

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) A)
Securitization Financing Order; And (5) All Other)
Required Approvals And Relief)

Case No. 2023-00159

DIRECT TESTIMONY OF
JOSHUA D. BURKHOLDER
ON BEHALF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Joshua D. Burkholder, and my business address is 1 Riverside Plaza,
3 Columbus, Ohio 43215.

II. BACKGROUND

4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

5 A. I am employed by American Electric Power Service Corporation (“AEPSC”) as
6 Managing Director – Transmission RTO Policy. AEPSC supplies engineering,
7 financing, accounting, planning, advisory, and other services to the subsidiaries of the
8 American Electric Power (“AEP”) system, one of which is Kentucky Power Company
9 (“Kentucky Power” or the “Company”).

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **BACKGROUND.**

12 A. I earned a bachelor’s degree with honors in economics in 1997 from the University of
13 Maryland in College Park, MD. I graduated from The Ohio State University, Fisher
14 College of Business with a Masters of Business Administration in 2002.

1 From 1997 to 2000, I held the position of Economist at the U.S Department of
2 Commerce, Bureau of Economic Analysis, where I participated in analysis of
3 international financial data.

4 I joined AEPSC in 2002 as an associate in commercial operations and worked
5 on various business development projects and AEP's integration into PJM
6 Interconnection, LLC ("PJM"). In 2004, I joined AEPSC's Corporate Planning and
7 Budgeting organization as Staff Financial Analyst of Strategic Initiatives and was
8 promoted to Manager of Strategic Initiatives in 2007. In this role, I was responsible
9 for working with AEPSC leadership in developing AEP's strategic plan and other
10 strategic studies and analysis. In 2009, I transferred to AEP's transmission business
11 unit as Manager, Transmission Strategy and Business Development where I was
12 responsible for coordinating activities associated with the operations of the AEP
13 transmission companies and for budgeting and financial analysis for the AEP
14 transmission organization. In 2012, I was promoted to Director of Competitive
15 Transmission Development for AEP's affiliate company Transource Energy, LLC.
16 There, I was responsible for securing competitive transmission projects within the PJM
17 and MISO regions. In 2018, I was named Director, FERC and RTO Strategy and
18 Policy, responsible for federal and regional policy matters impacting AEP's
19 transmission and generation businesses. In March 2023, I was promoted within the
20 same group to my current position.

1 **Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR -**
2 **TRANSMISSION RTO POLICY?**

3 A. I lead a team that is responsible for the development and advocacy of AEP's and its
4 subsidiaries' strategies and positions in their respective Regional Transmission
5 Organization ("RTO"), including PJM, regarding policy matters impacting the
6 transmission and generation functions. This includes working closely with AEP
7 operating companies and other AEP leadership to determine the impacts of and develop
8 positions regarding potential policy changes. My team is deeply engaged in the
9 stakeholder process ranging from technical working groups to the most senior standing
10 committees.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
12 **COMMISSIONS?**

13 A. Yes. I have testified before the Arkansas Public Service Commission and the Indiana
14 Utilities Regulatory Commission.

III. PURPOSE OF DIRECT TESTIMONY

15 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

16 A. The purpose of my testimony is to provide evidence regarding the steps the Company
17 has taken to address concerns regarding transmission costs discussed in the
18 Commission's January 13, 2021 Order in Case No. 2020-00174 (the "2020 Rate Case
19 Order"). My testimony also provides a factual background regarding Kentucky
20 Power's membership in the PJM regional transmission organization and participation
21 in the AEP Transmission Agreement, and the benefits to Kentucky Power's customers

1 of that participation. Finally, my testimony provides: (a) a high-level overview of the
2 methodology used to determine Kentucky Power’s Open Access Transmission Tariff
3 (“OATT”) expenses, and (b) the relationship between and independence of the
4 transmission revenues associated with Kentucky Power’s investment on transmission
5 projects in its service territory and the transmission expenses it incurs for its use of the
6 transmission network in PJM and the AEP Zone. Company Witness Ali will provide
7 evidence concerning the practical benefits, needs, and required investments associated
8 with Kentucky Power’s obligation to serve its retail customers. Therefore, my
9 testimony focuses on policy considerations, and on some of the risks associated with
10 possible changes to the methodology used to determine Kentucky Power’s transmission
11 expenses under transmission rates regulated by the Federal Energy Regulatory
12 Commission (“FERC”).

**IV. KENTUCKY POWER’S MEMBERSHIP IN PJM
AND THE BENEFITS TO CUSTOMERS FROM THAT PARTICIPATION**

13 **Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN KENTUCKY**
14 **POWER AND PJM.**

15 **A.** Kentucky Power is a member of PJM. Kentucky Power joined PJM in 2004, pursuant
16 to authorization granted by the Commission on its Order dated May 19, 2004, in Case
17 No. 2002-00475.¹ Within PJM, Kentucky Power is located in PJM’s AEP Zone, as
18 shown in Attachment J to the PJM OATT, consistent with the provisions of the FERC-

¹ Order, Case No. 2002-00475, *In the Matter of: Application of Kentucky Power Company d/b/a American Electric Power for Approval, to the Extent Necessary, to Transfer Functional Control of Transmission Facilities Located in Kentucky to PJM Interconnection, L.L.C. Pursuant to KRS 278.218* (Order dated May 19, 2004).

1 regulated Consolidated Transmission Owners Agreement (“CTOA”).² Kentucky
2 Power has three roles in PJM; it is: (a) a load serving entity (“LSE”, also referred to as
3 a “wholesale transmission customer”), (b) a transmission owner (“TO” or
4 “Transmission Owner”), and (c) a generator.

5 **Q. PLEASE DESCRIBE PJM’s ROLE AS THE TRANSMISSION PROVIDER OF**
6 **WHOLESALE TRANSMISSION SERVICE.**

7 A. To understand the dynamics of wholesale transmission service, an important first point
8 is that PJM is the Transmission Provider of transmission service to LSEs and uses the
9 transmission facilities of TOs to provide this service. PJM, as the Transmission
10 Provider, charges LSEs for their use of the PJM transmission system based on FERC-
11 regulated rates and, for the LSEs, this is an expense that I will define as “Transmission
12 OATT Expense.” In turn, PJM uses the transmission facilities owned by TOs in
13 providing wholesale transmission service and compensates TOs for this. For the TO,
14 this is revenue that I will define as “Transmission OATT Revenue.” I go into further
15 detail about how both Transmission OATT Expense and Transmission OATT
16 Revenues are determined for Kentucky Power and the role of FERC in these processes
17 later in my testimony.

² Attachment J to the PJM OATT is available at <https://pjm.com/directory/merged-tariffs/oatt.pdf>. The CTOA, also known as FERC Schedule 42, is available at <https://www.pjm.com/directory/merged-tariffs/toa42.pdf>.

1 **Q. PLEASE GENERALLY EXPLAIN HOW KENTUCKY POWER**
2 **PARTICIPATES IN PJM AS AN LSE REGARDING TRANSMISSION**
3 **SERVICE.**

4 Kentucky Power is as an LSE in PJM and, as such, Kentucky Power is charged
5 Transmission OATT Expense by PJM. I will refer to the specific amount that is
6 charged to Kentucky Power as the “Kentucky Power OATT Expense.”³ In simplified
7 terms, the Kentucky Power OATT Expense is what Kentucky Power pays to PJM, the
8 Transmission Provider, for Kentucky Power’s use of the PJM transmission system
9 under FERC-regulated rates.

10 **Q. PLEASE GENERALLY EXPLAIN HOW KENTUCKY POWER**
11 **PARTICIPATES IN PJM AS A TRANSMISSION OWNER.**

12 Kentucky Power also is a Transmission Owner in PJM and receives Transmission
13 OATT Revenue from PJM, and I will refer to the specific amount that is received by
14 Kentucky Power as the “Kentucky Power OATT Revenue.” In simplified terms, the
15 Kentucky Power OATT Revenue is what Kentucky Power receives from PJM for
16 PJM’s use of Kentucky Power’s transmission facilities in providing wholesale
17 transmission service under FERC-regulated rates.

18 **Q. PLEASE GENERALLY EXPLAIN HOW KENTUCKY POWER**
19 **PARTICIPATES IN PJM AS A GENERATOR.**

20 **A.** Kentucky Power’s generation assets are operated consistent with dispatch rules
21 administered by PJM. Kentucky Power offers 100% of its generation energy production

³This is also commonly referred to as Kentucky Power’s PJM LSE OATT costs, charges, or expense.

1 in PJM's energy markets. Kentucky Power purchases 100% of its energy needs from
2 the PJM energy markets. Kentucky Power's customers are served using energy and
3 capacity obtained by Kentucky Power pursuant to PJM's OATT and subject to FERC's
4 regulation over wholesale energy markets.⁴

5 **Q. DOES YOUR TESTIMONY FOCUS ON ONE OR MORE OF THOSE THREE**
6 **ROLES?**

7 A. Yes. While generation is also important, my testimony is focused on Kentucky Power's
8 roles in PJM regarding wholesale transmission service as a TO and an LSE.

