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 Certain Regulatory And Accounting	)	Case No. 2025-00257
Treatments; and (4) All Other Required Approvals	)	
And Relief	)	

REBUTTAL TESTIMONY OF

ANDREW R. CARLIN

ON BEHALF OF KENTUCKY POWER COMPANY

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CASE NO. 2025-00257

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EXHIBIT

EXHIBIT	**DESCRIPTION**
EXHIBIT ARC-R1	Case No. 2017-00179 Hearing Transcript
CONFIDENTIAL EXHIBIT ARC-R2	WTW, 2025 Energy Services Benefits Study, BenVal for American Electric Power, © 2025 WTW[1]
CONFIDENTIAL EXHIBIT ARC-R3	Recalculation of 2025 Aon Benefit Index Relative Value Table

[1] The Company is seeking WTW permission to provide this study, which the Company is expecting to receive, and will supplement this testimony if that is obtained.

REBUTTAL TESTIMONY OF
ANDREW R. CARLIN
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BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

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

A. My name is Andrew R. Carlin. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. My position is Director – Compensation & Executive Benefits for American Electric Power Service Corporation ("AEPSC"), a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"). AEP is the parent company of Kentucky Power Company (the "Company" or "Kentucky Power"). AEPSC supplies engineering, financing, accounting, and other services to AEP's seven electric operating companies, including the Company. In this testimony, I will refer to AEPSC, Kentucky Power, and other AEP utility operating companies collectively as the "AEP System."

Q. ARE YOU THE SAME ANDREW R. CARLIN WHO OFFERED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my Rebuttal Testimony is to correct mischaracterizations in the testimony of Attorney General and Kentucky Industrial Utility Customers, Inc. ("AG-

KIUC") Witness Randy A. Futral with respect to short-term incentive (STI) compensation, long-term incentive (LTI) compensation, 401k Retirement Savings employee benefits expense and Supplemental Excess Retirement Plan (SERP) expense the Company requested be included in its cost of service in its filing. I will show that the STI and LTI compensation expenses in question provide substantial benefits to customers and thus should be included in the Company's cost of service. I will show that the 401k retirement savings plan and cash balance pension plan, collectively provide market-competitive retirement income benefits and are both part and parcel of a market-competitive total benefit program for employees.

III. SHORT-TERM AND LONG-TERM INCENTIVE COMPENSATION EXPENSE

Q. WHAT ADJUSTMENTS HAVE BEEN PROPOSED WITH RESPECT TO THE COMPANY'S REQUESTED LEVEL OF STI AND LTI COMPENSATION EXPENSE?

A. AG-KIUC Witness Futral recommends the Public Service Commission of Kentucky ("Commission") deny cost recovery for financial performance-based STI and LTI compensation,[2] including RSU expense, which is not tied to any performance measures, financial or otherwise.

Q. WHAT IS WITNESS FUTRAL'S RATIONALE FOR HIS RECOMMENDATION TO REMOVE STI AND LTI EXPENSE FROM THE COMPANIES' COST OF SERVICE?

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[2] Direct Testimony of Randy A. Futral ("Futral Direct"), p. 11, line 11.

A. AG-KIUC Witness Futral first references the Commission's historical practice of disallowing incentive compensation expenses from utilities' revenue requirements that were incurred to incentivize the achievement of shareholder goals as measured by financial performance, rather than incurred to incentivize the achievement of customer and safety goals. He believes the reason for this historical practice is that "the achievement of AEP LTI plan and ICP target metrics tied to financial performance benefits shareholders to the detriment of customers in rate proceedings such as this."[3]

Q. DO YOU AGREE THAT IT IS THE COMMISSION'S PRACTICE TO REMOVE ALL FINANCIALLY BASED STI AND LTI EXPENSE FROM KENTUCKY POWER'S AND OTHER ELECTRIC UTILITIES' COST OF SERVICE AS STATED BY WITNESS FUTRAL?

A. No. The Commission's orders in past cases do not foreclose the Company's ability to recover STI and LTI expense tied to financial performance and the Commission's practice has changed over time. In its ruling in the Company's base rate case No. 2020-00174, the Commission found "that incentive plan costs for funding metrics and performance metrics tied to financial objectives should be disallowed from recovery for ratemaking purposes absent a clear showing of benefit to ratepayers."[4] Thus, the Commission did not foreclose the Company's ability to recover STI and LTI expenses tied to financial performance. Instead, the Commission held that these expenses were

[3] Futral Direct, p. 11, lines 15-17.

[4] *Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief*, Case No. 2020-00174 ("Case No. 2020-174"), Order of the Kentucky Public Service Commission, January 13, 2021, p. 14.

recoverable upon a clear showing of benefit to ratepayers. The Company believes it has provided that clear showing of benefit to ratepayers in this case, and recovery of the expenses should be allowed.

Q. DOES FINANCIALLY BASED INCENTIVE COMPENSATION BENEFIT RATE PAYERS?

A. Yes. First and foremost, financially based incentive compensation is a component of a reasonable and market-competitive employee compensation package that enables the Company to attract and retain the suitably skilled and experienced employees needed to provide service efficiently and effectively. It does this without adding any expense above the cost of providing competitive compensation through base pay alone, assuming target level payouts, which is the level the Company requested be included in its cost of service in this case. Whether this cost is provided to employees in the form of incentive compensation or base pay, it is necessary to maintain the competitiveness of the compensation the AEP System offers employees. Without market-competitive compensation, employee turnover and position vacancy would increase to problematic levels, hiring and training expense would increase, and employee productivity would decrease, given the many years it often takes new employees to learn to perform their jobs safely, efficiently, and effectively. Therefore, this portion of employee compensation clearly benefits customers.

The many substantial benefits that incentive compensation, financial or otherwise, provides to customers are described in my Direct Testimony.[5] Without discounting any of these benefits by omission here, it is worth highlighting that the interests of shareholders and customers are aligned with respect to keeping costs low, which is the primary purpose of their financially based incentive compensation. Financially based incentive compensation also helps ensure that sufficient equity capital is available at reasonable costs to maintain and expand Kentucky Power's electric system to meet the needs of our customers for stable and affordable electricity. These are clear and substantial benefits that are afforded to customers by using financially based incentive compensation.

Q. DO YOU AGREE WITH WITNESS FUTRAL'S ASSERTION THAT THE ACHIEVEMENT OF LTI AND STI FINANCIAL MEASURES "BENEFITS SHAREHOLDERS TO THE DETRIMENT OF CUSTOMERS IN RATE PROCEEDINGS SUCH AS THIS"?

A. No, in fact the opposite is true in the longer term. Witness Futral has not presented any analysis demonstrating that financial incentive compensation drives employee actions that are detrimental to customer interests. While shareholders may temporarily benefit from improved financial performance driven by financial incentive compensation, such benefits inure to customers in each base rate case proceeding, such as this proceeding. This shows up in the form of lower overall expense than would otherwise be the case

[5] Direct Testimony of Andrew R. Carlin on behalf of Kentucky Power Company, Case No. 2023-00159 (Carlin Direct), Section VIII. The Benefits of Incentive Compensation in its entirely, and p. 33 line 10 through p. 34, line 31 and p. 46 line 3 through p. 47 line 13.

absent such incentive-based pay and a healthier utility that enjoys lower capital costs that are passed onto customers.

The primary objective of the Company's STI and LTI compensation is to serve as a reasonable and market-competitive component of the total compensation package that is needed to attract and retain the appropriately skilled and experienced employees needed to provide safe and reliable electric service to customers efficiently and effectively. Thus, the fundamental objective of these programs primarily benefits customers.

