR. CHANDLER: Thank you.
CHAIRMAN SCHMITT: Now, Staff has -- we have the 2006 and 2016 annual reports. Why don't we distribute those now to those who need them so that Mr. Wohnhas and Mr. Gish and Mr. Chandler and Mr. Cook can all be on the same page as to whether or not the -- these excerpts are authentic, and if so, if we need to introduce the entire 2006 and 2016 Kentucky Power annual reports, then we'll go ahead and just do it now.
MR. OVERSTREET: I have an answer to your inquiry.
CHAIRMAN SCHMITT: Okay.
MR. OVERSTREET: Mr. Hall, I think, properly characterized the dilemma in that there is no one-size-fits-all lower-level LGS service station, but I think we can do a little research over the lunch break and we would be able to provide the Chair and the parties with some examples --
CHAIRMAN SCHMITT: Okay.
MR. OVERSTREET: -- that would be responsive.
CHAIRMAN SCHMITT: I think that would be not only helpful to Mr. Gardner but to me. And let me tell you why I ask: Because I noticed, I guess last

week, in trying to review the testimony and the proposed settlement agreement, the issue about this K-12 tariff with schools, and some -- schools would be eligible, I guess, if their requirement was 100 kW or above, and so the question I asked Staff, which we couldn't answer, was: Well, what kind of -- what size schools are we talking about? What -- how many students? What are we -- how many schools, really, are there that might fit into that category, and then where would the others go?

MR. GISH: Sure.

CHAIRMAN SCHMITT: So that was my question. So if you could -- somebody at Kentucky Power could think about that.

MR. OVERSTREET: We'll bone up and --

CHAIRMAN SCHMITT: Okay. Thank you.

MR. OVERSTREET: -- and try to get you an answer.

CHAIRMAN SCHMITT: Mr. Gardner.

MR. GARDNER: Yes, sir. Thank you, Your Honor.

Q. So, Mr. Hall, so the -- you-all do this on an annual basis, reporting the results of your economic development activities?

A. Yes.

Q. Okay. Do you file that with the Commission?

A. No. What we file with the Commission is an annual report on the two grant programs that are in existence, which is the KEAP program and the K program -- K-PEGG program. We file that in March of each year.

MR. GARDNER: Okay. So what I'd like to make, if I could, Your Honor, as a post-hearing data request is say the last five years, your economic development study -- not study, but analysis of the results that I thought I heard you say that you-all prepare that on an annual basis.

A. Let me clarify. The results of what?

Q. The results of your-all's economic development activities.

A. We --

Q. Because that's what we're talking about here is how to measure success.

A. So I think what we track and what we could provide is, is, you know, number of prospects --

Q. Do you-all --

A. -- without names.

Q. Do you-all do that on an annual basis?

A. There is data that is tracked on an annual basis, yes.

Q. Do you-all provide that to anybody on an annual basis? I mean, I'm not trying to be difficult.
A. Internally, yes.
MR. GARDNER: Okay. So I would like -- so, if I could, to make a post-hearing data request for the five years, '13, '14, '15, '16.
CHAIRMAN SCHMITT: Sure. But we'd ask that -- at the end, that counsel for the parties agree -- or we don't agree, we're going to order, if you have a post-hearing data request, it must be in writing, and you need to be thinking about how much time you need to draft it so that then I guess Mr. Overstreet will be thinking about how much time his client needs to respond.
MR. OVERSTREET: And I think that's reasonable, and I would note that, you know, Mr. Gardner could have asked for this in discovery.
CHAIRMAN SCHMITT: Sure.
MR. OVERSTREET: But we'll follow up.
CHAIRMAN SCHMITT: Okay.
Q. So does it -- does that report describe the metrics that are used to evaluate the success, or is it much more general, that if we -- you know, we talk to 35 people, we -- you know, 17 of them

expressed an interest, two relocated? Is it more like that?
A. I don't think it's that granular. It's more of just tracking a sales funnel and the results of that sales funnel.
Q. Okay. So one of the things this rate case does, or -- and particularly the settlement, is add some additional dollars for economic development, and in particular about 300,000 new dollars are being added to the commercial class with this -- on the KEDS program.
So how do we measure the success of the different ratepayer-funded programs that you're asking small -- you know, small business customers to provide dollars? How do we measure the success of their efforts, and versus, say, shareholder efforts? Because shareholders can invest in economic development, that's great, you know, but I'm interested in how to measure the success of the share -- of the ratepayer-funded economic development programs as opposed to, for example, well, you know, what -- how would you quantify? Or maybe you're saying -- maybe you'll say that you just can't quantify it. Like Paul Patton was involved in this. How much of the success is from

Paul Patton, how much is it the -- you know, is there a way of measuring that?

A. Well, I would qualify one of your statements in the 300,000 is it's $12 a year for the commercial customers and -- in the settlement, and in the settlement it's 10 cents, or $1.20 a year, for the customer, and those dollars come together to make a nice pool of money that we match, and then those dollars are invested.

And I think one thing that we're doing to measure success is job creation. And I just mentioned we have created over 2,000 jobs in a very short period of time. Those jobs, as I said, many of them are over $50,000 a year in places like Pikeville, Martin County, Boyd County, Greenup County, all of these counties that we talked about yesterday that have poverty issues, and we're creating high-paying jobs. And we can show how we touched each one of those projects with these grant dollars, so I believe that measures success.

Q. Okay. So what I'd like, in a post-hearing data request -- you have mentioned the 2,000 jobs. If you could list the 2,000 jobs that you-all have created.

A. They're currently in my testimony, with the exception of EnerBlu that we talked about.

Q. Now, are these -- was Blu included in --

A. No. With the exception of EnerBlu was not, because it was just announced yesterday.

Q. Okay. So -- and, you know, I don't -- I don't mean to be a spoilsport, but these -- are these jobs -- for example, let me pick one that you list. 18 jobs with Quality Metal in Lawrence County. Have they -- is there a new facility? Has that broken ground? Are there --

A. That facility is in operation.

Q. It is in operation?

A. It's located right off of U.S. 23.

Q. Okay.

A. And I think there was 18 to 20 jobs created there in Louisa, Kentucky.

Q. Okay. 15 jobs with Thoroughbred Aviation Maintenance. Is that --

A. Yes, sir. That was an $800,000 investment at the Martin County airport, Big Sandy Airport in Martin County, adjacent to that, and they're 25 to $35 an hour jobs, 20 jobs created in Martin County.

Q. And those are currently --

A. The facility has been built. I'm not sure what the job count is today, but the goal is to get to 15 to 20 jobs.

Q. Okay. 65 jobs with Steel Ventures in Greenup?

A. Yes, sir. That facility is built. It's at the entrance of the Wurtland Riverport in Greenup County, Kentucky, and those are jobs, I believe, are $65,000 a job.

Q. Are they operational?

A. They are in operation. I'm not sure what level they're at.

Q. Okay. 75 jobs with RCL Chemical in Floyd and Pike County, are those in --

A. They are finishing up site prep in Floyd County. It's adjacent to the MarkWest facility near Allen, Kentucky. They are not operational at this time, but they are building. It's a long construction period.

Q. Okay. 115 jobs with Logan Corporation. Is that built yet?

A. Yes, sir. In fact, we put $100,000 in that through the program. We moved -- we saved those jobs. Those jobs were in Martin County, Kentucky. They were originally in Prestonsburg, they moved to the industrial site at Honey Branch. They outgrew themselves through a new product that they were making to create truck beds, and those jobs were going to Nitro, West Virginia.

We were able to help them through our grant programs, took those jobs to Magoffin County, which has the highest unemployment in the state of Kentucky, put them in the old Joy Global facility, and they're now adding another 80 jobs there. And I think those jobs are somewhere around 20 to $25 an hour, if I'm not mistaken.

Q. Okay. And the 800 --

A. The governor drove out the first truck.

Q. Okay. And the 830 full-time jobs in the service territory for Braidy Corporation? Excuse me. 550 full-time jobs for Braidy, have they -- have they built their facility yet?

A. Sir, that's a two-year construction. They have renovated the third and they're renovating the fourth floor of Community Trust Bank in downtown, establishing their headquarters. That's complete. They have hired 60 employees at their headquarters.

They're starting construction of the facility now in EastPark, which, by the way, we all -- we could have lost Braidy Industries if not for these grant dollars preparing EastPark as a qualified site. They ran into some serious construction problems at the South Shore location, and because of the grant programs that we have establishing a certified site at EastPark, they were able to simply pick up and move to EastPark and save those jobs for the region.

They are beginning construction. They will not begin until spring of next year, but they will have a thousand construction jobs over the next 12 months.

MR. GARDNER: Okay. That's all I have, Your Honor.

CHAIRMAN SCHMITT: Thank you.

MR. OVERSTREET: So, Mr. Chairman, just so I understand, and I think I do, I just want to clarify, Mr. Gardner or -- is going to put his data --

CHAIRMAN SCHMITT: These data requests are going to have to be in writing --

MR. OVERSTREET: Thank you.

CHAIRMAN SCHMITT: -- or you don't have to honor them.

MR. OVERSTREET: Okay. Thank you.

CHAIRMAN SCHMITT: All right. It's 11:00 o'clock, and before Mr. Chandler starts -- begins his cross-examination of Mr. Hall, let's take a

15-minute break.

MR. OVERSTREET: Thank you, Mr. Chairman.

(Recess from 11:02 a.m. to 11:15 a.m.)

CHAIRMAN SCHMITT: We are now back on the record.

Let me say before Mr. Chandler begins his cross-examination of Mr. Hall, Mr. Zielke --

MR. ZIELKE: Yes, sir.

CHAIRMAN SCHMITT: -- thank you for being here today. What we'll do, I guess when -- we'll break for lunch at 1:00 o'clock, and when we do, we'll have the sworn testimony or representations about the settlement agreement for those who are here --

MR. ZIELKE: Yes.

CHAIRMAN SCHMITT: -- so that those counsel who will need to leave, we'll get that over with and then you can go.

MR. ZIELKE: Sounds like a great Christmas present.

CHAIRMAN SCHMITT: Is that okay? Thank you.

All right. Mr. Chandler, cross-examination, or Mr. Cook.

MR. CHANDLER: Thank you, Mr. Chairman.

* * *

CROSS -EXAMINATION

By Mr. Chandler :

Q. Good morning , Mr. Hall .

A. Good morning .

Q. I think you noted earlier that historically -- and this is a para phrase , but historically utilities have always been involved in economic development ; is that correct ?

A. Yes .

Q. Is it your understanding that historically utilities have always charged customers for economic development ?

A. I mean , I'm not aware of every company and how they operate , but I think there is some historical reference there that shows that they do .

Q. That they do charge customers for that ?

A. Yes .

Q. Can you provide support for that ?

A. I cannot --

Q. In a post -hearing --

A. -- other than just my general knowledge .

Q. In a post -hearing data request I would like your -- I would like for any studies or historical representa -- historical citations that provide support that utilities have charged customers for economic development.

Do you know when the groundbreaking for EnerBlu will be?

A. I know that the official announcement is next Friday.

Q. The official announcement is next Friday?

A. Yes, sir.

Q. Do you know if there has been a groundbreaking date set?

A. No, there has not been a ground -- I mean, when you say "groundbreaking," are you referring to going and putting a shovel or are you saying construction?

Q. Yeah, I guess that's a -- that's a very important distinction. Let's say instead of a golden shovel, a backhoe. Do you know if that date has been set?

A. The date, the official date of construction, to my knowledge, has not been set. However, the engineering is being done as we speak, the planning is being done as we speak, and I think they hope to be in operation by 2020.

Q. In your opinion, and this is only as it relates to Kentucky Power, are Kentucky Power's efforts ultimately, the purpose of them, to create jobs, or is it ultimately to lead to increased sales for the utility that ultimately benefits other customers?

A. Can you restate the question?

Q. Let me -- I'll rephrase it differently.

Do you think that the ultimate goal of Kentucky Power's economic development efforts are to just create jobs or to create jobs and do economic development for the purpose of selling more electricity?

A. I think it's all of the above. You know, we are trying to focus on high-wage jobs, which then, in turn, will create that demand for electricity through residential use, through more people buying cell phones, buying gasoline, because you're creating more wages within the region. So that obviously drives electric usage as we create jobs, and then, yes, we do look for, you know, companies that are going to use electricity. But it varies. If you look at the examples that I have mentioned just today, we've gone from anywhere from 300 kilowatts to 60 megawatts.

Q. Would you agree that Kentucky Power is in the business of providing utility service?

A. Yes.

Q. And for a customer that currently pays the KEDS surcharge, and we'll say regardless of class, a customer that currently pays the KEDS surcharge, which is -- can you confirm that that's then used as grant money in the K-PEGG program, correct?

A. I can confirm that, yes.

Q. If a customer is paying the KEDS surcharge and they currently have a job, ultimately what is the benefit to them for paying that KEDS surcharge?

A. I think there's a lot of benefit for them paying that KEDS surcharge. I'll start with the fact that by increasing industry you are increasing jobs, you're increasing wages within the region that -- depending upon where that person works, it could create more demand for whatever product or service that they're offering, which creates more revenue opportunities for that particular company, which would then create the opportunity for higher wages for that particular person.

If you look at the increased demand for our product, it's going to change the denominator, as we've talked about, which is going to help spread the cost of providing our service to more people, which will then help that customer.

So I think there's a lot of opportunities for

every customer who's paying into the program.
Q. I'm going to ask a question, and I know it's a bit beyond the scope of what you do, but is it your understanding that if economic development, quote, changes the denominator, that that would lead to -- all things equal, that's all costs staying equal, that that would lead to lower rates for energy and not necessarily lower rates for a customer charge?
A. I'm not sure I'm able to answer that question. Might be a better question for Repre -- or Witness Vaughan.
Q. When did Kentucky Power begin charging customers for economic development?
A. I can't say prior to my tenure with the Company, which began in 2012. I know that in 2013, I believe through the stipulation agreement, we created the KEAP program, our shareholders. That's a complete shareholder-funded fund started at that point. So customers were not paying for that.
Then in 2016 we created the KEDS program, where customers began to pay 15 cents per meter per month, and our shareholders match that dollar for dollar. And then there are some, what I refer to as Company economic development dollars that, depending

upon whether it's in the test year or not, would be recovered from customers.
Q. You mentioned that one of the items that Kentucky Power tracks to use as a metric to judge performance is an increase in the number of jobs; is that correct?
A. That's correct.
Q. Do you track the increased load?
A. I think what I do is, I track the perceived or, I guess, planned load of a new industry that's locating, and then we report that planned load. But to say that I -- that I or my department would go back and true up how much they're actually using, I do not do that. That would be tracked through, you know, our revenue metrics and billing and those things.
Q. Does -- but you do believe that the Company tracks that?
A. I mean, I'm sure we track it through our billing, but I don't know if we specifically track a customer and their usage in a particular report, but I track their planned usage for a project when they're locating.
Q. Did you present that planned load in the rate case?

A. You mean for the announced projects that I referred to?
Q. Yes, sir.
A. I don't believe I did. I think throughout my testimony I may have referred to it once or twice for a particular company, but I don't think I gave a list of companies and said this number of load for each company. I don't think I did that.
Q. Do you know who -- which Company witness would be best prepared to answer the question as to the actual load due to economic development expansions?
A. Possibly Company Witness Vaughan.
MR. GISH: Mr. Chairman.
CHAIRMAN SCHMITT: Yes.
MR. GISH: The Company, in response to Attorney General Data Request 1-387, filed -- answered this question and provided information to the extent it had it at that time, so it's in the record already.
MR. CHANDLER: If I may have just one minute.
CHAIRMAN SCHMITT: You may.
MR. CHANDLER: Thank you.
MR. GISH: And to be clear, that was with regards to sales forecasts, but the information

provided in that addressed the load.

CHAIRMAN SCHMITT: Thank you.

Q. So do you mind to turn to tab D in the -- and I believe it's in the big binder. It's under section 1.

A. The witness binder is empty here for AG.

Q. I think they have put it in a different binder for you there.

A. What tab, sir?

Q. Just big tab 1 and then little tab D.

A. D as in dog?

Q. D as in dog.

A. I'm there.

Q. Do you know of response A or response B-C -- I believe you and Mr. Vaughan are both witnesses for those. Do you know which one of those responses you were the witness for and which one Mr. Vaughan was the witness for?

A. So in this response, my role was to provide the announced companies that were in question, and then I handed that off to Mr. Vaughan, who prepared the -- I guess the dollar or number data.

Q. Have -- can you confirm, and I believe this was your answer earlier, that you did not provide in the record what your planned, I believe you referred to it -- excuse me. What the planned incremental load would be for announcements for -- due to economic development?

A. No, sir; I don't believe that's what I said. I said that in my testimony I did refer to load for some of the announcements that were in my testimony, but I did not provide a complete list for every company and that planned load.

Q. Do you have a corresponding list of the planned -- for the companies that were listed in the exhibit referenced in AG -- the Company's response to AG 1-387, do you have a corresponding list with -- and I believe you had not explicitly identified the companies but had given them nonidentifying names, company A, company B. Do you have a corresponding list with those planned amounts of expansion?

A. Do you mean for companies that we have not announced?

Q. So -- excuse me. So in response to that -- I think you have it in front of you, correct?

A. If you're talking about AG 1-387, I have it.

Q. 1-387. I think, as I took your answer, that you and Mr. Vaughan got together and created KPCO -- Exhibit KPCO R AG 1-387. You gave him the companies and he went and got the load information ; is that correct ?

A. Correct . And that is for the companies that have been announced .

Q. That 's right . And that 's for their actual usage , correct ?

A. I suppose that would be what that is, yes .

Q. Do you have in your possession , or in the Company 's possession , those same companies with your planned amounts ? You had mentioned that you --

A. I would have to refer back to the list of the companies I provided , and then I think we can get the corresponding planned load amount for each of those companies .

Q. As a post -hearing data request , would you please provide that for those exact -- that would be in accordance with that 1-387, so that company A was also company A in the post -hearing data request ?

A. I think we could do that .

Q. Thank you .

MR . CHANDLER : That 's all the questions we have .

CHAIRMAN SCHMITT : Staff , questions .

MS . VINSEL : Yes , we have a few questions .

* * *

CROSS -EXAMINATION

By Ms . Vinsel :

Q. Good morning , Mr. Hall .

A. Good morning .

Q. Were you here yesterday during Dr. Dismukes ' testimony ?

A. Yes , ma'am.

Q. And did you hear his testimony that there are no metrics that can be used to determine or assess the return of a private company cost associated with economic development ?

A. I did hear him say that , and I disagree with his testimony .

Q. Could you -- could you explain ?

A. Yes . Because I believe that , you know , if you look at my testimony , if you look at the answers that we've provided , you can look at the grants that we have participated in with the various different companies and how we have touched each of those companies and the jobs that they have provided with each of those companies .

If you look at the education opportunities that we have provided to our local economic developers , if you look at the studies that we have provided that we know the companies that we have announced have said, "Without this information, we could not have located in Eastern Kentucky," I think that all that data together can prove that there are metrics you can look at to show that we have been involved, we have touched these companies from the beginning to the end, we've invested these grant dollars through our partners like Ashland Alliance, One East Kentucky, City of Pikeville, the Northeast Kentucky Regional Industrial Authority, their sites.

I think there's a lot of things that we can look at to show that there is a direct benefit of these investments to create over 2,000 jobs in a very short period of time.

Q. And I'm a little confused about a previous conversation with Mr. Gardner in terms of metrics, and can you clarify that Kentucky Power has specific metrics, and beyond tracking the activities, but metrics.

A. Well, I think -- I don't want to be difficult, but I have to understand what you mean by metrics, because a metric is to say that you have a goal and then that you're going to try to achieve that goal.

Q. Yes.

A. Well, we do have goals, and it's about, you know, how much -- how many projects do you have and how many sites are available. All those things fit into a metric that we use.

And to say that it's in a grid somewhere, I don't think we have that, but what we do is we track job counts, capital investment by those announcements, we track their planned load, and we track those types of things. And then we hope that we get from the sales funnel to the finished product, and we've done that with over 2,000 jobs now.

Q. When you mentioned having goals, that was helpful to help me understand this, this question.

A. Sure.

Q. So that did that. Are you familiar with SunCoke Energy?

A. Yes, ma'am.

Q. Okay. Can you tell us what is the status of the plant that was to be constructed in South Shore?

A. I know that that project was underway when I took this job in 2012. I think it was referred to as Project Raven, if I'm not mistaken.

I know there was a lot of work done by a lot of folks to work on that project, but through -- as I understand it, through market forces, that project

is now dead.
Q. Oh, okay. Thank you.
A. Uh-huh.
Q. Do you have the KCUC Exhibit 3 in front of you?
A. I had Mr. Gardner's copy, and I think he took it back.
MS. VINSEL: If Mr. Gardner doesn't mind sharing that copy again.
MR. GISH: Thank you.
A. Thank you. I have it.
Q. Could I have you turn to page -- it's numbered page 9, and that slide is titled Total Investment Since 2012.
A. I'm there.
Q. I know in your testimony you provided similar information, particularly about the KEAP program, K-PEGG investment. The line that says Other Investments, can you tell me what that consists of and how much of that is the grants from AEP?
A. So none of that -- well, okay. Let me ask a question, if I can. "Grants from AEP," what are you referring to there?
Q. Let me -- let me bring up exactly. Well, I'm sorry, I've lost that page, but in one of your data

requests you distinguished. I believe it's AEP business and community grants.

A. Okay. Well --

MR. GISH: Does it look like this?

A. -- what I can say is -- I'm sorry.

MR. GISH: Does it look like this, Ms. Vinsel. I'm sorry.

MS. VINSEL: It did not look like that.

MR. GISH: Okay.

MS. VINSEL: But that may have the answer for me.

MR. GISH: Yes.

MS. VINSEL: May I -- may I look?

A. I'm sorry. I just want to make sure I'm answering the appropriate question.

Q. And I want to make sure that I'm very clear. Thank you. Yeah, AEP Corporate Economic Development.

A. Okay. So, yes, that's what would be under the Other Investments. And so these are dollars that are budgeted by the Company to spend in economic development over a period of time, and it also includes monies that come from AEP Service Corp that has -- or I guess it would be actually AEP Corporate that would give us money to focus on certain projects that may be above and beyond the scope that was initially anticipated.

An example of that would be the Insight Consulting effort. You know, that program was a very long program, it was about $175,000, far beyond the budget that we had at the time for Kentucky Power, and so AEP gave us additional dollars in order to cover that effort. For the importance of the future, we needed to have that plan.

So those investments are investments that are budgeted by the Company to be used in economic development.

Q. Thank you.

A. Uh-huh.

Q. What is the criteria for deciding which project will receive a K-PEGG grant?

A. So when we developed the program, the K-PEGG program, we provided a plan to the Commission, after that was approved, in how we would handle these grants: the application, the development of the people who participated in our committee, and then the criteria that -- what we look for, the programs and the projects that we're trying to fund, which included, you know, assisting local economic development agencies or even creating them if they didn't exist, like One East Kentucky, which didn't exist prior to this. Working on workforce solutions, to be able to train our workers to make that transition from one industry to the other. To do site preparation so that sites are ready.

You know, you look at the Golden Triangle. You look at Bowling Green, they had sites ready, and Eastern Kentucky did not. And we have been able to help them with the Eastern [sic] to that. And so those criteria were laid out in the plan.

And so when the committee, which is made up of eight representatives, which two of those are from outside the Company, one being the CEO of the Kentucky Association for Economic Development and the other being the sites and buildings manager at this time for the Kentucky Cabinet for Economic Development.

We receive those applications, we review them to see if they meet with the criteria that we laid out for the Commission, and then we make sure that, number one, they filled it out appropriately, they have got a plan, they can do what they say they're going to do, that there's -- you know, it's reality-based, and then there is a vote by that committee to be able to move forward or not.

Q. Can the K-PEGG -- K-PEGG grants be used for workforce training ?
A. Absolutely .
Q. And have there been K-PEGG grants for workforce training ?
A. Yes , ma'am. One in particular is the KEAP program invested $50,000 into a project in Paintsville , Kentucky , called eKAMI . Kathy Walker has been heading up that effort there . That is a certified , numerically -controlled machining school that's now got their first class underway in the old -- what was going to be the pharmacy in Paintsville , pharmacy school , is now this training facility . They've already produced some workers in this , and these folks coming out making somewhere between 20 and $30 an hour right out of the school , and it's a 16-week program .
So we've been involved in that . We've been involved in the labor analysis , which helps us understand what to train . We've provided some funding to the Hazard Community and Technical College so there would be fast-track welding programs there , because you got a lot of miners in the region , and if you -- you know, we put -- I think we had a hundred of them in a room in one of

our labor analysis meetings, and we said, "How many of you are welders?" And everybody in the room raised their hand. And then we said, "How many of you are certified welders?" And it was about four.

And so what we realized was that they had the experience but they didn't have the certifications. So we helped Hazard Community College develop a fast-track welding program where they could go in in five weeks and get that paperwork that they need to be able to transition into any industry.

So we've got a lot of examples through the grants of how they're impacting workforce training, and that's very important, because that's the number one challenge in locating industry. Workforce is the challenge. And that's one thing that Eastern Kentucky has, and that's workforce. And we've documented now how we can put them to work.

Q. Thank you.

MS. VINSEL: We have no further questions.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

VICE-CHAIRMAN CICERO: I have no questions.

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: None.

CHAIRMAN SCHMITT: I have no questions.
Mr. Gish, any redirect?
MR. GISH: I have just a couple.

REDIRECT EXAMINATION

By Mr. Gish:
Q. First, earlier you mentioned test year dollars related to economic development that are included in base rates?
A. Yes.
Q. And that's just -- you know, and that's a budgeted amount that could be changed? It's not protected like the K-PEGG fund is, correct?
A. Correct. I mean, that's what I would consider a great thing about the K-PEGG program is that it's a commitment between the Company, the customer, and the Commission to dedicate these funds to economic development.
So, you know, an example of if there was a budget constraint within the Company and they needed to reallocate dollars, these dollars cannot be reallocated. They must be spent for economic development within our service territory.
Q. And you mentioned other utilities, both -- I think probably within Kentucky, and I know historically it's nationwide, have been involved in

economic development. Is that sort of funding through base rates, what you were describing?

A. Yeah, it's my understanding that they would spend these dollars and then recover them through their rates.

Q. And yesterday you were here when Mr. Satterwhite was testifying, correct?

A. Yes, sir.

Q. And you heard the discussion that he had regarding potentially transferring some money from the KEDS program to the HEAP program; is that correct?

A. I did hear that.

Q. Out of the residential charge. Do you have any thoughts on the long-term benefit of doing something like that?

A. Yes. I mean, it's certainly an option to do, but I would recommend that we not do that. And certainly I empathize with the folks that are struggling and need that help.

And, Mr. Chairman, I know you're from Eastern Kentucky, and so I am, a lifelong resident, grew up in Floyd County, and I understand the impacts of that region, it affects my family and my friends and many others, but I believe that by transferring that we're transferring to the symptom and not the disease.

The investments that we make with these programs are creating long-term solutions that we haven't seen in decades in Eastern Kentucky. I think you know that we have funded a lot of things that haven't created jobs or haven't created efforts.

I know that Governor Patton's administration worked really hard to establish these multi-county economic development opportunities and these industrial parks, but they never came to fruition, and it's because they weren't finished. When he left office, those programs changed.

And so through these programs we're creating the solution. We're creating high-paying jobs that are going to solve many of these problems. Not all, but many of them. And so I would really love for us just to stay in working on this long-term solution to create solutions for Eastern Kentuckians so that when we're creating jobs, we're creating opportunity.

And these two jobs, these -- primarily Braidy and EnerBlu, many, many industries are going to follow them. They're creating products that have to be taken and done something with.

So you've got eight other industrial parks throughout our service territory that need work. And if we don't solve those problems in those industrial parks, it's going to be hard to take advantage of what's coming with EnerBlu and Braidy Industries.

And I believe we're doing that. We have developed partnerships, we've developed regional economic development agencies, and we've developed strong, strong marketing programs that's working. And if we don't continue that, I'm afraid of what would happen. We need to continue it. And this is working.

And I know that Mr. Dismukes said the legislature should do that. Well, we've doing a lot of handouts for 50 years, and what solutions have we seen in Eastern Kentucky?

We're seeing solutions from these programs. We're seeing results. When I'm going to put 875 $81,000-a-year jobs in Pikeville, Kentucky, that's impact. That's real impact.

MR. GISH: No further questions.

CHAIRMAN SCHMITT: Mr. Gardner.

MR. GARDNER: One follow-up.

RECROSS -EXAMINATION

By Mr. Gardner:

Q. Mr. Hall, there's a notion that governments or utilities should not be socializing costs to try to create business or economic development, then there's another one that goes a little bit different direction that says that, okay, that the -- that the -- that the money -- if you're going to spend money for economic development from socializing other people, that you at least ought to -- that it's more effective if you spend that money and effort on local existing jobs or businesses rather than trying to recruit new ones.

And my question for you is: Do you-all track expansions of businesses that are a result of your-all's activities?

A. Yes. In fact, expansions qualify for our programs. If expansions are in consideration by existing programs, then we get involved. I mean existing companies, we get involved. And we've done that.

Great Lakes Minerals is an example of that, in Wurtland, Kentucky. That was a local company expanding. If you look at Wrightway Mix Solutions, that's a company located in Pikeville who is creating an expansion in Greenup County, Kentucky. We are involved in those expansions.

And, in fact, our economic development rider tariff includes existing industries, that if they add another 500 kilowatts of usage, then they can take advantage of that tariff.

So there are opportunities for existing businesses. You're right, existing business is important, so we do have programs that address that as well.

MR. GARDNER: Thank you.

CHAIRMAN SCHMITT: Mr. Chandler.

MR. CHANDLER: Thank you, Mr. Chairman.

RECROSS-EXAMINATION

By Mr. Chandler:

Q. Do you still have the page 9 of that Kentucky Power slide show? We'll call it a slide show.

A. I have it.

Q. How much of that $931,150 in the KEAP is from customer amount, customer -- from customers and how much of it is from Kentucky Power AEP?

A. For the KEAP program, zero percent is from the customer and 100 percent is from the shareholder.

Q. 100 percent from shareholders?

A. Yes.
Q. And of the other investments, of that 1.7 million, how much of it is from the Company and how much of it would be from customers?
A. That's a harder answer to give, because that is Company money that's spent for economic development, and then depending upon how -- my understanding of rates, which is very simplistic, if it's in the test year, then we would recover that; if it's not, if that base is not in the test year, then we wouldn't recover it. So if we're recovering it, then it's customer money.
Q. Okay. Are you aware of any customer money that the Company collects in base rates for economic development?
A. That would be from the K-PEGG program. Half of that program is from the customer and half from the shareholder.
Q. So it's your expectation that at least the majority or all of that 1.7 million is from the Company?
A. Again, other than the other investments, which could or could not come from the customer, I think the majority from these numbers are from the Company.

Q. Are from the Company of that 1.7?
A. No. I thought you were talking about the 3.6 total.
Q. No, no. Just the 1.7, do you know if that's all from the Company?
A. I wouldn't be able to answer that question.
Q. And of the amount in K-PEGG, the just over a million dollars, how much of that is from Company, from the Company or AEP, and how much of it is from customers?
A. That is a one-for-one equal share. One -- 50 percent from the customer, 50 percent from the Company.
Q. So roughly $525,000 of it would be from --
A. If that's the math, and subject to check, yes.
Q. So without customers, the Company is still giving millions of dollars to economic development, right?
A. I would say, possibly, yes.
Q. Well, you're at least giving 900 -- the Company's at least giving 931,000?
A. So, yeah, that would make millions, so you're --
Q. Okay. A second ago you referenced some

studies, and you noted that customers said, quote, we couldn't have moved here without this.

Were you talking about, and maybe not exclusively, but specifically the Insight study?

A. Actually, I'm talking about a number of things. I refer to the Insight study. I refer to the labor analysis project that we were involved in which quantifies the data. I refer to our AEROready certification programs that have certified, I think, 11 counties in Eastern Kentucky as AEROready, meaning they're ready for the aerospace industry, which could be anything from manufacturing a helicopter part to an airplane part to a spaceship. And we have our first aerospace company in Martin County now with the MRO company.

I'm referring to Burgess & Niple, which we did site certification programs in both Pikeville and Hazard. The McCallum Sweeney study that we did at EastPark which certified that park ready and available for business.

We're doing studies right now at the Big Sandy plant for part of the land there that we intend to turn into an industrial park, preparing that for future use of industry.

So there's a number of studies that we have utilized these dollars for that are preparing the region for future industry.

Q. Did you discover the needs for a lot of those sites that you just discussed that there are studies on out of the Insight study?

A. Yes. When we did the Insight study, the initial part of the study was an eight-month study, and that company came here for three to four days a month for eight months.

We sat down with over 350 stakeholders. Each county and municipality had the opportunity to present their best sites to this consulting company so that they were able to, what we call scrub each of those sites, so that we saw if there -- what we call -- we like to call them, you know, deal killers. If you don't have -- if you got bad wetlands on a site, well, then that's gotta be mitigated before business can locate there.

So they scrubbed each of these sites. We looked at the potential of all of these sites and then determined where we could best get our return on investment quicker, so that we have sites ready fast, and then in the long term working on the remaining sites to get rid of those due diligence -- or to take care of the due diligence items so that they were ready for business.

So that site, that -- that study is what we utilized to help us plan where we make the best investments and work with our community partners to do that.

Q. Can you confirm that the Insight study was paid for with Company money and not customers'?

A. That would have been paid for through the other investments.

Q. And is it your understanding that that did not include any payments from customers?

A. That is not my understanding. As I said earlier, if it's part of the test year and we are recovering some of those dollars in the test year, then yes, it would be from the customer. I can't qualify whether or not or how much of that is from the customer or not.

MR. CHANDLER: That's all the questions we have.

CHAIRMAN SCHMITT: Mr. Kurtz.

MR. KURTZ: Yeah, I do have some questions, Mr. Chairman.

And based upon some of this discussion, I had prepared -- this is part of the record. I think it'll be helpful, though. It's the number of customers for each rate schedule. And I didn't get a chance to do all the math. And I want to --

MR. GISH: And, Mr. Kurtz, the yellow highlighting here is for reference, not for -- because it's confidential, correct?

MR. KURTZ: No, it's not -- no, I put the yellow in there. This is all public.

RECROSS-EXAMINATION

By Mr. Kurtz:

Q. Okay. So I'm going to ask you about this 10-cent-per-month-per-residential-customer charge, the economic development versus the low income, the discussion that you had with the Chairman a minute ago.

Okay. You've got the number of residential customers in three little categories at the top. 136,519 residential customers?

A. Okay.

Q. Can you just confirm? See, at the top?

A. I see.

Q. Okay.

A. Top line on the right.

Q. Do you have a calculator?

A. I do not.

Q. Okay. 136,519 times -- it's $1.20 a year,

correct, for residential?
A. Yes. In the settlement, with the proposed 10 cents, it would be $1.20 per year.
Q. That's $163,822 per year?
A. Subject to check, sounds about right.
Q. Okay. So the question is: What should that money be used for, low income versus economic development?
A. I think that was the discussion I had, yes, with the -- you know.
Q. Because I don't think it's either/or necessarily. Now, for -- the total number of customers is 168,107 at the bottom, correct?
A. Correct.
Q. Okay. That would mean there's 31,588 business customers or nonresidential customers?
A. Okay.
Q. Okay. If you wanted to put 160 -- if you wanted to put the 10-cent-per-month-per-residential to low income, just mathematically, and you wanted to still create the same dollar -- amount of dollars for economic development, my calculation is you'd have to charge the business customers an extra 43 cents per month and you would do both. Is that the way the math would work out?

A. What do you mean by "doing both"? I'm sorry, I didn't follow.
Q. You could -- you could redirect the 10 cents to low income and you could make up the difference with 43 cents per month on the businesses customers and you could do both programs. You could have full funding and you could have the low-income diversion.
A. It would not be my ability to make that decision.
Q. Okay.
A. I was simply making the argument that I believe we should focus on the cure and not the symptom. That was my discussion there.
Q. I get it. I was just walking through the math to give sort of the order of magnitude of how you --
A. Sure. I mean, it would be an option.
Q. Yeah. Okay. Now, the 2,000 new jobs, those are direct jobs, correct?
A. Those are direct jobs; that's correct.
Q. Now, in addition there'll be spin-off jobs from what is known as the job multiplier effect, correct?
A. Absolutely. According to the science, if it's a manufacturing-based job, I think it's a

one-to-one ratio for jobs that would be created outside the direct job.
Q. Now, KIUC Witness Kornstein identified the job multiplier effect. He's got it for Kentucky Power service territory on page 5 of his report. But, for example, for petroleum and coal products, the job multiplier is 6.5, so that every one job creates 5.5 spin-off jobs.
A. I have heard that. I'm not sure I know that number, but it sounds accurate.
Q. Okay. It's in the record. So that's a high job multiplier. And for -- by way of other example, primary metal manufacturing has a three-job multiplier, which means that every primary job would create two spin-off jobs.
A. That's correct.
Q. Okay. So if the job multiplier was 6.5, which is very high, probably not that high, that would mean there would be 11,000 -- be 5.5 additional jobs for every one of the 2,000, which would create 11,000 spin-off jobs?
A. Correct. And again, I said one-to-one a moment ago. It depends on what that manufacturer is. As you have stated, there's different categories, and that multiplier changes based on

that category.
Q. And if it was a three-job multiplier, the primary metal manufacturing, it would be -- your 2,000 direct jobs would create 4,000 spin-off jobs?
A. That sounds accurate.
Q. Okay. Now, they won't be as high paying as the direct jobs, they'll be more service sector jobs, but they're still jobs?
A. Yeah. And that varies depending upon whether it's a trucker versus something else.
Q. Now, also on page 5 of Mr. Kornstein's testimony, he identifies the job multiplier for a retail company is 1.1, which means that every one Walgreens or whatever creates one-tenth of a new job, because it's just -- you're just shuffling, basically, the same money around?
A. Right. Well, and it's not just about shuffling the same money, which is a good point, it's about how the industry drives the need for supporting industries.
Q. Right. Right. We've seen that with Toyota for sure. Think about how many new tire and wheel and doorknob and everybody else is located in Central Kentucky, correct?
A. Correct. I think, you know, we're now number

two, I believe, in automaking in the state of Kentucky. I think we have four OEMs in the state, but we have about 400 auto-related facilities throughout the state, so you can see how the driver works.

Q. Now, that was a pretty good investment way back in the day, right?

A. Absolutely.

Q. Right? Okay. Now, Mr. Kornstein also noted that Kentucky is the second most energy intensive manufacturing state in the country.

Did you look at his testimony?

A. I did look at his testimony, but I don't have it in front of me.

Q. Okay. Now, energy intensity. This is a -- this is a fair point. There are Kohl's and McDonald's and, you know, retail in Hawaii and Alaska where the price of electricity is four or five times what the price is that Kentucky Power sells for. Is that probably fair?

A. Yes, there are many states that have much higher energy costs than we do.

Q. And that's because the service sector has to go where people are, and it's just a higher cost of doing business, but if they want to sell stuff in

Hawaii or Alaska or California, they just have to pay higher electric rates?

A. Correct.

Q. Now, but there's no steel companies or auto manufacturers in Hawaii or Alaska for obvious reasons. Among other things, the cost of energy is just too high?

A. Exactly. The cost of energy is a big driver for industries like the steel industry. And workforce. So energy prices, workforce, they have to go where that is. They can't just go where the customer is. They're worried about raw materials and many other things.

Q. Because their customers are around the globe?

A. Correct.

Q. Okay. As you grow the economy and you grow the customer base and so forth, increase the denominator -- excuse me -- that lowers the price of electricity for everybody because the fixed costs are amortized over more units?

A. It does lower the cost to serve.

Q. Okay. Okay.

MR. KURTZ: Thank you, Mr. Chairman.

CHAIRMAN SCHMITT: Any questions from any counsel for any of the other settling intervenors?

Staff, questions.

MS. VINSEL: No, no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

Commissioner Mathews.

EXAMINATION

By Commissioner Mathews:

Q. Have you done any analysis on these 2,000 jobs to see how many of them will fall under the GS, the LGS, or the IGS categories?

A. I wouldn't say I've done an analysis, but based on the planned amount of demand that each of those would have, I think we can assume what tariff they will be on, but until a contract is reached with some of those or until they sign their contract, we don't know exactly where it would fall, but I think we could make a reasonable estimation.

COMMISSIONER MATHEWS: Would you ask him to do that in writing?

MS. VINSEL: Yes. I'm sorry.

COMMISSIONER MATHEWS: In a post-hearing data request. And with the recognition that predictions are always going to be wrong.

THE WITNESS: Yes.

COMMISSIONER MATHEWS: Okay.

CHAIRMAN SCHMITT: Any other questions?

COMMISSIONER MATHEWS : No, that 's all .

EXAMINATION

By Chairman Schmitt :

Q. Mr. Hall , you're from Wheelwright , Kentucky ; is that correct ?

A. Yeah . Yes, sir. Actually , specifically Weeksbury .

Q. Weeksbury .

A. It's close enough to where we don't have to count .

Q. I'm a lot older than you are, and I can remember when I was in high school , I was a lifeguard at the Paintsville , Kentucky , swimming pool , and other than Paintsville , Wheelwright was the only community in Eastern Kentucky , outside of Ashland , that had a municipal swimming pool .

A. Yes, sir. And I painted that swimming pool every summer .

Q. And right now Wheelwright is almost a ghost town, isn't it?

A. It is, sir.

Q. And Paintsville is headed , probably , in that direction . The reason that I -- that I point that out is, is I guess in -- and yesterday you were probably here . It was pointed out that -- and I know there's a difference of maybe 20 or 30 residential customers from Mr. Kurtz's list from the one I had, but the 136,344 residential customers in Kentucky Power's service area, 26 percent of those are at or below the poverty level, and that's 35,756 residential customers. And of those, 11,438 residential customers' service was discontinued in 2016 because of inability to pay an electric bill.

I also noted that, I think in the direct testimony of Mr. McCann, who will be here, he indicated that he thought this increase of 15 cents to 20 cents on the residential HEAP program was inadequate, which led me to suggest not only adding that 5 cents, but taking the 10 cents from the suggested economic development surcharge and adding that on to the HEAP program so that instead of a total of 30 cents with a customer match -- with a Company match, it would be 60 cents. And that, it doesn't seem to me, would hurt the Company's economic efforts at all.

I have -- we've had, I guess, I think about 150, 60, 70 comments in writing at this Commission, and I picked out two that I thought were significant, and I'm going to read them. They are more or less representative of every one that we've received.

And here is a person, I won't -- the name is in the record, I won't name this person, but I happened to recognize the name because years ago I used to know this woman's brother and I knew her father, both of whom were in the coal business and were marginally successful in the best of times.

And here it -- here it reads: (Reading) October 28, 2017. Kentucky Public Service Commission. Dear sir: I'm writing today to respectfully ask you to deny AEP Kentucky Power the rate increase they are seeking. It would be devastating for most of us in Eastern Kentucky should the rate increase be granted. I'm retired, live alone, and live month to month on Social Security. I cannot sustain another increase on my power bill. I'm on their budget plan and pay $262 a month, which leaves me with barely enough to pay my other bills and buy groceries. I keep the thermostat on 60 degrees and wear a jacket in the house to stay warm. My family was in the coal business, and now we're out of business. Why can't AEP Kentucky Power tighten their belts and manage their expenses the way we have to on a limited income? In consideration of the people of Eastern

Kentucky, I'm requesting that you deny AEP Kentucky Power a rate increase.

And then the second one is probably one of the best to-the-point letters I've ever seen. It came to me personally. I don't know this lady. She's from Freeburn in Pike County, but it came to me as Chairman of the Public Service Commission. September 29th, 2017. (Reading) To whom it may concern: Please no more rate hikes. I get $465 a month to live on. I would be better off dead. I'm only existing, not living. My life should be better than this in a country so rich.

All I'm saying to you is, if this woman -- in one month her gross check wouldn't buy five shares of Kentucky Power Company stock, of AEP stock. If there's somebody that can pay for economic development, it ought to be the people who are going to immediately and directly benefit the most from it, and that's Kentucky Power. Kentucky Power's shareholders can give this woman 15 cents a month on her bill and that of the residential customers. That's my position.

Thank you.

A. Thank you.

CHAIRMAN SCHMITT: No further. I have

nothing further, unless you want to --

MR. GISH: That's -- no, sir.

CHAIRMAN SCHMITT: May this witness be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Thank you. You may step down.

MR. OVERSTREET: Our next witness is Mr. Ross, Your Honor.

CHAIRMAN SCHMITT: Mr. Ross, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. ROSS: I do.

CHAIRMAN SCHMITT: You may be seated.

Counsel, you may ask.

MR. GISH: Thank you, Mr. Chairman.

TYLER H. ROSS, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Mr. Ross, can you please state your full name, position, and business address?

A. Tyler H. Ross, Director Regulatory Accounting Services, AEP Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215.
Q. And, Mr. Ross, did you have -- I'm sorry. Did you file testimony and responses to data requests in this case?
A. Yes, I have.
Q. And do you have any corrections or updates to the testimony or responses to data requests?
A. I do not.
Q. If I were to ask you the questions that are in your testimony and your data requests again, would you give the same answers?
A. Yes, I would.
MR. GISH: Mr. Chairman, the witness is available for cross-examination.
CHAIRMAN SCHMITT: Thank you.
Mr. Kurtz, questions.
MR. KURTZ: No questions.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors, any questions of this witness?
If not, Mr. Cook, Mr. Chandler.
MR. COOK: No questions, Your Honor.
CHAIRMAN SCHMITT: Mr. Osterloh.
MR. OSTERLOH: No questions, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner, none.
Staff.
MS. VINSEL: Yes, we have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:
Q. Good afternoon, Mr. Ross.
A. Good afternoon.
Q. Do you have a copy of your response to Staff's fourth data request with you?
A. Yes, I do, I think.
Q. If you can turn to --
A. Just to make sure, is this the -- I want to make sure this is the sheet real quick.
Q. I think it prob --
A. This is for estimated 2017 employee medical benefit costs?
Q. Yes. It was -- it was the attachment filed in response to PSC 4, item 6.
A. Okay. Yes. Ready.
Q. Does the information contained in this schedule contain medical insurance costs allotted to Kentucky Power from AEPSC, the Service Corp?
A. Their medical costs for the AEP system. It's a blended cost for the AEP system that was used for this calculation.

Q. I want to make --
A. Of which Kentucky Power is a subsidiary or a member of the AEP system.
Q. So there would be no additional cost to this that would have been allocated from the Service Corp, that would be rolled into --
A. Not to my knowledge, no.
Q. Okay. Were you here yesterday when we discussed the blended funding column?
A. Yes, I was.
Q. As a post-hearing data request, can you revise this particular schedule to reflect, instead of the blended funding, the actual employer contribution?
A. Yes, we can do that.
Q. And Mr. Satterwhite indicated you might be the best person to answer a question about accounts receivable.
A. Okay.
Q. Kentucky Power sells its accounts receivable to the parent entity; however, the bad debts remain with Kentucky Power. Can you explain why?
A. Well, first of all, AE -- Kentucky Power sells their accounts receivable to AEP Credit, which is a subsidiary of AEP. And they do that to

accelerate their cash flows for their accounts receivable.

So they sell those accounts receivable to AEP Credit, and then AEP Credit provides cash back to Kentucky Power, but there is a discount. There is a lower dollar amount that Kentucky receives, and the difference is due to bad debt expense, administrative costs, and also financing costs. And that bad debt expense is then included in Kentucky Power's cost of service.

So even though these receivables are being factored by AEP Credit, there's still a cost of service, if you will, for bad debt expense based on Kentucky Power's bad debt history.

As an example, I'll give -- maybe give a little more color. Let's say that Kentucky Power factors a hundred dollars of receivables, they would get $97 from AEP Credit, and the difference would then be recorded on Kentucky Power's income statement for their amount of administrative expenses, cost of financing, and also bad debt expense.

Q. I'm going to follow up -- one moment. But how would that $3 difference be reflected on Kentucky Power's income statement?

A. Okay. Then that $3, we then made an adjustment in our cost of service. Yes, it is in their income statement, but then in our cost of service that we filed in this case, we then made an adjustment to only include the bad debt expense in the cost of service.
Q. The Vice-Chairman had also asked a question about indicating that short-term financing is available at a lower rate than that received for selling the accounts receivable, and the question was a two-part: Why pay the premium and what's the benefit of selling the accounts receivable over short-term debt. So let's start with why pay the premium.
A. Well, I guess there's a couple things to consider here. One, obviously AEP Credit, they're factoring not only Kentucky Power, but they're also factoring for other AEP operating companies, so they're providing an economy of scale, if you will, to accelerate the cash flows of Kentucky Power plus other AEP subsidiaries.
So you have economies of scale because of AEP Credit and how it functions, and then also, obviously, you're accelerating cash flow for Kentucky. So those are obviously the benefits.

As far as a financing strategy and is this more advantageous financially, I don't know the answer to that question. And probably Company Witness Miller would be best to answer that question.

Q. Oh, okay. Thank you.

MS. VINSEL: We have no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

EXAMINATION

By Vice-Chairman Cicero:

Q. Okay. So you were initially given, the name to be the one that would answer accounts receivable questions, so I'm going to -- I'm going to start, and then if you want to direct me to --

A. Okay.

Q. Kentucky Power's list of witnesses is narrowing quickly.

A. Yeah.

Q. It's like musical chairs, whoever is left is the one that is holding the bag, I guess.

Following up on what -- the question that Ms. Vinsel asked you regarding accounts receivable and the factoring in the bad debt.

A. Yep.

Q. Typically accounts receivable is sold or factored for two reasons: Accelerated cash flow --
A. Yep.
Q. -- as you mentioned, and to reduce the risk on bad debt.
A. Uh-huh.
Q. And you pay a premium, obviously, to reduce that exposure to bad debt. That usually flows to the factoring company because that's included in the risk, the premium that they pay to take those.
Would you agree with that?
A. In this situation, that does not seem to be the case. The Company --
Q. Well, I know that, that's why --
A. -- still has bad debt expense as far as, you know, its operations. The Company also, by the way, even though they factor to AEP Credit, they are still responsible for going out and servicing the debt, the collections from ratepayers.
So any -- based on Kentucky Power's historical bad debt rate, AEP Credit then factors that into the discount or the amount billed to A -- to Kentucky Power. They factor in that history for AEP Credit of bad debt expense.
Q. Exactly. So let's go to that factor. The

factor is .34.
A. Uh-huh.
Q. 34 basis points. Okay?
A. Yep.
Q. The average interest rate for funds borrowed from the Utility Money Pool is 48 basis points. The factored receivables are 195 basis points. So if I look at the difference between the average interest rate for funds borrowed and I look at the factored rate of 195 basis points, I come up with 147 basis points as the premium over short-term debt. But the bad debt is only 34 basis points.
What is the justification that Kentucky Power can give for paying this premium? I heard administrative costs, but surely -- you've already taken the risk out of the receivables by leaving the bad debt, so there's only administrative costs. Are you saying that that administrative cost is worth 147 basis points?
A. I'll -- I'm going to have to concede to Mr. Miller here, because I do not have familiarity with some of the background, if you will, as far as what rates and what AEP Credit charges to Kentucky, how that's calculated. I'm just talking about things from an accounting standpoint.

Q. Okay. I will -- I will hold for Mr. Miller.
A. Okay.
CHAIRMAN SCHMITT: Commissioner Mathews, questions.
COMMISSIONER MATHEWS: None.
CHAIRMAN SCHMITT: I have none.
Any redirect?
MR. GISH: No, sir.
CHAIRMAN SCHMITT: Any additional cross-examination?
MR. CHANDLER: The AG does have just a couple.

CROSS-EXAMINATION

By Mr. Chandler:
Q. You mentioned that the process you described increased cash flow; is that correct?
A. To accelerate cash flow.
Q. Accelerate cash flow. For Kentucky Power?
A. Yes.
Q. And that's of benefit to Kentucky Power, right?
A. Yes.
Q. Is it your understanding, did -- to your understanding, did Kentucky Power conduct a lead-lag study as part of this application?

A. I believe the Company did not do a lead-lag study as far -- in this filing.

Q. And do you know how they determined the cash working capital as part of this application?

A. I am not familiar with how -- that determination or that review process.

MR. CHANDLER: That's all the questions we have, Mr. Chairman.

CHAIRMAN SCHMITT: Any party have any other questions?

If not, may this witness be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Thank you. You may stand down and be excused.

MR. ROSS: Thanks.

MR. OVERSTREET: Our next witness is Mr. Miller.

CHAIRMAN SCHMITT: Mr. Miller, please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. MILLER: Yes, I do.

CHAIRMAN SCHMITT: Please be seated.

Counsel, you may ask.

MR. GARCIA: Thank you, Your Honor.

ZACHARY C. MILLER, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

Q. Mr. Miller, will you please state your name and business address for the record?
A. My name is Zachary C. Miller. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.
Q. And by whom are you employed and in what capacity?
A. I'm employed by American Electric Power Service Corporation as a Principal Corporate Finance Analyst.
Q. Mr. Miller, did you cause in this case to be filed seven pages of direct of testimony consisting of question and -- question and answers, six pages of supplemental testimony consisting of questions and answers, and also discovery responses?
A. I did.
Q. And were those prepared by you or under your supervision?
A. They were.
Q. If I were to ask you the same questions

today, would you provide substantially the same answers?
A. Yes, I would.
Q. Do you have any changes or additions to your testimony?
A. I do not.
MR. GARCIA: Your Honor, the witness is tendered for cross.
CHAIRMAN SCHMITT: Thank you.
Mr. Kurtz, questions.
MR. KURTZ: No questions.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have any questions for this witness?
If not, Mr. Chandler, Mr. Cook.
MR. COOK: At this time we do not have any questions.
CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh.
MR. GARDNER: No, Your Honor.
CHAIRMAN SCHMITT: Staff.
MS. VINSEL: Yes, we have follow-up questions.

CROSS-EXAMINATION

By Ms. Vinsel:
Q. Good afternoon, Mr. Miller.

A. Good afternoon.
Q. See, we can check the clock.
A. You got it. You got it, yeah.
Q. Yes. Verify it. I appreciate that.
In follow-up to that question about the accounts receivable, can you speak to the financing strategy for pursuing -- selling accounts receivable rather than pursuing short-term debt?
A. Sure. You know, factoring receivables is very similar to securitization, right? We're selling an asset at a discounted rate. If we were to not include accounts receivable financing in the capital structure, we would have to finance that at Kentucky Power's overall cost of capital, or weighted average cost of capital of long-term debt, short-term debt, and equity. So, I mean, it's a cost savings, low cost.
Q. Why would you not just finance it with short-term debt?
A. Financing with short-term debt, there's liquidity risks involved that are -- financing everything with short-term debt. I understand short-term debt is a low-cost alternative as well, but Kentucky Power does have limits in the amount of short-term debt it can borrow as limited by the

FERC.

Q. What are those limits?

A. It's currently $180 million.

Q. And is there 100 -- are there $180 million in short-term debt right now?

A. Kentucky Power's current borrowing level I think is approximately $10 million borrowed. That fluctuates on a daily basis, obviously. Kentucky Power utilizes its short-term debt capacity to meet its working capital needs, and that could -- you know, it could be invested on one day or borrowed the next day, just depending how cash flows shake out.

Q. Do you know how many times in the last 12 months that Kentucky Power has hit that limit of $100 million in short-term debt? 180. Excuse me.

A. Kentucky Power has never hit its limit of $180 million in the last 12 months.

MS. VINSEL: No further questions.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Commissioner Cicero, questions.

EXAMINATION

By Vice-Chairman Cicero:

Q. Had they not used accounts receivable, how many times would they have hit that $180 million limit?

A. They would -- to my -- to the best of my knowledge, they would have never exceeded the $180 million limit.

Q. I don't believe they would have either, but thank you for confirming that.

So we're back to the original statement. I understand all the philosophy about utilizing receivables, you're selling an asset, it's being discounted. The question is: The discount, is that premium valuable enough to say that AEP should be able to utilize a premium rate selling -- or buying receivables from a subsidiary that exceeds what the risk factor is? If you're going to leave the bad debt at the subsidiary and not take it up with the receivables, what's -- what is the premium being paid for?

A. Okay. I didn't -- fair question. I'd like to address -- first, I think you indicated something like Kentucky Power's borrowing cost is .48 percent.

Q. .3 for the -- you have a pool, I'm just --

A. Yeah.

Q. -- using your pool as an example because it's part of the exhibit, that says that the average

borrowing cost out of the pool of money available to Kentucky Power and other members of that pool is .48. There is a range that exists in that pool. I took the average.
A. Okay. Okay. Yeah, I was going -- I just -- their current short-term debt borrowing rate is approximately 1.5 percent as compared to point -- .48 is that average.
Q. Going to the outside?
A. In the pool. In the pool their current borrowing rate is 1.5 percent.
Q. So why does your exhibit --
A. Approximately.
Q. This is Exhibit RP 60 of 138. It says, (Reading) The maximum interest rate for funds borrowed from the utility in 2015 was 87 basis points, the minimum was 37 basis points, and the average was 48 basis points.
So where does the 150 basis points come from?
A. First of all, I think you said that was 2015, so quite a bit -- a long time ago, and the rise in short-term rates. That -- I believe what you're reading from comes from the Utility Money Pool disclosure, which gives the absolute bottom range of the borrowing rate and the maximum range, so that's

where you're your average. The current borrowing cost --
Q. Well, I'm getting my average from you. I'm not calculating anything.
A. Sure. Sorry. From the disclosure, the average borrowing rate. The current borrowing cost is approximately 1.5 percent.
Q. "The current borrowing cost" meaning what? 2017?
A. As of today, correct.
Q. So what is the factor or discount rate that the receivables are being charged down from AEP? Because I'm using a 2015 rate of 195 basis points. What is it?
A. I don't know the current factoring rate.
Q. Well, see, I can only compare apples to apples. I can't compare --
A. I understand.
Q. -- apples to oranges, and you're giving me a 2017 rate and saying it's not applicable to my comparison here that's 2015. So absent of that I've gotta go with the data you've given me.
A. I understand. And --
Q. Right now there's a premium that's being paid that I don't understand.

A. Okay. Let me try to help --
Q. Sure.
A. -- at least. So Kentucky Power's only available option for short-term debt is the Utility Money Pool as part of the corporate borrowing program, which we have listed as short-term debt in the capital structure. The borrowing -- current borrowing cost for that capacity is approximately 1.5 percent.
In Kentucky Power's capital structure we also have the line item for accounts receivable financing or factoring, and that is -- the cost on that is just the interest costs or the carrying charge that Kentucky Power pays to factor its receivables.
Q. Yes. There's a premium being paid, and my concern is, is that premium goes as a profit center for AEP, because whatever that interest earned is, is -- unless that -- those funds are coming from some other source, it's a profit center for AEP.
A. The funds -- so Kentucky Power gets its money, its purchase, from AEP Credit. AEP Credit works through conduit banks to purchase those receivables. So that interest charge is the bank's finance charge to AEP Credit and then passed directly through to Kentucky Power.

Q. And is there a premium being paid over what those consortium of banks are charging AEP Credit that AEP is charging Kentucky Power?
A. Not to my knowledge. It's direct -- direct charge.
Q. So post-hearing data request, I would like that confirmed, that --
A. Sure.
Q. -- it's a straight pass-through on the accounts receivable. Okay?
A. Sure.
VICE-CHAIRMAN CICERO: I don't have any other questions at this time.
CHAIRMAN SCHMITT: Commissioner Mathews, questions.
COMMISSIONER MATHEWS: None.
CHAIRMAN SCHMITT: I have no questions.
Any redirect, Mr. Garcia?
MR. GARCIA: Thank you, Your Honor. That's it.
CHAIRMAN SCHMITT: Questions from anyone else?
MR. CHANDLER: Just one question.
CHAIRMAN SCHMITT: May this witness be excused?

MR. CHANDLER: Your Honor, I do have one.

CHAIRMAN SCHMITT: Oh, I'm sorry, you do have one.

MR. CHANDLER: I'm sorry. One question.

CROSS-EXAMINATION

By Mr. Chandler:

Q. What are bad debts -- what causes bad debts? At Kentucky Power, what causes the amount of bad debts? What leads to them?

A. I'm not an accountant. Bad debt is just the portion of our receivables that we expect not to collect from our customers.

Q. And do you know any reasons why those amounts go uncollected?

A. I'm -- once again, I'm not an accountant that deals with -- deals with our receivables. I apologize not being able to answer the question.

MR. CHANDLER: That's all we have, Chairman.

CHAIRMAN SCHMITT: May this witness be excused?

MS. VINSEL: Oh.

CHAIRMAN SCHMITT: You have questions?

RECROSS-EXAMINATION

By Ms. Vinsel:

Q. Why can't Kentucky Power go to the short-term debt market itself?

A. Multiple reasons. One of the benefits of being part of AEP is that we do have access to the corporate borrowing program and its low-cost financing capabilities.

For Kentucky Power to go out on its own to issue short-term debt, first of all, it would have to obtain and maintain a short-term credit rating from S&P and Moody's, who we have discussed about at length at this hearing. There's quite a bit of cost to that.

To issue short-term debt you also have to have some sort of credit facility to backstop those borrowings, another additional cost that would be included.

I think that there's also charges that are involved with intercompany back-and-forth wire transfers. If we weren't part of the pool, Kentucky Power would have to incur wire transfers in and out of banks, which would come at a cost as well.

So I think the overall economies of scale and the benefits of the AEP corporate borrowing program are very, very evident as the low-cost alternative for short-term financing.

MS. VINSEL: Nothing further.

CHAIRMAN SCHMITT: Any other questions?
VICE-CHAIRMAN CICERO: Just one comment.

REEXAMINATION

By Vice-Chairman Cicero:

Q. The securitization would be the receivables, so if they weren't selling to AEP, they would be utilizing that on their own short-term facility, whatever that may be.
I'm not going to argue the point that they may have to establish themselves through Moody's and Standard & Poor's, but they could establish themselves.
And wire transfers, that's a minimum charge. That -- those fees aren't anything that would influence a decision on whether to have your own short-term borrowings or not.
It would all come down to whatever the interest rate is that the -- that is being charged or whatever the premium is. That should be the decision.
A. Absolutely. I was trying to identify as many costs as I -- that I could that be would be inclusive of the all-in rate.
There's also benefits on the investment side as well to where, a company has excess funds, it's

able to invest those in the corporate borrowing program and earn a return on that.

So I understand your point and I think it's valid.

Q. And as I said, the concern -- the only concern the Commission has is that AEP Credit is actually acting as a profit center for AEP and benefitting to the expense of Kentucky Power by paying a premium over what it could borrow at a short-term rate.

A. Understood.

CHAIRMAN SCHMITT: Anyone else have any other questions?

Any redirect, Mr. Garcia?

MR. GARCIA: None, Your Honor. Thank you.

CHAIRMAN SCHMITT: May this witness be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Okay. You may step down.

MR. MILLER: Thanks.

CHAIRMAN SCHMITT: And you are excused. Thank you.

Another witness.

MR. OVERSTREET: The next witness is Mr. Wohnhas. Do you want to put him on or break for lunch?

CHAIRMAN SCHMITT: How long do you think Mr. Wohnhas might take? It'll be a while.

MR. OVERSTREET: I'm not the determiner of that.

CHAIRMAN SCHMITT: Well, let's get -- we can get a -- we can get a half hour --

MR. OVERSTREET: Absolutely. Absolutely.

CHAIRMAN SCHMITT: -- with Mr. Wohnhas, so that's --

VICE-CHAIRMAN CICERO: I agree.

CHAIRMAN SCHMITT: Mr. Wohnhas, you've been greatly anticipated, your testimony.

MR. WOHNHAS: Yeah, I know. I hope I can live up to it.

CHAIRMAN SCHMITT: Please raise your right hand. Do you solemnly swear or affirm the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. WOHNHAS: I do.

CHAIRMAN SCHMITT: Please be seated.

Before we start and get into this on -- is there any issue remaining about the authentication of the Attorney General's Exhibit, what, 4 as being part of the Kentucky Power annual report for either

2006 or 2016 or both?

MR. GISH: No, Mr. Chairman.

CHAIRMAN SCHMITT: Okay.

MR. GISH: Thank you.

CHAIRMAN SCHMITT: Then I'm going to admit Mr. Chandler's Exhibit 4, is that correct, into evidence?

MR. CHANDLER: Yes, sir; it's Exhibit Number 4.

CHAIRMAN SCHMITT: Okay. Thank you.

MR. CHANDLER: Thank you.

(AG Exhibit 4 admitted.)

MR. OVERSTREET: Oh, I'm sorry. I'm sorry.

CHAIRMAN SCHMITT: You may ask.

RANIE K. WOHNHAS, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Wohnhas, please state your name, position, and business address.

A. My name is Ranie K. Wohnhas. I'm the Managing Director of Regulatory and Finance. My address is -- business address is 855 Central Avenue, Ashland, Kentucky.

Q. And, Mr. Wohnhas, did you cause to be filed in this proceeding direct testimony, rebuttal testimony, and responses to data requests?
A. And supplemental testimony, yes.
Q. And -- I'm sorry. And supplemental testimony?
A. Yes.
Q. And do you have any changes or additions to those?
A. I do not.
Q. And if you were asked those same questions here today, would your answers be the same?
A. They would.
MR. OVERSTREET: Your Honor, the witness is available.
CHAIRMAN SCHMITT: Thank you.
Mr. Kurtz, questions.
MR. KURTZ: No questions.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors have questions for Mr. Wohnhas?
If not, does the Attorney General have questions?
MR. CHANDLER: I think Mr. Gardner is going to go before the Attorney General.
CHAIRMAN SCHMITT: Okay. Mr. Gardner,

proceed.

MR. GARDNER: Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Gardner:

Q. Mr. Wohnhas, how long have you been in your -- working for Kentucky Power?

A. Well, I've got 38 years total with AEP/APCO/Columbus/Kentucky Power.

Q. And have you been in finance and ratemaking the entire time?

A. No, I'm an accounting -- accountant by trade, so I started -- but I actually started customer service in the call center.

Q. Okay.

A. Then a lot of time in accounting. But since about 1987 I have been -- most of my time has been in regulatory.

Q. Okay. And in that -- in that position, I assume you've gone to many schools or classes on ratemaking and principles of ratemaking?

A. I have attended those, yes.

Q. When I was asking -- were you in the room when -- the many times that Mr. Satterwhite testified in this hearing?

A. Yes.

Q. Okay. Were you in the room when I was asking him questions about the thousand-kilowatt border and about, you know, the large differences at that border, and he said basically, you know, "If they come talk to me, you know, we can see if we can work something out. We'd have to come to the Commission to do it." Were -- did you hear --

A. I was here for those discussions, yes.

Q. Okay. And were you also here when he talked about, you know, "Just bet on us"? Did you hear that phrase that he used to describe?

A. I did.

Q. Okay. Now, that notion seems awful subjective. Is that -- that these decisions would be made personally by him. Is there any ratemaking principle that would support that analysis?

A. Well, let me start by, I think what Mr. Satterwhite -- and if I remember, the discussion was around the idea of the coal, CS-Coal versus -- and the CS-IRP.

And I think what Mr. Satterwhite was saying is that, you know, we are following the tariffs. And in this particular case CS-IRP has said, as we got it in the current tariffs, greater than a thousand kW.

And then all he was saying is that we would follow that, but that if a customer had reason to want to come in and discuss something differently, you know, we would be willing and we want to talk to that customer and see what and if something could be done, realizing that it would have to go before the Commission, because we're going to follow our tariffs, but that we'd at least like to have that opportunity to have that discussion.

It may be something that, from a regulatory standpoint, we could do right away, or it may be something, as we had the discussions, that we could think about in the future of maybe developing some type of difference in our -- in our tariffs.

Q. Okay. Since the -- well, let me ask this: In the prior case, did you participate on behalf of Kentucky Power in the prior 2014 case?

A. I was a witness there, yes.

Q. Okay. And was KCUC in existence at that time? Did they even participate in that case?

A. They did not intervene in that case. I don't even know if they were in existence at that time.

Q. Okay. The -- and in that prior case there was an agree -- there was a settlement, correct?

A. Yes, a nonunanimous settlement.

Q. Right. And the rates were raised in that case, correct?
A. Yes. The final order, rates were increased, yes.
Q. Okay. And since that rate case there's been a large reduction in the number of customers in your base. And, in fact, isn't that one of the reasons why you-all are filing this case is the loss of customers?
A. Yes. We said about half of what this -- the original requested amount had to do with the load reduction, which a lot of that goes to the loss of customers.
Q. Okay. And do I recall that there's some exhibit that would have said that number of loss of customers is in excess of a thousand?
A. Yes. Since the last rate case, yes.
Q. Okay. Now, are you -- are you familiar with the term "price elasticity of demand"?
A. I am.
Q. Okay. Would you like to explain your understanding as to what that is?
A. Wow, you're really testing me on that terminology. You know, it has to do with the supply and demand. And, you know, as, you know, price --

like anything else, the price goes up, it's very possible the demand would go down. There's some point where you try to meet that, my term, equilibrium of where that -- where that is.
Q. Okay.
A. That's a very high-level general description.
Q. And are you aware that there are such things as studies of price elasticity of demand?
A. Yes, there are.
Q. Okay. And are you aware that those occur in the utility industry?
A. Yeah, they do.
Q. Okay. Did Kentucky Power prepare a price elasticity of demand study before they filed this case?
A. No, we did not.
Q. Okay. Did AEP prepare a price elasticity of demand study for Kentucky Power -- on Kentucky Power's behalf?
A. No.
Q. Okay. Do you have the ability to have in front of you page -- the settlement agreement, Exhibit 1 to this case?
A. Yes.
Q. And that is -- and that's -- it's Exhibit --

it's also an exhibit, KCUC Exhibit 4, but whichever's easiest, that's what I'm going to be asking about.
A. And Exhibit 1 is the settlement revenue allocation; is that correct?
Q. Yes, sir.
A. I have that.
Q. Yeah. So that -- yes. And at the top it says Base Rate Case Settlement Increase?
A. Yes.
Q. Okay. So I'm going to ask you about some of the changes that occurred in the settlement from your original filing. Okay? And I'm going to use this to help me. And I'm going to ask you first a couple things. There was an increase -- well, I know that -- to just make it clear, we've got RS as a category, then we've got SGS and MGS, but those two numbers are combined into the new class GS, correct?
A. That is correct.
Q. So that's -- so the cumulative number at the bottom -- and I'll look at the HEAP KEDS number, for example. That 326,687 only includes GS, or the sum of SGS and MGS?
A. That is correct.

Q. Okay. So there was an increase to the GS class of about $316,000 when the KEDS -- when the settlement moved the KEDS number from residential to the commercial classes; is that right?
A. Well, that 360,000 is both HEAP and KEDS.
Q. Okay. Do you know how much is KEDS? If there are 30,000 -- if there are 30,000 commercial customers, then, you know, the vast majority would be --
A. Well, you know, if you took a -- you know, it is a -- it's a dollar a month, so if you took a $1.20 times 30,000 --
Q. Right.
A. -- you would come up with that amount.
Q. So just the vast majority is that -- is that additional money that went to the commercial classes that was not there before in your -- in your --
A. That was moved from the residential, yes.
Q. Correct. And was there a ratemaking principle that allowed that -- I mean, I understand what settlement discussions and -- was there a ratemaking principle that supported that?
A. I don't believe so. Again, I think to what you just said, it was part of settlement discussions.