9 **Q. WHAT FACTORS CONTRIBUTE TO KENTUCKY POWER'S USE OF THE**
10 **PJM TRANSMISSION SYSTEM?**

11 A. The primary factor is that only a portion of the generation facilities that provide
12 Kentucky Power with the capacity and energy needed to serve retail customers are in
13 the state of Kentucky and, therefore, Kentucky Power uses the PJM transmission
14 system to have access to needed resources located outside of the state. It is my
15 understanding that Kentucky Power's generation fleet has changed significantly over
16 the past two decades, including the retirement of the Big Sandy II coal-fired plant, the
17 conversion of Big Sandy I to a gas-fueled generating unit, and the acquisition of
18 Kentucky Power's interest in the Mitchell Plant in West Virginia.

⁴ As a load serving entity in PJM, Kentucky Power is required to meet its capacity obligations through one of the two alternatives currently available under the PJM OATT, namely the Fixed Resource Requirement ("FRR") option, or from the Reliability Pricing Model ("RPM") option. Kentucky Power has elected the FRR option through PJM's 2024/25 planning year.

1 **Q. DO KENTUCKY POWER AND ITS CUSTOMERS BENEFIT FROM**
2 **KENTUCKY POWER'S USE OF THE PJM TRANSMISSION SYSTEM AS A**
3 **TO AND LSE?**

4 A. Absolutely. This use of the PJM transmission service avails Kentucky Power of the
5 benefits of participation in all aspects of PJM. This includes the benefits resulting from
6 having access to the whole transmission system over which PJM has functional control,
7 and to all the markets administered by PJM, including energy and capacity markets.
8 Kentucky Power would receive this transmission service regardless of whether it itself
9 owns transmission facilities, as illustrated by the fact that it is possible to be an LSE
10 and own, maintain, and operate only the very few transmission facilities, if any, just
11 necessary to interconnect to the PJM transmission network.

12 **Q. DOES KENTUCKY POWER USE THE TRANSMISSION SYSTEM OUTSIDE**
13 **OF KENTUCKY TO SERVE ITS CUSTOMERS?**

14 A. To have access to the energy and generation capacity Kentucky Power requires to serve
15 its customers, Kentucky Power depends on transmission facilities it does not own,
16 located in PJM both within and outside the AEP Zone. Company Witness Ali provides
17 details of how Kentucky Power uses transmission facilities that it does not own.
18 Without access to use these transmission facilities, Kentucky Power would be limited
19 to either rely on generation resources in its own service territory or on energy and
20 capacity contracts that undoubtedly would embed a cost for using and having access to
21 the infrastructure necessary to transmit power from where it is generated to the load
22 centers in Kentucky Power's territory. Access to these facilities is necessary for
23 Kentucky Power's customers to benefit from the economic efficiency, flexibility,

1 resilience, and depth that are the hallmark of an electric regional transmission
2 organization. In fact, even under a hypothetical scenario where Kentucky Power was
3 not a member of PJM, it would still incur costs for its use of transmission facilities it
4 does not own (either in wholesale transmission rates or in other rates in which those
5 costs are embedded), in addition to incurring the costs associated with constructing,
6 maintaining, and operating its own transmission facilities.

7 **Q. DOES KENTUCKY POWER'S USE OF THE TRANSMISSION SYSTEM**
8 **OUTSIDE OF KENTUCKY PROVIDE ADDITIONAL ASSURANCES THAT**
9 **CUSTOMERS WILL HAVE ACCESS TO CAPACITY NEEDED TO SERVE**
10 **CUSTOMERS?**

11 A. Yes. Specifically concerning its access to capacity resources, Kentucky Power's access
12 to the PJM transmission system, and particularly to the transmission facilities in the
13 AEP Zone, provide Kentucky Power with ample flexibility to elect to continue to
14 satisfy its capacity requirements under PJM's FRR alternative, or elect in the future,
15 depending on market conditions and an evaluation of relative risks, to instead
16 participate in the RPM capacity market. Such flexibility would simply not exist if
17 Kentucky Power had no access to the transmission facilities in the AEP Zone and
18 beyond in PJM.

19 **Q. HOW DO KENTUCKY POWER'S OATT EXPENSES CURRENTLY**
20 **COMPARE TO KENTUCKY POWER'S OATT REVENUES?**

21 A. Kentucky Power's OATT expenses have been higher than its revenues. However,
22 transmission expenses and revenues should not be expected to be exactly
23 commensurate. Kentucky Power's transmission revenues can reasonably be expected

1 to be less than its transmission expenses at different points in time, and under various
2 circumstances. The main conclusion that I draw from the current relationship of OATT
3 revenue and expense is that at the wholesale level, Kentucky Power uses the PJM
4 transmission system to a greater degree than other wholesale transmission customers
5 use Kentucky Power's transmission facilities.

6 **Q. WHAT WAS THE TEST YEAR KENTUCKY POWER OATT REVENUE?**

7 A. During the test year, the FERC-approved formula rate for Kentucky Power resulted in
8 OATT revenue of \$86,296,748 on a total company basis as shown in Section V,
9 Schedule 4.

10 **Q. WHAT WAS THE TEST YEAR KENTUCKY POWER OATT EXPENSE?**

11 A. As supported by Company Witness Walsh, total adjusted test year Kentucky Power
12 OATT Expense (which Ms. Walsh refers to as LSE OATT expense) was \$136,358,812.

13 **Q. ARE THE TRANSMISSION OATT EXPENSES INCURRED BY KENTUCKY
14 POWER DETERMINED USING RATES AND TARIFFS THAT FERC HAS
15 FOUND ARE JUST AND REASONABLE?**

16 A. Yes. The annualized adjusted amounts that Kentucky Power pays for the wholesale
17 transmission service it receives as a member of PJM, as supported by Company
18 Witness Walsh, are determined and billed pursuant to tariffs and formula rates that
19 FERC has found result in just and reasonable rates.

**V. STEPS TAKEN BY KENTUCKY POWER
TO ADDRESS CONCERNS ABOUT ITS TRANSMISSION COSTS**

1 **Q. HAS THE COMMISSION EXPRESSED CONCERNS ABOUT THE SHARE OF**
2 **TRANSMISSION CHARGES BORNE BY KENTUCKY POWER’S**
3 **CUSTOMERS?**

4 A. Yes. Notwithstanding FERC’s determination that the amounts that Kentucky Power
5 pays for the PJM transmission service are just and reasonable, the Commission has
6 expressed concerns, such as in the 2020 Rate Case Order, about rising transmission
7 costs paid by Kentucky Power customers and the fact that its wholesale transmission
8 expenses exceed its transmission revenues.

9 **Q. WHAT CONCERNS REGARDING TRANSMISSION INVESTMENT AND**
10 **EXPENSE DID THE COMMISSION IDENTIFY IN THE 2020 RATE CASE**
11 **ORDER?**

12 A. In its 2020 Rate Case Order, the Commission identified “concern[s] regarding
13 Kentucky Power’s and AEP’s activities related to transmission investment, control and
14 ownership in Kentucky Power’s territory . . .”⁵ The Commission also was “concerned
15 that AEP, not Kentucky Power, [was] exerting the ultimate authority over Kentucky
16 Power’s transmission system . . .”⁶ It further indicated that it was concerned that
17 Kentucky Power appeared to be “acquiescing to the transfer of actual ownership and
18 control of its transmission system to affiliates for which Kentucky Power has no
19 command and the Commission has no authority,” including AEP Kentucky

⁵ 2020 Rate Case Order at 60.

⁶ *Id.* at 62.

1 Transmission Company, Inc. (“Kentucky Transco”).⁷ Opining that Kentucky Power’s
2 “transmission planning and investment activities [were] not sustainable and must be
3 substantively addressed in the near future,”⁸ the Commission directed the Company to
4 “address the burden these increasing expenses will represent to its dwindling customer
5 base.”⁹

6 **Q. PLEASE EXPLAIN WHAT STEPS THE COMPANY HAS TAKEN TO**
7 **ADDRESS THE CONCERNS SUMMARIZED ABOVE.**

8 A. Kentucky Power has taken steps to address the Commission’s directive in four main
9 areas of focus:

- 10 1. Addressing the Commission’s concerns about the transfer of ownership
11 and control of its transmission system to affiliates, Kentucky Power no
12 longer involves Kentucky Transco in projects related to Kentucky
13 Power’s transmission assets. Additionally, Kentucky Power continues
14 to make appropriate necessary capital investments in its transmission
15 system to address its customers’ transmission needs. Company Witness
16 Ali discusses these items further.
- 17 2. With respect to the Commission’s concerns regarding common AEP
18 ownership of Kentucky Power and affiliate transmission owners in PJM,
19 Kentucky Power sought to obtain approval of a transaction to sell the
20 Company to an entity not affiliated with AEP. In the context of that

⁷ *Id.*

⁸ *Id.* at 60.

⁹ *Id.* at 63.

1 transaction, studies would have been pursued consistent with
2 recommendations that have been made in previous Kentucky Power
3 cases before the Commission.

4 3. To address the impact of transmission costs on customers, Kentucky
5 Power has advanced initiatives to manage and, when possible, reduce
6 the percentage of costs currently allocated to Kentucky Power under the
7 existing FERC-approved PJM OATT and the AEP Transmission
8 Agreement.

9 4. Finally, to more broadly address transmission cost allocation issues,
10 AEPSC has initiated the process to conduct an analysis of PJM
11 transmission cost allocation and its impacts on Kentucky Power and on
12 the other AEP East Operating Companies, to form recommendations
13 concerning cost allocation, inclusive of the concerns identified by the
14 Commission regarding transmission cost allocation impacts on the
15 Company.

