

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

An Electronic Examination By The Public Service	)	
Commission of the Environmental Surcharge	)	
Mechanism of Kentucky Power Company for the	)	Case No. 2025-00036
Six-Month Billing Periods Ending December 31,	)	
2023, June 30, 2024, and December 31, 2024	)	

**DIRECT TESTIMONY OF**  
**JOHN D. CULLOP**  
**ON BEHALF OF KENTUCKY POWER COMPANY**

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**CASE NO. 2025-00036**

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**EXHIBITS**

<b><u>EXHIBIT</u></b>	<b><u>DESCRIPTION</u></b>
EXHIBIT JDC-1	Illustration of ES Forms' Reorganization

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**I. INTRODUCTION**

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

2   A.   My name is John D. (J.D.) Cullop. My position is Regulatory Consultant Senior for  
3       Kentucky Power Company (“Kentucky Power” or the “Company”). My business address  
4       is 1645 Winchester Avenue, Ashland, Kentucky 41101.

**II. BACKGROUND**

5   **Q.   PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
6       **BUSINESS EXPERIENCES.**

7   A.   I received a Bachelor of Business Administration degree from Morehead State University  
8       in Morehead, Kentucky in 2016. From 2017 through 2022 I worked at Lithko Contracting,  
9       LLC., a concrete contracting company based out of West Chester, Ohio, as a tax and  
10      accounting analyst. I then worked in a corporate accounting and analyst position with Big  
11      Sandy Distribution, Inc., until I accepted my current position with Kentucky Power  
12      Company in August 2024.

13  **Q.   WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH**  
14       **KENTUCKY POWER?**

15  A.   My primary responsibility is supporting the Company’s various regulatory activities. As  
16       part of these responsibilities, I prepare the Company’s monthly Fuel Adjustment Clause  
17       (“FAC”) filings, monthly Environmental Surcharge Tariff (“Tariff E.S.”) filings, and assist  
18       with the Company’s other periodic regulatory filings.

**III. PURPOSE OF TESTIMONY**

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

2   A.    My testimony supports the Company's monthly environmental surcharge filings during the  
3       review period (July 2023 through December 2024).

4   **Q.    ARE YOU SPONSORING ANY EXHIBITS?**

5   A.    Yes. I am sponsoring the following exhibits:

- 6       •   EXHIBIT JDC-1:    Illustration of ES Forms' Reorganization

IV.       **OPERATION OF THE ENVIRONMENTAL SURCHARGE DURING THE**  
             **REVIEW PERIOD**

7   **Q.    WHAT IS THE PERIOD OF REVIEW FOR THIS CASE?**

8   A.    This review covers three 6-month periods from the expense months of July 2023 through  
9       December 2024.

10  **Q.    PLEASE DESCRIBE THE OPERATION AND CALCULATION OF THE**  
11  **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD?**

12  A.    The review periods include periods subject to the Commission's orders in Case No. 2020-  
13       00174 (base rate case effective for service rendered on and after January 14, 2021 through  
14       January 15, 2024), Case No. 2023-00159 (base rate case effective for service rendered on  
15       and after January 16, 2024), Case No. 2021-00004 (2021 Environmental Compliance Plan  
16       ("2021 ECP")), and Case No. 2023-00372 (examination of the Environmental Surcharge  
17       mechanism for the two-year periods ending June 30, 2021 and June 30, 2023).

18               The Company operated its environmental surcharge in accordance with its Tariff  
19       E.S. as approved over the course of the review period, and pro-rated applicable  
20       environmental surcharge rates for certain expense months when new rates were approved

as described in my next answer. The Company's approach in this regard was consistent with its approach in other circumstances where the Commission authorized changes in tariff rates for services rendered after certain dates.

**Q. WERE THERE ANY PERTINENT CHANGES TO THE ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD?**

A. Yes. Below provides a summary of the major changes made to the environmental surcharge during the review period.

Case No. 2020-00174 (2020 Base Rate Case)

In its January 13, 2021 Order and February 22, 2021 rehearing Order in Case No. 2020-00174, the Commission:

- Determined cash working capital should be removed from the Tariff E.S. rate;
- For non-Rockport environmental projects, established a ROE of 9.10%<sup>1</sup>, a weighted average cost of capital ("WACC") of 6.11%, gross revenue conversion factor ("GRCF") of 1.352731 and resultant rate of return of 7.50%; and
- Established new monthly environmental base amounts.