Witness Futral's claim that financially based incentive compensation provides "directors and officers a direct incentive to seek greater and more frequent rate increases from customers in order to improve AEP's stock price"[6] is unsupported, unreasonable and untrue for a variety of reasons. There is a myriad of factors outside of participants' control that affect stock prices; such as a regulatory process that involves Commission oversight, the relative size of Kentucky Power's revenue compared to that of AEP, and the Company's demonstrated commitment to the needs of customers; all of which mitigate this potential issue and attenuate the incentive to attempt to increase AEP's stock price at the expense of KPCO customers. Specifically, this claim ignores the Commission's oversight of rates through robust regulatory review in proceedings such as this that review the prudency of all costs charged to customers, which is designed to address such conflicting interests. It also ignores the fact that Kentucky Power's revenues are less than 5% of AEP's total revenue, which is

[6] Futral Direct, p. 13, lines 10-12.

simply not enough to create an effective incentive to encourage employees to attempt to increase AEP's stock price through greater and more frequent Kentucky Power rate cases. Even the financial performance of all AEP operating companies is only loosely linked to AEP's stock price because of the many other factors that influence the financial markets. All employees participate in incentive compensation tied to financial measures and about 1,375 employees participate in the LTI compensation but only a few employees have any input into decisions to seek a rate increase or the frequency of rate cases and even fewer of the most senior AEP executives have any significant ability to increase AEP's stock price. Therefore, Mr. Futral's proposed disallowance of financially based incentive compensation for all employees is greatly disproportional to his stated concern. Finally, as further explained by other Company witnesses in this case, Kentucky Power has demonstrated its commitment to the needs of customers – balancing affordability with reliability and customer service.

Q. ARE AG-KUIC WITNESS FUTRAL'S RECOMMENDATIONS WITH RESPECT TO LONG-TERM INCENTIVE EXPENSE CONSISTENT?

A. No. Witness Futral recommends removing performance share expense tied to financial measures, allowing the portion of performance share expense tied to non-financial measures while simultaneously recommending removal of all RSU expense. His rationale is that: "the LTI plan RSU incentive compensation is based on the stock price of AEP at the grant date. The stock price, by definition, is a measure of AEP's financial performance." But RSUs do not have any performance measures whatsoever, financial or otherwise – RSUs simply provide an important retention incentive that is denominated in AEP's currency, which is its stock, to incorporate the time value of money into the value of LTI, given the longer time periods that these awards are outstanding. Additionally, very few employees that receive LTI have the ability to positively impact AEP's stock price.

Furthermore, Witness Futral's concern would be proportionally addressed by removing LTI expense only for senior AEP executives. However, if the Commission accepts Mr. Futral's recommendation with respect to performance shares, then it should also allow cost recovery for RSUs for consistency with the allowance of cost recovery for the portion of performance share expense that is not tied to financial measures.

Q. HOW WOULD THE COMPANY BE AFFECTED BY REDUCING OR ELIMINATING VARIABLE INCENTIVE COMPENSATION FROM ITS COST OF SERVICE FOR RATEMAKING PURPOSES?

A. Denying cost recovery for such a substantial portion of incentive compensation would reduce the Company's rate of return to below the level to be set in this rate case, all else being equal. It would also encourage shifting variable incentive compensation into fixed base pay to enable the Company to recover its reasonable payroll costs in the future. This would diminish or eliminate the efficiencies, productivity enhancements, and operational benefits gained by the proven strategy of linking pay to performance and ultimately result in increased expenses, reduced performance, and higher rates for customers.

Q. HAS WITNESS FUTRAL CALCULATED THE DISALLOWANCE CORRECTLY UNDER COMMISSION PRECEDENT?

A. No. In its Order in Case No. 2014-00396, the Commission found that, "the amount that should be removed for ratemaking purposes should be based on the performance measures of the plan, not the funding measures."[7] Adjusting the cost of service to remove the financial measures from the Kentucky Power direct cost (including the Kentucky Power share of the Mitchell Plant) but not removing the expense associated with the financial measures in the AEP (funding) scorecard, would reduce the disallowance from 30.57% to 16.67% of the $1.761M adjusted target direct cost, which would reduce the disallowance from $538,478 to $293,635. Applying the same change to the indirect expense allocated to Kentucky Power and including an additional $77,994 of indirect expense to correct Witness Futral's analysis to include a missed financial column from KIUC 1-28 Attachment 2 would reduce the adjustment for indirect financial performance STI measures from $328,672 to $247,752 or from 31% to 23% of total indirect STI expense. These changes would reduce the total disallowance recommended by Witness Futral for STI and LTI incentive compensation tied to financial measures from $1.834M to $1.508M.

Q. ARE THERE ANY OTHER REASONS WHY YOU DISAGREE WITH AG/KIUC WITNESS FUTRAL'S RECOMMENDATIONS ON INCENTIVE COMPENSATION?

A. Yes. It is not proper to "charge" employee compensation costs to shareholders when this compensation is a reasonable, prudent, and necessary expense that provides clear benefits to customers.

[7] *Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2024 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; (4) An Order Granting All Other Required Approvals and Relief,* Case No. 2014-00396, Order of the Kentucky Public Service Commission, June 22, 2015, pages 25-26.

The accumulated cost savings that financially based incentive compensation has produced over the decades that it has been in place are reflected in Kentucky Power's test year cost of service. Maintaining financially based incentive compensation prevents backsliding on previously achieved cost-control and efficiency savings. These savings will again be embedded in rates in this rate case proceeding as they have in prior rate case proceedings, and they will again pass through to customers. There is no mechanism, outside of the Commission's control of rates, for shareholders to benefit from the accumulated value that incentive compensation has produced. Disallowing recovery of these amounts requires shareholders to pay for a large portion of this reasonable, customary, and appropriate cost of doing business without receiving any of the accumulated benefits and while also being required to pay for any incremental benefits that may accrue through above target incentive payouts.

IV. 401K RETIREMENT SAVINGS PROGRAM EXPENSE

Q. PLEASE DESCRIBE THE AEP SYSTEM RETIREMENT SAVINGS PROGRAM?

A. Employees are encouraged to contribute a percentage of their eligible compensation (base pay and STI compensation) to a 401k retirement saving program account. The Company matches the first 1% of eligible compensation from each paycheck on a dollar-for-dollar basis and the next 5% of eligible compensation on a $0.70 per dollar basis. This provides a total potential matching contribution opportunity of up to 75% of the first 6% of eligible employee pay or 4.5% of eligible pay.

Q. DO THE AEP SYSTEM COMPANIES ALSO PROVIDE DEFINED CONTRIBUTION PENSION BENEFITS?

A. Yes, AEP System benefits include a cash balance pension benefit for employees with one or more years of service, which vests after 3 years of service. The cash balance pension is structured as an account balance plan, which causes it to operate similarly to a defined contribution (401K) plan as opposed to a traditional pension plan. Eligible participants are credited with a percentage of eligible compensation, which is base pay plus short-term incentive compensation, and interest credits. The earnings crediting rate varies from 3.0% to 8.5% of eligible compensation depending on the combination of age and years of service.

While AEP system benefits do include legacy traditional pension benefits in the form of a final average pay (FAP) formula, participation in this program was locked and was not available to any new participants starting January 1, 2001. For those employees that are still eligible for this traditional pension formula, years of service and compensation taken into consideration were frozen effective December 31, 2010 or earlier. Even for those employees that are still enrolled in this legacy frozen pension formula, the benefits it provides have been overtaken by the cash balance pension formula and the traditional formula no longer determines their pension benefit, so the traditional formula no longer contributes significantly to pension expense.

Additionally, effective January 1, 2021, the cash balance formula lookback credit on eligible compensation for employees who reach one year of service was eliminated for employees hired on or after that date. As a result of this change, employees with less than one year of service no longer participate in any way in the pension program.

Q. DID AG-KIUC WITNESS FUTRAL PROPOSE AN ADJUSTMENT TO RETIREMENT SAVINGS PROGRAM EXPENSE?

A. Yes, Witness Futral proposed eliminating retirement savings program expense from Kentucky Power's cost of service in its entirety based on past Commission precedent; specifically, citing to vintage 2016 cases from other utilities and the complicated history of 401K retirement expense for Kentucky Power over the course of the Company's last three rate cases. Even if the Commission chooses to deny cost recovery for the Company's savings plan expense for employees who receive both pension and retirement savings benefits, this adjustment should not include the approximately $84,867 of savings plan expense for employees who do not participate in both plans because they have less than one year of service.