16 **Q. PLEASE DISCUSS THE EFFORTS TO OBTAIN APPROVAL OF THE SALE**
17 **OF KENTUCKY POWER AS A MEANS TO ADDRESS THE CONCERNS**
18 **ABOUT THE COMPANY'S TRANSMISSION EXPENSES.**

19 A. Over a period of more than two years, including proceedings before the Commission
20 in Case No. 2021-00481, AEP, Kentucky Power, and Liberty Utilities Co. ("Liberty")
21 sought to obtain approval of the sale of Kentucky Power to Liberty. This transaction
22 would have positioned Kentucky Power to no longer be an affiliate of the AEP System,
23 prompting a transition period including a re-evaluation of Kentucky Power's

1 membership in PJM and relationship with other utilities in PJM and in the AEP Zone.
2 In Case No. 2021-00481, as a condition of the approval of the transaction, and subject
3 to the transaction being completed, Liberty specifically agreed that, “[w]ithin 2 years
4 of the close of the transaction, Kentucky Power will evaluate the benefits and costs of
5 its participation in the PJM, and to the extent appropriate, explore alternatives.”¹⁰
6 Although the Commission approved the transaction in May 2022, the transaction was
7 terminated by mutual agreement in April 2023. Consequently, the study agreed to by
8 Liberty was not pursued.

9 **Q. PLEASE DISCUSS THE COMPANY’S EFFORTS TO REDUCE ITS**
10 **CONTRIBUTION TO THE AEP ZONE COINCIDENT PEAKS AS A MEANS**
11 **TO REDUCE KENTUCKY POWER’S OATT EXPENSES.**

12 A. The Company has negotiated, and presented to this Commission for approval, multiple
13 special peak-shaving contracts with a total 264.9 MW of interruptible capacity that
14 would help reduce Kentucky Power’s contribution to the AEP Zone peak, thereby
15 lowering its share of the AEP Zone OATT Expense.¹¹

16 Along the same lines and as further discussed by Company Witness Vaughan,
17 Kentucky Power is proposing in this proceeding a program to allow it to construct
18 various utility-owned solar generating assets throughout its service territory. These

¹⁰ Case No. 2021-00481, *Electronic Joint Application of American Electric Power Company, Inc., Kentucky Power Company and Liberty Utilities Co. for Approval of the Transfer of Ownership and Control of Kentucky Power Company*, Order at Appendix A, page 1 (May 4, 2022).

¹¹ See Case No. 2022-00424, *Electronic Tariff Filing of Kentucky Power Company for Approval of a Special Contract Under its Economic Development Rider and Demand Response Service Tariffs with Cyber Innovation Group, LLC*; Case No. 2022-00387, *Electronic Tariff Filing of Kentucky Power Company for Approval of a Special Contract with Ebon International, LLC*. See also TFS 2022-00249; TFS 2022-00073.

1 assets, which are not subject to the PJM queue for projects, would also have the effect
2 of reducing Kentucky Power's contribution to the AEP Zone peak demand.

3 **Q. PLEASE DISCUSS THE COMPANY'S INITIATION OF A REVIEW**
4 **PROCESS CONCERNING PJM TRANSMISSION COSTS ALLOCATION**
5 **AND ITS IMPACT ON KENTUCKY POWER AND THE OTHER AEP EAST**
6 **OPERATING COMPANIES.**

7 A. American Electric Power Service Corporation has initiated a review process to examine
8 how PJM transmission costs are allocated to and among the Company and the other
9 AEP operating companies operating in PJM ("AEP East Operating Companies"). The
10 results of that review will inform recommendations concerning cost allocation,
11 inclusive of the concerns identified by the Commission regarding transmission cost
12 allocation impacts on the Company. The review is contemplated to result in
13 information and recommendations intended to be shared with the Company and the
14 other AEP East Operating Companies, the state regulatory commissions in each of the
15 AEP East Operating Companies' respective jurisdictions, and with stakeholders in each
16 of these state jurisdictions.

17 **Q. HOW WILL THE ANALYSIS BE CONDUCTED TO ENSURE IT LOOKS AT**
18 **ALL PERTINENT IDEAS INCLUDING ONES BEYOND THOSE**
19 **PREVIOUSLY CONSIDERED?**

20 A. AEPSC will retain an expert outside consultant to assist in performing an analysis of
21 how PJM transmission costs are allocated to and among the AEP East Operating
22 Companies, including the Company. AEPSC is in the process of retaining the outside

1 consultant and anticipates that the review process may take between 5 and 8 months
2 after the consultant is retained, absent unforeseen circumstances.

3 **Q. WHAT ADDITIONAL ASSURANCES CAN THE COMPANY PROVIDE**
4 **THAT THE ANALYSIS WILL ADDRESS THE COMMISSION'S**
5 **CONCERNS?**

6 A. The scope of work will expressly include the issues the Commission identified in its
7 2020 Rate Case Order. In addition, the Company commits to providing updates to the
8 Commission about the progress of AEPSC's review every 30 days, beginning August
9 31, 2023, until the time the analysis is complete and recommendations from it are
10 submitted to the Commission. The Company will file such updates as correspondence
11 in this docket.

12 **Q. WHAT WILL THE ANALYSIS EXAMINE AND WHAT STEPS WILL BE**
13 **TAKEN BY AEPSC AS A RESULT OF THE ANALYSIS?**

14 A. The Company anticipates that the analysis may include a review of historical and
15 forecasted data and examine allocation of costs to and among the AEP East Operating
16 Companies originating both from inside and from outside the AEP Zone. At the
17 conclusion of the analysis process, AEPSC will share information and
18 recommendations from the analysis with the Company and the other AEP East
19 Operating Companies. The Company intends to provide this information to the
20 Commission and expects that the other AEP East Operating Companies will provide it
21 to their respective regulatory commissions and other stakeholders in a manner
22 appropriate to each jurisdiction. It is anticipated that the results of the analysis will
23 include recommendations and an evaluation of their implications for each of the AEP

1 East Operating Companies, including Kentucky Power. Although it is impossible to
2 anticipate potential next steps that may follow, the Company does anticipate engaging
3 in discussions with stakeholders regarding the results of the analysis, and the potential
4 impacts of the analysis's recommendations.

5 **Q. WHY IN LIGHT OF THE COMMISSION'S DIRECTIVES IS A FURTHER**
6 **ANALYSIS BENEFICIAL OR NECESSARY?**

7 A. Allocation of transmission costs is a complex subject involving a wide spectrum of
8 stakeholders with competing and potentially incompatible interests. It is possible that
9 different stakeholders, including state regulatory commissions, may have differing or
10 incompatible views and objectives regarding the implementation of these
11 recommendations. Thus, addressing the Commission's concerns requires careful
12 consideration of the impacts on the Company and other stakeholders to ensure that
13 solutions can be implemented which are achievable, appropriately match benefits and
14 burdens of RTO participation, and mitigate risk that the ultimate outcome will not be
15 beneficial to Kentucky. The analysis will allow AEPSC, with the input of an outside
16 expert, to examine all facets of the cost allocation issues impacting the Company as
17 well as their broader context for the AEP Zone and the AEP East Operating Companies.
18 By taking a fresh look at these issues, AEPSC and its outside consultant will be able to
19 identify more outcomes and address regulatory risks of any change to the cost
20 allocation process.

1 **Q. ARE THERE RISKS ASSOCIATED WITH SEEKING TO CHANGE COST**
2 **ALLOCATION AT FERC?**

3 A. Yes, it is not possible to predict what disputes will arise in the course of proceedings to
4 modify cost allocation, or how FERC and the federal courts, as applicable, will resolve
5 these disputes, or over what timeframe. There is a likelihood that at least some of the
6 stakeholders involved will advocate for allocating a greater percentage of costs to be
7 borne by Kentucky Power and its customers. Thus, it is possible that FERC (and
8 subsequently federal courts reviewing FERC's decisions) may resolve disputes arising
9 in ways contrary to positions advocated by Kentucky Power or by the Commission.
10 Those decisions also may ultimately result in increases in transmission expenses to be
11 borne by Kentucky Power's customers, compared to the current FERC-approved cost
12 allocation methodology and transmission rates. Accordingly, the analysis is an
13 important step to understanding not only potential solutions and cost allocation impacts
14 of any identified option, but to also identify the legal and stakeholder risk.

**VI. HOW KENTUCKY POWER'S PJM OATT
EXPENSES AND REVENUES ARE DETERMINED**

15 **Q. CAN YOU PROVIDE CONTEXT PERTINENT TO KENTUCKY POWER'S**
16 **PJM OATT EXPENSES AND REVENUES?**

17 A. Yes. I provide factual background to explain how the Transmission OATT Revenues
18 and Transmission OATT Expenses of Kentucky Power under current PJM agreements
19 and processes. I also explain how the AEP Transmission Agreement affects how
20 Kentucky Power net OATT revenues and expenses are determined, the beneficial
21 impacts of membership in the agreement, and how options for the AEP Transmission

1 Agreement will be among those reviewed as part of the PJM transmission cost analysis
2 described in Part V of my testimony.