The Company appropriately pro-rated the January 2021 expense month to account for the Commission's Order stating the above changes were to take effect with service rendered on and after January 14, 2021.

Regarding this review period, the environmental base amounts, WACC, GRCF, and resultant rate of return for non-Rockport environmental projects established in this case

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<sup>1</sup> The February 22, 2021 Order stated at pp. 22 that the Company "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."

1 were in effect from the beginning of this review period in July 2023 through January 15,  
2 2024 when the Commission's January 19, 2024 Order in Case No. 2023-00159 took effect.

3 Case No. 2021-00004 (2021 ECP)

4 In its July 15, 2021 Order in Case No. 2021-00004, the Commission approved the inclusion  
5 of Project 22 for the construction and associated work in connection with the wastewater  
6 ponds necessary to meet the requirements of Coal Combustion Residual ("CCR") rule at  
7 the Mitchell Plant. Further, the Order:

- 8 • Affirmed the 9.10% ROE for non-Rockport environmental projects established in  
9 the above (Case No. 2020-00174);
- 10 • Approved the addition of the construction work in progress to the environmental  
11 surcharge rate base until new assets are placed in service; and
- 12 • Approved the Company's request to recover the already incurred costs for the  
13 planning of Project 22 on a levelized basis.

14 In the Company's September 20, 2021 environmental surcharge filing the Company  
15 notified the Commission that it updated its reporting formats commensurate with the Order.  
16 Further, the Company appropriately pro-rated the September 2021 expense month to  
17 account for the Commission's Order stating the above changes were to take effect with  
18 service rendered on and after September 28, 2021.

19 Additionally, the Commission's May 3, 2022 Order provided that:

- 20 • A 20% depreciation rate should be utilized for the CCR project; and
- 21 • Steam Electric Effluent Limitation Guideline ("ELG") compliance project costs  
22 incurred prior to July 15, 2021 Order totaling approximately \$1.4 million were  
23 prudently incurred preconstruction activities appropriate for the pursuit of a CPCN

1 and approved the Company's request to establish a regulatory asset to be amortized  
2 and recovered through Tariff E.S. over two years.

3 In the Company's June 20, 2022 environmental surcharge filing the Company notified the  
4 Commission that it updated its reporting formats commensurate with the Order. The above  
5 did not require proration as the amended Tariff E.S. sheets were approved on a bills  
6 rendered basis effective September 29, 2022 (first billing cycle for October 2022).

7 Regarding this review period, the Company concluded recovery of a return on pre-  
8 August 2021 Construction Work in Progress associated with the work at the Mitchell  
9 Generating Station to comply with the Environmental Protection Agency's Coal  
10 Combustion Residuals Rule in October 2023. This was recovered on a levelized basis over  
11 a 27-month period beginning with August 2021 expense month in accordance with the  
12 Commission's Order<sup>2</sup>, and the amount for return was included on Line 10A of Form 1.0.

13 In its April 2024 filing, the Company amortized the final monthly installment of its  
14 regulatory asset for ELG compliance project costs incurred prior to July 15, 2021. These  
15 installments were included on Line 41 of Form 3.13 / Form 3.10.

16 On September 10, 2024, the wastewater ponds built in association with the  
17 Commission's approval of the CCR project went into service. Accordingly, the following  
18 updates were made to Form 3.10 in the Company's October 2024 report (September  
19 expense month) consistent with the Commission's above Orders in this case:

- 20 • Lines 1 through 4 (calculation of net plant) – began inclusion of these costs;
- 21 • Line 13 (CWIP) – ceased inclusion of this project;

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<sup>2</sup> Order at 24-25, *In The Matter Of: Electronic Application Of Kentucky Power Company For Approval Of A Certificate Of Public Convenience And Necessity For Environmental Project Construction At The Mitchell Generating Station, An Amended Environmental Compliance Plan, And Revised Environmental Surcharge Tariff Sheets*, Case No. 2021-00004 (Ky. P.S.C. July 15, 2021).

- Line 38 (monthly depreciation expense) – ensured that the wastewater ponds were not captured within this line as it has its own unique depreciation rate; and
- Line 40 (monthly CCR depreciation expense) – began inclusion in this line based on the 20% rate approved by the Commission in its May 3, 2022 Order in this case.