Q. WHAT WAS THE COMMISSION'S RATIONALE UPON WHICH WITNESS FUTRAL RELIED FOR HIS RECOMMENDATION TO DISALLOW RETIREMENT SAVINGS PROGRAM EXPENSE?

A. Witness Futral materially relied upon the previous rulings in Kentucky Power's past rate cases and Case Nos. 2016-169, 2016-370, and 2016-371, all of which had to do with other utilities – Cumberland Valley Electric Inc., Kentucky Utilities Company ("KU"), and Louisville Gas & Electric Co. ("LG&E"), respectively. Witness Futral did not compare the comprehensive retirement packages of those utilities to that of Kentucky Power. For instance, there is no analysis of the Defined Dollar Benefit ("DDB") plan of KU and LG&E, which the Commission found to include "generous retirement plan benefits,"[8] or comparison of these plans to AEP's pension plan. Nor did Witness Futral analyze how the combination of the DDB and the 401K of KU and LG&E compared in overall total benefits and/or retirement income benefits to peer companies. Similarly, the AEP System retirement income benefits provide less value to employees and have less cost than the plans described by Cumberland Valley Electric, Inc. (Cumberland Valley Electric) in Case No. 2016-00169. The Cumberland Valley Electric plan's defined benefit contribution formula had a 30.22% of eligible compensation rate. This is more than three times greater than the 8.5% upper range of the AEP System defined contribution pension plan, and more than ten times the 3.0% lower end of that range. This compares to the AEP System's maximum contribution of 13% (3.0% to 8.5% cash balance pension credit plus 4.5% matching saving plan contribution), which is less than half of Cumberland's defined benefit contribution. Moreover, the Commission allowed the Kentucky Power's requested retirement savings program expense to be recovered as part of the Company's cost of service in its 2017 base rate case, Case No. 2017-00179, which post-dated the three rate cases cited by Witness Futral.[9] In its next base rate case, Case No. 2020-00174, Kentucky Power made the same proposal with respect to retirement savings program expense. In

[8] *Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates and for Certificates of Public Convenience and Necessity*, Case No. 2016-370, Order of the Kentucky Public Service Commission, June 22, 2017, p. 15; *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric Rates and for Certificates of Public Convenience and Necessity*, Case No. 2016-371, Order of the Kentucky Public Service Commission, June 22, 2017, p. 17.

[9] *Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2017 Environmental Compliance Plan; (3) An Order Approving it Tariffs and Riders; (4) An Order Approving its Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An order Granting All Other Required Approvals and Relief*, Case No. 2017-00179 ("Case No. 2017-179"), Order of the Kentucky Public Service Commission, January 18, 2018, p. 15.

that case, "[n]one of the intervenors directly addressed Kentucky Power's savings plan expense."[10] Then, the Commission's final order in Case No. 2020-00174 held:

> First, the Commission notes that it made an erroneous finding of fact in its final Order in Case No. 2017-00179 because the Order referenced only the 401(k) contributions and a defined benefit plan that was locked and frozen, but was silent regarding a third retirement plan funded entirely by Kentucky Power in the form of the cash balance formula pension. In Case No. 2017-00179 and in this proceeding, Kentucky Power testified that the contributions to the 401(k) and cash balance formula pension were designed so that, taken individually, the contributions are less than would be required to provide a market competitive retirement benefit, but, taken together, are market competitive. However, the Commission finds that Kentucky Power has not provided substantial evidence to support this assertion. For this reason, the Commission has reduced jurisdictional 401(k) savings plan expense by $1,684,045.[11]

Q. CAN YOU PROVIDE FURTHER CONTEXT TO RECONCILE THE FINAL ORDERS ISSUED IN CASE NOS. 2017-00179 AND 2020-174?

A. In its order for Case No. 2020-00174, the Commission stated that the finding of fact in its final order in case No. 2017-00179 was erroneous because it "referenced only the 401(k) contributions and a defined benefit plan that was locked and frozen, but was silent regarding a third retirement plan funded entirely by Kentucky Power in the form of the cash balance formula pension."[12] But the Commission's findings with respect to retirement savings expense in the final order in Case No. 2017-00179 require additional context to demonstrate that the 2017 Order was, in fact, factually consistent. In my testimony in the 2017 case I distinguished between: (1) the traditional pension formula based on final average pay that is locked and frozen (as discussed previously in this

[10] Case No. 2020-00174, Order of the Kentucky Public Service Commission, January 13, 2021, p. 17.

[11] *Id.* at 18.

[12] *Id*.

testimony),[13] (2) the ongoing cash balance pension formula,[14] and (3) the retirement savings plan (401K) benefits.[15] On cross-examination from Commissioner Cicero, I specifically described the distinction between the two pension formulas.[16] It was during that cross-examination that I explained how the cash balance pension "looks very much like a 401(k) defined contribution such that "the rates for the cash balance pension plan are set knowing that we're also contribution to the [401] K plan, so that the total amount of the Company's subsidy, or contribution on behalf of employees, is market competition."[17] Commissioner Cicero understood that nature of the cash balance pension plan, by saying that "now the company is offering another formula, if I understand correctly, that's basically a 401(k) type savings plan . . for new participant"[18] that he later described "if you're going to contribute a match into a 401(k) at the same time you're allowing an individual to earn a pension plan that is either defined dollar or cash value plan – its two pension plans."[19] I believe the transcript of this case, the relevant portion of which is attached to my Rebuttal Testimony as Exhibit ARC-R1, demonstrates that the factual record was clear – the Company was maintaining both an ongoing cash balance pension benefit and a retirement savings program as complimentary programs.[20] With this information, the Commission

[13] Exhibit ARC-R1; Case No. 2017-179, December 7, 2017 Hearing Transcript, p. 675, lines 10-14.
[14] Id., lines 15-18.
[15] Id., page 677, lines 13-19.
[16] Id., page 677-678 line 20-8.
[17] Id, page 675, lines 16-17; Page 677, Line 22 – Page 678, Line 1.
[18] Id., page 677, Lines 5-7.
[19] Id., page 678, Lines 18-24.
[20] Id., page 677, lines 14-19

intentionally chose to treat these benefits (the current cash balance pension benefit and the 401(k) defined benefit plan) as the same because of the similar contributions the AEP System companies make to fund these benefits and because the total cost was shown as reasonable. I also believe the record was clear that these two types of benefits, in total, were a swirl cone that was shown to be cost-reasonable and market competitive,[21] which continues to be the case.

Q. DID THE COMPANY PROVIDE ADDITIONAL EVIDENCE ON RETIREMENT SAVINGS PROGRAM EXPENSE IN CASE NO. 2020-00174 or in 2023?

The Company did not provide additional evidence to support retirement savings program expense because the Commission had approved the same proposal in the Company's previous base rate case, no intervening witness contested the expense, and the Company had no reason to believe it was at issue. It was not until the final Order that the Company learned that the Commission took issue with the factual predicate of the 2017-179 rate case. And the Company did not pursue the retirement savings program in the 2023 rate case based upon the settlement that was reached in that case, which specifically excluded 401(k) Matching Expense for Employees Who Also Participate in Pension."[22] But this was a commitment made as part of of a

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[21] Id., pp. 677-678, line 22-1 and pp. 679-680, rows 22-6.

[22] *Electronic Application of Kentuck 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 R*elief, Case No. 2023-159, December 6, 2023 Corrected Settlement Agreement, at Settlement Agreement Exhibit 1.

comprehensive negotiated package where the parties agreed that "[t]his Settlement Agreement shall not have any precedential value in this or any other jurisdiction."[23]

Q. HAS KENTUCKY POWER PROVIDED SUBSTANTIAL EVIDENCE TO SUPPORT THE RECOVERY OF RETIREMENT SAVINGS PLAN EXPENSE IN THIS CURRENT CASE?