3 **Q. HOW IS OATT TRANSMISSION REVENUE DETERMINED FOR EACH**
4 **TRANSMISSION OWNER?**

5 A. This amount is determined by the FERC-approved wholesale transmission rates that
6 have been established for each Transmission Owner. FERC has determined that the
7 methodology used to calculate that amount results in just and reasonable rates to be
8 paid by wholesale transmission customers. These rates determine a revenue
9 requirement that reflects costs associated with the construction, operation, and
10 maintenance of the facilities in the transmission system necessary for reliability, market
11 efficiency, or other system needs. Company Witness Ali discusses these needs in detail
12 in his testimony. These FERC-approved wholesale transmission rates are often
13 referred to as formula rates, although some Transmission Owners use a stated rate
14 structure.

15 **Q. DOES KENTUCKY POWER HAVE FERC-APPROVED WHOLESALE**
16 **TRANSMISSION RATES?**

17 A. Yes. Kentucky Power has a FERC-approved formula rate to determine the cost
18 incurred by Kentucky Power associated with its transmission facilities that PJM uses
19 to provide transmission service to wholesale transmission customers. This is the
20 Kentucky Power OATT Revenue and is Kentucky Power's wholesale transmission
21 revenue requirement based on its role as a Transmission Owner in PJM.

1 **Q. HOW IS KENTUCKY POWER'S OATT EXPENSE DETERMINED?**

2 A. This is a multiple step process. First, PJM determines the total Transmission OATT
3 Expense that will be paid collectively by all the wholesale transmission customers of
4 the PJM transmission system. I will refer to this as the "Total PJM OATT Expense."
5 This amount is based on the FERC-approved wholesale transmission rates that have
6 been established for each Transmission Owner in PJM. PJM then allocates the Total
7 PJM OATT Expense among the transmission zones that are shown in Attachment J to
8 the PJM Tariff, including the AEP Zone, based on cost allocation rules that are included
9 in the PJM OATT and approved by FERC. I will refer to the amount allocated to the
10 AEP Zone as the "AEP Zone OATT Expense."

11 Next, PJM allocates to each LSE within the AEP Zone, including Kentucky
12 Power, a share of the AEP Zone OATT Expense based on a measure of each LSE's
13 relative use of the transmission system. The measure used by PJM is each LSE's
14 contribution to the single highest hourly peak of the zone over a 12-month period ("1
15 Coincident Peak" or "1CP"). Every wholesale transmission customer in the AEP Zone
16 is allocated a portion of AEP Zone OATT Expense, regardless of whether these
17 transmission customers are affiliated or unaffiliated with AEP. This step is defined in
18 the PJM OATT and approved by FERC.

19 Finally, under the AEP Transmission Agreement, AEP reallocates the
20 Transmission OATT Expense charged to the members of this agreement, including
21 Kentucky Power, using a slightly different measure of each member's relative use of
22 the transmission system. The measure used is the average of each member's average
23 contribution to the monthly peaks over a 12-month period ("12 Coincident Peaks" or

1 “12CP”). The amount allocated to Kentucky Power in this final step is the Kentucky
2 Power OATT Expense.

3 **Q. CAN YOU PLEASE EXPAND ON THE FIRST STEP WHERE PJM**
4 **DETERMINES THE TOTAL PJM OATT EXPENSE THAT WILL BE PAID**
5 **COLLECTIVELY BY ALL THE WHOLESALE TRANSMISSION**
6 **CUSTOMERS OF THE PJM TRANSMISSION SYSTEM?**

7 A. The Total PJM OATT Expense is the sum of the costs associated with the transmission
8 facilities of all PJM Transmission Owners. In other words, it is the sum of the
9 transmission revenue requirements of all the PJM Transmission Owners that I
10 described above as OATT Transmission Revenue. This is the amount that PJM will
11 collect in total from wholesale transmission customers for using the PJM transmission
12 system.

13 **Q. IN THE SECOND STEP DESCRIBED ABOVE WHERE PJM CHARGES**
14 **EACH LSE WITHIN THE AEP ZONE A SHARE OF THE AEP ZONE OATT**
15 **EXPENSE, WHY DOES PJM ALLOCATE THESE COSTS USING 1CP?**

16 A. The default zonal allocation method in the PJM tariff is a 1CP, which allocates costs
17 based on the single highest hourly demand on the system. The general reasoning
18 behind a 1CP allocation is that the system overall is designed to accommodate this
19 maximum peak, and so 1CP is selected to identify each LSE’s contribution to it.

1 **Q. TO HELP UNDERSTAND THE FINAL STEP DESCRIBED ABOVE WHERE**
2 **AEP REALLOCATES THE TRANSMISSION OATT EXPENSE CHARGED**
3 **TO MEMBERS OF THE AEP TRANSMISSION AGREEMENT, INCLUDING**
4 **KENTUCKY POWER, CAN YOU PLEASE DESCRIBE THIS AGREEMENT?**

5 A. The AEP Transmission Agreement is a FERC-approved agreement that governs the
6 allocation of revenues and expenses among the AEP member load serving entities. It
7 provides for the equitable sharing among the members of the costs incurred by the
8 members in connection with the ownership and use of the transmission system.

9 **Q. WHY IS 12CP USED IN THE AEP TRANSMISSION AGREEMENT TO**
10 **REALLOCATE THE TRANSMISSION OATT EXPENSE CHARGED TO**
11 **MEMBERS OF THIS AGREEMENT VERSUS THE 1CP METHOD USED BY**
12 **PJM?**

13 A. There is generally no “perfect” allocation method. In the case of 12CP, it is reasonable
14 because it better reflects each load’s use of the transmission system throughout the year
15 as it is based on more than a single hour. Because loads use the transmission system
16 more than a single hour, it is just and reasonable that that is reflected in what they are
17 charged. Under a 1CP allocation, a load could theoretically shed 100% of its load
18 during one hour of the year and not be assigned any costs for its use of the transmission
19 system. Under a 12CP methodology it is more difficult for any single customer to shed
20 load during that single 1CP and shift cost to other LSEs. Third and most important, use
21 of the 12CP tends to be less volatile than 1CP. Each member’s contribution to the
22 12CP is going to tend to change less from year to year than their 1CP contribution. Use
23 of the 12CP thus helps the companies and their customers better manage their costs

1 with reduced volatility. This is especially beneficial to customers in the AEP Zone as
2 it traditionally can peak in either the summer or winter.

3 The AEP companies are geographically diverse. Some of the AEP companies
4 tend to be summer-peaking, while others are winter-peaking, including Kentucky
5 Power. If AEP used the 1CP method, individual AEP companies would be subject to
6 volatile swings in expenses from year to year. Their cost would fluctuate significantly
7 depending on whether the 1CP occurred in the summer or the winter. Over the past 10
8 years, the AEP Zone has peaked in the summer 6 times and the winter 4 times. The
9 12CP method results in more stable cost sharing among the AEP companies than other
10 alternatives.

11 **Q. WILL THE TRANSMISSION ANALYSIS DESCRIBED IN PART V OF YOUR**
12 **TESTIMONY EXAMINE OPTIONS FOR MODIFYING COST ALLOCATION**
13 **UNDER THE AEP TRANSMISSION AGREEMENT THAT MAY BENEFIT**
14 **KENTUCKY OR ITS WITHDRAWAL FROM THE AGREEMENT?**

15 A. Yes, I expect the analysis will address these topics and more, from both a Kentucky
16 Power viewpoint as well as in the broader context of how costs and benefits from PJM
17 participation are allocated among the AEP East Operating Companies. The complexity
18 of analyzing this issue is one of the reasons the analysis is needed. As Company
19 Witness Pearce testified in Case No. 2020-00174, switching from 12CP to 1CP would
20 have lowered Kentucky Power's net OATT expense in some historical years (2014,
21 2017, and 2018), and raised it over others (2015, 2016, 2019, and 2020) such that over
22 the time period examined, Kentucky Power customers would have paid more using

1 1CP than they paid under the 12CP method of allocation.¹² Thus, the question of
2 changing methodologies requires careful consideration to ensure *future* changes are
3 beneficial. For example, switching to 1 CP, including by withdrawing from the
4 agreement under Section 9.3 of the AEP Transmission Agreement (which allows a
5 member to withdraw from the agreement upon at least three years' prior written notice)
6 would subject Kentucky Power and its customers to greater volatility in Transmission
7 OATT Expense. Based on these considerations, it would be premature to change
8 Kentucky Power's participation in that agreement before the PJM transmission cost
9 allocation analysis I described earlier is complete.

VII. CONCLUSION

10 **Q. DO YOU HAVE A SUMMARY RECOMMENDATION?**

11 A. The Company, consistent with the directives of the Commission in its previous rate
12 case and other proceedings, considers ways to manage, and to the extent possible
13 reduce, its Transmission OATT Expenses. The Company is aware of recommendations
14 previously made and questions previously asked by stakeholders aimed at the
15 possibility of a drastic change with Kentucky Power's membership in PJM, the AEP
16 Zone, and the AEP Transmission Agreement. My testimony describes the steps the
17 Company has taken to address those recommendations and questions. It also highlights
18 that the risks associated with those possibilities are significant, exposing Kentucky
19 Power's customers to a material risk of experiencing greater costs, greater volatility,
20 and greater uncertainty. The Company continues to consider these risks within the

¹² Supplemental amended rebuttal testimony of Kelly D. Pearce, Case No. 2020-00174.

1 context of its efforts to manage its Transmission OATT Expenses and remains open to
2 future dialogue and to input from stakeholders on this subject.

3 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 **A.** Yes, it does.