Q. Okay.
A. And there's give and take, and so to say there's an official ratemaking principle, no.
Q. Okay. And, I mean, one could imagine that it happened just like Mr. Kurtz was suggesting a minute ago with, "Well, let's put 43 more cents on the business class, the commercial class. They can afford it." So that's -- there was no ratemaking principle for that, right?
A. No. I mean, I wouldn't say they said that they could afford it. I wouldn't use those words, but as -- you know, in -- as we talked about all the different issues, and there's quite a few that are listed in settlement document, you know, there was give and take on each one of those issues. And, you know, I don't think to any one of those issues can you say there's a ratemaking principle --
Q. Okay.
A. -- that was followed. It's about the give and take. I think the biggest, that it was fair, just, and reasonable for all the parties.
Q. Okay.
A. That would be the only -- and that's not a regulatory principle, that's based under statute with the Kentucky regulation that the rates be fair,

just, and reasonable.

Q. Okay. And in this settlement agreement one, the next line lumps together LGS/PS, but those are really separate classes, right?

A. No. They are -- they are one class. I mean, we -- okay. Let me back up. Mr. Vaughan combined these two in this line item.

Q. Okay.

A. All right? And he can -- he can explain, and much better, the reasons for putting them into one line item, but we -- you know, there is -- because they're all under the 500,000 discount that's given to the schools. All right? It's all part of that, that combination.

Q. Okay. So let me -- let me be specific, since we're talking about the settlement. In the prior case -- well, so one of the things that happened in the settlement that was not in the case that you-all filed here was that $500,000 was taken from -- or an additional obligation was put on LGS to fund the public schools class with an additional $500,000 that came from them; is that correct?

A. In our original application. In the settle -- let me just back up a little bit. In the settlement agreement in the 2014-396 case, a part of

that was a $500,000 credit to the public schools.
Q. Okay. Which came --
A. When we filed --
Q. Go ahead. I'm sorry.
A. So when we filed this case -- because part of the reason at that settlement is that we were going to go back, put some more meters on more schools to get a better sample of the schools to say does it make sense to continue this.
And when we gathered that information, got ready to file this case, Alex and his team -- or Witness Vaughan and his team determined that the $500,000 credit was not supported by the facts. So we, when filing this case, took that $5,000 credit out.
Q. Okay. And the settlement took it from GS class back to public schools, right?
A. I don't know that it -- I can't answer that it came out of the GS class. I know that we put it, that credit, back against LGS. I don't have a recollection that it came out of the GS class.
Q. Were you here when KCUC Witness Higgins was here yesterday?
A. I was.
Q. And he testified that that 500,000 was put on

the LGS class. And his point was: Well, if it's an important policy that we want to promote -- not a ratemaking principle again, but if it's an important policy to support the public schools, it should be borne by all the classes and not just LGS.

Did you hear him say that yesterday?

A. I remember the discussion. I don't -- I don't remember specifically.

Q. Okay.

A. And I guess what I would ask, just so that --

Q. We'll ask --

A. -- the record is straight, you know -- -

Q. We'll ask --

A. -- Mr. Vaughan can tell you exactly how that --

Q. Sure.

A. -- that was moved.

Q. And we'll ask him that question.

A. Okay.

Q. Fair enough. So the process of the settlement -- and let me just go through the classes that are here. So did the settlement -- did the settlement give residential customers as a class a special benefit?

A. What was that? The spec --

Q. Did it give them a special benefit, the settlement?

A. I guess what do you --

Q. Well, I mean --

A. What do you mean by "special benefit"?

Q. Well, let's -- okay. So did they get anything of value to them in the settlement that other classes didn't get, or were they harmed more?

A. I mean, all I can say, I still don't know about -- you know, I can tell you that through the settlement that the residential class received a reduced customer charge from 17.50 to 14. The -- as part of the settlement, the KEDS funding reduced to the residential class. Overall allocation of -- due to the revenues that we agreed to in total moved their percent increase on the average, as you see here, down below 10 percent to 9.36 percent, and with the surcharge is 9 percent, there in the other column.

Q. The -- that when you went to 9.3 -- 36 percent, there were some -- as part of the settlement, there were some reductions across the board, right, to all classes?

A. Yes.

Q. Okay. The SGS, MGS, combined GS, there was an additional 300 plus thousand that went to them that wasn't in the rate case, right, as part of the settlement?

A. You'd have to ask Mr. Vaughan. I don't -- I don't remember that amount specifically, and -- that went from the GS -- or that increased to the GS. You know, there was -- there was a lot of movements.

Q. Okay.

A. You know, you're asking for specifics of 300,000 for the GS. I just don't have that data.

Q. So is it -- do you know if GS had any of the KEDS funds assigned to it before the settlement?

A. Yes.

Q. They did?

A. Yes. The KEDS was across all classes. I mean, so when you say GS, remember, that's SGS and MGS as it's currently filed.

Q. Sure.

A. So, yes, they had funds that --

Q. And was that the --

A. -- were assigned to them.

Q. And that was the 15 cent, or how much was that per meter?

A. That was that -- well, no, that would have been filed at the 25 cent. We had asked to be

increased from 15 cents to 25 cents.
Q. Okay. So that was a 10-cent increase that you were proposing?
A. Yes.
Q. Okay.
A. And they would have -- they would have had that in the original filing.
Q. Okay. And they ended up having a dollar per meter in the --
A. Yes.
Q. Okay.
A. As of the settlement day, they went to a dollar.
Q. Okay. So the settlement increased -- I mean, when you said they went to it, it was -- they were told --
A. Yeah, so in the KEDS, it increased from the --
Q. Okay.
A. -- 25 cents to a dollar.
Q. And likewise, LGS and PS. And did the -- did the industrial customers get a ben -- well, let me -- let me -- so did the LGS class -- well, okay. I'm going to have to ask these questions, then, of Mr. Vaughan because you don't know that the 500,000

that was assigned to them -- okay.
And do you know that the smaller customers, their rates were reduced as part of the settlement?
A. Again, I think that's Mr. Vaughan.
Q. Okay.
A. And the total amount, to -- let's get it accurate on the record. He was the one that prepared all the papers and all the allocations.
Q. I'll do that.
CHAIRMAN SCHMITT: Mr. Cook, Mr. Chandler, cross.
MR. COOK: Yes, we do have some questions, Your Honor. I believe we'll have over a half hour's worth of questioning.
CHAIRMAN SCHMITT: Well, let's see -- let's do ten minutes and then we'll go to lunch, otherwise we may be here till 8:00 o'clock tonight, and I don't think anybody wants to do that.
MR. COOK: Thank you, Mr. Chairman.

CROSS-EXAMINATION

By Mr. Cook:
Q. Good afternoon Mr. Wohnhas.
A. Good afternoon.
Q. What is bad debt a function of?
A. Bad debt is, you know, a function of a

customer not paying their costs. You know, it's for an electric bill.

Q. Okay. Did the Company conduct a lead-lag study in this case?

A. We did not.

Q. Okay. How was cash working capital determined?

A. One-eighth O&M.

Q. One-eighth O&M?

A. Yeah, as we --

Q. Can we get a little background on what that is, the one-eighth study?

A. It's a common practice of -- you know, outside of using a lead-lag study, to, you know, look at your -- your total O&M and take one-eighth of it for cash working capital.

Q. Thank you.

A. It's a straightforward calculation.

Q. Are you familiar with Case 2017-00099 where -- this is the coal plus tariff case.

A. I am.

Q. Okay. Thank you. Was there a deferral accounting treatment requested in that case?

A. There was -- we did request, if there was at a time where we -- there was any incurred losses

that, yes, we could defer some of those costs.
Q. Okay. Did the order allow those deferrals?
A. It -- you know, we would have -- we could have set it up, but then it would be requested in another proceeding to get recovery.
Q. Okay. Does the continuation of those tariffs in the stipulation discuss that current accounting treatment?
A. In the settlement we don't expressly talk about that. To date, we are not -- we have not. There's three -- as was mentioned earlier, there is three coal companies that have taken advantage of the CS-IRP, but they're -- you know, because they have taken just the IRP and no other issues, there's been no accounting set up of any deferrals because of -- there's no need for it because the IRP is just a function of helping them with the credit and them being able to, at a point in time, when asked, to interrupt their service. So there's been nothing accounting-wise at this point in time under CS-IRP -- or the CS-Coal. I'm sorry.
Q. Okay. Are you requesting it?
A. Yeah. We're asking for it to continue, yes.
Q. Okay. And so you're expecting it?
A. Yes.

Q. Okay. Now, in the stipulation, the residential customer charge is proposed to be increased, correct, from the current amount?
A. From the current, yes. From $11 to $14. The settlement has it at 14, a reduction from the 17.50 as was submitted.
Q. Okay. In your rebuttal testimony you state that if the Rockport deferral is accepted, it would negatively affect the Company's credit ratings; isn't that correct?
A. Can you report -- can you -- where exactly you have --
Q. Yeah. Your rebuttal testimony, page 8, starting at line 11.
A. Yes.
Q. Okay. So you confirm that?
A. Yes.
Q. Okay.
A. That's what I state --
Q. And --
A. -- and describe later on.
Q. Thank you. And did you request any opinions from any credit rating agencies to that effect?
A. An opinion?
Q. Yes.

A. No.
Q. Okay.
A. It's a -- it's a -- just a function of -- you know, when we talk about, as I explained, that, you know, when you look at the idea of these metrics, the -- specifically on page 10 of my testimony, we talk about the cash to debt and so forth, and if those are going to be decreased, then you take the risk of those credit ratings being decreased. You know, it's -- so it's an additional risk.
Q. All right. Given that, then, why did you agree to the propose -- the stipulation proposal for the deferral, then, which, according to your testimony, will lower the Company's credit ratings?
A. Sure. And, you know, at the bottom of page 10 of my rebuttal testimony, you know, it says this means any deferral is not a good idea, and I say no, it's about how much.
And as everyone knows, you know, what KIUC initially requested was much higher than what we ended up settling at. And, again, as we look at everything that was in the settlement, the OATT costs, the Rockport, all those things we, being Kentucky Power, was also looking at our -- what we thought that it would reduce our credit ratings to,

what our earnings would go to.

And so in that picture of everything that gets affected by coming to this agreement, the whole package as a whole felt that -- though I say it's additional risk, there is. There is still additional risk of these credit ratings, but we felt it was risk that we could overcome if we are able to achieve some of the things that we expect, including the rate stay-out, economic development, that it was something we could overcome.

Q. Your rebuttal testimony at page 12, you state that well-recognized regulatory principles allow recovery of reasonable costs.

In light of the severe economic decline the service territory has experienced over the past several years, is it reasonable for Kentucky Power to continue to recover the full weighted average cost of capital on the carrying charges applicable to the Big Sandy Retirement Rider, now being called the decommissioning rider?

A. Absolutely. You know, again, these are costs -- first of all, you know, the cost of running Big Sandy Unit 1, Big Sandy Unit 2, those coal-fired units started in 1963, 1969, 50 plus years of service to the customers of Eastern Kentucky, and so those costs should be recovered, including with that cost should be the current value of -- again, in the last settlement, 2014-0396, agreed to take that, the decommissioning rider, and to spread that out over 25 years, again as a way to try to keep the costs down as much as possible for our customers.

But, you know, it's investment that the Company incurred and should get recovery, and it should be at whatever the current level of working capital -- of the WACC is set at. So, yes, I truly believe it's correct.

Q. What return on equity is applicable to the Big Sandy Retirement Rider?

A. Currently it's at 10.25, as was agreed to in the last settlement in 2014-00396. If -- is where it is today.

MR. COOK: Just one moment, Your Honor.

Q. If the Company was willing to agree to the Rockport deferral, which, according to your testimony, places credit ratings at risk, why is the Company not willing to reduce its --

MR. OVERSTREET: Your Honor, I'm going to object. He's misstating. The Rockport deferral was a $100 million deferral amortized over ten years. The settlement is something completely different.

If you want to distinguish them, then you can ask him the question, but it's misleading to conflate the two.

MR. COOK: I'm not sure I understand the nature of the objection. I was asking a question about the Rockport deferral, which is in the stipulation.

MR. OVERSTREET: Right. And my point is, Mr. Wohnhas' rebuttal testimony addressed Mr. Kollen's proposal, which is not in the settlement agreement --

MR. COOK: Well, I wasn't going to ask --

MR. OVERSTREET: -- and you're conflating the two.

MR. COOK: Well, I wasn't going to ask any questions about, you know, his rebuttal testimony. I'm now asking about the stipulation.

MR. OVERSTREET: That's right.

MR. COOK: And that's before the Commission.

MR. OVERSTREET: But you're conflating the two, Mr. Cook.

Your Honor, he's conflating the two. The issue --

MR. COOK: I'm sorry, I'm not.

MR. OVERSTREET: You are.

MR. COOK: It's relevant because it's before this Commission.

CHAIRMAN SCHMITT: I'll tell you what --

MR. OVERSTREET: I'm not objecting to whether it's relevant or not.

CHAIRMAN SCHMITT: We'll defer this for an hour and give Mr. Cook the opportunity to think about rephrasing the question.

MR. OVERSTREET: Thank you, Your Honor.

CHAIRMAN SCHMITT: And if there's some issue between the two, maybe you can discuss it then.

But before we leave, however, I would like counsel and the parties that are here who entered into the proposed settlement agreement to stay and step forward so that we can do our sworn testimony concerning the proposed settlement. All right?

And that would be -- I see that we have everybody here. I know Mr. Overstreet and Kentucky Power are here. Mr. Kurtz, Mr. Malone, Mr. Dutton.

MR. DUTTON: Mr. Dutton reporting for duty.

CHAIRMAN SCHMITT: I know Mr. Zielke is here, somewhere back there.

MR. ZIELKE: I'm here, Your Honor.

CHAIRMAN SCHMITT: Ms. Harris.

MS. HARRIS: I'm here.

CHAIRMAN SCHMITT: Mr. Malone. Okay. Are we here?

All right. Do you swear or affirm that the representations you are about to make are true and accurate to the best of your knowledge and belief?

ALL: Yes.

CHAIRMAN SCHMITT: Were you aware of and did you have an opportunity to participate in all of the negotiations that resulted in the settlement agreement?

ALL: Yes.

CHAIRMAN SCHMITT: Did you voluntarily sign the settlement agreement and do you fully support each and every provision contained therein?

ALL: Yes.

CHAIRMAN SCHMITT: Are there any provisions in the settlement agreement that you do not understand, object to, or take issue with?

ALL: No.

CHAIRMAN SCHMITT: Was any consideration of any kind offered or were any promises made other than what is expressly set forth in the settlement agreement to induce you to negotiate and sign the settlement agreement?

ALL: No.

CHAIRMAN SCHMITT: Are you aware of any reason why the Commission should not adopt and approve the settlement agreement in its entirety?

ALL: No.

CHAIRMAN SCHMITT: Thank you very much. Have a good lunch. See you in an hour.

(Recess from 1:01 p.m. to 1:58 p.m.)

CHAIRMAN SCHMITT: We are back on the record.

Ms. Harris, did you have something to bring to our attention?

MS. HARRIS: I do, Your Honor. At this point Wal-Mart --

COMMISSIONER MATHEWS: Microphone.

MS. HARRIS: At this point Wal-Mart would request that it be released from the reminder of the hearing. We would accept the record as it is.

CHAIRMAN SCHMITT: Certainly. You may have permission to leave.

Anyone else who represents a settling intervenor who would like to leave, please feel free to do so, if not now, at any time through the end of the proceeding.

Thank you very much.

MS. HARRIS: Thank you very much, Your Honor. I understand there is bad weather throughout the

South, so I am attempting to fly home this evening, so I appreciate --

CHAIRMAN SCHMITT: I appreciate you being here.

MS. HARRIS: Thank you so much, Your Honor.

CHAIRMAN SCHMITT: Okay. Mr. Wohnhas.

And I guess I better talk to Mr. Overstreet and Mr. Cook. Have you resolved this question issue?

MR. OVERSTREET: We have, Your Honor. We have.

MR. COOK: Yes, I believe so.

CHAIRMAN SCHMITT: Okay. Thank you.

MR. COOK: As a matter of fact, Mr. Chairman and Mr. Overstreet, I think we are going to skip that area of questioning and move on to something else.

Q. So with that, good afternoon again, Mr. Wohnhas.

A. Good afternoon, sir.

Q. And my question for you is: Did the Company request or receive any opinions from S&P or Moody's or any other credit rating agency regarding the proposed deferral found in the stipulation?

A. No.

Q. Okay. Thank you. And, yeah, if you'll hold on a second, my co-counsel will pass out some --

MR. CHANDLER: Mr. Chairman, may I approach?

CHAIRMAN SCHMITT: You may.

MR. CHANDLER: No, I don't think you can. I think we messed up hole, so --

THE WITNESS: Okay. That's all right.

MR. CHANDLER: -- the bottom hole is too small.

This is -- one of them will be -- I believe one of them will be.

CHAIRMAN SCHMITT: Thank you.

VICE-CHAIRMAN CICERO: Thank you.

Q. All right. And, sir, before I get to the -- those exhibits, just one question: Did Kentucky Power conduct any studies to determine if ratepayers can afford to continue paying the Big Sandy Retirement Rider reg asset based on the current level of carrying charges?

A. Well, as I think we have stated a number of times -- a number of times, you know, there was no formal study that's bindered that stated the recovery of that. It was presented before the Commission as being fair, just, and reasonable and approved.

Q. Okay. Thank you, sir. Now, you've been handed some exhibits, and if you could turn to tab 1 there, please. And I believe that should be a page from your rebuttal testimony at page 18; is that correct?
A. That is correct.
Q. All right. And lines 1 through 12 there, you take issue with disallowing some of the AEP corporate aviation costs that were charged or allocated to Kentucky Power during the test year, correct?
A. That is correct.
Q. All right. And the Company's response to Public Service Commission Staff's second data request, item 55, included a list of AEP corporate aviation costs which were charged or allocated to Kentucky Power, did it not?
A. It did.
Q. Thank you. And the attachment to that response, it was provided in a very small print, correct? Are you familiar with that one?
A. I am familiar. I have a copy of that --
Q. Okay.
A. -- response, and it is fairly small, yes.
Q. Thank you. Because of that, we're going to

put it up on the screen.
MR. COOK: And if my understanding is correct, Mr. Chairman, I believe when that is done that the witness will also have it on his screen, if that's correct.
CHAIRMAN SCHMITT: I think that's correct.
MR. COOK: Okay.
CHAIRMAN SCHMITT: Do you need assistance?
MR. CHANDLER: I'm -- Nancy has just gone back to speak to Mr. Rhodes, I believe.
MR. COOK: So we might need to take a moment here.
THE WITNESS: If I may ask, am I supposed to have a screen?
MR. CHANDLER: You will in a second. And -- oh, do you not have a screen?
THE WITNESS: No, sir.
MR. CHANDLER: Oh, I thought there was one up there. It'll be behind you.
THE WITNESS: Okay. I do have a copy of it if that -- you know, of that.
MR. CHANDLER: Okay.
Q. Do you have a magnifying glass?
CHAIRMAN SCHMITT: Pam, you have a screen.
A. No, but I got my glasses, so we'll work it

between that somehow.

CHAIRMAN SCHMITT: I'm asking if Mr. Wohnhas could see your screen.

COMMISSIONER MATHEWS: Supposed to just turn the red button and it should work.

MS. HUGHES: I don't think it'll be on the screen.

CHAIRMAN SCHMITT: Okay.

MR. CHANDLER: Turn off some lights. Pam, thank you.

MS. HUGHES: Is that not dark enough?

MR. CHANDLER: I think it was the third one down was the one we had talked about.

MS. HUGHES: That's the third one.

MR. CHANDLER: Okay. Perfect. I think it -- give it a second. Mr. Rhodes -- there we are.

MR. COOK: So we are pulling the document up. It should be accessible in just a few --

MR. KURTZ: Can I make a statement on the record? I'm very impressed by the AG's technical skills here.

MR. CHANDLER: I hope you -- we will zoom in on it, that's the purpose of it. It was too small to print and too small to show. Okay. I'm zooming in as best I can.

MR. COOK: And we are zooming in. As my co-counsel said, he is zooming in there. Okay. And then let's go to the very end where it shows the total.

COMMISSIONER MATHEWS: You can turn it back around toward you.

CHAIRMAN SCHMITT: That's okay.

COMMISSIONER MATHEWS: I actually can see up there better than I can see yours, so you can have yours back.

CHAIRMAN SCHMITT: Thank you.

Q. Okay. And, Mr. Wohnhas, are you able to see that behind you?

A. I am.

Q. Thank you, sir. And would you agree that the total amount there for the corporate aviation cost is roughly 6.613 million?

A. Yes, and that's -- I have the exact, but that's shows that amount there.

Q. Thank you. And of that total, the Company is requesting $400,750 of AEP corporate aviation expense to be charged to Kentucky Power ratepayers, correct?

A. Actually, I believe the amount is 388,355, as far as the O&M piece. There was --

Q. Okay.
A. -- 400,000, you're correct, we answered it in --
Q. All right.
A. -- number 153, but part of that went to account 107, which is CWIP and some other accounts, but the O&M piece was 388,355. So approximately six percent of that total 6.6 million was allocated to Kentucky Power.
Q. So what is the amount that you're requesting to be recovered from Kentucky Power ratepayers?
A. The 388,355.
Q. Okay. Thank you. Now, the listing in the attachment to PSC 255 lists the costs and the people that were on each flight as well as the date of the costs that were recorded; is that correct?
A. That is correct.
Q. Okay. The AEP corporate aviation is used extensively by the top AEP executives and the AEP board members; isn't that correct?
A. It is used by quite a few people. Clearly the executives use it probably the higher percentage of time, but it is used across quite a few different employees with AEP as well as the operating companies on occasion.

Q. Okay. And could you turn to the third tab of the handouts that were given to you? Let me know when you're there.
A. I'm just trying to keep all the papers in order. I am there.
Q. Thank you. Now, this is a listing including pictures and names of AEP officers and directors. It was obtained from AEP's website. Could you just review that and let us know if those are, in fact, the AEP officers and directors who have used the AEP corporate aviation?
A. All of these that you have listed here have used the corporate plane at some point in time, but it is not a complete list of those who have used the plane.
Q. Okay. Thank you. I understand. And so only a minimal amount of AEP corporate aviation cost is for flights directly involving Kentucky Power; isn't that correct?
A. Yes. And, you know -- and when -- for instance, if there would be those who would come down from Columbus to Kentucky Power to have a meeting specifically on an issue with Kentucky Power, all of those costs, based on allocation, would get directly assigned to Kentucky Power.

When -- and I think Mr. Satterwhite yesterday gave an example of going to Washington, D.C. with the CEO, Nick Akins. You know, those costs would get -- in talking to the EEI, would get allocated to -- the share, to Kentucky Power.

Q. If you can turn and look behind you, I think you'll see that we have bolded the references to Kentucky Power. And this one -- this one page is -- I believe that's page 8; isn't that correct? It's page 8. And then if we could -- I think the other ones identifying Kentucky Power are on page 6. We're going to scroll up to there, if you'll bear with us. Okay. There we go.

So subject to check, would you agree that the costs relating to Kentucky Power total approximately $53,502?

A. I assume what you're saying is, if you go through this list and pick up where it was specifically to Kentucky Power, that's where you came up with your 53,000?

Q. Correct.

A. I don't have -- you know, I have no way of checking those numbers. I would say this meeting here, the IRC meetings, these are meetings that we have once a year where we -- this group of folks that's listed there come down and we talk about what we're doing for the coming year from our -- it's a planning session. You know, that there would have been split between APCO and Kentucky Power, because they went to two locations at the same time, you know, so there would have been a split of those costs, but -- you know, so your 53,000, outside of possibly this here, could be altered some.

Q. So it could be even less than that $53,000 figure?

A. Yes.

Q. Okay.

A. And that's what I say, those are directly allocated or, in other words, 100 percent of that trip would go to Kentucky Power.

MR. COOK: Okay. Mr. Chairman, I believe at this time that's all we have for this witness.

VICE-CHAIRMAN CICERO: Okay. Before you're done, can you scroll across that page so that we can see all the people that attended, for example, the APCO and Kentucky Power, that were on that plane?

(Document displayed.)

VICE-CHAIRMAN CICERO: Thank you.

MR. COOK: You want to go to the next page that has the next grouping?

VICE-CHAIRMAN CICERO: No, that was a good -- good example.

MR. COOK: Good example?

VICE-CHAIRMAN CICERO: Thank you.

CHAIRMAN SCHMITT: Mr. Gardner, do you have any questions?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff?

Anybody else have any questions other than Staff?

Staff, do you have questions?

MS. VINSEL: Yes, I have some questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Wohnhas.

A. Good afternoon.

Q. How are you?

A. I am doing good. Thanks.

Q. What I'd like to start with is the Vegetation Management Plan, the balancing account that was approved in the last rate case in --

A. Yes.

Q. -- 2014-396. Mr. Phillips had some testimony on it, but it's been quite a while since that, so if you don't mind, I'd like to go through just a brief

bit of background on it.
A. Sure.
Q. In the last rate case the Commission approved Kentucky Power to spend a little over $110 million on -- in the aggregate on a vegetation management plan that was between July 1st, 2015, and June 30th, 2019.
A. That is correct.
Q. That's correct?
A. Uh-huh.
Q. If -- and I'm going to read a bit from the order here to make sure that I'm saying this correctly. If the annual shortfall or excess will be balance -- was balance -- is being balanced against the cumulative four-year amount, that $110 million, correct? If there is a shortfall, Kentucky Power was to record it as a regulatory liability?
A. Yes.
Q. And that that money would either be refunded to customers or used to reduce the revenue requirement in the next -- the then next base rate case, correct?
A. That's correct.
Q. And then if Kentucky Power had overspent that

cumulative amount, the 110 million, in that four-year period, it would not seek recovery?

A. That's the way it was written up, yes.

Q. Okay. So now here we are in this case. Does Kentucky Power believe that the requirement to spend that cumulative sum between 2015-2019 should continue?

A. No, I think it should be reset with when rates become effective for this case, based on what we presented as changes to that. I will tell you, just for informational purposes, so it was a four-year program through June 30th of 2016 -- I'm sorry. '17.

Q. Uh-huh.

A. 2017. We, on a cumulative two-year basis, were overspent a hundred and -- roughly $131,000. To date, through November, just keeping track of it, we're overspent $61,000. So -- and part of our -- you know, what we do in those, that report to Everett Phillips, you know, is we monitor this monthly. We are looking at how we're doing.

And, you know, we have up and downs based on the seasons, based on sending crews, vegetation crews to Texas, Florida, Maine, you know, wherever it needs to be, so -- but we monitor it monthly, and we really do try to keep it very close to the required amount, with the idea if it -- if we had gone for four years under this program that that amount would have been very small either way. But we currently are -- have spent more than the required amount.

Q. What is Kentucky Power's recommendation about that?

A. Our recommendation is that there is -- going forward, there is no balancing true-up in this current case. The only thing that, you know, we're asking for, as Mr. Phillips testified to yesterday or the day before, was the deviation, the request for a deviation be done on a total company ten percent basis so that we're able to shift crews, for efficiency and other reasons, versus ten percent at each district level.

Q. As you prepared for this, to testify, did you review the direct testimony of Witness Alex Vaughan before it was filed here?

A. Yes.

Q. Or did --

A. Yes.

Q. Have you reviewed Mr. Vaughan's testimony?

A. I have.

Q. Mr. -- in his direct testimony in regard to the Tariff NUG, Mr. Vaughan stated that there were no customers on that tariff. To the best of your knowledge, is that correct or incorrect?
A. That's still correct.
Q. That's still correct? There's no one who's currently on the Tariff NUG?
A. We have a -- just for transparency, we have a customer, Riverside, and I kind of forget what the rest of their -- but they're the gas facility that's just down from Big Sandy plant, that they, number one, requested to intervene in this case and was denied, and we've had subsequent conversations with them trying to resolve the issues around the use of the NUG and being -- and to this date we really have not come to an agreement.
Q. And in terms of the proposed changes to the tariff, do you know who recommended those, that language?
A. The changes to the -- to the NUG?
Q. Yes.
A. You know, I don't know who specifically. It was something we vetted, though, as a team when we went through all the tariffs. So I can't tell you who exactly came up with the wording to change, but

at the end of the day, you know, the whole regulatory team, and including up through Mr. Satterwhite, reviewed all the tariff changes and signed off as a group.

Q. And are you able to explain why the clarifying language was insert -- was made into the tariff?

A. Probably the best person -- and I'm not -- don't want to pass off, but he's right behind me, is Mr. Vaughan is very into that, into the NUG, and would give you a much better discussion on that.

Q. Okay. Can you explain -- or if you want to defer to Mr. Vaughan, I understand. Can you explain why start-up and station power to a non-utility generator is provided under your tariff at Kentucky Power's open access transmission rate as filed with FERC rather than being provided at a rate set by the Commission? Do you need me to repeat that?

A. I need you to ask that again, just --

Q. Okay. The start-up and station power to a non-utility generator, the rate is Kentucky Power's open access transmission rate as filed with FERC, correct?

A. I believe that's correct, yes.

Q. And can you explain why it is that rate

rather than a rate set by the Commission?
A. I'm going to ask you to ask Mr. Vaughan.
Q. Okay. I can do that.
MS. VINSEL: We have nothing further.
CHAIRMAN SCHMITT: Commissioner Cicero, questions.

EXAMINATION

By Vice-Chairman Cicero:
Q. Hi, Mr. Wohnhas. How are you today?
A. I'm fine, sir. How are you?
Q. Good. I think Ms. Vinsel asked you a question about bad debt and defining what it is.
A. Yes, sir.
Q. What is the process that Kentucky Power goes through to collect a receivable before it becomes defined as bad debt?
A. We have a group -- and we outsource some of it, but we have a credit group, and what happens when -- you know, we try with our local folks first to collect the debt, and when it gets to a certain point, then we deliver that to this -- to our credit department, who then, for the most part, outsources most of that for them to go out and try to collect that, that bad debt. And so they're successful to some degree and, of course, if that -- if they're

successful, we reduce those costs as they come in. And then, you know, if they're not, after a period of time, then those amounts are written off.

At a high level, that's the process.

Q. So what is that time frame between when it's determined to be a doubtful account to when it's written off?

A. So at each step, as I described -- so we normally spend up to six months locally trying to get those collected, through our -- you know, sometimes that's done through a disconnect on a home, to try to encourage them -- you know, after going out with other tries, we may have to disconnect that. They may pay part of it, we may agree to a payment plan or such.

But, you know, there's normally about a six-month period of time that we're trying to collect, even after it's been finaled out due to disconnect or whatever, to try to collect it.

Then when it goes to the credit department and they outsource that, I believe the time frame is somewhere between six months to a year that we continue to try. We allow, I think it's six months, another six months that the group tries to use their persuasive ways to collect that debt.

Q. And is it written off prior to going to the outside collection or is it written off after the outside collection service has had six months?
A. I'd have to check for certain. I believe it's when we send it to them, because then when it's collected, we offset it.
Q. That was going to be my next question. If it's written off prior to going to an outside service, then I am presuming they're receiving 30 or 40 percent of the collected amount and the balance comes back to the Company?
A. Yes. I don't know what the percentage is, but in general that is correct, and then we would offset whatever was collected against the total bad debt; yes, sir.
Q. Let's go to the aviation allocation, because that seems to be a popular question with everybody.
A. Okay.
Q. Is there a process that AEP or a subsidiary must go through in order to be able to use a corporate jet? In other words, is there a cost justification or a comparison to commercial cost flights, or what -- what's the process?
A. I don't know for sure. I know that for someone to use the corporate jet that they do have

to go to the group in Columbus, the aviation group, and say, you know, "I need to request this to do -- to fly X," or whatever.

What I can't answer right now is whether or not, as part of that approval to use it, has any cost comparison or cost justification against commercial airlines. I don't know that.

Q. So who within Kentucky Power would answer that, or is that a post-hearing request?

A. Yeah, it would have to be. It would definitely have to be a post-hearing. To know if there is, we'd have to check with aviation.

Q. Okay. You indicated that there's three planes that are leased; is that correct?

A. Yes, sir.

Q. Are they leased on a committed 100 percent basis to AEP or if they are shared with other companies or how does the program work?

A. These three are leased 100 percent to AEP. We have access, if there was ever some reason, if -- let's say, as you noticed on that report -- or, well, it's pretty small, but there's times that it's taken out for maintenance, and you'll see there's a cost for the maintenance and it comes back on.

You know, if, you know, one was down for maintenance or whatever and we needed to use a jet, we do have access to some other type of jet service that would not be part of, you know, our leased fleet.

Q. And so how many crews are assigned to those three planes?

A. I don't know the number of crews. There are some, but I don't know what the number is.

Q. Are they AEP employees or are they part of the lease?

A. No, they're AEP employees.

Q. They are AEP employees. All right. I'd like to know as a post-hearing how many crews are assigned to those and the associated employment costs.

Lastly, on the crews that, whatever utility, usually travel around to help with storm damage, how are those charged to affiliates? Is that on a cost-plus basis or is there some standard rate within AEP that --

A. Could you ask -- I missed the first part of your question. I'm sorry.

Q. You talked about crews going to Florida, Maine, Texas.

A. Yes. I'm sorry.

Q. Typical crews that assist when there's heavy storm damage and they -- they travel to assist in the repairs. How are those costs charged through the AEP system?
A. Pardon me. So -- lunch came back. I'm sorry.
Q. I hope it was good.
A. It was. Better the first time.
So when -- so just for example, when we went down to Florida, all right, that's -- you know, that's off our system. We don't -- have no affiliate or whatever with -- in Florida, so those costs as part of going down there would -- we would bill, just for example, Florida Power & Light, and then they would reimburse us for all of our costs of going down there and coming back.
When we went to Texas, all right, we went down and we were with one of our affiliate companies, and so that was where all of our work was done. We will also -- we have inter company billings, and we would, same thing, just bill them at cost for our -- for the services, and then the Texas affiliate would reimburse Kentucky Power.
Q. So it's at cost-plus or some --
A. Just --

Q. Or just cost?
A. It's at cost for -- for our affiliates, it's just at cost.
Q. And for a nonaffiliate?
A. I could -- I could check, but I think it's just at -- you know, at cost as well. You know, it's a service that -- you know, as you know, sometimes we need that help when we have storm damage, and so I believe it's just at cost.
VICE-CHAIRMAN CICERO: I don't have any other questions.
CHAIRMAN SCHMITT: Commissioner Mathews, questions.
COMMISSIONER MATHEWS: I have none.
CHAIRMAN SCHMITT: Any redirect?
MR. OVERSTREET: Just very briefly, Your Honor.

REDIRECT EXAMINATION

By Mr. Overstreet:
Q. Mr. Wohnhas, I think it was Mr. Cook who was asking you about the use of the one-eighth O&M calculation for working capital.
A. Yes.
Q. Is that a new proposal in this rate case?
A. No, we've used the one-eighth O&M at least

back through the rate cases since 2005.
Q. Okay. And the Commission has always accepted that?
A. Yes.
Q. Okay. And then I want you to turn, please, to your rebuttal testimony. And it starts on R 7, it's V, Deferral of Rockport UPA Expenses, and then continues over to the bottom of R 10. And just let me know when you have that in front of you.
A. I have that.
Q. Okay. And is what Mr. Kollen proposed in his testimony, is that the same Rockport deferral that's embodied in the settlement agreement?
A. It is not.
Q. And how does it differ from what's in the settlement agreement?
A. It differs basically by the amount of the deferral.
Q. And what is that --
A. And --
Q. I'm sorry.
A. Okay. The amount in the -- excuse me -- in the settlement agreement is $50 million.
Q. Uh-huh.
A. And the other, probably, noticeable

difference is in Mr. Kollen's testimony he was referring strictly to Rockport Unit 2, and so the -- the request for deferral as in the settlement agreement talks about Rockport UA -- UPA costs in total.

Q. Okay. Well, let me -- let me ask you a couple other questions, then. So what was the amount that Mr. Kollen recommended for deferral?

A. I believe it was roughly $100 million.

Q. Okay. So -- and then the settlement is --

A. 50 million.

Q. So that would be one half?

A. One half, yes.

Q. And do you remember how Mr. Kollen's deferral was structured in terms of yearly amounts that were -- that would be deferred?

A. I believe it was, over five years, 20 million each year.

Q. Okay. And in the settlement agreement what are the annual amounts?

A. The amounts are -- make sure I get it right. We've had a lot of numbers. In the first year it would be $15 million, second year 15 million, then it would go to 10 million in the third year, and then the fourth and fifth year it would go to 5

million.
Q. Okay.
A. And so those -- for the first we have 15 million in base rates, and then the -- when we drop to 10 million deferral in 2020, then the difference between the 15 to 10, or 5 million, would be recovered through Tariff PPA.
Q. So in the first year of Mr. Kollen's deferral, the difference between the amount he recommended be deferred, the 20 million, and then the amount that the settlement agreement provides for is what?
A. 5 million.
Q. And is that the same in the second year?
A. Yes.
Q. What is the difference in the third year?
A. It would be 10 million. It's -- 'cause his was a flat 20 and we dropped to 10 million.
Q. Okay. And then in the fourth year?
A. It would be 20 million. Or 15 million.
Q. Okay.
A. I'm sorry.
Q. And would that be the same in the fifth year?
A. Yes.
Q. Okay. Now, do you remember what period of

time Mr. Kollen recommended that that deferral be amortized over?
A. I believe it was ten years.
Q. Okay. And then what does the settlement agreement provide for in terms of the amortization period?
A. Five years.
Q. Okay. And then so from -- under Mr. Kollen's deferral, from the beginning of the deferral until the amortization was complete, what would -- what period of time would that be?
A. Approximately 2032.
Q. No. I'm sorry. I wasn't asking for the dates.
A. I'm sorry.
Q. Just what period of time, how many years?
A. Ten years.
Q. No.
A. Okay.
Q. So Mr. --
A. I'm sorry.
Q. Mr. Kollen would have the -- have the Company defer for what -- how many years?
A. Five years.
Q. And then the amortization period under Mr.

Kollen's?
A. Would be ten years.
Q. And what's the --
A. I'm sorry. Five plus 10 is 15.
Q. Okay.
A. Sorry.
Q. And then in terms of the settlement agreement, what is that like period?
A. It's ten years. Five years and five years.
Q. Okay. And then in your rebuttal testimony you expressed some concerns about the effect Mr. Kollen's deferral could have on the Company's credit metrics. Do you remember that?
A. I do.
Q. Okay. Do you have those same concerns about the settlement deferral?
A. No, because, you know, again, you look at it in total, and if you look at this total package, all right, the Company is able to recover 80 percent of the OATT cost, so that's a very -- that's a positive when we talk about this whole package. So it definitely reduces the risk, so I don't have the same concerns.
Q. Okay. Let's put aside the OATT, but that is an important point. Does the fact that the total

deferral amount is a lesser amount, does the fact that there's a step-down over the five-year deferral period of the amount that's being deferred, and does the fact that the regulatory asset would be amortized over one half of the time provided for by Mr. Kollen's deferral, does that, standing alone, address your credit metrics concerns?

A. Yes, it does.

Q. Okay. Now, would you look at the last Q and A at the bottom of page 10 of your -- I'm sorry. Of your rebuttal testimony.

A. All right. Let me get back there.

Q. Sure.

A. I'm there.

Q. Okay. And I'm not going to ask you to read the question and answer, but what the question asked you is, is a deferral always without merit, right?

A. Yes.

Q. And do the types of changes that were made in Mr. Kollen's proposal concerning the Rockport deferral, are those the types of things that you were talking about in those responses?

A. Yes.

MR. OVERSTREET: Okay. That's all I have, Your Honor.

CHAIRMAN SCHMITT: Any other questions of this witness? If not --

MS. VINSEL: I have -- oh.

CHAIRMAN SCHMITT: You have some?

MR. CHANDLER: I think Mr. Cook does as well.

CHAIRMAN SCHMITT: Mr. Cook.

MR. COOK: We do have a little bit, just a few questions, Your Honor.

RECROSS-EXAMINATION

By Mr. Cook:

Q. Mr. Wohnhas, your earlier -- your rebuttal pages 7, I believe through 10, correct? Oh, okay. I'm sorry. It's not a reference to your rebuttal. I beg your pardon.

Let me just ask you: Did Mr. Kollen propose for the Company to earn its authorized ROE for the year after the Rockport UPA expires?

A. In Mr. Kollen's original testimony? Is that your question?

Q. Yes.

A. No, he did not.

Q. Okay. Does the stipulation provide for that by means of the credit and offset?

A. Yes, there is a provision in there that was proposed as part of the total package for that first year only, after the -- assuming the Rockport does not continue, that there be a provision for that year, due to the uncertainty of where -- how the costs are affected, to have -- to earn at whatever return is approved by the Commission.

Q. Does the deescalating amount of the deferral amounts increase retail rates in years three and four of the deferral?

A. Yes. I mean, it's through the -- because you have a -- as I said, a $15 million in base rates, and then as that reduces, in order to earn where we were at, those numbers get recovered through the PPA.

MR. COOK: That's all the questions, Mr. Chairman.

CHAIRMAN SCHMITT: Ms. Vinsel, questions.

MS. VINSEL: Yes, thank you.

RECROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon again.

A. Again.

Q. Let's go back to Riverside. And it's Riverside Generating Company, LLC.

A. I knew the name, but it went blank.

Q. I can understand. As you have indicated, Riverside filed a motion to intervene in this case, which was denied, and at that time Riverside referenced being served by Tariff NUG or having a dispute with Kentucky Power. We don't need to go down that road. But on December 6th Riverside filed a public comment into the case record. Have you read that public comment?

A. I have.

Q. So I'm going to read to you just one sentence from this. (Reading) Riverside is also a customer of Kentucky Power historically and presently receiving station power service under the utility's, Kentucky Power's, Retail Tariff NUG, Non-Utility Generator.

A. So --

Q. So is it your testimony that Riverside is not receiving station power service?

A. No. No, I misspoke. I believe they are a --

Q. Okay.

A. -- current, but they -- and Mr. Vaughan can clarify what some of the issues are with it, and I apologize for that.

Q. No, that's what -- I just wanted to make sure we got it clear.

A. Yeah.

Q. Okay. Thank you.

MS. VINSEL: I have no further --

CHAIRMAN SCHMITT: Anything further?

MS. VINSEL: Nothing further.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: Nothing.

CHAIRMAN SCHMITT: Commissioner Mathews.

COMMISSIONER MATHEWS: No.

CHAIRMAN SCHMITT: Anyone else?

MR. OVERSTREET: Your Honor, I apologize, I overlooked a question on my list.

CHAIRMAN SCHMITT: Oh, that's fine. No problem.

REDIRECT EXAMINATION

By Mr. Overstreet:

Q. Mr. Wohnhas, through the good efforts of Staff and the Commissioners, we now have the complete -- or the annual reports have been admitted into evidence, and I think that was AG 4. Do you remember that?

A. Yes, definitely.

Q. Okay. And on those reports you were asked about the number of customers, the amount of the Company's sales, kWh sold, that type of thing. Do you remember that? Or it was you or another Company

witness was asked.
A. I do remember discussions, yes.
Q. Okay. So let's take the year 2016. What was the Company's ROE that year?
A. It was -- I don't have it. Six -- six point something, I believe. I don't have it exactly.
Q. And do you remember what the Company's ROE was in 2015?
A. Yeah, 4.21.
Q. Okay. And what about 2014?
A. 5.13.
MR. OVERSTREET: Okay. That's all I have, Your Honor.
CHAIRMAN SCHMITT: Any other questions of this witness?
MS. VINSEL: No, nothing further.
CHAIRMAN SCHMITT: May Mr. Wohnhas be excused?
MS. VINSEL: Yes, he may be.
MR. COOK: Mr. Chairman.
CHAIRMAN SCHMITT: Oh, I'm sorry. I keep missing you, Mr. Cook.
MR. COOK: That's quite all right, Your Honor.
If I can just move to admit, I believe tab 3

I'd like to move into evidence as the Attorney General 's next in order .

MR . OVERSTREET : That was the aviation ?

MR . CHANDLER : That was actually the --

MR . OVERSTREET : Oh, yeah .

MR . CHANDLER : -- from the website . I think everything else that was referred to was in the record .

MR . OVERSTREET : Okay . No objection .

CHAIRMAN SCHMITT : Any objection ?

MR . OVERSTREET : No objection .

CHAIRMAN SCHMITT : Let it be admitted .

MR . CHANDLER : Do you know what number ?

MS . HUGHES : Six .

MR . CHANDLER : Six ?

MS . HUGHES : Six , I think .

MR . CHANDLER : Oh, I think we're on 11 or 12 .

MS . GLASS : I think it's 11 .

MR . CHANDLER : I think it's 11 .

(AG Exhibit 11 admitted .)

CHAIRMAN SCHMITT : Any other questions ? Until somebody says something , run .

MR . WOHNHAS : Thank you , sir .

CHAIRMAN SCHMITT : You're excused , Mr . Wohnhas .

MR. WOHNHAS: Thank you.
MS. HUGHES: 11. It's 11.
MR. CHANDLER: 11? Okay. Thank you.
MR. OVERSTREET: Your Honor, Kentucky Power now presents its -- what I think is its last witness, Alex Vaughan.
CHAIRMAN SCHMITT: Thank you.
MR. OVERSTREET: And Mr. Gish will present him.
COMMISSIONER MATHEWS: He's going to answer all the questions, right? All the questions.
MR. OVERSTREET: He is the answer man.
COMMISSIONER MATHEWS: He's the last one.
MR. OVERSTREET: He is the answer man.
COMMISSIONER MATHEWS: He has no one to punt to.
MR. OVERSTREET: Is he here?
MR. GISH: Yes.
CHAIRMAN SCHMITT: Mr. Vaughan is supposed to know everything everybody else doesn't.
MR. VAUGHAN: I escaped during redirect.
MR. OVERSTREET: And he does.
CHAIRMAN SCHMITT: Mr. Vaughan also has some information about what size customers would be using kW 100 or above?

MR. VAUGHN: I do.

CHAIRMAN SCHMITT: Just generally.

MR. VAUGHN: Yes, I've got it.

CHAIRMAN SCHMITT: All right. Please raise your right hand. Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. VAUGHAN: Yes, sir.

CHAIRMAN SCHMITT: Please be seated.

MR. VAUGHAN: Thank you.

CHAIRMAN SCHMITT: Counsel, you may ask.

MR. GISH: Thank you, Mr. Chairman.

ALEX E. VAUGHAN, called by Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Gish:

Q. Mr. Vaughan, good afternoon.

A. Good afternoon.

Q. Can you please state your full name, title, and business address for the record, please?

A. It is Alex E. Vaughan. I am the Manager of Regulated Pricing and Analysis. I'm employed by American Electric Power Service Corporation at 1

Riverside Plaza in Columbus, Ohio.
Q. And did you file in this case direct testimony, supplemental testimony, rebuttal testimony, testimony in support of the settlement agreement --
A. Uh-huh.
Q. -- did you adopt certain portions of the testimony and data response requests of Mr. Rogness, and did you provide responses to data requests?
A. Yes, sir.
Q. And do you have any updates or corrections to those, any of those?
A. Yes. Let's start with my direct testimony. I have two, two numbers to correct that were actually corrected in KIUC 1-67 discovery response. I would just like to make sure my testimony is clear of that. So the two references to the test year PJM OATT amounts, the first being on page 29 at line 11. The 74,377,364 should read 74,038,517.
And then there is -- the same change needs to be made on page 45 at line 19.
Q. Thank you, Mr. Vaughan.
A. I have one more. Then my settlement testimony, Exhibit 3 to that, the summary page to that exhibit was correct; however, there was a

commercial -- commercial weather normalization adjustment that was agreed to in the settlement that didn't flow through to the individual tariff pages, so I have -- I have 20 copies of that here to have someone hand around.

But essentially what that does is the -- on the summary page, the first page of AEV-3S, the Total Adjusted Current Base Revenue column, the amounts for SGS metered, MGS secondary, MGS primary, and MGS sub, they were all correct on the summary page, but the individual tariff sheets for them within AEV-3S did not have their portion of the commercial weather adjustment that was agreed to in the settlement. This version now shows that.

Q. So with those corrections, if I were to ask you the same questions that are included in your various testimonies and data request responses today, would you give the same responses?

A. Yes, sir.

MR. GISH: Mr. Chairman, the witness is available for cross-examination.

CHAIRMAN SCHMITT: Mr. Kurtz, questions.

MR. KURTZ: Mr. Chairman, do you want to get your questions answered about the hundred-kW-size customers?

CHAIRMAN SCHMITT: Well, yeah, sure.

EXAMINATION

By Chairman Schmitt:

Q. What about -- Mr. Gardner and I have --

A. Yeah.

Q. -- have asked about the size, the relative size or economic activity one would expect to see from a customer who used 100 kW, 100, 200, 300 kW. What size businesses or schools --

A. Yes.

Q. -- would we be talking about?

A. So within that total LGS family, that tariff, that -- you know, we have the separate schools tariff, but I kind of -- I still consider them within that class because they are between 100 and 1,000 kWs. You have a hundred and, I believe, sixty-one school accounts, then we had -- just generally speaking, the largest -- those making up the largest -- the largest amount of customers in that class, we had eating and drinking establishments were 64; health services were 58; educational services, we mentioned those; coal mining, 51 accounts; food source, 50; local government, 41; electric, general service, sanitary services, 39; real estate, 28; general merchandise

stores, 22. Things like that. Banks, depository institutions, 17. Various retail organizations, 17. Lumber and wood products at 14. Gas stations, 13. And communications, 12. And there's a litany of much smaller --
Q. How many -- how many schools? I'm sorry, I missed that.
A. There's 161 school accounts.
Q. But I noticed in the -- in the proposed settlement agreement, it applied to schools with a demand of 100 kilowatts or above, so I --
A. Yes.
Q. -- assume that there are schools that would not fall within that category, and I was just trying to come to some understanding about what size schools that would be that would -- might not --
A. Yeah.
Q. -- quite make the cutoff.
A. So speaking with KSB Witness Willhite --
Q. Yeah.
A. -- you can ask him about this as well, we discussed that all of the schools are on the K-through-12 tariff. However, they have a lot of ancillary accounts: rec lighting, you know, for fields, athletic fields; barns; modular classrooms

that aren't connected to the main account, that may have a separate hookup that fall into the general service. There's quite -- there are several hundred accounts in the general service, because --
Q. Would they have --
A. -- they have separate meters.
Q. Would you expect a school that was in the K-12 class to also have an account that was in LGS?
A. So the K-12 is essentially the same thing as LGS.
Q. Well, I'm -- here, the --
A. No, they're --
Q. -- all the --
A. -- they're not also in LGS.
Q. The reason for these questions is, is that --
A. Yeah.
Q. -- I thought that there was some sort of subsidy, that LGS customers to some extent, maybe to the extent of $500,000 or something, were subsidizing the schools in the K-12 class.
A. So you can call it a subsidy, but it's harder to describe than that, because the way -- the way I made the rates are -- to follow the settlement agreement is we combined the total revenue requirement for public school -- the K-through-12

class. Well, it's all one class. K through 12 and the LGS, put that together, made what the average rate was for all of the customers, and then I made another rate that would produce $500,000 less revenue for the schools.

And because the schools have an average lower load factor than the rest of the LGS population, their average -- even with that $500,000 discount from the normal LGS rate, their average increase is a little higher just because of the way the rates shake out with the load profiles.

So, like, I think Mr. Satterwhite indicated earlier the average -- the average LGS impact is, all-in, 5.17 percent, and the average school in that same LGS size category is -- their all-in impact is 6.45 percent, even with the $500,000 rate difference.

Q. Why did -- was it that Kentucky Power in its application recommended eliminating the K-12 rate class?

A. In the last settlement agreement we had committed to -- in the last case, the 2014-0396 case, we only had, I think, two school accounts in our load research sample where we actually had full interval meters on them where we could get a look at their actual load shape through the peaks, and which is what we rely on for cost allocation in the class cost-of-service study.

So KSBA made the argument in the last rate case that the schools have better load profile, they should -- they're actually cheaper to serve than the rest of the LGS population, and in the settlement we ended up including a -- the $500,000 rate differential for them.

Also, part of that settlement was that we would -- Kentucky Power would put interval meters on more of the school accounts, and -- but when we came back in for our next rate case, we would evaluate schools separately and see if that discount was justified.

So my proposal was simply following the settlement agreement in the last rate case. We evaluated them as if they were a separate class, and it turned out that the class, on average, had a little lower load profile. And the way Kentucky Power's costs are allocated in our class cost-of-service study, they actually got a little more cost allocated to them than the -- than they would have if they were within the LGS class.

And there are some nuances there because their load -- their load isn't as high in the summertime, obviously. Their -- they may -- they may still have some services going on, you know, and they have the rec fields going and what not, but they're very coincident to our winter peaks, right?

The kids are in school January-February mornings. All our schools are basically electric heating. So they have their highest -- their highest peaks during the Company's winter peak. So they are very, very coincident to those, and that was reflected in the cost study.

So basically what I presented in my direct testimony was: Here is the way it shakes out in the cost study. And I believe I can say this, that, you know, if the Commission -- here's how it is, here's how we're going to propose it. It's not wrong if the Commission continues it, it's just, on a cost causation standpoint, we're going -- we're going to argue that they should be folded back in and just pay the normal LGS rate.

Q. Well, and your position is, if they get the benefit of the K-12 rate that they want, there's a revenue shortfall that has to be made up by somebody else, by other ratepayers?

A. No, sir; there's -- we did this in rate design, so there was no -- there was no revenue shortfall. We just moved money between nonschool LGS customers and the L -- and the school LGS customers. There -- it didn't create a shortfall to other customers outside that rate class or picking up.

And like I said, even with that, that nuance, that $500,000 rate credit for the schools, the rest of the LGS customers are still getting almost one and a half percent less of an increase.

Q. Okay. Thank you.

A. Yeah.

CHAIRMAN SCHMITT: Mr. Kurtz.

MR. KURTZ: Oh, thank you. Thank you.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Okay. Good afternoon, Mr. Vaughan.

A. Good afternoon.

Q. You are aware that Mr. Baron, the KIUC witness, argued in his testimony that IGS, rate IGS, industrial general service, should be served at full cost of service, correct?

A. Yes, sir. Yeah.

Q. Okay. And Mr. Gardner's witness, Mr. Higgins, made the exact same argument in his direct

testimony , correct ?
A. Yes , sir .
Q. Okay . And the settlement agreement incorporated the proposal of both experts that the subsidy from IGS be eliminated ?
A. That 's correct .
Q. Okay . And Mr. Satterwhite supports that based upon economic development principles ? Is that your understanding ?
A. Yes , sir .
Q. Okay . The subsidy in the test year was approximately $6 million ?
A. That 's correct .
Q. And IGS had 158 million of test year revenue ?
A. Yes , sir .
Q. So the subsidy was about 3.8 percent ?
A. Sounds correct .
Q. Okay . And so that was incorporated into the settlement and into the rates that you've designed and so forth ?
A. Yes , sir ; we've eliminated that subsidy .
Q. Okay . Are you aware of any other states that are implementing a policy of eliminating industrial subsidies ?
A. Yes . I do work for the Company 's affiliates

in Virginia and West Virginia, and right now they're -- this is the big topic of discussion in West Virginia, in front of the legislature, the -- you know, they are looking around at their job-creation opportunities, and they want to eliminate all subsidies.

One proposal is to eliminate all subsidies for industrial customers in the electric rates to help their economic development interests and bring new industrial loads to the -- to their service territory, to their state, so --

Q. And, of course, Kentucky competes for jobs with those other states, correct?

A. It's right across the river; yes, sir.

Q. The settlement agreement also reduces subsidies for the municipal water works and the outdoor lighting and street lighting classes?

A. It reduces subsidies for all the classes, but yes.

Q. Do they get -- do they get more than five percent subsidy reduction?

A. Yeah. The way -- the way the revenue allocation shook out is the municipal water works and the lighting, the two lighting classes, received over ten percent subsidy reduction. Like municipal water works was closer to 15.

Q. Okay. What about subsidy reduction for rate general service?

A. General service was about three percent.

Q. What about LGS/public schools?

A. Five percent.

Q. Okay. I'd like to just hand you what's in the record. This is the Settlement Exhibit Number 1 that everybody's used to seeing. I just marked it up a little bit for ease of reference.

A. Thank you.

Q. Okay. So at the bottom, at the bottom in the left, I just drew a box around GS is the combination of Small General Service and MGS. Do you see that?

A. Yes.

Q. So really what I did is I scratched out SGS and MGS because you've got them on a combined basis in GS?

A. That's right.

Q. Okay. So it makes it a little bit easier. Will you look at the box on the left under the Total Bill Percent Rate Increases. Do you see that?

A. Total bill. Okay.

Q. Okay. So GS, general service, the combination of SGS and MGS, gets basically the

system average increase, 6.22 percent?
A. That's correct.
Q. Okay. Versus 6.16 percent. Okay. And the LGS/public schools gets a below-average increase, correct? They get 5.4 versus 6.16?
A. That's correct.
Q. And you've testified a couple times that within that group the LGS does better than the public schools?
A. That's correct.
Q. Okay. What was the LGS increase that you had?
A. 5.17.
Q. Is that on the total bill or is that just --
A. That's the total bill.
Q. Okay.
A. Yes.
Q. 5.17. And the public schools, even with the 500,000 issue, get what percentage increase?
A. 6.45.
Q. Okay. A little bit over system average?
A. Yes.
Q. Then if you look in the bottom four rate schedules, IGS, Municipal Water Works, Outdoor Lighting, Street Lighting, they are all grouped

around 2.5 to 2.7 percent increase?
A. That's right.
Q. Okay. So let's go to the far right-hand side, the Non-Fuel Base Revenue Increase. Do you see that?
A. Yes.
Q. Fuel -- we haven't used the word "fuel" in this hearing, I don't even think once, really. Fuel is not an issue in this base rate case, is it?
A. Not to my knowledge.
Q. You don't make any profit off of fuel?
A. No, sir. Dollar for dollar.
Q. And fuel is chewed up in the fuel adjustment clause every month?
A. Yes.
Q. Okay. So if you look at the rate increase on the non-fuel, take out fuel basis, the GS and the LGS/public schools are basically about the same, 8.68, 8.61?
A. Yep.
Q. Is that right?
A. That's correct.
Q. Okay. And when you look at it without fuel, IGS actually does a lot worse than the other -- than municipal water works, outdoor lighting, street

lighting ?
A. Yes .
Q. Okay .
A. They pay a lot of fixed costs due to the high load factor of the class .
Q. So if you look at it on a non-fuel basis , the IGS -- you know , it's the settlement increase and it's what everybody agreed to and so forth , but it isn't quite as -- it isn't as good as sort of advertised when you look at it without fuel ?
A. Yeah , the increase gets watered down in that total bill because of they're a high load factor . They have a lot of kilowatt -- billing units and kilowatt hours , they pay a lot of fuel , absolutely .
Q. Okay . Let's go to the middle . Proposed ROR, rate of return .
A. Yes .
Q. Okay . The system average rate of return under the settlement rates is 6.48 percent ?
A. That's correct .
Q. Okay . The IGS , under the new rates , is going to be paying above average rate of return . It's going to be 7.71 ?
A. Yes .
Q. So even with the hundred percent subsidy

reduction up front, there's still a subsidy, there still will be a subsidy built into the IGS rates?
A. Essentially the way -- that's the way the class study works, yes, it still pays.
Q. I was surprised. I would have thought it was system average.
A. Yeah.
Q. But -- so IGS still will be subsidizing the residential customers under the settlement agreement?
A. That's correct when you use the class cost-of-service study as the measure, because as you change -- as you change things to the settlement, it recalculates, you get changes to rate-based allocations and all that. But yes, that's -- that is what the settlement shows.
Q. Okay.
A. You're correct.
Q. And when I looked at this and I calculated it, IGS is still going to be paying 19 percent above the average return, so that's the amount of subsidy?
A. Yeah.
Q. Okay. And under the settlement the residential class is still going to be heavily subsidized, because their return is only 3.77

percent versus the average of 6.48, correct?
A. That's correct. We only -- we only reduced their subsidy by five percent, even in the -- even in the settlement.
Q. Is that what it was?
A. Yes.
Q. Five percent --
A. Five percent.
Q. -- subsidy reduction?
A. Uh-huh. From the current -- from what we had originally filed, yes.
Q. So it's five percent more than what you --
A. No. It was -- we originally filed five percent, that's what the settlement achieved as well.
Q. So the residential subsidy is only reduced by five percent?
A. Yes.
Q. Okay. There was testimony in this case early on that the residential subsidy, I think it was Mr. Gardner's witness, should be reduced by 50 percent.
A. I think there was a 50. I think there was a 22. I've got if summarized in my rebuttal testimony somewhere, yeah.
Q. I think somebody proposed a residential rate

increase of 22 percent.
A. Yeah, that sounds right.
Q. So the settlement is a lot better than that proposal?
A. Correct. All in -- all in total bill, it's a nine percent increase for the residential class.
Q. Okay. Did reducing the KEDS charge on residentials help them, in terms of subsidy-reduction-type questions?
A. I don't -- I don't believe so. Those -- I know so, because those revenues were removed from our class cost-of-service study. It's outside of base rates, that surcharge, as well as the HEAP --
Q. Okay. So it helped --
A. -- don't factor in.
Q. It helped them pay a lower bill, but it didn't affect the subsidy?
A. That's correct.
MR. KURTZ: Okay. Mr. Chairman, that's it.
CHAIRMAN SCHMITT: Counsel for any other settling intervenor would like to cross-examine the witness.
MR. DUTTON: I would, Your Honor, if I may.
CHAIRMAN SCHMITT: All right.
* * *

CROSS-EXAMINATION

By Mr. Dutton:

Q. Just a couple of quick questions. Looking at the same sheet. So if you look at the column here that says Current Rate of Return, am I correct that municipal water, outside lighting, and street lighting are currently the three highest rates of return for Kentucky Power?

A. That's correct.

Q. Okay. And after this settlement, isn't it accurate to state that those three classes, despite the fact that they are getting lower than average revenue -- excuse me, rate increases, that after the rate increases they will still remain the three highest rates of return for Kentucky Power?

A. That's correct. That's a product of the 12 CP cost allocation in the class study, yes.

Q. Okay. And so essentially they will be subsidizing the other classes, both currently and under the settlement; is that correct?

A. That's correct.

MR. DUTTON: That's all I have. Thank you.

CHAIRMAN SCHMITT: Mr. Cook, Mr. Chandler, questions.

MR. COOK: We do have some questions, but we've agreed to let KCUC --

CHAIRMAN SCHMITT: You're deferring to Mr. Osterloh. All right. Then you -- Mr. Osterloh.

MR. OSTERLOH: Thanks to the Attorney General. Thank you, Mr. Chairman.

CROSS-EXAMINATION

By Mr. Osterloh:

Q. Good afternoon, Mr. Vaughan. I just --

A. Good afternoon.

Q. -- wanted to clear up some of the testimony, just so that maybe I understand it. I know you've addressed a lot of this information already, but I just want to make sure I understand.

A. Okay.

Q. And this also tracks your testimony, I think, starting on page 22. What was --

A. Which one?

Q. The initial testimony.

A. Okay.

Q. What was the final position of the Company with respect to whether the public school tariff would be continued in the future?

A. Our initial position was that they should just be rolled back into the LGS.

Q. Okay.

A. So the normal LGS rate schedule.
Q. So it would be discontinued?
A. Yeah. They never left the class, it was just a matter of what rate they paid.
Q. And I think under the old -- under the last rate case it was called a pilot program; is that fair?
A. That's correct.
Q. And you'd agree that part of the reason that pilot program was established in that last rate case was because the public school load research data was not available or there was insufficient data at that time?
A. Yeah. We had two examples. We had -- we had the two schools where we had interval data on them, and, you know, we thought -- we thought their arguments had some merit, and then we had the settlement, and we ended up with the $500,000 discount.
Q. But to be clear, I think in your testimony you specifically say that that was one of the reasons, that up didn't have enough data, and that's why you created the public -- the pilot program?
A. Yeah. We called it a pilot because we -- in that settlement we committed to put more meter --

more interval meters on school accounts and have a more robust study in the next rate case, and that's what we did.

Q. Okay. And then on page 24 of your testimony, lines 2 and 3, you indicate that the class cost-of-service study did not justify the discounted rate for the public school tariff customer in comparison to the LGS customers; is that fair?

A. That's somewhat fair. You have to have some caveats too because we're talking cost allocation here and there's a lot of nuances to it. Honestly, it's never that great to be cost allocated in a study standing alone. The same homogeneous group of customers often have the same load profile, and if you can be in a more diverse group, you're going to do better on a unit-cost basis than if you're standing by yourself.

The schools, what hurt them is how coincident they are to our winter peaks because they're electric heating. Think of it like a very large residential account, you know, they have high peaks in the -- you know, when our load is peaking in the winter mornings.

However, they do provide a benefit being rolled back into the other LGS customers because

they're lower load factor. So they have --
per-kilowatt-hour usage, they have more kW of billing demand, and it waters down that total rate that gets paid by LGS customers.
So there's give and take here.
Q. Do you have your testimony in front of you?
A. I do.
Q. Can you turn to page 24 of that, please?
A. I'm there.
Q. On line 2 there's a sentence that begins, "Said another way." Can you read that sentence out loud, please?
A. (Reading) Said another way, rather than justifying a discount rate for the public school tariff customers, the class cost-of -- class cost-of-service study shows that the public school tariff customers actually benefit from the load diversity and higher average load factor of the standard LGS customers when they were on the LGS rate schedules.
Q. Thank you.
A. And that's exactly what I just said with the other caveat that the LGS customers receive a benefit when I make the rates due to the lower load factor and the billing units of the school

customers.
Q. Do you have your rebuttal testimony in front of you?
A. I do.
Q. Can you turn to page R 15?
A. I am there.
Q. I think you reiterate this point, starting on -- well, concluding on line 8, starting with the sentence, "Based upon the actual load." Can you read that sentence out loud, please?
A. (Reading) Based upon the actual load research data for the schools, there is nothing about the schools from a cost-of-service standpoint that they would -- standpoint that they should be separated from and given a discount relative to the other 100 kW through 1,000 kW general service customers.
Q. Thank you. Are you -- I mean, you've testified that the proposed settlement in this case would design rates for the Tariff K Through 12 that would be $500,000 less than what would otherwise be designed -- than if it were consolidated with LGS, correct?
A. With a clarification. It's consolidated with LGS, that's why I showed it in one line on that Settlement Exhibit 1. So the class is all the same.

I'm designing two rate schedules within that class. And if you billed the K-12 customers on the LGS rates in this settlement, it would be $500,000 higher than if you billed those billing units on the K-through-12 rate.

Q. And so it's only the LGS rate or LGS class that is paying higher rates because of that $500,000 amount, correct?

A. No. They are paying exactly what is allocated to them in the class study. It's just a matter within that rate class. So the L -- the other LGS customers, if the schools weren't receiving this rate, in aggregate, their rates would be $500,000 lower, but there's no -- there's nothing interclass, it's all intraclass.

Q. Intraclass within LGS?

A. Yes, sir.

Q. So if the public schools' rates were not $500,000 lower, the remaining LGS customers would not have to pay that extra $500,000?

A. That's correct.

Q. And so when you were mentioning that the total billing increase for LGS stand-alone was 5.17 percent --

A. That's correct.

Q. -- that includes an extra $500,000 that the LGS class stand-alone would be paying?

A. Yeah. If you remove that $500,000, they would be down around 4.6 percent, it would be -- it would be even lower, and you would push the schools up over seven percent.

Q. And those are based on the cost-of-service study that the Company performed, correct?

A. And the settlement agreement, yes.

Q. And just to be clear, the cost-of-service study, as you have stated in your testimony, indicates that the public schools should pay higher rates than LGS?

A. It says there's no justification to separate them out.

Q. Thank you. According to the settlement agreement -- are you familiar with the settlement agreement from the last rate case?

A. Yes, sir. I was in both.

Q. Okay.

A. Both settlements, yes.

Q. Do you know what rate class or rate classes had a -- had higher rates because of that same $500,000 amount?

A. The LGS class.

MR. OSTERLOH: Mr. Chairman, may I approach?

CHAIRMAN SCHMITT: Yes, you may.

MR. OSTERLOH: And I'd like to mark this as what I believe is going to be KCUC Exhibit 7.

A. Okay. I believe the MGS class was included the last time as well, if that's where you're going, yes.

Q. That is precisely where I'm going.

A. There we go.

Q. I'll go ahead and mark this and we'll get that in.

A. Yeah. All right.

MR. COOK: Seven?

MR. OSTERLOH: This is 7, yes.

(KCUC Exhibit 7 marked for identification.)

Q. And, Mr. Vaughan, after you've had a chance to review this, can you confirm that this is the settlement agreement from Case Number 2014 --

A. It looks --

Q. -- 396?

A. It looks very familiar, yes.

Q. Okay. And if you'll turn to page 19, you'll see a section, I believe, that relates to the Tariff K Through 12 School. Do you see that?

A. That's correct. I see that.

Q. And in (a), what I'm going to direct you to is the last sentence there, and it indicates the aggregate total revenues to be produced by Tariff K Through 12 School, Tariff MGS, Tariff LGS -- and Tariff LGS shall be equal to the revenues that would be produced in the aggregate by the new rates in the absence of Tariff K Through 12 School?
A. That's correct.
Q. And so you were -- as we were passing this out --
A. Yes.
Q. -- you were you acknowledging that the settlement in the last rate case also included the MGS in that provision, correct?
A. Yeah, this -- the last settlement had interclass subsidy in it.
Q. Unlike the current settlement -- proposed settlement agreement that does not have interclass subsidy?
A. Related to this item, yes.
Q. Thank you. And you'll agree that KCUC was not a party to that case, correct?
A. Yes. Not to my knowledge, they were not.
Q. And in earlier responses to Mr. Kurtz's questions, you referred to interclass subsidies, and

you mentioned that the combined LGS/PS subsidy is five percent; is that accurate?
A. The subsidy reduction?
Q. Yeah.
A. Yes.
Q. Yes.
A. Yes. Yes. We removed five percent of the LGS/PS.
Q. If you were to break those two out and include the $500,000 amount that we've been talking about, and used just stand-alone LGS, what would its subsidy reduction be?
A. Still five percent. It -- you design -- like I described earlier, you allocate all the revenue to that class as a whole and then you make the rate. If you want me to move money out of that into the GS category, I would have to recalculate that.
Q. How can the LGS stand-alone be paying $500,000 more and have the same subsidy reduction?
A. You're confusing rates and cost allocation, that's -- that's the problem.
Q. Okay. I think -- I understand your point now. Thank you.
A. Okay.
Q. Switching gears a bit, am I correct that the

Company proposed and the settlement would permit consolidation of the SGS and MGS classes?

A. Yeah, that was our original proposal, and I believe the settlement is silent to it, so, yeah, it continues what we proposed.

Q. Distinguishing -- can you identify what distinguishing factors there are for eligibility between those MGS and SGS classes?