A. Yes, I provided substantial evidence of this in my Direct Testimony. The pension benefits and matching retirement savings contributions that AEP system companies provide were designed, along with other AEP system benefits, to provide cost-reasonable and market-competitive benefits in total and they should be viewed in total. This is because each employer offers a mix of employee benefits that it believes will best meet its needs. Confidential Exhibit ARC-10 to my Direct Testimony shows that total AEP System benefits (including healthcare, pension, 401K, etc.), were in the middle of the pack overall (between the 5th highest out of 11 peer employers) with an overall value score of 99 compared to the comparator group.[24] This total benefit value clearly shows that employee benefits are cost-reasonable and well within a market-competitive range. AEP System retirement income benefits ranked between the 3rd and 4th highest out of 11 employers with a retirement income value of 103.3 compared to the average of the comparator group.[25] While such comparisons are a moving target, this result shows that retirement income benefits are also cost-reasonable and well within a market-competitive range.

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[23] Id. at Section 21.B.

[24] Carlin Direct, CONFIDENTIAL EXHIBIT ARC-10, p. 2 of 5.

[25] Id.

Additionally, a recent WTW study, attached to my testimony as Exhibit ARC-R2, found that the Company's combined average contribution to its pension and 401k plans for participants averaged 8.7%, which is slightly less than the 8.9% average for peer companies of similar revenue.[26] This less than average total (pension and 401k) contribution rate further shows that retirement income benefits are cost reasonable and market competitive. Furthermore, eliminating the 401(k) expense would reduce the relative value of AEP's total benefit to 89.5% of peer companies[27], which would be the lowest total benefit value of the eleven peer companies included in this study.[28] And eliminating the retirement savings plan expense, which is provided as matching contributions, would reduce the relative value of the AEP's retirement income benefits to 53.1% of the peer companies included in the Aon Benefit Index Study.[29]

Finally, because AEP System benefits, as I've shown, are reasonable and market competitive overall compared to peer utilities, they enable the Company to attract and retain the suitable employees needed to provide electric service to customers efficiently and effectively. Lack of recovery of full AEP System benefits costs is unsustainable in the long-term. Due to economies of scale and well-designed benefit

[26] CONFIDENTIAL EXHIBIT ARC-R2, WTW, 2025 Energy Services Benefits Study, BenVal for American Electric Power, © 2025 WTW., October 13, 2025, p. 11. The Company is seeking WTW permission to provide this study, which the Company is expecting to receive, and will supplement this testimony if that is obtained.

[27] CONFIDENTIAL EXHIBIT ARC-R3, Total Benefits tab, which is a recalculation of AEP's relative total benefit value without matching savings plan contributions from Carlin Direct, CONFIDENTIAL EXHIBIT ARC-10, p. 4 of 5.

[28] Relative total benefit value without matching savings plan contributions of 89.5% compared to the values shown for peer companies in Carlin Direct, CONFIDENTIAL EXHIBIT ARC-10, p. 2 of 5, All Benefits Distribution table, the lowest of which is 95%.

[29] Confidential Exhibit ARC-R3, Retirement Income tab, which is a recalculates AEP's relative retirement income value without matching savings plan contributions from Carlin Direct, CONFIDENTIAL EXHIBIT ARC-10, pp. 3 and 4 of 5.

programs, AEP System benefits are efficient, in fact slightly more efficient than other large employers in the Energy/Utility industry.[30]

In my opinion, it is arbitrary and unreasonable to eliminate the cost of one type of retirement income benefit, simply because more than one type is offered, particularly when the value of total retirement income benefits and total employee benefits have both been shown to be cost-reasonable and market competitive. The pension and 401(k) retirement savings plans complement each other because they each have different pros and cons. Furthermore, neither of these benefits has been disallowed in any other AEP jurisdiction.

Q. ARE THERE OTHER REASONS THAT THE BENEFITS THAT THE AEP SYSTEM PROVIDES TO EMPLOYEES ARE BENEFICIAL FOR KENTUCKY POWER CUSTOMERS?

A. Yes,

Q. WHAT WOULD BE THE IMPACT OF DISALLOWING COST RECOVERY FOR RETIREMENT SAVINGS PLAN EXPENSE?

A. Denying cost recovery for such a substantial ongoing expense would impair the Company's ability to earn the rate of return set by the Commission in this case. Long-term continuation of this situation is difficult financially for the Company and will eventually lead to changes. One option to address the Commission's concern with cost recovery for both pension and retirement saving plan matching contribution benefits would be to develop and administer a separate benefits program for

[30] Carlin Direct, CONFIDENTIAL EXHIBIT ARC-11 – 2025 WTW Industry Efficiency Healthcare Financial Benchmarks.

Kentucky Power employees with more of just one of these two types of retirement income benefits. This would be a less efficient option, at least with respect to administrative costs, create employee relations issues and require separate communications that would likely result in increased costs for Kentucky Power customers, which would increase benefits administration costs for Kentucky Power customers. Moreover, if such a change reduced retirement income benefits for Kentucky Power employees, this would erode the Company's ability to attract and retain qualified employees, so this is unlikely. However, breaking Kentucky Power employees out of AEP System benefits.

V. SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN (SERP) EXPENSE

Q. PLEASE EXPLAIN THE COMPANIES' SERP BENEFITS.

A. The AEP System maintains Supplemental Employee Retirement Plans or "SERPs" (the AEP Supplemental Benefit Plan and the CSW Executive Retirement Plan) to provide benefits outside of the limits imposed on ERISA-qualified defined benefit pension plans. The CSW plan is applicable to former CSW pension plan participants, and the AEP plan is applicable to all other participants. The Federal ERISA law limits the value of pension benefits that are deductible in the current year from employers' income taxes but amounts in excess of this limit remain deductible when paid to participants. ERISA does not limit total (qualified and non-qualified) pension benefits. The applicable SERP plan provides benefits to employees using the same formulas used under the ERISA-qualified AEP Retirement Plan, except that the value of non-qualified benefits is reduced by the value of qualified benefits so that the SERP plan provides only the value that cannot be provided in the qualified plan due to the ERISA limits. In this way the

Company's SERPs provide benefits that would be provided under the qualified plan formulas but for the ERISA limits.

Q. HOW PREVALENT ARE NON-QUALIFIED DEFINED BENEFIT PENSION PLANS?

A. In my experience, most companies that provide ERISA-qualified defined benefit pension plans to employees also provide non-qualified restoration plans like AEP's non-qualified pension plans. Such plans are a prevalent component of total rewards offered by large U.S. utility and industrial companies with qualified defined benefit pension plans. Many large Kentucky Power commercial and industrial customers and governments also provide non-qualified defined-benefit retirement plans.

Q. WHAT TREATMENT OF SERP EXPENSE IS RECOMMENDED BY AG-KIUC WITNESS FUTRAL AND WHAT IS HIS RATIONALE FOR HIS RECOMMENDATION?

A. AG-KIUC Witness Futral recommends excluding all SERP expense from Kentucky Power's cost of service because of the reasons cited in past Commission orders. In its ruling in Case No. 2020-00174, the Commission stated that it "typically disallows SERP costs when retirement plan expenses offered exclusively to certain highly-compensated employees exceed the cost of pension plans for all employees because, absent substantial evidence to the contrary, retirement plans that benefit highly-compensated employees without providing a benefit to ratepayers are the type of costs the Commission finds should not be borne by ratepayers."[31] The Commission

[31] Case No. 2020-00174, Order of the Kentucky Public Service Commission, January 18, 2018, p 16.

used similar language in disallowing SERP expense in its order for case No. 2023-00159.

Q. DOES THIS RATIONALE APPLY IN THIS CASE AND, IF NOT, WHY?

No, the Company's SERP plan is not "exclusive" to any "certain" group of employees. It is provided to all AEP System employees who are pension participants, which requires one-year or more of service, whose eligible compensation exceeds the IRS eligible compensation limit for ERISA qualified retirement plans.