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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) A)
Securitization Financing Order; And (5) All Other)
Required Approvals And Relief)

Case No. 2023-00159

DIRECT TESTIMONY OF
JOSHUA D. BURKHOLDER
ON BEHALF OF KENTUCKY POWER COMPANY

**DIRECT TESTIMONY OF
JOSHUA D. BURKHOLDER
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2023-00159

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**DIRECT TESTIMONY OF
JOSHUA D. BURKHOLDER ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Joshua D. Burkholder, and my business address is 1 Riverside Plaza,
3 Columbus, Ohio 43215.

II. BACKGROUND

4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

5 A. I am employed by American Electric Power Service Corporation (“AEPSC”) as
6 Managing Director – Transmission RTO Policy. AEPSC supplies engineering,
7 financing, accounting, planning, advisory, and other services to the subsidiaries of the
8 American Electric Power (“AEP”) system, one of which is Kentucky Power Company
9 (“Kentucky Power” or the “Company”).

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **BACKGROUND.**

12 A. I earned a bachelor’s degree with honors in economics in 1997 from the University of
13 Maryland in College Park, MD. I graduated from The Ohio State University, Fisher
14 College of Business with a Masters of Business Administration in 2002.

1 From 1997 to 2000, I held the position of Economist at the U.S Department of
2 Commerce, Bureau of Economic Analysis, where I participated in analysis of
3 international financial data.

4 I joined AEPSC in 2002 as an associate in commercial operations and worked
5 on various business development projects and AEP's integration into PJM
6 Interconnection, LLC ("PJM"). In 2004, I joined AEPSC's Corporate Planning and
7 Budgeting organization as Staff Financial Analyst of Strategic Initiatives and was
8 promoted to Manager of Strategic Initiatives in 2007. In this role, I was responsible
9 for working with AEPSC leadership in developing AEP's strategic plan and other
10 strategic studies and analysis. In 2009, I transferred to AEP's transmission business
11 unit as Manager, Transmission Strategy and Business Development where I was
12 responsible for coordinating activities associated with the operations of the AEP
13 transmission companies and for budgeting and financial analysis for the AEP
14 transmission organization. In 2012, I was promoted to Director of Competitive
15 Transmission Development for AEP's affiliate company Transource Energy, LLC.
16 There, I was responsible for securing competitive transmission projects within the PJM
17 and MISO regions. In 2018, I was named Director, FERC and RTO Strategy and
18 Policy, responsible for federal and regional policy matters impacting AEP's
19 transmission and generation businesses. In March 2023, I was promoted within the
20 same group to my current position.

1 **Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR -**
2 **TRANSMISSION RTO POLICY?**

3 A. I lead a team that is responsible for the development and advocacy of AEP's and its
4 subsidiaries' strategies and positions in their respective Regional Transmission
5 Organization ("RTO"), including PJM, regarding policy matters impacting the
6 transmission and generation functions. This includes working closely with AEP
7 operating companies and other AEP leadership to determine the impacts of and develop
8 positions regarding potential policy changes. My team is deeply engaged in the
9 stakeholder process ranging from technical working groups to the most senior standing
10 committees.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
12 **COMMISSIONS?**

13 A. Yes. I have testified before the Arkansas Public Service Commission and the Indiana
14 Utilities Regulatory Commission.

III. PURPOSE OF DIRECT TESTIMONY

15 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

16 A. The purpose of my testimony is to provide evidence regarding the steps the Company
17 has taken to address concerns regarding transmission costs discussed in the
18 Commission's January 13, 2021 Order in Case No. 2020-00174 (the "2020 Rate Case
19 Order"). My testimony also provides a factual background regarding Kentucky
20 Power's membership in the PJM regional transmission organization and participation
21 in the AEP Transmission Agreement, and the benefits to Kentucky Power's customers

1 of that participation. Finally, my testimony provides: (a) a high-level overview of the
2 methodology used to determine Kentucky Power’s Open Access Transmission Tariff
3 (“OATT”) expenses, and (b) the relationship between and independence of the
4 transmission revenues associated with Kentucky Power’s investment on transmission
5 projects in its service territory and the transmission expenses it incurs for its use of the
6 transmission network in PJM and the AEP Zone. Company Witness Ali will provide
7 evidence concerning the practical benefits, needs, and required investments associated
8 with Kentucky Power’s obligation to serve its retail customers. Therefore, my
9 testimony focuses on policy considerations, and on some of the risks associated with
10 possible changes to the methodology used to determine Kentucky Power’s transmission
11 expenses under transmission rates regulated by the Federal Energy Regulatory
12 Commission (“FERC”).

**IV. KENTUCKY POWER’S MEMBERSHIP IN PJM
AND THE BENEFITS TO CUSTOMERS FROM THAT PARTICIPATION**

13 **Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN KENTUCKY**
14 **POWER AND PJM.**

15 **A.** Kentucky Power is a member of PJM. Kentucky Power joined PJM in 2004, pursuant
16 to authorization granted by the Commission on its Order dated May 19, 2004, in Case
17 No. 2002-00475.¹ Within PJM, Kentucky Power is located in PJM’s AEP Zone, as
18 shown in Attachment J to the PJM OATT, consistent with the provisions of the FERC-

¹ Order, Case No. 2002-00475, *In the Matter of: Application of Kentucky Power Company d/b/a American Electric Power for Approval, to the Extent Necessary, to Transfer Functional Control of Transmission Facilities Located in Kentucky to PJM Interconnection, L.L.C. Pursuant to KRS 278.218* (Order dated May 19, 2004).

1 regulated Consolidated Transmission Owners Agreement (“CTOA”).² Kentucky
2 Power has three roles in PJM; it is: (a) a load serving entity (“LSE”, also referred to as
3 a “wholesale transmission customer”), (b) a transmission owner (“TO” or
4 “Transmission Owner”), and (c) a generator.

5 **Q. PLEASE DESCRIBE PJM’s ROLE AS THE TRANSMISSION PROVIDER OF**
6 **WHOLESALE TRANSMISSION SERVICE.**

7 A. To understand the dynamics of wholesale transmission service, an important first point
8 is that PJM is the Transmission Provider of transmission service to LSEs and uses the
9 transmission facilities of TOs to provide this service. PJM, as the Transmission
10 Provider, charges LSEs for their use of the PJM transmission system based on FERC-
11 regulated rates and, for the LSEs, this is an expense that I will define as “Transmission
12 OATT Expense.” In turn, PJM uses the transmission facilities owned by TOs in
13 providing wholesale transmission service and compensates TOs for this. For the TO,
14 this is revenue that I will define as “Transmission OATT Revenue.” I go into further
15 detail about how both Transmission OATT Expense and Transmission OATT
16 Revenues are determined for Kentucky Power and the role of FERC in these processes
17 later in my testimony.

² Attachment J to the PJM OATT is available at <https://pjm.com/directory/merged-tariffs/oatt.pdf>. The CTOA, also known as FERC Schedule 42, is available at <https://www.pjm.com/directory/merged-tariffs/toa42.pdf>.

1 **Q. PLEASE GENERALLY EXPLAIN HOW KENTUCKY POWER**
2 **PARTICIPATES IN PJM AS AN LSE REGARDING TRANSMISSION**
3 **SERVICE.**

4 Kentucky Power is as an LSE in PJM and, as such, Kentucky Power is charged
5 Transmission OATT Expense by PJM. I will refer to the specific amount that is
6 charged to Kentucky Power as the “Kentucky Power OATT Expense.”³ In simplified
7 terms, the Kentucky Power OATT Expense is what Kentucky Power pays to PJM, the
8 Transmission Provider, for Kentucky Power’s use of the PJM transmission system
9 under FERC-regulated rates.

10 **Q. PLEASE GENERALLY EXPLAIN HOW KENTUCKY POWER**
11 **PARTICIPATES IN PJM AS A TRANSMISSION OWNER.**

12 Kentucky Power also is a Transmission Owner in PJM and receives Transmission
13 OATT Revenue from PJM, and I will refer to the specific amount that is received by
14 Kentucky Power as the “Kentucky Power OATT Revenue.” In simplified terms, the
15 Kentucky Power OATT Revenue is what Kentucky Power receives from PJM for
16 PJM’s use of Kentucky Power’s transmission facilities in providing wholesale
17 transmission service under FERC-regulated rates.

18 **Q. PLEASE GENERALLY EXPLAIN HOW KENTUCKY POWER**
19 **PARTICIPATES IN PJM AS A GENERATOR.**

20 **A.** Kentucky Power’s generation assets are operated consistent with dispatch rules
21 administered by PJM. Kentucky Power offers 100% of its generation energy production

³This is also commonly referred to as Kentucky Power’s PJM LSE OATT costs, charges, or expense.

1 in PJM's energy markets. Kentucky Power purchases 100% of its energy needs from
2 the PJM energy markets. Kentucky Power's customers are served using energy and
3 capacity obtained by Kentucky Power pursuant to PJM's OATT and subject to FERC's
4 regulation over wholesale energy markets.⁴

5 **Q. DOES YOUR TESTIMONY FOCUS ON ONE OR MORE OF THOSE THREE**
6 **ROLES?**

7 A. Yes. While generation is also important, my testimony is focused on Kentucky Power's
8 roles in PJM regarding wholesale transmission service as a TO and an LSE.