A. Yeah. So an SGS customer is one that is under 10 kW, and an MGS customer is 10 kW demand up through 100 kW. 100 kW they transition to LGS.

Q. And that's based on average monthly demands, correct?

A. Yes. Some measure of peak demand. Normal, average. Whatever's in the tariff.

Q. I think the tariff says average monthly demands.

A. I would agree with that.

Q. Do you know whether or not SGS customers currently have a demand charge applied to them?

A. They do not.

Q. Do you know whether MGS customers currently have a demand charge applied to them?

A. They do.

Q. Okay.

A. SGS customers will still not have a demand charge applied to them under GS.
Q. Okay. Let me ask you a few questions about that. If the two classes are consolidated as proposed --
A. Uh-huh.
Q. -- there is a demand charge potentially, correct?
A. There is over 10 kW of demand.
Q. Okay. So it's just in excess of 10 k --
A. That's correct.
Q. -- W?
A. The first 10 do not count. You have to have billing demand in excess of 10 kW to -- we did that so that you could include both of them and you have a natural transition then. So a customer that wasn't paying a demand charge on SGS will not be paying a demand charge on GS unless their load grows.
Q. So that in excess of 10 kW based on average monthly demand through a 12-month period?
A. It's based on -- in the tariff there is a kilowatt-hour block, a threshold. If you go over -- if you currently don't have a demand meter and you're an SGS customer, or really any -- well, I

guess you would only have SGS customers on demand meters. If you go over 44 -- 4,450 kilowatt hours, it would then alert our customer service representatives to place a demand meter on that account, and then it would monitor.

You know, that 4,450 is based on the class load factor and 10 kW. So if someone goes over that, we would install a demand meter. We would then monitor, and if they do, in fact, go over the 10 kW demand -- well, they don't have to transition. They would be billed for it if they go over.

Q. So in any given month if they go over the 10 kW, that customer would be billed in excess -- for a demand charge in excess of 10 kW, correct?

A. That's correct.

Q. And currently that SGS customer doesn't have a demand meter and wouldn't be charged a demand charge, correct?

A. If the Company had perfect vision, that customer would be moved to MGS, and that -- hence the reason for the consolidation. You have -- you have tariff -- you have customers around the edge of both tariffs that are SGS customers for five months and MGS customers for seven months and vice versa. And rather than them paying the wrong rate -- and you have to stay on the same rate schedule for 12 months per our tariffs.

So rather than them paying the wrong rate for some portion of the year, GS provides a smooth transition back and forth. So if they are really an SGS customer for five months, they're paying the SGS rate, just that first block energy charge; and if they're an MGS customer, they're paying some demand charge and both blocks of energy.

Q. But you'll agree with me that a current SGS customer that would be transitioned to the new GS consolidated rate could be play -- could be paying demand charges in the future even though they wouldn't be paying charges and wouldn't be eligible for the MGS class?

A. They're still eligible. If they go over 10 kW, we would just -- you know, if we had all of the money and all the time in the world, they'd all have demand meters on them and we would know when they go over and they would be moved to MGS.

So, yes, there are customers that may be SGS customers now that may go over 10 kW. Now that would be -- and again, if they don't have a demand meter on them and their load is such that they go over 10 kW but they don't break 4,450 kilowatt hours, we still don't know to go put a demand meter on them. So they have to have that demand at a certain load factor to still push their load over the threshold.

Q. And the point being is that under the current tariff it says average monthly demand for the breaking point between SGS and MGS, correct?

A. Yes.

Q. Okay. You mentioned that the Company will put a demand meter when it recognizes that a customer has -- a GS customer has 4,450 kilowatt hours or -- or kilowatts or greater. There's also a provision in the proposed tariff that the Company reserves the right to install a demand meter on any customers receiving service under this tariff, "this tariff" being the GS tariff.

A. All right.

Q. Does the Company have any specific written policies on when it will choose to have that right to install a meter, other than the baseline 4,450 kilowatts?

A. No, we don't, and that is in there in case -- in case you have an instance where customer service believes that you have -- in fact you have an account that's over 10 kW but they're a very low load factor, say. So they have high peaks. Like you're having transformer issues there, so you know their peak is fairly high but they're not producing a lot of kilowatt hours on their bill. It can be common with some of these general service customers.

Q. And I believe the Company stated in a data response that you sponsored that it did not attempt or even have the ability to determine any additional revenue that it would be receiving for demand charges that current SGS customers will be paying under the new GS classification; is that correct?

A. That's correct, but you have to -- you have to take what is the difference between an extra kW of demand being billed versus the kilowatt-hour rate that would have been higher if you didn't have a demand charge. So it's not that -- you're just moving money between buckets, whether it would be kilowatt-hour revenue or kW revenue.

Q. In response to Chairman Schmitt's question earlier about types of customers in the LGS family, in that 100-to-1,000-kilowatt grouping, you mentioned several types of customers. Was that within the whole LGS class or is that just near the bottom that I believe Mr. Gardner was asking a previous witness?

A. That was within the whole class. I do not have average loads for them. We just pulled what their service codes were.
Q. Okay.
A. So within those groupings you could have -- you could have a food and beverage establishment that's 900 kW and one that's -- that's 105.
MR. OSTERLOH: Thank you, sir. That's all the questions I have at this time.
CHAIRMAN SCHMITT: Attorney General.
MR. COOK: Thank you, Mr. Chairman.

CROSS-EXAMINATION

By Mr. Cook:
Q. Good afternoon, Mr. Vaughan.
A. Good afternoon.
Q. I have a few questions for you. What was the relative revenue increase to the residential class in the final order of the last rate case, 2014-396?
A. The percent increase?
Q. The relative revenue increase.
A. I'm not familiar with that term, this being percent -- percent bill increase?
Q. The percentage of the increase compared to the system increase. For example, in the current case, the -- in the application the relative

increase was 1.32, or 132 percent of the system average. So what was the end result in the last rate case?
A. I do not have that in front of me.
Q. Okay. Then --
A. It was something greater than system average because we reduced again, I believe, in that case five percent of the residential subsidy.
Q. And what was the relative revenue increase to the residential class in the stipulation in this case?
A. Relative? I mean, are you looking at the RORs? Because those are return-on-rate based, not relative --
MR. GISH: Clarify just what you mean by "relative increase."
THE WITNESS: Yeah.
MR. GISH: The percent revenue increase assigned to that class, or do you want rate of return --
MR. CHANDLER: May I? I don't want to team up, but I believe Mr. Cook is asking -- the relative increase I think can be calculated by taking the percentage increase allocated to the -- the percentage increase to the RS class divided by the

system percentage increase.

THE WITNESS: Oh, okay.

MR. CHANDLER: I believe it's the -- it's referred to that way in at least Mr. Pollock's testimony.

THE WITNESS: Okay. I did not do things that way. They're receiving 20 million -- just a second.

MR. CHANDLER: Can I clarify? On a percentage basis.

MR. GISH: If I might help to clarify. Are you just looking for the nine percent divided by 6.16?

MR. CHANDLER: That would be --

THE WITNESS: I mean, I'm not sure what that number means. It doesn't mean anything to me. They're receiving 60 percent of the rate increase, the 21 -- on the Settlement Exhibit 1, it's the 21.8 million divided by the 36 million there in column D. And that's --

Q. All right. Then I have some other questions for you about the settlement stipulation, and we have some tabs that we'd like to pass out to you.

A. Okay.

MR. CHANDLER: May I approach, Chairman?

CHAIRMAN SCHMITT: Yes, you may.

MR. OSTERLOH: And, Mr. Chairman, while that's being done, I forgot to request for admission for KCUC Exhibit 7.

THE WITNESS: Thank you.

CHAIRMAN SCHMITT: Is there any objection?

MR. GISH: No objection.

CHAIRMAN SCHMITT: Then let it be admitted as KCUC Exhibit 7.

(KCUC Exhibit 7 admitted.)

MR. KURTZ: Oh, Mr. Chairman, could I have this marked and admitted as KIUC Exhibit 1?

CHAIRMAN SCHMITT: Is that the settlement exhibit?

MR. KURTZ: Yes. Yes.

CHAIRMAN SCHMITT: Do you have that?

MR. OVERSTREET: No objection.

CHAIRMAN SCHMITT: Need to get a copy to -- you don't have any objection, do you, Mr. Overstreet?

MR. OVERSTREET: No. No, we don't.

CHAIRMAN SCHMITT: We need to get a copy, mark it for the reporter, of the -- I guess that would be Settlement Exhibit 1, which would be KIUC Exhibit --

MR. KURTZ: One.

CHAIRMAN SCHMITT: -- 1.
MR. KURTZ: Thank you.
(KIUC Exhibit 1 marked for identification and admitted.)
Q. Okay. Do you have those tabs in front of you now?
A. I do.
Q. Okay. And can you turn to tab 1? And I believe you should have, then, what is -- I think you'll recognize as Exhibit AEV-1S; is that correct?
A. That's correct.
Q. And the stipulation calls for a total increase in the residential class allocation of 21.812 million; is that correct?
A. That is correct.
Q. And looking at the column Increase Incorporating Surcharge Changes, we see a subcolumn called Carrying Charge Savings in ES; is that correct?
A. Yes, sir.
Q. Were these savings the result of a long-term debt refinancing that was carried out after the application was filed?
A. Yes, sir. You can also see these numbers in my supplemental testimony in AEV Exhibit 1 there.

Q. Okay.
A. Those are calculations done there.
Q. And the net total increase in the residential allocation is 21.977 million, correct?
A. 20.97 million.
Q. 20.977?
A. Yes, which equals the nine percent flat there.
Q. Okay. So the settlement's effect on what you have here as the non-fuel base rate increase to the residential class is an increase of 14.15 percent, correct?
A. Yeah. When you're looking at just non-fuel revenues. If you're looking at total bill, it's the nine percent.
Q. Right. So has the Company prepared any figures regarding the all-in rate increase to the residential class? And by that I mean the effect of the ECR increase, the impacts to the BSRR, and any other riders?
A. Yes, sir. You're looking at it. It's nine percent.
Q. Nine percent?
A. Yes. That is the total bill impact of this settlement.

Q. So this exhibit that you're looking at, tab 1 is the only analysis of the all-in rate increase, correct?
A. Yes. It's -- it is the all-in rate increase.
Q. Okay. Did the -- did the Company conduct any studies to determine whether ratepayers could afford the new revenue set forth in the stipulation?
A. I think this goes back to your -- I have no specific economic or other studies done about the affordability of the rates. I have produced the rates.
Q. Okay. Were you in the room when we questioned Mr. Satterwhite?
A. I was, yes.
Q. Can you point to anyplace in the application, if there were any studies done regarding the ability of ratepayers to afford the tracking mechanism?
MR. GISH: Mr. --
Q. That's Tariff PPA.
A. I mean, so Tariff PPA is set at zero, so that's --
Q. Okay. And under the --
A. -- fairly affordable.
Q. -- stipulation, if approved, then more monies from the PJM OATT costs would flow through there,

correct ?
A. On a delayed basis , yes .
Q. Yes .
A. 20 percent of which will be absorbed by the Company .
Q. So if I understand -- am I to understand correctly that the Company has not conducted any studies about the ability of ratepayers to afford those funds being flowed through that mechanism ?
A. No, my answer is the same .
Q. Okay .
A. We -- I have conducted no studies .
Q. All right . Thank you . Isn't it true that Kentucky Power and other AEP affiliates engage in numerous supplemental trans mission projects ?
A. You -- sure , you can call them supplemental . There are trans mission projects , yes .
Q. Can you discuss the difference between supplemental and baseline projects ?
A. Yeah . I can . There is a -- attached to one of my testimonies there 's a presentation we gave , I believe to your office and the Commission , some of the folks in this room back earlier this year . But it talks about some of those items . A baseline project is just simply something -- a project that

PJM itself identified in its planning process rather than the transmission owner in whatever zone identifying it and bringing it to PJM. Those projects also called transmission owner subject -- selected projects. Supplemental is generally what they're classified as.

Supplemental isn't a derogatory term or otherwise meant that they're unneeded, it's just simply that --

Q. I understand.

A. -- it was not selected by PJM's model in their plan -- in their specific criteria.

Q. And so isn't it true that costs of supplemental projects are allocated solely to the transmission zone in which the project is located, and in this case is that -- is it correct that Kentucky Power is in the AEP East zone?

A. Kentucky Power is in the AEP transmission zone. It's the east companies of AEP.

Q. Okay.

A. But baseline projects can be allocated 100 percent to the zone they're within as well. It just depends on who benefits from them. And basically the -- a project that isn't identified by PJM is most likely going to benefit the transmission zone

within which --
Q. So --
A. -- it's being built.
Q. I'm sorry?
A. Just within the zone it's being built.
Q. Okay.
A. Yes.
Q. And so -- then with regards to supplemental projects, the rest of the PJM footprint outside of that zone does not pay any of those costs; is that correct?
A. That's correct. And vice versa is true as well. If PSEG is building a supplemental project in its New Jersey zone or its Eastern Philadelphia zone, they're -- AEP is not paying a piece of that. It's when it goes through the PJM cost allocation process that those costs can be allocated across the various transmission zones in PJM.
Q. And so you indicated earlier that PJM refers to them as supplemental projects, and you said that they don't come up to PJM for review, so --
A. No, I didn't say that. They are reviewed at PJM.
Q. Oh, they are reviewed?
A. I said PJM does not initiate that project.

Q. All right.
A. It is not identified by PJM. They still go through the stakeholder process at PJM.
Q. Isn't it true that PJM does not evaluate those supplemental projects to the same degree as a baseline project?
A. I would not say that. Both go through the stakeholder process. Merely PJM's planning model identified a baseline project, whereas the specific planning criteria of the transmission owner, in whatever zone it's in, identified a supplemental project.
Both go through the stakeholder process. All the dollars are reviewed at FERC when the formula rates for whatever the transmission owner -- the regular transmission owner is flowing those dollars through to the transmission zone or to PJM. The dollars are reviewed there for prudency at the formula rate update filings each year.
Q. Is there an agreement among the AEP East Companies called the AEP East Operating Companies Transmission Agreement?
A. Yes, sir.
Q. Okay. Do you know whether that's been produced in the record of this case?

A. I believe it has. I think it's in one of my discovery requests.
Q. Okay. Do you know where that is? And if you can't -- if you want to, we can do it in a post-hearing data request, if you can identify that.
A. Yeah, we'll identify it, and if --
Q. If not --
A. -- if I'm misremembering and it's not already in there -- I believe it's in one of the AG's data requests, but if it isn't, we'll provide it. It's a public --
Q. Okay.
A. It's a publicly available document on the AEP website.
Q. All right. And is that also approved by FERC using formula rate filings?
A. It's not a formula rate, it is an agreement, a cost allocation agreement.

And just to note that we've had a cost allocation agreement of some sort for the AEP East Companies a lot longer than we have been in PJM. There's always been a sharing of transmission costs in the AEP zone. Just like prior to 2014 there was a generation pool, we've also had a transmission pool. I don't know if it was all the way back to the '50s like the generation pool did, but it definitely predates PJM.

But it is not a formula rate, it's a cost allocation schedule that states how -- the current transmission agreement states how the PJM OATT costs will be allocated amongst the AEP East Companies.

Q. Okay. So basically under that agreement, Kentucky Power -- as it filters down through the retail rates, Kentucky Power ratepayers can be required to pay for a portion of, say, for example, an I&M supplemental transmission project?

A. Yeah. Let's take that a little deeper. So Kentucky Power retail ratepayers would be allocated a piece of the -- of a supplemental project like -- for instance, right now I know I&M in Indiana is trying to -- they're -- I think they're in the process of rebuilding a 90-year-old transmission line. It's going to be almost $84 million. But 90-year-old structure up along the lake, somewhat rickety. It's past its accounting life by 20 years at this point.

Now, if not for the AEP transmission agreement -- agreement where there is a 12 CP allocation of costs among the Company, the Kentucky Power would simply receive its one CP share from

PJM, which is how everyone else receives their costs. It's a one coincident peak. So if that -- if that happens in the wintertime, the winter peaking companies really get hit, versus if it happens in the summertime, the summer peaking utilities get hit more. So it just depends on when that peak is.

What the transmission agreement, the AEP transmission agreement, that cost allocation schedule does is it takes all the costs that get allocated either within the zone or to our zone, and it kind of levelizes it out using a 12 CP allocation. So everyone pays a more predictable amount each year, it's your 12 CP rather than saying -- which makes a lot more sense to me personally. You don't use the transmission system based on one peak, you use it every month of the year, so a 12 CP allocation of cost makes sense.

But it's reducing volatility between what PJM could have allocated to Kentucky Power on those PJM bill versus what actually is recorded on Kentucky Power's books via the transmission agreement.

Q. So if I understand correctly, then, under the terms of the AEP East transmission agreement, sums that Kentucky Power pays which become due under PJM

invoices --
A. Yeah.
Q. -- are determined in part by these AEP supplemental projects over which the AEP affiliates are in control?
A. Yes. Each transmission owner within the zone is responsible to -- for the upkeep and reliable service of its transmission system. And those supplemental projects are the transmission owners identifying rebuilds and other projects that they need for reliability. And, you know, there is an allocation of those costs within the zone, and per the transmission agreement, you know, we file our -- every transmission owner in our zone, we file our revenue requirement at PJM every year. PJM then does the cost allocation, because some of those -- some of those dollars get allocated across PJM, some stay within the -- within our transmission zone.
Within our transmission zone, there's about 15 percent of it that are non-AEP munis and co-ops. They get their allocation. The remainder goes to our -- the AEP LSE in total, and then through the transmission agreement there's that 12 CP allocation down to the individual LSE. So like Kentucky Power is an LSE.

Q. Okay. I understand. Thank you. And isn't it true that in the last case the Commission denied the -- can I call it the OATT tracker? Is that --
A. I believe it was the PJM tracker last time --
Q. Well, I thought --
A. -- because it had a bunch of other --
Q. Okay.
A. -- PJM costs in it as well.
Q. And in this case you're not calling it the PJM tracker, is that right, or --
A. It's -- it's a --
Q. -- do you want to call it that or --
A. It's included within the Tariff PPA.
Q. Tariff PPA?
A. It's specifically the OATT LSE costs, yes.
Q. So -- but in the last case the Commission denied the PJM tracker?
A. They did, yes.
Q. Okay. And --
A. After the settling parties had agreed to it.
Q. Can you describe what AEP and Kentucky Power are doing to control transmission costs?
A. I can give you one example. AEP did not initiate the complaint, but we have advocated for it, for those -- some of those projects. The docket

number is in my direct testimony. Some of those large baseline projects get allocated across our -- PJM's footprint.

I believe it was ComEd who initiated the complaint, then the AEP companies joined them, and we've actually gotten the cost allocation methodology changed so that less -- less cost is allocated to western PJM, you know, our LSEs and ComEd, versus what the old allocation used to be.

So we're -- there's -- we're awaiting a -- it was a nonunanimous settlement in that case, and, you know, FERC -- FERC has just recently reached a quorum again, so we're waiting for that to make it through FERC, and hopefully there will be a refund of some sort of -- some of those costs back to Kentucky ratepayers, and, you know, through the Tariff PPA tracking mechanism, mind you.

And there was also a change of a specific date going forward how those costs are being allocated currently across PJM. So, yeah, there's -- there is advocacy for lower costs.

Q. Okay. And under that AEP East transmission agreement, what kind of -- do you know the ROE percentage that is being charged to Kentucky Power?

A. So another distinction in the transmission agreement, again, is simply a cost allocation schedule. The AEP OATT formula rates, those formularies contain the formula for producing the annual transmission revenue requirement. Within that there's an ROE. That ROE is currently 11.49.

Again, in my direct testimony I reference a FERC docket where the -- several -- several complainants have filed a 206 complaint at FERC, and that case is currently ongoing as well.

Q. All right. Thank you. So in that case that you just described too, am I correct that Kentucky Power and basically all the east operating companies, as well as some of the AEP nonregulated transmission companies are listed as defendants; is that correct?

A. It's against all of the --

Q. Respondents?

A. -- all of the transmission owners, yes. Everyone who is filing a transmission revenue requirement with that ROE in it.

Q. Okay. Has Kentucky Power ever gone to FERC to contest the ROE that it's required to pay under that AEP East operating agreement?

A. We have not contested our own ROE; no, sir.

Q. All right.

A. That would be Kentucky Power -- so that 11.49 ends up --
Q. Well, let me ask you a question. When you say ROE --
MR. OVERSTREET: Wait a minute. Let him finish his question.
A. So that 11.49 ends up back in our base rates as a credit to customers in the cost of service. Essentially those TO revenues during the test year that include that 11.49 ROE and our natural transmission costs of service, you know, our -- with our retail return on our rate base and our O&M, those are both included in base rates and essentially offset one another, whereas the cost you have left for transmission service is the LSE OATT charges. So to the extent we go reduce that, we reduce the base rate credit.
Q. I understand. Thank you very much. And I apologize for --
A. No worries.
Q. -- interrupting you.
Let me ask you a question. So if I understand you correctly, do you make -- I need you to help me understand. Does Kentucky Power make more or pay more on OATT charges?

A. Kentucky Power pay -- has a greater OATT charge as an LSE than as a trans -- than as the revenues they receive as a transmission owner.

And let me explain that. The -- under the cost allocation schedule we've been talking about, the AEP transmission agreement, everyone -- every transmission owner -- so Kentucky Power is a transmission owner. We have our own transmission system and we are an LSE. They're two separate entities. Okay?

And Kentucky Power, the transmission owner, files a revenue requirement every year at FERC, or at PJM under the FERC-approved formula rate schedule. And let's say it's $50 million. So Kentucky Power files for $50 million from PJM. Kentucky Power gets $50 million back from PJM. That's one settlement, direct assignment, through the transmission agreement. Excuse me.

Then as an LSE, those costs are allocated to the AEP zone, and then through the transmission agreement we receive -- "we" being Kentucky Power, receive our 12-CP share, which is that roughly six percent number that you've heard repeated a few times. It's -- I think this year it's 5.78, but roughly six.

And currently the LSE charge is greater than the transmission -- transmission owner revenues that are coming in.

Q. Okay. So isn't it true that the -- I keep calling it a tracking mechanism. I'm sorry. Will you understand what I mean?

A. Tariff PPA?

Q. Tariff PPA, yeah.

A. Yes, sir.

Q. Isn't it true that that mechanism would preclude any intervenors from posing discovery questions about the costs that are carried through that mechanism?

A. That's untrue. You can -- any intervenor in this case can go to the PJM regional transmission -- transmission meetings. They're every month. They can ask questions there. They can go to the formula rate update every year and ask questions.

There's several consultants for munis and co-ops within the AEP zone that pose a lot of discovery about those costs in the formulary true-up every year.

Q. Okay. And let me clarify that. If that mechanism is approved by this Commission, once it comes time to collect those costs at the retail level, would -- isn't it true that the tracking mechanism would preclude any intervenors from posing discovery questions about those costs?

A. Notwithstanding my last answer, I'll also add that I can't remember a currently approved tracking mechanism where I've filed the rate update and Staff hasn't asked at least one or two questions regarding what's involved in that true-up or how those rates were calculated.

Q. Okay. Can you turn to tab 2? And that's your rebuttal testimony at page 3, correct?

A. Yes, sir.

Q. Looking at lines 3 through 4, you state there (Reading) The tracker would allow the Company the opportunity to earn its ROE.

But isn't it true that if the tracker is approved, it would guarantee that Kentucky Power would earn its authorized ROE rather than an opportunity to earn it?

A. Absolutely not. We have an opportunity --

Q. Really?

A. -- if that is included. If it's approved, Kentucky Power has a legitimate opportunity. If it's not approved, we have no opportunity. That's one and a half percent ROE off the top, we know it's happening. And it's no guarantee, because we're still absorbing 20 percent of those incremental costs in the settlement deal.

Q. Isn't it true that despite the fact that Kentucky Power is losing customers and is experiencing declining usage, nonetheless revenues continue to grow?

A. I missed Mr. Wohnhas' discussion of this, so I assume you're referring to the ten-year period in question where revenues were going up; however, the load has been shrinking?

Q. Yes. As a matter of fact, there is an exhibit to the testimony of Dr. Dismukes, Exhibit 9 --

A. Yeah.

Q. -- that -- it's based on the Company's FERC Form 1. That's where the data comes from.

A. That's fair. And there are some caveats. There's some color around that. There's many things happening. Over that same time period all the coal plants that are still being operated in the AEP system, they were scrubbed during that time period, so during -- that's a lot of capital investment.

And in 2006 through 2014 Kentucky Power was still a member of the AEP's pool. So as those plants were scrubbed and those capital investments were made, Kentucky Power's costs were going up, because they're allocated their portion of the AEP system. So you had that going on.

You also have during that time period the decline in off-system sales margins, because after a peak in 2008, you had lower -- you had the economic recession, which really hurt -- hurt off-system sales. Prices went down. Gas prices began to come down it with fracking. You also had the retire -- the generation retirements, where the AEP's pool became a lot shorter.

And those off-system sales revenues that used to get allocated, those hundreds of million of dollars that used to get allocated to Kentucky Power through the old East pool, those were rate credits. Those were shared back with customers through the system sales clause. So as those off-system sales margins were reduced, our retail revenues grew, because we had less of a cost offset.

So, yeah, I agree with you that revenues have gone up and sales have gone down, but it's -- there's a lot of color within those, a lot of -- there's a lot of nuance to it. It's not just -- it's not just a picture that Kentucky Power's revenues keep going up and sales keep going down

and -- there's a lot to it.
Q. All right, sir. Of the amounts Kentucky Power pays each year in OATT charges, how much are to affiliates and how much are to nonaffiliates?
A. Huh. I don't have that number on me.
Q. If I -- I'd like to request that in a post-hearing data request.
A. We could. We could certainly -- certainly provide that.
Q. Thank you. Of the amounts Kentucky Power pays each year in OATT charges to affiliates --
A. Yeah.
Q. -- how much was paid for projects designated as baseline upgrades, network upgrades, or supplemental projects as defined by PJM?
A. So I'm not sure we track it at that level. However, a couple -- a couple of distinctions there. Network upgrades are like when a generator wants to connect within the system, and network upgrades are paid for by whomever is requesting that.

So if there's an IPP entering the AEP system and they require a $10 million transmission investment to be connected to our system to deliver power to PJM, they're paying that, not our customers. You know, or vice versa. A new wind farm, if they want -- they need a substation, that's paid for by the developer of that specific project, that's not our customers.

And again, supplemental projects are projects needed to replace the very age -- very old, aging, deteriorating transmission infrastructure in our system. We have a very high percentage of it that's over its accounting life. There's a significant portion of these -- these facilities -- like just look at the Hazard-Wooton line here that is before the Commission. It's 70-plus years old, and I believe it has wooden structures. You have 70-year-old wooden structures holding up your transmission system.

So, yeah, you can continue to draw ire with the supplemental projects, but just because they're supplemental doesn't mean they're not needed.

Q. All right. With regards to that question I asked, if you -- you said you weren't sure whether it's tracked that way that I asked it. If it can be provided, we'd like to ask for that in a post-hearing data request.

A. Okay. Yeah, I'm just not sure the -- I'm not sure the dollars are that granular where you can -- where we can divide it between the baseline project or whatever , but we will try, and if we can, we will provide that .

Q. Then would they be identified under RTEP dollars or with an RTEP ID also ? Is that one way to look at them ?

A. So RTEP is the Regional Transmission --

Q. Expansion --

A. -- Expansion Plan . That 's a process . Transmission enhancement are the charges . So we can -- we can definitely tell you what our -- what our NITS charge is versus what our transmission enhancement charge is. That 's -- that is identifiable . We account for it that way. We can provide that .

Q. Okay . Thank you very much . Do you recall filing responses to data requests from the PSC Staff about the typical bill impact from the Big Sandy Retirement Rider , the BSRR annual update ?

A. I filed a lot of discovery .

MR . GISH : Do you have a -- do you have a --

A. Do you have an example ?

MR . GISH : -- specific number ?

A. Yeah .

Q. Yes . They were filed on August 14 .

A. Oh, in the rider update ?

Q. Yes. Yeah. The BSRR.
A. Are we going to the wall? Do you --
Q. We're about to.
A. Okay.
Q. We gotta wait for some assistance. So what we're going to do, we'd like show you on the screen an Excel spreadsheet the Company filed in response to the Staff's several data requests from that update. And --
A. It has my name on it, how about that?
Q. Okay. So we're in luck then.
A. It's spelled incorrectly, but it's my name.
MR. CHANDLER: That's my fault. Sorry about that.
MR. GISH: His attorney doesn't make that spelling error.
Q. So have you seen that Excel sheet before?
A. Yeah, I believe I produced it.
Q. Okay. And so you supported the response to the Staff data request there?
A. Yes.
Q. Okay. What we'd like to do, then, is to update this Excel sheet with figures the Company provided in the stipulation in order to calculate the typical bill impact of the rates in this case.

A. Oh, actually --
Q. So the stipulation provides for an increase in the residential customer charge to $14; isn't that correct?
A. That's correct.
Q. All right.
A. As a compromise from 17.
Q. So my co-counsel here is making the changes, as you can see, in the Excel sheet. And I believe he just inputted $14. All right.
And then next it provides for an increase in the energy charge to 10.265 cents per kWh; isn't that correct?
A. That's correct.
Q. And then it provides for a decrease in the KEDS charge to residential customers from the current 15 cents per meter to 10 cents per meter, correct?
A. That's correct.
Q. And we're just talking about the stipulation here. And it provides for an increase --
MR. CHANDLER: Slow down. Slow down.
MR. COOK: Oh, I'm sorry. I'm going faster than my -- than our ability to input.
MR. GISH: Ten. It should be 10, not 20.

THE WITNESS: .10.
MR. CHANDLER: What is it?
MR. OVERSTREET: Ten cents.
MR. CHANDLER: Oh, excuse me. I got ahead of myself.
MR. OVERSTREET: Now it's 12.
MR. GISH: Now it's a dollar.
MR. OVERSTREET: Now it's a dollar.
MR. CHANDLER: Residential customer.
MR. COOK: And the HEAP.
THE WITNESS: HEAP's 20 cents. I can help you.
Q. Yeah, the HEAP will go from 15 to 20 cents, correct?
A. Yeah.
Q. And so we went through there, we made those changes. So are we -- what are we missing here?
A. You need to go up to the Big Sandy Operations Rider and put it to zero. Four up. There you go. Just make the rate zero. There you go. Right there. No, no, back two cells.
MR. CHANDLER: I got it. Hold on a second.
A. Just make the rate zero.
MR. GISH: The witness said to make the rate zero because the Big Sandy Operations Rider is going

away in this case.

MR. CHANDLER: Yeah, but it's multiplied, it's still zero.

A. Certainly. You need to also go down to the environmental surcharge, and the annualized test year number needs to be the rate. Go over. Down. Down. No, no. That's the fuel charges. Leave that one. Leave that one. Down. Turn -- actually, while you're in system sales, make it zero. That guy to zero. All right. Down to -- that should be 7.4926 percent.

Q. Where does that number come from?

A. The piece of paper I'm holding.

Q. Okay. Well, what is that?

A. I calculated these rates with the settlement, yeah. The next one down.

MR. CHANDLER: I need to --

A. Yeah, you're good then.

MR. CHANDLER: I need to know --

A. Oh, seven -- 7.4926.

Q. So it looks like we're still miss -- are we still missing something here?

MR. GISH: Purchase power should be zero.

A. Yeah, the purchase power adjustment clause, that's zero.

MR. CHANDLER: The rate?
A. Yes. Go up to the capacity charge. Looks like the current. That might be the current. No, it should be 14.82, I believe.
MR. CHANDLER: Say that again.
A. 14.82 is what I have in mine. $14. And --
Q. So it's still above nine percent, correct?
A. No. Go up to the -- can you expand the energy charge there? No, just the decimals. Okay. Yeah. Okay. 14. What are we doing?
How about I submit mine as a post-hearing data request, because I feel more comfortable with the one that's in my hand.
Q. Would you go ahead and provide one, then, in a post-hearing data request?
A. Yeah. Yes. Absolutely.
Q. Okay. All right.
CHAIRMAN SCHMITT: And let's take a -- let's take a ten-minute break at this time.
(Recess from 4:01 p.m. to 4:12 p.m.)
CHAIRMAN SCHMITT: Okay. We're now back on the record.
Mr. Cook, I assume you intend to resume your cross-examination of Mr. Vaughan.
MR. COOK: Thank you very much, Your Honor.

I appreciate it kindly.
Q. Mr. Vaughan, there are three items on this sheet that's been put up behind you calculated with a factor that is multiplied by the subtotal of the bill. Would you agree that one of those factors is the BSRR factor?
A. That's correct. It's a percentage of revenue rider.
Q. Thank you. And is it about four percent?
A. Currently, yes.
Q. Okay. Will applying that factor to the new bills overcollect the BSRR revenue requirement?
A. No, it will not. It will just pay down the regulatory asset a little faster than it would otherwise, saving carrying charges for customers.
Q. Just one moment. Isn't is it true that just one week after the Company submitted the supplemental filing in this case about the refinance that it filed this annual BSRR true-up on August 14?
A. Yes, per the tariff.
Q. Okay. Were the changes to the WACC, the weighted average cost of capital, also reflected in the 2017 BSRR true-up?
A. No, sir; they were not. The calculated carrying charges should change when there is an

order in this base rate case and we receive a new weighted average cost of capital.
Q. So the order has to address that; is that correct?
A. I believe so. I would have to go back to the orders approving the Big Sandy Retirement Rider to be a hundred percent sure, but yes.
Q. So could you turn to tab 6, then?
A. Tab 6. I am there.
Q. Okay. And are you familiar with this Kentucky Power response to the Commission's data requests in the BSRR true-up filing?
A. Is this from this year? Yep, I am.
Q. And could you read the last sentence of the first paragraph into the record?
A. (Reading) BSRR adjustment rate will not be modified -- adjustment rate will not be modified coincident with the effective date of the rates approved in the Commission's final order in Case Number 2017-00179.
That's true, it will be -- the rates will be modified next August when we file our next true-up. However, the carrying charges used to calculate the interest on the regulatory asset will change for the new WACC that gets approved in this proceeding,

2017-00179.

Q. Couldn't the Company have requested to update the long-term debt when it filed its annual BSRR update?

A. I'm not certain. Again, I have to go back to the order approving -- I believe the order approving the BSRR states that the carrying charges are calculated based on the current approved WACC in the -- from the last base rate case.

Q. But the Company could always move to do so, could it not?

A. I'm not certain. I'm not a lawyer. I'm not going to answer that one, sorry.

Q. Moving on to a different subject here, what factors did Kentucky Power consider in making the changes to the two cogen tariffs? That's Tariff COGEN/SPP I and Tariff COGEN/SPP II.

A. We simply updated the cost rates in it.

Q. Okay. Has Kentucky Power been engaged in any discussions or negotiations with any customers who may potentially take service under one or both of those tariffs?

A. Not any more so than what's in the settlement agreement with, you know, the provision for Marathon and discussing their unique situation.

Q. If a customer was to develop cogen, would any backup tariff they take under ensure they pay the same portion of fixed costs as they would if they did not generate any power?
A. Probably not, no. I mean, it depends on the scenario.
Q. Okay. I want to move on to residential rate design, and you addressed the residential service charge in your direct and rebuttal testimony; isn't that correct?
A. Yes, sir.
Q. Now, the partial stipulation calls for an increase in the monthly residential charge to 14, correct, $14?
A. That is correct.
Q. And --
A. From -- reduced from our proposed 17.50.
Q. And did any of the stipulating parties provide testimony on the residential customer charge?
A. Yes, I believe your witness, Dr. Dismukes, did, who --
Q. The AG was not one of the stipulating parties; isn't that correct?
A. No, they were not.

Q. Okay. Did the Company conduct a study to determine whether residential customers could afford the proposed increase in the customer charge?

A. So you can't look at the residential customer -- you have to look at bill, at the total bill. And again, I will -- I will say I did no studies on the affordability of my rates. I did my job, I produced the rates.

However, you can't -- you can't pick at one rate component and say whether that rate component is affordable or not. You have to look at the end result. And the end result in our proposed residential rate design is more equitable for our low-income and our heating customers, and that's why we proposed to do it that way.

Q. All right. And could you refer to tab 3, please?

A. I am there.

Q. This is your rebuttal at page 13. Do you see that?

A. I see that.

Q. At lines 14 through 15, you state there, (Reading) However, a more relevant comparison is to the IOUs and the electric cooperatives that operate within Kentucky; isn't that correct?

A. Yes.
Q. And then you provided as an exhibit --
A. And I do know I inadvertently left out the IOUs.
Q. Oh, okay. All right. So --
A. Save you a question.
Q. Well, thank you so much. Then that means that we can move you then to tab 5.
A. Tab 5.
Q. Oh, okay. And -- well, first let me backtrack --
A. Do you want to go to tab 4?
Q. -- just a little bit.
A. Okay.
Q. Back to your study that left out the IOUs. It was dated in effect as of October 12, 2017, correct?
A. That's right.
Q. Okay. Then tab 5, we prepared an exhibit with the same date that -- so you see here in that exhibit that when Kentucky's electric IOUs are compared together, the average of service charges applicable to residential customers of those companies is $10, correct?
A. It is, but I testify in my rebuttal and my

direct, that is irrelevant, that we do not look like the other three IOUs in the state. We look like a very large rural electric cooperative when you look at our service territory that's in my direct testimony when I discuss the number of residential customers per mile, per line mile of circuit, the relative density of our service territory, the mountainous terrain of our service territory.

So while I apologize that those lines 14 through 15 may mischaracterize my AEV-R2 because I only included rural electric co-ops, the other cooperatives and municipals, I think it's a very relevant comparison.

Q. And AEV-R2 did not -- also listed several nonjurisdictional utilities, correct? They were not jurisdictional to this Commission?

A. I don't know whether this Commission has jurisdiction over all of the co-ops or --

Q. Okay.

A. I do not know that.

Q. All right.

A. But if you folded in the three IOUs, the average is -- you know, the high is still going to be $23.40. The new low will be 4.50 for Duke Energy, which is a very dense service territory there south of Cincinnati. And you're still going to have something in the mid teens as the average, which is where the settlement agreement lands.

Q. What calculations did you use in developing the proposed residential customer charge?

A. I go into great detail in my direct testimony where we -- I did a couple benchmarking studies. The one was what I call a fixed distribution study, which your witness, Mr. -- or Dr. Dismukes takes great issue with, calling it a minimum system study.

And then I also did a marginal connection study where I took the actual work orders from the test year when we were installing new residential service and took an average of that cost. I got those from our distribution group. And it said the next connection cost us $39 per month during the test year. That was very close to the fixed distribution study I did, which was 38 something.

So I used those as kind of a benchmark, as here, that's the ceiling. Like if you could do it, that would be as high as you'd want to go in the fixed, just looking at distribution of the customer charge.

So that was like step one. We said here's the ceiling or the bogie. We're at $11. And then we looked at how much we could raise it without disproportionally impacting customers of various usage levels, looking at what our average heating customers used each month, looking at what our average low-income customers used each month, and then set the rate.

And also looked at how much of the bill would still be on a usage basis versus a fixed basis. I know you guys -- your witness takes issue with that, but there's still 90 percent of the bill that's billed on a kilowatt-hour basis, even with our proposed $17.50 increase, which we have brought back to $14 in the settlement.

So I looked at a great many things when I was coming up with that proposal.

MR. COOK: That's all the questions we have at this time, Mr. Chairman.

CHAIRMAN SCHMITT: Thank you.

Mr. Osterloh, questions.

MR. OSTERLOH: No further. Nothing at this time.

CHAIRMAN SCHMITT: Mr. Malone.

MR. MALONE: Just one quick question for Mr. Vaughan.

* * *

CROSS-EXAMINATION

By Mr. Malone:

Q. You got a lot of questions from KCUC about the $500,000 difference between LGS and the rate PS, the K through 12?

A. Yes, sir.

Q. Were you here yesterday for Witness Higgins?

A. Yes.

Q. Did you read his testimony as well?

A. The -- excuse me. The latest? The December --

Q. Well, you were here and you heard him testify yesterday?

A. Yes.

Q. Okay. Would you agree with me that Witness Higgins testified that he didn't want to -- or he didn't recommend anything happening with respect to the $500,000 difference? In other words, that it remain intact?

A. That's my recollection, yes.

MR. MALONE: Okay. Thank you. No further questions.

MS. VINSEL: One moment, sir.

THE WITNESS: Oh, and, sir, Mr. Cook, your one question about the transmission agreement, it was provided in response to KIUC 1-18.

MR. COOK: 1-18?

THE WITNESS: Yes.

MR. COOK: Thank you, sir.

THE WITNESS: You're very welcome.

MR. COOK: One less post-hearing data request.

THE WITNESS: One less. One less, yes.

CHAIRMAN SCHMITT: Ready?

MS. VINSEL: We're ready.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Vaughan.

A. Good afternoon.

Q. Can I have -- refer you back to -- I'm sorry, I'm not sure. This was one of the Attorney General's exhibits. It's from the last filing in 2014-396 filed by Amy Elliott in regards to the WACC for Tariff BSRR.

A. Okay.

Q. Thank you. 2017 BSRR annual report.

A. The KPSC 1-02?

Q. Yes.

A. Got it.

Q. Let me have you go to the last sentence in the second paragraph. That reads, (Reading) The October 2018 modified BSRR adjustment rate will reflect, as of the effective date of the rates approved by the Commission's final order in Case Number 2017-179, any changes to the Company's WACC as a result of the Commission's final order in that case.

If you were to remove the words "as of the effective date of the rates approved by the Commission's final order in Case Number 2017-179," how does that change the meaning of that sentence?

A. Which word would you like me to remove? I'm sorry.

Q. One moment. One moment.

A. Okay.

Q. Okay. Mr. Vaughan, I think -- I think I can rephrase this.

A. Okay.

Q. The October 2018 modified BSRR adjustment rate will reflect any changes to the Company's WACC as a result of the final order in this case, correct?

A. The rate or the regulatory asset?

Q. Adjustment rate.

A. The adjustment rate?

Q. Yes.
A. Okay. So is that a question or a statement?
Q. Yes, is that -- would you say that's correct?
A. I'm not certain. I think my --
Q. Okay.
A. My -- whatever we said here is what we'll go with, but I thought we were going to just adjust -- adjust the amount of carrying charges we were recording on the reg asset when we received an order in this case with a new WACC. I thought we would leave the rate the same until this -- the file -- our normal filing update.

Obviously we can change the rate according to this case. The result of that would be that you would -- you would accrue more carrying charges than you would otherwise, because if you low -- if you keep the rate the same and you were to lower the amount of carrying charges to the new WACC that are being recorded on the reg asset, you would pay off more principal balance over the next eight months until we updated the rate.

We can do either. There is no over/under on this thing, there's just an under. We're paying into that reg asset of the retirement over the 25 years, and we just re-levelize that every year in

our -- in our update. So we can do either. Okay.
Q. I think we're set.
A. Okay.
Q. Thank you. I've got something a little more straightforward now.
A. Okay.
Q. I've got -- as a post-hearing data request --
A. Yes.
Q. -- can you provide a copy of what I'm going to call the revised Exhibit AEV-3S in an Excel format --
A. Yes. Yes, ma'am.
Q. -- with the formulas intact?
A. Absolutely. Yeah. And was I clear enough on what changed in that?
Q. Yes, I believe so.
A. Okay. Okay. Because it was basically that commercial weather adjustment, and it just didn't get flowed through to the revenue proof tabs on the current -- because it changed current revenues.
Q. Yes.
A. Okay.
Q. No. I double-checked with my coworkers, and yes.
A. Okay. Good. Good.

Q. And if you'd give me one second, I think I'm a little bit out of order here.
Can I go back to Tariff NUG, non-utility generator?
A. Yes.
Q. One of the questions that Mr. Wohnhas passed on to you is the question about the rate for the start-up and station power.
A. Yes.
Q. So -- and the tariff rate is the FERC-approved OA -- no?
A. No. No, ma'am.
Q. Okay. Tell me.
A. So -- okay. So the -- and again, I think Riverside has taken some contention with how I've characterized this, but -- so our one customer, Riverside Generating, they are on IGS rates. To me they are an IGS customer. They are there pursuant to Tariff NUG.
Q. Okay.
A. Okay? So what Tariff NUG does -- and it's been this way prior to myself working on Kentucky Power regulatory matters. I don't know the exact date of when this came about. But it gives non-utility generators the opportunity, if they meet

the right conditions, to bypass the rates set by this Commission and go straight to wholesale level, net meter their load in PJM, and avoid all the retail charges. So what they're currently paying under IGS will get put back on to other ratepayers.

Our contention is they do not meet that clause. And I don't know why the clause is there. The clause could be taken out by this Commission. That's -- it's their tariff, they can do what they want with it.

But that is where the OATT language comes in. It would be under PJM's OATT they would pay wholesale energy prices and just bypass the retail regime here.

It's our contention that they don't qualify for that. I think we'll be talking about it more here in another proceeding, but to me they are IGS customers.

Q. Okay. And I do recall in Kentucky Power's reply to Riverside's motion to intervene that's what was said was that they are actually on Tariff IGS.

A. Yes. Those are the rates they're paying currently, yes.

Q. I've got two items that I need some help passing out. My coworkers, I'm sure, will assist me.

MR. COOK: Mr. Chairman, if I could, while they're passing these out, I'd like to move to admit under the AG's tabs 5 and 6 for this witness, those two items, if there's no objection.

MR. GISH: There's no objection from Kentucky Power.

CHAIRMAN SCHMITT: Okay. Let them be admitted as Exhibits 5 and 6.

MR. COOK: And then -- actually I think tab 5 would be Exhibit 12.

MS. HUGHES: 12.

CHAIRMAN SCHMITT: 12?

MS. HUGHES: 12 and 13.

CHAIRMAN SCHMITT: 12 and 13.

MR. COOK: Thank you.

(AG Exhibits 12 and 13 admitted.)

Q. And what Mr. Raff is passing out are two exhibits that you filed into this rate case, and I will say one of these is mismarked as PSC Exhibit 7. Because these are in the record, I'm not asking to introduce them --

A. Okay.

Q. -- as an exhibit. Do you have -- do you have a copy, Mr. Vaughan? I don't want to start talking

about them until you have a copy.
A. I do not.
Q. Okay. I'll wait.
MR. RAFF: If I can approach the witness, Your Honor.
CHAIRMAN SCHMITT: You may.
THE WITNESS: Oh, thank you, sir. Thank you.
A. I now have a copy.
Q. Okay. I'm going to go ahead and start while everybody else is getting their copy. This first piece that's named -- the title on it is AEP Allocation Process.
A. Yes.
Q. This is from Exhibit AEV-R1, page 21 of 32. So this is just an excerpt. And I believe earlier you referenced a handout that was provided from a presentation given --
A. Yes.
Q. -- some time ago?
A. Yes.
Q. So this walks through the AEP allocation process.
A. Yeah, it's a summary table of the AEP transmission agreement, that cost allocation schedule I was discussing earlier.

Q. And just for reference, the second larger document is from your response to the Commission Staff's second data request, item 74.
A. Yep.
Q. And this provides the test year PJM LSE OATT charges and credits by month?
A. Yes.
Q. We're going to start with the AEP allocation process.
A. Okay.
Q. And in your direct testimony you stated that Kentucky Power is proposing to include an adjusted test year level of the net OATT charges and credits, correct?
A. That's correct. I adjusted up for the currently approved FERC rates at the time, because they had -- they had -- our test year went through February.
Q. Uh-huh.
A. We had rates approved in January, new transmission rates for the AEP zone in January, so I adjusted this 70 million up to the -- what the new rates were going to produce.
Q. Okay. I'm sorry, I need to take a minute. Since you've just given me some information, I want

to make sure I don't ask the same --
A. Okay.
Q. -- same information. I think you did answer this. I'm going to go ahead and ask it anyway. Was the adjusted test year level of the net OATT charges and credits proposed to be included in base rates equal to the anticipated net amount of PJM transmission revenues and credits to be allocated by AEP to Kentucky Power?
A. Yes. Yes. We updated for the new zonal transmission revenue requirements, the new 12 CPs and the new NSPL that affects the allocation between the AEP LSE and the munis and co-ops within the zone.
So you take that total revenue requirement, split it within the zone -- the zonal revenue requirement, split it within the zone between the AEP LSE, the non-AEP LSEs, and then you 12 CP it to the AEP LSEs via this document right here.
Q. Okay.
A. So, yeah, I updated all of those inputs that were known at the time and then took the delta between that new number and this test year amount, and that's in one of my -- one of the -- it's in one of the work papers that's filed in the case, that

calculation is.

Q. Okay. Are all PJM transmission revenues and expenses allocated by AEP to Kentucky Power, or are there any PJM revenues or expenses directly paid to or billed to Kentucky Power?

A. Nothing is simple. So all of these -- all of these -- the transmission -- and when you say "transmission," I'm going to qualify and say that -- I'm going to talk about the OATT.

Q. Okay.

A. Specifically the transmission -- transmission costs of service items, not congestion and losses and other things --

Q. Okay.

A. -- that we deal with in fuel or otherwise. So those are billed to AEP, or to Kentucky Power.

Q. Uh-huh.

A. Kentucky Power gets a bill from PJM just like all the other AEP LSEs. What's billed to them is billed on -- is based on PJM's -- PJM's tariff, which says, "I am going to bill you based on your 1 CP, your NSPL."

Q. Okay.

A. So we get that in. Each company gets a bill from PJM with that amount. We then take that total amount and we apply the FERC-approved transmission agreement to it. That was that smoothing process I talked about earlier where that one -- one peak allocation gets put in an entire pot and then it gets 12 CP back.

So the big -- the big difference there being that if it's a winter peak that year versus summer peak, you know, the amount of transmission costs that can be allocated to you is -- could be drastically different.

Q. Okay.

A. So, yeah, it comes in -- it comes in on the PJM bill, then through the accounting process of the transmission agreement, the amount that's recorded on Kentucky Power's books is the 12 CP share of the AEP LSE amount.

Q. Okay.

A. Which is what's reflected in this large sheet here.

Q. All right. So there are no PJM revenue or expenses that are not reallocated by AEP?

A. Relating to the LSE, no. The transmission owner revenue requirements are directly assigned to the transmission owners, like I discussed earlier.

Q. Yes.

A. So Kentucky Power submits $50 million, they get $50 million directly assigned. There's no allocation of that.
Q. And now referring to the test year PJM LSE OATT charges and credits by month.
A. Okay.
Q. Does this schedule include all of the transmission revenues and expenses allocated by AEP to Kentucky Power?
A. Again, I believe if we're talking just the LSE charges --
Q. LSE.
A. -- related to the transmission cost of service --
Q. Yes.
A. -- I believe so. I don't -- I don't qualify -- I don't count the administrative fees. I don't -- those aren't in here. The, like -- again, like generation -- congestion and loss type trans -- some people can refer to those as transmission charges. I'm not referring to those. Just the LSE OATT charges are in the schedule.
Q. Okay.
A. And it says -- and we refer to it sometimes as a net credit because you have that 4561005

account there, the point-to-point credits.
Q. Uh-huh.
A. That's for when -- you know, the network customers, our LSE, we pay the -- the network customers pay the entire revenue requirement, then as third parties use that on a spot basis throughout the year, they pay a fee to PJM. That fee that they collect from the third parties, the point-to-point, the nonnetwork customers, that gets allocated back. You know, because the network customers paid the whole -- the whole revenue requirement, so then that comes back as a revenue credit. So that's why there's that net in there, and that's what that 1005 account is.
Q. Okay. And thank you for the explanation. Can you walk briefly through each of these accounts and give us a sense of what is in each account?
A. Okay. So the largest -- so your largest -- largest LSE costs are going to be your network integration transmission service, NITS for short, and your transmission enhancement costs. Those are -- those are the larger projects. Transmission enhancement are things that are identified by PJM in that planning process, some of the -- some of which get allocated. Some of that is project costs get

allocated to the AEP zone from outside. Some of those get allocated -- are AEP projects that get allocated to other zones as well.

But there's the revenue requirement, we file them at FERC -- at PJM, is split between network -- network integration transmission service and transmission enhancement, and that's why you see the breakdown in the accounts here.

That first -- that first RTO, the 4561002, the RTO formation cost recovery, that is just an amortization of the initial RTO expense. I believe when we were -- I cannot remember if that was when we were forming our RTO. I guess when we joined PJM. But that's part of the transmission agreement there, so that's included.

Then you have the point-to-point transmission service credit that I just talked about that varies based on the third-party usage of the system.

Then you have -- the NITS expense gets broken up. It's confusing the way we account for it. There's affiliated and nonaffiliated accounts there. So you have affiliated transmission NITS costs. That's going to be your -- that's going to be your operating company affiliates right there. That's the costs coming from them.

Transmission, the trans TO cost, that's the Schedule 1-A cost, if you're looking at the -- if you're looking in the operating agreement, PJM OATT. It's the -- essentially like the -- I think like transmission-control-center-type stuff, the revenue requirement related with that. That's the share of that that's -- it's broken out separately. It's a much lower -- as you can see, a much lower cost than the NITS or transmission enhancement.

Then you have PJM -- affiliated PJM transmission enhancement costs. Again, transmission enhancement costs from affiliates.

And then you have other transmission enhancement and NITS expense, whether it be from a transmission company, an AEP transmission company or a nonaffiliate. Like Buckeye Power in our zone built some transmission, or PSEG built a backbone line and it got allocated to our zone. That's where those costs fall.

So the two largest, again, the big drivers there being transmission enhancement and the NITS charges.

Q. And this schedule does -- or does this schedule reflect the adjusted test year amounts of the OATT transmission charges and credits proposed

to be included in Kentucky Power's base rates?
A. It does not. I would point you to KIUC 1-67. It had -- because I have that -- that's where I identified an update, and it's included in there, and that's the same change I made in my direct testimony.
Q. Okay. If we assume a 9.75 ROE and a 9.11 WACC, can you tell us what the amount of Kentucky Power's adjusted test year revenue requirement for its transmission assets included in rate base will be?
A. Ooh. That's a word problem.
Q. Would --
A. Let me specify that. So you're saying if we assume -- if we assume this, the 9 -- the currently filed WACC and the currently filed ROE --
Q. Yes.
A. -- what our transmission costs of service and retail rates is?
Q. Yes.
A. I do not have that number available, but I could -- I could produce it.
Q. I will put that in a post-hearing data request then.
A. Okay. I had a feeling.

Q. Do you have a copy of the settlement agreement ?
A. I do .
Q. Can I have you turn to page 11, paragraph 8 (c) ?
A. Paragraph 11 ?
Q. I'm sorry . Page 11 .
A. Page 11 .
Q. Paragraph 8 (c) . And on page 11, it just looks -- it just has the (c) . It's at the top of the page . There's (b), paragraph (b) and then paragraph (c) .
A. Yes , I'm there .
Q. Okay . Is the current federal income tax rate an input into the calculation of Kentucky Power's WACC and gross revenue conversion factor ?
A. It's not included in the WACC . It's included in the gross revenue conversion factor . So if you're using a pretax WACC , then yes , it is included in there , the 35 percent marginal rate , yes .
Q. And if the federal income tax is reduced , would it be appropriate for the Commission to revise -- and you said it was the -- in the gross revenue conversion factor ?
A. It's in the gross revenue conversion factor ,

yes.
Q. So would it be appropriate for the Commission to revise that if there is a reduction in the income tax rate?
A. Not on a single-item basis, it would not. You would have to take into effect what the other tax implications are of that. So it would not be appropriate to simply knock the GRCF down to a 20 percent marginal rate if there's some other -- some other new tax expense we're going to incur because we lost deductibility somewhere that would offset that.
Q. So if there are multiple changes in the tax code, then would you say it's correct for the Commission to consider all of those changes?
A. Yes. As a whole, yeah, I think that would be appropriate.
Q. Okay. We're going to look at both that paragraph 8(c), but also, on page 9, paragraph 5(c). And paragraph 5(c) is a reference to the rate case stay out.
A. I'm there.
Q. Okay. So I'm going to have you flip back to 8(c).
A. Okay.

Q. And the sentence that says, (Reading) The weighted average cost of capital and gross revenue conversion factors shall remain constant until such time as the Commission sets base rates in the Company's next base rate case proceeding.

But that is not intended to limit the Commission's authority under paragraph 5(c) on page 9?

A. I am not a lawyer, but my lay interpretation of that is no, it's not meant to handcuff the Commission and we reap some sort of tax benefit that can't be flowed back to customers. That's not the intention.

Q. Okay. Thank you. Going back to the tariff. And do you pronounce it just Tariff NUG?

A. Sure.

Q. All right. That works for me.

A. Not many people look at it, so --

Q. What can I say?

A. However you want, yeah.

Q. And in your direct testimony you had referenced that there were no customers on Tariff NUG, correct?

A. That's correct.

Q. And can you explain the basis for that statement ?

A. I kind of did earlier . You know , to me Riverside is an IGS customer . They are there based on -- I guess they 're there based on -- pursuant to Tariff NUG, but if Tariff NUG wasn 't there , they would still be an IGS customer . That 's -- there 's no rates in Tariff NUG is kind of my -- the way I interpreted it.

Q. Okay .

A. Riverside did not appreciate that , I understand . It was not a slight .

Q. And we just needed to make sure that we clear it up --

A. Okay . Yeah .

Q. -- so that we don 't leave it out there . And without going too deep into the discussions , we know that there were some discussions --

A. Absolutely .

Q. -- with Riverside --

A. Yes .

Q. -- to resolve certain objections . Can you tell us the status of those discussions , if you can ?

A. There was a somewhat angry letter filed in this docket on the 7th or --

Q. December 6th?

A. Yeah. I think that's the current status of those discussions right there. We sent them a reply, and that's all we've -- that's all I've personally heard is what's in that, that letter.

MS. VINSEL: And on -- and this one I want to make sure that I'm not duplicating the Attorney General's post-hearing data request, so if anyone thinks I am, please speak up.

Q. On the first or second day --

A. Okay.

Q. -- of this hearing the Commission Staff introduced Exhibit PSC 5, which was a news release from AEP dated --

A. Okay.

Q. -- November 2016, which it referenced a $9 billion --

A. Yes.

Q. -- transmission investment over the next three years.

A. Yes.

Q. And all of this is as a post-hearing data request.

A. Okay.

Q. What we'd like to see is a list of the proposed investments, the projects.

A. That make up the 9 billion?
Q. That make up the 9 billion. To have it broken out between those that are in the AEP zone and those that are outside the AEP zone, but also further designated which of the projects are baseline projects and which are supplemental.
A. Okay.
Q. Is that doable?
A. We'll do our best.
Q. Thank you. I appreciate it.
A. I believe you also asked for NITS expense forecasts in that same conversation, and those are also KIUC 1-67, our response to that already in this case.
Q. Okay.
MR. COOK: And I don't believe there was anything in an AG data request to that effect.
Q. Turning to aviation expense.
A. Okay.
Q. We -- of course, we know it was provided for the test year.
A. It was.
Q. As a post-hearing data request, can we obtain the total aviation expense and amount allocated to Kentucky Power for the two years preceding the test

year?
A. I believe so.
Q. And also, do you -- is there a budget two years out for that amount?
A. I do not know.
Q. If there is --
A. If there is.
Q. -- we would like to get that also.
A. Okay.
Q. And I have a similar request, post-hearing data request for relocation expenses, getting the expenses that were incurred two years preceding the test year and, if budgeted out two years, budgeted out.

Can you tell us what period was utilized as a basis for the amount of the off-system sales margins that were included in the test year?
A. The test year. The 12 months ended February 2017.
Q. And is it correct that Big Sandy Unit 1 operated only nine months of the test year?
A. That's fair. It came on in -- it came on in May.
Q. And thus would be only -- Big Sandy Unit 1 only operated 70 months in the calendar year 2017?

A. Yeah. Seven months; that's correct.
Q. And were those off-system sales -- off-system sales margins for Big Sandy Unit 1 annualized in the test year?
A. No. There's not a lot of margin there. That's a fairly high -- you know, higher cost unit. It has a lower dispatch rate. It's more -- I'm not going to call it a peaker even those Witness Osborne has left, but it's -- you know, it's a -- it's a gas-fired coal plant. It doesn't -- it doesn't shoot up and down like a CT would to respond to prices, so there has to be a little more lead time and a little more sustained market price to turn that thing on.
And I'm not certain, but it has a fairly -- it's a capacity resource. It has a fairly low utilization rate. I don't know what the -- you know, what its capacity factor has been since it's come up. It's all dependent upon LMPs in the -- you know, in the footprint, which have been very low due to the very low gas prices.
So the gas price -- the low gas prices help the economics of the plant and at the same time harm it, because there's a marginal -- you know, it has -- it's there to meet marginal load.

I do not think it would have materially changed the base credit. To the extent that it does change that, that will be picked up in the deferral for the system sales clause, if it produces some more amount of margin than what's in the test year, the base credit.

Q. And Kentucky Power recorded a gain on the sale of its property from selling land in Lewis County, Kentucky, correct?

A. Is that the Carrs site?

Q. Yes, the Carrs site.

A. Yes, that was -- that was in the test year.

Q. And can you explain what Kentucky Power did with the proceeds of the gain?

A. I believe we removed it from the cost of service, because we have been removing the Carrs site expenses. I believe the gain followed the -- you know, it's not in -- the property hasn't been rebased. We -- the property taxes have been removed from the cost of service over the years, and it was -- you know, I think the gain followed where the costs have been.

Q. Okay. Okay. We -- I'm going to defer this one for a few minutes.

A. Okay.

Q. We talked earlier about the new Tariff GS.
A. Yes.
Q. How did -- we have a larger question of how Kentucky Power arrived at the 400 -- excuse me, 4,450 kilowatt hours --
A. Yeah.
Q. -- as a threshold to have a demand charge for proposed GS tariff.
A. Yes.
Q. And in your testimony you referenced the load factor --
A. Yes.
Q. -- for SGS. What was that load factor?
A. It's 40 some percent. I don't -- offhand, whatever times 10 kW equals the 4,450 at the -- it would be in the load research work papers that have been included in the record.
Q. Okay.
A. We can point it out specifically if you need us to in a post-hearing data request. Okay. Yeah. And the intention behind that was that you would capture -- you would capture basically all of the test year SGS billing units in the new -- the first block of the new GS rate, which is the average rate of the SGS class, right, because you took -- SGS was

a blocked kilowatt-hour rate and MGS was a blocked hours-use rate, and we put them together to avoid these seams issues, you know, at the -- and again, this was -- this was -- Mr. Satterwhite talked a lot about listening to our customers and listening to our employees that deal with the customers, and this came from our customer service reps telling us that they have headaches with these smaller general service accounts that go back and forth and it leads to -- it leads to confusion and it leads to bill -- bill volatility, where you're on a kilowatt-hour rate one month, then you get hit with a demand charge one month, you know, for 12 months, then you go back to a kilowatt hour, and so this was a way to deal with that, that seams issue.

But that's the thought in that, the way that tariff is designed, that if you were an SGS customer during the test year, you should essentially be paying the average SGS kilowatt-hour rate from the test year in that first block, and then if you grow, if you transition off, there's that break point, we will put a demand meter on you, if you don't already have one, then you'll migrate through the MGS tariff, essentially, the old MGS tariff. That's how the GS was put together.

Q. The demand rate --
A. Yes.
Q. -- under GS, and it increased from $1.91 under Tariff MGS --
A. Yes.
Q. -- to the 7.97, $7.97 --
A. Correct.
Q. -- under Tariff GS --
A. Yes.
Q. -- can you explain the basis of the four --
A. Yeah. So --
Q. -- of the size of the increase?
A. So what happens, it's twofold. We rolled in the demand charge from the Big Sandy Operations Rider that -- you got some demand charge there that got rolled in, and you have less billing units, because we made the first 10 -- the first 10, to transition -- to make that transition through that rate more stable for smaller customers that are on that seam, the first 10 kW of billing demand aren't billed.
Q. Uh-huh.
A. So when you -- essentially you cut the denominator down in the rate-setting equation. So if you put those -- if you put those billing units

back in, the demand charge would be much lower than the seven, so --

Q. Okay. Okay.

A. So, you know, you're -- you used to be at 20 -- you used to be billed on 20 kW as an MGS customer, now you're being billed on 10 under the new GS rate. Those first 10 have no demand charge. So it's just a -- you know, it's just math.

Q. And I'm going to try to make this as seamless as possible.

A. Okay.

Q. And you may have read one of the public comments received on November 20th, 2017, in this case from a minister from a Presbyterian church.

A. I have read that one.

Q. And that raised the question about the customers that are high demand but low usage.

A. Very low load factor, yes.

Q. Load factor.

A. Yes.

Q. Did Kentucky Power calculate how the Tariff GS would affect that type of customer?

A. I actually calculated how it would affect that particular customer seeing that complaint. I do not get a 71 percent bill impact that is in there. I cannot speak to their consultant or whoever calculated that. I got 26 -- or 26 percent under our original filed case and 23 percent, roughly, under the settlement.

But, yes, they -- that was a very peaky, very low load factor customer. That's the kind of -- kind of customer you would hope if they -- you know, if they have a complaint, they talk to our customer service folks, that we would meet with them and give them some ideas for managing that peak.

Like I don't know why they go from -- from 4 kW to 80 kW. I don't know what their facility is, but that is -- that is definitely something we should be -- we should be talking with those kinds of customers if they have these issues.

Q. And I will also note that Staff -- Staff looked at that letter and calculated a different amount too, that there was --

A. You did not get 71 percent either?

Q. Well, there was --

A. Okay.

Q. -- a particular issue that the first 10 kilowatts should not be charged.

A. Super.

Q. Well, and speaking of that, so it sounds like it's more a reactive situation, where these customers that will be in that position have to reach out to Kentucky Power. Has Kentucky Power attempted to identify any of the customers that are impacted that have that exact situation?

A. I myself have not. I can't say if the customer service representatives have. And you're always going to have outliers in rate design, because rates are always done on an average for the class. So the closer you are to the average, the flatter your rate change is always going to be, the closer you are to the class average, obviously.

So when you -- when you have extreme cases like the car shredder that initially tried to -- tried to intervene in this case, or you have this specific GS account that are on demand metered tariffs of a certain size, or they should be on a demand meter tariff because there are a certain amount of facilities that need to be installed to support those peak loads. But they use a lot of peak demand, very little energy. There's always going to be outliers. And maybe there's a good reason for it, and maybe there's a way they can shift usage and change how they're billed.

Q. And you probably -- I'm just going to ask

this anyway, but I don't think you can answer it.
A. Okay.
Q. Do you know if Kentucky Power would reach out to this particular customer to discuss --
A. I'm --
Q. -- that concern and help them to figure out a way they could manage?
A. I'm fairly certain we will reach out to them, yes.
Q. Okay. And it's --
A. I'm getting nods to my left here.
Q. I was going to say, without having people who are not on the stand answer the question --
A. Yes.
Q. -- it appears that --
A. Yes, we will reach out to this customer.
Q. Okay. Thank you. The -- what's called the coal plus tariffs, I have a question about those. The Tariff CS-Coal, CS-IRP --
A. Yes.
Q. -- and EDR.
A. Okay.
Q. And as I believe you probably know that when the Commission approved those tariffs, it granted Kentucky Power's request to defer any financial loss

from the tariff into the next rate case?
A. Yes.
Q. So our question is: Has there been any financial losses incurred in connection with these tariffs?
A. So we have -- we have three that are approved, three approved contracts under those, and they're all on the IRP version. So that is all -- that is where those customers have signed up to be an interruptible load for the Company, and now they're a capacity resource for us, so they are included in our capacity plan at PJM and they're being paid that demand credit per Tariff CS-IRP and CS-Coal. You know, it's the same demand credit. So that -- again, the way that is set up, those credits then are recovered through Tariff PPA, the current Tariff PPA and our proposed continuation of it. So, no, there's no financial loss to the Company based on these three contracts that are approved currently.
Q. Thank you. Okay. Do you have this gray-covered packet?
A. There are several books up here. Yes. Many tabs?
Q. Yes.

A. Yes .
Q. Now , let me -- and again , this is -- these are not exhibits . These are already in the case record .
A. Okay .
Q. Can I have you turn to tab 2? And this is your Exhibit AEV -4S filed with the settlement agreement .
A. Okay .
Q. Okay . On -- yes , it's just that one page . Can I have you refer to line 10 ?
A. Okay .
Q. And in the parentheses , the equation .
A. Yeah .
Q. Can you -- can you confirm that the equation should read nine times 5.8742 and not four times eight -- 5.7348 ?
A. That 's correct . Confirmed .
Q. And can you refer to line 12 ?
A. Yes .
Q. And again confirm that the equation in the parentheses should read 11 multiplied by 35 percent ?
A. That 's correct . Yes . This was obviously a cut and paste underneath this in an incorrect fashion .

Q. And then on line 14 with the gross-up factor, can you confirm --
A. Yeah.
Q. -- that the equity gross-up factor in the parentheses is not that equation?
A. That's correct.
Q. Okay.
A. It's wrong. Wrong reference.
MS. VINSEL: That's all our questions.
THE WITNESS: Wonderful.
CHAIRMAN SCHMITT: Commissioner Cicero, questions.
VICE-CHAIRMAN CICERO: Just a couple.

EXAMINATION

By Vice-Chairman Cicero:
Q. Mr. Kurtz asked you a question in regard to Virginia and West Virginia making an effort to reduce subsidies that were paid by the industrial companies or customers in order to stimulate industrial activity in those areas, right?
A. Yes.
Q. And you said that it was a -- it was in an effort to reduce their rates to make them more competitive. Do you know where those rates fall compared to Kentucky?

A. They're --
Q. I know you may not know this, but I'm just curious --
A. Well, I do the rates in --
Q. -- you seem to know a lot, so --
A. I do the rates in both these states, unfortunately. So the tariff rate is a little higher than Kentucky Power's. Our West Virginia industrial tariff rate, we have two. I believe they're both, depending on load factor, are going to be just a little higher than Kentucky Power's current rates, or even the rates out of the settlement. However, the largest industrial customers in West Virginia -- West Virginia does more special contracts for its larger ones, so there's -- a large chunk of the industrial load is not on tariff, they're on discounted --
Q. Discounted contract?
A. -- other special contract rates, which I can't really talk about.
Q. Oh, that's okay.
A. Okay.
Q. I was just curious where Kentucky fell. My understanding is Kentucky's rates are about seventh in the country? Not Kentucky Power --

A. Depending on what source you look --
Q. -- the average of Kentucky electric rates.
A. We have fairly competitive industrial rates; yes, sir.
Q. So are you the gentleman that can answer questions about allocations, or have we gone kind of through that?
A. Yeah. Yeah. Which kinds?
Q. Well, for example, I'm looking at how allocations are made from AEP down to Kentucky Power, and --
A. Oh, boy.
Q. -- picking one would be executive compensation, for example, at AEP. There's a total of $26.8 million that has to be allocated somewhere.
A. Yes.
Q. So what is the piece that Kentucky Power receives of that $26.8 million and how is it determined?
A. So I can't tell you the dollar amount of that or what period that's from, but the way it happens is, the executive Service Corp -- so all Service Corp expenses are allocated to the operating companies via the cost -- Service Company Cost Allocation Manual, and there is a litany of

allocation factors and methods in there. Things get allocated on company revenues, capacity, like --
Q. Number of employees?
A. No. Yeah. Right. You're going to -- you're going to allocate the --
Q. There's all kinds of --
A. Yeah.
Q. -- methods. I saw --
A. There's a lot of them. Absolutely.
Q. -- GNB or VNW, whatever they are --
A. So there's a --- there's a monthly service company bill, runs through accounting, you know, so that is going to be allocated down to Kentucky Power, it's going to end up on their income statement, and Kentucky Power -- so like in this rate case, the way it gets to our retail ratepayers is you have the test year amounts as allocated down from the service company to the operating companies, then that amount winds up in our test year. It's either -- some amount is either -- is included, whether it's adjusted or removed, there's an amount of the test year expenses, then it's allocated to Kentucky retail from Kentucky's financial statements.
And we do not have a large nonjurisdictional

jurisdiction here when we're doing our cost study, it's just our two wholesale customers, Olive Hill and Vanceburg, so Kentucky retail ends up being roughly 98 and a half percent of total books. So you get the costs from service company to our books, allocate it to Kentucky retail.