Q. HAS THE COMMISSION PREVIOUSLY MADE A DETERMINATION ON THE REASONABLENESS OF THE COMPANY'S SERP EXPENSE IN OTHER PRIOR CASES?

A. Yes. In Case No. 2017-00179, the Attorney General recommended adjustments for the expense associated with the Company's SERP arguing that such plans provide benefits to executives that exceed amounts limited in qualified retirement plans by the Internal Revenue Service and that additional retirement compensation to the Company's highest paid executives is not a reasonable expense that should be recovered in rates. In its January 18, 2018 Order, the Commission found, "the [Company's] SERP expenses reasonable and, therefore, should be allowed for ratemaking purposes."[32] The Company respectfully requests that Commission find the Company's SERP expense is reasonable consistent with its previous ruling in Case No. 2017-00179.

Q. DO KENTUCKY POWER CUSTOMERS BENEFIT FROM SERP EXPENSE?

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[32] Case No. 2017-00179, Order of the Kentucky Public Service Commission, January 18, 2018, p. 16.

Yes. The AEP System Companies need many employees with scarce experience, knowledge, capabilities, and skills to provide electric service to customers efficiently and effectively. It is reasonable, prudent, and in customers' interests, for the Company and AEPSC to use the tools necessary to attract and retain such employees. These scarce attributes enable many of these employees to command compensation and associated employee benefits based on that compensation that exceeds ERISA qualified plan compensation limits. Therefore, the cost associated with attracting and retaining such employees is necessary and prudent if the Company is to provide its electric service to customers efficiently and effectively. While continuing to provide SERP benefits is a discretionary decision, eliminating this benefit without an offsetting increase in some other form of remuneration would have negative consequences on the Companies' ability to attract and retain employees with scare skills and this would ultimately have negative impacts on the cost and quality of the service the Company is able to provide to customers. Therefore, while SERP is discretionary, the need to provide market-competitive total compensation and benefits to all employees is not, nor is the cost associated with that, which includes SERP expense for employees whose pension eligible compensation exceeds the IRS eligible compensation limit.

One of the primary reasons for the ERISA limits on qualified plan benefits is to meet the U.S. Government's need for current tax revenue, rather than allowing tax revenue on pension contributions for benefits in excess of ERISA limits to be deferred. It is arbitrary to use limits established for this purpose to set the maximum level of pension expense that is necessary and prudent for the provision of efficient and reasonable electric service. The IRS limit has varied significantly over time due to changes in the law. The Commission should consider whether using this limit to determine recoverable vs. non-recoverable pension expense makes sense given the potential for such variability. In fact, utilizing any fixed limit for such a determination is biased against larger companies, including those with economies of scale that lower costs and improve service quality for customers. This is because more skilled and experienced managers and other highly compensated employees are needed to manage larger and more complex companies, and such employees command higher compensation in the marketplace, which is more likely to exceed any fixed limit.

The Companies' non-qualified defined contribution pension benefits have been designed as part of a market-competitive total rewards package. Without SERP benefits, most highly paid employees would be stunned to find that their pension benefit is not based on all their otherwise eligible compensation as it is for lower-paid employees due to such an arbitrary limit. Many of these employees would demand equivalent value in another form. SERP is not an additional benefit above and beyond what is needed to provide market-competitive total rewards to employees with scare skills and experience. As such, customers benefit from the provision of SERP benefits as part of a market-competitive total compensation and benefits package that enables the Company to attract and retain suitable employees in the same way as customers benefit from the provision of base pay as part of the same market-competitive package.

VI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) AN ORDER APPROVING ITS 2017 ENVIRONMENTAL COMPLIANCE PLAN; (3) AN ORDER APPROVING ITS TARIFFS AND RIDERS; (4) AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; AND (5) AN ORDER GRANTING ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2017-00179

VOLUME II

* * *

Transcript of December 7, 2017, hearing before Michael Schmitt, Chairman; Robert Cicero, Vice-Chairman; and Talina R. Mathews, Commissioner, at the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615.

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ALSO PRESENT:
Ms. Pam Hughes, videographer

*　　　*　　　*

CHAIRMAN SCHMITT: Okay. We're now back on the record. Would Kentucky Power please call its next witness?

MR. OVERSTREET: Thank you, Mr. Chairman. Our next witness is Mr. Carlin, and Mr. Garcia will present.

CHAIRMAN SCHMITT: Okay. Thank you.

Mr. Carlin, please raise your right hand.

ANDREW R. CARLIN, called by the Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

CHAIRMAN SCHMITT: Thank you. Please be seated.

Mr. Garcia, you may ask.

MR. GARCIA: Thank you, Your Honor.

Q. Would you state your name and business address for the record, please?

A. Andrew R. Carlin, 1 Riverside Plaza, Columbus, Ohio, 43015.

Q. And by whom are you employed and what capacity?

A. I'm employed by American Electric Power Services Company in the capacity of director of compensation and executive benefits.

Q. Thank you, Mr. Carlin. Did you cause direct testimony consisting of 39 pages of questions and answers and ten exhibits be submitted in this case?
A. Yes, I did.
Q. And did you also cause rebuttal testimony consisting of 35 pages of questions and answers to be submitted in this case?
A. Yes, I did.
Q. And did you also submit discovery answers in this case?
A. Yes, I did.
Q. Do you have any corrections or additions to either your direct testimony or your rebuttal testimony?
A. No, I do not.
Q. If I were to ask you the same questions today would you substantially provide the same answers?
A. Yes, I would.
Q. And was that direct testimony and rebuttal testimony and the corresponding exhibits prepared by you are or under your supervision?
A. Yes, they were.
Q. Do you adopt your direct testimony, including exhibits, rebuttal testimony, and the discovery answers that you have provided in this case as your

evidence?
A. Yes, I do.
MR. GARCIA: Your Honor, witness is tendered for cross.
CHAIRMAN SCHMITT: Okay. Thank you.
Mr. Kurtz, questions?
MR. KURTZ: No, sir.
CHAIRMAN SCHMITT: Counsel for any of the settling intervenors, any questions of this witness?
If not, Mr. Chandler, Mr McNeil?
MR. CHANDLER: Mr. McNeil has some questions, but may I approach?
CHAIRMAN SCHMITT: Yes, you may.

CROSS-EXAMINATION

By Mr. McNeil:
Q. Good afternoon, Mr. Carlin.
A. Good afternoon.
Q. Let me know as soon as you've got that settled.
A. It doesn't actually fit in the binder, but I'm good. Go ahead.
Q. Okay. All right. Earlier today Mr. Satterwhite testified, and were you in the room for that?
A. I've seen it on video.
Q. Okay. At one point he said something to the

effect that you've dealt with lots of studies and as far as wage and pension competitiveness; is that correct?

A. Yes.

Q. Can you tell me, has the company prepared any studies regarding the ability of rate payers to afford the SERP, the Settlement Employee Retirement Program, expenses embedded in the application?

A. The company does study its nonqualified benefit expense and finds it to be a normal cost of doing business. We have not done a study specific to customers' ability to pay for those costs. I don't think anyone has ever done that study, but one would expect that as a reasonable cost of -- imprudent cost of doing business, that it would be included in the company's cost of service.

Q. Are the sort of studies you mention, are those company facing only? Do they address sort of the rate payers and customers?

A. They address the compensation benefits expense that we find in the marketplace for similar positions for similar companies, both in general industry and in the utility industry.