9 **Q. WHAT FACTORS CONTRIBUTE TO KENTUCKY POWER'S USE OF THE**
10 **PJM TRANSMISSION SYSTEM?**

11 A. The primary factor is that only a portion of the generation facilities that provide
12 Kentucky Power with the capacity and energy needed to serve retail customers are in
13 the state of Kentucky and, therefore, Kentucky Power uses the PJM transmission
14 system to have access to needed resources located outside of the state. It is my
15 understanding that Kentucky Power's generation fleet has changed significantly over
16 the past two decades, including the retirement of the Big Sandy II coal-fired plant, the
17 conversion of Big Sandy I to a gas-fueled generating unit, and the acquisition of
18 Kentucky Power's interest in the Mitchell Plant in West Virginia.

⁴ As a load serving entity in PJM, Kentucky Power is required to meet its capacity obligations through one of the two alternatives currently available under the PJM OATT, namely the Fixed Resource Requirement ("FRR") option, or from the Reliability Pricing Model ("RPM") option. Kentucky Power has elected the FRR option through PJM's 2024/25 planning year.

1 **Q. DO KENTUCKY POWER AND ITS CUSTOMERS BENEFIT FROM**
2 **KENTUCKY POWER'S USE OF THE PJM TRANSMISSION SYSTEM AS A**
3 **TO AND LSE?**

4 A. Absolutely. This use of the PJM transmission service avails Kentucky Power of the
5 benefits of participation in all aspects of PJM. This includes the benefits resulting from
6 having access to the whole transmission system over which PJM has functional control,
7 and to all the markets administered by PJM, including energy and capacity markets.
8 Kentucky Power would receive this transmission service regardless of whether it itself
9 owns transmission facilities, as illustrated by the fact that it is possible to be an LSE
10 and own, maintain, and operate only the very few transmission facilities, if any, just
11 necessary to interconnect to the PJM transmission network.

12 **Q. DOES KENTUCKY POWER USE THE TRANSMISSION SYSTEM OUTSIDE**
13 **OF KENTUCKY TO SERVE ITS CUSTOMERS?**

14 A. To have access to the energy and generation capacity Kentucky Power requires to serve
15 its customers, Kentucky Power depends on transmission facilities it does not own,
16 located in PJM both within and outside the AEP Zone. Company Witness Ali provides
17 details of how Kentucky Power uses transmission facilities that it does not own.
18 Without access to use these transmission facilities, Kentucky Power would be limited
19 to either rely on generation resources in its own service territory or on energy and
20 capacity contracts that undoubtedly would embed a cost for using and having access to
21 the infrastructure necessary to transmit power from where it is generated to the load
22 centers in Kentucky Power's territory. Access to these facilities is necessary for
23 Kentucky Power's customers to benefit from the economic efficiency, flexibility,

1 resilience, and depth that are the hallmark of an electric regional transmission
2 organization. In fact, even under a hypothetical scenario where Kentucky Power was
3 not a member of PJM, it would still incur costs for its use of transmission facilities it
4 does not own (either in wholesale transmission rates or in other rates in which those
5 costs are embedded), in addition to incurring the costs associated with constructing,
6 maintaining, and operating its own transmission facilities.

7 **Q. DOES KENTUCKY POWER'S USE OF THE TRANSMISSION SYSTEM**
8 **OUTSIDE OF KENTUCKY PROVIDE ADDITIONAL ASSURANCES THAT**
9 **CUSTOMERS WILL HAVE ACCESS TO CAPACITY NEEDED TO SERVE**
10 **CUSTOMERS?**

11 A. Yes. Specifically concerning its access to capacity resources, Kentucky Power's access
12 to the PJM transmission system, and particularly to the transmission facilities in the
13 AEP Zone, provide Kentucky Power with ample flexibility to elect to continue to
14 satisfy its capacity requirements under PJM's FRR alternative, or elect in the future,
15 depending on market conditions and an evaluation of relative risks, to instead
16 participate in the RPM capacity market. Such flexibility would simply not exist if
17 Kentucky Power had no access to the transmission facilities in the AEP Zone and
18 beyond in PJM.

19 **Q. HOW DO KENTUCKY POWER'S OATT EXPENSES CURRENTLY**
20 **COMPARE TO KENTUCKY POWER'S OATT REVENUES?**

21 A. Kentucky Power's OATT expenses have been higher than its revenues. However,
22 transmission expenses and revenues should not be expected to be exactly
23 commensurate. Kentucky Power's transmission revenues can reasonably be expected

1 to be less than its transmission expenses at different points in time, and under various
2 circumstances. The main conclusion that I draw from the current relationship of OATT
3 revenue and expense is that at the wholesale level, Kentucky Power uses the PJM
4 transmission system to a greater degree than other wholesale transmission customers
5 use Kentucky Power's transmission facilities.

6 **Q. WHAT WAS THE TEST YEAR KENTUCKY POWER OATT REVENUE?**

7 A. During the test year, the FERC-approved formula rate for Kentucky Power resulted in
8 OATT revenue of \$86,296,748 on a total company basis as shown in Section V,
9 Schedule 4.

10 **Q. WHAT WAS THE TEST YEAR KENTUCKY POWER OATT EXPENSE?**

11 A. As supported by Company Witness Walsh, total adjusted test year Kentucky Power
12 OATT Expense (which Ms. Walsh refers to as LSE OATT expense) was \$136,358,812.

13 **Q. ARE THE TRANSMISSION OATT EXPENSES INCURRED BY KENTUCKY
14 POWER DETERMINED USING RATES AND TARIFFS THAT FERC HAS
15 FOUND ARE JUST AND REASONABLE?**

16 A. Yes. The annualized adjusted amounts that Kentucky Power pays for the wholesale
17 transmission service it receives as a member of PJM, as supported by Company
18 Witness Walsh, are determined and billed pursuant to tariffs and formula rates that
19 FERC has found result in just and reasonable rates.

**V. STEPS TAKEN BY KENTUCKY POWER
TO ADDRESS CONCERNS ABOUT ITS TRANSMISSION COSTS**

1 **Q. HAS THE COMMISSION EXPRESSED CONCERNS ABOUT THE SHARE OF**
2 **TRANSMISSION CHARGES BORNE BY KENTUCKY POWER’S**
3 **CUSTOMERS?**

4 A. Yes. Notwithstanding FERC’s determination that the amounts that Kentucky Power
5 pays for the PJM transmission service are just and reasonable, the Commission has
6 expressed concerns, such as in the 2020 Rate Case Order, about rising transmission
7 costs paid by Kentucky Power customers and the fact that its wholesale transmission
8 expenses exceed its transmission revenues.

9 **Q. WHAT CONCERNS REGARDING TRANSMISSION INVESTMENT AND**
10 **EXPENSE DID THE COMMISSION IDENTIFY IN THE 2020 RATE CASE**
11 **ORDER?**

12 A. In its 2020 Rate Case Order, the Commission identified “concern[s] regarding
13 Kentucky Power’s and AEP’s activities related to transmission investment, control and
14 ownership in Kentucky Power’s territory . . .”⁵ The Commission also was “concerned
15 that AEP, not Kentucky Power, [was] exerting the ultimate authority over Kentucky
16 Power’s transmission system . . .”⁶ It further indicated that it was concerned that
17 Kentucky Power appeared to be “acquiescing to the transfer of actual ownership and
18 control of its transmission system to affiliates for which Kentucky Power has no
19 command and the Commission has no authority,” including AEP Kentucky

⁵ 2020 Rate Case Order at 60.

⁶ *Id.* at 62.

1 Transmission Company, Inc. (“Kentucky Transco”).⁷ Opining that Kentucky Power’s
2 “transmission planning and investment activities [were] not sustainable and must be
3 substantively addressed in the near future,”⁸ the Commission directed the Company to
4 “address the burden these increasing expenses will represent to its dwindling customer
5 base.”⁹

6 **Q. PLEASE EXPLAIN WHAT STEPS THE COMPANY HAS TAKEN TO**
7 **ADDRESS THE CONCERNS SUMMARIZED ABOVE.**

8 A. Kentucky Power has taken steps to address the Commission’s directive in four main
9 areas of focus:

- 10 1. Addressing the Commission’s concerns about the transfer of ownership
11 and control of its transmission system to affiliates, Kentucky Power no
12 longer involves Kentucky Transco in projects related to Kentucky
13 Power’s transmission assets. Additionally, Kentucky Power continues
14 to make appropriate necessary capital investments in its transmission
15 system to address its customers’ transmission needs. Company Witness
16 Ali discusses these items further.
- 17 2. With respect to the Commission’s concerns regarding common AEP
18 ownership of Kentucky Power and affiliate transmission owners in PJM,
19 Kentucky Power sought to obtain approval of a transaction to sell the
20 Company to an entity not affiliated with AEP. In the context of that

⁷ *Id.*

⁸ *Id.* at 60.

⁹ *Id.* at 63.

1 transaction, studies would have been pursued consistent with
2 recommendations that have been made in previous Kentucky Power
3 cases before the Commission.

4 3. To address the impact of transmission costs on customers, Kentucky
5 Power has advanced initiatives to manage and, when possible, reduce
6 the percentage of costs currently allocated to Kentucky Power under the
7 existing FERC-approved PJM OATT and the AEP Transmission
8 Agreement.

9 4. Finally, to more broadly address transmission cost allocation issues,
10 AEPSC has initiated the process to conduct an analysis of PJM
11 transmission cost allocation and its impacts on Kentucky Power and on
12 the other AEP East Operating Companies, to form recommendations
13 concerning cost allocation, inclusive of the concerns identified by the
14 Commission regarding transmission cost allocation impacts on the
15 Company.