Q. It's whatever the piece is for Kentucky Power, 98 point whatever percent you just mentioned?

A. 98 and a half generally, yeah.

Q. 98 and a half. So that piece is what's allocated out to the customers, but --

A. Yes.

Q. -- I'm interested in the percentage that is umbrellaed down to all the subsidiaries, to find out what the piece is that comes from AEP to Kentucky Power. And I know there are several different allocation methods. You've already described those.

A. Yeah. Are you looking for like the test year Service Corp bill amounts?

Q. Well, I have -- it's the test year. That was the $26.8 million --

A. Okay.

Q. -- was the total compensation. And what I'm trying to do, and it's not -- I am just using this as an example. I know we already have a

post-hearing data request --
A. Okay.
Q. -- that takes the allocated amounts and shows --
A. Oh, yes.
Q. -- the specific calculations. I didn't know whether you were familiar with, for example, a -- and if you can take any piece and give it to me, I'd be happy with that as part of the hearing, but if not, that's fine, I'll wait till I receive it in the post-hearing --
A. Yeah. I'm more familiar with the process and how, you know, there's -- there's the allocation process and the monthly accounting that ends up on Kentucky's books, and I'm more familiar with how I'm taking -- we're taking those financial statement amounts and determining whether they're retail jurisdictional applicable or not and how it gets allocated.
Q. Well, I think we did a wonderful job of leaving you till last, because you seem to know what you're talking about, and I'm surprised your title is only manager.
A. Thank you.
Q. So that's the compliment.

A. I believe my boss is listening, so, Dave, yeah.
Q. I wanted to make sure I mentioned that where he could hear it. Okay?
A. Thank you, sir.
VICE-CHAIRMAN CICERO: I don't have any other questions.
CHAIRMAN SCHMITT: Commissioner Mathews.
COMMISSIONER MATHEWS: It's amazing how many of my questions have disappeared in the last hour.

EXAMINATION

By Commissioner Mathews:
Q. I just have one question, and I need to understand this, the network integration transmission service.
A. Yes.
Q. There's a statement in the presentation that was attached to your testimony that six percent of NITS costs are associated with its facilities and six percent associated with APCO costs. Explain that to me.
A. Let me grab --
Q. Let me find what page that is. If you -- you seem to know your exhibits better than we do and we're looking at them.

A. Is it -- is it this one with the box that has the six percent?

Q. I think it's actually the description. It's on page 16 of 32 --

A. Okay.

Q. -- of Exhibit AEV-R1.

A. Oh, yeah. So that -- that's just saying that -- so under the cost allocation in the zone, so if we billed -- that statement is basically saying that if -- let's take the Hazard-Wooton line, for example. You know, Kentucky Power is going to build that -- if it's approved, Kentucky Power will build that. There will be a revenue requirement associated with that, and it will get -- some portion -- it's going to go to PJM, it's going to come back to the zone. The zone -- zonal amount, because there's that piece that gets allocated to the non-AEP LSEs within our zone. The AEP LSE amount. Of that amount, Kentucky Power is going to pay the roughly six percent of that, their 12-CP share.

Q. Right.

A. And the same is true --

Q. The six percent we've used for everything else?

A. Yes. Yes.
Q. Okay.
A. And the same -- the same is true, then, for an APCO line, you know, where -- again, same deal, APCO builds a line in the zone, it goes to PJM, the LSE, you know, and it comes back to our transmission zone. The AEP LSE chunk of that we're going to get --
Q. It could have been anything -- anyone other than APCO and it would have still been true?
A. Anything within our transmission zone, yes. Yeah.
Q. Okay. And that was what had me confused is that --
A. Yeah, it's just -- it's because we're operating as a zone.
Q. Do you participate in the stakeholder process at PJM?
A. I do not. We have -- we have experts that sit right next to me, actually, that do participate in it.
Q. Well, I feel sorry for them.
A. Yeah. They travel to Philadelphia a lot, yes. No, I'm more focused on retail matters, but we do employ people that advocate and participate in

that stakeholder process, both from the -- you know, just from the overarching as a load-serving entity and as a generator, and then specifically as a transmission entity. So we participate in all those.

Q. So do you participate in three of the groups, the generation owners, the LSE, and the transmission?

A. We are all of those things, yes.

Q. On behalf of --

A. All the AEP operating companies.

Q. -- all the AEP --

A. Yes.

Q. -- operating companies?

A. Yes.

Q. Even though not all of the AEP operating companies are transmission owners or generation owners anymore?

A. Yeah. Ohio Power would be the one that's not a generation owner anymore, but everyone owns transmission still. Oh, I guess Kingsport Power doesn't own generation either.

COMMISSIONER MATHEWS: Okay. I have no further questions.

CHAIRMAN SCHMITT: Redirect.

MR. GISH: I have -- excuse me -- just one clarification.

REDIRECT EXAMINATION

By Mr. Gish:

Q. Earlier in the testimony you talked about the Settlement Exhibit 80 -- Settlement Exhibit 1, which was also attached as AEV-1S to your testimony.

A. Yes.

Q. And both you and Mr. Satterwhite talked about the split-out of the -- the percent revenue increase for the LGS customers as their own -- as their own and the public schools customer, the schools customers on their own.

A. Yeah, unaggregating that.

Q. Unaggregating that LGS/PS class. Do you have a document that demonstrates that?

A. I do. I have 20 copies of it.

Q. And can you explain for the Commission where you got the information to do this disaggregation of the --

A. Yes.

Q. -- LGS and public schools --

A. Yeah, it came from --

Q. -- class?

A. It comes directly from AEV-3S, the proof of revenue. You're just -- you're just adding up the proposed revenues from that schedule, because it is breaking down -- AEV-3S is broken into the various rate schedules, so you have a PS secondary, a PS primary, an LGS primary, secondary. So it's all in there.

Q. And once this document has a chance to be circulated, I would like to move for it to be admitted to the record. But I'll give people a chance to look at that. And I have another question for you.

A. Okay.

Q. Ms. Vinsel asked you a question about the status of the dispute with Riverside regarding the applicability of Tariff NUG.

A. Yes.

Q. And you mentioned that there had been a reply to Riverside's letter. You were referring to an earlier letter of Riverside, not the comment letter that was --

A. Yes, sir. Yes.

Q. -- published in the case?

A. Yeah, we had -- back when Riverside was petitioning to be included in the rate case, they had sent us a letter, we were -- through our customer service representative , and we had replied to that . We have not replied to the most recent letter that was filed in the docket here .

MR . GISH : I'd like to move to admit this exhibit as --

CHAIRMAN SCHMITT : Is this the same exhibit that Mr . Kurtz --

MR . GISH : It is not , Your Honor . This exhibit has the -- at the very bottom , the split -out of the --

CHAIRMAN SCHMITT : Okay .

MR . GISH : -- LGS customers and the schools customers within the LGS / PS class .

CHAIRMAN SCHMITT : Is there any objection ?

MR . KURTZ : No, it's exactly the same except for the bottom .

CHAIRMAN SCHMITT : Except for the bottom . Let it be filed as Kentucky Power --

MS . HUGHES : 13 .

MR . GISH : I think it's 13 .

CHAIRMAN SCHMITT : -- Exhibit -- which ?

MS . HUGHES : 13 .

MR . GISH : 13 .

CHAIRMAN SCHMITT : 13 . Okay .

(KPCO Exhibit 13 admitted .)

MR. GISH: And I have no further questions, Mr. Chairman.

CHAIRMAN SCHMITT: Okay. Mr. Kurtz, any questions?

MR. KURTZ: No.

CHAIRMAN SCHMITT: Any --

MR. KURTZ: What time are we leaving?

CHAIRMAN SCHMITT: Any of the other settling intervenors, any further questions of Mr. Vaughan?

If not, Mr. Osterloh.

MR. OSTERLOH: I believe I have a few more, but I'll keep them brief.

RECROSS-EXAMINATION

By Mr. Osterloh:

Q. Mr. Vaughan, just on the document that was --

A. Yes.

Q. -- handed out, so that I understand it, on -- let me step back. We've discussed how the settlement proposes rates for Tariff K Through 12 that would be $5,000 less than that -- than what would otherwise be designed --

A. 500,000, yes.

Q. Sorry.

A. All right.

Q. Thank you. Than if it were consolidated with

LGS, correct?
A. They are consolidated -- if they were on the LGS rate, yes.
Q. Right. So in -- on the bottom of the document that was just handed out --
A. Yes.
Q. -- there in the left column where it shows approximately $2.7 million in settlement base rate increase for LGS --
A. Yes.
Q. -- and approximately $800,000 for the PS class, if we were to eliminate that $500,000 amount, the result of that would be LGS would come down to approximately 2.2 million and the PS would go up to approximately 1.3 million, correct?
A. Yeah. You would drive the LGS rate down -- the impact down to about 4.6 percent, and you would drive the public -- the K through 12 over seven.
Q. And that would result in what you-all -- the Company -- it would be consistent with what the Company had in its cost-of-service study?
A. I don't know if I can make that statement, because this is -- this is -- this isn't consistent with what would be in the cost of service. This is part of a settlement package altogether. But it

would be somewhat consistent with my initial proposal, which obviously included a much higher rate increase than what was provided for in the settlement with all of its other terms.

Q. Okay. And then earlier, in response to Vice-Chairman Cicero's statement that Kentucky has approximately -- or ranks approximately seventh lowest for industrial rates, would you be surprised to know that rates for commercial customers in Kentucky aren't nearly as favorable and Kentucky ranks approximately 20th for commercial customers?

A. I can't confirm that. I don't know, though.

MR. OSTERLOH: Okay. Thank you. No further questions.

CHAIRMAN SCHMITT: Mr. Cook.

MR. COOK: Your Honor, we have no further questions.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: Staff has no further questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: No further questions.

CHAIRMAN SCHMITT: May Mr. Vaughan be finally excused?

MR. GISH: Yes, please.

CHAIRMAN SCHMITT: You may step down.

MR. VAUGHAN: Thank you.

CHAIRMAN SCHMITT: Do you have another witness?

MR. OVERSTREET: We don't, Your Honor, but I wanted to note that I think at the lunch break you had asked for us to provide to you the -- sort of a listing of the types of customers that were taking at the 100 to 125 kW level. Would this be an appropriate time to give you that?

CHAIRMAN SCHMITT: Yes, it would.

MR. OVERSTREET: Okay. There are approximately 140 of those customers, and interestingly enough, Mr. Vaughan gave a listing, and -- of those types of customers across the entire --

MR. GISH: Spectrum.

MR. OVERSTREET: -- spectrum, and at the 100 to 125 kW level they're the same. There are -- there are some board of education buildings. There are some gas marts. There's a shoe -- at least one shoe store. There is a medical-type center. There are some school accounts. Those would be -- there are some cities. There are some restaurants, furniture stores, churches, and car stores.

CHAIRMAN SCHMITT: Thank you. Thank you.

MR. OVERSTREET: Okay.

CHAIRMAN SCHMITT: Okay. Mr. Cook.

MR. COOK: I just wanted to mention that the Attorney General does have Roger McCann here.

CHAIRMAN SCHMITT: Why don't we go ahead, then, and put Mr. McCann on, and then Mr. Willhite has been here religiously for the entire time. Unfortunately, I guess he'll be the last witness, but -- unfortunate for you, Mr. Willhite, had to stay here the entire time.

Okay. Would you raise your right hand, please? Do you solemnly swear or affirm, under penalty of perjury, that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. MCCANN: I do, yes, sir.

CHAIRMAN SCHMITT: Please be seated.

And, Counsel, you may ask.

ROGER MCCANN, called by the Attorney General, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Chandler:

Q. Can you please state your name for the record?

A. Roger McCann.

Q. And with who are you employed and what is your position there?

A. I'm employed with Community Action Kentucky. I am the executive director.

Q. Are you the same Roger McCann who caused to be filed prefiled direct testimony and certain data requests in this matter?

A. Yes, I am.

Q. Do you have any additions or corrections to make to your testimony?

A. None that I know of.

Q. And if we were to ask you today the same questions, would your responses be the same?

A. To my knowledge, yes.

MR. CHANDLER: The witness is available for cross.

CHAIRMAN SCHMITT: Okay. Thank you.

Counsel, any questions?

MR. OVERSTREET: We have no questions, Your Honor.

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: No questions?

Counsel for any of the settling intervenors, any questions of Mr. McCann?

MR. MALONE: No questions.

CHAIRMAN SCHMITT: Okay. Mr. Osterloh, questions.

MR. OSTERLOH: No questions.

CHAIRMAN SCHMITT: Staff.

MS. VINSEL: No questions.

CHAIRMAN SCHMITT: Commissioner Cicero.

VICE-CHAIRMAN CICERO: No questions.

CHAIRMAN SCHMITT: Well, I have -- oh, go ahead. Commissioner Mathews.

COMMISSIONER MATHEWS: I don't have any.

EXAMINATION

By Chairman Schmitt:

Q. Mr. McCann, I know you prefiled testimony, and, in fact, your organization attempted to intervene in this case but was denied because of an untimely filing; is that correct?

A. That is correct, sir.

Q. Can you tell us the present state of the HEA fund or the HEAP program?

A. Yes, sir. The HEAP program is one by which on an annual basis Kentucky Power assigns slots to counties. So a slot is a -- is an opportunity for enrollment, for a household to enroll in their HEA program.

And then what happens is, is that typically during the LIHEAP program process, households will -- we will ask households if they would be able to -- or would like to apply to that program as well, and so we'll take their application.

What happens is, and I can go into further detail, but there's a data passthrough back and forth, and there is an eligibility determination of that. And if they're eligible, they -- and the slot is available, that household will be placed in that slot. And so what happens then is that household begins receiving a credit on their bill.

Now, Kentucky Power handles that credit. That is either $65 or $33, depending upon the type of customer that they are. And that is handled through -- I believe it's four months during the winter, December, January, February, March, and three months, to my recollection it's August, September, October, I believe. And it may be in my notes. I may be incorrect about that.

And so it basically helps subsidize that household's electricity for those months. All right.

Q. Well, how are the -- how are the slots allocated? Is it based upon available money, or how does that -- how does that work?

A. The slots are allocated by the power company and are provided to us, and then we distribute those slots to those community action agencies that are operating the program. So there's a chart of last year's slots in here. And you would know I was well rehearsed --

Q. Is that page 15?

A. -- on finding -- on page 15, figure 7 shows last year's slots. So there were AEP nonheating, the allocated slots. So that was the number of slots per county, for a total of, by my calculation, 336 allocated slots for the nonheating customer.

MR. CHANDLER: Your Honor, may I -- are you referring to your testimony?

THE WITNESS: Yes, sir.

MR. CHANDLER: May I -- would you like a copy of his testimony?

CHAIRMAN SCHMITT: I have it in front of me.

MR. CHANDLER: Okay. Thank you.

A. And 972 allocated for the AEP heating customers. That figure, I would like to point out, shows a wait list. The wait list is really erroneous, because -- or it is -- it is accurate in my presentation because that's the number of customers that were on the wait list who were not able to enroll because the slots were taken. However, what we observe in the field is that once the social worker or the staffer who is capable of helping this person apply or enrolling this person into the wait list knows that there are no more slots available and, for example, with Boyd County there, that there were 114 people on the wait list, they stop taking applications. So the wait list would have been higher, they just simply tell people there's no use to bother or they'll stop offering the enrollment altogether.

So it's difficult to determine from this how much -- how many -- what the actual true need was, but that is correct, to my knowledge, the number of people who are on the wait list.

Q. In your testimony at page 15 it says, (Reading) As of September 20th, 2017 --

A. Yes, sir; that's correct.

Q. -- over 1,475 eligible people were on the HEA subsidy wait list for Kentucky Power service territory; is that correct?

A. That's what that says; yes, sir.

Q. And the reason that there were 1,475 people on the wait list, is that because there weren't enough slots or weren't enough -- was not enough money thought to be available to provide assistance to these people?

A. That's correct.

Q. So I think in your testimony it said, and I wanted to ask you because there may or may not be a difference of opinion about it, that the program, the HEAP program was instituted in the settlement of a case in 2006, but I think you said there had not been an increase in that funding in the 11 years the program has been in effect?

A. That is -- I recall that in my testimony; yes, sir.

Q. Okay. And that at this time Kentucky Power proposed increasing the meter charge by a nickel, and it's matched by a nickel, which would bring it to 20 cents?

A. Yes, sir.

Q. Is that correct?

A. That's my understanding, yes.

Q. And in your opinion, that wasn't sufficient to basically provide the needs of the customers who would otherwise be eligible for this relief; is that correct?

A. That is correct.

Q. Why is that not sufficient, in your opinion?

A. Well, sir, because we have 336 on the AEP nonheating, we have 972 slots on the heating side. We estimate 35,756 households in poverty in the AEP service area. So it does not come near to helping the people who are in poverty in that area.

Q. If the -- if the increase were made from, instead of 20 cents per meter charge with a 20-cent Company match, if the meter charge were increased to 30 cents with a Company match, so that it would be 60 cents instead of what is now 30, doubling the charge, what effect would that be on the -- basically the -- those in Kentucky Power's service area at and below poverty level?

A. Well, I'm speaking off the top of my head, but if the funding was doubled, then you could do one of two different things: You could either increase the benefit amount, which, by the way, I think, according to the data request, was $148 average bill per month per customer, whereas this HEA program is paying $65 or $33 based upon the customer. So it is not paying their full bill. So you could double that and still not meet the average.

On the other hand, you could leave the benefit amount the same and you could double the number of slots that were available, so -- and I'm doing rough math here, but let's say 13, 1,200 -- 1,200 slots total to 2,400 slots. So that would be 2,400 families served instead of -- instead of the 1,200 or so. You still have 35,000 people living in poverty in that area. So it still isn't helping everyone.

Q. But it's better than it has been --

A. It would be better than what it is.

Q. -- and what is presently proposed, correct?

A. It would be better than what it is.

Q. Do you have any other -- any other testimony or any other comment on the -- on the HEAP program or the proposed rate increase?

A. My position is -- our position is, and this is the position of my board members who are in this area and our organization is that we're opposed to both the rate increase and also the service charge increase.

We oppose it on several levels. First of all, we try to -- our mission is to reduce barriers to poverty. We can't reduce all poverty, poverty is always there, but we try to reduce those barriers. When someone can't afford medicine, they can't get better. When they can't afford electricity, which is essential to life in our -- you know, in our modern society, it makes it difficult to cook and clean and, you know, all these things.

We oppose it because, as I have sat here I've heard people talk about the effect on industry, the effect on schools, and those things are necessary for the people of Eastern Kentucky and the people of -- all the people of Kentucky to ever have a chance of getting out of poverty. They have to have education. They have to -- they have to have a job. We want them to have a job. We want them to get out of poverty, off of government assistance. That is our mission. And so it concerns me greatly to hear that a school will have to pay more for electricity or an industry will have to pay more for electricity. How does that impact wages? How does that impact their ability to educate, for example? So it puts friction on their ability to have success.

Another way to look at it is, is that -- and I believe we were three point -- during the past year, I wanted to say it was 3.1 million, $3.16 million in LIHEAP that was paid on behalf of the clients that had applied. So 3.1 million paid to Kentucky Power in the LIHEAP program.

So LIHEAP is a federal program. It comes through CHFS, they subcontract it to CAK, and then we manage and disburse that across the state. That makes -- one way to look -- one way that I look at it is, is that we are a customer. We are buying electricity on behalf of those -- of the people there that are applying. To apply for that they have to be below 130 percent of poverty. So that makes us a customer buying electricity on their behalf. If there is a rate increase, if the price goes up, originally 16 percent, that means I can help 16 percent less people.

And so if our mission, if our job is to be a caretaker of the taxpayer dollar and to purchase electricity on behalf of the taxpayer for low-income people, that negatively impacts our ability to do our job.

So that's an -- so there's multiple levels that we oppose this on, and that's another level to look at it.

Q. Thank you. You understand that the Kentucky Public Service Commission's authority with respect to implementation of rates is basically governed by statute?

A. Yes.

Q. And that the affordability on the part of ratepayers isn't necessarily something that we, you know, can consider, but really consider the status of the utility and the -- and its need in order to provide safe, reliable service.

But it is clear that -- in my opinion, in this program, that basically Kentucky Power and the ratepayer -- other ratepayers ought to consider those in poverty in terms of fixing rates, especially when some don't have enough money to basically provide food and medicine for their families.

A. That's right. Oftentimes they're required to make a choice between those things, especially people on fixed income. We see seniors. We also see children.

These programs -- the HEAP program, the LIHEAP program, these programs are not individual -- geared for individuals, they're geared for the household, and so we're affecting that household. So that that parent may be unemployed or may be, you know, whatever, they still have children, and we're heating those children at the same time. Or a senior who is on a fixed income, their income has not risen, yet their cost on this is going up, and

the cost may be going up on other things. What -- how do they -- how do they adjust? What thing in their life do they have to adjust to still be able to pay their bill?
Q. Well, I think the fact is, is that to some extent, I mean, coming from here, the utility can pass costs along to ratepayers, and businesses, to some extent, can pass costs along, or try to, but a person on a fixed income, a Social Security recipient, an SSI recipient, a food stamp recipient can't pass costs on to anybody.
A. That's correct.
Q. Essentially isn't that correct?
A. That's correct. That's correct.
CHAIRMAN SCHMITT: I have no further questions.
Counsel, you may ask, anyone.
MR. CHANDLER: May I ask one on redirect?
CHAIRMAN SCHMITT: Yes, you may.
MR. CHANDLER: Maybe to the ire of Mr. Willhite.

REDIRECT EXAMINATION

By Mr. Chandler:
Q. Can you remind me what the amount for electric heating, the amount that one of those

recipients in the slot can be provided per month?
A. So if a person is in a slot, it's either $65 a month, and it's not all 12 months, or $33 a month.
Q. So for those four months in the winter, if, for instance, the customer charge is $11 in Kentucky Power's territory, as it is now, that provides only $54 of subsidy -- of subsidy for energy usage, correct?
A. That seems correct, yes.
Q. And as the customer charge is increased, that's less available to help cover the energy charge, correct?
A. Yes, that's correct.
MR. CHANDLER: That's all the questions we have.
CHAIRMAN SCHMITT: Anyone else have questions of this witness?
COMMISSIONER MATHEWS: I have one.
CHAIRMAN SCHMITT: Yes.

EXAMINATION

By Commissioner Mathews:
Q. With the LIHEAP funding that was, I guess, 3.16 million last year?
A. That was what was --
Q. Or that's allocated for this coming year?

This coming heating season?
A. I'm sorry, I didn't allow you to finish your question.
Q. How many households did that help?
A. So that dollar amount was last year's subsidy, LIHEAP subsidy and LIHEAP crisis combined, and that was just what was paid to Kentucky Power on behalf of the customers. That was not statewide, for example.
Q. Right.
A. So I have, I believe, a chart.
Q. And I'm lost in the paperwork. I couldn't find it.
A. I know. It's in here. It's one of those things that I'm going to sit here and scramble on and I know it's here.
Q. If it's in the record, I can find it. How's that?
A. Let's see. I'm looking at page 8. Between October 1st, 2016, and 9-30-2017, community action completed 49,743 LIHEAP and energy assistance applications originating from within the counties comprising Kentucky Power service territory.
Q. And how many of those were funded?
A. I'm sorry?

Q. How many of those were helped? That was the number of applications.
A. Oh, that was approved applications.
Q. Okay. It was approved? Okay.
MR. CHANDLER: Can I -- do you mind to keep reading that?
THE WITNESS: (Reading) Paying a total of 35.2 million for all energy assistance. That was -- that was statewide. Of that figure, CAK paid Kentucky Power $3.16 million during the LIHEAP benefit period to help its low-income customers.
Keep -- ?
MR. CHANDLER: I don't think the amount was -- I don't think that --
CHAIRMAN SCHMITT: Didn't really answer her question.
COMMISSIONER MATHEWS: Okay.
MR. CHANDLER: I think the original, the 43,000 number may have been a larger -- I think for every county that's --
THE WITNESS: Oh, I see what you're saying.
COMMISSIONER MATHEWS: Okay. That's fine.
THE WITNESS: I can provide that information in follow-up if you'd like.
COMMISSIONER MATHEWS: I think I would.

THE WITNESS: Okay.

CHAIRMAN SCHMITT: That's a data request that the Attorney General's Office --

COMMISSIONER MATHEWS: I know.

CHAIRMAN SCHMITT: -- would like to provide, for a change.

MR. CHANDLER: If Ms. Vinsel will send that along, we'll provide the answer.

CHAIRMAN SCHMITT: Any other questions of Mr. McCann?

May he be excused?

MS. VINSEL: Yes.

CHAIRMAN SCHMITT: Thank you.

Mr. McCann, you may step down.

MR. MCCANN: Thank you.

CHAIRMAN SCHMITT: And you may be excused.

Mr. Willhite, I'm sorry you had to wait so long. Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

MR. WILLHITE: I do.

CHAIRMAN SCHMITT: Thank you. Please be seated.

Counsel, you may ask.

MR. MALONE: Thank you, Your Honor.

RONALD L. WILLHITE, called by the Kentucky School Boards Association, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Malone:

Q. Mr. Willhite, can you please state your name and your business address?

A. Ronald L. Willhite, 260 Democrat Drive, Frankfort, Kentucky.

Q. Thank you. And what's your position for KSBA?

A. I am the Director of the School Energy Management Project.

Q. Okay. Did you cause to be filed in this proceeding data requests and testimony?

A. I did.

Q. Okay. If I asked you the questions that were presented in those data requests and/or the testimony, would your answers be the same today?

A. They would.

Q. So you have no alterations or corrections?

A. No.

MR. MALONE: Okay. Pass the witness, Your Honor.

CHAIRMAN SCHMITT: Counsel, any questions?

MR. OVERSTREET: No questions.
MR. KURTZ: No questions.
CHAIRMAN SCHMITT: Mr. Kurtz, none.
Mr. Osterloh.
MR. OSTERLOH: No questions, Your Honor.
CHAIRMAN SCHMITT: Questions? Attorney General's Office, no questions.
Staff.
MS. VINSEL: No questions.
CHAIRMAN SCHMITT: Commissioner Cicero.
VICE-CHAIRMAN CICERO: No questions.
COMMISSIONER MATHEWS: I'm trying to make one up.
CHAIRMAN SCHMITT: This is awful. He's been here three days.
MR. WILLHITE: That's fine with me. The worst part, my wife has been burning up Amazon while I've been sitting here.
COMMISSIONER MATHEWS: It is the Christmas season.

EXAMINATION

By Chairman Schmitt:
Q. Obviously the Kentucky School Board Association is in favor of this K-12 or PS tariff; is that correct?

A. Yes.
Q. Now, as I understand it, Kentucky Power performed a cost-of-service study or some kind of study and concluded, I think Mr. Vaughan may have said, subject to correction, that the schools would be better off in the LGS class than they would having their own classification, their own tariff, to which you disagree. You think that school districts ought to have their own -- their own tariff applicable to them, correct?
A. Yes, I do. It's hard for me to --
Q. And why? Why?
A. It's hard for -- first of all, it's hard for me to see how you would be better off on a tariff where you pay more, and that certainly would be the case under the LGS tariff as compared to the pilot -- pilot tariff that's in place now.
The second thing is that the cost-of-service study that was submitted in the case shows that the pilot school rate is a cost-based rate. It's producing a rate of return of one and a half times what -- the average rate of return.
The question, then, for me becomes is, is that rate of return representative of what the rate should be for those schools or should it be a higher

rate of return that's produced by the LGS tariff?

And I see a significant difference between schools and the other customers that are on the LGS tariff. Schools are in the business of schools. Businesses are businesses.

I know we've been passing around this afternoon who's on -- the types of businesses that are on rates, but on page -- on page 6 of my -- of my testimony is a list by ZIP code of the type of customers that are -- that are served on the LGS tariff. This information was provided to me in a data request by the -- by the Company. There's very few of those -- of those customers there that aren't businesses.

Public schools have an obligation to serve. Even though schools are in some difficult financial situations in Eastern Kentucky, they are not going away. Businesses -- and schools, the only way schools can raise revenues are through their property -- basically their property taxes, and they can only do that, without it being subject to recall, in setting their compensating tax rate. Businesses, on the other hand, can raise prices or they can -- or they can go out -- go out of business.

So I see a significant difference in the risk to the utility of serving a school versus serving a business. And so I think that it's -- that it's reasonable, a reasonable recognition of that difference in risk to serve schools represented by that $500,000 billing difference on the -- provided by the K-through-12 tariff.

Q. So you think that the schools -- the cumulative effect of the settlement is a $500,000 advantage to schools in Kentucky Power's service area, and that basically that whatever -- the $500,000 could be more easily borne by the others in the LGS class?

A. Certainly.

Q. Is that what you're saying?

A. Yes.

CHAIRMAN SCHMITT: I have no further questions.

Anyone else have questions? Other than one. How did the -- I know, settlement negotiations are privileged and not subject to testimony, but I could ask Mr. Gardner, except that he doesn't have to answer.

How is it that you guys cut this deal and Mr. Gardner's clients got stiffed here? How did they end up in -- how did they end up with the additional money? I'm just -- it's kind of a joke.

Somebody -- Commissioner Cicero suggested once in private, says it was like -- like four or five men out drinking or something and one goes to use the restroom, when he comes back, everybody else has left and he's stuck with the tab.

I just wondered how that -- how that works out. But you don't have to answer.

If there's nothing further of this witness, Mr. Willhite, you may -- you may step down.

MR. WILLHITE: Thank you.

CHAIRMAN SCHMITT: Okay. Is that all of the testimony that's -- I don't think there is any other testimony to be presented in this proceeding; is that correct?

All right. We've had -- counsel for various parties have stated they'd like to send data requests, so let me -- pursuant to a previous discussion with counsel, all data requests will be filed and served upon opposing counsel by no later than December 13th, which I think is next Wednesday. Kentucky Power and the Attorney General will be the subject of these requests, will respond by no later than December 22nd, and parties that would like to file briefs, briefs will be due by the end of the day on January 5th, 2018. Is that satisfactory?

MR. OVERSTREET: Yes, Your Honor.

And Mr. Dutton, who had to leave early, wanted me to let the Commission know that he does not anticipate filing a brief.

CHAIRMAN SCHMITT: Filing a brief? Well, anybody that wants to file a brief can file one, and if you don't, that's okay too.

MR. OVERSTREET: Understood, but he asked me to pass that along.

CHAIRMAN SCHMITT: All right. Thank you.

Is there anything else to bring before the Commission at this time?

If not, this hearing is hereby adjourned. Thank you.

MR. KURTZ: Thank you, Your Honor.

MR. GISH: Thank you, sir.

(Hearing concluded at 5:51 p.m.)

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STATE OF KENTUCKY)
)
) SS.
)
COUNTY OF JEFFERSON)

I, Laura J. Kogut, a Notary Public within and for the State at Large, my commission as such expiring 25 July 2019, do hereby certify that the foregoing hearing was taken before me at the time and place stated and for the purpose in the caption stated; that witnesses were first duly sworn to tell the truth, the whole truth, and nothing but the truth; that the hearing was reduced by me to shorthand writing in the presence of the witnesses; that the foregoing is a full, true, and correct transcript of said hearing; that the appearances were as stated in the caption.

WITNESS my hand this 14th day of December 2017.

Registered Merit Reporter
Certified Realtime Reporter
Notary Public, State at Large

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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	)	CASE No.
Plan; (3) An Order Approving Its Tariffs and	)	2017-00179
Riders; (4) An Order Approving Accounting	)	
Practices to Establish a Regulatory Asset or	)	
Liability Related to the Big Sandy 1 Operation	)	
Rider; and (5) An Order Granting All Other	)	
Required Approvals and Relief	)	

POST-HEARING BRIEF
OF THE KENTUCKY ATTORNEY GENERAL

Respectfully submitted,

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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 a Regulatory Asset or Liability Related to the Big Sandy 1 Operation Rider; and (5) An Order Granting All Other Required Approvals and Relief	)	CASE No. 2017-00179

ATTORNEY GENERAL'S POST-HEARING BRIEF

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and states as follows for his post-hearing brief in the above-styled matter.

STATEMENT OF THE CASE

On April 26, 2017 Kentucky Power Company ["KPCo" or "Company"] filed its notice of intent seeking permission, *inter alia*, to increase its base rates. The instant case thus marks the first rate case since Case No. 2014-00396, wherein the Commission approved the Big Sandy Retirement Rider,[1] and the Big Sandy 1 Operating Rider. The company's application, utilizing a historic test period ending February 28, 2017 was filed on June 28, 2017. Due to deficiencies in the company's application, the Commission deemed the application filed as of July 20, 2017.

[1] KPCo now seeks to rename this rider the "Decommissioning Rider."

On August 7, 2017 KPCo filed an amendment to its application to reflect reduced debt cost resulting from the June, 2017 refinancing of the company's long-term debt. As a result of that refinancing, KPCo reduced the amount of additional revenue sought in the instant case from the original $65.672 million to $60.397 million, which included a proposed 15.03% increase in residential base rates.[2]

Seven parties were granted intervention and four were denied.[3] On November 22, 2017, KPCo filed documents in support of a non-unanimous settlement it had reached with KIUC, KLC, KSBA, KCTA and Wal-Mart. The non-unanimous settlement recommends that the Commission approve $31.79 million in new revenues, which includes a 14.15% increase in non-fuel residential base rates.[4] The Attorney General and KCUC did not join in the non-unanimous settlement. The final evidentiary hearing was held on December 6, 7 and 8, 2017.

<u>ARGUMENT I: KPCo's Existing Rates Are Unaffordable and the Company Has Failed to Justify its Request for an Increase</u>

1. *<u>Courts Have Upheld the Consideration of Affordability in Prior Cases</u>*

> *"I am retired, live alone, and live month to month on Social Security. I cannot sustain another increase on my power bill. I am on the [] budget plan and pay $262.00 a month which leaves me with barely enough to pay my other bills and buy groceries. I keep the thermostat on 60° F and wear a jacket in the house to stay warm."* [5] *-- Bradora C. Plummer*

In *Nat'l–Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503 (Ky.App.1990), the Court of Appeals upheld the Commission's consideration of affordability

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[2] KPCo Supp. Response to Staff 1-73 filed Aug. 28, 2017, attachment 97, updated COSS 8-28, tab Sheet 1.
[3] The parties denied intervention were: International Brotherhood of Electrical Workers Local Union 369; Progress Metal Reclamation Company d/b/a Mansbach Metal Company; Riverside Generating Co., LLC; and Community Action of Kentucky.
[4] Satterwhite Amended Testimony filed Nov. 30, 2017, Settlement Agreement Exhibit MJS-1S.
[5] Public Comment from Bradora C. Plummer, as read into the record by Chairman Schmitt, Dec. 8 Video Transcript of Evidence ["VTE"] at 11:59:55–12:01:00.

when it, *sua sponte*, created a unique variable utility rate tied to market prices of aluminum. In that case, two aluminum smelters, which consumed large quantities of power and employed hundreds of employees, were facing a crisis the court characterized as "monstrous."[6] The smelters were faced with potential shut-downs due to falling world aluminum market prices if relief could not be obtained to make power bills more affordable. As the Court noted, the variable rate the Commission itself created:

> ". . . [w]as designed to require the smelters to pay more for electricity when aluminum prices are high, when they likely can **afford** to pay more. The variable rate will protect the smelters from high production costs when aluminum prices are low. . . . By selling 70 percent of its output to NSA and Alcan, Big Rivers is definitely linked to the aluminum business. The fortunes of the producer and the consumer are dependent on each other."[7]

The *National-Southwire* court noted that ". . . the real goal for the PSC is to establish fair, just and reasonable rates,"[8] and specifically affirmed the Commission's creation of a rate designed to make power more affordable for two key customers, [9] while also noting that " … it would be good to see more clear concern for the consumer."[10] The Commission-approved rates were effectively bound to the smelters' margins, thus tying the rates they paid to the margins they earned and were able to pay.

The U.S. Supreme Court has also addressed the need to consider affordability in setting rates. In *Federal Power Comm'n v. Hope Nat. Gas Co.*,[11] the Court noted that in prior rulings, it has found that a rate setting Commission is ". . . not bound to the use of any single

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[6] *National-Southwire, supra*, at 506-509, 515.
[7] *National-Southwire, supra* at 515 [emphasis added].
[8] *Id.* at 513.
[9] *Id.* at 517.
[10] *Id.* at 513 (*see also* Wilhoit, Judge, concurring in part and dissenting in part, "Just as a utility should not be denied a fair return on its investment properly included in rate base, so a customer or consumer should not be required to pay for investments made by the utility which are of no benefit to the consumer." Id. at 518).
[11] 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1944).

formula or combination of formulae in determining rates. Its rate-making function, moreover, involves the making of 'pragmatic adjustments.'.[12]. . . Under the statutory standard of 'just and reasonable' it is the result reached not the method employed which is controlling.[13] Moreover, in the ratemaking process, "the fixing of 'just and reasonable' rates, involves a balancing of the investor **and the consumer interests**."[14] This Commission is not limited solely to KPCo's biased opinion of the "regulatory compact." Rather, the Commission must balance all interests – including those of the consumer, which obviously is predicated upon the establishment of just rates which they are able to pay.

In *Kentucky Industrial Utility Customers, Inc. v. Kentucky Pub. Serv. Comm'n*, 504 S.W.3d 695 (Ky. App. 2016), the Court of Appeals found the Commission's approval of a renewable energy production agreement ["REPA"] to be unreasonable because it was based on expressions of state and federal environmental policies,[15] and failed to consider ". . . the reasonableness and fairness of the substantial rate increase Kentucky Power's customers are being asked to bear over two decades for an additional 3% increased energy reserve."[16] While the REPA may have met the goals of KRS 154.27-020(2), nonetheless ". . . [f]airness, justness and reasonableness remain the determinative considerations."[17]

In overruling the Commission's approval of the REPA, the Court of Appeals further noted:

> Kentucky Power, a retail electric supplier, has the "exclusive right to furnish retail electric service to all electric-consuming facilities located within its certified territory[.]" KRS 278.018. **This right strips consumers of the right**

[12] *Id.*, 64 S. Ct. 281 at 287 (citing *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U.S. 575, 586, 62 S. Ct. 736, 743, 86 L.Ed. 1037).
[13] *Id.*, citations omitted.
[14] *Id.*, 64 S. Ct. 281, 288 [emphasis added].
[15] 504 S.W.3d at 707-708.
[16] *Id.* at 708.
[17] *Id.* at 707.

> **to price shop for the most affordable electric rates**. **Consumers of public utilities must rely on the Commission to protect them from unreasonable and unfair rates.** "Because utilities are allowed to charge consumers only 'fair, just, and reasonable rates' under KRS 278.030(1), **the [Commission] must ensure that utility rates are fair, just, and reasonable to discharge its duty under KRS 278.040 to ensure that utilities comply with state law**."[18]

Additionally, the Court of Appeals noted seven key facts established at the hearing, which included, *inter alia:* (i) if the REPA was approved, the average residential customer in the first year would experience a 5.9% to 7% rate increase but in subsequent years the increase could go as high as 13%; and (ii) KPCo did not conduct any economic or cost-benefit analyses to determine whether the price at which it entered into for the REPA would be, in the long-term, economical.[19] The Court further noted that while KPCo failed to provide an economic justification for the REPA, the petitioner, KIUC, did present evidence regarding the REPA's economic impact,[20] and that:

> "None of the Commission's findings relate specifically to the REPA at hand or the reasonableness and fairness of the substantial rate increase K[PCo]'s customers are being asked to bear over two decades for an additional 3% increased energy reserve. [KPCo] **failed to put forth any evidence** as to how the REPA compared to other renewable sources of energy or even other similar biomass contracts. It also failed to perform any analysis to estimate the reasonableness of the costs under the REPA for years two through twenty. In fact, there was no evidence put before the Commission that the REPA would result in a direct or indirect economic benefit for K[PCo]'s customers or the region as a whole. . . . The Commission still has a duty to insure that the rate increase that is being imposed on customers is fair, just and reasonable."[21]

Finally, the *Kentucky Industrial Utility Customers, Inc.* Court noted that under its ruling in *National Southwire, supra*:

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[18] *Id*. at 705 (quoting *Kentucky Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 Ky.2010)) [emphasis added].

[19] *Id*. at 708.

[20] *Id*.

[21] *Id*.[emphasis added].

> We explained that "[o]ur Court's role is also to insure that the conflicting interests of all parties concerned with utility rates are fairly balanced. If the PSC accomplishes this, we have no reason to substitute our judgment or reverse the PSC . . . The problem in this case is that the Commission failed to fairly balance the competing interests. . . . While the Commission was entitled to give some positive weight to the fact that this was a biomass facility, **it was still required to consider other factors such as the reasonableness of the costs in comparison with other alternatives.** While the statute *allows* the Commission to consider the policy objectives of KRS 154.27–020(2), it mandates that the Commission consider whether the full costs of the power agreement over the full term of the agreement are fair, just and reasonable. **The Commission's failure to do so represents a complete abdication of its statutory responsibility to ensure that the rates for public utilities in this Commonwealth remain "fair, just and reasonable**."[22]

The Court of Appeals made it abundantly clear that the reasonableness of costs as it relates to the consumer -- *affordability* – is a key factor the Commission *must* take into consideration when ruling upon whether rates are fair, just and reasonable. In fact, in coming to its conclusion, the Court took notice that customers residing in the twenty counties comprising KPCo's service territory live either at or below the poverty line, and that the costs at issue in that case would cause economic harm to the service territory.[23] The Court thus concluded that, **"[i]n no way, shape or form can we accept that the General Assembly intended the citizens of this Commonwealth to shoulder this type of burden. Given the facts, we must conclude that it was unreasonable for the Commission to approve Kentucky Power's application."**[24]

In the instant case, it is not merely one or two customers facing a crisis, but the largest class of ratepayers – residentials -- who are facing a "monstrous" crisis. As set forth in the testimony of Attorney General witness Dr. David E. Dismukes, between 2006 and 2014,

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[22] *Id.* at 709 [italicized emphasis in original, bolded emphasis added].
[23] *Id.*
[24] *Id.* [emphasis added].

KPCo has increased the residential energy charge 48.45% and the customer charge by 87.71%.[25] If approved, the non-unanimous settlement [26] would increase those figures to 71.03% for the residential energy charge and 138.9% for the residential customer charge, since 2006. [27]

Moreover, KPCo ratepayers currently pay a ***far higher*** percentage of their monthly gross income for their electric utility bill than do electric customers of the other three investor-owned electric utilities ["IOUs"] in the Commonwealth: Kentucky Utilities, Duke (Kentucky) and Louisville Gas & Electric. As set forth in KPCo's response to AG 1-13,[28] residential customers of these three other IOUs utilizing 1000 kWh per month pay an average of $96.63, whereas a KPCo residential customer with the same usage pays $132.71 under ***current*** rates, or 37.33% more than the average IOU customer. Considering the *average* monthly household wages in Eastern Kentucky of $3097, KPCo residential customers pay 4.29% of their income for electric service, while a comparable customer of Kentucky's other IOUs on average pay only 2.52% -- a difference of nearly 70% more than the latter.[29] But this major differential applies only to *existing* rates. If the new revenues set forth in the non-unanimous settlement are taken into effect, that same average KPCo residential customer will be paying significantly more of his income to KPCo. Even more importantly, these percentages are only part of the story as they are based merely on the *average* monthly income

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[25] Dr. David E. Dismukes Direct Testimony, pp. 7-8, and exhibit DED-3.
[26] See Exhibit AEV 3S, filed November 30, 2017.
[27] Figures are based on the increases proposed in the non-unanimous settlement, and upon historical data provided in Dr. David E. Dismukes Direct Testimony, pp. 7-8, and Exhibit DED-3; and Exhibit AEV 3S, filed November 30, 2017.
[28] KPCo_R_AG_1_13_Attachment1.xls, tab "AG 1-013b."
[29] Over the 12-month period ending the 2nd quarter of 2016, assuming 1000 kWh per month usage. Sources: Dismukes Direct Testimony pp. 10-11, exhibit DED-2; and workpapers of Dr. David E. Dismukes provided in response to KPCo's data requests to the Attorney General, item no. 5, attachment DED-1_DED-2_KY_Labor_Market_Data_FINAL.xlsx, "Labor Market Data" tab, columns B and D.

for Eastern Kentucky; when low-income customers are considered, the effect is even *more* stark.

KPCo's ratepayers are captive to these increases, and have no ability to shop for a rate they can afford. *Only* the Commission can protect them from "unreasonable and unfair rates."[30] Given the disastrous economic conditions in Eastern Kentucky, residential ratepayers have no choice but to depend on the Commission to "ensure that utility rates are fair, just and reasonable." [31] The time is now for the Commission to show "more clear concern for the consumer"[32] by denying the entirety of the proposed increase for residential customers.

2. *KPCo's Ratepayers Cannot Afford Yet Another Rate Increase*

> *"Please no more rate hikes. I get 465.00 a month to live on. I would be better off dead. I am only existing, not living. My life should be better than this in a country so rich."* [33]*-- Margie Prater*

The Commission's mission statement provides that its mission is to, ". . . foster the provision of safe and reliable service at a *reasonable* price to the customers of jurisdictional utilities while providing for the financial stability of those utilities by setting *fair* and *just* rates, and supporting their operational competence by overseeing regulated activities."[34] KRS 278.030 (1) requires the Commission to set rates that are "fair, just and reasonable." However, these terms are not defined in KRS Chapter 278, nor anywhere else in the Kentucky Revised Statutes. Nonetheless, available to the Commission in this case is testimony reflecting several key metrics that can be used to determine whether rates are fair and just.

The testimony of Roger McCann, Executive Director of Community Action Kentucky,

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[30] *Kentucky Industrial Utility Customers, Inc., supra* at 705.
[31] *Id.* at 705 (quoting *Kentucky Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky.2010)).
[32] *National-Southwire*, *supra* at 513.
[33] Public Comment submitted into the record from Margie Prater, as read by Chairman Schmitt, Dec. 8, 2017 VTE at 12:01:17–12:01:32.
[34] https://psc.ky.gov/Home/About#AbtComm [emphasis added]

Inc., and Dr. David E. Dismukes provide illustrations of several key metrics which together demonstrate that KPCo ratepayers cannot pay the rates currently in effect, before considering any proposed increase.

If the Commission accepts the terms in the non-unanimous settlement, KPCo residential customers will have seen a **71% increase** in their energy charge, and a **139% increase** [35] in their monthly customer charge over the past four rate cases[36] and a doubling of bills for the average residential customer since 2005.[37] Constant increases in utility bills have a negative impact on economic growth because it precludes the ability of customers to afford other life-sustaining needs and services.

Second, the twenty counties located within KPCo's service territory have some of the highest poverty rates in the Commonwealth, with an average poverty rate of 30.19%.[38] The poverty rate in eighteen of those counties exceeds 20%, which the U.S. Census Bureau defines as "extremely high."[39] Nineteen of those counties report poverty rates in excess of Kentucky's overall 18.3% poverty rate.[40] These counties rank as some of the poorest in the U.S., in a state that ranks 47th in highest poverty rates.[41] Of KPCo's 136,344 residential customers,[42] an estimated 35,755 (or 26.22% of all of its residential customers) live in poverty.[43] Of all the children living in the counties comprising KPCo's service territory, approximately 37% live

[35] Figures are based on the increases proposed in the non-unanimous settlement, and upon historical data provided in Dr. David E. Dismukes Direct Testimony, pp. 7-8, and Exhibit DED-3; and Exhibit AEV 3S, filed November 30, 2017.
[36] Dr. David E. Dismukes Direct Testimony, Exhibit DED-3.
[37] Dr. David E. Dismukes Direct Testimony, pp. 10-12, assuming 1,295 kWh of usage per month.
[38] Roger McCann Direct Testimony, p. 7.
[39] *Id.*
[40] *Id.*
[41] *Id.*
[42] KPCo response to AG 2-1 Attachment 1, Column D Total.
[43] McCann Direct Testimony, p. 7.

in households below the poverty line.[44] As pointed out in the testimony of Attorney General witness Roger McCann:

> "*By definition, families with incomes at or below the poverty line cannot meet their basic needs*. . . . [f]or a senior citizen on a fixed income, utility service is not only a basic need, it is a **survival need.** With more money needed for utilities, there is less money for other basic needs like food, housing, medication, and other necessities. The energy assistance needs cited above represent the current situation (based on existing KPCo rates). With any rate increase at all, the affordability gap will greatly widen."[45]

In addition to the prevalence of poverty, the high unemployment rates in Eastern Kentucky form a second metric in considering the affordability of KPCo rate. As depicted in the testimony of Dr. David E. Dismukes, employment in the Commonwealth as a whole experienced significant loss due to the 2008 recession, but recovered in the fourth quarter of 2014.[46] However, job loss in Eastern Kentucky was greater than the state as a whole, and has yet to recover. In fact, Eastern Kentucky employment is still 15.5% lower than levels just prior to the recession.[47] Additionally, Eastern Kentucky has historically reported average earnings 10%-20% lower than the state as a whole.[48] Eastern Kentucky was starting to see a closing of that differential, but over the past several years, that progress has eroded and the earnings differential has again expanded to 20% lower than the statewide average.[49]

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[44] Source: U.S. Census Bureau Small Area Income and Poverty Estimates, "Table" tab, accessible at: https://www.census.gov/data-tools/demo/saipe/saipe.html?s_appName=saipe&map_yearSelector=2016&map_geoSelector=aa_c&menu=map_proxy

[45] McCann Direct Testimony at pp. 8-9 [italicized and bolded emphasis in original]. As an example of inability to meet basic needs, one Letcher County ratepayer stated that she knew of another KPCo customer, 85 years old, who attended the same church for 50 years and faced a $700 KPCo power bill almost every month. She could not afford to connect her hot water heater, and even had to boil water on her stove in order to take a bath. Because she could not afford her bill or groceries, she recently had to move to another town to live with family members. Now she is no longer able to attend the church that she has been an integral part of for 50 years, all because of the high cost of her electric bill. Public Hearing in Hazard, Elizabeth Jones Public Comment, VTE at 1:30:12–1:30:54.

[46] Dr. David E. Dismukes Direct Testimony, p. 5, and exhibit DED-1.

[47] *Id.*

[48] *Id.* at pp. 5-6.

[49] *Id.* at p. 6.

The third metric is the level of disconnect notices compared with actual disconnections. Significantly, although the Commission requires utilities to file reports of disconnections for nonpayment, this data is not publicly available. This data was provided in response to the Attorney General's discovery requests.[50] While the number of disconnection notices – nearly *double* the number of actual residential customers – is disturbing by itself, it is far more troubling that the number of actual disconnections for 2017, as depicted in the chart below,[51] is on pace to exceed the level established in 2015 and 2016. This high level of disconnects is a burden for both ratepayers and the company itself, which is forced to spread costs associated with disconnects among its other ratepayers. As one ratepayer who has experienced multiple disconnects commented during the public comment hearing in Hazard, "I can't pay my electric bill and I have to pay rent . . . we've lived in the dark before, we can do it again."[52]

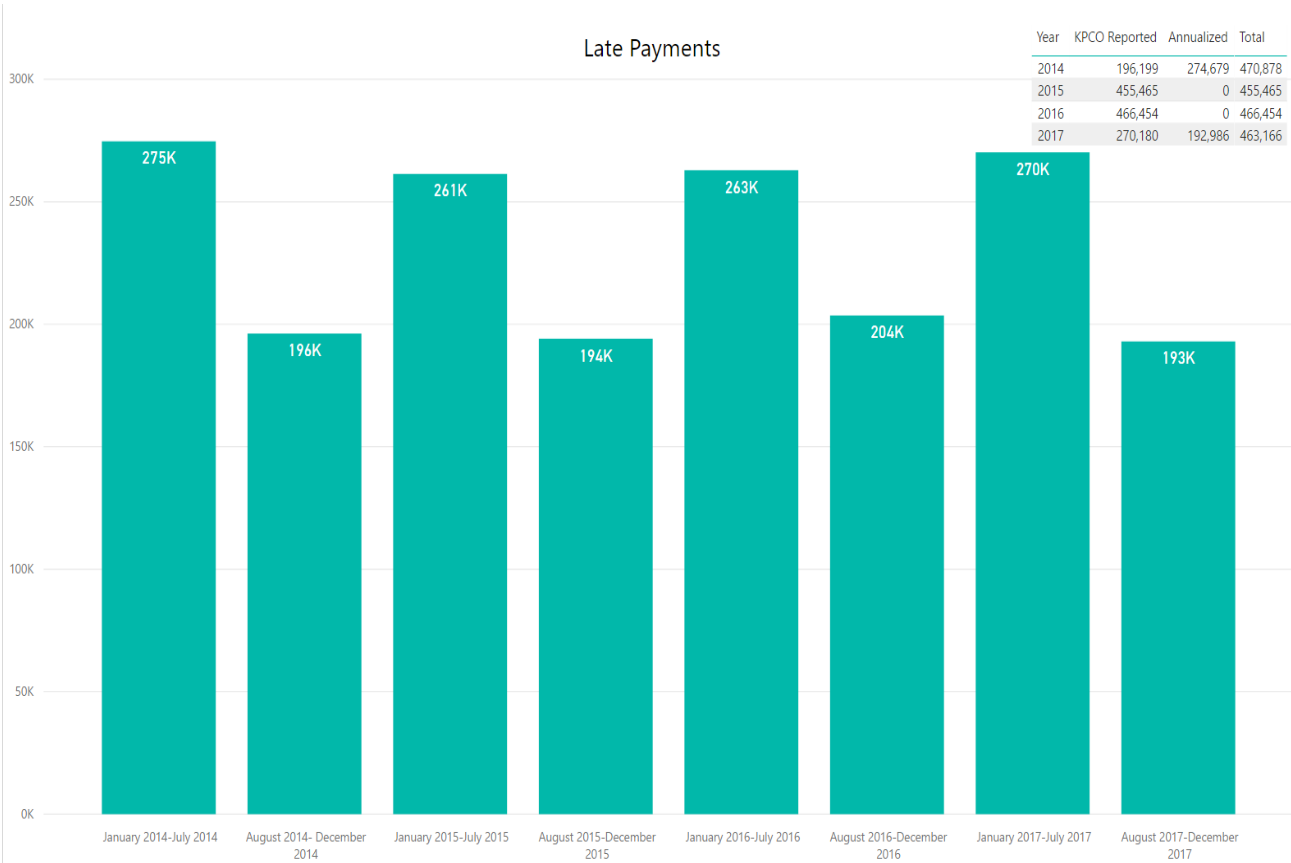
[CONTINUED ON FOLLOWING PAGE]

[50] *See, e.g.,* KPCo Responses to AG 2-1 – 2-13.
[51] *Id.* at pp. 11-12; source: KPCo response to AG 2-4 Attachment 1 and AG 2-10 Attachment 1.
[52] Public Hearing in Hazard, KY, Alice Craft Public Comment, VTE at 1:17:50–1:18:23.

Moreover, the number of accounts receiving *multiple* disconnects has steadily increased over the 2014 to 2017 timeframe. In 2015, 1,386 customers had two or more disconnects, which increased to 1,469 customers in 2016. In the first seven months of 2017, 933 accounts had two or more disconnects. If that pace of disconnects continues, by the end of 2017 approximately 1,600 customers will have received multiple disconnects. This amounts to an 8.2% increase year-over-year.[53]

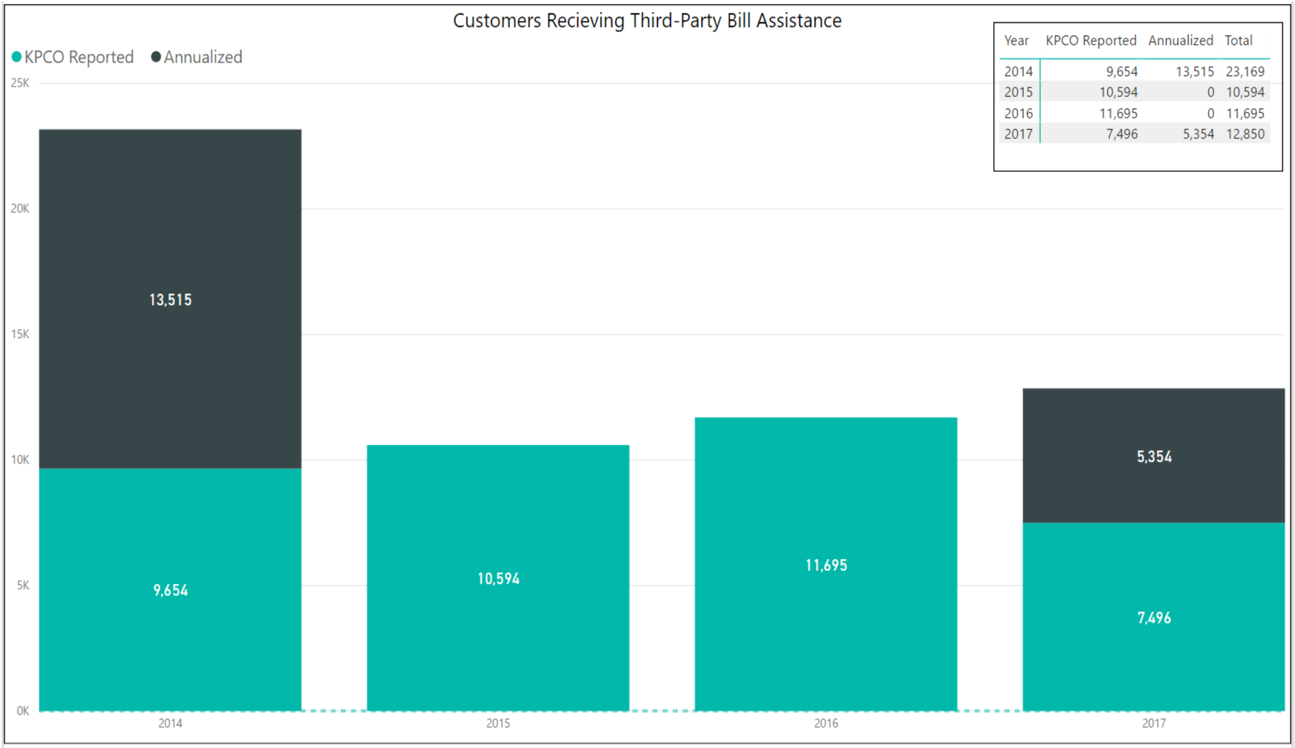
[53] KPCo Response to AG 2-4, KPCo_R_AG_2_4_Attachment 1.

The fourth metric illustrating the inability of KPCo residential customers to pay their current rates is the number of late payments in each of the years 2014 through July 31, 2017. As the chart below depicts, KPCo had well-in excess of *1 million* late payments over that period:[54]



Given that approximately 26% of KPCo's residential customers live below the poverty line, it should come as no surprise that a significant number of them receive bill paying assistance from a third-party agency.[55] This fifth metric is depicted in the following graph:

[54] KPCo Response to AG 2-3 and KPCO_R_AG_2_3_Attachment1.xlsx.
[55] KPCo Response to AG 2-11 and KPCO_R_AG_2_11_Attachment1.xls.



Year	KPCO Reported	Annualized	Total
2014	9,654	13,515	23,169
2015	10,594	0	10,594
2016	11,695	0	11,695
2017	7,496	5,354	12,850

Taken together, these five metrics provide solid, objective evidence upon which this Commission must rely to find that KPCo's residential ratepayers cannot afford the proposed rate increase set forth in the non-unanimous settlement because they cannot afford to pay their bills today. KPCo customers merely want affordable, reliable electric service, something the Company is either unwilling or unable to provide. Any proposed increase would produce rates that are unfair, unjust and unreasonable pursuant to KRS Ch. 278.

3. *KPCo Failed to Satisfy its Burden to Justify the Increase*

> *"Last year alone, we had at least fourteen (14) fires in Breathitt County that were caused by old heating stoves and stuff because they couldn't afford to turn on their electric furnaces and they had to go back to the old coal stoves and the old coal furnaces and wood furnaces. And it wasn't safe in mobile homes and some of the homes they were living in. They lost everything to fires."* [56]*-- Rose Wolf, Mayor of Jackson*

Utilities seeking increases in rates bear the burden of proving that the proposed

[56] Public Hearing in Hazard, KY, Mayor of Jackson, Rose Wolf Public Comments, VTE at 54:58–55:50.

increase is just and reasonable. KRS 278.190 (3) provides:

> At any hearing involving the rate or charge sought to be increased, **the burden of proof to show that the increased rate or charge is just and reasonable shall be upon the utility**, and the commission shall give to the hearing and decision of such questions preference over other questions pending before it and decide the same as speedily as possible, and in any event not later than ten (10) months after the filing of such schedules.

During cross examination KPCo witnesses were repeatedly asked whether the company had conducted any studies, reports, analyses or provided any information regarding whether the proposed rate increases were affordable, and each one responded that no such studies or analyses were conducted.[57] One of the final such answers was illustrative of this point, as Mr. Vaughan noted that "I have no specific economic or other studies done about the affordability of the rates. . ."[58] The Company's dismissive nature when pressed about what studies or analyses it has conducted regarding the affordability of any proposed increase is interesting provided their past experiences. Whereas KPCo in *KIUC, supra* was criticized by the Court for failing to meet its burden to justify the economic necessity of the REPA, nonetheless the Company in 2017 utilized *extensive* economic data, including employment and income rates of its residential customers, to seek preferential utility rates for businesses involved in coal processing.[59] For the Company to now argue against considering economic data of distressed populations in determining whether the rates paid by residential customers are fair, just and reasonable, when they have already used the same data to request (and receive) preferential rates for an entirely different class, is disingenuous at best.

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[57] *See, e.g.*, VTE Dec. 6, 11:36:00 – 11:38:47; 12:09:28 – 12:10:16; Dec. 7, 10:36:40 – 10:40:59; 4:24:56 – 4:26:36; 5:15:32 – 5:16:03; Dec. 8, 1:58:36 – 1:59:13; 3:28:19 – 3:29:38; 4:14:45 – 4:15:29.
[58] VTE Dec. 8, 3:28:19.
[59] Case No 2017-00099, Application pp. 8-9.

It is apparent from the record that KPCo witnesses have summarily concluded *in their own mind* that the requested revenue increases are reasonable, but nowhere in the record has any evidence been introduced showing that the increase is affordable for its residential customers. Just as KPCo failed to produce any evidence regarding whether its customers could afford the cost of the REPA in *Kentucky Industrial Utility Customers, supra*, KPCo has once again failed to meet its burden to prove that the requested new rates are just and reasonable. Therefore, its request to establish new rates must be denied.

ARGUMENT II: The Commission Should Use the Following Adjustments as an Additional Basis for Rejecting the Increases Set Forth by the Company in its Application and the Non-unanimous Settlement

1. Return on Equity

The non-unanimous settlement into which KPCo entered seeks a return on equity ["ROE"] of 9.75%. Although this a significant reduction from the outrageous return the company sought in both its direct and rebuttal testimony (10.23%), nonetheless it remains greatly in excess of the return shareholders require.

Two intervening witnesses testifying to the proper return on equity in this case recommended a far lower return. Dr. Woolridge, testifying on behalf of the Attorney General, testified that a proper return would be 8.6%,[60] while Mr. Rick Baudino, on behalf of KIUC testified that the ROE should be 8.85%.[61] Dr. Woolridge testified that his recommendation was based chiefly on the fact that actual interest rates have been falling, and capital costs have been low.[62] In support of his recommendation, during the hearing Dr. Woolridge noted that

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[60] *See generally* Dr. J. Randall Woolridge Direct Testimony.
[61] *See generally* Rick Baudino Direct Testimony.
[62] VTE Dec. 7, 11:26:22.

a utility in Illinois, Ameren, had just been awarded an ROE of 8.4%.[63] Of course, as Mr. McKenzie agreed, Ameren competes with other companies such as Kentucky Power/AEP within the same capital market (U.S. Stock and Bond Markets).[64] Apparently, Ameren's regulator is confident an 8.4% ROE is sufficient to meet investors' expectations -- the same investors who would consider investing in KPCo. Of course, it is readily possible to determine whether capital markets have faith in KPCo's ability to operate and that is by examining the outcome of its involvement in capital markets. As evidenced by KPCo's updated application and testimony filed August 7, 2017, the company was able to refinance nearly $400,000,000 at a *lower rate*.[65] KPCo was able to refinance its debt, all while the company had earned an ROE between 4.2% and "six-something" between 2014 and 2016.[66] If investors "required" an ROE in excess of 10%, then the Company would have likely not been able to refinance a large amount of debt at such a low rate, while earning a "paltry" return for shareholders. What is more likely is that KPCo, as all utilities seem to, chronically overstates its necessary ROE.

When asked whether his testimony supports a 9.75% ROE, KIUC's witness Mr. Baudino answered that it does not, and in fact his high-end is 9.55%.[67] Further, Mr. Baudino noted that he did not agree with i) Mr. McKenzie's incorporation of an outlook of capital costs, ii) Mr. McKenzie's use of forecasted interest rates in risk premium and CAPM analyses, iii) Mr. McKenzie's omission of low end DCF results, iv) Mr. McKenzie's use of the expected market return component of his CAPM or ECAPM analyses, v) Mr. McKenzie's application of the utility risk premium approach, vi) Mr. McKenzie's application of the expected earnings

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[63] VTE Dec. 7, 11:25:00 – 11:26:03.
[64] VTE Dec. 7, 4:00:00.
[65] *See* Ranie K. Wohnas Supplemental Direct Testimony, August 7, 2017.
[66] VTE Dec. 8, 2:38:35.
[67] VTE Dec. 7, 2:22:00.

approach, and vii) Mr. McKenzie's application of the nonutility benchmark approach.[68] Regardless of KIUC's agreement to the non-unanimous settlement, its expert's testimony does not support the 9.75% ROE provided for within. In fact, not only do Mr. Baudino's numbers not support such an ROE, he finds significant fault with the analyses used by Mr. McKenzie, whose testimony is the only support in the record for such a generous return. Given the testimony of the two ROE witnesses for the Attorney General and KIUC, the Attorney General argues that it is appropriate for the Commission to award an ROE of 8.6%.

2. *Adjustments the Commission Should Utilize to Reduce the Revenue Impact of the Application*

Regardless of the fact that Kentucky Power customers cannot pay their current rates, or the fact that the Company has failed to consider whether customers can afford the proposed rates, the Company's Application does not bear up under scrutiny. The testimony of AG witness Smith provided evidence that the company has failed to provide adequate justification for adjustments of at least $20M. Notably, none of Attorney General witness Smith's adjustments were incorporated in the non-unanimous settlement agreement. In addition to considering the reality of unaffordable rates, the Commission should use the Attorney General's adjustments as an additional basis for rejecting any rate proposal.

a. Decommissioning Rider ("Big Sandy Retirement Rider")

In Case No. 2014-00396, the Commission approved a new tracking mechanism designed to recover the approximately $238.5 million in stranded costs resulting from the premature retirement of Big Sandy Unit 2, and infrastructure related to the usage of coal at Big Sandy Unit 1.[69] Under the terms of the Commission's final order in that case, the

[68] VTE Dec. 7, 2:23:15 - 2:31:15.
[69] The Big Sandy Retirement Rider, now known as the Decommissioning Rider.

approximately $238.5 million in costs within the Decommissioning Rider ["DR"], previously known as the Big Sandy Retirement Rider, are being amortized over a period extending beyond twenty years. Those costs will also include carrying charges, which themselves will total in excess of $225 million. The carrying charges include KPCo's weighted average cost of capital ["WACC"], one component of which is the company's long-term debt. By the time all costs within the DR have been paid, KPCo customers will have paid approximately $463.6 million, almost one-half of which will have been carrying costs.

On August 7, 2017 KPCo filed an update to its application in this case to reflect the successful refinancing of its long-term debt. Based on the lower cost of its refinanced long-term debt, the company appropriately reduced the amount of its revenue requirement, for both its base rates and the costs it seeks to recover in its environmental surcharge mechanism. Seven (7) days after updating its application in the rate case, KPCo filed its annual update to the DR, which incorporated a WACC that used the pre-refinancing LTD rate. The Company should have requested Commission approval to pass through the savings to customers due to the refinancing, rather than reap the windfall benefit of the difference until it updated the overall rate in August of 2018.[70]

As provided in the testimony of Attorney General witness Ralph C. Smith, the DR's financing cost component is excessive and should be reduced as soon as practicable.[71] Currently, KPCo customers are paying a levelized cost of $1.68 million per month, each and every month through 2040. However, due to a shrinking ratebase, KPCo customers are paying even more as those costs become spread among remaining ratepayers.

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[70] *See* Case No. 2014-00396, post case files, Aug. 14, 2017 update, document BSRR Support 1, tab WACC.
[71] Ralph C. Smith Direct Testimony, pp. 63-66.

As a first step towards shielding KPCo's ratepayers from having to pay the DR's exorbitant financing costs, the DR should be adjusted to reflect the lower cost of debt, the lower cost of equity and the fact that the maximum corporate federal income tax rate has been reduced from 35% to 21%, effective January 1, 2018. The non-unanimous settlement utilizes a cost of long-term debt of 4.36%, a cost of short term debt of 1.25%, a cost rate for Accounts Receivable financing of 1.95% and an ROE of 9.75%. The WACC reflected in the Settlement is 6.48%, and the adjusted WACC with the income tax gross-up on the 9.75% ROE as adjusted for the 21% statutory federal income tax rate that is effective January 21, 2018 is 7.9227%, as summarized in KPCo's "Draft Forms Implementing the Partial Settlement Agreement."[72]

The financing cost rate for the DR should be reduced to 7.9227% effective as of the same date as the effective date for KPCo new base rates. The reduction in the DR financing cost rate should not be postponed until the next DR reset (currently anticipated for August 1, 2018) because that would subject KPCo ratepayers to excessive financing costs for another 6 to 7 more months. If KPCo is allowed to continue to charge a carrying cost based on a long-term debt level that no longer exists, it will be unjustly enriched at the expense of its customers. Additionally, as a second step towards addressing the excessive financing costs associated with the DR, the Commission should investigate whether the remaining un-recovered balance which is being recovered over a 25-year period could be securitized. That could effectively reduce the financing cost rate to something in the range of 4% to 5%. AEP has effectively used securitization for some of its other electric utility operating companies,[73] as a cost

[72] *See* KPCo_ES_Sample_Forms, and AEV-4S, as Adjusted for New Federal Income Tax Rate.
[73] *See, e.g.*: http://www.aep.com/Newsroom/newsreleases/default.aspx?id=1265

effective measure to address large deferred cost balances,[74] while minimizing the rate impact upon customers.