Q. Okay. Could you please refer to your rebuttal testimony? Do you have that available?

A. Yes, I do.
Q. At page 31, please. Let me know when you're there.
A. I'm there.
Q. Okay. So at lines 11 and 12. It's your sworn testimony that incentive compensation adjustments should not flow through to cause savings plan adjustments, isn't it?
A. Yes, it is.
Q. Okay.
A. The reason for that is that our incentive compensation expense is part of a market competitive compensation package, and if we were to change or eliminate incentive compensation, reduce it, we would need to increase base pay, and base pay would be included in that savings plan as well as the incentive compensation is currently included, so it wouldn't flow through. A change like that would not flow through to reduce savings plan expense.
Q. Would you please then turn to tab 1 in the documents I handed you. This tab consists of documents that are already in the record.
First two pages are 15 and 16 of Mr. Ross's direct testimony, and then the next two pages are from Section 5, Exhibit 2 of the company's

application, pages 33 and 37. Do you see those pages there?
A. Yes, I do.
Q. Okay. Prior to filing your rebuttal testimony, had you read the portions of the company's application and direct testimony filed here that related to savings plan expense?
A. Probably had not read all of it, no.
Q. Okay. Well, then isn't it true that company witness Ross's direct testimony on page 15, line 18, addresses the company's proposed adjustment to savings plan expense with the question, (Reading) Please describe the cost of service adjustment for savings plan expense.
And then it has the section relevant. Do you see that?
A. I do see it.
Q. Now turning to page 16 of Mr. Ross's direct testimony, lines 3 to 6, doesn't it say (Reading), This cost of service adjustment for savings plan expense is determined by taking the net forecasted decrease related to changes in incentives, et cetera?
A. Yes, it does say related to changes in incentives.
Q. So the company itself calculated an adjustment

to savings plan expense based on its adjustment to incentive compensation expense, didn't it?
A. Let me carefully read the testimony here.
Q. Sure, go ahead.
A. I think there's a difference between the changes that Mr. Ross is contemplating here and the changes that I'm responding to, which would be to remove the substantial portion, or a substantial portion of the company's incentive compensation expense from its cost of service, and so the change I'm responding to would be much more substantial than what Mr. Ross is responding to here.
Q. But you had said that, in your testimony, that compensation -- incentive compensation adjustments should not flow through to cause savings plan adjustments, right?
A. It depends what those adjustments or those changes are related to. If it's related to replacing annual incentive compensation with base pay, which is what we would need to do if we eliminated incentive compensation expense to a substantial degree, then no, they should not flow through because base pay is included in the 401(k) match as well.
If it's related to an adjustment related to head count or something like that, then yes, it

probably should flow through.
Q. So did you not make a distinction as to the amount?
A. Well, I was responding to the specific situation in which the intervenor testimonies, the AG and the industrials had suggested eliminating a very large portion of the company's annual incentive compensation expense, and I was pointing out that if we did that we would need to replace it with additional base pay, and therefore that adjustment would not flow through or should not flow through because base pay would also be included. The offsetting increase in base pay would also be included in the savings plan.
Q. Okay. But I just want to make sure before you had filed your rebuttal you said you hadn't read the application or direct testimony that was referenced here?
A. I've read a great deal in this case. I'm not sure if I've read this specific testimony of Mr. Ross or the application in total, but I've read a great deal.
Q. All right. If you would refer to the third page of that tab. It has a label of W32 at the top. Did you review either of these next two pages?

A. I see one that says page 33 of 60.
Q. Yes, and the next page. If you can just look at those and tell me if you remember reviewing those prior to filing your rebuttal testimony?
A. I don't recall.
Q. Okay. Well, that page that is 33 of 60, doesn't that show that the company's own proposed adjustment to incentive compensation is here on this page?
A. What line would it be on?
Q. Looks like line 29.
A. It reads, (Reading) Combined adjustment to incentive compensation cost.
I assume that's what it is.
Q. All right. And if you turn to the next page, which would be labeled 37 of 60, that shows the company's own proposed adjustments to savings plan expense, doesn't it?
A. Yes, it does.
Q. Okay. And it's clear from looking at line 1 at that page that the company itself calculated its own proposed adjustment to savings plan expense by, among other things, multiplying its adjustment to incentive compensation expense by the 4 percent savings plan loading rate. Right?

A. That's correct, but as I previously stated, that's not replacing annual incentive compensation with base pay, which was what I was responding to in my testimony.

What this is is it's bringing -- it's normalizing the value of incentive compensation to the target level, and that adjustment would flow through, as opposed to a replacement where you would substitute base salary for incentive compensation.

Q. But doesn't that still -- doesn't the application contradict your rebuttal testimony where you said any incentive compensation adjustments should not flow through to cause savings plan adjustments?

A. Well, not in the context in which I said that. It does not, no. I'm talking about replacing base salary with an annual -- or, I'm sorry, replacing annual incentive compensation with additional base salary, so in that context it should not flow through.

That's what was contemplated by the intervenors that I was responding to, and that was the discussion prior to that paragraph in my testimony. I think that's clear.

Q. Okay. Now, isn't it true -- turning to tab 2 actually, if you would. Isn't it true that the Commission made an adjustment to disallow some of the company's incentive compensation expense in its last rate case?

A. That is correct.

Q. Since the company's last rate case, was the company able to hire and retain competent employees?

A. Generally speaking, yes.

Q. What do you mean by "generally speaking"?

A. We are always in a constant struggle to hire competent and capable employees. It's -- it's something that we work hard at each and every day. Sometimes we win, sometimes we don't get the competent employees that we would like to get, and we get someone else, but most of the time we're successful.

MR. MCNEIL: Sorry. One second, Judge.

Q. So doesn't the stipulation in this case exclude incentive compensation?

A. It excludes a portion of incentive compensation, which was a management decision. The stipulation in this case makes it clear that it's part of a whole settlement, and the company is willing to reduce its costs in the manner described in that settlement as part of a whole package deal.

And that's a management decision, not a compensation decision, that I support, but I still am arguing and my testimony supports recovery of the full amount should the Commission decide not to agree to the settlement.

Q. Do you recall the total amount of that portion?

A. The way we divide the work load is that the accounting witnesses cover the dollars, and I cover the reasons for, so that may be in my testimony, but it would be better to rely on witness Ross for those numbers.

Q. Okay. So you don't know the total incentive compensation number that was disallowed in the stipulation?

A. 3.15 million was the dollar value that the company agreed not to include in its cost of service in the stipulation, if that stipulation is adopted.

Q. Okay.

MR. MCNEIL: That's all the questions we have at this time, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner, Mr. Osterloh, questions?

MR. GARDNER: No, Your Honor.

CHAIRMAN SCHMITT: Staff?

MS. VINSEL: Yes, we have a few questions.

CROSS-EXAMINATION

By Ms. Vinsel:

Q. Good afternoon, Mr. Carlin.

A. Good afternoon.

Q. I don't know if you were here this morning when Vice-Chairman Cicero was asking Mr. Satterwhite about, particularly about the defined benefit plans. Were you here then?

A. I was not in the room, but I have heard about it, and we've discussed it, so I'm familiar with it.

Q. Okay. Could you first just give us an overview of all of the -- of these particular retirement plans, defined benefit, defined compensation?

A. Certainly. For details on that, I can cover it at a high level, but for details on that Mr. Cooper, who is up next, is the director of benefits, and he is the best witness on detailed questions on benefits in particular.

But the company does have defined benefit and defined contribution plans. The way I would describe it is that these plans are part of a market competitive benefit package that we benchmark against both utility industry, energy industry, and general industry companies.

It is market competitive. By that I mean it's

a single serving. In total. We do have two different kinds of plans. Think of it as the soft serve swirl where half is chocolate and half is vanilla, still fitting in the same size cup. So it's a single serving cup. We paid the same for it as we might if we had all of one or all of the other, but it's a swirl of the chocolate and the vanilla in this case.
Q. Are there employees who qualify for both defined benefit and defined compensation?
A. Defined contribution.
Q. Contribution, excuse me, yes.
A. Is the word you're looking for there.
Q. Thank you.
A. Yes. In fact, almost all employees qualify for both of those. Again, it's part of an overall market competitive benefit package that's a single serving. It's not a double dip.
Q. Can I have you turn to -- do you have this packet that --
A. This one here?
Q. Yes.
A. What number?
Q. Tab 7. And this is an exhibit to your direct testimony. It's Exhibit ARC-4, and in this case it's

Kentucky Power's target total compensation versus market compensation for technical, craft, and clerical jobs, correct?