As explained in the November 18, 2024 cover letter, Kentucky Power began recognizing asset retirement obligation (“ARO”) accretion expense and ARO depreciation expense related to incremental ARO associated with the Federal EPA’s Revised CCR and ELG Rules. Based on the Commission’s May 2, 2022 Order in Case No. 2021-00004, costs associated with Mitchell Plant, specifically costs of CCR compliance, are recoverable through the Company’s Environmental Surcharge. Accordingly, Form 3.10 was further updated in the October 2024 filing to include on a going forward basis Line 41 (monthly legacy CCR Rule – ARO depreciation and accretion expense).

Case No. 2023-00159 (2023 Base Rate Case)

In its January 19, 2024 Order in Case No. 2023-00159, the Commission:

- Approved the removal of Rockport related forms in their entirety (3.20 and 3.21) and references to Rockport throughout the other forms where applicable;
- Approved the reformatting and reorganization of the Forms<sup>3</sup>;
- For rider mechanisms to which a WACC is applied, established an ROE of 9.65%<sup>4</sup>, a WACC of 6.79%, a GRCF of 1.339896, and a resultant rate of return of 8.16%;

<sup>3</sup> See Exhibit JDC-1 for details on the reorganization of Tariff E.S. Forms which was approved in Case No. 2023-00159.

<sup>4</sup> The January 19, 2024 Order in Appendix A, pg. 5, established a ROE of 9.75% for base rates, and “9.65% ROE will be applicable to the equity component of the Company’s riders to which a weighted average cost of capital is applied.”



- 1           • Reestablished an allowance for cash working capital based on the authorized net
- 2           operations and maintenance expense lead days of 53.92; and
- 3           • Established new monthly base amounts.

4           The Company appropriately pro-rated the January 2024 expense month to account for the  
5           Commission's Order stating the above changes were to take effect with service rendered  
6           on and after January 16, 2024.

7           Form 2.00 (previously Form 1.10) was updated to reflect the new environmental  
8           base amounts.

9           Form 3.10 (previously Form 3.13) was updated to reflect the approved WACC and  
10          was pro-rated in January for the period beginning January 16, 2024.

11          Form 3.50 (previously Form 3.33) was updated to include the cash working capital  
12          allowance based on the authorized lead days. While Form 3.33 was filed monthly, it was  
13          not utilized within the calculation for environmental surcharge factors due to the  
14          Commission's January 13, 2021 Order in Case No. 2020-00174. The calculations in Form  
15          3.50 are included on Line 14 of Form 3.10.

16          Case No. 2023-00372 (Examination of the Environmental Surcharge for the two-year  
17          periods ending June 30, 2021 and June 30, 2023)

18          In their August 8, 2024 Order in Case No. 2023-00372, the Commission approved the  
19          Company's determination that it had an under-recovery amount of \$295,255 related to a  
20          misallocation of funds to be collected which was not reflected on Form 1.01, Line 10A for  
21          its April 2021 filing.

22          The Commission ordered that the total amount should be collected in the  
23          environmental surcharge in the first billing month after the date of the Order. Accordingly,

1 this was included on Form 1.10, Line 10B in the Company's July 2024 filing (billed in  
2 September 2024).