Furthermore, the Commission could require one or both of the following: (i) requiring AEP to write-down a portion of the principal amount owed in the DR; and/or (ii) reduce the carrying charges so that they reflect only the company's long-term debt instead of the existing WACC. If KPCo is indeed serious about economic development and making its rates more competitive with surrounding utilities, then it needs to recognize that its service territory needs the type of *extraordinary* relief that one or perhaps both of these measures would provide.

b. Savings Plan Expense

As set forth in Attorney General witness Smith's testimony, KPCo employees participating in the AEP 401K retirement savings plan are eligible to receive 100% matching contributions for each employee's first 1% of contributions of eligible compensation and 75% matching contributions for the next 5% of each employee's contributions of eligible compensation.[75] Mr. Smith's adjustment is based on recent Commission precedent wherein the Commission has disallowed Company matching contributions to 401(k) retirement savings plans for employees who also participate in other retirement plans, such as defined benefit pension plans.[76] Mr. Smith's adjustment removes $1.102 million of KPCo's matching contributions.

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[74] *See*: https://www.aep.com/about/IssuesAndPositions/Financial/Regulatory/AlternativeRegulation/Securitization.aspx

[75] Ralph C. Smith Direct Testimony, pp. 39-42, Adjustment C-7. *See also* KPCo Responses to Staff 1-72 Attachment 1, and Staff 2-56 (h).

[76] *See, e.g.,* In re: *Application of Kentucky Utilities for an Adjustment of Rates*, Case No. 2016-00370, Order dated June 22, 2017, pp. 14-15.

The Attorney General urges the Commission to continue to follow its precedent and remove $1.102 million from operating income.

c. Salaries – Employee Merit Increases

As Attorney General witness Dr. David E. Dismukes illustrates in his testimony, average wages in Eastern Kentucky have been stagnating over the past decade, as compared with the rest of the Commonwealth.[77] Despite this, KPCo continues to award its employees annual salary increments in the range of 3.0% to 3.5%.[78] At a time when wages are stagnant across the area KPCo competes with employers for talent, it is not appropriate for the company to foist these costs onto the backs of its ratepayers due to its status as a monopoly.

d. Supplemental Executive Retirement Expense

Attorney General witness Ralph C. Smith proposed an adjustment to exclude expenses for supplemental executive retirement program ["SERP"].[79] SERPs are implemented for select executives and provide retirement benefits that exceed amounts limited in qualified plans by Internal Revenue Service regulations. Smith adjustment C-8 removes a total of $58,726 from operating expense.

The Commission in Case No. 94-355, *In re Cincinnati Bell Tel. Co.*,[80] order dated May 23, 1995 allowed an adjustment in the sum of $41,789 proposed by the Attorney General ". . . for SERP costs directly incurred by Cincinnati Bell because the Commission has previously removed from cost of service the cost of plans when benefits for highly

[77] Dr. David E. Dismukes Direct, p. 6, and Exhibit DED-2.
[78] Carlin Direct Testimony, p. 18.
[79] Ralph C. Smith Direct Testimony, pp. 42-43, Adjustment C-8.
[80] 1995 WL 421787.

compensated employees exceed the pension plan for all employees."[81] The Attorney General urges the Commission to adopt this adjustment.

e. Corporate Aviation Expense

Attorney General witness Ralph C. Smith proposed an adjustment to remove costs associated with AEP corporate aviation expense charged to KPCo from the AEP Service Company.[82] KPCo's response to AG 1-153 stated that for the test year, the company was charged $388,356 in related O&M expenses. AEP travel logs, provided in response to KPSC-2-055, also indicated that the corporate planes are being used by AEP executives and directors, suggesting that the AEP corporate aircraft is an additional executive and director perquisite. As such, the cost of the AEP corporate aviation should be borne by shareholders, not by KPCo's ratepayers.

Moreover, the Attorney General believes that most expenses associated with corporate aviation programs are an anachronism dating back to the pre-internet era. Today, many corporations conduct on-line and even satellite meetings in order to save expenses. The costs associated with maintaining "nine full time pilots employed by American Electric Power Service Corporation" is staggering, and is another example of exorbitant costs that ratepayers should not be forced to bear.[83]

The Attorney General believes it is outrageous that at a time when the Company is aware that the level of its disconnections for nonpayment is increasing, nonetheless it expects its customers to pay these exorbitant aviation expenses. The Attorney General therefore urges

[81] *Id*. at p. 8 (citing Case No. 90-158, *Adjustment of Rates of Louisville Gas and Electric Company*). *See also* Case No. 2000-00080, In re *Louisville Gas and Elec. Co*., 2000 WL 1791791 (2000), order dated Sept. 27, 2000, p. 10 (". . . ADIT associated with LG&E's SERP should be excluded from the rate base calculation.").
[82] Ralph C. Smith Direct Testimony, pp. 43-44, Adjustment C-9.
[83] KPCo response to Staff Post-hearing Data Request, Nos. 11 & 12.

the Commission to adopt Smith adjustment C-9, in the sum of $382,769. Moreover, he believes the Commission should initiate a separate investigation of the continued need for this program.

f. Cash Surrender Value of Life Insurance Policies

Attorney General witness Ralph C. Smith proposed an adjustment removing expense associated with the cash surrender value of life insurance policies on former KPCo executives.[84] Given that these policies cover former executives, there is no rational reason why KPCo ratepayers should have to bear this expense. The Attorney General urges the Commission to adopt this adjustment, in the amount of $26,941.

g. Relocation Expense

Attorney General witness Ralph C. Smith proposed an adjustment to reduce the level of relocation expense recovered from customers. The Company incurred a test-year relocation expense of $318,073, of which $101,938 related to its headquarters moving from Frankfort to Ashland.[85] Mr. Satterwhite confirmed at the hearing that the Company does not intend on moving its headquarters from Ashland.[86] As such, it is inappropriate to recover from customers costs that the Company does not intend to incur going forward. In fact, historically the Company has incurred a much lower annual relocation expense, with $32,192 and $168,244, from March 2014- Feb. 28, 2015 and March 1, 2015- Feb. 29, 2016, respectively.[87]

h. Rate Case Expense

[84] Ralph C. Smith Direct Testimony, pp. 47-48, Adjustment C-13.
[85] Ralph C. Smith Direct Testimony, p. 45; KPCO response to KIUC 1-46; KPCO response to AG 1-251.
[86] VTE Dec. 6, 12:50:00.
[87] KPCO response to Staff Post-Hearing Data Request No. 14.

Attorney General witness Ralph C. Smith proposed an adjustment to remove rate case expense.[88] The first part of this adjustment removes $11,130 in expense KPCo incurred in the retention of Communication Counsel of America, Inc.,[89] for the purpose of preparing KPCo witnesses for the evidentiary hearing in this matter.[90] Such expenses typically fall under services provided by attorneys, and as such is inappropriate for ratepayers to bear.

The second part of Adjustment C-15 removes the remaining rate case expense for the first year of the proposed three-year amortization, in the sum of $447,203, for a combined total of $458,333. This adjustment is proposed as an incentive to KPCo to file a case at FERC to reduce the 12.16% ROE governing the Rockport Unit Power Agreement ["Rockport UPA"]. It is unconscionable that KPCo ratepayers should be forced to pay an ROE that was negotiated between parties not subject to the Commission's jurisdiction, in an era when ROEs were considerably greater than they are today. Although witness Satterwhite at the hearing produced an exhibit[91] which estimated that the actual ROE charged to KPCo ratepayers under the Rockport UPA during the test year was lower than the 12.16% specified in the terms of the Rockport UPA, there is no guarantee either that this "estimate" is correct, or that it will not fluctuate over time. Accordingly, the Attorney General urges that the Commission adopt Smith adjustment C-15 to incentivize KPCo to independently file its own complaint at FERC to protect its ratepayers by seeking to reduce that ROE to a more reasonable level appropriate with prevalent financial conditions. During a period of record cold, and at a time when Eastern Kentuckians are tightening their belts, KPCo continues to spend indiscriminately, as

[88] Ralph C. Smith Direct Testimony, pp. 48-52, Adjustment C-15.
[89] An independent communications consulting firm KPCo utilized to help prepare its witnesses. *See* Ralph C. Smith Direct Testimony, p. 50.
[90] *See* Second Supplemental response to Staff 1-56.
[91] *See* KPCo hearing exhibit 8.

exemplified by its rate case expense in this matter. For instance, the legal fees the Company has run up in this case as of November 30, 2017 total $677,547, although its total as-filed estimate was $510,000.[92]

3. <u>Proposed Changes to Purchase Power Adjustment Rider ("Tariff PPA")</u>

KPCo's existing Purchase Power Adjustment Rider ["Tariff PPA"] recovers demand credits paid to interruptible customers, certain purchase power expenses not recoverable under the company's Fuel Adjustment Clause ["FAC"], and costs for purchasing power under new agreements. The company now seeks to include within that rider various PJM Open Access Transmission Tariff ["OATT"] charges and credits that it incurs or receives by participating as a load serving entity ["LSE"] in the organized wholesale power markets of the PJM RTO; purchase power costs excluded from recovery under the FAC; and gains and losses from incidental gas sales.[93]

The non-unanimous settlement would allow KPCo to track the amount of OATT LSE charges and credits above or below the amount embedded in base rates. KPCo would recover 80% of this annual over- or under-collection of PJM OATT LSE charges through Tariff PPA. Thus, KPCo would absorb 20% of any annual under-collection through base rates of PJM OATT LSE charges. KPCo anticipates that its PJM LSE costs will increase by approximately $14 million in 2018.[94]

KPCo sought approval for the same tracker in its last rate case. In the final order of that case, the Commission denied the company's request, finding:

> "The Commission is responsible for ensuring that utilities provide safe and reliable electric service at the least cost. The proposed transmission

[92] *See* KPCo supplemental response to Staff 1-56, 5th Supplemental Attachment 1.
[93] Alex Vaughan Direct Testimony, pp. 25-26.
[94] Satterwhite amended testimony in support of settlement, pp. 14-15.

> adjustment would delegate ratemaking authority for transmission service from the Commission to the Federal Energy Regulatory Commission ("FERC") which would increase the cost of transmission service. Further, the proposal is inconsistent under Kentucky law and precedent which give the Commission retail ratemaking authority for vertically integrated utilities." [95]

The Attorney General believes that there are no material differences between the tracker proposed in the instant case from that in the last rate case. It would still transfer jurisdiction over a significant portion of retail rates from the Commission to the FERC. Furthermore, tracked recovery reduces a utility's incentives to control costs as opposed to base rate recovery. The significant increases KPCo expects in its transmission-related costs should receive more scrutiny, such as the need for the project, plans and alternatives that were considered, and cost details. Tracked recovery would provide little more scrutiny than a review of PJM invoices, which would be inappropriate. The better method is base rate recovery, which delays cost recovery enough to incentivize utilities to reduce costs. KPCo and its AEP affiliates do have the ability to exert control over many types of transmission costs they submit to PJM, especially supplemental projects. At the public hearing in this matter, KPCo witnesses provided very little evidence the Company has ever exerted *independent* efforts to help control PJM OATT costs to the benefit of its customers. Instead, it seems the Company is more than happy to sit back and simply "track" the charges its customers now owe, provided that so many of the costs are charged by affiliates.

In response to a post-hearing data request, KPCo provided that in the test year the Company paid $70,212,659 in PJM LSE OATT costs. Of that $70M, the Company paid more than $65M to affiliates, a staggering 92.6% of its costs.[96] Eastern Kentuckians are continuing

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[95] Case No. 2014-00396, Final Order dated June 22, 2015, p. 34.
[96] KPCo Response to Attorney General's post-hearing data requests, item no. 3.

to be asked to pay more so that KPCo can enrich its affiliates. It is time for the Commission to ensure the costs charged to consumers are in the customers' best interests, not AEP's shareholders. Therefore, the Attorney General urges the Commission to deny KPCo's request to track PJM OATT expenses through Tariff PPA, and to ensure greater scrutiny of the pass-through costs KPCo continues to charge customers.

4. Deferral of Rockport Expenses

KIUC witness Kollen proposed that KPCo be allowed to defer $100 million of the costs KPCo incurs under the Rockport UPA with AEP Generating Company for capacity and energy produced at AEP's Rockport Station. Mr. Kollen's proposal would have deferred those costs over a five-year period, with the company being allowed to earn a carrying charge equivalent to its WACC. At the conclusion of the five-year deferral period, KPCo would be allowed to recover those costs over the ensuing ten years on an annuitized basis through the Tariff PPA surcharge mechanism.[97]

In a data request Commission Staff asked Mr. Kollen why the carrying charge applicable to the Rockport UPA deferral should not be based on KPCo's cost of debt.[98] Mr. Kollen responded that while KPCo is unlikely to finance a $100 million deferral solely through debt, nonetheless ". . . it could be appropriate to assume that the deferral is financed through debt if such deferrals are significantly less than under the KIUC proposal."[99]

The non-unanimous settlement adopted a modified version of Mr. Kollen's deferral proposal, which would defer a significantly reduced sum -- $50 million -- of non-fuel and non-environmental Rockport UPA costs over the same five (5) year period. Those costs would be

[97] Lane Kollen Direct Testimony, pp. 7-15.
[98] Staff data request to KIUC, item 1 (b).
[99] KIUC Response to Staff Data Request item No. 1 (b).

established as a regulatory asset for later recovery. Significantly, those costs "would be subject to carrying charges based on a weighted average cost of capital ("WACC") of 9.11% until the regulatory asset is fully recovered."[100] Thus if the Commission approves the deferral mechanism as proposed in the non-unanimous settlement, by the conclusion of the five-year deferral period, ratepayers will have paid a total of $59 million for costs that otherwise would have totaled only $50 million.[101]

As Attorney General witness Ralph C. Smith acknowledged in the hearing, cost deferrals are worthy of the Commission's consideration in this case, depending on how they would be structured.[102] However, the Rockport cost deferral as proposed in the non-unanimous settlement would represent a profit center to KPCo as in the long run, it will end up extracting an additional $9 million more from ratepayers. Given Mr. Kollen's acknowledgement that a significantly smaller deferral than the one he proposed would likely be financed largely through debt, the Attorney General believes it would be more reasonable to reduce the carrying charge to the level of KPCo's current long-term debt: 4.36%.[103] Due to the lower risk associated with the stipulated deferral, rather than Mr. Kollen's proposed version, the Attorney General believes a significantly reduced carrying charge is appropriate, and indeed necessary.

5. <u>Allocation of Any Potential Base Rate Revenue Increase</u>

The Attorney General believes that if the Commission awards any new revenues, it should utilize the principals set forth in Attorney General witness Dr. David E. Dismukes'

[100] Non-Unanimous Settlement, p. 5.
[101] *Id.*
[102] Dec. 6, 2017 VTE 3:31:50 – 3:34:49.
[103] Supplemental Testimony of Zachary C. Miller filed Aug. 7, 2017, p. 5.

testimony. Rigid adherence to cost of service studies, and reductions of alleged subsidies, ignores essential policy decisions. Here, principles such as rate continuity and gradualism must be given significant weight, particularly when considering the effect it will have on the already struggling residential class.[104] Unfair, unreasonable, and unjust allocation of any rate increase to the residential class may decimate the economy of Eastern Kentucky; as the Chairman noted, residential customers cannot pass on costs like the Company and businesses can.[105] The parties to the non-unanimous settlement agreed to allocate to the residential class slightly more than 61% of the overall revenues sought. Regardless of the amount allocated, the proposed allocation is unfair, unjust and unreasonable. Not only is the proposed allocation in the non-unanimous settlement unduly burdensome, it is wholly inappropriate given the high level of poverty and unemployment affecting residential customers. Therefore, in the unfortunate event the Commission awards KPCo any new revenues, the Attorney General urges the Commission to utilize the important policy considerations and principles at its disposal in hopes of mitigating unquestionable negative implications to residential customers.

6. <u>Residential Class Customer Charge</u>

KPCo's original proposal was to increase the current residential customer charge of $11 per month to $17.50 per month. The parties to the non-unanimous settlement propose that the charge should be increased to $14. However, none of the parties to the non-unanimous settlement represent the interests of residential ratepayers.

As indicated in the direct testimony of Dr. David E. Dismukes, KPCo's class cost of service study indicates that customer-related costs for residential class customers account for

[104] Dr. David E. Dismukes Direct Testimony, pp. 12-14.
[105] VTE Dec. 8, 5:35:30.

only $7.47 per customer per month.[106] KPCo's existing residential customer charge thus recovers over 147% of the customer-related costs required to serve that class. Moreover, the existing customer charge is noticeably greater than the $9.60 average of a peer group of other regional IOUs.[107]

The Attorney General believes that the $14 residential customer charge proposed in the non-unanimous settlement would recover too much of any potential revenue increase through the customer charge. From an economic perspective, the notion that fixed costs must be recovered through fixed charges is misguided.

An excessively high fixed charge, as the parties to the non-unanimous settlement proposed, undermines future incentives for efficiency and is also unfair to customers who have already invested in those resources, but who would now see a diminished return on their investment. Thus keeping the customer charge at $11 – which already over-collects the related residential cost -- is consistent with this Commission's longstanding policy to "avoid taking actions that might disincent energy efficiency."[108] Furthermore, as noted by Attorney General witness Roger McCann, any additional increase in customer charges results in an erosion of LIHEAP funds.[109]

A smaller increase in the customer charge will preserve a greater degree of customer control over their electric bills, in contrast to a bill composed of a higher fixed charge that customers cannot avoid no matter what investments or behavioral changes they may make to reduce usage. The reduced ability to control and therefore lower one's utility bill is

[106] Dr. David E. Dismukes Direct Testimony, p. 24, and exhibit DED-5.
[107] *Id*. at p. 25, and Exhibit DED-6.
[108] In Re: *Application of Kentucky Utilities for an Adjustment of its Electric Rates*, Case No. 2012-00221, Final Order dated Dec. 20, 2012, p. 11.
[109] Dec. 8 VTE 5:30:45 – 5:33:45.

particularly harmful for low-income customers who have limited financial resources to meet their basic needs.

7. *Economic Development Rider*

Ratepayers should not be charged for the economic developments efforts of KPCo or AEP. Economic development is not a reasonable or necessary cost of providing safe and reliable electricity service to customers. There are many local and state entities that provide this service as their primary mission. These day-to-day activities distract the company from its real mission -- that of providing safe and reliable service to its customers -- and results in inflated costs that are not directly tied to providing that service.

The Company is seeking recovery of salaries and KEDS funding that relate exclusively or primarily to economic development. These amounts are recovered from customers and expended for the purpose of promoting the Company's economic development efforts, but importantly, customers have no formal input as to how the money is spent. For instance, KPCo President and COO Satterwhite stated, "that's my number one goal after the safety of my employees is economic development."[110] Additionally, KPCo employs two others whose "principal functions include lobbying," but are also responsible for KPCo's economic development efforts.[111] The purpose and effect of these three (3) employees' efforts, or the issues they spend the majority of their time on, are not necessary to provide safe, reliable electricity, therefore, their salaries should not be recovered from customers.

In addition to spending hundreds of thousands of dollars on salaries dedicated to lobbying and economic development, the Company also requests to recover nearly $500,000

[110] VTE Dec.6, 10:27:35.
[111] KPCo Response to Staff 1-33.

annually so it can provide economic development grants in KPCo's name. The amounts given under the K-PEGG program, half of which are provided by customers, are determined by a team the Company selected. The review team has no customer representation and customers are denied the opportunity to nominate or choose members of the team, because KPCo stated it must select the team "based on experience and understanding of community and economic development as well as availability to participate in the process confidentially, frequently, and reliably."[112] It is apparent that in addition to no direct benefit to the customers, there is no transparency as to how the money is distributed.

While customers provide half of the funding under the K-PEGG program, they also take half of the performance risk, without any input in decision-making.[113] As "there is no direct, known and measurable dollar-for-dollar" benefit to ratepayers, customer funding of the grants should end immediately.[114] Captive ratepayers who already struggle to pay their bills today should not be providing a slush fund for AEP and Kentucky Power to travel around Eastern Kentucky providing checks bearing the companies' names in the hope of spurring the economy.[115] Promoting the Company and its economic development efforts are not reasonable or necessary costs of providing safe and reliable service, and thus under the regulatory compact should not be allowed recovery through rates.

CONCLUSION

WHEREFORE, the Attorney General respectfully requests that the Public Service Commission deny any base rate increase, and reject the totality of the non-unanimous

[112] KPCo Response to AG 1-395.
[113] KPCo Response to AG1-358; Dr. David E. Dismukes Direct Testimony, p. 46.
[114] Dismukes Direct Testimony, p. 46.
[115] *See* Dr. David E. Dismukes' and Mr. Roger McCann's Direct Testimony, wherein they provide support that customers *already* struggle to pay their KPCo bills, before considering any rate increase.

settlement as it currently stands. In the event the Commission should award any new base rate revenues, he urges the Commission to adopt the alternative measures outlined in this brief to mitigate any rate increase to the greatest extent possible.

Respectfully submitted,

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Certificate of Service and Filing

Counsel certifies that the foregoing is a true and accurate copy of the same document being filed in paper medium with the Commission within two business days; that the electronic filing has been transmitted to the Commission on January 5, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 5th day of January, 2018.

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Assistant Attorney General

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

ORDER

By petition filed on February 7, 2018, Kentucky Power Company ("Kentucky Power") requests a rehearing of the Commission's final Order issued on January 18, 2018. Among other things, the January 18, 2018 Order approved a $12,348,630 increase in Kentucky Power base rate. Kentucky Power requests rehearing on the following: 1) the methodology for calculating Kentucky Power's tax expense savings arising from the reduction in the federal corporate income tax rate from 35 percent to 21 percent; 2) the adjustment to Tariff Purchase Power Agreement ("P.P.A.") Forced Outage Expense; 3) Tariff P.P.A. peaking unit equivalent ("PUE") cost calculation;
4) reporting gains and losses from incidental gas sales; 5) recovery of the Rockport Deferral Regulatory Asset; and 6) adjustments to accounts receivable financing.

Kentucky Industrial Utility Customers, Inc. ("KIUC") and the Attorney General of the Commonwealth of the Kentucky, by and through his Office of Rate Intervention ("Attorney General") filed their respective responses to Kentucky Power's petition for rehearing. Kentucky Power filed a reply to each response. No other parties filed a response to Kentucky Power's petition for rehearing.

DISCUSSION AND FINDINGS

Methodology for Calculating Kentucky Power's Tax Expense Savings

In the January 18, 2018 Order, the Commission adjusted Kentucky Power's tax expense in the amount of $13,943,890 to reflect a reduction in federal corporate income tax rate from 35 percent to 21 percent. Kentucky Power asserts that the Commission erred in the methodology used to calculate the tax expense adjustment and that the Commission's methodology understates Kentucky Power's revenue requirement by $765,030. Kentucky Power proposes a methodology that it claims is consistent with its methodology for booking tax expense. Kentucky Power also argues that the case record contains insufficient evidence to support the Commission's adjustment reducing the tax expense.

KIUC asserts that the methodologies used by the Commission and Kentucky Power are both correct and reasonable, but that Kentucky Power's methodology is more consistent with the rate case filing. The Attorney General proposes that this issue be addressed in the pending tax impact case, Case No. 2018-00035,[1] rather than on rehearing in this rate case.

[1] Case No. 2018-00035, *Kentucky Industrial Utility Customers, Inc., v. Kentucky Power Company* (Ky. PSC Jan. 25, 2018) (order separating Case No. 2017-00477, an omnibus complaint against four utilities, into three separate cases).

Having reviewed the petition, response, and replies, and being otherwise sufficiently advised, the Commission finds that rehearing should be granted to allow the record in this case to be more fully developed on the issue of methodology for calculating the tax expense adjustment. Once this issue is more fully developed, the Commission will be able to determine whether a further adjustment to the tax expense is needed and, if so, whether that adjustment should be made in this case or in Case No. 2018-00035.

Tariff P.P.A. Forced Outage Expense

Kentucky Power asserts that the Commission improperly excluded Forced Outage Expense from the base-rate revenue requirement, and therefore the base-rate revenue requirement should be increased by $1,158,285. Kentucky Power also requests approval to establish a regulatory asset to defer Forced Outage Expenses above $1,158,285. Kentucky Power states that it removed the test-year amount of Forced Outage Expense from the test year through Adjustment W9. Its direct testimony filed in support of Adjustment W9 states that,

> "[d]uring the test year, the Company collected retail revenues of $448,154 through Tariff PPA, but incurred expenses that are recoverable through Tariff PPA of $820,696. The Company adjusted test year Tariff PPA revenues to synchronize revenues with recoverable costs."[2]

Kentucky Power's petition for rehearing states the adjustment "removed the unrecovered expenses from the cost of service." However, Adjustment W9 increases test-year expenses by $372,542. This results in Tariff P.P.A. revenues of $448,154 and

[2] Direct Testimony of John Rogness, Page 5.

expenses of $1,193,238 included in the test year. Furthermore, based on Adjustment W9 workpapers, the Forced Outage Expense removed through Adjustment W9 totals $745,360, not the $1,158,285 Kentucky Power seeks to include. Kentucky Power also asserts that the Commission arbitrarily reversed its prior decision to allow recovery of Forced Outage Expense through Tariff P.P.A.

KIUC agrees with Kentucky Power that the $1,158,285 was incorrectly removed from base rates, but objects to Kentucky Power's request to establish a regulatory asset to defer Forced Outage Expenses above $1,158,285, arguing that the deferral is functionally the same approach that was rejected by the Commission. The Attorney General contends the Commission's treatment of Forced Outage Expenses was appropriate and that rehearing on this issued should be denied.

The Commission finds no merit in Kentucky Power's claim that we have reversed any prior decision to allow recovery of Forced Outage Expense through the P.P.A. Forced Outage Expense currently recovered through the P.P.A. is unaffected by the January 18, 2018 Order. That Order excludes only the proposed amounts excluded from the Fuel Adjustment Clause ("FAC") through the Purchased Power Limitation. Generator forced outages are excluded from the FAC separately and recovered through the PPA. However, the Commission does find that rehearing should be granted to allow the record to be more fully developed to clarify the accounting for Forced Outage Expenses and to determine whether the revenue requirement should be increased or reduced as appropriate.

Tariff P.P.A. Peaking Unit Equivalent Cost Calculation

Kentucky Power argues that, in excluding firm gas supply in the peaking unit equivalent cost calculation, the Commission erred by also excluding transportation retainage, the park and lend rate, and FERC annual charge adjustment costs, which are associated with obtaining interruptible gas service.

KIUC did not take a position on this issue. The Attorney General requests that rehearing be denied, asserting that the Commission's findings were appropriate and should be upheld.

The Commission finds that rehearing should be granted to clarify the January 18, 2018 Order. The only costs specifically denied in the January 18, 2018 Order are costs directly related to procuring firm gas transportation. The January 18, 2018 Order makes no mention of disallowing transportation retainage, the park and lend rate, or the FERC annual charge adjustment. To provide the needed clarification, the last sentence of the first paragraph on page 56 of the January 18, 2018 Order is amended as follows: "Kentucky Power's proposal to include startup costs, variable O&M expense, transportation retainage, park and lend rates, and FERC annual charge adjustment costs is reasonable and should be approved.

Tariff P.P.A. Reporting Gains and Losses from Incidental Gas Sales

Kentucky Power proposes to report gains and losses from incidental gas sales through fuel adjustment clause ('FAC") backup filings, rather than in a formal proceeding, as directed in the January 18, 2018 Order. Kentucky Power argues that it incurs the gains and losses in the ordinary course of business, and, therefore, filing formal proceedings would be cost prohibitive.

KIUC agrees that gains and losses from incidental gas sales should be filed with FAC filings because it is transparent, since such filings are publicly available, and is practical. The Attorney General is silent on this issue.

The Commission finds that utilizing Kentucky Power's FAC backup filing for reporting gains and losses from incidental gas sales would be inappropriate since these gains and losses are unrelated to Kentucky Power's FAC. To the extent that Kentucky Power merely seeks to report the gains and losses, Kentucky Power may send a report to the Commission providing notice of such gain or loss. The report, along with a cover letter, should include the purchase price of the gas, per dekatherm ("DTH"); the sale price of the gas, per DTH; the quantity of gas sold, in DTH; and the total gain or loss realized. The reports will be maintained in Kentucky Power's general correspondence file.

However, to the extent that Kentucky Power is requesting rehearing for the purpose of establishing an automatic recovery mechanism for its gains and losses from incidental gas sales, the intent of the January 18, 2018 Order, at page 57, was to deny such relief by stating that "those matters may be addressed in a formal proceeding." To the extent that these gains and losses are substantial, they may be treated as any other substantial change in expense or revenue. Kentucky Power may file an application to establish a regulatory asset if appropriate or may file an application for rate recovery. Thus, we will grant rehearing of the January 18, 2018 Order for the limited purpose of amending the second sentence in the first full paragraph on page 57 to provide that, "If Kentucky Power seeks to recover incidental gas sales gains or losses that occur in the future, it must file an application to request such recovery or request recovery in the next rate case."

Accounts Receivable Adjustment

Kentucky Power argues that the Commission's treatment of Kentucky Power's accounts receivable financing is unreasonable, and that its base rate revenue requirement should be increased by $391,702. In the January 18, 2018 Order, the Commission adjusted Kentucky Power's capital structure based upon the findings that selling receivables to American Electric Power Company, Inc. while retaining uncollectible accounts on Kentucky Power's books placed an undue burden on ratepayers, and that the cost of accounts receivable financing is higher than the cost of short-term financing. Kentucky Power argues that an accounts receivable seller bears the cost associated with bad debt, either through payment of a claim made by the accounts receivable purchaser for uncollected accounts in with-recourse accounts receivable financing or through a discount in without-recourse accounts receivable financing. Here, Kentucky Power contends that its accounts receivable discount includes a bad debt component. Kentucky Power further argues that the Commission's assumption that Kentucky Power would replace accounts receivable financing exclusively with short-term debt is not supported by the record and that it sponsored testimony that accounts receivable financing would be replaced with a mix of equity, long-term debt, and short-term debt.

KIUC agrees with Kentucky Power's position. The Attorney General contends that the Commission's findings were reasoned and balanced, and thus rehearing on this issue should be denied.

The Commission finds that the accounts receivable adjustments are reasonable, lawful, and supported by evidence in the record, and therefore rehearing on this issue is denied. The Commission reduced the percentage of accounts receivable financing from 1.95 percent to 1.67 percent by blending funds between short-term debt and accounts receivable financing. The Commission notes that it did not disallow Kentucky Power's accounts receivable financing, but instead made reasonable adjustments. Despite Kentucky Power's arguments to the contrary, it is not reasonable to conclude that a prudent business would exclusively utilize long-term debt, with its higher rates, to fund accounts receivables instead of utilizing some portion of short-term financing at a lower rate.

Clarification on Recovery of the Rockport Deferral

Kentucky Power requests that the Commission clarify language in the January 18, 2018 Order that appears to limit the time period and recovery mechanism for the Rockport Deferral Regulatory Asset, and conditions any such recovery of the Rockport Deferral Regulatory Asset on Kentucky Power not renewing the Rockport Unit Power Agreement ("UPA"), which is contrary to the Settlement Agreement. Kentucky Power contends that its credit rating could be at risk absent clarification.

KIUC concurs with Kentucky Power that the language should be clarified. The Attorney General argues that rehearing should be denied, arguing that Kentucky Power seeks to modify the January 18, 2018 Order to obtain a greater benefit from a more expansive order and to preclude the Commission from addressing the recovery mechanism in a future rate case.

The Commission finds that the costs to be recovered by Kentucky Power for its UPA are established by the Federal Energy Regulatory Commission, and as the UPA represents an assignment of costs from an affiliate of Kentucky Power, the Commission has no discretion to deny recovery of those costs. We can, however, determine the manner and timing of cost recovery. Here, Kentucky Power has agreed to defer the current cost recovery of the Rockport UPA and to record a deferred asset to reflect the subsequent recovery of those costs in rates. Under these circumstances, Kentucky Power is correct that the recording of a deferred asset is not just for accounting purposes but is to reflect the future rate recovery of the deferred UPA costs. For these reasons, the Commission will grant rehearing for the limited purpose of amending the January 18, 2018 Order, beginning at the bottom of page 39 and continuing to the top of page 40 to state that:

> The recovery period of the proposed Rockport Deferral Mechanism is not contingent upon Kentucky Power's decision whether or not to renew the Rockport UPA. Given Kentucky Power's excess capacity and slow load growth, the Commission believes the benefits of the deferral outweigh the associated risks, and approves the Rockport deferral mechanism and the associated $15 million decrease to rate base. The carrying charges associated with the Rockport Deferral Mechanism shall be as specific in paragraph 3(c) on page 5 of the Settlement Agreement attached as Appendix A to the January 18, 2018 Order.

Options for Addressing Potential Adjustments

Should the Commission find that any of the proposed adjustments are reasonable, Kentucky Power proposes that all adjustments be addressed in this rate case or in Case No. 2018-00035, the tax impact complaint. KIUC argues that adjustments applicable to the rate case should be made in the rate case and not Case

No. 2018-00035. KIUC asserts that, as the complainant in Case No. 2017-00035, the burden of proof shifts from Kentucky Power to KIUC if the adjustment is addressed in the tax complaint. The Attorney General argues that adjustments should be addressed in the tax complaint.

The Commission finds that this case is the appropriate forum to litigate the issues for which we now grant rehearing to further develop the record. Once this rehearing record is fully developed and the Commission is able to determine what adjustments, if any, are reasonable and appropriate, we will also determine whether the adjustments should be applied in this proceeding or in Case No. 2018-00035.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's petition for rehearing is granted in part and denied in part.

2. Kentucky Power's petition for rehearing on the issue of the methodology for calculating the tax expense adjustment is granted.

3. Kentucky Power's petition for rehearing on the issue of the Tariff P.P.A. Forced Outage Expense adjustment is granted.

4. Kentucky Power's petition for rehearing on the issue of PUE cost calculation is granted to the limited extent that the last sentence of the first paragraph on page 56 of the January 18, 2018 Order is amended as follows: "Kentucky Power's proposal to include startup costs, variable O&M expense, transportation retainage, park and lend rates, and FERC annual charge adjustment costs is reasonable and should be approved." With this amendment to the January 18, 2018 Order, this issue is closed.

5. Kentucky Power's petition for rehearing on the issue of reporting incidental gas sales gains and losses is granted to the limited extent that the second sentence in the first full paragraph on page 57 of the January 18, 2018 is amended to provide that, "If Kentucky Power seeks to recover incidental gas sales gains or losses that occur in the future, it must file an application to request such recovery or request recovery in the next rate case." With this amendment to the January 18, 2018 Order, this issue is closed.

6. Kentucky Power's petition for rehearing on the issue of the accounts receivable adjustment is denied.

7. Kentucky Power's petition for rehearing on the issue of clarifying recovery of the Rockport Deferral Mechanism is granted to the limited extent that the January 18, 2018 Order is amended as specified in the findings above. With the amendment to the January 18, 2018 Order, this issue is closed.

By the Commission

ENTERED

FEB 27 2018

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) APPROVAL OF TARIFFS AND RIDERS; (3) APPROVAL OF ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; (4) APPROVAL OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	))))))))))	CASE NO. 2020-00174

O R D E R

On July 15, 2020, Kentucky Power Company (Kentucky Power) filed[1] its application for approval of an increase in its electric revenues by $70,096,743, or 13.16 percent; a Certificate of Public Convenience and Necessity (CPCN) to purchase and install an advanced metering infrastructure (AMI) system; new and revised tariffs; and approval of regulatory assets and liabilities. Kentucky Power proposed to offset the first year of the rate increase by ending Tariff Capacity Charge (Capacity Charge) two years early, conditioned upon the Commission approving the entirety of the application as filed, and by using a portion of the unprotected excess accumulated deferred income tax (ADIT) to offset the first year of the rate increase.

To determine the reasonableness of these requests, the Commission entered an Order on July 14, 2020, pursuant to KRS 278.190(2), suspending the proposed rates for

[1] Kentucky Power tendered its application on June 26, 2020. By letter dated July 1, 2020, Kentucky Power was notified that its application was rejected for filing due to certain filing deficiencies, which were subsequently cured. Kentucky Power's application was deemed filed as of July 15, 2020.

five months from their effective date of August 14, 2020, up to and including January 13, 2021.

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General); Kentucky Industrial Utility Customers, Inc. (KIUC); Walmart Inc. (Walmart); Kentucky Solar Industries Association, Inc. (KYSEIA); Mountain Association for Community Economic Development,[2] Kentuckians for the Commonwealth, and Kentucky Solar Energy Society (collectively, Joint Intervenors); SWVA Kentucky, LLC (SWVA); and Sierra Club. The Attorney General and KIUC (collectively, Attorney General/KIUC) entered into an agreement to jointly sponsor certain discovery requests and witness testimony.

By Order entered on July 14, 2020, the Commission established a procedural schedule that provided for discovery, intervenor testimony, rebuttal testimony from Kentucky Power, a formal evidentiary hearing, and an opportunity for the parties to file post-hearing briefs. Informal conferences were held on October 21, 2020, and October 30, 2020, to discuss the possible resolution of pending issues, but did not result in a settlement agreement. Public meetings on the application were held, with two meetings on November 13, 2020, and one meeting on November 16, 2020.

An evidentiary hearing was held on November 17-20 and 23-24, 2020. Kentucky Power filed a response to post-hearing requests for information. On December 8, 2020, Kentucky Power filed a post-hearing brief. On December 14, 2020, the Attorney General, KIUC, Walmart, KYSEIA, Joint Intervenors, SWVA, and Sierra Club filed their respective

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[2] During the pendency of this proceeding, Mountain Association for Community Economic Development changed its name to “Mountain Association.”

post-hearing response briefs. On December 17, 2020, Kentucky Power filed its post-hearing reply brief. The matter now stands submitted to the Commission for a decision.

LEGAL STANDARD

Kentucky Power filed its application pursuant to KRS 278.180; KRS 278.190; KRS 278.22; 807 KAR 5:001, Sections 14-16; 807 KAR 5:011; and 807 KAR 5:051. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with statutory and case law, Kentucky Power is allowed to charge its customers "only 'fair, just, and reasonable rates.'"[3] Further, Kentucky Power bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

TEST PERIOD

Kentucky Power proposed the 12-month period ending March 31, 2020, as the test period for determining the reasonableness of its proposed rates. None of the Intervenors contested the use of this period as the test period.

The Commission finds that it is reasonable to use the 12-month period ending March 31, 2020, as the test period in this case because, due to the timing of Kentucky Power's filing, the 12-month period ending March 31, 2020, is the most recent feasible period to use for setting rates. Further, except for the adjustments approved in this Order, the revenues and expenses incurred during that period are neither unusual nor

[3] KRS 278.030; and *Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

extraordinary. In using this historic test period, the Commission gave full consideration to appropriate known and measurable changes.[4]

VALUATION METHOD

Pursuant to KRS 278.290(1), the Commission is empowered to “ascertain and fix the value of the whole or any part of the property of any utility,” and in doing so is given guidance by the legislature “in establishing value of utility property in connection with rates.”[5] The legislature’s guidance requires the Commission “give due consideration” to a number of factors, including capital structure, original cost and “other elements of value recognized by law” in order to ascertain the value of any property under KRS 278.290 “for rate-making purposes.”[6] In its application, Kentucky Power proposed to use the capitalization method to calculate its revenue requirement and required increase. The Attorney General/KIUC and their joint witness, Lane Kollen, argued that the more appropriate method to calculate Kentucky Power’s revenue requirement was to utilize a rate base calculation.[7] As support for his argument, Mr. Kollen stated that the use of rate base is a more precise and accurate method to calculate a utility’s revenue requirement when compared to the capitalization method, because it allows the Commission to specifically review, assess, and quantify each of the costs that will earn a return.[8]

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[4] *See*, 807 KAR 5:001, Section 16(1)(a)(1). *See also Public Service Comm'n v. Continental Telephone Co. of Ky.*, 692 S.W.2d 794, 799 (Ky. 1985) (“There is also a provision for an adjustment because of known and measurable changes outside the test year.”).

[5] *National Southwire Aluminum Co. v. Big Rivers Elec.*, 785 S.W.2d 503, 512 (Ky. App. 1990).

[6] *Id.*

[7] Attorney General/KIUC Post-Hearing Brief at 7.

[8] Direct Testimony of Lane Kollen (Kollen Direct Testimony) at 10.

In general, the Commission must consider multiple factors when determining the reasonableness of a utility's request to use a capitalization or rate base calculation in determining the revenue requirement. A utility has the burden of demonstrating that its proposed method is the most reasonable, and the Commission is not bound by a utility's request to select one method over the other.

Based upon a review of the case record and being otherwise sufficiently advised, the Commission finds that applying the capitalization method to calculate Kentucky Power's revenue requirement is not reasonable because this method measures the capital allocations to Kentucky Power from its parent company, in excess of that needed to finance Kentucky Power's direct investment rate base as determined herein.[9] In the converse, the rate base method measures the direct investment into Kentucky Power's system, and, under the facts presented here, is a more accurate method of measuring the financial health of Kentucky Power and its operations. For these reasons, the Commission finds that rate base methodology should be used to determine revenue requirement for this proceeding.

REVENUE REQUIREMENT ADJUSTMENTS

Kentucky Power proposed an annual increase in its electric revenues of $70,096,743 using the Capitalization method to calculate its Overall Revenue Requirement. The only intervenor that supported testimony regarding specific revenue requirement adjustments was the Attorney General and KIUC, supporting the testimony of Mr. Lane Kollen. The table below shows adjustments both proposed by the Attorney General/KIUC and their witness, Lane Kollen, and those made by the Commission to

[9] Application, Section V Schedule 4 and Section V, Workpaper S-2 at 1.

Kentucky Power's requested increase. Summaries of each issue and the findings of the Commission are explained in greater detail in the paragraphs that follow the table.

	KIUC/AG	Commission Adjustments	Difference
Kentucky Power Requested Increase			
Request Based On Original Filing	$ 70,096,743	$ 70,096,743	$ -
Effects on Increase from Rate Base Recommendations			
Utilize Rate Base Instead of Capitalization to Reflect Return on Component for Base Rates	608,162	608,162	-
Reduce Cash Working Capital to '0' in Lieu of Lead/Lag Study	(1,660,444)	(1,660,444)	-
Remove Prepaid Pension and Prepaid OPEB from Rate Base, Net of ADIT	(5,203,831)	(5,203,831)	-
Remove Accounts Payable Balances from CWIP in Rate Base	(687,079)	(687,079)	-
Remove Accounts Payable Balances from Prepayments in Rate Base	(6,784)	(6,784)	-
Effects on Increase from Operating Income Recommendations			
Increase to Base Revenue Due to Moving of Certain Non-Recurring Charges from Misc. Revenue	-	2,817,345	2,817,345
Addition of Pension and OPEB Expense Originally Removed from Cost of Service	-	3,712,668	3,712,668
Reduction of Savings Plan Contribution Expense	-	(1,684,045)	(1,684,045)
Adjustment to Rate Case Expense	-	(418,069)	(418,069)
Remove Incentive Compensation Expense Tied to Financial Performance	(5,665,765)	(5,665,765)	-
Remove SERP Expense	(205,475)	(205,475)	-
Remove Kentucky Power's Pro Forma Adjustment to Restate Rockport UPA Operating Ratio	(1,705,844)	(1,705,844)	-
Restate State Income Tax Expense Based on Kentucky-Online Income Tax Rate of 5%	(692,374)	-	692,374
Remove EEI Dues for Covered Activities (Legislative and Regulatory Advocacy and Public Relations)	(48,360)	-	48,360
Remove Miscellaneous Expense Less EEI Dues for Covered Activities	-	(545,012)	(545,012)
Correct Allocation of Rockport UPA Deferral to Non-jurisdictional Customers	-	(211,280)	(211,280)
Remove SSC GreenHat Default Charges from FAC Base Rates	-	(16,552)	(16,552)
Effects on Increase from Rate of Return Recommendations			
Reallocate the Mitchell Coal Stock Adjustment Proportionately Across Capital Structure	(704,754)	-	704,754
Increase Short Term Debt and Set Debt Rate at 0.51%	(2,512,397)	-	2,512,397
Reduce Long Term Debt Rate to Reflect Refinance of June 2021 Maturity	(793,388)	(1,057,851)	(264,463)
Reduce Return on Equity from 10.0%	(7,576,217)	(5,511,493)	2,064,724
Reduce Return on Equity for Environmental Surcharge to 9.1%	-	(236,063)	(236,063)
Total Adjustments to Company's Proposed TY Base RR	(26,854,550)	(17,677,411)	(9,177,139)
Net Increase to Base Rates	$ 43,242,193	$ 52,419,332	$ 9,177,139

Rate Base Adjustments

Adjustment to Return on Component for Base Rates to Reflect Calculation Utilizing Rate Base. As a result of his proposal to change the valuation method from capitalization to rate base as described above, Mr. Kollen also proposed to make an adjustment to increase the revenue requirement by $608,162[10] to reflect the return on the difference between the two valuation methods of $7,488,735. Because the Commission finds that utilizing rate base is the most appropriate method of calculating the revenue requirement in this case, the Commission additionally finds that the adjustment proposed by Mr. Kollen

[10] Kollen Direct Testimony at 7.

is reasonable and necessary to reflect the increased return on the difference between rate base and capitalization. This adjustment is reflected in the above table.

Cash Working Capital (CWC). In its application, Kentucky Power calculated a CWC component in its calculation of rate base in the amount of $20,446,234.[11] The Attorney General/KIUC, based upon the testimony of Mr. Kollen, proposed that an adjustment be made to rate base to reduce Kentucky Power's CWC component to $0, which resulted in a total reduction to the revenue requirement of $1,660,444.[12] As support for his proposal, Mr. Kollen argued that the use of the one-eighth Operation & Maintenance (O&M) expense formula employed by Kentucky Power overstates the amount of CWC funds required because it is directly tied to the level of O&M expense, and ignores the actual level of investment made by the utility or its customers.[13] Mr. Kollen further argued that Kentucky Power sells its receivables, and therefore the lag between conversion of receivables into cash is significantly reduced.[14]

In response, Kentucky Power asserted that there is no statutory requirement to perform a lead/lag study, a lead/lag study is not necessary under capitalization methodology, and that Mr. Kollen's arguments contain "unsupported speculation."[15] Further, in response to discovery, Kentucky Power contended that there are several reasonable methodologies to determine CWC, including the one-eighth O&M expense,

[11] Application, Section V, Exhibit 1 at 11.

[12] Kollen Direct Testimony at 12; and Attorney General/KIUC Post-Hearing Brief at 11.

[13] Kollen Direct Testimony at 13.

[14] *Id.* at 15.

[15] Rebuttal Testimony of Alex E. Vaughan (Vaughan Rebuttal Testimony) at R5–R6; and Kentucky Power Post-Hearing Brief at 87.

and that a lead/lag study may be reasonable when rate base is used for the return on calculation, while Kentucky Power proposed to use capitalization methodology.[16]

As previously noted, the Commission, not Kentucky Power, retains the authority to determine the appropriate method for valuing utility property for ratemaking purposes. In order to help inform the Commission's determination of the appropriate value of utility property for ratemaking purposes, including the method to be used, the Commission promulgated certain regulations, including 807 KAR 5:001 Section 16(4)(h) and (i). For instance, 807 KAR 5:001 Section 16(4)(i) requires a "reconciliation of the rate base and capital used to determine [the utility's] revenue requirements." Although Kentucky Power correctly notes that a lead/lag study may not be necessary under the capitalization methodology, under Kentucky law the Commission determines the appropriate valuation methodology for ratemaking purposes. Because the Commission has determined net investment rate base is the appropriate measure of return in this matter, it must determine an appropriate amount of CWC to include in its valuation of utility property for ratemaking purposes. The Commission notes that there is compelling evidence that, because Kentucky Power sells its receivables it is likely that Kentucky Power does not finance CWC on behalf of its customers. Although this could be determined with absolute certainty, Kentucky Power has refused to conduct a lead/lag study, either before the case in an attempt to meet its burden of proof, or during this matter in response to discovery requests. The results of a lead lag study could offer a negative result in the calculation of Kentucky Power's required CWC. Taking into consideration the evidence at hand,

[16] Kentucky Power's Response to the Attorney General's/KIUC's Second Request for Information (Attorney General/KIUC's Second Request), Item 9.

including Kentucky Power's unwillingness to conduct a lead/lag study in support of its CWC adjustment, in accordance with precedent the Commission finds that CWC should be reduced to $0, and the resulting adjustment to the revenue requirement is a reduction of $1,660,444.[17] Furthermore, the Commission finds that Kentucky Power shall be required to submit a lead/lag study in all general rate cases its files, until further notice. The expenses incurred in conducting lead/lag studies for future general adjustment in rates matters will be reviewed for recovery in each case as rate case expense.

Prepaid Pension and Prepaid Other Post-Employment Benefits (OPEB) included in Rate Base. The Attorney General/KIUC and Mr. Kollen proposed a reduction to the revenue requirement in the amount of $5,203,831 to reduce prepaid pension and prepaid OPEB assets that were included in Kentucky Power's rate base calculation.[18] Mr. Kollen argued that Kentucky Power does not finance these assets and therefore they should not be included in the calculation of rate base.[19] In response, Kentucky Power argued that there is a cash outlay to finance these assets and therefore should be included in the calculation of rate base.[20]

While the Commission acknowledges Kentucky Power's assertion that there has been cash outlay to finance these prepaid assets as demonstrated in Ms. Whitney's rebuttal testimony and supporting exhibits, the Commission finds that a more reasonable

[17] Case No. 2019-00271, *Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief* (Ky. PSC Apr. 27, 2020), Order at 6-7.

[18] Kollen Direct Testimony at 18–22; Attorney General/KIUC Post-Hearing Brief at 12.

[19] Kollen Direct Testimony at 21.

[20] Rebuttal Testimony of Heather M. Whitney (Whitney Rebuttal Testimony) at 4-5.

method of measuring and recording Kentucky Power's pension and OPEB amounts for ratemaking purposes would be to remove the expenses attributed to these amounts for the test period because it reflects the actual amounts expended for pensions and OPEB expenses in the test period, rather than an expected future liability. As a result of this finding, the Commission reduced the revenue requirement by $5,203,831 to reflect the removal of the prepaid pension and prepaid OPEB asset and made a corresponding adjustment to increase expenses for Kentucky Power's applicable test-year pension and OPEB amounts as discussed in the Operating Income Adjustments section below.

<u>Adjustments to Accounts Payable</u>. Mr. Kollen, on behalf of the Attorney General/KIUC provided testimony proposing two additional adjustments to the revenue requirement for outstanding accounts payable related to construction work in progress (CWIP) and to prepayments in the amounts of $687,079 and $6,784 respectively.[21] In rebuttal testimony, Kentucky Power did not provide contrary evidence or arguments against Mr. Kollen's proposed adjustments in the context of the calculation of rate base, but rather restated its position that Kentucky Power used capitalization in the calculation of its revenue requirement, thus making the adjustment unnecessary.[22] Because the Commission finds that rate base is the more appropriate method to calculate the revenue requirement, and Kentucky Power provided no contrary evidence or objection against Mr. Kollen's proposal in the context of the calculation of rate base, the Commission finds that the adjustments proposed by Mr. Kollen are reasonable and should be accepted, and are reflected in the calculation of the revenue requirement.

[21] Kollen Direct Testimony at 24.

[22] Vaughan Rebuttal Testimony at R7.

Operating Income Adjustments

Certain Nonrecurring Charges. As discussed in the sections regarding the Delayed Payment Charge and Nonrecurring Charges, the Commission finds that certain Nonrecurring charges from Kentucky Power's tariff be removed. As a result, an increase to the Revenue Requirement for base rates that correspond with an equivalent decrease in miscellaneous revenues is necessary to ensure Kentucky Power is given the opportunity to recover the costs to perform utility service.

Pension and OPEB Expenses Removed from Cost of Service. As discussed in the preceding paragraphs regarding prepaid pension and prepaid OPEB assets that were included in rate base, Kentucky Power asserted that if the Commission adopted the Attorney General/KIUC's recommendations regarding the prepaid pension and prepaid OPEB assets and removed them from rate base, then a corresponding adjustment should be made to increase operating expenses to remove the benefit of the prepaid pension and prepaid OPEB asset that would normally reduce Kentucky Power's cost of service.

The Commission finds that Kentucky Power provided sufficient evidence that there is a certain amount of cost savings attributed to the amounts recorded as a prepaid asset on Kentucky Power's books, and that the effect of increased expenses by not including the prepaid assets in rate base should be adequately reflected in the cost of service. Therefore, the Commission increased operating expenses in the amount of $3,712,668[23]

[23]

Annualized Pension and OPEB Costs Removed from Cost of Service	$	3,690,184
Times: Gross Revenue Conversion Factor		1.0060929
Increase to Revenue Requirement	$	3,712,668

to fully recognize the effects of the preceding adjustment to the prepaid Pension and prepaid OPEB assets.

Incentive Compensation and Stock-Based Compensation. Kentucky Power included $4,467,190 of short-term incentive compensation plan (STI) costs and $1,164,263 in long-term incentive compensation plan (LTIP) costs in its jurisdictional revenue requirement. These amounts reflect adjustments made by Kentucky Power to reduce test-year STI and LTIP costs by $945,619 to normalize test-year levels to a 1.0 target amount.[24] During the test period, Kentucky Power's STI funding was divided into three metrics: earnings per share (EPS), safety and compliance measures, and strategic initiatives. For 2020, the annual STI plan funding is entirely based on EPS metrics.[25] Kentucky Power's LTIP funding and performance metrics are both tied to earnings criteria.

The Attorney General/KIUC's witness, Mr. Kollen, recommended an adjustment to eliminate $5,665,765 of STI/LTIP costs from rate recovery. As support for the recommendation, Mr. Kollen asserted that the Commission historically disallowed and removed incentive compensation expenses that were incurred to incentivize the achievement of shareholder goals as measured by financial performance. As additional support, Mr. Kollen stated that in its most recent previous rate case proceeding, Kentucky Power elected to forego recovery of its incentive compensation expense in its settlement.[26]

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[24] Direct Testimony of Kimberly Kaiser (Kaiser Direct Testimony) at 6.

[25] Kentucky Power's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request), Item 24.

[26] Kollen Direct Testimony at 29.

In response, Kentucky Power argued that the Attorney General/KIUC's proposed adjustment is not warranted because although the goals to fund the STI plan are based on EPS metrics, the actual cost incurred by Kentucky Power is based primarily on performance goals.[27] Kentucky Power asserted that both STI and LTI incentivize employees to make efficient use of Kentucky Power's financial resources, and therefore benefits ratepayers.[28]

Incentive compensation plans typically have funding metrics that must be achieved before eligible employees who meet performance metrics are awarded incentive compensation. If the funding metrics are not achieved, then no incentive plan compensation is paid. Relevant here, both funding and performance metrics include financial and nonfinancial objectives. In a few previous cases, the Commission distinguished between the funding and performance metrics, removing amounts for ratemaking purposes based on financial objectives in performance metrics only.[29] However, in other cases, we denied recovery of compensation in the form of restricted stock units tied to financial objectives in funding metrics.[30]

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[27] Rebuttal Testimony of Kimberly Kaiser (Kaiser Rebuttal Testimony) at R2–R3.

[28] Kentucky Power Post-Hearing Brief at 74.

[29] Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015), Order at 25–26; and Case No. 2018-00358 *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019), Order at 43–44.

[30] Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief* (Ky. PSC May 23, 2018), Order at 5–6.

The Commission must address the inconsistent treatment of funding and performance metrics tied to financial objectives. The Commission disallows recovery costs for compensation tied to financial objectives, such as earnings growth or earning per shares, because shareholders, but not ratepayers, receive primary, if not exclusive, benefit from financial objectives in the form of higher return on their investment. Such costs are disallowed based upon Commission precedent that, unless a utility can establish by substantial evidence that financial objectives benefit the utility's ratepayers, ratepayers should not pay for expenses that primarily benefit shareholders.[31]

The Commission finds that both funding metrics and performance metrics based upon financial objectives should receive the same regulatory treatment because funding and performance metrics tied to financial objectives are equally shareholder oriented, while ratepayers receive little demonstrative benefit. Additionally, regardless of whether a utility meets the funding or performance measures, including the costs of the programs in rates, normalized or otherwise, ensures customers pay to fund the programs. If a utility meets the funding or performance measures shareholders primarily benefit, but if the metrics are missed, shareholders are still enriched with additional revenue with no corresponding expense. For those reasons, the Commission finds that incentive plan costs for funding metrics and performance metrics tied to financial objectives should be disallowed from recovery for ratemaking purposes absent a clear showing of benefit to ratepayers.

[31] *See* Case No. 2014-00396, (Ky. PSC June 22, 2015) Order at 25–26; Case No. 2018-00358, (Ky. PSC June 27, 2019) Order at 43–44.

Based upon a review of the case record, the Commission finds that Kentucky Power offered conclusory statements but failed to establish by sufficient evidence that the portions of STI and LTIP funding and performance metrics tied to financial objectives provide ratepayer benefit. Therefore, the Commission finds that the STI and LTIP expenses tied to financial objectives, whether in funding metrics or performance metrics, should be disallowed for ratemaking purposes.

Consistent with this finding, the Commission reduced Kentucky Power's revenue requirement by $5,665,765 to remove STI and LTIP expenses included in the test year.

Supplemental Executive Retirement Plan (SERP). In its application, Kentucky Power included $0.006 million in Supplemental Executive Retirement Plan (SERP) expense for its employees and an additional $0.199 million in affiliate charges for AEP Service Corporation (AEPSC).[32]

Direct intervenor testimony and analysis regarding SERP expense was sponsored by the Attorney General/KIUC, and performed by Lane Kollen. Mr. Kollen proposed an adjustment to remove 100 percent of test-year SERP expenses[33] citing Commission precedent,[34] as well as stating that Kentucky Power's motion to recover SERP expenses in this proceeding is "an end-run around the Commission's prohibition against recovery of excessive expenses incurred pursuant to multiple retirement plans."[35] Mr. Kollen then stated that the Commission's historical practice of excluding expenses for multiple

[32] Kollen Direct Testimony at 31.

[33] *Id.* at 33.

[34] *Id.* at 32.

[35] *Id.*

retirement programs is of even more crucial importance for SERP because it is available only to highly-compensated executives.[36]

In rebuttal testimony, Kentucky Power asserted that SERP expenses should not be excluded for ratemaking, claiming that the non-qualified deferred compensation benefits have been designed as a part of a market competitive total rewards package, specifically for those employees who have skills and experience that command a higher level of compensation.[37]

In Case No. 2017-00179, Kentucky Power's SERP expense was included in the non-unanimous settlement revenue requirement.[38] In deference to the settlement, the Commission allowed recovery of the SERP expense. However, the Commission typically disallows SERP costs when retirement plan expenses offered exclusively to certain highly-compensated employees exceed the cost of pension plans for all employees because, absent substantial evidence to the contrary, retirement plans that benefit highly-compensated employees without providing a benefit to ratepayers are the type of costs the Commission finds should not be borne by ratepayers.[39]

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[36] *Id.*

[37] Kaiser Rebuttal Testimony at R13–R14.

[38] Case No. 2017-00179, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief* (Ky. PSC Jan. 18, 2018), Order at 16.

[39] *See* Case No. 90-158, *Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company* (Ky. PSC Dec. 21, 1990), Order at 27; Case No. 94-355, *Application of Cincinnati Bell Telephone Company for Authority to Increase and Adjust Its Rates and Charges and to Change Regulations and Practices Affecting Same* (Ky. PSC May 23, 1995), Order at 16; Case No. 2016-00169, *Application of Cumberland Valley Electric Inc. for a General Adjustment of Rates* (Ky. PSC Feb. 6, 2017), Order at 10.

The Commission is persuaded by the Attorney General/KIUC's argument that SERP expense should be disallowed. The Commission finds that Kentucky Power's SERP expenses should be disallowed for ratemaking purposes because Kentucky Power did not provide substantial evidence that its SERP benefits provide a quantitative benefit to ratepayers, and thus failed to establish that recovery of SERP costs is warranted under the facts of this case. For this reason, the Commission has reduced Kentucky Power's SERP expense for its employees by $5,467 and $198,807 in affiliate charges for AEPSC.

Savings Plan Expense. Kentucky Power included $1,673,846[40] in its jurisdictional revenue requirement for savings plan expense for employees who participate in a defined benefit plan and have matching 401(k) contributions from Kentucky Power that totals to $1,684,045 after applying the Gross Revenue Conversion Factor.[41]

None of the intervenors directly addressed Kentucky Power's savings plan expense.

Kentucky Power asserted that the cash balance formula pension contributions as well as 401(k) matching were designed together to provide a market competitive total benefit package, stating that each contribution alone would be less that what would be needed to constitute a market competitive benefit package.[42] In addition, Kentucky Power

[40] Kentucky Power's Response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request), Item 3, Attachment 1.

[41]

Adjusted Kentucky Jurisdictional Test Year Savings Plan Contributions	$1,673,846
Times: Gross Revenue Conversion Factor	1.0060929
Gross Adjusted Jurisdictional Contributions	$1,684,045

[42] Kentucky Power's Response to Commission Staff's Post-Hearing Request, Item 3.

cited the findings in the final Order in Case No. 2017-00179 in which the Commission recognized the Company's cash balance pension benefit was based on a "defined contribution" formula, rather than a traditional final average pay formula, as well as that participation in the Company's traditional final average pay pension formula was frozen in 2000 and that benefits from this formula were frozen in 2010.[43]

First, the Commission notes that it made an erroneous finding of fact in its final Order in Case No. 2017-00179 because the Order referenced only the 401(k) contributions and a defined benefit plan that was locked and frozen, but was silent regarding a third retirement plan funded entirely by Kentucky Power in the form of the cash balance formula pension.[44] In Case No. 2017-00179 and in this proceeding, Kentucky Power testified that the contributions to the 401(k) and cash balance formula pension were designed so that, taken individually, the contributions are less than would be required to provide a market competitive retirement benefit, but, taken together, are market competitive.[45] However, the Commission finds that Kentucky Power has not provided substantial evidence to support this assertion. For this reason, the Commission has reduced jurisdictional 401(k) savings plan expense by $1,684,045.

Rate Case Expense. In its application, Kentucky Power included an adjustment in the amount of $527,792 for the amortization of rate case expenses that were estimated

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[43] *Id.*

[44] Case No. 2017-00179, Jan. 18, 2018 Order at 15 and Dec. 7, 2017 Hearing Video Transcript (HVT) at 4:50:27.

[45] Kentucky Power Response to Staff's Post-Hearing Request, Item 3.a.

to total $1,583,375.[46] Kentucky Power provided monthly updates reporting actual amounts expended for rate case expense during the course of this proceeding.[47] As of November 30, 2020, Kentucky Power's rate case expenses to date totaled $391,375.[48] Of this amount, $2,315 was related to meals, snacks, and beverages consumed by Kentucky Power and American Electric Power (AEP) employees during meetings, and $51,117 was related to witness coaching provided by the Communication Counsel of America (CCA), for a total of $54,612.[49]

Kentucky Power has the burden of proof that its rate case expenses are just and reasonable. According to the invoices provided, the meal expenses that Kentucky Power asks ratepayers to cover include breakfasts, lunches, and hot beverages served in conjunction with meetings on or near the business premises.[50] Meal expenses incurred on or near the business premises are incurred for the convenience of Kentucky Power or AEP. Such expense is wholly different from meal expenses incurred by employees while away from their place of employment on business travel. The Commission finds that the recovery of expenses for meals, snacks, and beverages consumed by Kentucky Power and AEP employees during staff meetings are not just and reasonable and therefore should be denied. The Commission further finds that witness coaching provided by CCA

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[46] Application, Section V, Exhibit 2 at 19.

[47] Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request), Item 39.

[48] Kentucky Power's Dec. 10, 2020 Supplemental Response to Staff's Second Request, Item 39, Supplemental Attachment 1.

[49] *Id.*

[50] *See Id.* at 16–25, which includes lunches for three Ashland, Kentucky-based Kentucky Power employees from Ashland, Kentucky restaurants; $96.95 for hot beverages, $370.51 for breakfast boxes, and $391.95 for lunches delivered to AEP's offices in Columbus.

should be denied as unreasonable, and additionally is likely duplicative of witness preparation that Kentucky Power is billed for by Kentucky Power's counsel, if the expense and activity is necessary at all. Furthermore, recovering this expense from customers is patently unfair. Therefore, the cost of meals during meetings and the amounts paid to CCA should be removed for ratemaking purposes.

To factor in for the preceding, and to reflect the actual amount of rate case related work expensed to date, the Commission finds that a reduction to the revenue requirement in the amount of $418,069[51] is necessary and is reflected in the Commission's revenue requirement calculation above.

Edison Electric Institute (EEI) Expenses. Kentucky Power was allocated $104,806 for dues to the EEI, a nonprofit trade association representing American investor-owned electric utilities.[52] Of the total amount, $88,361 was included in the cost of service and

[51]

Total Rate Case Expenses to Date	$	391,375
Meals and Witness Coaching Provided by Communication Counsel of America		(54,612)
Estimated Rate Case Expenses in Application		(1,583,375)
Reduction Before Gross Up		(1,246,612)
Divide by: Three Years		3
Reduction to Amortization of Rate Case Expense		(415,537)
Gross Revenue Conversion Factor		1.0060929
Reduction to Revenue Requirement	$	(418,069)

[52] Rebuttal Testimony of Brian K. West (West Rebuttal Testimony) at R11; and Kentucky Power Response to Staff's Post-Hearing Request, Item 2, Attachment 1. AEP is billed and then allocates the expense to its operating company subsidiaries based upon each utilities number of customers and revenue.

$16,445, representing legislation influencing activity, was excluded from the cost of service.[53]

Attorney General/KIUC and Mr. Kollen recommended that 45.35 percent of the $104,806 allocated to Kentucky Power, or $48,000, be disallowed for ratemaking purposes, asserting that there is "no assurance" that the percentage removed for influencing legislation accurately incorporates all advocacy and public relations costs.[54]

In response, Kentucky Power maintained that there is no evidence to support Attorney General/KIUC's and Mr. Kollen's recommendation, asserting that, consistent with the express language of the EEI bill, the appropriate amounts were excluded from the cost of service, and therefore no additional adjustment is warranted.

The Commission finds that through its responses to Staff's Post-Hearing Request, Kentucky Power has properly explained what was excluded from the cost of service for ratemaking purposes and has provided additional information for the Commission to consider in rendering its decision on the reasonableness of the expense. Therefore, the Commission finds that the full amount of EEI Dues that have been included in the test year should be included in the calculation of Kentucky Power's revenue requirement.

<u>Miscellaneous Expenses</u>. Kentucky Power included in its test-year expenses $630,072 that were included in FERC Account 930, Miscellaneous Expense. In response to Staff's Second Request, Item 47, Kentucky Power provided a spreadsheet that provided a breakdown of the expenses included in this category with some detail for

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[53] *Id.*

[54] Kollen Direct Testimony at 37–38; Attorney General/KIUC Post-Hearing Brief at 25–27.

amounts expensed over $500.[55] In Staff's Post-Hearing Data Request, the Commission asked Kentucky Power to provide the information in the record that showed support that the amounts expensed were reasonable. In its response, Kentucky Power stated that adjustments had been made to the test-year expenses after they were reviewed for reasonableness by Kentucky Power's witnesses Ms. Scott and Mr. Bishop. Kentucky Power additionally stated in its response that "to identify each expense (or category of expense) and provide testimony expressly supporting its recovery would be unworkable, unprecedented, and unreasonable." [56]

The Commission finds that Kentucky Power has the burden of proof in this case to demonstrate that the expenses that it requests recovery of are reasonable. While the Commission can appreciate that requiring a utility, such as Kentucky Power, to provide written testimony on why each individual expense should be recovered, merely providing the Commission some indication of the purpose or benefit of the category of expenses in order for the Commission to determine the reasonableness of recovery would not be "unworkable, unprecedented, [or] unreasonable." In fact, other utilities in rate cases include at least the recipient of miscellaneous expenses incurred during a test-year or base period in its application or accompanying support. The Commission notes that when asked to provide information regarding a certain category of expenses, as has been done in this case, Kentucky Power has evidenced its inability, or unwillingness to do so. Therefore, the Commission finds that test year expenses be reduced by $545,012 which excludes $88,361 for EEI Dues as discussed above.

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[55] Kentucky Power's Response to Staff's Second Request, Item 47.

[56] Kentucky Power's Response to Staff's Post-Hearing Request, Item 14.

Rockport Unit Power Agreement (UPA) Demand Expense Operating Ratio. Kentucky Power proposed an adjustment to increase test-year purchased power expense to account for known and measurable changes to its Rockport UPA expenses.[57] Kentucky Power argued that the adjustment is necessary because the Rockport UPA rate calculation includes an operating ratio that increased the Rockport UPA expenses due to the Rockport Unit 2 SCR being placed into service in June 2020, after the test year.[58] The operating ratio component decreases the return component in order to remove CWIP.[59]

Attorney General/KIUC witness, Mr. Kollen, recommended to remove Kentucky Power's proposed adjustment, and defer any increased expense to the Rockport UPA regulatory asset, to be recovered as increased amortization expense through Tariff PPA starting in December 2022.[60] Mr. Kollen argued that the post-test-year adjustments should be deferred to mitigate the immediate effect on ratepayers and allow Kentucky Power full recovery of its costs.[61] In response, Kentucky Power stated that Kollen's proposed adjustment should be included in the Rockport UPA regulatory asset because it is a reasonable mitigation proposal in this case.[62]

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[57] Direct Testimony of Alex E. Vaughan (Vaughan Direct Testimony) at 48-49.

[58] *Id.*

[59] *Id.*; Kentucky Power's Response to Staff's Sixth Request for Information (Staff's Sixth Request), Item 12(b).

[60] Kollen Direct Testimony at 33-34.

[61] *Id.*

[62] Vaughan Rebuttal Testimony at 7-8.

The basis of Kentucky Power's proposed adjustment is that an increase in the operating ratio will increase the Rockport UPA purchase power expenses recovered in base rates. However, during the test year, the operating ratio effectively removed CWIP related to a project, which is recovered through Kentucky Power's environmental surcharge (Tariff ES), from the Rockport UPA calculation,[63] thus Kentucky Power was billed a return component based on all the in-service plant at that time, which will continue after the Unit 2 SCR is placed into service. The total Rockport UPA is recovered through the fuel adjustment clause, Tariff ES, and base rates.[64] The nonfuel components affected by the operating ratio are recovered either through base rates as purchased power expenses or Tariff ES as discrete expenses and capital projects, which do not include the operating ratio component of the UPA cost calculation. The increase in the operating ratio after the Unit 2 SCR went into service in June 2020 is simply the result of including the Unit 2 SCR in the return calculation. Because the Unit 2 SCR began to be recovered through Tariff ES in June 2020, Kentucky Power did not include this project in the Tariff ES base revenue requirement. The increases in the Rockport UPA associated with the Unit 2 SCR are already being recovered through Kentucky Power's Tariff ES.