16 **Q. PLEASE DISCUSS THE EFFORTS TO OBTAIN APPROVAL OF THE SALE**
17 **OF KENTUCKY POWER AS A MEANS TO ADDRESS THE CONCERNS**
18 **ABOUT THE COMPANY'S TRANSMISSION EXPENSES.**

19 A. Over a period of more than two years, including proceedings before the Commission
20 in Case No. 2021-00481, AEP, Kentucky Power, and Liberty Utilities Co. ("Liberty")
21 sought to obtain approval of the sale of Kentucky Power to Liberty. This transaction
22 would have positioned Kentucky Power to no longer be an affiliate of the AEP System,
23 prompting a transition period including a re-evaluation of Kentucky Power's

1 membership in PJM and relationship with other utilities in PJM and in the AEP Zone.
2 In Case No. 2021-00481, as a condition of the approval of the transaction, and subject
3 to the transaction being completed, Liberty specifically agreed that, “[w]ithin 2 years
4 of the close of the transaction, Kentucky Power will evaluate the benefits and costs of
5 its participation in the PJM, and to the extent appropriate, explore alternatives.”¹⁰
6 Although the Commission approved the transaction in May 2022, the transaction was
7 terminated by mutual agreement in April 2023. Consequently, the study agreed to by
8 Liberty was not pursued.

9 **Q. PLEASE DISCUSS THE COMPANY’S EFFORTS TO REDUCE ITS**
10 **CONTRIBUTION TO THE AEP ZONE COINCIDENT PEAKS AS A MEANS**
11 **TO REDUCE KENTUCKY POWER’S OATT EXPENSES.**

12 A. The Company has negotiated, and presented to this Commission for approval, multiple
13 special peak-shaving contracts with a total 264.9 MW of interruptible capacity that
14 would help reduce Kentucky Power’s contribution to the AEP Zone peak, thereby
15 lowering its share of the AEP Zone OATT Expense.¹¹

16 Along the same lines and as further discussed by Company Witness Vaughan,
17 Kentucky Power is proposing in this proceeding a program to allow it to construct
18 various utility-owned solar generating assets throughout its service territory. These

¹⁰ Case No. 2021-00481, *Electronic Joint Application of American Electric Power Company, Inc., Kentucky Power Company and Liberty Utilities Co. for Approval of the Transfer of Ownership and Control of Kentucky Power Company*, Order at Appendix A, page 1 (May 4, 2022).

¹¹ See Case No. 2022-00424, *Electronic Tariff Filing of Kentucky Power Company for Approval of a Special Contract Under its Economic Development Rider and Demand Response Service Tariffs with Cyber Innovation Group, LLC*; Case No. 2022-00387, *Electronic Tariff Filing of Kentucky Power Company for Approval of a Special Contract with Ebon International, LLC*. See also TFS 2022-00249; TFS 2022-00073.

1 assets, which are not subject to the PJM queue for projects, would also have the effect
2 of reducing Kentucky Power's contribution to the AEP Zone peak demand.

3 **Q. PLEASE DISCUSS THE COMPANY'S INITIATION OF A REVIEW**
4 **PROCESS CONCERNING PJM TRANSMISSION COSTS ALLOCATION**
5 **AND ITS IMPACT ON KENTUCKY POWER AND THE OTHER AEP EAST**
6 **OPERATING COMPANIES.**

7 A. American Electric Power Service Corporation has initiated a review process to examine
8 how PJM transmission costs are allocated to and among the Company and the other
9 AEP operating companies operating in PJM ("AEP East Operating Companies"). The
10 results of that review will inform recommendations concerning cost allocation,
11 inclusive of the concerns identified by the Commission regarding transmission cost
12 allocation impacts on the Company. The review is contemplated to result in
13 information and recommendations intended to be shared with the Company and the
14 other AEP East Operating Companies, the state regulatory commissions in each of the
15 AEP East Operating Companies' respective jurisdictions, and with stakeholders in each
16 of these state jurisdictions.

17 **Q. HOW WILL THE ANALYSIS BE CONDUCTED TO ENSURE IT LOOKS AT**
18 **ALL PERTINENT IDEAS INCLUDING ONES BEYOND THOSE**
19 **PREVIOUSLY CONSIDERED?**

20 A. AEPSC will retain an expert outside consultant to assist in performing an analysis of
21 how PJM transmission costs are allocated to and among the AEP East Operating
22 Companies, including the Company. AEPSC is in the process of retaining the outside

1 consultant and anticipates that the review process may take between 5 and 8 months
2 after the consultant is retained, absent unforeseen circumstances.

3 **Q. WHAT ADDITIONAL ASSURANCES CAN THE COMPANY PROVIDE**
4 **THAT THE ANALYSIS WILL ADDRESS THE COMMISSION'S**
5 **CONCERNS?**

6 A. The scope of work will expressly include the issues the Commission identified in its
7 2020 Rate Case Order. In addition, the Company commits to providing updates to the
8 Commission about the progress of AEPSC's review every 30 days, beginning August
9 31, 2023, until the time the analysis is complete and recommendations from it are
10 submitted to the Commission. The Company will file such updates as correspondence
11 in this docket.

12 **Q. WHAT WILL THE ANALYSIS EXAMINE AND WHAT STEPS WILL BE**
13 **TAKEN BY AEPSC AS A RESULT OF THE ANALYSIS?**

14 A. The Company anticipates that the analysis may include a review of historical and
15 forecasted data and examine allocation of costs to and among the AEP East Operating
16 Companies originating both from inside and from outside the AEP Zone. At the
17 conclusion of the analysis process, AEPSC will share information and
18 recommendations from the analysis with the Company and the other AEP East
19 Operating Companies. The Company intends to provide this information to the
20 Commission and expects that the other AEP East Operating Companies will provide it
21 to their respective regulatory commissions and other stakeholders in a manner
22 appropriate to each jurisdiction. It is anticipated that the results of the analysis will
23 include recommendations and an evaluation of their implications for each of the AEP

1 East Operating Companies, including Kentucky Power. Although it is impossible to
2 anticipate potential next steps that may follow, the Company does anticipate engaging
3 in discussions with stakeholders regarding the results of the analysis, and the potential
4 impacts of the analysis's recommendations.

5 **Q. WHY IN LIGHT OF THE COMMISSION'S DIRECTIVES IS A FURTHER**
6 **ANALYSIS BENEFICIAL OR NECESSARY?**

7 A. Allocation of transmission costs is a complex subject involving a wide spectrum of
8 stakeholders with competing and potentially incompatible interests. It is possible that
9 different stakeholders, including state regulatory commissions, may have differing or
10 incompatible views and objectives regarding the implementation of these
11 recommendations. Thus, addressing the Commission's concerns requires careful
12 consideration of the impacts on the Company and other stakeholders to ensure that
13 solutions can be implemented which are achievable, appropriately match benefits and
14 burdens of RTO participation, and mitigate risk that the ultimate outcome will not be
15 beneficial to Kentucky. The analysis will allow AEPSC, with the input of an outside
16 expert, to examine all facets of the cost allocation issues impacting the Company as
17 well as their broader context for the AEP Zone and the AEP East Operating Companies.
18 By taking a fresh look at these issues, AEPSC and its outside consultant will be able to
19 identify more outcomes and address regulatory risks of any change to the cost
20 allocation process.

1 **Q. ARE THERE RISKS ASSOCIATED WITH SEEKING TO CHANGE COST**
2 **ALLOCATION AT FERC?**

3 A. Yes, it is not possible to predict what disputes will arise in the course of proceedings to
4 modify cost allocation, or how FERC and the federal courts, as applicable, will resolve
5 these disputes, or over what timeframe. There is a likelihood that at least some of the
6 stakeholders involved will advocate for allocating a greater percentage of costs to be
7 borne by Kentucky Power and its customers. Thus, it is possible that FERC (and
8 subsequently federal courts reviewing FERC's decisions) may resolve disputes arising
9 in ways contrary to positions advocated by Kentucky Power or by the Commission.
10 Those decisions also may ultimately result in increases in transmission expenses to be
11 borne by Kentucky Power's customers, compared to the current FERC-approved cost
12 allocation methodology and transmission rates. Accordingly, the analysis is an
13 important step to understanding not only potential solutions and cost allocation impacts
14 of any identified option, but to also identify the legal and stakeholder risk.

**VI. HOW KENTUCKY POWER'S PJM OATT
EXPENSES AND REVENUES ARE DETERMINED**

15 **Q. CAN YOU PROVIDE CONTEXT PERTINENT TO KENTUCKY POWER'S**
16 **PJM OATT EXPENSES AND REVENUES?**

17 A. Yes. I provide factual background to explain how the Transmission OATT Revenues
18 and Transmission OATT Expenses of Kentucky Power under current PJM agreements
19 and processes. I also explain how the AEP Transmission Agreement affects how
20 Kentucky Power net OATT revenues and expenses are determined, the beneficial
21 impacts of membership in the agreement, and how options for the AEP Transmission

1 Agreement will be among those reviewed as part of the PJM transmission cost analysis
2 described in Part V of my testimony.