**V. ADJUSTMENTS**

3 **Q. HAS THE COMPANY IDENTIFIED ANY ADJUSTMENTS TO BE ADDRESSED**  
4 **FOR THE CURRENT REVIEW PERIOD?**

5 A. No. The Company is not proposing any adjustments in connection with this proceeding.

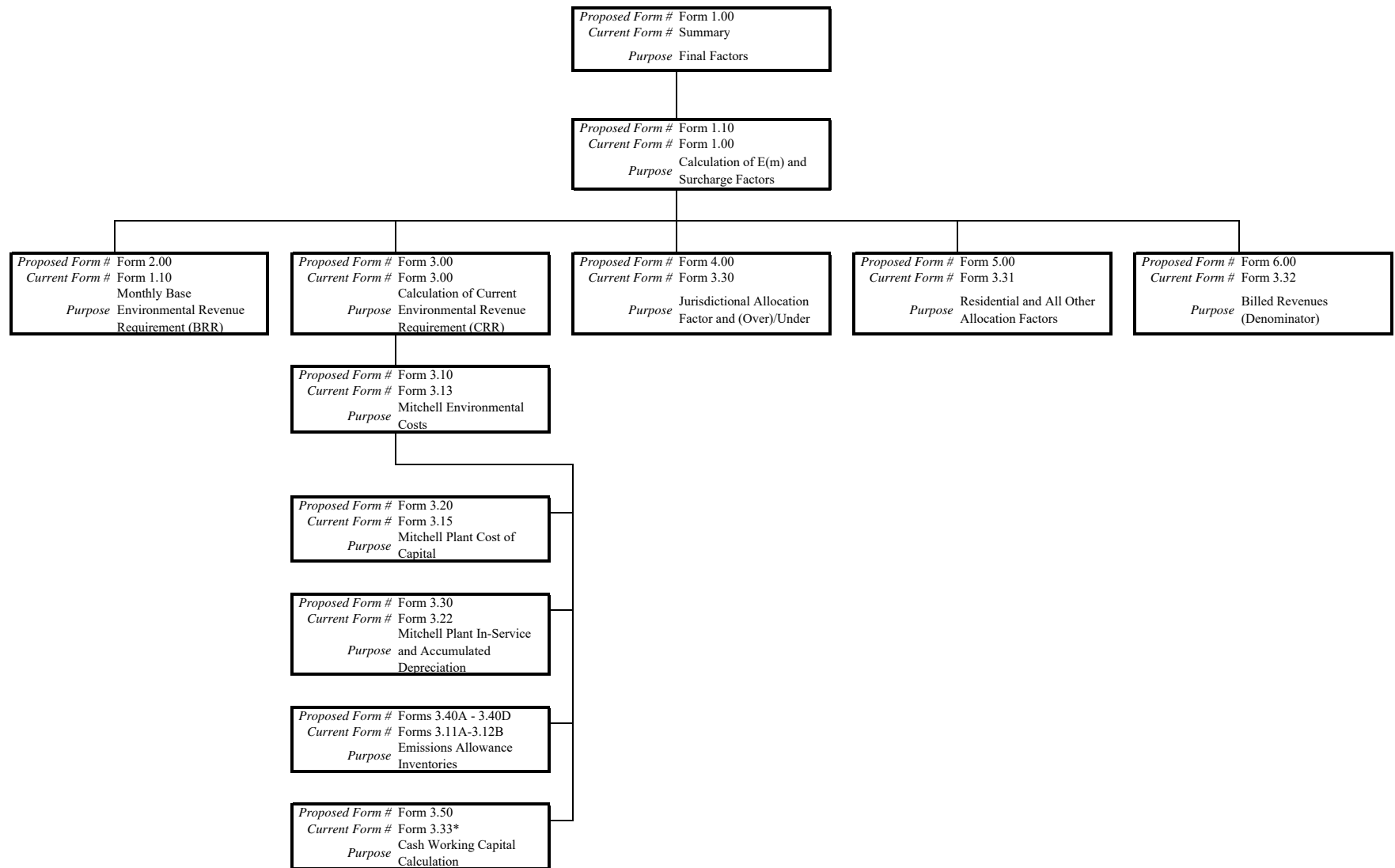
**VI. CONCLUSION**

6 **Q. WERE THE RATES CHARGED THROUGH THE ENVIRONMENTAL**  
7 **SURCHARGE DURING THE REVIEW PERIOD IN ACCORDANCE WITH**  
8 **TARIFF E.S. AND APPLICABLE COMMISSION ORDERS?**

9 A. Yes. The environmental surcharge rates were fair, just, and reasonable because the rates  
10 charged complied with the Company's Commission approved tariffs and the Commission's  
11 applicable orders.

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

13 A. Yes, it does.



Notes:

Forms 3.20 (Rockport Environmental Costs) and 3.21 (Rockport UPA Cost of Capital) were removed in their entirety

Form 3.33 while filed monthly was not utilized within the calculation for the environmental surcharge factors per the Commission's January 13, 2021 Order in Case No. 2020-00174. The calculations in Form 3.50 are included in Line 14 of Form 3.10

## VERIFICATION

The undersigned, John D. Cullop, being duly sworn, deposes and says he is the Regulatory Consultant Senior for Kentucky Power, that he has personal knowledge of the matters set forth in the foregoing testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief after reasonable inquiry.

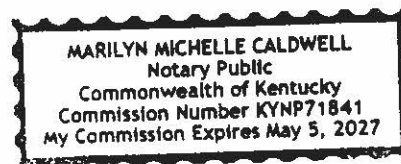
  
John D. Cullop

Commonwealth of Kentucky )  
 )  
County of Boyd )

Case No. 2025-00036

Subscribed and sworn to before me, a Notary Public in and before said County  
and State, by John D. Cullop, on March 25, 2025.

Marilyn Michelle Caldwell  
Notary Public

My Commission Expires May 5, 2027

Notary ID Number KYNP71841