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that Kentucky Power's proposed adjustment to increase test-year purchased power expense to reflect an increase in the operating ratio included in the Rockport UPA cost calculation should be denied. Mr. Kollen's recommendation to defer

[63] Kentucky Power's Response to Staff's Sixth Request, Item 12(b).

[64] Kentucky Power's Response to the Attorney General/KIUC's First Request for Information (Attorney General/KIUC's First Request), Item 8.

this increase in expense and include it in the Rockport UPA regulatory asset is therefore unnecessary. The result is a decrease in test-year purchased power expense of $1,695,513, which results in a revenue requirement reduction of $1,705,844.

Kentucky State Income Tax Rate. In its application, Kentucky Power applied a blended effective state income tax rate of 5.85 percent in the calculation of its gross revenue conversion factor.[65] Attorney General/KIUC witness Mr. Kollen proposed to reduce Kentucky Power's revenue requirement to reflect the actual Kentucky state income tax rate of 5.00 percent resulting in a reduction of $692,374 to the base revenue requirement.[66] In response to Commission Staff's Post-Hearing Request for Information, Kentucky Power provided under confidential seal its state income tax returns filed in Illinois, Michigan, and West Virginia for the years 2018 and 2019.[67] Additionally, Kentucky Power provided support for the apportionment factors it used in calculating the blended effective state income tax rate.[68] The Commission finds that Kentucky Power demonstrated sufficient support for the use of the blended effective income tax rate, which is based on a ratio of total sales to sales for each state in which it actually files tax returns, and therefore rejects Mr. Kollen's proposed adjustment.

Off-System Sales (OSS) Margins and System Sales Clause Tariff (Tariff SSC). During the test year, Kentucky Power included OSS margins in the amount of

[65] Application, Section V, Workpaper S-2, at 2.

[66] Kollen Direct Testimony at 36.

[67] Kentucky Power's Response to Staff's Post-Hearing Request, Item 17.

[68] *Id.* at Item 1.

$7,343,330.[69] As discussed below, Kentucky Power's adjustment to test-year purchased power expenses for amounts related to the GreenHat default did not include an allocation to Tariff SSC for estimated amounts. The Commission finds that OSS margins should be adjusted to reflect the allocation of GreenHat default charges to Tariff SSC for the months of April 2020, through December 2020. Therefore, the Commission will utilize the OSS margins of $7,326,879, rather than the test-year amount, resulting in a decrease in operating revenue of $16,451. Additionally, the amount of OSS margins to be collected in base rates is $7,326,879, rather than the $7,343,330 proposed in the application.

Cost of Capital Adjustments

Environmental Surcharge. Kentucky Power proposed an adjustment to incorporate test-year Tariff ES expenses into its base rates, which synchronizes the expenses and revenues that flow through its Tariff ES and removes amounts related to the Mitchell Flue Gas Desulfurization project (FGD).[70] To place the Tariff ES base revenue requirement on the same basis as base rates, Kentucky Power utilized its requested return of equity (ROE) of 10.00 percent in the calculation of the ES base revenue requirement.[71] Kentucky Power's adjustment reduced test-year expenses by $28,786,651.[72]

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[69] Vaughan Direct Testimony at 43.

[70] Direct Testimony of Lerah M. Scott (Scott Direct Testimony) at 8-9.

[71] Kentucky Power's Response to Commission Staff's Third Request for Information (Staff's Third Request), Item 1, Attachment 33.

[72] Application, Section V, Exhibit 2 at 6.

Attorney General/KIUC witness Mr. Kollen recommended that the Tariff ES revenue requirement be reduced to remove CWC,[73] use a state income tax rate of 5.00 percent,[74] use an ROE of 9.00 percent,[75] and extend the Rockport 2 Unit Selective Catalytic Reduction project (SCR) depreciation period to ten years.[76] The total effect of these adjustments is a revenue requirement decrease of $19,577,018.[77]

The Commission will not accept Mr. Kollen's recommendation to adjust the state income tax rate used in Kentucky Power's Tariff ES and declines to extend the depreciation period for the Rockport Unit 2 SCR, based on the finding above that the appropriate state income tax rate is the blended rate and the Commission's concern regarding the numerous cost deferrals already established for Kentucky Power regarding the Rockport UPA. Based on its finding above regarding CWC in rate base, the Commission finds that CWC should be removed from Kentucky Power's Tariff ES rate base. Based on the finding below that Kentucky Power should utilize an ROE of 9.10 percent for limited purpose rider revenue requirement calculations, the Commission finds that Kentucky Power should utilize an ROE of 9.10 percent for all Tariff ES filings after the date of this Order. The adjustments to remove CWC from rate base and adjust the ROE to 9.3 percent include Tariff ES rate base recovered in base rates. The only remaining adjustment is to reduce the ROE for Mitchell Non-FGD rate base, without

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[73] Kollen Direct Testimony at 17.

[74] *Id.* at 36.

[75] *Id.* at 46-47.

[76] *Id*. at 51-52.

[77] *Id.* at 7.

CWC, from 9.3 to 9.10 percent. Based on the Mitchell Non-FGD rate base, excluding CWC, of $218,135,633, the resulting revenue requirement reduction is $236,063. Kentucky Power shall file a revised Tariff ES to reflect the Commission authorized return on equity and rate base discussed in this Order, and the annual base revenue requirement as shown on Appendix D attached to this order.

OFFSET TO REVENUE INCREASE

Tariff Capacity Charge

As an offset to the proposed revenue increase, Kentucky Power proposed a conditional offer to terminate the Capacity Charge tariff two years early, which would offset rates by $6,200,000 annually.[78] Kentucky Power conditioned this offer on the Commission accepting Kentucky Power's proposed revenue and CPCN requests, as well as all of the Company's other proposals without making any adjustments or modifications. Although Kentucky Power's proposal is effectively an attempt at a regulatory quid pro quo, the Company noted in its application (and in press offerings) the early termination of the Capacity Charge was offered in an attempt to "mitigate" the impacts of this matter.

The Capacity Charge tariff was one of the settlement provisions approved in Case No. 2004-00420.[79] The Capacity Charge tariff is a surcharge designed to recover from customers the supplemental annual payments for the Rockport UPA, between 2005 and 2022. The payments were structured so that Kentucky Power received $5,100,000 annually from 2005 through 2009, $6,200,000 from 2010 through 2021, and then

[78] The amount is prorated for calendar year 2022 since the UPA expires in December 2022.

[79] Case No. 2004-00420, *Application of Kentucky Power Company for Approval of a Stipulation and Settlement Agreement Resolving State Regulatory Matters* (Ky. PSC Dec. 13, 2004).

$5,792,329 in 2022, when the payments, and Rockport UPA, terminate.[80] The parties to the settlement agreement approved in Case No. 2004-00420 agreed to these supplemental payments as consideration for Kentucky Power extending the Rockport UPA from December 31, 2004, through December 7, 2022.[81] The supplemental payments are revenue without an expense.

The Attorney General/KIUC's witness, Mr. Kollen, argued that the Commission should require Kentucky Power to terminate the Capacity Charge no matter what because the Capacity Charge is a retail rate and not a cost imposed on Kentucky Power, and that the market conditions that warranted the equity incentive payments for extending the Rockport UPA lease no longer exist.[82] In rebuttal testimony, Kentucky Power rejected the arguments of Attorney General/KIUC's witnesses as irrelevant, noting that the Commission recognized market conditions could change and that the revenue provided through the Capacity Charge was material consideration for Kentucky Power's agreement to extend the UPA.[83] Additionally, Kentucky Power argued that the Attorney General/KIUC were parties to the settlement in Case No. 2004-00420, and therefore are precluded from unilaterally now attempting to abrogate the settlement agreement.[84]

As discussed throughout this Order, the Commission for multiple reasons cannot accept Kentucky Power's proposed application as filed. Kentucky Power's request to

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[80] *Id.*, Appendix A at 4. $5,792,239 represents payments through December 7, 2022, or 341/365 of $6,200,000.

[81] *Id.*, Appendix A at 2.

[82] Kollen Direct Testimony at 57–58; and Attorney General/KIUC Post-Hearing Brief at 38–41.

[83] Kentucky Power Post-Hearing Brief at 26–28.

[84] *Id.* at 26–27.

approve a significant rate increase as filed would require us to abdicate our statutory responsibility to conduct a full and robust investigation to ensure that rates are fair, just and reasonable. Kentucky Power received the ongoing seven-figure payments as incentive to extend a power purchase agreement. The Commission will not require Kentucky Power to make good on its conditional offer. However, given Kentucky Power's concern for its customers, as expressed repeatedly in this pendency of this proceeding, the Commission expects Kentucky Power to earnestly consider the value to its customers by carrying out the offset to rates by terminating the Capacity Charge effective with or closely after the rates approved in this Order are placed into effect. As such, the Commission will allow Kentucky Power 15 days following service of this Order to respond by letter from Kentucky Power's President and Chief Operating Officer, Brett Mattison, indicating whether it will voluntarily forego all or a portion of the Capacity Charge for the remainder of the term of the UPA.

Unprotected Excess ADIT

Kentucky Power proposed to accelerate amortization of approximately $65,000,000 of existing unprotected excess ADIT to offset the first year of the proposed rate increase, with a determination how applicable the amortization rate will be calculated after 2021. The Commission approved an 18-year amortization period for the unprotected excess ADIT in Case No. 2018-00035.[85] As of April 30, 2020, the unprotected excess ADIT balance was approximately $113,500,000.[86] Kentucky Power proposed to amortize

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[85] Case No. 2018-00035, *Kentucky Industrial Utility Customers, Inc. v. Kentucky Power Company* (Ky. PSC June 28, 2018).

[86] West Direct Testimony at 6–9.

the amount of unprotected excess ADIT required for these offsets ratably across 2021 to align with time of reduced base rate revenues during 2021.[87]

The Attorney General/KIUC recommended that the unprotected excess ADIT be used to offset both 100.00 percent of the first year and 50.00 percent of the second year of the proposed rate increase.[88] The Attorney General/KIUC further recommended that, once applied to offset the rate increase, the unprotected excess ADIT continue to be amortized at current level until the balance is fully amortized.[89] In response, Kentucky Power asserted that, while there may be negative impacts on cash flow and credit metrics from its proposal, those could be borne for one year, but a longer period recommended by the Attorney General would be the type of event that leads to Kentucky Power being placed on a negative outlook by rating agencies or could result in a credit downgrade.[90]

With the enactment of the Tax Cuts and Jobs Act (TCJA), the federal corporate income tax rate was reduced from 35 percent to 21 percent. This reduction in the federal corporate income tax rate on regulated utilities resulted in excess ADIT balances that were to be returned to ratepayers. The TCJA separated the excess ADIT into two categories: protected and unprotected. The TCJA normalization rules apply to return of the excess protected ADIT, whereas the return of the unprotected excess ADIT is not governed by normalization rules. Therefore, the prior agreed upon 18-year amortization

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[87] Kentucky Power Response to Staff's Sixth Request, Item 13.

[88] Kollen Direct Testimony at 47–49; Attorney General/KIUC Post-Hearing Brief at 44-45.

[89] Kollen Direct Testimony at 49.

[90] Rebuttal Testimony of Brett Mattison (Mattison Rebuttal Testimony) at R5; West Rebuttal Testimony at R2; Messner Rebuttal Testimony at R6-R7; Hearing Transcript, Vol. III at 817–818; Kentucky Power Post-Hearing Brief at 23–24.

of the unprotected excess ADIT can be modified. The balance of the unprotected excess ADIT is estimated to be $81,011,186 for 2021.[91] Using a gross revenue conversion factor of 1.34492, the estimated revenue credit is $108,945,504 for unprotected excess ADIT. Historically, Kentucky Power's protected excess ADIT is approximately $3,500,000 per year.

The Commission agrees with the overall proposal to use the unprotected excess ADIT to mitigate the impact of the rate increase on their customers. However, the Commission is not persuaded by Kentucky Power's argument that the accelerated return of unprotected excess ADIT should be limited to one year because Kentucky Power offered conclusory statements of opinion from its own personnel without any evidentiary support. The Commission finds amortizing the total unprotected excess ADIT over three years followed by a review of rates at the end of three years is more appropriate as savings may be realized through the ending of the Rockport UPA and the associated environmental costs. Further, due to the anticipated savings from the termination of the Rockport UPA and therefore termination of associated costs that are currently in base rates and the termination of the Capacity Charge, the Commission finds that Kentucky Power should file a general base rate adjustment application for rates effective January 1, 2024.

The Federal Tax Cut (FTC) surcredit will follow the same allocation as in Case No. 2018-00035 where the total credit is allocated between residential and nonresidential

[91] Figure 1 of West Rebuttal Testimony at R3. Note that the Fed Tax Cut Rider of $6,951,693 in Figure 1 is an error as this amount is the 18 year amortization revenue credit balance after the GRCF is applied. However, this error would not change the end sum of the Total and EOY ADFIT Bal in Figure 1. *See* Case No. 2018-00035, Appendix A, Exhibit 2.

based upon the test-year revenues. The total credit will be approximately $40,000,000 per year total for unprotected excess ADIT and protected excess ADIT. For residential customers only, the rate credits will continue to be higher in the winter heating months of December through March to provide greater benefits during the high-usage winter hearing months. Such an allocation also more closely matches revenues with cash flow for Kentucky Power. For a residential customer using 1100 kWh per month, the savings during the winter heating month will be $24.06.[92]

RATE OF RETURN

Capital Structure and Cost of Debt

Kentucky Power proposed an adjusted test-year-end capital structure consisting of 53.73 percent long-term debt at 4.04 percent; zero percent short-term debt at 2.23 percent; 3.02 percent accounts receivable financing at 2.80 percent;[93] and 43.25 percent common equity at a return of 10.00 percent.[94] The proposed capital structure included one adjustment for the refinance of $65,000,000 WVEDA Mitchell Project, Series 2014A Bonds on June 19, 2020.[95] For the short-term debt component, the balance at the end of the test year was approximately $10,685,291; however, this balance was reduced to zero as a result of an adjustment for the excessive target levels of coal from the Mitchell coal stock. The test-year balance of the excessive Mitchell coal stock, or $13,084,362,

[92] *See* Appendix B for surcredit calculations.

[93] As filed the interest rate of the Accounts Receivable was 2.802 percent.

[94] Direct Testimony of Franz D. Messner (Messner Direct Testimony) at 4.

[95] Messner Direct Testimony at 6.

was first applied to the short-term debt followed with the balance being allocated proportionally between long-term debt and equity.[96]

Short-Term Debt. Regarding the zero balance of short-term debt, the Attorney General/KIUC's witness, Mr. Kollen, asserted that Kentucky Power carried a much larger average monthly balance of short-term debt during the test year and just before the end of the test year, significantly paid down the short-term debt and then moved it to zero with the Mitchell coal stock adjustment. Mr. Kollen suggested that, due to the short-term debt pay down, the capital structure should include the test-year average of short-term debt at the most recent interest rate incurred by Kentucky Power, 0.51 percent.[97] Mr. Kollen also proposed to allocate the Mitchell coal stock adjustment proportionately across the entire capital structure rather than applying it to short-term debt first and then allocating the balance.[98]

In response, Kentucky Power contended that it reduced its short-term holdings in February 2019, via a two-year term loan at 1.68 percent[99] as opposed to a long-term debt issuance because, with the uncertainty with economic development activity, marketing of the private placement to investors would be difficult and could result in a higher interest rate.[100] Kentucky Power further contended that it followed regulatory filing requirements for an historical test year with the inclusion of the end of the test-year book balance of

[96] Application, Section V, Exhibit 1, Workpaper S-3.

[97] Kollen Direct Testimony at 40–41.

[98] *Id.* at 39.

[99] Actual interest rate was listed as 1.683%.

[100] Rebuttal Testimony of Franz D. Messner (Messner Rebuttal Testimony) at R3.

short-term debt.[101] Regarding the Mitchell coal stock adjustment, Kentucky Power supported the adjustment as being an appropriate allocation as it avoids a negative short-term debt balance and is consistent with prior Commission rulings in Case Nos. 2014-00396 and 2017-00179, and therefore both proposals of Mr. Kollen should be rejected.[102]

The Attorney General/KIUC supported Mr. Kollen's assertion regarding the allocation of the Mitchell coal stock stating the proposed allocation is unreasonable.[103] The Attorney General/KIUC argued that long-term coal inventories are not solely financed with short-term debt and any Mitchell coal stock adjustment should not assume that low-cost, short-term debt will primarily be used.[104] The two parties alleged that if there was a sufficient balance of short-term debt at the end of the test year, 100.00 percent of the Mitchell coal stock adjustment would have been entirely applied to short-term debt for the sole reason there was sufficient short-term debt to do so, not because the excessive coal stock was solely financed by short-term debt.[105]

Mr. Kollen also addressed $40,000,000 in Senior Unsecured Notes–Series A that are currently at an effective interest rate of 7.32 percent[106] and will mature on June 18, 2021, less than six months after rates are effective in the instant case. Mr. Kollen proposed to adjust the cost of this debt to 4.00 percent and defer any difference in interest

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[101] *Id.* at R4.

[102] *Id*.; Kentucky Power Post-Hearing Brief at 91; Case No. 2014-00396, June 22, 2015 Order; and Case No. 2017-00179, Jan. 18, 2018 Order.

[103] Attorney General/KIUC Post-Hearing Brief at 27.

[104] *Id.*

[105] *Id.*

[106] Actual effective interest rate is 7.319%.

expense as a regulator asset or liability.[107] Mr. Kollen advocated that such an adjustment will lower annual interest expense, and if the Commission does not make an adjustment, Kentucky Power will recover this interest expense difference at the determent of its own customers.[108] Kentucky Power asserted that such an adjustment is not appropriate because those notes are part of the test-year book balance of long-term debt and are currently outstanding.[109] Kentucky Power also asserted that Mr. Kollen's adjustment does not meet the criteria of being known and measurable, but instead applied a hypothetical interest rate.[110] Kentucky Power contended that this recommendation does not consider Kentucky Power's already struggling credit metrics and is a punitive reduction of Kentucky Power's revenue requirement.[111]

The Attorney General/KIUC noted that it is Kentucky Power's practice to issue and replace maturing debt with new debt.[112] The Attorney General/KIUC further noted that the cost of debt is at a historical low due to the COVID-19 pandemic and that is likely that the interest rates will be even lower than Mr. Kollen's proposed 4.00 percent.[113] The two parties recommended following Mr. Kollen's proposal and adjust the long-term debt rate for this maturing bonds and establish a regulatory asset for any interest costs until the bonds mature and are refinanced and a regulatory liability or asset for any difference

[107] Kollen Direct Testimony at 42–43.
[108] *Id.*

[109] Messner Rebuttal Testimony at R5.

[110] Kentucky Power Post-Hearing Brief at 22.

[111] *Id.*

[112] Attorney General/KIUC Post-Hearing Brief at 29.

[113] *Id.*

between the actual interest rates and 4.00 percent until the next base rate case. The Attorney General/KIUC maintained that this rate adjustment is a known and measurable adjustment akin to Kentucky Power's forecasted proposed post-test-year increase to revenue requirements related to the Rockport UPA demand expense increase.[114]

In Case Nos. 2014-00396 and 2017-00179, Kentucky Power's proposed capital structure included an allocation of the excess Mitchell coal stock whereby it was first allocated to short-term debt. In Case No. 2014-00396, the entirety of the Mitchell coal stock was allocated to short-term debt, and this allocation, and others, led to a negative short-term debt amount in the proposed capital structure.[115] In that proceeding, the Attorney General/KIUC, took issue with the negative short-term debt balance proposed in the application. To address this, Kentucky Power agreed to a zero balance of short-term debt and a pro rata allocation between long-term debt and equity and, in the final Order of that proceeding, the Commission found that Kentucky Power's capital structure for ratemaking purposes should include zero short-term debt.[116] In Case No. 2017-00179, Kentucky Power conformed to the prior case and the proposed capital structure included an allocation of the Mitchell coal stock, first to short-term debt until the balance reached zero, and then the remaining balance was applied proportionally between long-term debt and equity.[117] In that proceeding, although the Commission made other adjustments to the short-term debt, the proposed allocation of the Mitchell coal stock was

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[114] *Id.* at 30.

[115] Case No. 2014-00396, Application, Section_V_Exhibit 1.xlsx, Tab Sch 3.

[116] Case No. 2014-00396, June 22, 2015 Order at 36.

[117] Case No. 2017-00179, Application, Section V, Exhibit 1, Workpaper S-3.

not altered.[118] In the instant case, Kentucky Power stated that it uses its working capital resources to pay for expenses and that all capitalized items, including the Mitchell coal inventory, are financed based upon the Company's overall capital structure.[119] Kentucky Power also stated that because the Mitchell coal stock is a shorter term in nature, it is reasonable to adjust short-term debt first.[120] The Commission finds that the proposed allocation to be reasonable based exclusively upon past precedent. However, the Commission encourages Kentucky Power to provide support that coal purchases are primarily financed through short-term debt in its next base rate case.

The Commission also finds that the short-term debt at the test-year end is reasonable and, although it is uncharacteristically low as compared to the rest of the test year, Kentucky Power followed standard filing requirements for an historical test year with the inclusion of the end of the test-year book balance of short-term debt.

As mentioned above, in Case No. 2017-00179, the Commission made a further adjustment to short-term debt due to Kentucky Power selling its receivables to AEP for cost savings related to default risk and for improved cash flow; however, the uncollectible accounts remained with Kentucky Power and were not sold with the accounts receivable. Therefore, since the cost of accounts receivable financing was higher than traditional short-term financing, the Commission reduced the total capital structure percentage of accounts receivable financing and correspondingly increased the percentage of short-term debt. In response to discovery, Kentucky Power stated that because Kentucky

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[118] Case No. 2017-00179, Jan. 18, 2018 Order at 24.
[119] Kentucky Power's Response to Staff's Sixth Request, Item 7.

[120] *Id.*

Power sells its customer accounts receivable and accrued unbilled revenue balances to AEP Credit, the uncollectible accounts do not remain with Kentucky Power.[121] Therefore, the Commission will not make a similar adjustment in this case and finds the cost of short-term debt and accounts receivable financing of 2.23 percent and 2.80 percent, respectively, to be reasonable.

Long-Term Debt. Regarding the bond maturity, based upon settled case law and Commission regulations, the Commission must determine what the reasonable cost is for ratemaking purpose for a maturing debt that, shortly after new rates are in effect, will be reissued at a significantly lower interest rate. In determining a utility's cost of capital, the Commission has the authority to impute hypothetical debt rates for instruments reasonably anticipated to be issued during a rate case test year provided that the hypothetical rates are supported by substantial evidence.[122] The determination of hypothetical, yet reasonable and evidence-supported, debt rates is effectively what the Commission approved above regarding Kentucky Power's short-term debt and the Mitchell coal stock. Commission regulation 807 KAR 5:001, Section 16(1)(a)(1), permits adjustments to historical test periods for known and measurable changes. According to Kentucky Power's testimony, it typically refinances a debt instrument when it matures.[123] As discussed above, Kentucky Power's Senior Unsecured Notes–Series A debt with an interest rate of 7.32 percent will mature June 18, 2021. Kentucky Power reported that as of December 2, 2020, current bond rates range from 2.59 percent for a

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[121] Kentucky Power's Response to Staff's Fourth Request, Item 51.

[122] *Public Serv. Comm'n v. Continental Telephone Co. of Ky.*, 692 S.W.2d, 798-801.

[123] Hearing Transcript, Vol. III at 824–825.

7-year bond tenor to 4.49 percent for a 30-year tenor.[124] Based upon the evidence of record regarding its refinancing practices, Kentucky Power is expected to take advantage of the refinance opportunity due to the interest rate savings as the current rates are at a minimum 2.83 percent lower, which represents an annual savings of $1,131,600.[125] The Commission finds that adjusting the interest rate of this long-term debt instrument is reasonable because there is substantial evidence that Kentucky Power will refinance the debt and there is significant evidence that the imputed rates will be substantially lower than interest rates Kentucky Power included in the test year.

Based on the evidence of record, the Commission finds that the midpoint of the current rates, or 3.54 percent, is reasonable and will result in an annual interest rate savings of $1,511,600. Kentucky Power should defer the difference in jurisdictional interest expense between 3.54 percent and the high-cost debt until it matures as a regulatory asset. The resulting long-term debt rate for the capital structure will be 3.89 percent.

Return on Equity

In its application, Kentucky Power's expert witness, Adrian M. McKenzie, CFA, proposed an ROE using the discounted cash flow model (DCF), the capital asset pricing model (CAPM), the empirical CAPM (ECAPM), utility risk premium model (RP), and the expected earnings approach. In addition, Mr. McKenzie calculated an ROE estimate for nonutility companies for use as a comparative benchmark. Mr. McKenzie, after making

[124] Kentucky Power's Response to Staff's Post-Hearing Request, Item 18.

[125] $40,000,000 * 2.829 % = $1,131,600.

adjustments for flotation costs, company size, and removing high and low extremes for several model results, recommended an ROE 10.30 percent with a range of 9.40 percent to 10.50 percent.[126] Mr. McKenzie argued that Kentucky Power's risk exposure regarding its ability to recover rising costs and investments timely, its need for financial strength, coupled with the heightened economic, financial, and environmental uncertainties demonstrates that a 10.30 percent ROE is warranted.[127] Kentucky Power, in an effort to mitigate the effect of the requested increase in rates, requested a 10.00 percent ROE.[128]

The table below summarizes the range of Mr. McKenzie's ROE estimates.[129]

Methodology	**ROE-Average**		**ROE-Midpoint**
DCF			
DCF - Value Line	9.7%		10.2%
DCF – IBES	9.1%		8.7%
DCF – Zacks	9.2%		9.4%
DCF - Internal br+sv	8.6%		9.6%
CAPM			
Current Bond Yield	8.0%		8.3%
Projected Bond Yield	8.4%		8.8%
ECAPM			
Current Bond Yield	9.1%		9.3%
Projected Bond Yield	9.5%		9.8%
Utility Risk Premium			
Current Bond Yield		9.6%	
Projected Bond Yield		10.5%	
Expected Earnings	11.0%		10.6%
ROE Range	**9.4%**		**10.5%**

[126] Direct Testimony of Adrian M. McKenzie CFA (McKenzie Direct Testimony) at 4 and 9.

[127] *Id.* at 4, 9, 12, and 14.

[128] *Id.* at 4.

[129] *Id.* at Exhibit AMM-2.

Direct intervenor testimony and analysis regarding ROE was sponsored by the Attorney General/KIUC, and performed by Richard A. Baudino. Mr. Baudino's analysis used both the DCF and CAPM models and a historical risk premium analysis. He recommended an ROE range of 8.93 percent to 9.25 percent based upon the DCF results only.[130] Mr. Baudino utilized the CAPM model as an alternative method to calculate ROE only. Mr. Baudino stated that considerable judgement must be employed to determine market returns and expected risk premium elements for the CAPM model, and that the analyst's application of judgement can influence the results significantly.[131] Mr. Baudino argued that the sharp increase in beta values results from extreme market volatility due to the effects of COVID-19. Mr. Baudino, citing lower historical beta values warranted caution in the current case, asserted that it is unlikely that the 63.00 percent increase in expected beta values for electric utilities from earlier this year is accurate or reliable, or is necessarily reflective of investors' longer-term expectations.[132]

The Attorney General/KIUC's witness, Mr. Kollen, adopted a 9.00 percent ROE, citing the poor economic conditions of Kentucky Power's service territory.[133] SWVA did not file testimony, but, in its brief, recommended that the Commission adopt a 9.00 percent ROE.[134] Similarly, Walmart did not file testimony regarding the ROE, but, in its brief, argued that the 9.20 percent ROE recently awarded by the Virginia State

[130] Direct Testimony of Richard A. Baudino (Baudino Direct Testimony) at 35.

[131] *Id.* at 29.

[132] *Id.* at 34.

[133] Kollen Direct Testimony at 45–46.

[134] SWVA Post-Hearing Brief at 2–4.

Corporation Commission closely aligns with the ROE recommendations of other witnesses in this proceeding.[135] The Joint Intervenors did not propose a specific ROE to be adopted, asserting that the ROE should be towards the lower end of Commission Staff's analysis, but objected that Kentucky Power's proposed 10.00 percent ROE was higher than justified.[136]

For his DCF analysis, Mr. Baudino started with Mr. McKenzie's proxy group of 23 companies but eliminated two companies, one of which had lowered its dividend and the other was divesting electric operations in the United Kingdom.[137] Using updated proxy group information, Mr. Baudino employed forecasted dividend and earnings growth rates, and calculated DCF estimates using two methods. The first applied average growth rates and the second, median growth rates.[138] Method 1 ROE estimates range from 8.75 to 9.05 percent and Method 2 ROE estimates range from 8.61 to 9.63 percent, with averages of 8.93 and 9.25, respectively.[139]

For his CAPM estimates, Mr. Baudino employed two approaches. The first approach used the forecasted market return and the second approach used a historical risk premium based upon actual stock and bond returns from 1926 to 2019.[140] Mr. Baudino updated Mr. McKenzie's beta value inputs, noting that they had increased since

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[135] Walmart Post-Hearing Brief at 7–10.

[136] Direct Testimony of James Owen (Owen Direct Testimony) at 16-24; Joint Intervenors' Post-Hearing Brief at 15–16.

[137] Baudino Direct Testimony at 21.

[138] *Id.* at 24–25.

[139] *Id.* at 25 and Exhibit RAB-4.

[140] *Id.* at 29 and Exhibit RAB-5 and RAB-6.

the start of the pandemic in early 2020.[141] Two different risk free rates were utilized. The first measure was an average of the 30-year Treasury bond yields for the March through August 2020 period. The second measure was a normalized risk free rate developed by Duff and Phelps, utilizing a measure for the real risk free rate and expected inflation.[142]

The following table summarizes Mr. Baudino's results:[143]

DCF Methodology	
Average Growth Rates	
High	9.05%
Low	8.75%
Average	8.93%
Median Growth Rates	
High	9.63%
Low	8.61%
Average	9.25%
CAPM Methodology	
Forward looking Mkt Return	
Current 30-year Treasury	9.80%
D&P Normal Risk Free Rate	9.95%
Historical Risk Premium	
Current 30-year Treasury	6.73% - 7.65%
D&P Normal Risk Free Rate	7.85% - 8.77%

Mr. Baudino argued that his recommended ROE range is reasonable as it is consistent with his DCF results and falls within the CAPM estimate range. In addition, a reliance on the DCF results is supported by a number of factors including reduced stock market volatility from the April through May 2020, and relatively stable dividend yields since May 2020, and that the six month average dividend yield is representative of

[141] *Id.* at 33.

[142] *Id.* at 32 and Exhibit RAB-5 and RAB-6.

[143] *Id.* at 35.

investor expectations given the current environment. Mr. Baudino further argued that interest rates are low and long term utility bond yields have fallen substantially since January 2020.[144] Finally, Mr. Baudino stated that his results are reasonable as the recommended range falls within AEP's own return projections of 8 to 10 percent.[145]

Mr. Baudino took issue with multiple assumptions used in Mr. McKenzie's ROE calculations and concluded that Mr. McKenzie's 10.30 percent recommendation was inconsistent with current financial market evidence and the low interest rate environment.[146] Mr. Baudino argued that the forecasted rates are often overstated and should not be given preference over current rates. In addition, he noted that the Value Line's updated forecasts for the 2021-2024 period for the 10-year Treasury note and the 30-year Treasury bond were substantially lower than the original forecasts supporting Mr. McKenzie's calculations.[147] Regarding the DCF calculations, Mr. Baudino argued that the practice of excluding select low ROE observations biased Mr. McKenzie's DCF results upward while the inclusion of excessively high observations ranging from 12-13.6 percent was unreasonable as such are much higher than any recent Commission allowed ROE.[148] Mr. Baudino strongly recommended rejecting Mr. McKenzie's DCF approach.[149]

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[144] *Id.*

[145] *Id.* at 36 and Exhibit RAB-2 at 3 of 3.

[146] *Id.* at 37.

[147] *Id.* at 39.

[148] *Id.* at 40-41.

[149] *Id.* at 42.

Regarding the CAPM and ECAPM models, Mr. Baudino argued that Mr. McKenzie offered no support that the ECAPM model was favored by investors over the standard CAPM model. In addition, Mr. Baudino argued that the use of the ECAPM model suggests that the Value Line published betas are imprecise.[150] Mr. Baudino contended that Mr. McKenzie's estimated expected market return calculation was flawed by unnecessarily restricting the number of companies included in the calculation, which served to overstate the estimate.[151] Mr. Baudino also rejected Mr. McKenzie's application to both the CAPM and ECAPM model of a size adjustment stating that such adjustments were inappropriate as the comparative betas of the decile groups used to make the adjustments had average beta values far greater than the 0.87 average utility proxy group beta value.[152] Mr. Baudino further rejected the use of forecasted interest rates and bond yields, arguing that financial markets are efficient and that current interest rates and bond yields embody all relevant market data and investor expectations, and are indicative of investor expectations of future interest rate changes.[153] Regarding Mr. McKenzie's Utility Risk Premium approach, Mr. Baudino argued that this approach is too imprecise and should only be used as a general guide and was overstated due to the use of forecasted utility bond yields.[154] For the Expected Earnings Approach, Mr. Baudino recommended not relying on forecasted ROEs for the same reasons as not relying on forecasted interest

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[150] *Id.* at 43.

[151] *Id.* at 44.

[152] *Id.*

[153] *Id.* at 45–46.

[154] *Id.* at 48.

rates.[155] Finally, Mr. Baudino argued that applying a flotation cost adjustment was inappropriate as current stock prices already account for flotation costs and the inclusion of such amounts to double counting.[156]

In rebuttal testimony, Mr. McKenzie asserted that Mr. Baudino's ROE recommendation was below realistic investor expectations. Specifically, Mr. McKenzie disputed Mr. Baudino's ROE analyses for the following reasons:[157]

- The discussion of current capital markets is incomplete and potentially misleading.
- There were insufficient checks on the reasonableness to test DCF results and a failure to evaluate the reasonableness of individual DCF estimates.
- Reliance on historical data compromised the application of the CAPM model and the forward-looking CAPM application had methodological shortcomings and inconsistencies.
- Failure to apply a flotation cost adjustment contradicts findings in financial literature and economic requirements underlying a fair rate of return.
- Failure to consider both the ECAPM and risk premium approaches, which are recognized ROE methodologies.
- The criticism of the size adjustment, market return calculations, expected earnings approach, and nonutility analysis is without merit.

[155] *Id.* at 49.

[156] *Id.* at 50.

[157] Rebuttal Testimony of Adrien M. McKenzie (McKenzie Rebuttal Testimony) at R3.

Mr. McKenzie provided updated analyses using current information to reflect changes in capital market conditions that occurred subsequent to the filing of his direct testimony. The table below summarizes the range of Mr. McKenzie's revised ROE estimates:[158]

Methodology	ROE-Average	ROE-Median	ROE-Midpoint
DCF			
DCF - Value Line	8.9%	8.7%	10.3%
DCF – IBES	9.1%	9.3%	8.9%
DCF – Zacks	9.3%	9.3%	9.2%
DCF - Internal br+sv	8.2%	8.0%	8.7%
Average	8.9%	8.8%	9.2%
CAPM			
Current Bond Yield	10.6%	10.3%	10.8%
Projected Bond Yield	10.7%	10.4%	10.9%
Average	10.6%	10.4%	10.8%
ECAPM			
Current Bond Yield	10.9%	10.5%	11.1%
Projected Bond Yield	11.0%	10.7%	11.1%
Average	10.9%	10.6%	11.1%
Utility Risk Premium			
Current Bond Yield	9.3%	9.3%	9.3%
Projected Bond Yield	10.1%	10.1%	10.1%
Average	9.7%	9.7%	9.7%
Expected Earnings	10.6%	10.9%	10.6%
Indicated ROE	**10.1%**	**10.1%**	**10.3%**

The full range of Mr. McKenzie's updated ROE estimates extends from a low of 8.00 percent to a high of 11.10 percent. Mr. McKenzie argued that an ROE range of 9.30-10.40 percent before a flotation cost adjustment falls within the middle range of the

[158] Nov. 17–24, 2020 Hearing, Kentucky Power Exhibit 9.

updated ROE results and that Kentucky Power's proposed 10.00 percent ROE in the middle of the results.[159]

Comparing Mr. McKenzie's original and updated ROE estimates shows that the CAPM and ECAPM estimates are significantly higher. The driver of the higher CAPM and ECAPM estimates were higher beta values as the other model inputs moved in a downward direction.[160] Mr. McKenzie's updated DCF ROE average estimate decreased slightly from the original estimate, decreasing from 9.20 percent to 8.90 percent. Similarly, for the Utility Risk Premium estimate, which decreased from 10.10 percent to 9.70 percent, and for the Expected Earnings estimate, which decreased from 11.00 percent to 10.60 percent.

The Commission continues to believe that it is appropriate for utilities to present and the Commission evaluate multiple methodologies to estimate ROEs and that it is the Commission's role to analyze the various approaches as presented by the parties. The evaluation of an ROE may consider many factors, including opportunity costs. There have been sustained downward adjustments of both the short-term and longer-term interest rates, with no indication either will increase in the near future. In addition, recent regulatory decisions regarding awarded ROEs have shown a clear downward trend. For example, S&P Global Market Intelligence's Regulatory Focus reports that the average ROE awarded in the first quarter 2020 was 9.58 percent, 9.47 percent in the second

[159] McKenzie Rebuttal Testimony at R38.

[160] McKenzie Direct Testimony at Exhibits AMM-6 and AMM-7; McKenzie Rebuttal Testimony, Exhibits AMM-17 and AMM-18.

quarter 2020, and 9.44 for the third quarter.[161] Further support for lower ROE trends come from affiliates within the AEP family, including a 9.45 percent award for SWEPCO Arkansas and 9.40 percent award for AEP Texas.[162] Also, as noted by Walmart in its brief, in the most recent triennial review of Appalachian Power Company, the Virginia State Corporation Commission awarded a 9.20 percent ROE, down from the previous 9.42 percent ROE award that covered the 2017-2019 triennial period.[163]

The Commission notes that, with the relative decline of industry and the economy in eastern Kentucky generally, Kentucky Power has struggled to achieve its allowed ROE.[164] Furthermore, the Commission recognizes the need for adequate cash flow so that Kentucky Power can effectively manage its operations. Balancing the needs of Kentucky Power and its customers, and reviewing the record in its entirety in this proceeding, the Commission finds that an ROE of 9.3 percent is fair, just and reasonable. The approved ROE falls within the top range of the Attorney Generals/KIUC's recommended range and although is not in Mr. McKenzie's recommended range it does fall within his models. Additionally, although the Commission believes this ROE is higher than evidence in this matter may support, certain factors lead the Commission to approve an ROE at this level. Some factors contributing to this higher ROE are the application of

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[161] Kentucky Power's Response to Attorney General/KIUC First Request, Item 84, Attachment 1; and Kentucky Power's Response to Staff's Post-Hearing Request, Item 11.

[162] Kentucky Power's Response to Commission's Staff's Fourth Request, Item 32, Attachment 1.

[163] Walmart Post-Hearing Brief at 8–9; Case No. PUR-2020-00015, *Application of Appalachian Power Company for a 2020 Triennial Review of Its Base Rates, Terms, and Conditions* (SCC Nov. 24, 2020).

[164] The Commission notes that while Kentucky Power's transmission investments allow it to earn a return, the transmission expenses associated with Kentucky Transco investments represent ratepayer investment expenses for which Kentucky Power does not earn a return. At the margin, this arrangement may benefit Kentucky Transco and AEP generally to the detriment of Kentucky Power.

a lower ROE for single issue riders, and the need for additional operating revenues to offset the reduced revenues and cash flow from the amortization of excess ADIT and Kentucky Power's numerous deferrals.

Rate of Return Summary

Applying the rates of 3.89 percent for long-term debt, 2.23 percent for short-term debt, 2.80 percent for accounts receivable financing, and 9.3 percent of common equity to the adjusted capitalization produces an overall cost of capital of 6.19 percent.

REVENUE ALLOCATION AND RATE DESIGN

Cost of Service Study (COSS) and Revenue Allocation

Kentucky Power filed a fully allocated jurisdictional COSS to determine the cost to serve each customer class as well as the rate of return (ROR) on rate base for each rate class during the test year. Kentucky Power's COSS utilizes the 12 coincident peak (12 CP) method.[165] The 12 CP COSS utilized a production demand allocation factor based on the 12 monthly internal peak demands for the test year to allocate production plant and demand-related production O&M expenses among Kentucky Power's retail classes. None of the intervenors objected to the filed COSS.

In its application, Kentucky Power stated that the primary cost drivers for the rate increase are the loss of industrial customers and transmission costs. Kentucky Power explained that, since the end of the test year in the 2017 rate case, customer usage declined 576 million kWh, which translated into a loss of $19,478,639 and 77.85 percent

[165] Direct Testimony of Jason M. Stegall (Stegall Direct Testimony) at 9.

of the total load loss is from the industrial class.[166] The loss of the industrial load can be seen in the cost shifts to the residential class in the last three COSSs as illustrated below:

Rate Case	Total Operating Expense	Residential Class	Percentage
2014–00396[167]	$485,021,545	$211,916,612	43.7%
2017–00179[168]	$523,190,005	$241,412,671	46.4%
2020–00174[169]	$499,531,792	$251,534,326	50.4%

Although the current rate design illustrates the interclass subsidies, the proposed revenue increase is allocated to each class based upon their contribution to rate base without any reduction to these interclass subsidies. Kentucky Power stated that if the Commission were to approve a lower increase than what is requested, then Kentucky Power would be in favor of removing a portion of the interclass subsidy that is deemed reasonable, stating that although it did not propose reducing the existing interclass subsidies, cost based rates continue be Kentucky Power's goal.[170] None of the intervenors objected to this proposed allocation. However, Wal-Mart suggested that if the final increase granted is less than what is proposed, that a portion of the reduction in the

[166] Direct Testimony of Brett Mattison at 13; and Kentucky Power's Response to Staff's Fourth Request, Item 29, KPCO_R_KPSC_4_29_Attachment1.xlsx.

[167] Case No. 2014-00396, Direct Testimony of Jason M. Stegall, Exhibit JMS-2, at 10 of 30.

[168] Case No. 2017-00179, Direct Testimony of Douglas R. Buck, Exhibit DRB-1, at 10 of 29.

[169] Stegall Direct Testimony, Exhibit JMS-1, at 10 of 30.

[170] Vaughan Direct Testimony at 9.

revenue requirement increase be used to further reduce the current class subsidies.[171]

The proposed rate increases are as follows:[172]

	Propose Increase	Percent Increase	Current ROR	Proposed ROR
Rate RS	$ 39,415,631	17.97%	-0.11%	3.57%
Rate GS	$ 9,364,809	12.76%	7.25%	10.93%
Rate LGS	$ 7,521,879	12.93%	6.38%	10.06%
Rate IGS	$ 12,615,284	10.91%	5.62%	9.30%
Rate MW	$ 19,527	10.70%	9.51%	13.19%
Rate OL	$ 1,013,097	12.99%	15.21%	18.89%
Rate SL	$ 146,508	10.18%	17.35%	21.03%
TOTAL	$ 70,096,735	14.73%	2.86%	6.54%

For its COSS, Kentucky Power applied a version of the minimum size method for poles, conductors, and transformers by basing the fixed distribution plant allocation factors upon the typical distribution plant component size when connecting the average distribution level customer.[173] While use of the minimum sized method, or in this case, something similar, is not uncommon, typically it is defaulted to when the zero-intercept method results in statistically unreliable results. Kentucky Power stated that it did not perform the zero-intercept method, stating that it did not have the detailed information needed to properly perform the zero-intercept method.[174] The Commission believes that such modeling should be performed first and finds that Kentucky Power should perform a zero-intercept study in its next base rate case.

The Commission accepts Kentucky Power's proposal to use the 12 CP method as a guide to determining revenue allocation. Additionally, the Commission agrees to

[171] Direct Testimony of Lisa V. Perry (Perry Direct Testimony) at 4.

[172] Stegall Direct Testimony, Exhibit JMS-2, page 1 of 3.

[173] Kentucky Power's Response to Staff's Sixth Request, Item 28.

[174] *Id.*

allocating the revenue increase based upon each class's contribution to rate base without any reduction to the interclass subsidies especially given the economic conditions not only inherent in Kentucky Power's service territory but also as the result of the impact of the COVID-19 pandemic. Allocating the Commission's revenue increase results in a 12.71 percent increase for the residential class.

Residential Customer Charge

In its application, Kentucky Power proposed an increase in the residential customer charge from $14.00 to $17.50, an increase of 25.00 percent. Kentucky Power maintained that because the residential class does not include a separate demand charge, the majority of fixed distribution costs are recovered through the energy charge, or, at a minimum, a larger portion should be recovered in the basic service charge.[175] Kentucky Power asserted that the current residential customer charge is too low relative to the fixed cost of providing electric service, thus creating intraclass subsidies between residential customers, which disadvantages higher usage customers.[176] Kentucky Power supported its argument that the current customer charge is not representative of the fixed costs by comparing it to its calculated fixed costs based upon its version of the minimum system method of $38.31 and a marginal cost study of $35.00.[177] Kentucky Power stated that beyond simply cost causation principles, a benefit of increasing the customer charge

[175] Vaughan Direct Testimony at 11.

[176] *Id.*

[177] Kentucky Power's Supplement Response to Staff's Fifth Request for Information (Staff's Fifth Request), Item 15; and Vaughan Direct Testimony, Exhibit AEV-2.

closer to the actual cost of providing service include reduced bill volatility, especially for electric heating customers during winter months.[178]

Mr. James Owen, on behalf of the Joint Intervenors, opposed any increase to the customer charge, arguing that an increase would have a detrimental impact on low-income customers, on those customers with on-site distributed energy resources, and on overall energy conservation and energy efficient (EE) goals.[179] Mr. Owen stated that an increased customer charge imposes a disproportionate burden on vulnerable customers who may be struggling with volatile or burdensome electricity bills.[180] In support of Mr. Owen, the Joint Intervenors noted that if approved, the residential customers in the most distressed region of the Commonwealth would bear the burden of the highest such charge of any Investor Owned Utility in the Commonwealth.[181] The Joint Intervenors further noted that combined with the January 2018, increase in the customer charge, moving to $17.50 would cumulatively result in a 59.09 percent increase.[182] No other intervenor addressed the proposed customer charge.

In its post-hearing brief, the Sierra Club opposed the increase, but did not file any testimony or specific evidence regarding its position.[183]

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[178] Kentucky Power Post-Hearing Brief at 103.

[179] Owen Direct Testimony at 25.

[180] *Id.* at 26.

[181] Joint Intervenors' Post-Hearing Brief at 14.

[182] *Id.*

[183] Sierra Club Post-Hearing Brief at 2–3.

In establishing customer charges, the Commission uses the filed COSS as a guide and has generally supported a movement towards cost-based rates, in a measured and reasonable manner. In recent cases, the Commission expressed its concern about the demand/customer expense allocations for the distribution plant classifications and its preference for the zero-intercept method.[184] Furthermore, comparative studies between the minimum-size and zero-intercept methods suggest that the minimum system method produces a larger customer component.[185] However, the Commission acknowledges that on average, 34.02 percent of the bills issued by Kentucky Power are for usage over 1,300 kWh per month, yet there is no indication if these are low-income customers, and increases in the volumetric charge can skew this even further.[186] Therefore, the Commission finds the proposed customer charge of $17.50 to be reasonable. This level of customer charge and the resulting reduction in the volumetric charge balances the interests of customers, particularly the significant number with excessive winter bills, with the utility's need for adequate cash flow and additional revenue independent of weather and other variabilities. This increase provides an additional $5,611,032 annually of fixed revenue for the utility.[187] For a residential customer with an average monthly usage of 1,100 kWh, the average bill increases $18.59, or 15.46 percent, from $120.26 to

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[184] *See* Case No. 2020–00131 *Electric Application of Meade County Rural Electric Cooperative Corporation For An Adjustment in Rates* (KY. PSC Sept 16, 2020), final Order at 12.

[185] *National Association of Regulatory Utility Commissioner's Electric Utility Cost Allocation Manual*, January, 1992, at 91.

[186] Kentucky Power's Response to Staff's Post-Hearing Request, Item 16.

[187] 1,603,152 residential test year billing determinants * $3.50.

\$138.85.[188] Due to the TCJA surcredit of \$24.06 during the winter months, the average monthly bill in the winter will actually decrease to \$114.79 or (4.55) percent, and during the non-winter heating months a decrease will also be applied. In addition, due to the lower ROE applied to limited riders such as the Environmental Surcharge and Big Sandy Decommissioning Rider and the increase in the profit sharing from off system sales, residential customers will realize a further decrease in their average monthly bills.

Residential Declining Block Rate

Kentucky Power requested to establish a declining block rate for residential customers for those customers whose average monthly usage is above 1,100 kWh during the winter months of December, January, and February. Kentucky Power asserted that the current residential rate design over-allocates fixed cost recovery to high use customers, and the proposed winter block rate is designed to reduce the existing residential intraclass subsidy.[189] Kentucky Power stated that the winter heating block rate discount is worth \$14,605,655 during the winter months, but this discount is then collected from all residential customers throughout the entire year, including those who directly benefit from the winter block.[190]

Kentucky Power claimed that the proposed winter declining block rate offers winter bill relief to low-income residential customers.[191] In support of that assertion, Kentucky

[188] The total bill increase is higher than the overall increase to the residential class as the increase is not across the board to each rate component

[189] Vaughan Direct Testimony at 12–13; and Kentucky Power Post-Hearing Brief at 102.

[190] Vaughan Direct Testimony at 13; and Kentucky Power Post-Hearing Brief at 104.

[191] Kentucky Power Post-Hearing Brief at 105.

Power stated that low-income energy assistance customers use 1,367 kWh/month versus 1,240 kWh/month for the residential class as a whole.[192] However, Kentucky Power never offered evidence that low-income customers, in general, on Kentucky Power's system use more energy, only those customers who participate in that singular payment assistance program do.[193] In addition, although those benefiting from the declining block rate will pay back a portion of the $14,605,655, nonelectric heating customer or low usage customer intraclass subsidies will increase. For the above reasons, the Commission denies the proposed residential declining block rate.

PROPOSED TARIFF CHANGES

Tariff Purchased Power Adjustment (PPA)

Pursuant to Tariff PPA, Kentucky Power currently recovers, among other things, 80.00 percent of the PJM Interconnection, LLC (PJM) load service entity (LSE) Open Access Transmission Tariff (OATT) charges above or below the amount established in base rates, with 20.00 percent of the charges credited to or collected from customers. Kentucky Power requested to recover 100.00 percent of the PJM LSE OATT charges instead of 80.00 percent, arguing that such expenses are Kentucky Power's largest growing expense, and that without a 100.00 percent recovery mechanism, Kentucky Power does not have an opportunity to earn its allowed ROE.[194]

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[192] Vaughan Direct Testimony at 14.

[193] *See*, Vaughan Direct Testimony at 14; and Kentucky Power's Response to Staff's Seventh Request for Information (Staff's Seventh Request), Item 1.

[194] Vaughan Direct Testimony at 31–33; and Kentucky Power Post-Hearing Brief at 53–55 and 59.

Attorney General/KIUC witness, Mr. Kollen, testified that Kentucky Power's request was unreasonable because the primary reason for the increase in PJM LSE OATT expenses is transmission investment by other AEP operating companies and transmission companies, which are within the control of AEP.[195] According to Attorney General/KIUC witness, Stephen Baron, Kentucky Power ratepayers pay $19,000,000 more in transmission costs allocated to Kentucky Power by AEP under a FERC-approved, AEP-designed allocation methodology than Kentucky Power's actual transmission costs.[196] The Attorney General/KIUC recommended that the Commission open an investigation into whether Kentucky Power should remain in the AEP East Transmission Agreement because Kentucky Power is allocated significantly greater expenses from AEP East Transmission zone that Kentucky Power would pay as a standalone transmission zone in AEP.[197]

In response, Kentucky Power argued that recovering 100.00 percent of the PJM LSE OATT costs aids customers by avoiding more frequent base rate cases that would otherwise be filed to recover FERC-approved transmission costs that, under federal law, Kentucky Power is entitled to recover.[198] Kentucky Power claimed that PJM LSE OATT charges are "largely outside" of Kentucky Power control, due to investment decisions made by other transmission owners and regional transmission organizations.[199]

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[195] Kollen Direct Testimony at 52

[196] Direct Testimony of Stephen J. Baron (Baron Direct Testimony) at 17–18.

[197] Attorney General/KIUC Post-Hearing Brief at 51–52.

[198] Kentucky Power Post-Hearing Brief at 53–60.

[199] *Id.* at 57–58.

Because the 80.00 percent factor was established pursuant to a settlement and not a finding of the reasonableness of that discounted recovery, the Commission finds that Kentucky Power's request to recover 100.00 percent of the PJM LSE OATT expenses through Tariff PPA should be granted until the next rate case, when the issue will be re-examined. The Commission is allowing this change in the recovery amount only in an attempt to balance the impact to Kentucky Power's revenue and cash flow in response to the actual mitigation actions taken by the Commission in this case to help customers continue to afford service in Kentucky Power's territory. No party, and in particular the applicant in this case, should construe the Commission's decision on this issue as an indication that such a tracking mechanism will continue or is reasonable on a standalone basis. In fact, and as explained in greater detail below, in granting Kentucky Power's proposal on this issue the Commission is putting the utility on notice that its transmission planning and investment activities are not sustainable and must be substantively addressed in the near future. Failing to address the issues that face Kentucky Power's customers as a result of Kentucky Power's actions and the actions of its affiliates, will result in ever-increasing bills that based on recent experience will cause a severe impact on the tens of thousands of Kentuckians who have, do, and will continue to depend on Kentucky Power for life-sustaining service.

The Commission's concern regarding Kentucky Power's and AEP's activities related to transmission investment, control and ownership in Kentucky Power's territory is not remote or inconsequential. Other than the positions of president and COO, AEP and Kentucky Power share the same executives, including the same CEO, Nicholas

Akins.[200] Kentucky Power has a statutory duty as a jurisdictional utility to provide adequate, efficient, and reasonable service to its customers. Furthermore, as Kentucky Power is well aware, it has been granted a state-determined certified territory where it is the monopoly provider of retail electric service.[201] In return for its obligation of service and monopoly protection against competition, Kentucky Power is afforded the right by law to "demand, collect and receive fair, just and reasonable rates for the services rendered."[202] Over many decades Kentucky Power has built a transmission system throughout its territory in order to, primarily, satisfy its obligation of service under KRS Chapter 278. Although it may be axiomatic, the issues raised in this case requires the Commission to state the obvious: Kentucky Power owns Kentucky Power's transmission system, not AEP. Although AEP or other affiliates may own other transmission assets in Kentucky other than Kentucky Power's transmission system, those entities and "systems" are not utilities under Kentucky law.

For instance, in Case No. 2011-00042, the Commission found that an AEP subsidiary and Kentucky Power affiliate, AEP Kentucky Transmission Company, Inc. (KY Transco), does not provide utility service subject to the Commission's jurisdiction, and thus does not have the same statutory obligation as Kentucky Power regarding the provision of service. KY Transco does not seem to be operated or controlled by any

[200] Application, Section II, Filing Requirements Exhibit P, Page 17 of 256.

[201] KRS 278.016; *See* Case No. 2012-00224, *Petition and Complaint of Kentucky Power Company for a Declaration of Its Exclusive Right Pursuant to KRS 278.018(1) to Serve those Portions of the Sand Gap Estates in Greenup County, Kentucky Lying Within Its Certified Territory in Lieu of Grayson Rural Electric Cooperative Corporation* (Ky. PSC Apr. 1, 2014).

[202] KRS 278.030.

Kentucky-based individuals or entities. Nevertheless, Kentucky Power and KY Transco have executive officers in common, including the same CFO and the same CEO, again, Mr. Nick Akins.[203] The Commission is concerned that AEP, not Kentucky Power, is exerting the ultimate authority over Kentucky Power's transmission system that is required to provide adequate service to Kentucky Power's retail customers. Recently the Commission explained one of its concerns in this regard, noting "that Kentucky Power, on its own volition or at the direction of another, plans to continue systemically [*sic*] transferring ownership of its transmission system in a piecemeal fashion under the auspices of the system's rehabilitation and replacement and under the cover of PJM's transmission planning processes, regardless of whether 'projects' are designated as baseline or supplemental."[204] The Commission continued to explain in that matter that although it expressed the downside, or "grave concern" of allowing Kentucky Power to transfer functional control of its transmission system when joining PJM, today the reality is that Kentucky Power is "acquiescing to the transfer of actual ownership and control of its transmission system to affiliates for which Kentucky Power has no command and the Commission has no authority."[205]

Contrary to Kentucky Power's pleas otherwise, the Commission finds that a vast amount of the PJM LSE OATT expenses Kentucky Power incurs are not "largely outside" of the utility's control. Indeed, more than 90 percent of these expenses originate with

[203] Hearing Transcript, PSC Staff Exhibit 1, AEP Kentucky Transmission Company, Inc. 2020 FERC Form 1, page 105.

[204] Case No. 2020-00062, *Electronic Application of Kentucky Power Company for a Certificate of Public Convenience and Necessity to Construct a 138 kV Transmission Line and Associated Facilities in Pike and Floyd Counties, Kentucky* (Ky. PSC Dec. 29, 2020), Order at 27-28. The word should be "systematically" and not "systemically." This error will be corrected in Case No. 2020-00062.

[205] *Id.* at 28.

entities who share a CEO and CFO with Kentucky Power. Furthermore, to the extent these expenses are allocated pursuant to a tariff or agreement, the record in this case is void of evidence of any attempt by Kentucky Power or its agents to try and minimize costs to its customers or independently ensure continued participation in those agreements are in the utility's or its customers' best interest. Instead, the record shows quite clearly that the only persons whom Kentucky Power depends on for transmission expertise or regulatory assistance have inherent conflicts in that they perform the same offerings to the Kentucky Power affiliates that are maximizing their profits as a result of the current scheme. PJM LSE OATT cost are not unavoidable for Kentucky Power, but by failing to address them in any reasonable manner, Kentucky Power has by design made them unavoidable for its customers. Therefore, as noted earlier in this Order, the Commission will grant Kentucky Power the opportunity to recover 100 percent of its incremental PJM LSE OATT expense for the next three years.

The Commission grants Kentucky Power's proposal in this regard while putting the utility on notice that it must address the burden these increasing expenses will represent to its dwindling customer base. Failure by Kentucky Power to take immediate steps to materially address this issue will force the Commission, whether it is through its statutory authority at the retail level or its advocacy at the wholesale level, to address these concerns itself. Further, to the extent Kentucky Power requires capital necessary to invest in its transmission system so the utility can maintain adequate service required by Kentucky law, the Commission expects that AEP will continue to provide sufficient capital to Kentucky Power. With the rates approved in this matter, we know AEP will ensure that Kentucky Power will have the capital made available to it in order to complete the entirety of its necessary transmission investments in order to enable the utility to provide safe, adequate and reasonable service to its customers, rather than continuing the apparent practice discussed in the pendency of this matter of allocating, by default, a portion of Kentucky Power's transmission needs to a nonregulated affiliate.

Rockport Deferral Regulatory Asset

In Case No. 2017-00179, Kentucky Power was granted authority to establish a regulatory asset for the difference between the deferral of $15,000,000 in Rockport UPA expenses, stipulated to be included in base rates until the Rockport UPA expires in 2022, and the declining actual deferral of $10,000,000 in 2020 and $5,000,000 in 2021 and 2022.[206] The Order on rehearing stated that approval was not just for accounting purposes but was to reflect the future rate recovery of the deferred UPA costs.[207] As part of this proceeding, Kentucky Power requested a five-year amortization period and authority to recover the amortization through Tariff PPA. [208] The purpose of the Commission deciding the amortization period at a later date was to allow Kentucky Power's plans regarding the renewal of the Rockport UPA to become more certain. For instance, if Kentucky Power's proposed replacement capacity was more expensive than initially anticipated, a longer amortization period may be more reasonable so as to reduce the rate impact to customers. As demonstrated in the record, Kentucky Power was unable to confirm the amortization amount or the savings once the Rockport UPA terminates.[209]

[206] Case No. 2017-00179, Jan. 18, 2018 Order at 37–40.

[207] Case No. 2017-00179, Feb. 27, 2018 Order at 9.

[208] Direct Testimony of Heather M. Whitney (Whitney Direct Testimony) at 34-36.

[209] Hearing Transcript, Vol II at 581–582 and Vol. IV at 1149–1150; and Kentucky Power's Response to Commission Staff's Sixth Request, (Staff's Sixth Request), Item 1.

Therefore, the Commission finds that Kentucky Power's request to amortize the Rockport regulatory asset over five years beginning in 2022 for recovery through Tariff PPA is premature at this time, and the Commission will defer the determination of the appropriate amortization period and recovery mechanism to a subsequent matter the Commission will initiate on its own motion. As part of this subsequent matter, the Commission will also review and clarify items related to provisions of the final Order in Case No. 2017-00179 regarding Kentucky Power's ability to use the savings from the expiration of the Rockport UPA to earn its Commission-approved ROE in calendar year 2023.

Decommissioning Rider

Pursuant to the settlement agreement approved in Case No. 2014-00396,[210] Kentucky Power recovers the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2, and other site-related retirement costs through the Big Sandy Decommissioning Rider. These costs are recovered over a 25-year period on a levelized basis and include a weighted-average-cost-of-capital (WACC) carrying cost, which is adjusted with each base rate proceeding. The Decommissioning Rider Factor is updated annually each year with the Commission no later than August 15, and it goes into effect on October 1. The annual actual revenue requirement for the expense year for the Decommissioning Rider is allocated between residential and all other customers based upon their respective contribution to total retail revenues for the most recent 12-month period ending June 30. The Adjustment Factor for residential customers is calculated by dividing the net annual residential allocation, which would include any over- or undercollection from the most recent 12-month period ending June 30, by residential

[210] Case No. 2014-00396, June 22, 2015 Order.

retail revenue. The Adjustment Factor for all other classes is calculated by dividing the net annual all other allocation, which would include any over- or undercollection from the most recent 12-month period ending June 30, by all other classes nonfuel retail revenue.

Currently, Kentucky Power files the calculations, along with supporting spreadsheets, into the post-case file of its most recent completed general rate case no later than August 15 each year, with the new factor going into effect with bills issued in Cycle 1 of the October billing cycle. The information is reviewed by Commission Staff, who contact Kentucky Power if they have any questions. Currently, Kentucky Power's tariff does not contain the amount of the Decommissioning Rider factor. However, in response to Commission Staff's Fourth Request for Information, Item 17, Kentucky Power provided a tariff page reflecting the Decommissioning Rider factor amount. Because Kentucky Power committed to including the Decommissioning Rider factor in its tariff, all future filings should be submitted through the Commission's electronic Tariff Filing System no later than August 15 to become effective with bills issued in Cycle 1 of the October billing cycle.

Recently, the Commission evaluated riders and the associated financial risk. In Case Nos. 2020-00060[211] and 2020-00061,[212] the Commission noted that limited riders are relatively less risky and correlated ROEs are lower than rate case awarded ROEs. The Commission stated that:

[211] Case No. 2020-00060, *Electronic Application of Kentucky Utilities Company for Approval of an Amended Environmental Compliance Plan and a Revised Environmental Surcharge* (Ky. PSC Sept. 29, 2020).

[212] Case No. 2020-00061, *Electronic Application of Louisville Gas and Electric Company for Approval of an Amended Environmental Compliance Plan and a Revised Environmental Surcharge* (Ky. PSC Sept. 29, 2020).

> The cost of equity is affected by the risk of shareholders not adequately recovering their investment, the risk associated with recovering the investment later than desired, and the risk from the shareholder receiving less than comparable investments." To reduce shareholder risk, utilities can recover specified expenditures…with more certainty through specific riders. With a rider, since a return is guaranteed and the time line of recovery is known and ordinarily not meaningfully delayed, the required return is less than the ROE associated with a rate case as the risk involved is decreased and most lag associated with recovery is eliminated.[213]

The final Orders in Case Nos. 2020-00060 and 2020-00061 also noted that, after removing ROE premiums, limited rider ROEs were 43 basis point below the January–June 2020 vertically integrated ROE average.[214] Consistent with the Commission's statutory duty under KRS 278.183(2)(b) to establish a reasonable return on compliance-related capital expenditures, the Commission found in those proceedings that an ROE of 9.20 was a reasonable reflection of current economic conditions and investor expectations, as well as the fact that the award was for the propose of a limited rider. For the same reasons discussed above and because the ROE in the instant case was fully litigated and analyzed, the Commission therefore finds that, for the purpose of the Big Sandy Decommissioning Rider, an ROE of 9.10 will be applied to the equity component of the WACC carrying charges. This lower ROE and reduced risk of the Big Sandy Decommissioning Rider is evidenced in part by the yearly adjustments and ability to true up amounts.

NONREVENUE REQUIREMENT RIDERS AND TARIFFS

[213] Case No. 2020-00060, Sept. 29, 2020 Order at 20; and Case No. 2020-00061, Sept. 29, 2020 Order at 20.

[214] *Id.*

The following sections address riders and tariffs that have no immediate impact on Kentucky Power's revenue requirement.

Grid Modernization Rider and AMI CPCN

Kentucky Power requested a CPCN to purchase and install an AMI metering system to replace its current meters, along with a new Grid Modernization Rider (GMR) to recover capital and incremental O&M expenses associated with the AMI meters. Therefore, both the AMI CPCN and GMR will be discussed in this section.

Current Meter System. At the time of filing its application, Kentucky Power had 172,233 Automated Meter Reading (AMR) meters in its service territory.[215] First installed in 2005-2006, the AMR meters are equipped with an encoder receiver transmitter module, which allows Kentucky Power's meter readers to walk or drive by an AMR meter and electronically capture meter data via radio transmission, removing the need to manually check each meter.[216] The data captured is then transferred to the customer management system by a Standard Consumption Messaging (SCM) platform.[217]

Kentucky Power stated that 74.60 percent of its existing AMR meters were between 10 and 15 years old, and thus nearing the end of their 15-year useful life.[218] Kentucky Power also stated that over the past three years, the AMR meters in the 10- to

[215] Direct Testimony of Stephen D. Blankenship (Blankenship Direct) at 2.

[216] *Id.*

[217] *Id.*

[218] *Id.* at 3.

15-year-old range experienced a failure rate of approximately 10 percent, a rate higher than expected that Kentucky Power believes will only grow as the meters get older.[219]

Kentucky Power stated that the AMR meter used in its system are no longer manufactured by any vendor, and the SCM software platform is no longer supported by its developer, Itron.[220] Kentucky Power explained that only one vendor supports AMR at the time, and that vendor supports only SCM+, a platform Kentucky Power does not have.[221] Kentucky Power asserted that, in order to continue utilizing AMR meters, Kentucky Power would have to replace its existing SCM platform with the SCM+ platform at an estimated cost of $22,000,000 if Kentucky Power replaces failing AMR meters with SCM+ AMR meters instead of its proposed Advanced Metering Infrastructure (AMI) Meters.[222]

Proposed AMI System. Kentucky Power proposed to replace all existing AMR meters in its service territory with AMI meters over the period from 2021 to 2024.[223] The AMI meters have the capacity to utilize two-way communications between the meter and Kentucky Power's central office instead of the one-way meter to reader communication capability of Kentucky Power's existing AMR meter infrastructure.[224] Kentucky Power explained that the two-way communication of AMI meters allows for increased visibility

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[219] *Id.* at 3-4; Hearing Transcript, Vol. IV, at 979.

[220] Rebuttal Testimony of Stephen D. Blankenship (Blankenship Rebuttal Testimony) at R3-R4.

[221] *Id.* at R4.

[222] Hearing Transcript, Vol. IV at 984.

[223] Blankenship Direct Testimony at 16-17.

[224] Direct Testimony of Brian K. West (West Direct Testimony) at 13.

into the distribution systems which enables programs that are not currently available with AMR meters, discussed below.[225]

The estimated cost over the four years of deployment for the proposed AMI system is $34,493,845 in capital costs and $2,466,414 in O&M, for a total cash outlay of $36,960,260.[226]

Grid Modernization Rider. Kentucky Power proposed to fund the cost of AMI deployment through a new GMR.[227] The GMR would recover capital, including carrying costs, and incremental O&M expense associated with the rollout of AMI,[228] as well as property taxes, depreciation, and a return on plant in service based on the cost of debt, return on common equity, and capital structure.[229] In addition, the GMR would not terminate once the AMI project has been deployed. Kentucky Power proposed that the GMR be used to recover additional distribution grid modernization expenses approved by the Commission in future proceedings.[230]

Kentucky Power stated that, in the event that it were to file a base rate case prior to the completion of AMI deployment, it would propose to roll any GMR revenue requirement into base rates, after which any incremental costs going forward would

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[225] *Id.*

[226] Blankenship Direct Testimony at 17. The one dollar difference between capital costs and O&M is due to Kentucky Power rounding.

[227] West Direct Testimony at 9.

[228] Blankenship Direct Testimony at 10.

[229] *Id.*

[230] *Id.* at 12.

continue to be recovered through the GMR going forward until included in base rates or the project was completed and all costs were recovered.

Depreciation – Proposed AMI System. Kentucky Power requested Commission approval for a 15-year depreciation for the proposed AMI meters and related communication equipment, as well as a 5-year depreciation period of the AMI-related software. Kentucky Power stated that it will propose depreciation rates for both AMI and AMR meters in its next base rate case.

Net Book Value of AMR System. The accumulated depreciation on Kentucky Power's existing AMR meters is $10,710,344, with a remaining net book value of $14,490,238.[231] The AMR meters are being depreciated over 15 years. Kentucky Power expects to continue depreciating the AMR meters until they are taken out of service, at which point the book cost of the unit would be credited to electric plant.[232] Kentucky Power also stated that it will propose a timeframe over which to recover the remaining net present value of the retired meter and associated infrastructure assets in the next base rate case.

Kentucky Power will not know the exact remaining net book value for the AMR meters until the proposed project is substantially completed because the existing meters continue to depreciate until the new system is fully deployed, which is expected to occur by January 2025.[233]

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[231] Kentucky Power's Response to Attorney General/ KIUC's First Request, Item 65, Attachment 1.

[232] *Id.* at Item 63.

[233] Kentucky Power's Response to Attorney General/KIUC's First Request, Item 62; and Hearing Transcript, Vol. IV at 1012

Projected Costs and Benefits. Kentucky Power, while it did not perform a formal cost-benefit analysis for the replacement of existing AMR meters with AMI meters, asserted that there is not a statutory requirement for a cost-benefit analysis for the approval of a CPCN,[234] AMI meters are the industry standard and are needed to replace AMR meters nearing or at their useful service lives, with a high failure rate.[235] Kentucky Power emphasized that it will soon be unable to provide reliable, adequate service due to the age and failure rate of its existing AMR meters.[236] In addition, Kentucky Power asserted that customers would reap benefits in the form of the Flex Pay Program, discussed in this Order below, as well as benefits, including but not limited to faster reconnection, faster service restoration, remote identification of outages, as well as other customer centric benefits.[237]

Alternatives. Kentucky Power identified two alternatives to its proposed AMI system deployment: (1) replacing its existing AMR meters that operate on the outdated SCM platform with new AMR meters that operate on the SCM+ platform;[238] and (2) replacing individual AMR meters as they fail with AMI meters.[239]

Kentucky Power argued that, under the first alternative, it would replace the obsolete AMR meters running on SCM with soon-to-be-obsolete AMR meters running on

[234] Kentucky Power Post-Hearing Brief at 31.