3 **Q. HOW IS OATT TRANSMISSION REVENUE DETERMINED FOR EACH**
4 **TRANSMISSION OWNER?**

5 A. This amount is determined by the FERC-approved wholesale transmission rates that
6 have been established for each Transmission Owner. FERC has determined that the
7 methodology used to calculate that amount results in just and reasonable rates to be
8 paid by wholesale transmission customers. These rates determine a revenue
9 requirement that reflects costs associated with the construction, operation, and
10 maintenance of the facilities in the transmission system necessary for reliability, market
11 efficiency, or other system needs. Company Witness Ali discusses these needs in detail
12 in his testimony. These FERC-approved wholesale transmission rates are often
13 referred to as formula rates, although some Transmission Owners use a stated rate
14 structure.

15 **Q. DOES KENTUCKY POWER HAVE FERC-APPROVED WHOLESALE**
16 **TRANSMISSION RATES?**

17 A. Yes. Kentucky Power has a FERC-approved formula rate to determine the cost
18 incurred by Kentucky Power associated with its transmission facilities that PJM uses
19 to provide transmission service to wholesale transmission customers. This is the
20 Kentucky Power OATT Revenue and is Kentucky Power's wholesale transmission
21 revenue requirement based on its role as a Transmission Owner in PJM.

1 **Q. HOW IS KENTUCKY POWER'S OATT EXPENSE DETERMINED?**

2 A. This is a multiple step process. First, PJM determines the total Transmission OATT
3 Expense that will be paid collectively by all the wholesale transmission customers of
4 the PJM transmission system. I will refer to this as the "Total PJM OATT Expense."
5 This amount is based on the FERC-approved wholesale transmission rates that have
6 been established for each Transmission Owner in PJM. PJM then allocates the Total
7 PJM OATT Expense among the transmission zones that are shown in Attachment J to
8 the PJM Tariff, including the AEP Zone, based on cost allocation rules that are included
9 in the PJM OATT and approved by FERC. I will refer to the amount allocated to the
10 AEP Zone as the "AEP Zone OATT Expense."

11 Next, PJM allocates to each LSE within the AEP Zone, including Kentucky
12 Power, a share of the AEP Zone OATT Expense based on a measure of each LSE's
13 relative use of the transmission system. The measure used by PJM is each LSE's
14 contribution to the single highest hourly peak of the zone over a 12-month period ("1
15 Coincident Peak" or "1CP"). Every wholesale transmission customer in the AEP Zone
16 is allocated a portion of AEP Zone OATT Expense, regardless of whether these
17 transmission customers are affiliated or unaffiliated with AEP. This step is defined in
18 the PJM OATT and approved by FERC.

19 Finally, under the AEP Transmission Agreement, AEP reallocates the
20 Transmission OATT Expense charged to the members of this agreement, including
21 Kentucky Power, using a slightly different measure of each member's relative use of
22 the transmission system. The measure used is the average of each member's average
23 contribution to the monthly peaks over a 12-month period ("12 Coincident Peaks" or

1 “12CP”). The amount allocated to Kentucky Power in this final step is the Kentucky
2 Power OATT Expense.

3 **Q. CAN YOU PLEASE EXPAND ON THE FIRST STEP WHERE PJM**
4 **DETERMINES THE TOTAL PJM OATT EXPENSE THAT WILL BE PAID**
5 **COLLECTIVELY BY ALL THE WHOLESALE TRANSMISSION**
6 **CUSTOMERS OF THE PJM TRANSMISSION SYSTEM?**

7 A. The Total PJM OATT Expense is the sum of the costs associated with the transmission
8 facilities of all PJM Transmission Owners. In other words, it is the sum of the
9 transmission revenue requirements of all the PJM Transmission Owners that I
10 described above as OATT Transmission Revenue. This is the amount that PJM will
11 collect in total from wholesale transmission customers for using the PJM transmission
12 system.

13 **Q. IN THE SECOND STEP DESCRIBED ABOVE WHERE PJM CHARGES**
14 **EACH LSE WITHIN THE AEP ZONE A SHARE OF THE AEP ZONE OATT**
15 **EXPENSE, WHY DOES PJM ALLOCATE THESE COSTS USING 1CP?**

16 A. The default zonal allocation method in the PJM tariff is a 1CP, which allocates costs
17 based on the single highest hourly demand on the system. The general reasoning
18 behind a 1CP allocation is that the system overall is designed to accommodate this
19 maximum peak, and so 1CP is selected to identify each LSE’s contribution to it.

1 **Q. TO HELP UNDERSTAND THE FINAL STEP DESCRIBED ABOVE WHERE**
2 **AEP REALLOCATES THE TRANSMISSION OATT EXPENSE CHARGED**
3 **TO MEMBERS OF THE AEP TRANSMISSION AGREEMENT, INCLUDING**
4 **KENTUCKY POWER, CAN YOU PLEASE DESCRIBE THIS AGREEMENT?**

5 A. The AEP Transmission Agreement is a FERC-approved agreement that governs the
6 allocation of revenues and expenses among the AEP member load serving entities. It
7 provides for the equitable sharing among the members of the costs incurred by the
8 members in connection with the ownership and use of the transmission system.

9 **Q. WHY IS 12CP USED IN THE AEP TRANSMISSION AGREEMENT TO**
10 **REALLOCATE THE TRANSMISSION OATT EXPENSE CHARGED TO**
11 **MEMBERS OF THIS AGREEMENT VERSUS THE 1CP METHOD USED BY**
12 **PJM?**

13 A. There is generally no “perfect” allocation method. In the case of 12CP, it is reasonable
14 because it better reflects each load’s use of the transmission system throughout the year
15 as it is based on more than a single hour. Because loads use the transmission system
16 more than a single hour, it is just and reasonable that that is reflected in what they are
17 charged. Under a 1CP allocation, a load could theoretically shed 100% of its load
18 during one hour of the year and not be assigned any costs for its use of the transmission
19 system. Under a 12CP methodology it is more difficult for any single customer to shed
20 load during that single 1CP and shift cost to other LSEs. Third and most important, use
21 of the 12CP tends to be less volatile than 1CP. Each member’s contribution to the
22 12CP is going to tend to change less from year to year than their 1CP contribution. Use
23 of the 12CP thus helps the companies and their customers better manage their costs

1 with reduced volatility. This is especially beneficial to customers in the AEP Zone as
2 it traditionally can peak in either the summer or winter.

3 The AEP companies are geographically diverse. Some of the AEP companies
4 tend to be summer-peaking, while others are winter-peaking, including Kentucky
5 Power. If AEP used the 1CP method, individual AEP companies would be subject to
6 volatile swings in expenses from year to year. Their cost would fluctuate significantly
7 depending on whether the 1CP occurred in the summer or the winter. Over the past 10
8 years, the AEP Zone has peaked in the summer 6 times and the winter 4 times. The
9 12CP method results in more stable cost sharing among the AEP companies than other
10 alternatives.

11 **Q. WILL THE TRANSMISSION ANALYSIS DESCRIBED IN PART V OF YOUR**
12 **TESTIMONY EXAMINE OPTIONS FOR MODIFYING COST ALLOCATION**
13 **UNDER THE AEP TRANSMISSION AGREEMENT THAT MAY BENEFIT**
14 **KENTUCKY OR ITS WITHDRAWAL FROM THE AGREEMENT?**

15 A. Yes, I expect the analysis will address these topics and more, from both a Kentucky
16 Power viewpoint as well as in the broader context of how costs and benefits from PJM
17 participation are allocated among the AEP East Operating Companies. The complexity
18 of analyzing this issue is one of the reasons the analysis is needed. As Company
19 Witness Pearce testified in Case No. 2020-00174, switching from 12CP to 1CP would
20 have lowered Kentucky Power's net OATT expense in some historical years (2014,
21 2017, and 2018), and raised it over others (2015, 2016, 2019, and 2020) such that over
22 the time period examined, Kentucky Power customers would have paid more using

1 1CP than they paid under the 12CP method of allocation.¹² Thus, the question of
2 changing methodologies requires careful consideration to ensure *future* changes are
3 beneficial. For example, switching to 1 CP, including by withdrawing from the
4 agreement under Section 9.3 of the AEP Transmission Agreement (which allows a
5 member to withdraw from the agreement upon at least three years' prior written notice)
6 would subject Kentucky Power and its customers to greater volatility in Transmission
7 OATT Expense. Based on these considerations, it would be premature to change
8 Kentucky Power's participation in that agreement before the PJM transmission cost
9 allocation analysis I described earlier is complete.

VII. CONCLUSION

10 **Q. DO YOU HAVE A SUMMARY RECOMMENDATION?**

11 A. The Company, consistent with the directives of the Commission in its previous rate
12 case and other proceedings, considers ways to manage, and to the extent possible
13 reduce, its Transmission OATT Expenses. The Company is aware of recommendations
14 previously made and questions previously asked by stakeholders aimed at the
15 possibility of a drastic change with Kentucky Power's membership in PJM, the AEP
16 Zone, and the AEP Transmission Agreement. My testimony describes the steps the
17 Company has taken to address those recommendations and questions. It also highlights
18 that the risks associated with those possibilities are significant, exposing Kentucky
19 Power's customers to a material risk of experiencing greater costs, greater volatility,
20 and greater uncertainty. The Company continues to consider these risks within the

¹² Supplemental amended rebuttal testimony of Kelly D. Pearce, Case No. 2020-00174.

1 context of its efforts to manage its Transmission OATT Expenses and remains open to
2 future dialogue and to input from stakeholders on this subject.

3 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 **A.** Yes, it does.



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 I, Marilyn Michelle Caldwell, did witness the participants named above electronically sign this document.