A. Correct.

Q. Okay. In looking at this exhibit, it indicates that Kentucky Power's total compensation for technical, craft, and clerical jobs lagged behind the survey medians; is that correct?

A. That is correct. 5.4 percent behind survey median.

Q. Can you explain the reason for that compensation lag?

A. The primary reason is that our base wage rates have lagged, and that is because we had a salary freeze back in 2009, and we've -- over the period since then we've had some years where we've done a little better than market and other years that we've done a little worse, and so we haven't really made up much ground, and we're trying to make up some ground now, but we got behind market back in '09, back in the great recession because we had a salary freeze, which we felt was the right thing to do for our customers at that point in time, but it's been difficult for us to catch up. Now seven, eight years down the road we still haven't caught up.

Q. So I think you may have answered this, but I'm going to ask it anyway. That compensation lag, has that played a role in recent years' payroll increases or salary increases?
A. Yes, that's -- that is the main reason why, we're trying to catch up, and we -- to catch up we necessarily have to provide bigger increases than the market median. Otherwise we won't make any progress in catching up to the market, but that's the whole reason we're behind, and we're trying to catch up.
Q. Okay. In your testimony you indicated that the salary structure, the overall salary structure is designed to reward performance through incentive compensation. Is there a similar lag in terms of the incentive compensation?
A. Well, incentive compensation is a product of base wages, so every employee has an incentive compensation target. The physical workforce that's used in this example, the target is 5 percent of their base wages. And so if base wages lag, then their total compensation will lag because 5 percent of a lower number is still a lower number.
Q. Point taken. I want to make sure I'm understanding the dates of the various surveys. The most recent salary surveys are from 2016, is that

correct, or that were used, reported on this application.

A. Used in this case, that's correct. We have since gotten the 2017 surveys in, but they came in after we filed our testimony in this case.

Q. And then the incentive plan surveys, is the last date of that 2010?

A. It is. We're hoping to get an update on that, but these surveys cost money, and we don't have one at this time.

Q. So the reason that you haven't updated it since 2010 is just a question of money?

A. Yes.

Q. Primarily.

A. Primarily money. Participation. It also takes time to participate in these studies, and for whatever combination of those reasons we don't have it.

Q. Does Kentucky Power either conduct or contract with a third party to conduct a salary survey for regional companies, other than utilities, so getting a sense of a local or regional. Say, for example, in the Kentucky Power service territory?

A. We do benchmark jobs that are not unique to the utility industry to general industry, so about, I think it's either 40 or 60 of our jobs, 60 percent of our jobs, let's say that subject to check, are not unique to the industry, so we benchmark those against general industry, and we have general industry surveys that we do that against.

MS. VINSEL: That's all the questions I have at this time.

CHAIRMAN SCHMITT: Commissioner Cicero, questions?

EXAMINATION

By Vice-Chairman Cicero:

Q. Let me understand. The last survey you had was 2010?

A. No, that's the last survey we have that was specific incentive compensation designed. That's a pretty unique type of survey. It's not a survey of wages. It's just a survey of how incentive plans are designed and their prevalence, the prevalence of different design factors in them. It's an exhibit in my testimony if you wish to read it. We do benchmark our wages annually.

Q. Against?

A. Against the -- well, the utility industry jobs, there's only one place to benchmark them against, and that's utility industry data. If the job is available in the general industry we benchmark it against general industry data, which is a wider cut.

Q. But your chart, table ARC-3, you indicate that -- I think that's where you were saying you were behind because you didn't give an increase in 2009, and then you have '10, '11, '12, '13, '14, '15, '16, and you compare only to the utility industry market. Are you saying that those percentage increases are strictly related to the hourly and craft employees?

A. So you've mixed a couple of things there. The wage increases that I showed in my testimony have really been the same for the utility industry as they have been for general industry. Those have been remarkably consistent since -- for years. There's very little variance in those surveys. The wages on the tab ARC-4 --

Q. This is ARC-3.

A. Well, the one that the staff handed me before, physical and craft positions, is marked ARC-4.

Q. I'm not talking to the one that -- I'm --

A. Oh, okay.

Q. I'm referring to your Carlin page 20, table ARC-3, and I don't have a handout for you.

A. Oh, okay. Yes. Let me just make sure I find that in my testimony. There's ARC-2. ARC-3. So these are the wages for physical and craft positions, and the conference board is the source for this data. This is not, make sure, this is not -- no, this is specific --

Q. To utility.

A. -- to utilities. I would venture to say that there's very little difference in any of these years between the utility and general industry. The numbers have been quite consistent.

Q. Well, you chose to go back all the way to 2009 to do your comparison so I guess that you could show that the company was below the market?

A. Well, correct. We're still catching up. We haven't had an opportunity to fully catch up yet, so it felt that that period was relevant for that reason.

Q. So all the way back to 2009 because it appears, if you take the last five years, you're basically right on top of the market, 14 percent versus 15.

A. But that leaves out the year that we had the zero, and that's a big difference. When everyone else is moving by 3 percent and you're moving by zero.

Q. But I don't know what happened prior to 2009. It could have been above. At 2008 it could have been

3 percent and the rest of the market be 1 percent.
A.   And that's a good point, but I would refer you to ARC Exhibit -- Exhibit ARC-4, which shows where we are in total relative to the market, so these are the increases we provided that you're talking about in table ARC-3.
      The exhibit ARC-4 shows where we stand relative to the market for these physical and craft jobs, and it shows that we are also behind, so we have confirmation from two different points of view that we remain behind the market.
Q.   First of all, I'd like to say that I believe that the utility industry should pay market price, but not just based on the utility industry. It should be a comparison that includes other salary surveys for geographic area and other industries, so I'm -- I personally am not opposed to you paying a market-based price for salaries, so I'm not even really arguing that point, but now I'm going to get into benefits, and that's where I think that the utility industry does tend to overreach in what they believe is a way to compensate their employees.
      In my opinion, it's not necessary to overcompensate on the benefits side if you're paying market value on the salary side, and here's where

we're going to come in to you talked about this -- your double twist, there's the vanilla and the chocolate, but the cone is the same size. When was the defined dollar benefit plan put into place? How long has that existed?

A. So the company's had a pension plan for at least two decades. Probably well before that, certainly before my time.

Q. As a defined dollar benefit?

A. Well, so I was going to explain that. I think we need some background there. So there are two formulas in the current company -- in the company's current pension program. There is a final average pay formula that was put in well before my time.

It was in -- 2000, at the end of 2000 we added a cash balance formula, which looks very much like a 401(k) defined contribution, but it falls under the rules of defined benefit plans. And we put that in, and we ran the two formulas. The participant got the two formula -- higher of the two formulas. We ran them side by side for ten years, but at the end of the 2000 we froze the final average pay formula for participation, so I think that's what you mean by --

Q. Thank you. So was it lock and freeze or was it grandfathered?

A. It was -- more background needed here.
Q. Okay.
A. We froze participation at the end of 2000.
Q. Grandfathered.
A. At the end of 2010 we froze the benefit.
Q. Okay. Lock and freeze.
A. Okay. So two different periods, but it's locked and frozen at this point. No -- there aren't any significant costs in this case related to that formula. There are still people who, myself included, that's still the higher benefit, so the cash balance has -- was loaded with an amount back in 2000 and has continued to grow, but because of the way interest rates have changed, have been low through the period 2000 through 2017, the final average pay formula grew pretty fast up until 2010 when it was frozen, and it remains, for me at least, the higher of the two benefit formulas, which means since 2010 my pension formula hasn't grown at all.
So my -- and there's a significant chunk of the employee population that's in the same camp that I'm in because I've got a frozen benefit that's the higher benefit, and it's the winning formula. The cash balance hasn't caught up, and so I've not gotten a bigger benefit. It's not grown at all since 2010.