[235] *Id.* at 38.

[236] Blankenship Direct Testimony at 3.

[237] Kentucky Power Post-Hearing Brief at 42-45.

[238] Blankenship Direct Testimony at 4–5.

[239] West Direct Testimony at 15-16.

SCM+, at a cost of approximately $22,000,000.[240] Kentucky Power asserted that, when the SCM+ meters became obsolete, it would cost approximately $37,000,000 to deploy AMI as proposed, leading to a total cost of $59,000,000 under this proposal.[241] Kentucky Power opined that, based on AMI being the industry standard, it was likely that all AMR meters will become obsolete ahead of the end of the 15-year useful service life due to lack of manufacturer support or replacement parts.[242]

Concerning the second alternative, while it has not quantified an exact cost, Kentucky Power stated that the practice of replacing individual failing AMR meters with AMI meters in the normal course of business creates an additional financial burden as well as operational inefficiencies of having to simultaneously support both the SCM and AMI systems.[243]

Intervenor Arguments. The Attorney General/KIUC, Walmart, Joint Intervenors, and the Sierra Club each addressed the AMI CPCN and GMR in their witness testimony and briefs.

Attorney General/KIUC recommended denying both the AMI CPCN and the GMR. In their brief, the Attorney General/KIUC argued that the benefits that Kentucky Power attributed to implementing AMI meters were unsubstantiated because Kentucky Power did not conduct a cost-benefit analysis, and that any benefits attributed to AMI meters

[240] Blankenship Rebuttal Testimony at R4.

[241] Hearing Transcript, Vol. IV at 984, 992.

[242] *Id.*

[243] West Direct Testimony at 19.

have already been achieved using the existing AMR meters.[244] Additionally, the Attorney General/KIUC argued that Kentucky Power did not provide sufficient evidence that the Commission can weigh to approve a multimillion dollar CPCN because Kentucky Power failed to identify the AMI model or vendor, relying instead on description of AMI meters installed in other AEP subsidiaries.[245] Finally, the Attorney General/KIUC argued that, contrary to Kentucky Power's argument that the current AMR meters are obsolete, Kentucky Power has provided evidence that it has access to supplies of retired, but functional AMR meters from sister utilities that can be used to replace meters or components that fail, and at least one vendor that continues to manufacture the AMR meter used by Kentucky Power.[246] For these reasons, Attorney General/KIUC argued there is no basis to conclude that the existing AMR system is in threat of imminent failure and can continue operation until Kentucky Power can provide a more thorough cost-benefit analysis.[247]

Regarding the GMR, the Attorney General/KIUC pointed out that if the AMI CPCN is denied, then there would not be a need for the GMR to recover costs for deploying AMI.[248] However, if the Commission were to approve the AMI CPCN, the Attorney General/KIUC and their witness, Mr. Kollen, argued that the costs should be recovered in base rates and that the costs for new distribution have not been granted special

[244] Attorney General/KIUC Post-Hearing Brief at 43.

[245] *Id.*

[246] Kentucky Power's Response to Attorney General/KIUC's First Request, Item No. 117.

[247] Attorney General/KIUC Post-Hearing Brief at 43-44.

[248] *Id*.

ratemaking recovery through riders between base rate cases.[249] To the extent that Kentucky Power intended to use GMR to recover the future costs of projects, those costs have not been quantified.[250] Mr. Kollen recommended that if the Commission approves the GMR, the costs recovered through the rider should be modified to reflect all savings in O&M expense, depreciation expense, ad valorem tax expense, and other expenses as reductions in the GMR revenue requirement.[251]

Walmart does not take a position on the AMI CPCN, but recommended that if the CPCN is approved, Kentucky Power should recover the costs for AMI deployment in subsequent base rate cases.[252] Walmart's witness, Lisa V. Perry, argued that riders are more appropriate to recover costs that fluctuate from year to year, which does not apply to AMI costs, and in a base rate case, AMI costs can be balanced against any savings for ratemaking purposes.[253] Walmart asserted that the GMR would place risk on ratepayers because they are paying for the AMI project as it is being constructed, before it is being used.[254] Finally, Walmart argued that project costs are based on rough estimates from vendors who might be incentivized to downplay costs, and thus cannot be relied upon with sufficient confidence to justify approving a GMR for recovery of those costs.[255]

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[249] *Id.* and Kollen Direct Testimony at 59.

[250] Attorney General/KIUC Post-Hearing Brief at 59.

[251] Kollen Direct Testimony at 60-61.

[252] Walmart Post-Hearing Brief at 3.

[253] Perry Direct Testimony at 15-16.

[254] Walmart Post-Hearing Brief at 4.

[255] Hearing Transcript, Vol. IV at 1010.

The Joint Intervenors recommended that the Commission deny the AMI CPCN, arguing that Kentucky Power failed to demonstrate that replacing the existing AMR infrastructure would not constitute an excessive investment in relation to productivity of efficiency, and world not create an unnecessary multiplicity of physical properties.[256] The Joint Intervenors recommended that if the Commission grants the CPCN, the GMR be rejected. The Joint Intervenors argued that the use of a rider that proposes only one project under the broad title of "grid modernization" imposes costs on ratepayers without demonstrating that the new infrastructure is useful or justifies the investment, especially in light of the fact that the anticipated benefits of the AMI infrastructure have not been quantified.[257]

Sierra Club did not oppose the AMI CPCN but urged the Commission to make any approval of the CPCN contingent on Kentucky Power taking actions, and instituting policies and programs, that maximize the realization of the efficiency and cost savings benefits that AMI theoretically poses.[258] Sierra Club did not take a position with regard to the GMR.

<u>Kentucky Power Response to Intervenors</u>. In rebuttal to the Attorney General/KIUC, Kentucky Power argued that a cost/benefit analysis was unnecessary because it would be unreasonable to spend additional money on an obsolete and unsupported metering system, and that replacing the current system with another AMR

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[256] Joint Intervenors Post-Hearing Brief, at 16-21.

[257] *Id.* at 21.

[258] Sierra Club Post-Hearing Brief at 3.

system would cost ratepayers more money in the long-term.[259] Kentucky Power disputed the viability of relying upon replacement parts for current meters from other utilities, contending that Attorney General/KIUC did not address the cost of such a solution or how long the replacement meters or parts would last.[260] Kentucky Power also disputed that there is a vendor that supports the same AMR system Kentucky Power currently uses, noting that the vendor in question manufactures meters that operate on the SCM+ platform.[261] Kentucky Power testified that the cost to upgrade to such a platform would be approximately $22,000,000.[262]

In rebuttal to the positions stated by Walmart, the Joint Intervenors, and the Sierra Club, Kentucky Power defended the GMR proposal, stating that, while the AMI project at hand is the most pressing issue, the need to update the grid will require more future projects and the GMR serves to allow Kentucky Power to more quickly implement them than if they were financed through base rates alone, without sacrificing thorough oversight from the Commission.[263]

Legal Standard for a CPCN. The Commission's standard of review for a request for a CPCN is well settled. KRS 278.020(1) provides that no utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained

[259] Blankenship Direct Testimony at 3-4; and Blankenship Rebuttal Testimony at R2.

[260] *Id.* at R3.

[261] *Id.* at R3-R4.

[262] *Id.* at R4.

[263] *Id.* at R4; Hearing Transcript, Vol. IV at 968.

a CPCN from this Commission. The utility must demonstrate a need for such facilities and an absence of wasteful duplication.[264]

"Need" requires a showing of substantial inadequacy of existing service due to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business.[265]

"Wasteful duplication" is defined as "an excess of capacity over need" and "an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties."[266] To demonstrate that a proposed facility does not result in wasteful duplication, the Commission has held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.[267] The fundamental principle of reasonable least-cost alternative is embedded in such an analysis. Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.[268] All relevant factors must be balanced.[269]

Discussion and Findings. Historically, the Commission has not issued a CPCN for meter replacement absent a cost-benefit analysis, but has on occasion approved meter

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[264] *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 252 S.W.2d 885 (Ky. 1952).

[265] *Id.* at 890.

[266] *Id.*

[267] Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

[268] *See Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 390 S.W.2d 168, 175 (Ky. 1965). *See also* Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005).

[269] Case No. 2005-00089, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Aug. 19, 2005), Order at 6.

replacement requests when the petitioners have provided the Commission with substantial evidence of extenuating circumstances, such as the obsolescence of existing systems, along with substantial evidence showing the proposed AMI systems were the reasonable least-cost alternative to address the utilities' metering needs.[270]

Based upon the case record, the Commission concludes that Kentucky Power has not provided adequate support for either the costs of its proposal or the alternatives, nor has it provided sufficient evidence that its proposal is the reasonable least-cost alternative. Kentucky Power provided a ballpark figure for an AMI system based upon costs for AMI systems tailored for other AEP affiliates that do not necessarily share the same service issues and characteristics as Kentucky Power. While estimates from affiliate companies may be useful for the initial planning phases, the Commission cannot approve a project of this magnitude without an actual projection of the cost based upon vendor proposals tailored for project needs that are specific to Kentucky Power. Whether the AMI was approved in this case or not, in order to move forward with the AMI project, Kentucky Power will have to issue an RFP to select a vendor, which could also provide information on possible alternatives. Finally, Kentucky Power provided no substantial

[270] Case No. 2017-00419, *Application of Grayson Rural Electric Cooperative Corporation of Grayson, Kentucky, for Commission Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Install an Advanced Metering Infrastructure (AMI) System* (Ky. PSC July 16, 2018); Case No. 2016-00077, *Application of Licking Valley Rural Electric Cooperative Corporation for an Order Issuing a Certificate of Public Convenience and Necessity* (Ky. PSC Aug. 29, 2016); and Case No. 2014-00436, *Application of Nolin Rural Electric Cooperative Corporation for an Order Pursuant to KRS 807 5:001 and KRS 278.020 Requesting the Granting of a Certificate of Public Convenience and Necessity to Install an AMI System* (Ky. PSC Mar. 12, 2015). *See also* Case No.2018-00005, *Electronic Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for Full Deployment of Advanced Metering Systems* (Ky. PSC Aug. 30, 2018) (denying without prejudice a CPCN for which the utilities failed to provide substantial evidence that, among other things, the proposed AMI system was a reasonable, least-cost alternative).

evidence to support its assertion that replacing its current system with another AMR system was not a reasonable alternative because AMR meters will become obsolete in the near term, and therefore Kentucky Power would have to install an AMI system before a replacement AMR system reached the end of its useful life. [271]

For the above reasons, the Commission finds that the AMI CPCN should be denied without prejudice, and will require Kentucky Power to refile a CPCN application and provide evidence that its existing system is obsolete, along with exhibits documenting Kentucky Power's evaluation of multiple proposals filed in response to a RFP and the costs of the proposed system that is selected. The analysis of whether the AMI project is the least-cost alternative should include both capital and O&M costs. Kentucky Power should also demonstrate that the systems under consideration are effective in the terrain of its service territory. The Commission finds that the GMR should be also be denied.

Flex Pay Tariff

Kentucky Power proposed a new voluntary prepayment program, Flex Pay, which would allow customers to prepay for their electric service without incurring the costs of deposits or other fees associated with post pay accounts. The program would be available to all residential customers with an AMI meter rated up to 200 amps, except residential customers taking service under Tariff R.S.D., customers with certain medical or life-threatening conditions, customers on partial payment plans or budget payment plans, and customers with on-site generation operated in parallel with Kentucky Power’s system.

[271] Hearing Transcript, Vol. IV at 984, 990-994.

Customers would be able to make deposits to their accounts in such amounts as are convenient to them. The initial deposit would have to be $40 or more. The only requirement is that they maintain a positive balance. Customers would be able to choose a low balance amount that would trigger a notification from Kentucky Power. When the customer's balance reaches that amount, or $25, whichever is greater, they would receive daily alerts until their account is restored above the low balance notification amount. Once a customer's account hits $0, they will have until the beginning of the next business day to re-establish a positive balance.

A customer with an outstanding balance that signs up for the Flex Pay Program must pay at least 50.00 percent of the account balance, and can carry over up to $1,500 of the account balance to their Flex Pay account. Any future deposits into the Flex Pay account will be split 80/20, with the 20.00 percent being applied to the arrears balance. Billing will be based on the customer's actual daily usage and fixed charges will be applied to the account on a daily basis.

Kentucky Power indicated that it would not be able to offer the Flex Pay Program if its request for AMI conversion was denied.[272] Because the Flex Pay Program cannot be implemented without the AMI conversion and the AMI CPCN has been denied, the Commission finds that proposed Flex Pay program should be rejected.

Kentucky Power also proposed a Bill Format for Flex Pay Customers. The bill format would not include the following information required by 807 KAR 5:006, Section 7(1)(a): specific line items for taxes and adjustments, as this would complicate the billing information and would be reflected in the customer's daily Flex Pay amount and balance;

[272] Kentucky Power's Response to Commission Staff's Fourth Request for Information, Item 28.

present and last preceding meter readings; date of the present meter reading; meter constant; gross amount of the bill; and the date after which a penalty may apply to the gross amount. Kentucky Power requested a deviation from 807 KAR 5:006, Section 7(1)(a), for the proposed Flex Pay Bill Format. The bill format would show billing information for each day. Because the Commission rejected the proposed Flex Pay Program, the Commission finds that the Flex Pay Bill Format should be rejected. Therefore, Kentucky Power's request for deviation is rejected as moot.

Tariff Net Metering Service I and II

Based upon the changes in Kentucky law resulting from Senate Bill 100, An Act Related to Net Metering, which took effect on January 1, 2020, Kentucky Power proposed to close the current Net Metering Service (NMS I) tariff as of January 1, 2020, and establish a new NMS tariff (Tariff NMS II).[273] Kentucky Power stated that the proposed Tariff NMS II addresses the end of, or the reduction of, the intraclass subsidies the previous net metering statute produced by (1) changing the netting periods applicable to the monthly billing for customers; (2) changing the compensation rate paid for excess generation; (3) changing the cost recovery of payments made for Tariff NMS II customers' excess self-generation; and (4) changing the application fee to reflect the cost of processing an NMS application.[274] Kentucky Power noted that the proposed Tariff NMS II comports with the requirements of KRS 278.466 as it applies only to customers whose eligible electric generating facility service begins after January 1, 2021, and all existing

[273] KRS 278.465 and KRS 278.468.

[274] Vaughan Direct Testimony at 23.

NMS customers will continue to be served under the existing NMS tariff for up to 25 years.[275]

The netting periods under the proposed Tariff NMS II consist of two time of use (TOU) periods, 8 AM to 6 PM and 6 PM to 8 AM, and for the billing period, all positive or negative net kWh[276] will accumulate for that particular netting period. Net negative energy describes when, during a TOU netting period, a customer's generator produces an amount of energy that is greater than what the customer uses. Net positive energy depicts a situation when a customer's load is greater than what is self-generated during a TOU netting period. Any net positive energy or demand will be charged at the rates under the standard service tariff applicable to the customer. For all net negative energy, Kentucky Power proposed an avoided cost rate of $0.03659 per kWh.[277] In this initial calculation, the proposed avoided cost rate included the cost of service related avoided energy costs at Kentucky Power's marginal cost of energy, distribution losses, and avoided generation and transmission fixed costs. The proposed calculation did not include the societal cost of carbon, the value of the customer generators' renewable energy credits (RECs), nor other externalities as Kentucky Power contended that those items are not cost of service related.[278] Kentucky Power also proposed to collect the avoided cost payments made to customers under Tariff NMS II for net negative energy

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[275] *Id.* at 24.

[276] The proposed NMS II is also kW where applicable.

[277] Vaughan Direct Testimony at 26. *See* Vaughan Direct Testimony, Exhibit AEV-3 for the complete calculation of the NMS II Excess Generation Pricing.

[278] Vaughan Direct Testimony at 27.

credits through its PPA tariff.[279] Kentucky Power asserted that the proposed Tariff NMS II results in a more appropriate fixed cost contribution towards Kentucky Power's cost of retail electric service and is consistent with the net metering act.[280]

The Attorney General/KIUC supported Kentucky Power's Tariff NMS II as proposed.[281] The Joint Intervenors, KYSEIA, and their witnesses, in their respective testimony and briefs, recommend denying the proposed rate and proposed establishing a separate proceeding with stakeholders and electric utilities to develop a methodology that is similar for all utilities, and based upon a cost of service study and cost-benefit analysis to determine appropriate dollar value for exports.[282] The parties also expressed concern that, by expanding their current systems or adding battery storage, existing net metered customers could lose their legacy status.[283] Sierra Club did not file testimony in this case, explaining that its position aligns with testimony filed by the Joint Intervenors and KYSEIA.[284]

The Commission first notes that it is in the process of contracting with a consultant with experience in developing net metering rates. Relevant here, Kentucky Power did not conduct a cost of service study or provide any cost support for serving net metered

[279] *Id.* at 28.

[280] Vaughan Direct Testimony at 29.

[281] Attorney General/KIUC Post-Hearing Brief at 49–50.

[282] Direct Testimony of Justin R. Barnes (Barnes Direct Testimony) at 10–14, 16–18, and 20–21; Direct Testimony of James M. Van Nostrand (Van Nostrand Direct Testimony) at 2 and 12; Direct Testimony of Andrew McDonald (McDonald Direct Testimony) at 5–11;KYSEIA Post-Hearing Brief at 12–16; Joint Intervenors' Post-Hearing Brief at 4–13.

[283] Direct Testimony of Benjamin D. Inskeep (Inskeep Direct Testimony) at 17–28; Van Nostrand Direct Testimony at 2–3, 15; KYSEIA Post-Hearing Brief at 16–19.

[284] Sierra Club Post-Hearing Brief at 4.

customers. Instead, Kentucky Power proposed to use avoided cost as the basis for net metering rates. The Commission is not convinced by Kentucky Power's arguments that avoided cost should be the basis for establishing new net metering rates. Given that this is the first proceeding to propose new net metering rates consistent with the Net Metering Act, the Commission finds that its decision regarding net metering rates should be deferred to allow Commission Staff to work with its consultant to ensure that there is sufficient evidence to support the conclusion that Kentucky Power's proposed Tariff NMS II rates are fair, just and reasonable. Pursuant to KRS 278.190(2), Kentucky Power should file written notice with the Commission within 15 days of the date of this Order if Kentucky Power intends to place Tariff NMS II into effect as of January 14, 2021.

The Commission is cognizant that it must issue a decision on this issue on or before May 14, 2021, which is the statutory due date established by KRS 278.190(3). A procedural schedule will be issued by separate Order.

In regard to the Joint Intervenors and KYSEIA's requests to establish a separate proceeding to determine a methodology applicable to net metering rates, KRS 278.466(5) requires that net metering rates be established using ratemaking process established in KRS Chapter 278, such as this proceeding. The Joint Intervenors and KYSEIA's recommended process is not consistent with the express provisions of net metering statutes, and therefore the Commission will not grant their request.

Tariff SCC

Kentucky Power currently retains 25 percent of its OSS margins, which flow through Tariff SSC. Sharing mechanisms generally exist to provide an incentive to the utility to optimize a certain behavior, usually the reduction of an expense. When asked, “Do you think that [no sharing] of the off-system sales clause between customers and the Company, no sharing with the Company, would change the Company's dispatch procedures or choices?” Kentucky Power’s witness responded, “No, because I think commercial operations does the best -- tries to make the best decision for customers regardless.”[285] Because Kentucky Power participates in PJM’s energy market on an economic basis and the OSS margins are simply the outfall of its participation in PJM,[286] the Commission finds that the OSS margins should not be shared between ratepayers and Kentucky Power. Therefore, the Commission finds that Kentucky Power’s Tariff SSC should be revised to reflect that all OSS margins are attributable to ratepayers.

Kentucky Power currently files its Tariff SSC update, along with supporting spreadsheets, into the post-case file of its most recent completed general rate case no later than August 15 each year, with the new amount going into effect with bills issued in Cycle 1 of the October billing cycle. The information is reviewed by Commission Staff, who contact Kentucky Power if they have any questions. Currently, Kentucky Power’s tariff does not contain the amount of the Tariff SSC factor. However, during the processing of this case, Kentucky Power provided a tariff page reflecting the Tariff SSC factor and committed to including the Tariff SSC factor in its tariff. Therefore, the Commission finds that all future filings should be submitted through the Commission’s electronic Tariff Filing System no later than August 15 to become effective with bills issued in Cycle 1 of the October billing cycle.

<u>Demand Response Service</u>

[285] Hearing Transcript, Vol. III at 801-803

[286] *Id.*; and Kentucky Power’s Response to Staff’s Fourth Request, Item 15.

Kentucky Power proposed a new Demand Response Service tariff (Rider D.R.S.) that will be a peak shaving tariff for the purpose of reducing its cost causing peaks. Customers that choose this new tariff cannot participate in PJM's Demand Response Capacity Program as it will reduce a customer's peak load contribution eligible for PJM capacity credit. The Demand Response Tariff will be similar to C.S. – I.R.P. but with new pricing, terms, and intended use. Customers would agree to 60 annual hours of interruptions in exchange for a monthly interruptible demand credit of $5.50/KW. Customers would have to achieve at least 90.00 percent of their agreed upon interruptible capacity reservation during an event or be subject to an escalating repayment of its total annual discount, calculated based on the number of failures. Kentucky Power also proposed that the Commission allow them to defer the interruptible credits paid to Rider D.R.S. customers and recover the combined amount of Rider D.R.S. and Tariff C.S. – I.R.P. credits above the test-year level of Tariff C.S. – I.R.P. credits in the PPA tariff revenue requirement, as it currently does with the Tariff C.S. – I.R.P. credits.

The Commission finds that Rider D.R.S.is reasonable since it will allow Kentucky Power to reduce its cost causing peaks and that it should be approved. The Commission also finds that Kentucky Power should be allowed to defer the interruptible credits paid to Rider D.R.S. customers and recover the combined amount of Rider D.R.S. and Tariff C.S. – I.R.P. credits above the test-year level of Tariff C.S. – I.R.P. credits in the PPA tariff revenue requirement.

Electric Vehicle Charging

Kentucky Power proposed to add a provision to its residential tariff allowing customers to, through a separately wired time-of-use meter, take advantage of time-of-use rates for their electrical vehicle charging load only. The on-peak and off-peak rates for such loads would be the same as those offered under the load management time-of-day and standard time-of-day provisions that are already in the residential tariff. Kentucky Power proposed to waive the extra basic service charge because the cost of the extra meter would be offset by the additional fixed cost contributions from the on-peak and off-peak energy charges. Based on the installed cost of a separate AMI meter, Kentucky Power stated that the net annual incremental fixed cost contribution of a customer taking advantage of the proposed electric vehicle charging provision is $136.65.[287] As discussed earlier in this Order, the Commission rejected Kentucky Power's request for a CPCN to begin converting to AMI meters. Using the standard time-of-day AMR meter cost of $4.30 per month,[288] the net annual incremental fixed cost contribution would be $100.77. Kentucky Power indicated that customers currently charge their electric vehicles under their current rate schedules. The proposal would allow customers to charge their electric vehicles on a time of use rate without having to switch their whole house to such rates.[289]

Kentucky Power also proposed to modify the existing separate meter load management time-of-day provisions in Tariff G.S. and L.G.S to include EV charging.

Because the proposal is voluntary and customers are not required to go onto the load management time-of-day provisions of the respective tariffs to charge their electric

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[287] Kentucky Power's Response to Staff's Post-Hearing Request, Item 15.

[288] Vaughan Testimony, Exhibit AEV-1, page 3 of 65.

[289] Kentucky Power's Response to Staff's Fourth Request, Item 72.

vehicles, the Commission finds that the proposal is reasonable when utilizing AMR meters and that it should be approved.

Outdoor Lighting and Street Lighting

Kentucky Power proposed several revisions to its Outdoor and Street Lighting Tariffs. They have proposed the following:

- Add standard LED lamp offerings;
- Cease new installations of non-LED lamps but continue to repair existing non-LED lamps as long as it has replacement lamps and parts in inventory;
- Add a conversion charge for customers with working non-LED luminaire who wish to convert to LED; and
- Add a flexible lighting option that gives customers options beyond the standard offerings in the tariff.

Kentucky Power indicated that it received numerous inquiries regarding LED lighting. Kentucky Power argued that LED lights will provide customers with a better light, more attractive color temperature options and reduced monthly energy consumption and associated energy cost. In addition, they state that LED technology will be more compatible with future technology enhancements to the system.[290] LED lighting has become much more prevalent in recent years. The Commission finds that the addition of LED lamp offerings is reasonable as LED lighting is becoming more prevalent and that the addition of LED lamp offerings should be approved.

Kentucky Power also indicated that it is becoming increasingly difficult to obtain traditional lighting technologies in sufficient volumes and at a reasonable cost. Therefore,

[290] Vaughan Direct Testimony at 20.

Kentucky Power is proposing to cease new installations of non-LED lamps. However, Kentucky Power will continue to repair existing non-LED lamps as long as it has replacement lamps and parts in inventory. Given the move to LED technology and the difficulty in obtaining non-LED technologies, the Commission finds that ceasing new installations of non-LED lamps is reasonable and that it should be approved.

Kentucky Power proposed to add a conversion charge for customers with functioning non-LED luminaires who wish to convert to LED technology in order to recover the average remaining book value of the non-LED luminaire. The charge would be collected over 84 months. The charge would not apply if the ballast or housing of the existing non-LED luminaire fails or the existing luminaire is out of stock. The Commission finds that it is reasonable for Kentucky Power to recover the average remaining book value of the non-LED luminaire when a customer with a functioning non-LED luminaire requests to convert to LED technology and that the conversion fee should be approved.

Kentucky Power proposed to add a flexible lighting option to the tariff to give customers options beyond the standard offerings in the tariff. The rate design for the flexible lighting option will include a monthly lamp charge for the system, a monthly maintenance charge, a non-fuel energy charge, a base fuel charge and all applicable adjustment clauses. The lamp charge will be computed using the same monthly levelized fixed cost rate used to compute the cost based lamp charges in Kentucky Power's standard lighting options. The monthly maintenance charge is based on an average of Kentucky Power's monthly maintenance charges for its LED lighting options. The nonfuel charge is the same rate used to compute the cost based lamp charges for its LED lighting options. Kentucky Power indicated that customers choosing the flexible payment option could pay part of the installed cost up front in order to reduce their monthly lamp charge.[291]

Kentucky Power filed a revised cost estimate for each Rate OL LED option. The revision reduced the average estimated monthly maintenance cost from $1.20 per month to $0.80 per month.[292] For the Rate SL LED option, Kentucky Power proposed a monthly maintenance cost of $2.23 while the average estimated monthly maintenance cost was $2.52 according to their cost justification.[293]

Because the rate design is similar to rate design for Kentucky Power's standard OL and SL offerings, the Commission finds that the proposal is reasonable and that it should be approved with language added indicating that customers can pay part of the installed cost upfront in order to reduce the monthly lamp charge component of the rate. The Commission also finds that the amount of the monthly maintenance charges in the flexible lighting options should be adjusted to reflect the amounts reflected in their cost justification. The Commission further finds that the monthly non-fuel energy charge per kWh under the flexible lighting options should be revised to $0.05517 for Tariff OL and $0.04391 for Tariff SL to account for the lower revenue requirement approved herein. Finally the Commission finds that the monthly levelized fixed charge rate under the flexible lighting options should be revised to 1.36 percent under Tariff OL and 0.97 percent under Tariff SL to account for the revised rate of return.

Tariff EDR

[291] Kentucky Power's Response to Staff's Fourth Request, Item 78.

[292] Kentucky Power's Response to Commission Staff's Fifth Request for Information (Staff's Fifth Request), Item 5(a), Attachment 1.

[293] Kentucky Power's Response to Staff's Fourth Request, Item 13, Attachment 2.

Kentucky Power proposed to revise Tariff E.D.R. to allow customers to choose the order in which they receive their contractual discounts. The timing of the discounts would be set out in the contract and submitted to the Commission for approval. Kentucky Power argues that the proposed change would make the tariff more attractive to customers seeking to relocate or expand in Kentucky Power's territory, thus aiding its economic development efforts. The Commission has concerns that allowing a customer to choose the order of discount could result in Kentucky Power receiving less in revenue than if the order of discounts remained as is in the current tariff, especially if the customer chooses the larger discounts to be in the years their load is the largest. However, because Kentucky Power will still be required to show that the discounted rates exceed the marginal cost associated with serving a customer over the entire discount period when seeking Commission approval of an EDR contract, thus holding Kentucky Power's remaining customers harmless, and in order to assist economic development in Kentucky Power's service territory, the Commission finds that the revision is reasonable and should be approved.

Tariff FAC

Kentucky Power proposed to update Tariff F.A.C. to include PJM billing line item 1999 (BLI 1999) as a category of fuel costs recoverable through the FAC.[294] Kentucky Power argued that as a member of PJM, it is required to pay all costs billed by PJM and is entitled to all revenues earned through its participation. It stated that retail ratepayers

[294] Direct Testimony of Scott E. Bishop (Bishop Direct Testimony) at 6; and Whitney Direct Testimony at 25. Kentucky Power proposed to remove BLI 1999 cost from the test year ended March 31, 2020 amount of $150,650 (retail jurisdictional amount). The recovery of the total $357,829 in default costs was proposed to be amortized over a three year period and resulted in an annual amortization expense of $117,487.

benefit through their share of off system sales margins as well as revenues earned by Kentucky Power for the provision of transmission service, which reduces the cost of providing retail electric service. Kentucky Power argued that, because retail ratepayers receive the benefits of its participation in PJM, it is appropriate to reflect the costs of participation in retail rates.[295]

Currently, default expenses are recovered through either base rates or the system sales clause. The Commission finds that the recovery of BLI 1999 charges through the FAC should be denied, for the reasons discussed below, and that these charges should continue to be recovered through base rates and Tariff SSC. Although there have been default expenses other than GreenHat, which was an exception in its magnitude, the expenses were not extraordinary.[296] In addition, FAC proceedings allow electric utilities to recover the difference between fuel costs in the base period and current period. While electric utilities can include financial transmission rights (FTR) in FAC proceedings, FTR expenses are not fuel costs. BLI 1999 are not FTR expenses; they are remote expenses associated with FTRs, representing third party liquidated positions allocated to Kentucky Power. For these reasons, the Commission concludes that BLI 1999 charges should continue to be recovered through base rates and Tariff SSC, and not through FAC proceedings. Additionally, even though Kentucky Power explained in Case No. 2020-00034[297] that a portion of the BLI 1999 charges would be allocated to OSS through Tariff

[295] Kentucky Power's Response to Staff's Fourth Request, Item 21.

[296] *Id*. at Item 20.

[297] Case No. 2020-00034, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with Charges Related to GreenHat Energy, LLC Default* (Ky. PSC Sept. 30, 2020).

SSC and the historic period was allocated to OSS, Kentucky Power did not allocate a portion of the estimated expenses from April 2020, to December 2020. Using the average allocation to OSS during the actual period of 14 percent, $16,552 should be allocated to the OSS margins and removed from base rates. With the change that 100 percent of OSS margins will flow through Tariff SSC, the total amount billed to customers would remain the same without the additional allocation; however, the FAC base fuel amount would be understated and the SCC margins would be overstated by the same amount, adding an additional layer of complexity to the review process for these mechanisms. Thus, the Commission will include $101,155 in base rates and $16,451 in the system sales clause, on a jurisdictional basis.

The Commission notes that the issue will be examined further if PJM and its members continue to have problems monitoring and policing its markets, ensuring that adequate participant reserves are in place to protect the integrity of market positions and passing new extraordinary default charges through BLI 1999.

<u>Tariff C.S. – I.R.P.</u>

Kentucky Power proposed to eliminate the expiring special coal provisions in Tariff C.S. – I.R.P. The special coal provisions allowed for customers engaged in the extraction or processing of coal to provide interruptible load of at least 1 MW at a single site and commit to a minimum two year contract term instead of the four year contract term for other customers under Tariff C.S. – I.R.P. Kentucky Power stated that the provisions are difficult to manage and are no longer necessary as the proposed Demand Response Tariff contains a one year contract period for customers willing and able to interrupt their load requirements in return for demand-based bill credits.

Kentucky Power also proposed revisions to make the language in Tariff C.S. – I.R.P. consistent with PJM's Load Management Resource Product – Capacity Performance Demand Response requirement, add language to the tariff that was in previously Commission approved C.S. – I.R.P. contract addenda, and remove language that already appeared in Tariff I.G.S., under which C.S. – I.R.P. customers take service.

Because customers engaged in the extraction or processing of coal will be able to provide interruptible load under the new Demand Response tariff under a 1 year contract, the Commission finds that the removal of the special coal provisions from C.S. – I.R.P. is reasonable and that it should be approved. As the remaining revisions were just for clarification, the Commission finds them reasonable and that they should be approved.

Underground Service Tariff

Kentucky Power proposed revisions to its Underground Service tariff to add cities and towns to the list of entities that can request underground service. If a city or town is the entity requesting underground service, Kentucky Power proposes to collect the estimated underground cost differential from the residents of the city or town requesting such service through a separate line item on the bill. Kentucky Power is also proposing to add language regarding situations where a city or town requires the installation of underground facilities or the relocation of overhead facilities underground pursuant to a municipal or other governmental requirement or directive. In such cases, Kentucky Power is proposing to collect such costs from the customers within the boundary of the municipality or governmental entity requiring such service.

Kentucky Power indicates that its preferred method of recovery of such costs would be directly from the city or town. However, if the city or town were unable to pay the upfront cost, Kentucky Power would then add the costs either to the franchise fee billing line item or a new billing line item of the customer bills in that city or town. Kentucky Power indicated that they would notify such customers through bill messages, its website, and social media.[298] Kentucky Power indicated that it would be willing to create payment arrangements directly with the cities or towns to recover the costs instead of recovering them through a franchise fee billing line item as originally proposed.[299]

The Commission believes that these issues should be addressed in franchise agreements and the Commission's authority regarding franchises is limited by statute to finding only whether there is a need and demand for the service sought to be rendered, no finding or determination is made as to the qualifications of the bidder, the validity of any of the provisions of the franchises offered by said city, or the manner in which any franchise fees are to be treated for rate purposes. Therefore, for the reasons discussed above, the Commission finds that the revisions should be rejected.

Tariff Non-Utility Generator (NUG)

Kentucky Power proposed to close Tariff NUG for new participants and remove provisions for commissioning power service and startup power service. Due to pending litigation at the Kentucky Court of Appeals regarding this tariff,[300] the Commission finds that the proposal should be denied.

Tariff Cogen/SPP

[298] Kentucky Power's Response to Staff's Fourth Request, Item 6.

[299] Kentucky Power's Response to Staff's Fifth Request, Item 4(a).

[300] *Riverside Generating Co. LLC v. Pub. Serv. Comm'n,* Ky. App Case No. 2020-CA-0678 (filed June 11, 2020).

In Case No. 2000-00279,[301] Kentucky Power was permitted to deviate from the filing requirements of 807 KAR 5:054, Sections 5(1)(a) and (2), which relate to the filing of avoided cost data with the Commission. That deviation was reversed in Case No. 2020-00134,[302] and the Commission also found that "the reasonableness of Kentucky Power's cogeneration tariffs, particularly as they relate to the avoided cost data filed in this proceeding, will be adjudicated in Case No. 2020-00174." Kentucky Power proposed to revise its avoided capacity cost rates based upon a hypothetical incremental dispatchable generation addition.[303] It used an estimated cost of an F class combustion turbine natural gas generating plan based on the AEP System new generation technologies key supply-side resource option assumptions from its most recent IRP filing.[304] Kentucky Power proposed to revise its avoided energy cost rates based on a four year average of forward pricing for the Kentucky Power residual load aggregate.[305] Kentucky Power argues that its generation resources are not dispatched to meet load requirements, but instead are dispatched against PJM's locational marginal price (LMP) prices.[306] Therefore, Kentucky Power argued that its marginal/avoided cost of energy is the PJM LMP for Kentucky Power's residual load aggregate.[307]

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[301] Case No. 2000-00279, *Request of Kentucky Power Company D/B/A American Electric Power for Deviation from 807 KAR 5:054, Section 5(1)(a) and (2)* (Ky. PSC Aug. 4, 2000).

[302] Case No. 2020-00134, *Electronic Investigation of Kentucky Power Company's Deviation from 807 KAR 5:054, Section 5(1)(A) and (2)* (Ky. PSC June 1, 2020).

[303] Kentucky Power's Response to Staff's Fourth Request, Item 111.

[304] Kentucky Power's Response to Staff's Fourth Request, Item 94.

[305] Kentucky Power's Response to Staff's Fourth Request, Item 102.

[306] Kentucky Power's Response to Staff's Fifth Request, Item 18(a).

[307] *Id.*

KYSEIA's witness, Justin R. Barnes, proposed that instead of using a capital cost of $700 per kW to calculate the avoided capacity rate, Kentucky Power should use the amount from PJM's Cost of New Entry (CONE) of at least $799 per kW.[308] In addition, Mr. Barnes argued that since PJM uses a 20-year useful life in it CONE calculation for the same type of generating unit Kentucky Power uses, Kentucky Power should also use a 20-year useful life in its calculation.[309] Mr. Barnes also proposed that the Cogen Tariffs be revised to specify that QFs may seek a contract with pricing based on rates at the time of the establishment of a legally enforceable obligation (LEO) and specify the length of time that a QF may provide energy and capacity under a locked-in rate, which it argued should be at least ten years.[310]

Kentucky Power argued that the avoided cost calculation should be consistent with the methodology so that favorable values from different methodologies are not combined in a piecemeal fashion.[311] Kentucky Power stated that, while it continues to support its proposed simplified hypothetical CT calculation, the Commission has ultimate discretion as to the avoided cost methodology. Kentucky Power argued that because the Public Utility Regulatory Policies Act (PURPA) does not require Kentucky Power to fix avoided cost rates for any period, Mr. Barnes' recommendation to require fixed rates for a minimum term of ten years is inconsistent with FERC Order 872 and the Commission's

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[308] Direct Testimony of Justin R. Barnes (Barnes Direct Testimony) at 48.

[309] *Id.*

[310] Barnes Direct Testimony at 47.

[311] Vaughan Rebuttal Testimony at 44-45.

regulations. Kentucky Power also stated that its tariff should be updated to reflect the avoided cost methodology chosen by the Commission and FERC Order 872, which reduced the purchase obligation threshold from 20 MW to 5 MW, subject to FERC approval.[312]

Discussion and Findings. PURPA is a "program of cooperative federalism that allows the States, within limits established by federal minimum standards, to enact and administer their own regulatory programs, structured to meet their own particular needs."[313] FERC Order 872 and 872-A revised FERC's regulations implementing PURPA. To account for the significant development of energy markets, FERC established a rebuttable presumption that locational marginal prices (LMPs) may reflect a purchasing electric utility's avoided energy costs and allowed states the ability to require variable energy rates.[314] FERC also retained the option granted to QFs to fix their capacity rates for the term of their contracts at the time the LEO is incurred,[315] and clarified that a QF must demonstrate commercial viability and a financial commitment to construct its facility pursuant to objective and reasonable state-determined criteria before the QF is entitled to a contract or LEO.[316] FERC has declined to specify a minimum required contract length and stated that "it is up to states to decide appropriate contract lengths in

[312] *Id.* at 43–44. *See* revised Vaughan Rebuttal Testimony (filed Nov. 23, 2020).

[313] *See FERC v. Miss*., 456 U.S. 742, 767 (1982).

[314] FERC Order No. 872 at 8 and 18.

[315] *Id.* at 27.

[316] *Id.* at 45. "States may not impose any requirements for a LEO other than a showing of commercial viability and a financial commitment to construct the facility."

a way that accurately calculates avoided costs so as to meet all statutory requirements."[317]

The Commission chooses to avail itself of the new capability to require variable energy rates and finds that the avoided energy rate should be the variable LMP at time of delivery. This will eliminate any forecast error from Kentucky Power's avoided energy rate and place the risk of economic feasibility on the QF instead of Kentucky Power's ratepayers. The Commission also finds that the avoided capacity rate should be the zonal net CONE for the delivery years that have an established CONE at the time of the contract and the last known net CONE for the remainder of the term. This will balance the interests of Kentucky Power and the QF by enabling QFs to estimate the avoided capacity rates from publically available documents and providing a market based capacity value specific to Kentucky Power's location. The Commission also finds that Kentucky Power's current minimum term of one year may discourage QFs from locating in its service territory and will therefore lengthen the minimum agreement term to five years. While longer minimum agreement periods shift risk to ratepayers, the variable energy rates will alleviate some of these concerns. The Commission further finds that the LEO requirements should be set by regulation, because they should apply to all utilities equally. Therefore, the Commission will not dictate LEO requirements at this time. Finally, the Commission will still allow utilities and QFs, if they choose, to have agreements different than the tariff, subject to the Commission's approval.

For small power production facilities, but not cogeneration facilities, FERC also revised the threshold for the rebuttable presumption that a QF with a net capacity of less

[317] *Id.* at 206.

than 20 MW lacks nondiscriminatory access to markets from 20 MW to 5 MW, for the purposes of determining the electric utility's purchase obligation.[318] Utilities for which FERC has already granted relief from the mandatory purchase obligation for small power production facilities over 20 MW must reapply with FERC to request relief from the mandatory purchase obligation for small power production facilities between 5 MW and 20 MW.[319]

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Kentucky Power's Tariff Cogen/SPP should be revised to (1) reflect an avoided energy cost rate based on the variable LMP at the time of delivery; (2) reflect an avoided capacity cost rate based on the zonal net CONE for the delivery years that have an established CONE at the time of the contract and the last known net CONE for the remainder of the term; (3) specify that a QF can request to that avoided cost rates be set on an "as available" basis or when the QF has established a LEO; and (4) specify that the minimum contract term is five years. Additionally, if Kentucky Power is granted approval by FERC to reduce its purchase obligation for small power production facilities, Kentucky Power should revise its tariff to reflect that approval.

Tariff Language Change

Equal payment plan to nonresidential customers. Kentucky Power proposed to offer its Equal Payment Plan to nonresidential customers when mutually agreeable. Kentucky Power indicated that nonresidential customers are eligible for the Equal

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[318] *Id.* at 45.

[319] *Id.* at 356.

Payment Plan if the customer's account is current and it meets the satisfactory credit criteria for nonresidential customers in the deposit section of the tariff.[320] Commission regulation 807 KAR 5:006, Section 14(2)(a)2, requires that utilities offer budget payment plans to residential customers and also allows such plans to be offered to other classes of customers. Therefore, the Commission finds that the proposal is reasonable, but that language should be added to the Equal Payment Plan section of the tariff specifying the requirements a nonresidential customer must meet to be eligible for the Equal Payment Plan. As a similar provision is contained in the Average Monthly Payment Plan section of the current tariff, the Commission finds that language should be added to that section of the tariff specifying the requirements a nonresidential customer must meet to be eligible for the Average Monthly Payment Plan.

Allow verbal request by customers for meter test. Kentucky Power proposed to allow customers to submit a verbal request to a Customer Service Representative for a meter test. The current tariff only allows customers to request a meter test upon written request. Commission regulation 807 KAR 5:006, Section 19, requires a utility to make a test of a meter upon written request of a customer as long as the request is not made more frequently than once every 12 months.

The Commission is concerned that allowing customers to verbally request a meter test increases the likelihood that regulatory requirements to maintain adequate documentation and to inform customers of their rights and responsibilities would not be followed. For example, pursuant to 807 KAR 5:006, Section 9(3)(f), and 807 KAR 5:041, Section 19(1)(b), a customer may be charged if, after requesting a meter test, the meter

[320] Kentucky Power's Response to Staff's Fourth Request, Item 4.

is found to be within the regulatory accuracy limits. Pursuant to 807 KAR 5:006, Section 10(4)–(5), a utility must provide notice to a customer of their right to file a complaint with the Commission if the customer's complaint is not resolved by the utility. Here, Kentucky Power did not provide evidence how it would ensure that customers' rights are protected. Therefore, for the reasons discussed above, the Commission finds that the revision should be rejected.

Revisions to franchise tariff regarding notice of expansion of municipal government boundaries. Kentucky Power proposed two revisions to its Franchise Tariff. The first revision addresses situations when Kentucky Power is required to install underground facilities or relocate overhead facilities underground pursuant to a municipal or other governmental requirement or directive. Under such a situation, Kentucky Power proposed to charge the customers within the boundary of that municipality or governmental entity for the costs related to the installation or relocation via the current franchise fee billing line item or a new billing line item.

The second revision requires cities and towns to timely notify Kentucky Power of any expansion of the city's or town's boundaries through annexation and to provide a new map of the city's or town's boundaries at the time notice is made. Once the notice is made, Kentucky Power would begin billing the applicable charges within 30 days.

The Commission concludes that these issues should be addressed in franchise agreements and the Commission's authority regarding franchises is limited by statute to finding only whether there is a need and demand for the service sought to be rendered, no finding or determination is made as to the qualifications of the bidder, the validity of any of the provisions of the franchises offered by said city, or the manner in which any franchise fees are to be treated for rate purposes. Therefore, for the reasons discussed above, the Commission finds that the revisions should be rejected.

Add delayed payment charge to Tariff T.S. and M.W. Kentucky Power proposed adding its delayed payment charge to its Temporary Service Tariff (Tariff T.S.) and Municipal Waterworks Tariff (Tariff M.W.). Because the Commission is allowing Kentucky Power's delayed payment charge for commercial and industrial customers to continue, the Commission finds that the proposal to add the delayed payment charge to Tariff T.S. and Tariff M.W should be approved. While Tariff T.S. is also available to residential customers, its use by residential customers appears to be infrequent based on the total number of occurrences during the test year.[321]

Change requirements from "normal" maximum demand to "average" maximum demand in Tariff G.S., M.G.S. -T.O.D., Tariff L.G.S., Tariff L.G.S.–T.O.D., Tariff I.G.S, Tariff C.S. – Coal, Tariff C.S. – I.R.P., Rider A.F.S. Kentucky Power proposed to revise the Availability of Service section of several rate schedules to change the requirements for those rate schedules from normal maximum demand to average maximum demand. Kentucky Power indicated that it proposed the revisions because average is a more easily defined term than normal. The Commission finds that the term average is more easily defined than normal and that the revisions be approved.

Delayed Payment Charge

Kentucky Power assesses most customers who pay their bill after the due date a delayed payment charge of 5.00 percent. This fee is intended to elicit customer behavior,

[321] Kentucky Power's Response to Staff's Post-Hearing Request, Item 5, Attachment 1.

is not cost based, and creates a hardship on customers that are already unable to timely pay for service. The evidence collected in Case No. 2020-00085,[322] including evidence related to Kentucky Power that was discussed at the hearing in this matter, challenged the efficiency of delayed payment charges to certain customers. In the response to the Commission's Request for Information in Case No. 2020-00085, the data provided by Kentucky Power demonstrated that the on time pay percentage for residential customers remained fairly steady and even increased during certain months that the required waiver of late payment fees was in effect. In that same response, the data provided by Kentucky Power demonstrated that the on time pay percentage for commercial and industrial customers decreased during the months that the required moratorium on late payment fees was in effect.[323]

Kentucky Power stated that its delayed payment charge is cost-based, citing its accounts receivable factoring expense of $3,800,926 during the test year.[324] Due to its almost instantaneous sale of accounts receivable for all customers, there is no evidence that there are costs imposed on all customers for some paying their bills late. While Kentucky Power does sell its accounts receivable at a discount, the discount reflects the time value of money and transaction fees for all customers, not just those paying late. In addition, Kentucky Power participates in the Residential Energy Assistance program,

[322] See Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (filed Sept. 21, 2020) Kentucky Power's Supplemental Response to Commission Staff's Initial Request for Information, Item 9.

[323] *Id.*

[324] Kentucky Power's Response to Staff's Post-Hearing Request, Item 5(j).

whose purpose is to reduce bad debt expenses which benefits all customers.[325] Discontinuing the delayed payment charge for residential customers would allow for smaller write-offs based upon actual cost based sales.

As the evidence indicates, the delayed payment charge does not appear to have the intended impact on residential customers' behavior, the Commission finds that it is not reasonable for Kentucky Power to continue to collect delayed payment charges from residential customers. Therefore, the Commission reduces the test year delayed payment charge revenue by $2,458,312, which is the amount attributable to residential customers, so that Kentucky Power can receive the income through its base rates and the Commission finds that the assessment of delayed payment charges to residential customers should be discontinued.

<u>Nonrecurring Charges</u>

Following the Commission's recent decision set out in the final Order in Case No. 2020-00141,[326] the Commission finds that the calculation of non-recurring charges should be revised and only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. In Case No. 2020-00141, the Commission found that because personnel are paid for work performed during normal business hours regardless of whether they are on a field visit, labor costs included in nonrecurring charges that occur during regular business hours

[325] *See* Case No. 2019-00366, *Investigation of Home Energy Assistance Programs Offered by Investor-Owned Utilities Pursuant to KRS 278.285(4)* (Ky. PSC May 4, 2020), Order at 3 (The primary benefit of home energy assistance programs is, "a reduction in utility costs, and thus a reduction in rates as a result of avoided costs that would otherwise be incurred from debt collection and from writing off uncollectible accounts.").

[326] Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

should be eliminated. By reflecting only the marginal cost of the service in nonrecurring charges, Kentucky Power's rates will be more in line with the principle of cost causation. Merely allocating a fixed expense of ordinary labor costs in special nonrecurring charges like reconnect, termination/field trip, and returned check charges creates a mismatch between how Kentucky Power incurs expenses and how it recovers those expenses from customers. Instead of reflecting fixed costs in special nonrecurring charges that a utility incurs regardless of the number or timing of those nonrecurring services, including those fixed costs in rates for electric service more closely aligns those expenses with the actions that drive them. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility and the ability of the utility to provide the adequate, efficient and reasonable provision of service.

Based on the information discussed above and using the cost justifications submitted in Case No. 2014-00396, which is the last time Kentucky Power revised its nonrecurring charges, the Commission finds that the following revisions should be made to Kentucky Power's nonrecurring charges.[327]

	Current Charge	Revised Charge
Reconnect for non-payment (regular hours)	$21.00	$4.70
Termination or Field Trip	13.00	4.70
Returned Check	18.00	14.65

[327] The Commission is not revising the meter test fee or meter reading check fee. The Commission is also not revising reconnection fees for reconnections that require overtime, as those are outside regular business hours; reconnection fees resulting from fraudulent use or the energy diversion fee, as those relate to instances of theft of service or customer negligence; the temporary service fee as that is based on the installation of temporary service; and the fee charged for work performed on Kentucky Power's facilities at customer's request as that is extra work requested by the customer.

Therefore, the Commission reduces the test-year nonrecurring charge revenue by $359,033 so that Kentucky Power can receive the income through its base rates.[328]

Miscellaneous Tariff Changes

Kentucky Power proposed various minor text changes to its tariff. Unless otherwise stated in this Order, the Commission finds that the proposed changes are reasonable and should be approved.

OTHER ISSUES

Vegetation Management

Kentucky Power requested to change the frequency of certain reporting requirements so that all vegetation management reports are filed at the same time annually. Kentucky Power also requested to continue the one-way balancing mechanism first approved in Case No. 2014-00396 and re-approved in Case No. 2017-00179.[329]

Regarding its request to consolidate annual reporting dates, Kentucky Power is required to file two annual reports: (1) by October 1, Kentucky Power must file its vegetation management plan for the upcoming year; and (2) by April 1, Kentucky Power

[328] The Commission used the number of occurrences provided in Kentucky Power's Response to Staff's Post-Hearing Request, Item 5, Attachment 1 to calculate the reduction in nonrecurring charge revenue. It should be noted that the number of occurrences of the termination or field trip fee, returned check fee, and meter test fee provided by Kentucky Power did not match the number of occurrences if one took the amount of revenue from each charge divided by the current approved rate. However, the difference in the two-dollar amounts would only be $1,674, an amount the Commission deems *de minimis*. In addition, in its Response to Staff's Post-Hearing Request, Item 5, Kentucky Power did not provide the number of reconnections based on reconnect fee type. Therefore, the Commission was unable to determine the number of occurrences that occurred outside of regular business hours. However, as it appears that the vast majority of reconnections were during regular business hours based on dividing the amount of revenue by the number of occurrences, the Commission used the number of occurrences provided by Kentucky Power to calculate the nonrecurring charge revenue reduction.

[329] Case No. 2014-00396, June 22, 2015 Order, Appendix A at 11; Case No. 2017-00179, Jan. 18, 2018 Order at 70.

must file a report describing the work performed and expenditures made in the preceding year.[330] Kentucky Power proposed to combine the two reports into a single report filed by April 1 each year. Kentucky Power asserted that filing one report would promote administrative efficiency. None of the parties opposed Kentucky Power's proposal. The Commission agrees with Kentucky Power that combining the two reports into a single report will promote administrative efficiency by allowing Staff to evaluate the previous year's vegetation management plan, which informs the subsequent year's plan, without unduly impacting the timeliness of the information received by the Commission. For this reason, the Commission finds Kentucky Power's proposal reasonable and therefore Kentucky Power's request to combine the two annual vegetation management reports into a single report filed April 1 each year is granted.

Under the one-way balancing mechanism, any annual shortfall or excess in vegetation management O&M expenses that are over the amount in base rates is added to or subtracted from future expenditures until Kentucky-American's next base rate case is filed.[331] If Kentucky Power overspends, it will not seek recovery of the costs in a future base-rate proceeding. Through December 31, 2019, Kentucky Power overspent the budgeted amount of $112,075,362 by $253,288.[332] The Commission finds that the one-way balancing adjustment should be continued. However, the balancing mechanism should be adjusted with expenditures balanced against the annual projected expenditures

[330] *Id.* at 28.

[331] *Id.* at 29, and Exhibit EGP-1 at 9 of 17.

[332] Direct Testimony of Everett G. Phillips (Phillips Direct Testimony), Exhibit EGP-1 at Table 6.

as set forth in the application, with all expenses recorded against the annual budget until Kentucky Power's next base rate application.

The Commission is concerned that while Kentucky Power is spending more on vegetation management, its reported SAIFI and SAIDI numbers are increasing.[333] While Kentucky Power attributes this to trees located outside Kentucky Power's right-of-way,[334] the Commission cautions Kentucky Power that the Commission will closely analyze the reasonableness of this trend in future rate cases to ensure that the increase in SAIFI and SAIDI is not due to Kentucky Power not sufficiently investing in its system.

Unprotected Excess ADIT for Bill Credit for COVID-19-related Delinquent Accounts

The Commission entered an Order on October 2, 2020, in Case No. 2020-00176[335] denying Kentucky Power's request to apply $10,798,596 of the unprotected excess ADIT balance for a one-time bill credit for customer delinquencies attributed to the adverse economic impact of COVID-19. From testimony in the case record, it appears that Kentucky Power misunderstood that the Commission's determination, believing that the Commission was deferring a decision on the matter to this proceeding.

To the extent clarification is necessary, the Commission denied Kentucky Power's proposal to accelerate the return of unprotected excess ADIT through a one-time bill credit for delinquent customer accounts because it was not supported by substantial

[333] Phillips Direct Testimony, EGP-1, at Tables 4-5.

[334] Phillips Direct Testimony at 21–23.

[335] Case No. 2020-00176, *Electronic Application of Kentucky Power Company to Amend the Settlement Agreement Approved in Case No. 2018-00035 to Provide for the One-Time Amortization of Unprotected Accumulated Deferred Federal Income Tax in an Amount Sufficient to Eliminate Customer Delinquencies Greater Than 30 Days as of May 28, 2020* (Ky. PSC Oct. 2, 2020).

evidence.[336] Kentucky Power's plan to return approximately 67.00 percent of the unprotected excess ADIT balance in Case No. 2020-00176 and this proceeding is inconsistent with Kentucky Power's sworn testimony in a previous case that it would face dire financial consequences if the excess ADIT was amortized less than 18 years.[337] The Commission did not make a finding related to the appropriateness of the accelerated amortization period, finding that this proceeding was the best venue to address the financial impact on credit metrics and cash flow arising from any accelerated amortization period. This Commission believes its use of the unprotected excess ADIT as noted in this Order is more reasonable than those proposed by Kentucky Power in this and related matters.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Kentucky Power are denied.

2. The rates and charges for Kentucky Power, as set forth in Appendix C to this Order, are fair, just and reasonable rates for Kentucky Power, and these rates are approved for service rendered on and after January 14, 2021.

3. Kentucky Power's request for a CPCN for AMI metering system is denied

4. Kentucky Power's request for a Grid Modernization Rider is denied.

5. Kentucky Power's request to revise Tariff PPA as discussed herein is approved until the next rate case.

6. Kentucky Power's Decommissioning Rider shall be calculated as described in this Order.

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[336] *Id.* at 6.

[337] *Id*.

7. The Decommissioning Rider factor shall be included in the tariff and all future annual updates to the Decommissioning Rider factor shall be submitted through the Commission's electronic Tariff Filing System no later than August 15 to become effective with bills issued in Cycle 1 of the October billing cycle.

8. Kentucky Power's request to implement a Flex Pay Program is denied.

9. Kentucky Power's request for a deviation from 807 KAR 5:006, Section 7(1)(a) is denied as moot.

10. Kentucky Power's Tariff SSC shall be modified as described in this Order.

11. The Tariff SSC factor shall be included in the tariff and all future annual updates to the Tariff SSC factor shall be submitted through the Commission's electronic Tariff Filing System no later than August 15 to become effective with bills issued in Cycle 1 of the October billing cycle.

12. Kentucky Power's request to implement Rider D.R.S. is approved.

13. Kentucky Power's request to defer the interruptible credits paid to Rider D.R.S. customers and recover the combined amount of Rider D.R.S. and Tariff C.S. - I.R.P. credits above the test year level of Tariff C.S. - I.R.P. credits in the PPA tariff revenue requirement is approved.

14. Kentucky Power's request to revise its Residential, General, and Large General Service Tariff to include the electric vehicle charging provision is approved.

15. Kentucky Power's request to revise its Outdoor Lighting and Street Lighting Tariff as discussed herein is approved as modified herein.

16. Kentucky Power's request to revise Tariff E.D.R. as discussed herein is approved.

17. Kentucky Power's request to revise Tariff F.A.C. as discussed herein is denied.

18. Kentucky Power's request to revise Tariff C.S.-I.R.P. as discussed herein is approved.

19. Kentucky Power's request to revise the Underground Service section of it tariff as discussed herein is denied.

20. Kentucky Power's request to revise Tariff N.U.G. as discussed herein is denied.

21. Kentucky Power's request to revise Tariff COGEN/SPP I and Tariff COGEN/SPP II is denied and these tariffs shall be modified as described in this Order.

22. Kentucky Power's request to revise the Equal Payment Plan section of its tariff as discussed herein is approved.

23. Kentucky Power's request to allow customers to verbally request a meter test is denied.

24. Kentucky Power's request to revise its Franchise Tariff as discussed herein is denied.

25. Kentucky Power's request to add its delayed payment charge to Tariff T.S. and Tariff M.W. is approved.

26. Kentucky Power's request to revise the Availability of Service section of multiple rate schedules to change the requirements from normal maximum demand to average maximum demand is approved.

27. Kentucky Power shall discontinue charging a delayed payment charge to residential customers.

28. The Commission shall defer a decision regarding Tariff NMS I and II to allow Commission Staff to work with its consultant to ensure that there is sufficient evidence to support the conclusion that Kentucky Power's proposed Tariff NMS II rates are fair, just and reasonable.

29. Within 15 days of the date of entry of this Order, Kentucky Power shall file written notice with the Commission if it intends to place Tariff NMS II into effect as of January 14, 2021. If Kentucky Power places Tariff NMS II into effect, Kentucky Power shall maintain its records in a manner as will enable Kentucky Power, or the Commission or any of Kentucky Power's customers, to determine the amounts to be refunded and to whom due in the event a refund is ordered.

30. Except for the tariffs that have been modified, denied, or deferred herein, Kentucky Power's proposed tariffs are approved as filed.

31. Kentucky Power's vegetation management plan, as set forth in the application, is approved.

32. Kentucky Power's request to file a single vegetation management report annually on April 1 is granted. The report shall include the upcoming year vegetation management plan and the previous year vegetation management progress and expenses.

33. Kentucky Power shall file an annual update of the FRR/RPM election analysis conducted by AEP and its operating companies within 30 days of notifying PJM of the election.

34. Kentucky Power shall file annually the supporting calculations for allocating PJM bills, which are based on a one-coincident peak methodology, AEP's operating companies using a twelve-coincident-peak methodology.

35. Within 15 days of the date of entry of this order, Kentucky Power shall provide written notice to the Commission, by letter from Kentucky Power's President and Chief Operating Officer, Brett Mattison, whether it will voluntarily forego all or a portion of the Capacity Charge for the remainder of the term of the UPA.

36. Kentucky Power shall file all documents filed pursuant to ordering paragraphs 29, 32, 33, 34, and 35 in this proceeding's post-case correspondence file.

37. Within 20 days of the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

38. This case shall remain open pending a final determination regarding Tariffs NMS I and NMS II.

By the Commission

ENTERED

JAN 13 2021

bsb

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Linda C. Bridwell

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00174 DATED JAN 13 2021

Kentucky Power Company
Case No. 2020-00174
Base Revenue Requirement
Summary of Adjustments
For the Test Year Ended March 31, 2020

	Adjustment Amount	Rate Base Change	WACC
Kentucky Power Requested Increase			
Request Based On Original Filing	$ 70,096,743		
Effects on Increase from Rate Base Recommendations			
Utilize Rate Base Instead of Capitalization to Reflect Return on Component for Base Rates	608,162	7,488,735	8.12103%
Reduce Cash Working Capital to '0' in Lieu of Lead/Lag Study	(1,660,444)	(20,446,234)	8.12103%
Remove Prepaid Pension and Prepaid OPEB from Rate Base, Net of ADIT	(5,203,831)	(64,078,478)	8.12103%
Remove Accounts Payable Balances from CWIP in Rate Base	(687,079)	(8,460,497)	8.12103%
Remove Accounts Payable Balances from Prepayments in Rate Base	(6,784)	(83,533)	8.12103%
		Expense Amount	**GRCF**
Effects on Increase from Operating Income Recommendations			
Increase to Revenue Due to Removal of Certain Non-Recurring Charges	2,817,345		
Addition of Pension and OPEB Expense Originally Removed from Cost of Service	3,712,668	3,690,184	1.0060929
Reduction of Savings Plan Contribution Expense	(1,684,045)	1,673,846	1.0060929
Adjustment to Rate Case Expense	(418,069)	(415,537)	1.0060929
Remove Incentive Compensation Expense Tied to Financial Performance	(5,665,765)	(5,631,453)	1.0060929
Remove SERP Expense	(205,475)	(204,230)	1.0060929
Remove Miscellaneous Expense Less EEI Dues for Covered Activities	(545,012)	(541,711)	1.0060929
Remove Kentucky Power's Pro Forma Adjustment to Restate Rockport UPA Operating Ratio	(1,705,844)	(1,695,513)	1.0060929
Correct Allocation of Rockport UPA Deferral to Non-jurisdictional Customers	(211,280)	(210,000)	1.0060929
Remove SSC GreenHat Default Charges from FAC Base Rates	(16,552)	(16,452)	1.0060929
Effects on Increase from Rate of Return Recommendations			
Reduce Long Term Debt Rate to Reflect Refinance of June 2021 Maturity	(1,057,851)		
Reduce Return on Equity from 10.0% to 9.3%	(5,511,493)		
Reduce Return on Equity for Environmental Surcharge to 9.1%	(236,063)		
Total Adjustments to Company's Proposed TY Base RR	(17,677,411)		
Base Rate Increase After Adjustments	$ 52,419,332		

	Amount (in millions)
Rate Base per Kentucky Power's filing	$ 1,399,886,233
Adjustments:	
Remove Asset ADIT for Solar ITC	7,488,735
Reflect Cash Working Capital of Zero In Lieu of 1/8th O&M Methodology	(20,446,234)
Remove Regulatory Asset for Deferred Rate Case Expenses	(64,078,478)
Reflect Changes in Acc.Dep. and ADIT Due to Lower Depreciation Expense	(8,460,497)
Reduce Plant for Additions in Excess of Budgets, including Acc. Dep. and ADIT Offset:	(83,533)
Removal of Battery Storage Project	
Removal of EV Projects	
Net Change in Rate Base	(85,580,007)
Adjusted Rate Base	$ 1,314,306,226

I. Kentucky Power Cost of Capital Per Filing

	Capital Amount	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost
Short Term Debt	-	0.00%	2.23%	0.00%	0.00%
Long Term Debt	752,127,351	53.73%	4.04%	2.17%	2.18%
Accounts Receivable Financing	42,248,832	3.02%	2.80%	0.09%	0.09%
Common Equity	605,509,950	43.25%	10.00%	4.33%	5.85%
Total Capital	1,399,886,133	100.0%		6.58%	8.12%

II. Cost of Capital Adjusted to Reflect Updated Debt Rates

	Capital Amount	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost
Short Term Debt	-	0.00%	1.71%	0.00%	0.00%
Long Term Debt	752,127,351	53.73%	3.89%	2.09%	2.10%
Accounts Receivable Financing	42,248,832	3.02%	2.80%	0.08%	0.08%
Common Equity	605,509,950	43.25%	10.00%	4.33%	5.86%
Total Capital	1,399,886,133	100.0%		6.50%	8.04%
Change in Grossed Up Weighted Avg Cost of Capital					-0.08%
Rate Base Calculated by Commission					1,314,306,226
Revenue Requirement Effect of Adjustment					$ (1,057,851)

II. Cost of Capital Adjusted to Reflect Lower ROE

	Capital Amount	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost
Short Term Debt	-	0.00%	1.71%	0.00%	0.00%
Long Term Debt	752,127,351	53.73%	3.89%	2.09%	2.10%
Accounts Receivable Financing	42,248,832	3.02%	2.80%	0.08%	0.08%
Common Equity	605,509,950	43.25%	9.30%	4.02%	5.44%
Total Capital	1,399,886,133	100.0%		6.19%	7.62%
Change in Grossed Up Weighted Avg Cost of Capital					-0.42%
Rate Base Calculated by Commission					1,314,306,226
Revenue Requirement Effect of Adjustment					$ (5,511,493)

III. Cost of Capital Adjusted to Reflect Lower ROE for Environmental Surcharge

	Capital Amount	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost
Short Term Debt	-	0.00%	1.71%	0.00%	0.00%
Long Term Debt	752,127,351	53.73%	3.89%	2.09%	2.10%
Accounts Receivable Financing	42,248,832	3.02%	2.80%	0.08%	0.08%
Common Equity	605,509,950	43.25%	9.10%	3.94%	5.32%
Total Capital	1,399,886,133	100.0%		6.11%	7.50%
Change in Grossed Up Weighted Avg Cost of Capital					-0.11%
Environmental Surcharge Rate Base Calculated by Commission					218,135,633
Revenue Requirement Effect of Adjustment					$ (236,063)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00174 DATED JAN 13 2021

Total KY Retail Unprotected G&D Excess ADIT	$	(81,011,186)	a								
Applicable GRCF		1.34482	b								
Revenue Credit	$	(108,945,504)	c = a*b								
3 year average	$	(36,315,168)	d								
				2021*			2022*			2023*	
KY Retail G&D Protected ARAM				$	(2,662,693)	$	(2,662,693)	$	(2,662,693)		
					1.34482		1.34482		1.34482		
Protected Revenue Credit			e	$	(3,580,845)	$	(3,580,845)	$	(3,580,845)		
Annual Revenue Credit			f = d+e	$	(39,896,013)	$	(39,896,013)	$	(39,896,013)		

		Current Revenue**	
Residential Class	$	248,770,246	g
All Other	$	279,559,942	h
Total	$	528,330,188	i

*2020 protected excess ADIT
**Staff calculated revenue increase

2019-2020 FERC Form - Exhibit S

Residential Monthly MWh	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total	
Tariff Summary	118,591	126,106	142,691	179,298	177,585	147,972	125,293	166,728	222,360	215,565	200,497	161,688	1,984,374	
											Other		59.7%	m
											Winter		40.3%	n

		Annual Total Rate Credits		
		2021	2022	2023
Residential Class	j = f*(g/i)	$ (18,785,066)	$ (18,785,066)	$ (18,785,066)
All Other	k = f*(h/i)	$ (21,110,947)	$ (21,110,947)	$ (21,110,947)
Total		$ (39,896,013)	$ (39,896,013)	$ (39,896,013)

	Annual kWh***				
Residential Class kWh	1,992,407,328	l			
All Other kWh	3,142,308,667	= k/Annual kWh	(0.006718)	(0.006718)	(0.006718)
Total	5,134,715,995				

			2021 Seasonal Collection	2021 Seasonal Res Rate	
Residential Class kWh - Winter (Dec-Mar)	804,785,553	=l*n	(17,597,444)	$ (0.021866)	= (j-(Apr-Nov kWh *-.001))/Dec-Mar kWh
Residential Class kWh - All Other (Apr-Nov)	1,187,621,775	=l*m	(1,187,622)	$ (0.001000)	
	1,992,407,328		$ (18,785,066)		

		2022 Seasonal Collection	2022 Seasonal Res Rate	
Residential Class kWh - Winter (Dec-Mar)	804,785,553	(17,597,444)	$ (0.021866)	= (j-(Apr-Nov kWh *-.001))/Dec-Mar kWh
Residential Class kWh - All Other (Apr-Nov)	1,187,621,775	(1,187,622)	$ (0.001000)	
	1,992,407,328	$ (18,785,066)		

		2023 Seasonal Collection	2023 Seasonal Res Rate	
Residential Class kWh - Winter (Dec-Mar)	804,785,553	(17,597,444)	$ (0.021866)	= (j-(Apr-Nov kWh *-.001))/Dec-Mar kWh
Residential Class kWh - All Other (Apr-Nov)	1,187,621,775	(1,187,622)	$ (0.001000)	
	1,992,407,328	$ (18,785,066)		

**KPCO_R_KPSC_2_16_attachment2_BA.xlsx

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00174 DATED JAN 13 2021

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

TARIFF R.S.
RESIDENTIAL SERVICE

Service Charge per month	$	17.50
Energy Charge per kWh	$	.11032
Storage Water Heating Provision - Per kWh	$	.08125
Load Management Water Heating Provision - Per kWh	$	.08125
Electric Vehicle Energy Charge		
All kWh used during on-peak billing period	$	.14760
All kWh used during off-peak billing period	$	.08125

TARIFF R.S.-L.M.-T.O.D.
RESIDENTIAL SERVICE LOAD MANAGEMENT TIME-OF-DAY

Service Charge per month	$	21.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.14760
All kWh used during off-peak billing period	$	.08125
Separate Metering Provision Per Month	$	4.30

TARIFF R.S.-T.O.D.
RESIDENTIAL SERVICE TIME-OF-DAY

Service Charge per month	$	21.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.14760
All kWh used during off-peak billing period	$	.08125

TARIFF R.S.-T.O.D. 2
EXPERIMENTAL RESIDENTIAL SERVICE TIME-OF-DAY 2

Service Charge per month	$	21.00
Energy Charge per kWh:		

All kWh used during summer on-peak billing period	$	.19082
All kWh used during winter on-peak billing period	$	.16585
All kWh used during off-peak billing period	$	.09318

TARIFF R.S.D.
RESIDENTIAL DEMAND-METERED ELECTRIC SERVICE

Service Charge per month	$	21.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.12556
All kWh used during off-peak billing period	$	.08125
Demand Charge per kW	$	3.90

TARIFF G.S.
GENERAL SERVICE

Secondary Service:		
Service Charge per month	$	25.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.11146
Over 4,450 kWh per month	$	.10440
Demand Charge per kW greater than 10 kW	$	6.59
Primary Service:		
Service Charge per month	$	100.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.09813
Over 4,450 kWh per month	$	.09232
Demand Charge per kW greater than 10 kW	$	5.99
Subtransmission Service:		
Service Charge per month	$	400.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.08902
Over 4,450 kWh per month	$	.08380
Demand Charge per kW greater than 10 kW	$	4.66

TARIFF G.S.
GENERAL SERVICE
RECREATIONAL LIGHTING SERVICE PROVISION

Service Charge per month	$	25.00
Energy Charge per kWh	$	.11071

TARIFF G.S.
GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	$	25.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.16137
All kWh used during off-peak billing period	$	.08153

TARIFF G.S.
GENERAL SERVICE
OPTIONAL UNMETERED SERVICE PROVISION

Service Charge per month	$	15.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.11146
Over 4,450 kWh per month	$	.10440

TARIFF S.G.S.-T.O.D.
SMALL GENERAL SERVICE TIME-OF-DAY

Service Charge per month	$	25.00
Energy Charge per kWh:		
All kWh used during summer on-peak billing period	$	.21080
All kWh used during winter on-peak billing period	$	.18406
All kWh used during off-peak billing period	$	.11513

TARIFF M.G.S.-T.O.D.
MEDIUM GENERAL SERVICE TIME-OF-DAY

Service Charge per month	$	25.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.16137
All kWh used during off-peak billing period	$	.08153

TARIFF L.G.S.
LARGE GENERAL SERVICE

Secondary Service Voltage:		
Service Charge per month	$	85.00
Energy Charge per kWh	$	.08665
Demand Charge per kW	$	8.77
Primary Service Voltage:		
Service Charge per month	$	127.50
Energy Charge per kWh	$	.07588
Demand Charge per kW	$	7.90

Sub-transmission Service Voltage:

Service Charge per month	$ 660.00
Energy Charge per kWh	$ .05540
Demand Charge per kW	$ 6.61

Transmission Service Voltage:

Service Charge per month	$ 660.00
Energy Charge per kWh	$ .05321
Demand Charge per kW	$ 6.16

All Service Voltages:

Excess Reactive Charge per KVA	$ 3.46

TARIFF L.G.S.
LARGE GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	$ 85.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	$ .14657
All kWh used during off-peak billing period	$ .08125

TARIFF L.G.S. – T.O.D.
LARGE GENERAL SERVICE TIME-OF-DAY

Secondary Service Voltage:

Service Charge per month	$ 85.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .10515
Off-Peak Energy Charge per kWh	$ .05598
Demand Charge per kW	$ 10.92

Primary Service Voltage:

Service Charge per month	$ 127.50
Energy Charge:	
On-Peak Energy Charge per kWh	$ .10363
Off-Peak Energy Charge per kWh	$ .05556
Demand Charge per kW	$ 8.17

Sub-transmission Service Voltage:

Service Charge per month	$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .10286
Off-Peak Energy Charge per kWh	$ .05530
Demand Charge per kW	$ 1.77

Transmission Service Voltage:

Service Charge per month	$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .10200
Off-Peak Energy Charge per kWh	$ .05505
Demand Charge per kW	$ 1.75

All Service Voltages:

Excess Reactive Charge per KVA	$ 3.46

TARIFF I.G.S.
INDUSTRIAL GENERAL SERVICE

Secondary Service Voltage:

Service Charge per month	$ 276.00
Energy Charge per kWh	$ .02937
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 25.86
Of Monthly Off-Peak Billing Demand	$ 1.80

Primary Service Voltage:

Service Charge per month	$ 276.00
Energy Charge per kWh	$ .02899
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 22.94
Of Monthly Off-Peak Billing Demand	$ 1.78

Sub-transmission Service Voltage:

Service Charge per month	$ 794.00
Energy Charge per kWh	$ .02874
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 16.31
Of Monthly Off-Peak Billing Demand	$ 1.76

Transmission Service Voltage:

Service Charge per month	$1,353.00
Energy Charge per kWh	$ .02851
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 16.06
Of Monthly Off-Peak Billing Demand	$ 1.75

All Service Voltages:
Reactive demand charge for each kilovar of maximum leading or lagging reactive demand in excess of 50 percent of the kW of monthly metered demand is $.69 per KVAR.

Minimum Demand Charge
The minimum demand charge shall be equal to the minimum billing demand times the following minimum demand rates per kW:

Secondary	$	28.76
Primary	$	25.80
Subtransmission	$	19.16
Transmission	$	18.87

TARIFF M.W.
MUNICIPAL WATERWORKS

Service Charge per month	$	25.00
Energy Charge - All kWh per kWh	$	.10035

Subject to a minimum monthly charge equal to the sum of the service charge plus $9.78 per kW as determined from customer's total connected load.

TARIFF O.L.
OUTDOOR LIGHTING

OVERHEAD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	$	9.05
150 Watts (16,000 Lumens)	$	10.35
200 Watts (22,000 Lumens)	$	12.45
250 Watts (28,000 Lumens)	$	17.85
400 Watts (50,000 Lumens)	$	19.75
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	$	11.55
400 Watts (20,000 Lumens)	$	19.85
LED:		
55 Watts (5,400 Lumens)	$	6.62
100 Watts (10,500 Lumens)	$	9.20
175 Watts (18,430 Lumens)	$	11.62
300 Watts (30,230 Lumens)	$	17.94

POST-TOP LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	$	16.40
150 Watts (16,000 Lumens)	$	25.80
100 Watts Shoe Box (9,500 Lumens)	$	30.00
250 Watts Shoe Box (28,000 Lumens)	$	30.05
400 Watts Shoe Box (50,000 Lumens)	$	39.45
Mercury Vapor per Lamp:		

175 Watts (7,000 Lumens)	$	13.25
LED:		
65 Watts Post Top (7,230 Lumens)	$	19.05

FLOOD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
200 Watts (22,000 Lumens)	$	14.30
400 Watts (50,000 Lumens)	$	21.00
Metal Halide		
250 Watts (20,500 Lumens)	$	17.45
400 Watts (36,000 Lumens)	$	22.00
1,000 Watts (110,000 Lumens)	$	40.00
250 Watts Mongoose (19,000 Lumens)	$	22.75
400 Watts Mongoose (40,000 Lumens)	$	27.75
LED:		
175 Watt Flood	$	24.75
265 Watt Flood	$	30.40

Per Month:		
Wood Pole	$	3.60
Overhead Wire Span not over 150 Feet	$	2.00
Underground Wire Lateral not over 50 Feet	$	6.75

Per Lamp plus $0.02851 x kWh in Sheet No. 14-5 in Company's tariff

LED Conversion Charge for 84 months: $3.33/month

Flexible Lighting		
Monthly Levelized Fixed Cost Rate	1.36%	
Monthly Maintenance charge	$	.80
Monthly non-fuel charge per kWh	$	.05517
Monthly Base Fuel Charge per kWh	$	.02851

TARIFF S.L.
STREET LIGHTING

Rate per Lamp:		
Overhead Service on Existing Distribution Poles		
High Pressure Sodium		
100 Watts (9,500 Lumens)	$	7.60
150 Watts (16,000 Lumens)	$	8.35
200 Watts (22,000 Lumens)	$	9.90
400 Watts (50,000 Lumens)	$	13.00

LED	
55 Watt (5,400 Lumens)	$ 8.71
100 Watt (10,500 Lumens)	$ 11.19
175 Watt (18,430 Lumens)	$ 13.34
65 Watt Post Top (7,230 Lumens)	$ 9.05
90 Watt Dec Post Top (7,038 Lumens)	$ 20.07
175 Watt Flood (21,962 Lumens)	$ 14.69
Service on New Wood Distribution Poles	
High Pressure Sodium	
100 Watts (9,500 Lumens)	$ 11.90
150 Watts (16,000 Lumens)	$ 12.75
200 Watts (22,000 Lumens)	$ 14.30
400 Watts (50,000 Lumens)	$ 18.35
LED	
55 Watt (5,400 Lumens)	$ 14.36
100 Watt (10,500 Lumens)	$ 16.85
175 Watt (18,430 Lumens)	$ 19.00
65 Watt Post Top (7,230 Lumens)	$ 14.70
90 Watt Post Top (7,038 Lumens)	$ 25.73
175 Watt Flood (21,962 Lumens)	$ 20.35
Service on New Metal or Concrete Poles	
High Pressure Sodium	
100 Watts (9,500 Lumens)	$ 24.80
150 Watts (16,000 Lumens)	$ 25.70
200 Watts (22,000 Lumens)	$ 27.25
400 Watts (50,000 Lumens)	$ 30.35
LED	
55 Watt (5,400 Lumens)	$ 25.10
100 Watt (10,500 Lumens)	$ 26.78
175 Watt (18,430 Lumens)	$ 28.11
65 Watt Post Top (7,230 Lumens)	$ 25.85
90 Watt Post Top (7,038 Lumens)	$ 36.74
175 Watt Flood (21,962 Lumens)	$ 29.42

Per Lamp plus $0.02851 x kWh in Sheet No. 14-5 in Company’s tariff

LED Conversion Charge for 84 months:	$2.18/month
Flexible Lighting	
Monthly Levelized Fixed Cost Rate	0.97%
Monthly Maintenance charge	$ 2.52
Monthly non-fuel charge per kWh	$ .04391
Monthly Base Fuel Charge per kWh	$ .02851

TARIFF COGEN/SPP I
COGNERATION AND/OR SMALL POWER PRODUCTION
100 KW OR LESS

Monthly Metering Charges:	
Single Phase:	
Standard Measurement	$ 9.25
Time-of-Day Measurement	$ 9.85
Polyphase:	
Standard Measurement	$ 12.10
Time-of-Day Measurement	$ 12.40
Energy Credit per kWh:	variable LMP at time of delivery
Capacity Credit per kW per month:	Area 3 Combustion Turbine Cone
2020/2021	$ 6.74
2021/2022	$ 8.09
2022/2023	$ 7.89

TARIFF COGEN/SPP II
COGNERATION AND/OR SMALL POWER PRODUCTION
OVER 100 KW

Metering Charges:	
Single Phase:	
Standard Measurement	$ 9.25
Time-of-Day Measurement	$ 9.85
Polyphase:	
Standard Measurement	$ 12.10
Time-of-Day Measurement	$ 12.40
Energy Credit per kWh:	variable LMP at time of delivery
Capacity Credit per kW per month:	Area 3 Combustion Turbine Cone
2020/2021	$ 6.74
2021/2022	$ 8.09
2022/2023	$ 7.89

RIDER A.F.S.
ALTERNATE FEED SERVICE RIDER

Monthly Rate for Annual Test of Transfer Switch/Control Module	$ 15.75
Monthly Capacity Reservation Demand Charge per kW	$ 6.38

RIDER D.R.S.
DEMAND RESPONSE SERVICES

Monthly Interruptible Demand Credit per kW	$	5.50

TARIFF F.T.C.
FEDERAL TAX CUT

January–March and December per kWh		
Residential	$	.02187
Nonresidential	$	.00672
April – November per kWh		
Residential	$	.00010
Nonresidential	$	.00672

NONRECURRING CHARGES

Late or Delayed Payment Charge		
Residential		0.00%
Nonresidential		5.00%
Reconnect (nonpayment during regular hours)	$	4.70
Termination or field trip	$	4.70
Returned Check Charge	$	14.65

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00174 DATED JAN 13 2021

MONTHLY BASE PERIOD REVENUE REQUIREMENT

Billing Month	Base Period Cost
January	$3,493,276
February	$3,951,504
March	$3,685,712
April	$4,642,912
May	$4,466,812
June	$3,887,300
July	$4,122,547
August	$3,923,098
September	$3,678,077
October	$3,765,621
November	$3,806,802
December	$3,804,411
	$47,228,073

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) APPROVAL OF TARIFFS AND RIDERS; (3) APPROVAL OF ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; (4) APPROVAL OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	))))))))))	CASE NO. 2020-00174

O R D E R

On February 2, 2021, Kentucky Power Company (Kentucky Power) filed a motion for rehearing, pursuant to KRS 278.400, requesting rehearing of the Commission's January 13, 2021 Order that, among other things, approved a $52,419,332 increase in base rates, which was less than the $70,096,743 increase requested by Kentucky Power.

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) and Kentucky Industrial Utility Customers, Inc. (KIUC) (jointly, Attorney General/KIUC); Kentucky Solar Industries Association, Inc. (KYSEIA); Walmart, Inc. (Walmart); and Mountain Association, Kentucky Solar Energy Society, and Kentuckians for the Commonwealth (collectively, Joint Intervenors) filed their respective responses to Kentucky Power's motion for rehearing. Kentucky Power filed a reply to each response. No other parties filed a response to Kentucky Power's motion for rehearing.

KENTUCKY POWER'S MOTION FOR REHEARING

Adjustment to Cash Working Capital (CWC)

In the January 13, 2021 Order, after finding rate base rather than capitalization should be used for determining Kentucky Power's revenue requirement in this proceeding, the Commission reduced CWC to $0, in part because of the absence of a lead-lag study, which resulted in a $1,660,444 reduction to Kentucky Power's revenue requirement. In its request for rehearing, Kentucky Power asserts that the adjustment is unlawful and unreasonable and that the Commission made an erroneous finding of fact.

Kentucky Power asserts that the Commission's decision is unlawful because it violated Kentucky Power's due process rights and was arbitrary. Kentucky Power argues that it did not have prior notice that the Commission would require Kentucky Power to use rate base methodology rather than capitalization, which is the methodology that Kentucky Power used for determining its revenue requirement. Kentucky Power further argues that it did not have prior notice that the Commission would require Kentucky Power to conduct a lead-lag study, which Kentucky Power argues was imposed after the fact and is not a methodology required by the Commission for calculating CWC.

Kentucky Power also claims that its due process was violated because the Commission did not provide prior notice that the Commission would deviate from precedent that accepted Kentucky Power's use of capitalization, and failed to provide a reasoned analysis for the deviation from precedent.

Kentucky Power asserts that the Order is unreasonable because, according to Kentucky Power, the Commission reduced CWC to $0 without removing accounts receivable financing from Kentucky Power's capital structure, and thus double counted accounts receivable financing. Kentucky Power contends that the double counting of accounts receivable adversely impacted Kentucky Power's weighted average cost of capital (WACC) by an estimated 12 basis points.

Finally, Kentucky Power argues that the Commission made an erroneous finding that Kentucky Power was unwilling or refused to perform a lead-lag study, which is not based on the evidentiary record. Kentucky Power states that the Commission did not require Kentucky Power to file a lead-lag study prior to filing this rate case. Kentucky Power further states that it could not have timely conducted and filed a lead-lag study during the processing of this case because the issue was not raised until September 2020 and, given the amount of time necessary to conduct the study, it could not be filed until after post-hearing briefs were due.

Kentucky Power requests that the Commission grant rehearing to restore CWC to rate base which would increase the revenue requirement by $1,660,444, or, in the alternative, remove accounts receivable financing from the capital structure, which would increase the revenue requirement by $2,133,481.

Adjustment to Operating Income: Rate Case Expense

In the January 13, 2021 Order, the Commission disallowed $51,117 in rate case expense for witness coaching provided by Communication Counsel of America (CCA). Kentucky Power asserts that the Commission's determination was unreasonable because the Commission failed to provide a reasoned analysis for its change of position from a decision in Case No. 2017-00179[1] that found a rate case expense for witness coaching by CCA was reasonable.

Kentucky Power argues that the Commission erred in finding that the expense was likely duplicative because the finding was not supported by evidence of record, and because the witness coaching was conducted without outside counsel's involvement or presence.

Kentucky Power requests that the Commission grant rehearing, and either find that the $51,117 in rate case expense was reasonable and should be allowed, or provide Kentucky Power with the opportunity to present evidence on the reasonableness of the CCA rate case expense.

Adjustment of Operating Income: Incentive Compensation Expense

In the January 13, 2021 Order, the Commission adjusted Kentucky Power's incentive compensation expense in the amount of $5,665,765 to remove expenses based on financial objectives in funding and performance metrics. Kentucky Power asserts that the adjustment is unreasonable because the Commission failed to provide a reasoned analysis for disallowing certain incentive compensation expenses that were allowed as reasonable in past rate cases. Kentucky Power cites two past cases[2] in which the

[1] Case No. 2017-00179, *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* (Ky. PSC Jan. 18, 2018), Order (Jan. 18, 2018 Order) at 20–21.

[2] Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019), Order at 43–44; and Case No. 2014-00396, *Application of Kentucky Power Company for: (1) a General Adjustment of Its Rates for Electric Service; (2) an Order Approving Its 2014 Environmental Compliance Plan; (3) an Order Approving Its Tariffs and Riders; and (4) an Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015), Order at 25–26.

Commission rejected arguments to disallow incentive compensation expenses based on financial objectives in the funding metrics. Additionally, Kentucky Power distinguishes the facts of this case from Case No. 2019-00271,[3] in which the Commission disallowed incentive compensation expenses based upon financial objectives in the funding metrics, arguing that Kentucky Power provided evidence of direct benefits to customers, while the Commission found in Case No. 2019-00271 that the utility did not provide such evidence.

Kentucky Power requests the Commission grant rehearing and amend the Order to allow recovery of $5,665,765 in incentive compensation expense.

Adjustment of Operating Income: Savings Plan Expense

In the January 13, 2021 Order, the Commission reduced jurisdictional 401(k) savings plan expense by $1,684,045 to removed duplicative benefits between the 401(k) savings plan and cash balance formula plan. Kentucky Power asserts that the Commission erred in finding the savings plan expense was not supported by substantial evidence because the record contains sufficient evidence to support that the expense is reasonable. Kentucky Power further asserts that it carried its burden of proof because no evidence was presented to refute the reasonableness of the expense.

Kentucky Power argues that the totality of the savings plan expense was deemed reasonable in Case No. 2017-00179,[4] and that the Commission failed to provide reasoned analysis for decision that is inconsistent with that precedent.

[3] 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. for 1) an Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief* (Ky. PSC May 23, 2018), Order at 5–6.

[4] Case No. 2017-00179, Jan. 18, 2018 Order at 15.

Kentucky Power requests rehearing to amend the January 13, 2021 Order to allow recovery of $1,684,045 in savings plan expense.

Adjustment of Operating Expense: Rockport Unit Power Agreement (UPA) Expenses

In the January 13, 2021 Order, the Commission disallowed Kentucky Power's proposed adjustment to increase test-year purchased power expense to reflect an increase in the operating ratio including in the Rockport UPA cost calculation. Kentucky Power asserts the case record contains insufficient evidence to support the Commission's adjustment. Kentucky Power further asserts that the adjustment is unlawful because it denies Kentucky Power the ability to recover Federal Energy Regulatory Commission (FERC) approved costs, thus federal law controls Kentucky Power's right to recover these expenses.

Kentucky Power requests rehearing to allow $935,553 for Rockport UPA Operating Ratio base rates expense and $770,311 for Rockport UPA Operating Ratio Environmental Surcharge basing point expense.

Adjustment of Operating Income: Miscellaneous Expense

In the January 13, 2021 Order, the Commission adjusted Kentucky Power's miscellaneous expense in the amount of $545,012 to disallow expenses that were not supported by sufficient evidence. Kentucky Power argues that the Commission erred in stating that Kentucky Power was unable or unwilling to demonstrate that recovery of miscellaneous expenses was reasonable, asserting that Kentucky Power not only complied with the Commission's requests for additional details regarding the expenses, but provided the exact information the Commission requested.

Kentucky Power requests rehearing to either find the $545,012 for miscellaneous expense is reasonable or to allow Kentucky Power to submit further evidence showing the reasonableness of the expense.

Tariff Environmental Surcharge (ES) Return on Equity (ROE)

In the January 13, 2021 Order, the Commission found that Kentucky Power should use an ROE of 9.10 percent for all Tariff ES filings "after the date of this Order."[5] Kentucky Power asserts that the finding is unlawful and violates KRS 278.160(2) due to timing of recovery of costs. Kentucky Power explains that the January 13, 2021 Order requires Kentucky Power to use 9.10 percent ROE for its January 2021 Tariff ES filing for service rendered through December 2020 because it is filed "after the date of this Order."

Kentucky Power maintains that the Commission also erred in including Mitchell Non-FGD in Tariff ES rate base. Kentucky Power asserts that Mitchell Non-FGD is a base rate item, and is not included in Tariff ES rate base, and thus the 9.10 percent ROE is not applicable to Mitchell Non-FGD base rate.

Kentucky Power requests rehearing to clarify that the 9.10 percent ROE applies for service rendered on or after January 14, 2021 and to authorize recovery of under-recovery for January 2021 ES filing. Kentucky Power further requests that the January 13, 2021 Order be amended to allow recovery of $236,063 to reflect a 9.3 percent ROE for Mitchell Non-FGD rate base.

Adjustment to Long-Term Debt Interest Rate

In the January 13, 2021 Order, the Commission made an adjustment of $1,057,851 to reflect an imputed interest rate for long-term debt of 3.54 percent. Kentucky Power

[5] January 13, 2021 Order at 27.

asserts that the adjustment was unreasonable, arguing that the case record contains insufficient evidence to support the Commission's adjustment.

Kentucky Power further asserts that the adjustment is unlawful. Kentucky Power claims that the imputed rate is unknown and unmeasurable, and therefore a violation of ratemaking principles that adjustments must be based upon known and measurable data points. Kentucky Power contends that the Commission's decision is based on a single case that applies to a narrow federal tax issue, and is not applicable to facts of this proceeding.

Kentucky Power also asserts that the adjustment is arbitrary because the Commission ignored the adverse impact on Kentucky Power's credit metrics, arguing that Kentucky Power will incur expenses that it is not authorized to collect in rates between January 14, 2021, and June 18, 2021, when debt matures and will be reissued

Kentucky Power requests rehearing to allow recovery of $1,057,851 in its revenue requirement to reflect Kentucky Power's actual cost of debt or, in the alternative, to amortize deferred interest expense through Tariff PPA beginning in July 2021, and to authorize a carrying charge on the deferral based on the WACC.

Zero-Intercept Study

In the January 13, 2021 Order, the Commission required Kentucky Power to perform a zero-intercept study as part of the cost of service study in its next base rate case. Kentucky Power contends that it does not have detailed information at the level of granularity required to perform a zero-intercept study. Kentucky Power requests rehearing to amend the January 13, 2021 Order to either remove the requirement to perform a zero-intercept study, or to allow Kentucky Power to conduct a zero-intercept study based upon level of detail of information that Kentucky Power maintains in its records.

Advanced Metering Infrastructure (AMI) system and Grid Modernization Rider (GMR)

In the January 13, 2021, the Commission denied, without prejudice, Kentucky Power's request for a Certificate of Public Convenience and Necessity (CPCN) to purchase and install an AMI system, and denied Kentucky Power's request to establish a GMR to recover costs for the AMI system and other costs related to grid modernization projects. Kentucky Power asserts that it carried its burden by providing sufficient evidence that its current meter system is obsolete, and therefore the Commission erred in finding that the evidence was insufficient. Kentucky Power contends that the Commission should authorize a placeholder GMR for the limited purpose of recovering future AMI deployment costs, based upon the sufficient evidence in the record.

Kentucky Power requests rehearing to amend the January 13, 2021 Order to find that Kentucky Power met its burden and therefore grant Kentucky Power's request for a CPCN to purchase and install an AMI system, and authorize a GMR for recovering future AMI deployment costs.

Additionally, Kentucky Power explains that it cannot implement the residential electric vehicle (EV) charging tariff (Tariff EV) until an AMI system is deployed because electric codes require use of meters with Underwriters Laboratories (UL) listing for Tariff EV, and that AMI meters are the only known meter to meet the requirement. Kentucky Power requests that the January 13, 2021 Order be amended to clarify that Tariff EV is conditionally approved to be implemented upon the approval of a CPCN for AMI meters.

Rockport Deferral Mechanism Regulatory Asset

In the January 13, 2021 Order, the Commission deferred a decision on Kentucky Power's request for a five-year amortization period for the Rockport deferral mechanism regulatory asset and the use of savings from the expiration of the Rockport UPA to earn a Commission-approved ROE to a future proceeding to be initiated by the Commission. Kentucky Power argues that a review of Kentucky Power's use of potential savings from the termination of the Rockport UPA is unlawful because depriving Kentucky Power of the right to use savings is arbitrary and constitutes a taking under the Fifth and Fourteenth Amendments of the United States constitution and Section 2 of the Kentucky constitution. Kentucky Power also argues that the case record contains insufficient evidence to support the Commission's finding that a review of the potential Rockport savings is warranted.

Kentucky Power requests rehearing to provide a date certain that the Commission-initiated proceeding will be established, asserting that the proceeding should be scheduled as soon as possible because the certainty of the regulatory asset amortization period is critical to Kentucky Power's ability to maintain its credit metrics. Kentucky Power further requests that the Commission delete any reference to a review of Kentucky Power's ability to use savings from Rockport UPA to earn Commission-approved ROE because Kentucky Power's right to use Rockport savings was not modified in the settlement agreement or final Order in Case No. 2017-00179.

Recovery of Tariff COGEN/SPP Purchased Power Expense

Kentucky Power states that the January 13, 2021 Order did not address Kentucky Power's request to recover Tariff COGEN/SPP purchased power expense through Tariff PPA. Kentucky Power notes that none of the parties opposed the proposal.

Tariff NMS II

In the January 13, 2021 Order, the Commission found that Kentucky Power's evidence in support of net metering rates was not persuasive but, given that this was the first net metering rate proceeding since the net metering rate statutes were amended, the decision regarding the rates should be deferred to allow for a more robust record, with Commission Staff working with the Commission's net metering rate consultant. Kentucky Power argues that the Commission erred in finding that the case record does not contain sufficient evidence to approve Kentucky Power's proposed net metering rates.

Kentucky Power requests rehearing to amend the Order to find that Kentucky Power met its evidentiary burden regarding the proposed rates in Tariff NMS II, which should be approved, or, in the alternative, the Commission should indicate the nature of evidence sought by the Commission.

INTERVENORS' ARGUMENTS

KYSEIA's Response

KYSEIA addresses the proposed Tariff NMS II only, requesting that rehearing be denied. KYSEIA declares that despite Kentucky Power's "inordinately high opinion of its own evidence,"[6] the Commission clearly indicated that Kentucky Power failed to carry its burden of proof. KYSEIA explains that the Commission could have denied the proposed Tariff NMS II, but instead opted to conduct additional proceedings within the statutory period for issuing a decision established in KRS 278.190(3). Regarding Kentucky Power's request for direction on what additional information it must file, KYSEIA states that Kentucky Power ignores that Kentucky Power has the burden of proof to provide

[6] KYSEIA Response (filed Feb. 5, 2021) at 2.

sufficient evidence to support its application, and that the Commission does not have a burden of managing Kentucky Power's application by telling Kentucky Power what evidence Kentucky Power must file to meet its burden of proof.

Attorney General/KIUC's Response

The Attorney General/KIUC request that rehearing be denied, asserting that the findings in the January 13, 2021 Order regarding CWC, the operating income adjustments, Tariff ES ROE, long-term debt interest rate, scope of the Rockport regulatory asset review, AMI, GMR, and Tariff NMS II were based on substantial evidence, were reasonable, and fully complied with applicable law. The Attorney General/KIUC reiterate that they support Kentucky Power's proposed Tariff NMS II, and that rehearing is unnecessary because a formal hearing has been scheduled to take further evidence.

Walmart's Response

Walmart addresses the GMR issue only, requesting that rehearing be denied. Walmart asserts that Kentucky Power did not allege any Commission error that would justify rehearing, but, instead, raises the issue to limit GMR to recover only AMI costs for the first time in its motion for rehearing. Walmart asserts that Kentucky Power could have raised this issue prior to rehearing because other parties, including Walmart, raised the issue of limiting GMR approval to AMI cost recovery only, Kentucky Power continued to argue that the GMR should cover AMI and other future grid modernization project costs.

Joint Intervenors' Response

Joint Intervenors address the proposed Tariff NMS II only, requesting that rehearing be denied. Joint Intervenors argue that Kentucky Power failed to carry its burden of proof because Kentucky Power failed to provide sufficient evidence to find that the avoided cost represented a fair compensatory credit. Joint Intervenors assert that a fair, just and reasonable rate must consider costs and benefits, and Kentucky Power failed to provide any analysis that netted out the costs and benefits of net-metered systems, and failed to present an analysis of the cost of serving net-metered customers or the impact on non-participating customers. Joint Intervenors claim that KRS 278.466(5) requires Kentucky Power to conduct a cost of service study because Tariff NMS II is unique to a subset of residential and commercial customers, and thus Kentucky Power must demonstrate that the proposed rate is fair, just and reasonable to that subset of customers.

KENTUCKY POWER'S REPLY IN SUPPORT OF THE MOTION FOR REHEARING

On February 15, 2020, Kentucky Power filed its reply to the Intervenors' respective responses to Kentucky Power's motion for rehearing. Kentucky Power asserts that the Attorney General/KIUC impermissibly requests the opportunity to litigate additional reductions that might offset revenue requirement increases for adjustments that the Commission grants rehearing. Kentucky Power argues that KRS 278.400 limits the Attorney General/KIUC to file for rehearing of the Commission's decisions within the 20 days established in that statute. Kentucky Power also asserts that the Attorney General/KIUC's arguments regarding CWC and operating income adjustments are not supported by the case record. Kentucky Power contends that the Attorney General/KIUC's arguments regarding the ROE for Tariff ES are based upon a misunderstanding of the operation of Tariff ES and KRS 278.160(2). Finally, Kentucky

Power claims that the Attorney General/KIUC's arguments regarding the Commission's ability to impute an interest rate for long-term debt is contrary to law.

Kentucky Power asserts that the arguments raised by Walmart and the Attorney General/KIUC regarding Kentucky Power's proposed GMR are contradicted by the record.

Kentucky Power acknowledges that Attorney General/KIUC supports Kentucky Power's request for a date certain that the Commission will initiate a proceeding to review the amortization period of the Rockport regulatory asset. However, Kentucky Power rejects the Attorney General/KIUC's argument that amending the January 13, 2021 Order to find that the Commission unambiguously approved the 2023 savings offset in Case No. 2017-00179 will unduly restrict the Commission future review of the appropriate amortization period for the Rockport regulatory asset.

Kentucky Power argues that the Joint Intervenors offer no new arguments in their response, but instead reiterate Joint Intervenors' improper reading of statutory requirements for establishing net metering rates. Kentucky Power further argues that, if the Commission denies rehearing on the issue of Tariff NMS II, that the Commission must clarify what evidence the parties should file, and that all parties would benefit from knowing what evidence the Commission wants the parties to present.

Kentucky Power did not address KYSEIA's response to Kentucky Power's motion.

DISCUSSION AND FINDINGS

In response to Kentucky Power's motion for rehearing, and in consideration of the responses to the motion, the Commission makes the following findings discussed in the paragraphs below. A summary of the revenue requirement impact of the Commission's findings is attached to this Order as Appendix B, and the rates approved as a result of the revenue requirement impact are set forth in Appendix C to this Order.

Adjustment to CWC

Based upon the motion, and being otherwise sufficiently advised, the Commission finds that rehearing should be denied on all issues raised by Kentucky Power regarding the adjustment to CWC. As discussed in the January 13, 2021 Order, under Kentucky law, the Commission weighs the evidence and determines the appropriate valuation for ratemaking purposes. After weighing multiple factors and the substantial evidence of record, the Commission determined that rate base would provide a more precise and accurate method to calculate Kentucky Power's revenue requirement under the facts of this case because capitalization measured capital allocations "in excess of that needed to finance Kentucky Power's direct investment rate base."[7]

After finding that rate base was the appropriate methodology, the Commission also had to determine the appropriate amount of CWC to include in rate base for ratemaking purposes, which by necessity includes the appropriate method for determining the amount of CWC to include in rate base for ratemaking purposes.[8] The parties fully

[7] January 13, 2021 Order at 5.

[8] CWC recognizes that cash supplied by shareholders, on behalf of the utility's customers, is needed to finance operating costs incurred during the time lag before revenues are collected, and that shareholders should be compensated for their investment. The Commission has long stated that the most accurate way to determine the amount of CWC component of rate base is a lead-lag study. The one-eighth formula, a less-accurate option for measuring CWC, is predicated on a certain number of days for which lag days for receivables are greater than lead days for payables, and thus shareholders finance operating costs on behalf of customers. However, if the lag days for receivables are lower than lead days for payables, or if a utility sells its receivables to a third party, resulting in lag days lower than lead days, then shareholders do not finance CWC, and therefore should not receive compensation for capital that shareholders do not invest. *See* Case No. 91-217, *Adjustment of Rates of the Salem Telephone Company, Inc.* (Ky. PSC Feb. 28, 1992), Order at 3; Case No. 2017-00349, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018), Order at 16-17; and Case No. 2017-00321, (Ky. PSC Apr. 13, 2018) Order.

litigated the issue whether CWC should be adjusted to zero, adjustments regarding accounts receivable, and the need for a lead-lag study to accurately determine the amount of CWC to include in rate base through data requests, direct and rebuttal testimony, hearing testimony, and post-hearing briefs.[9] As the Commission stated in the January 13, 2021 Order, there is evidence in the record that CWC could have been a negative amount, rather than zero. Since the actual amount of CWC cannot be definitively determined absent a lead-lag study, the Commission weighed the alternatives between an adjustment that reflects a negative amount and an adjustment to $0, and decided that an adjustment to reflect $0 CWC was fair, just and reasonable, based upon the evidence of record.

Regarding the treatment of accounts receivable, the Commission is not persuaded by the evidence presented by Kentucky Power in response to the Attorney General/KIUC's witness's proposals.[10] To the extent that further clarification is required, the Commission weighed the evidence of record and determined that an adjustment to remove accounts receivable from the capital structure was not supported by the evidence in the record.[11]

[9] *See* Kentucky Power's Response to Attorney General/KIUC's Second Request for Information (Attorney General/KIUC's Second Request) (filed Sept. 30, 2020), Items 1–9; Direct Testimony of Lane Kollen (filed Oct. 7 2020) at 10, 13–17; Rebuttal Testimony of Alex E. Vaughan (Vaughan Rebuttal Testimony) (filed Nov. 9, 2020) at R5-R7; Hearing Transcript Vol. IV at 1529-1530; Kentucky Power's Post-Hearing Brief (filed Dec. 8, 2020) at 86–88; Attorney General/KIUC's Post-Hearing Brief (filed Dec. 14, 2020) at 7–12; Kentucky Power's Post-Hearing Reply Brief (filed Dec. 17, 2020) at 24–25.

[10] Vaughan Rebuttal Testimony at R5; Kentucky Power Post-Hearing Brief at 87; Hearing Transcript, Vol. V at 1397.

[11] *See* Vaughan Rebuttal Testimony at R7.

Finally, the Commission's finding that Kentucky Power was unwilling to conduct a lead-lag study unless expressly ordered by the Commission is supported by substantial evidence in the record.[12]

Because the issue was fully litigated and there is substantial evidence in the case record that supports the Commission findings, Kentucky Power's request for rehearing should be denied as an attempt to relitigate the issue. As Kentucky Power stated in a previous matter, "[r]ehearing is not a vehicle for a party to reargue or relitigate an issue fully addressed by the parties in the proceedings leading to the original order."[13]

Adjustment to Operating Income: Rate Case Expense

The Commission finds that rehearing should be denied for the adjustment to disallow certain witness training expenses. Kentucky Power avers that the adjustment is unreasonable because Kentucky Power provided substantial evidence to support the expense and because the disallowance is a departure from past treatment of the same expense. It is well settled that a Commission decision is unreasonable only when the evidence presented leaves no room for difference of opinion.[14] A utility may recover reasonable rate case expenses, such as legal fees, expert witness fees, and the cost to prepare a cost of service study.[15] However, recovery of rate case expenses is not

[12] Kentucky Power Response to Attorney General/KIUC Second Request, Items 1-9; Vaughan Rebuttal Testimony at R5-R6; Hearing Transcript, Vol. VI at 1529-1530; Kentucky Power Post-Hearing Brief at 86-87; Kentucky Power Post-Hearing Reply Brief at 24-25.

[13] Case No. 2017-00179, *Kentucky Power Company* (filed Feb. 7, 2018), Motion for Partial Rehearing at 2.

[14] *Energy Regulatory Commission v. Kentucky Power Co.*, 605 S.W.2d 46, 50 (Ky. App. 1980).

[15] *See Driscoll v. Edison Light & Power Co.*, 307 U.S. 104, 120 (1939).

guaranteed; there must be sufficient evidence that supports a finding that the expense is just and reasonable. Here, the evidence of record consisted of an invoice for "witness development skills" and video recording services.[16] The Commission had no duty to refute evidence submitted to it by Kentucky Power who had the burden of proof.[17] The Commission appropriately weighed the evidence of record, and made a finding of fact based upon the evidence in the record that Kentucky Power failed to carry its burden of proof or that it was reasonable for Kentucky Power customers to pay for rate case expenses that, on their face, are duplicative and of questionable necessity.[18]

In Case No. 2017-00179, Kentucky Power's rate case expense for witness training was included in the non-unanimous settlement revenue requirement.[19] In deference to the settlement, the Commission allowed recovery of the witness training expense in the proceeding. To the extent that additional clarification is required, the Commission reiterates that rate case expense is not guaranteed. As discussed above and in the January 13, 2021 Order, the Commission questioned whether the communication strategy and video recording services provided by CCA were necessary given that, as documented in the case record, Kentucky Power's counsel were preparing witnesses as part of their legal services. Based upon the evidence of record in this proceeding, the

[16] Kentucky Power's Supplemental Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 15, 2020), Item 39.

[17] *Energy Regulatory Commission*, 605 S.W. 2d at 50.

[18] *See* Kentucky Power's Supplemental Responses to Commission Staff's Second Request, Item 39, filed Aug. 27, 2020; Oct. 15, 2020; Nov. 9, 2020; Dec. 10, 2020; and Jan. 15, 2021, which contain multiple descriptions of legal services performed by counsel to Kentucky Power reviewing, analyzing, commenting on, and identifying changes to Kentucky Power witness testimony, and preparing Kentucky Power witnesses for cross examination at the formal hearing.

[19] Case No. 2017-00179, Jan. 18, 2018 Order at Appendix A.

Commission finds that Kentucky Power failed to provide sufficient evidence that the witness development skills training provided by CCA is a necessary rate case expense, and thus failed to carry its burden of proof to justify recovering this expense from Kentucky Power's customers through rates.

The Commission further finds that rehearing to take additional evidence regarding the reasonableness of the expense should be denied. As discussed in the above section, Kentucky Power merely seeks to relitigate an issue for which Kentucky Power failed to meet its burden of proof.

<u>Adjustment of Operating Income: Incentive Compensation Expense</u>

The Commission finds that Kentucky Power's request for rehearing of the adjustment to incentive compensation expense should be denied. The Commission finds no merit in Kentucky Power's claim that the January 13, 2021 Order does not contain a reasoned analysis for the decision. Indeed, the Commission expressly stated that there was conflicting precedent regarding whether funding metrics that include financial objectives should be disallowed for ratemaking purposes, then set forth in detail the reasoning for its finding that incentive compensation expense based on financial objectives in funding metrics should receive the same regulatory treatment as financial objectives in performance metrics, and then disallowed $5,665,765 in incentive compensation expense that was based upon financial objectives in both funding and performance metrics.

<u>Adjustment of Operating Income: Savings Plan Expense</u>

The Commission finds that Kentucky Power's request for rehearing of the adjustment to savings expense should be denied. For the same reason discussed above, the Commission finds no merit to Kentucky Power's argument that the Commission failed to provide a reasoned analysis for its finding. The January 13, 2021 Order expressly acknowledged that the Commission made an erroneous finding in Case No. 2017-00179 by addressing Kentucky Power's defined benefit plan and 401(k) plan, but failed to address the cash balance formula plan, which should have been addressed. After addressing the erroneous finding in a previous Order, the January 13, 2021 Order set forth the reasoning for the adjustment based upon the evidence in the record.

The January 13, 2021 Order further explained that Kentucky Power did not provide substantial evidence to support the expense was just and reasonable. As discussed above, the Commission does not have a duty to refute evidence submitted to it by an applicant who has the burden of proof.

Adjustment of Operating Expense: Rockport Unit Power Agreement (UPA) Expenses

The Commission finds that Kentucky Power's request for rehearing of the disallowance of Rockport UPA expenses should be denied. Kentucky Power now seeks to relitigate an issue for which the Commission appropriately weighed the evidence and, in the January 13, 2021 Order, provided a specific rationale for its finding of fact.

Adjustment of Operating Income: Miscellaneous Expense

The Commission finds no merit in Kentucky Power's claim that it provided sufficient evidence to support recovery for certain miscellaneous expenses, and that rehearing should be denied. Despite multiple requests from Commission Staff, Kentucky Power failed to provide objective evidence that certain expenses were reasonable. For example, in responses to post-hearing data requests, Kentucky Power states only that its executives analyzed expenses for reasonableness, without further explanation to explain how they reached their decision.[20]

As discussed above, the Commission does not have a duty to refute evidence. Kentucky Power has the burden of proof and, here, they failed to carry that burden, as explained by the Commission in the January 13, 2021 Order. Further, after failing to provide sufficient evidence to meet its burden of proof, Kentucky Power now seeks to relitigate the issue.

Kentucky Power failed to established good cause to grant rehearing, and therefore the Commission finds that rehearing should be denied.

<u>Tariff Environmental Surcharge (ES) Return on Equity (ROE)</u>

The Commission finds that rehearing should be granted to amend the January 13 2021 Order to state that Kentucky Power should use an ROE of 9.10 percent for service rendered on and after January 14, 2021. The Commission further finds that Kentucky Power should include any under-recovery resulting from the improper date of the ROE change in its next monthly Tariff ES filing.

The Commission finds that rehearing should be granted in regard to the adjustment resulting from the reduction of the ROE for Mitchell Non-FGD rate base because the rate base portion of the Mitchell Non-FGD is not recovered through Tariff ES. Because the ROE used for the Mitchell Non-FGD will differ between base rates and Tariff ES, Kentucky Power's current forms and base/current calculation will not accurately calculate Kentucky Power's environmental surcharge. The Commission therefore finds that Kentucky Power shall file a revised Tariff ES to reflect annual base revenue requirement as shown on

[20] Kentucky Power's Response to Commission Staff's Post-Hearing Request for Information (filed Dec. 9, 2020), Item 14(a).

Appendix A attached to this Order and will revise its monthly forms to calculate the return on Mitchell Non-FGD plant as of March 31, 2020, with an ROE of 9.3 percent and the return on additional Mitchell Non-FGD plant with an ROE of 9.1 percent. The Commission also finds that the revenue required from base rates should be revised to reflect the impact of the findings stated above. This results in an increase to the revenue required from base rates of $236,063.

Adjustment to Long-Term Debt Interest Rate

In the January 13, 2021 Order, the Commission expressly stated that "Kentucky Power should defer the difference in jurisdictional interest expense between 3.54 percent and the high-cost debt until it matures as a regulatory asset."[21] The Commission finds that rehearing should be granted to the limited extent to amend the January 13, 2021 Order to strike the above cited sentence and replace it with the following: "From January 14, 2021, through the July 2021 refinancing, Kentucky Power should defer the difference in the jurisdictional interest expense and 3.54 percent as a regulatory asset, with a carry charge of 3.89 percent, the approved long-term debt rate structure, and will amortize this regulatory asset through Tariff PPA, beginning with the next annual PPA factors filing in August 2021."

The Commission finds that rehearing should be denied on the remaining long-term debt issues raised by Kentucky Power. In the January 13, 2021 Order, the Commission examined the regulatory and case law, and the factual evidence in the record that supports the Commission's decision. Based upon the evidence of record established during the formal hearing, Kentucky Power will reissue long-term debt maturing in June

[21] Jan. 13, 2021 Order at 40.

2021 at an interest rate that in the current environment that is lower than the current rate of 7.32 percent.[22] Thus, Kentucky Power's arguments in rehearing are contradicted by its hearing testimony that Kentucky Power will refinance the maturing bonds and at an interest rate that is reflective of the current lower interest rate environment. For the above reasons, Kentucky Power's reissuance of long-term debt is not simply reasonably anticipated, but is a planned, and thus a known, event. Kentucky Power seeks to relitigate an issue that was decided based on the evidence of record and applicable law.

<u>Zero-Intercept Study</u>

The Commission finds that rehearing should be granted for the limited purpose of clarifying that Kentucky Power should conduct a zero-intercept study for its cost of service study in its next rate case. Recently, the Commission has noted its preference for the zero-intercept method stating the following:[23]

> Due to its use of linear regression equations relating cost to various sizes of equipment rather than choosing what would be the minimum pole, conductor, or line transformer needed to serve a customer, the zero-intercept method is preferred because it is considered less subjective than the minimum system. Furthermore, comparative studies between the minimum-size and zero-intercept methods suggest that the minimum system method produces a larger customer component.

Therefore, in its next base rate case, Kentucky Power must include support for the reasonableness of the data that it provides and any assumptions made by Kentucky Power should be well supported and documented.

<u>AMI and GMR</u>

[22] Hearing Transcript, Vol. III at 825–826, 865.

[23] Case No. 2020-00131, *Electronic Application of Meade County Rural Electric Cooperative for an Adjustment of Rates* (Ky. PSC Sept. 16, 2020).

The Commission finds that rehearing on the issue of a CPCN for an AMI and establishing a GMR should be denied. The January 13, 2021 Order stated that Kentucky Power failed to provide sufficient evidence to support approving a CPCN for an AMI system, denying the request without prejudice with leave to refile with evidence supporting that its existing system is obsolete and evidence supporting actual costs of the propose system. Kentucky Power now seeks to relitigate the Commission's evaluation of that evidence through rehearing. As discussed above, rehearing is not the proper vehicle to relitigate a Commission decision.

Kentucky Power proposed the GMR to recover costs associated with the deployment of the AMI system and additional grid modernization expenses approved by the Commission. As discussed in the January 13, 2021 Order, the GMR proposal is moot based upon the denial of the AMI CPCN. It would be premature to approve a cost recovery mechanism explicitly tied to recovery of costs that are not supported by substantial evidence and tied to a project that the Commission has not approved. Kentucky Power fails to state any basis to grant rehearing on the issue of the GMR, and therefore rehearing should be denied.

In the January 13, 2021 Order, the Commission found that the proposed Tariff EV "is reasonable when utilizing AMR meters."[24] Thus, the Commission's approval of Tariff EV was predicated upon customer use of automatic meter reading (AMR) meters and not AMI meters. Kentucky Power's rehearing arguments regarding Tariff EV are inconsistent with testimony from Kentucky Power's witnesses. Kentucky Power proposed Tariff EV to

[24] January 13, 2021 Order at 89.

allow customers to use a "separately wired time of use ("TOU") meter to take advantage of TOU rates for their electrical vehicle charging load only."[25] Stephen D. Blankenship testified that Kentucky Power currently offers time-of-day rates with existing AMR meters, but that AMR metering "does not facilitate or fully enable" time-of-day rates.[26] Brian K. West also testified that Kentucky Power currently offers time-of-day rates, but that AMI meters would provide access to more granular data of 15-minute interval data.[27] Based upon the new statements by Kentucky Power that Tariff EV cannot be implemented without AMI meters, the Commission finds that rehearing should be granted to amend the January 13, 2021 Order to deny Tariff EV for Residential Service (Tariff R.S.), General Service (Tariff G.S.), and Large General Service (Tariff L.G.S.) without prejudice, with leave to refile an application to approve Tariff EV submitted with Kentucky Power's future application for approval of an AMI meter system, as discussed above. It would be premature to approve a tariff explicitly tied to metering system that the Commission has not approved. Similar to our finding that the GMR proposal is moot, the Commission finds that Kentucky Power's proposal regarding Tariff EV is moot given that it is tied explicitly to a metering system that has not yet been approved by the Commission.

<u>Rockport Deferral Mechanism Regulatory Asset</u>

The Commission finds that rehearing should be granted to the limited extent to clarify that the Commission will initiate a new proceeding to address the Rockport deferral

[25] Direct Testimony of Alex E. Vaughan (filed June 29, 2020) at 12. *See also* Kentucky Power's Response to Commission Staff's Fourth Request for Information (filed Aug. 26, 2020) at Item 75.

[26] Direct Testimony of Stephen D. Blankenship (filed June 29, 2020) at 12.

[27] Direct Testimony of Brian K. West (filed June 29, 2020) at 30.

mechanism regulatory asset once Kentucky Power makes a written filing identifying, by name, the capacity replacement for Rockport UPA and the expected costs.

In the January 13, 2021 Order, the Commission explained that Kentucky Power was unable to confirm either the amortization amount or the expected savings once the Rockport UPA terminates. Kentucky Power asserts that, because this issue was not addressed in the settlement or the Orders in Case No. 2017-00179, the amortization amount or expected savings is not subject to Commission review. The Commission finds this assertion to be without merit because it is contrary to the Commission's statutory duty to ensure that rates are fair, just and reasonable.

Recovery of Tariff COGEN/SPP Purchased Power Expense

The Commission finds that rehearing should be granted for the limited purpose of amending the January 13, 2021 Order to clarify that it is reasonable for Kentucky Power to recover purchased power expense for COGEN/SPP through Tariff PPA.

Tariff NMS II

The Commission finds that rehearing on the issue of TMS II should be denied. In the January 13 2021 Order, the Commission explained that it was not persuaded by the evidence that Kentucky Power filed in support of the proposed net metering rates, and, instead of denying the proposed rates, deferred a decision in order to create a robust record upon which the Commission can make a decision. Thus, there is no merit in Kentucky Power's assertion that it provided sufficient evidence to carry its burden.

Further, the Commission does not have a duty to refute evidence submitted to it by Kentucky Power because Kentucky Power has the burden of proof. As the finder of fact, the Commission must weigh the evidence presented to it by applicants, who bear the burden of proof. For these reasons, the Commission finds no basis to support a conclusion that it has a duty to provide Kentucky Power with the type of evidence that Kentucky Power should file in order to establish sufficient evidence in support of its application.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's motion for rehearing is granted in part and denied in part.

2. Kentucky Power's motion for rehearing on the issue of adjusting CWC to $0 is denied.

3. Kentucky Power's motion for rehearing on the issue of denial of recovery for rate case expense for witness training is denied.

4. Kentucky Power's motion for rehearing on the issue of denial of recovery for incentive compensation expense is denied.

5. Kentucky Power's motion for rehearing on the issue of denial of recovery of savings plan expense is denied.

6. Kentucky Power's motion for rehearing on the issue of the removal of Rockport UPA expenses for test-year purchased power expense is denied.

7. Kentucky Power's motion for rehearing on the issue of denial of recovery of certain miscellaneous expense is denied.

8. Kentucky Power's motion for rehearing on the issue of recovery of Mitchell Non-FGD expense is denied.

9. Kentucky Power's motion for rehearing on the 9.10 percent ROE for Tariff ES is granted to the limited extent that the January 13 2021 Order is amended to clarify that the 9.10 ROE applies for service rendered on or after January 14, 2021, and that

recovery of the under-recovery for January 2021 ES filing is approved. With this amendment to the January 13, 2021 Order, this issue is closed.

Kentucky Power's motion for rehearing on the issue of the long-term debt adjustment is granted to the limited extent that the January 13, 2021 Order is amended to strike the sentence on page 40 that states, "Kentucky Power should defer the difference in jurisdictional interest expense between 3.54 percent and the high-cost debt until it matures as a regulatory asset" and replace it with the following: "From January 14, 2021, through the July 2021 refinancing, Kentucky Power should defer the difference in the jurisdictional interest expense and 3.54 percent as a regulatory asset, with a carry charge of 3.89 percent, the approved long-term debt rate structure, and will amortize this regulatory asset through Tariff PPA, beginning with the next annual PPA factors filing in August 2021." With this amendment to the January 13, 2021 Order, this issue is closed.

10. Kentucky Power's motion for rehearing on the issue of requiring Kentucky Power to file a zero-intercept study in its next base rate case is granted to the limited extent that the January 13, 2021 Order is amended as specified in the findings above. With the amendment to the January 13, 2021 Order, this issue is closed.

11. Kentucky Power's motion for rehearing on the issue of denying a CPCN to purchase and install AMI meters and denying Kentucky Power' is denied.

12. Kentucky Power's motion for rehearing on the issue of denying Kentucky Power's request to establish the GMR is denied.

13. Kentucky Power's motion for rehearing on the issue of Tariff EV is granted for the limited extent that the last sentence of page 88 and the first sentence of page 89 of the January 13, 2021 Order is amended as follows: "Because the Commission denied

a CPCN to purchase and install an AMI system and because Kentucky Power's proposed Tariff EV can be implemented with AMI meters only, the Commission finds that Tariff EV for Tariff R.S., Tariff G.S., and Tariff L.G.S. should be denied without prejudice as moot, with leave to refile the proposed Tariff EV when Kentucky Power's refiles a revised application requesting a CPCN for an AMI system" With this amendment to the January 13, 2021 Order, this issue is closed.

14. Kentucky Power's motion for rehearing to clarify the timing of a future proceeding regarding the amortization of the Rockport Deferral Mechanism is granted to the limited extent to clarify that the Commission will initiate a new proceeding to address the Rockport deferral mechanism regulatory asset once Kentucky Power makes a written filing identifying, by name, the capacity replacement for Rockport UPA and the reasonably anticipated costs. With this clarification, this issue is closed.

15. Kentucky Power's motion for rehearing to delete language in the January 13, 2021 Order regarding the scope of a future proceeding regarding the Rockport Deferral Mechanism is denied.

16. Kentucky Power's motion for rehearing on the issue of recovery of COGEN/SPP purchased power expense through Tariff PPA is granted to the limited extent that the January 13, 2021 Order is amended as specified in the findings above. With the amendment to the January 13, 2021 Order, this issue is closed.

17. Kentucky Power's motion for rehearing on the issue of Tariff NMS II is denied.

18. The rates set forth in Appendix C to this Order are the correct rates approved for service rendered by Kentucky Power on and after January 14, 2021, and

they shall replace and supersede the rates set forth in Appendix C to the January 13, 2021 Order.

19. Within 20 days of the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved, or as required in this Order, and reflecting their effective date and that they were authorized by this Order.

20. Kentucky Power shall, on the first month's bills after the date of this Order, impose surcharges on customer bills in order to recover the difference between the amounts already billed and the rates approved in the January 13, 2021 Order and amounts that should have been billed under the correct rates set forth in Appendix C to this Order.

21. All provisions of the January 13, 2021 Order that do not conflict with this Order shall remain in full force and effect.

By the Commission

ENTERED

FEB 22 2021

rcs

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00174 DATED FEB 22 2021

MONTHLY BASE PERIOD REVENUE REQUIREMENT

Billing Month	Base Period Cost
January	$3,503,207
February	$3,961,295
March	$3,695,547
April	$4,652,708
May	$4,476,891
June	$3,896,996
July	$4,132,198
August	$3,932,695
September	$3,687,618
October	$3,775,108
November	$3,816,807
December	$3,814,390
	$47,345,460

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00174 DATED FEB 22 2021

SUMMARY OF COMMISSION ADJUSTMENTS ON REHEARING

	Order of January 13, 2021	Kentucky Power Motion	Commission Adjustments
Kentucky Power Requested Increase			
Request Based On Original Filing	$ 70,096,743	$ 70,096,743	$ 70,096,743
Effects on Increase from Rate Base Recommendations			
Utilize Rate Base Instead of Capitalization to Reflect Return on Component for Base Rates	608,162	608,162	608,162
Reduce Cash Working Capital to '0' in Lieu of Lead/Lag Study	(1,660,444)	-	(1,660,444)
Remove Prepaid Pension and Prepaid OPEB from Rate Base, Net of ADIT	(5,203,831)	(5,203,831)	(5,203,831)
Remove Accounts Payable Balances from CWIP in Rate Base	(687,079)	(687,079)	(687,079)
Remove Accounts Payable Balances from Prepayments in Rate Base	(6,784)	(6,784)	(6,784)
Effects on Increase from Operating Income Recommendations			
Increase to Base Revenue Due to Moving of Certain Non-Recurring Charges from Misc. Revenue	2,817,345	2,817,345	2,817,345
Addition of Pension and OPEB Expense Originally Removed from Cost of Service	3,712,668	3,712,668	3,712,668
Reduction of Savings Plan Contribution Expense	(1,684,045)	-	(1,684,046)
Adjustment to Rate Case Expense	(418,069)	(366,952)	(418,069)
Remove Incentive Compensation Expense Tied to Financial Performance	(5,665,765)	-	(5,665,765)
Remove SERP Expense	(205,475)	(205,475)	(205,475)
Remove Kentucky Power's Pro Forma Adjustment to Restate Rockport UPA Operating Ratio	(1,705,844)	-	(1,705,844)
Restate State Income Tax Expense Based on Kentucky-Online Income Tax Rate of 5%	-	-	-
Remove EEI Dues for Covered Activities (Legislative and Regulatory Advocacy and Public Relations)	-	-	-
Remove Miscellaneous Expense Less EEI Dues for Covered Activities	(545,012)	-	(545,012)
Correct Allocation of Rockport UPA Deferral to Non-jurisdictional Customers	(211,280)	(211,280)	(211,280)
Remove SSC GreenHat Default Charges from FAC Base Rates	(16,552)	(16,552)	(16,552)
Effects on Increase from Rate of Return Recommendations			
Reallocate the Mitchell Coal Stock Adjustment Proportionately Across Capital Structure	-	-	-
Increase Short Term Debt and Set Debt Rate at 0.51%	-	-	-
Reduce Long Term Debt Rate to Reflect Refinance of June 2021 Maturity	(1,057,851)	-	(1,057,851)
Reduce Return on Equity from 10.0%	(5,511,493)	(5,597,234)	(5,511,493)
Reduce Return on Equity for Environmental Surcharge to 9.1%	(236,063)	-	-
Total Adjustments to Company's Proposed TY Base RR	(17,677,411)	(5,157,012)	(17,441,350)
Net Increase to Base Rates	$ 52,419,332	$ 64,939,731	$ 52,655,393

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00174 DATED FEB 22 2021

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

TARIFF R.S.
RESIDENTIAL SERVICE

Service Charge per month	$	17.50
Energy Charge per kWh	$	.11038
Storage Water Heating Provision - Per kWh	$	.08127
Load Management Water Heating Provision - Per kWh	$	.08127

TARIFF R.S.-L.M.-T.O.D.
RESIDENTIAL SERVICE LOAD MANAGEMENT TIME-OF-DAY

Service Charge per month	$	21.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.14773
All kWh used during off-peak billing period	$	.08127
Separate Metering Provision Per Month	$	4.30

TARIFF R.S.-T.O.D.
RESIDENTIAL SERVICE TIME-OF-DAY

Service Charge per month	$	21.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.14773
All kWh used during off-peak billing period	$	.08127

TARIFF R.S.-T.O.D. 2
EXPERIMENTAL RESIDENTIAL SERVICE TIME-OF-DAY 2

Service Charge per month	$	21.00
Energy Charge per kWh:		
All kWh used during summer on-peak billing period	$	.19088
All kWh used during winter on-peak billing period	$	.16591
All kWh used during off-peak billing period	$	.09324

TARIFF R.S.D.
RESIDENTIAL DEMAND-METERED ELECTRIC SERVICE

Service Charge per month	$	21.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.12593
All kWh used during off-peak billing period	$	.08127
Demand Charge per kW	$	3.90

TARIFF G.S.
GENERAL SERVICE

Secondary Service:

Service Charge per month	$	25.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.11146
Over 4,450 kWh per month	$	.10440
Demand Charge per kW greater than 10 kW	$	6.61

Primary Service:

Service Charge per month	$	100.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.09813
Over 4,450 kWh per month	$	.09232
Demand Charge per kW greater than 10 kW	$	6.01

Subtransmission Service:

Service Charge per month	$	400.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.08902
Over 4,450 kWh per month	$	.08380
Demand Charge per kW greater than 10 kW	$	4.68

TARIFF G.S.
GENERAL SERVICE
RECREATIONAL LIGHTING SERVICE PROVISION

Service Charge per month	$	25.00
Energy Charge per kWh	$	.11077

TARIFF G.S.
GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	$	25.00

Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.16147
All kWh used during off-peak billing period	$	.08154

TARIFF G.S.
GENERAL SERVICE
OPTIONAL UNMETERED SERVICE PROVISION

Service Charge per month	$	15.00
Energy Charge per kWh:		
First 4,450 kWh per month	$	.11146
Over 4,450 kWh per month	$	.10440

TARIFF S.G.S.-T.O.D.
SMALL GENERAL SERVICE TIME-OF-DAY

Service Charge per month	$	25.00
Energy Charge per kWh:		
All kWh used during summer on-peak billing period	$	.21085
All kWh used during winter on-peak billing period	$	.18411
All kWh used during off-peak billing period	$	.11518

TARIFF M.G.S.-T.O.D.
MEDIUM GENERAL SERVICE TIME-OF-DAY

Service Charge per month	$	25.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	$	.16147
All kWh used during off-peak billing period	$	.08154

TARIFF L.G.S.
LARGE GENERAL SERVICE

Secondary Service Voltage:		
Service Charge per month	$	85.00
Energy Charge per kWh	$	.08671
Demand Charge per kW	$	8.77
Primary Service Voltage:		
Service Charge per month	$	127.50
Energy Charge per kWh	$	.07595
Demand Charge per kW	$	7.90
Sub-transmission Service Voltage:		
Service Charge per month	$	660.00
Energy Charge per kWh	$	.05469

Demand Charge per kW	$ 6.61

Transmission Service Voltage:

Service Charge per month	$ 660.00
Energy Charge per kWh	$ .05324
Demand Charge per kW	$ 6.16

All Service Voltages:

Excess Reactive Charge per KVA	$ 3.46

TARIFF L.G.S.
LARGE GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	$ 85.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	$ .14665
All kWh used during off-peak billing period	$ .08127

TARIFF L.G.S. – T.O.D.
LARGE GENERAL SERVICE TIME-OF-DAY

Secondary Service Voltage:

Service Charge per month	$ 85.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .10523
Off-Peak Energy Charge per kWh	$ .05599
Demand Charge per kW	$ 10.92

Primary Service Voltage:

Service Charge per month	$ 127.50
Energy Charge:	
On-Peak Energy Charge per kWh	$ .10381
Off-Peak Energy Charge per kWh	$ .05557
Demand Charge per kW	$ 8.17

Sub-transmission Service Voltage:

Service Charge per month	$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	$ .10294
Off-Peak Energy Charge per kWh	$ .05532
Demand Charge per kW	$ 1.77

Transmission Service Voltage:

Service Charge per month	$ 660.00

Energy Charge:	
On-Peak Energy Charge per kWh	$ .10208
Off-Peak Energy Charge per kWh	$ .05506
Demand Charge per kW	$ 1.75

All Service Voltages:

Excess Reactive Charge per KVA	$ 3.46

TARIFF I.G.S.
INDUSTRIAL GENERAL SERVICE

Secondary Service Voltage:

Service Charge per month	$ 276.00
Energy Charge per kWh	$ .02937
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 25.88
Of Monthly Off-Peak Billing Demand	$ 1.80

Primary Service Voltage:

Service Charge per month	$ 276.00
Energy Charge per kWh	$ .02899
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 22.96
Of Monthly Off-Peak Billing Demand	$ 1.78

Sub-transmission Service Voltage:

Service Charge per month	$ 794.00
Energy Charge per kWh	$ .02874
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 16.33
Of Monthly Off-Peak Billing Demand	$ 1.76

Transmission Service Voltage:

Service Charge per month	$1,353.00
Energy Charge per kWh	$ .02851
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	$ 16.08
Of Monthly Off-Peak Billing Demand	$ 1.75

All Service Voltages:
Reactive demand charge for each kilovar of maximum leading or lagging reactive demand in excess of 50 percent of the kW of monthly metered demand is $.69 per KVAR.

Minimum Demand Charge
The minimum demand charge shall be equal to the minimum billing demand times the following minimum demand rates per kW:

Secondary	$	28.77
Primary	$	25.81
Subtransmission	$	19.17
Transmission	$	18.88

TARIFF M.W.
MUNICIPAL WATERWORKS

Service Charge per month	$	25.00
Energy Charge - All kWh per kWh	$	.10039

Subject to a minimum monthly charge equal to the sum of the service charge plus $9.78 per KVA as determined from customer’s total connected load.

TARIFF O.L.
OUTDOOR LIGHTING

OVERHEAD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	$	9.06
150 Watts (16,000 Lumens)	$	10.33
200 Watts (22,000 Lumens)	$	12.52
250 Watts (28,000 Lumens)	$	17.84
400 Watts (50,000 Lumens)	$	19.78
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	$	11.55
400 Watts (20,000 Lumens)	$	19.88
LED:		
55 Watts (5,400 Lumens)	$	6.62
100 Watts (10,500 Lumens)	$	9.20
175 Watts (18,430 Lumens)	$	11.62
300 Watts (30,230 Lumens)	$	17.94

POST-TOP LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	$	16.42
150 Watts (16,000 Lumens)	$	25.83
100 Watts Shoe Box (9,500 Lumens)	$	30.00
250 Watts Shoe Box (19,000 Lumens)	$	30.07
400 Watts Shoe Box (40,000 Lumens)	$	39.47
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	$	13.25
LED:		
65 Watts Post Top (7,230 Lumens)	$	19.05

FLOOD LIGHTING SERVICE

High Pressure Sodium per Lamp:	
200 Watts (22,000 Lumens)	$ 14.38
400 Watts (50,000 Lumens)	$ 21.00
Metal Halide	
250 Watts (20,500 Lumens)	$ 17.45
400 Watts (36,000 Lumens)	$ 21.98
1,000 Watts (110,000 Lumens)	$ 40.01
250 Watts Mongoose (20,500 Lumens)	$ 22.76
400 Watts Mongoose (36,000 Lumens)	$ 27.78
LED:	
175 Watt Flood	$ 24.75
265 Watt Flood	$ 30.40

Per Month:	
Wood Pole	$ 3.61
Overhead Wire Span not over 150 Feet	$ 2.00
Underground Wire Lateral not over 50 Feet	$ 6.77

Per Lamp plus $0.02851 x kWh in Sheet No. 14-5 in Company's tariff

LED Conversion Charge for 84 months: $3.33/month

Flexible Lighting	
Monthly Levelized Fixed Cost Rate	1.36%
Monthly Maintenance charge	$ .80
Monthly non-fuel charge per kWh	$ .05519
Monthly Base Fuel Charge per kWh	$ .02851

TARIFF S.L.
STREET LIGHTING

Rate per Lamp:	
Overhead Service on Existing Distribution Poles	
High Pressure Sodium	
100 Watts (9,500 Lumens)	$ 7.61
150 Watts (16,000 Lumens)	$ 8.36
200 Watts (22,000 Lumens)	$ 9.90
400 Watts (50,000 Lumens)	$ 13.00
LED	
55 Watt (5,400 Lumens)	$ 8.71
100 Watt (10,500 Lumens)	$ 11.19
175 Watt (18,430 Lumens)	$ 13.34
65 Watt Post Top (7,230 Lumens)	$ 9.05
90 Watt Dec Post Top (7,038 Lumens)	$ 20.07

175 Watt Flood (21,962 Lumens)	$	14.69
Service on New Wood Distribution Poles		
High Pressure Sodium		
100 Watts (9,500 Lumens)	$	11.90
150 Watts (16,000 Lumens)	$	12.75
200 Watts (22,000 Lumens)	$	14.30
400 Watts (50,000 Lumens)	$	18.35
LED		
55 Watt (5,400 Lumens)	$	14.36
100 Watt (10,500 Lumens)	$	16.85
175 Watt (18,430 Lumens)	$	19.00
65 Watt Post Top (7,230 Lumens)	$	14.70
90 Watt Post Top (7,038 Lumens)	$	25.73
175 Watt Flood (21,962 Lumens)	$	20.35
Service on New Metal or Concrete Poles		
High Pressure Sodium		
100 Watts (9,500 Lumens)	$	24.80
150 Watts (16,000 Lumens)	$	25.70
200 Watts (22,000 Lumens)	$	27.25
400 Watts (50,000 Lumens)	$	30.35
LED		
55 Watt (5,400 Lumens)	$	25.10
100 Watt (10,500 Lumens)	$	26.78
175 Watt (18,430 Lumens)	$	28.11
65 Watt Post Top (7,230 Lumens)	$	25.85
90 Watt Post Top (7,038 Lumens)	$	36.74
175 Watt Flood (21,962 Lumens)	$	29.42

Per Lamp plus $0.02851 x kWh in Sheet No. 14-5 in Company's tariff

LED Conversion Charge for 84 months: $2.18/month

Flexible Lighting

Monthly Levelized Fixed Cost Rate	0.97%	
Monthly Maintenance charge	$	2.52
Monthly non-fuel charge per kWh	$	.04393
Monthly Base Fuel Charge per kWh	$	.02851

TARIFF COGEN/SPP I
COGNERATION AND/OR SMALL POWER PRODUCTION
100 KW OR LESS

Monthly Metering Charges:	Single Phase:
Standard Measurement	$ 9.25
Time-of-Day Measurement	$ 9.85
Polyphase:	
Standard Measurement	$ 12.10
Time-of-Day Measurement	$ 12.40
Energy Credit per kWh:	variable LMP at time of delivery
Capacity Credit per kW per month:	Area 3 Combustion Turbine Cone
2020/2021	$ 6.74
2021/2022	$ 8.09
2022/2023	$ 7.89

TARIFF COGEN/SPP II
COGNERATION AND/OR SMALL POWER PRODUCTION
OVER 100 KW

Metering Charges:	
Single Phase:	
Standard Measurement	$ 9.25
Time-of-Day Measurement	$ 9.85
Polyphase:	
Standard Measurement	$ 12.10
Time-of-Day Measurement	$ 12.40
Energy Credit per kWh:	variable LMP at time of delivery
Capacity Credit per kW per month:	Area 3 Combustion Turbine Cone
2020/2021	$ 6.74
2021/2022	$ 8.09
2022/2023	$ 7.89

RIDER A.F.S.
ALTERNATE FEED SERVICE RIDER

Monthly Rate for Annual Test of Transfer Switch/Control Module	$	15.75
Monthly Capacity Reservation Demand Charge per kW	$	6.38

RIDER D.R.S.
DEMAND RESPONSE SERVICES

Monthly Interruptible Demand Credit per kW	$	5.50

TARIFF F.T.C.
FEDERAL TAX CUT

January–March and December per kWh		
Residential	$	.02187
Nonresidential	$	.00672
April–November per kWh		
Residential	$	.00010
Nonresidential	$	.00672

NONRECURRING CHARGES

Late or Delayed Payment Charge		
Residential		0.00%
Nonresidential		5.00%
Reconnect (nonpayment during regular hours)	$	4.70
Termination or field trip	$	4.70
Returned Check Charge	$	14.65

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