Q. That's okay. That was a very good background because I understand what you're saying is the plan was locked and froze in 2010. You're not earning any additional benefit by being in that plan, and so now the company is offering another formula, if I understand correctly, that's basically a 401(k) type savings plan that for new participants, new employees, they go into that plan, and you're saying right now there's a parallel formula running.

You're not earning in both, you're going to catch up one way or the other to whatever the best benefit is. Is that a correct statement?

A. It's close. So a little bit more background. I apologize. I think -- well, the cash balance plan is not a savings plan. Employees don't contribute to it. Only the company contributes to it. We also do have a savings plan, which the employees do contribute to, and the company then matches their contribution.

Q. Okay. We're going to talk about that in a moment.

A. All right? So but the rates for the cash balance pension plan are set knowing what we're also contributing in the K plan, so that the total amount of the company's subsidy, or contribution on behalf of employees, is market competitive, so we know we're matching 75 -- well, it comes out to 75 cents on the dollar for a 6 percent contribution. That's not exactly the way it works, but it's close enough, in the K plan, and we know the rates, they start at 4 and a half percent of eligible compensation, and the pension plan, those two add up to a market competitive total retirement benefit.

Q. Yes, and you keep referring to market competitive plan, and here's where I'm coming from. A pension plan, either a defined dollar benefit or a cash value plan, I have no problem with that, or a 401(k) plan by itself with a company match, have no problem with that, or a 401(k) plan not matched by the company, that participants in a pension plan, defined dollar benefit or cash value where the company doesn't contribute, no problem with that.

I do have a problem if you're going to contribute a match into a 401(k) at the same time you're allowing an individual to earn a pension plan that is either defined dollar benefit or a cash value plan. That is double dipping. That's not one cone. That's two cones. That's whatever you want to call it, but it's two pension plans.

You're allowing -- and you're just saying that it's market competitive, and that's how you're justifying it, and I'm saying that you show me an industry outside the utility industry that allows people to earn two pension plans, and I'll show you something that exists on a very minute percentage basis because it doesn't exist out there.

I find it exists in the utility industry. I call the utility industry an incestuous industry because you compare against each other, and then it all looks like it's what you've got to pay for market, but you don't have to -- you can argue this hourly craft employee argument because those are very specific, highly valued people that work for you, but when you get into office personnel and the rest of the people who work there, those people don't have such a specialized craft or profession that they can't be found anywhere out in the marketplace, geographically or otherwise, and I don't understand why the company is incurring this greater cost and passing on to the rate payers. I don't see the justification.

A. Well, I disagree that it's greater cost. We are -- our cost is the market competitive cost. We have designed these two plans together to do what other companies are doing, to provide the median amount of pension benefits together as a total, and so yes, we have two plans, but they're not creating a value for participants that's any greater than if we had a full-blown 401(k) plan with 100 percent or 125 percent match or a full-blown pension plan with a greater employee contribution there as well.

Q. You're matching .75 up to 6 percent?

A. Yes.

Q. Okay. So you've got basically what some plans offer on a 401(k) plan just stand alone by itself because it can be 1 percent maxed on 4 percent or half half, and then another 3 to get the employee contributes 4 and ends -- or 5 and ends up with 4, but at the same time you're permitting earnings on a defined dollar benefit plan or a cash value plan, that those by themselves are a valid pension plan.

How much of the industry in general offers a defined dollar benefit plan? Is it about ten percent? I think that's what it is in private sector.

A. I think it's a little larger than that, but it's certainly been shrinking. It's been 25, 20 percent maybe recently.

Q. So even at 20 percent you're offering a plan that only 20 percent of the general industry offers in the private sector, and you're saying that you have to offer an additional savings plan besides?

A. I'm saying that the total dollars that the company is contributing to these plans is what our peer companies are contributing. It's actually a little bit less.

Q. I know, and you keep referring to peer companies. It's the utility industry that offers this dual type of incentive to their employees. It's two pension plans. And you're calling it market valued.

A. If you look at -- and so you're not disagreeing, I don't think, that other companies in the utility industry are offering the same pension in total that we're offering, the same market competitive amount. Or you're not disagreeing that we're market competitive relative to the utility industry.

What I think you're saying is the utility industry should take into account other industries, and we do. Other large employers offer benefits very similar to those that we offer.

Q. I think what I'm trying to say is in the Commonwealth of Kentucky that utilities should start looking for the rate payers' benefit and saying this is a reasonable compensation.

Again, I'm not arguing paying market price for salary. I just don't believe that utilities should be overpaying -- what I talked to Mr. Satterwhite about, doubling insuring yourself. What's the turnover rate for Kentucky Power?

A. It's four-ish, three and a half, four, somewhere in there.

Q. Three and a half to four?

A. Three to four, maybe three and a half. I'm not exactly sure, but it's low. I'll agree to that.

Q. It's low, yes. It's low because the benefits that are offered are probably in excess what they need to be, and I continue to argue, and I argued this point, and the Commission has argued this point with all the rate cases that have come before us in recent time about double dipping, having two pension plans.

There's no argument that employees deserve a pension plan. That goes without saying. I don't think any of us on the Commission would disagree that that is a benefit that's enjoyed by a lot of people, not all, but a lot of people, but certainly having the opportunity for two pension plans is considered to be a little excessive. I know you keep saying market, I hear that argument, but I'm not certain that it's valid.

A. So my other point besides it being market is that you certainly can design a pension, or a retirement program that would include both pieces that would be reasonable. I mean, you can have a K plan that didn't have a match, or you could have a pension plan with a very low contribution rate. They both have benefits to customers.

The K plan encourages employees to save because we know that the company's contribution to the retirement program isn't enough for most employees. They aren't going to be able to retire comfortably with that, so they need to be encouraged, and the K plan does that, encouraged to save for their own retirement.

The pension plan is managed by the company, and the employee doesn't have the investment risk. And that pension plan takes that investment risk away. We're able to do it much more efficiently and without taking on much risk ourselves when it's fully funded, so that --

Q. Who fully funds it?

A. The company funds it.

Q. Of course.

A. But I guess what I'm saying is if you were to design this so that you would think it's reasonable, in your view, that the two pieces would be small enough in total that they're reasonable, well, that pension plan has value because employees don't always make the best investment decisions, and they have a lot of control over what they do with those assets when they retire, and they may disappear.

The pension plan solves some of those problems, not all of them, and therefore it's got value that the K plan doesn't have. Both pieces together, we think, are the best way to go for employees.

Q. So I would agree that a defined dollar benefit plan is the best -- it's obviously the most benefit rich for the employee because a defined dollar benefit plan is just that. It doesn't matter how well the employee makes a decision because it's taken out of his hands.

There's a formula. It's run by the company based on an actuarial calculation. At the end of the day you're going to multiply the formula times earnings, and he's going to have a benefit; is that correct?

A. That's correct.

Q. That's correct. So I'm guessing one of the reasons why Kentucky Power decided to first grandfather in employees and then lock and freeze it was because it was an expensive plan, and so they decided to go to something less expensive. Is that pretty reasonable?

A. That's very reasonable.

Q. Yes.

A. That's exactly right. We also saw that the market was moving, and we wanted to move with the market, which is why we made the change.

Q. Uh-huh. But instead of doing what a lot of companies did, which was just eliminate any type of other pension plan and go to a 401(k) savings plan, Kentucky Power has retained, either through a cash value plan or a defined dollar benefit plan, one piece of the pension, and on the other side said, well, people aren't smart enough to invest on their own, even though we're going to allow them to match three quarters of a percent on every percent up to six percent, we don't know how good they'll do or how good the stock market will do, so we'll also going to protect them on the other side.

Go out to the industry and look. How many companies say, well, our employees aren't smart enough to do that, so we're going to have a backup plan?

A. So what I would suggest, and what I think we actually did, was we looked at where the market was when we put in the cash balance plan for benefits in total, and at the time we froze -- or we froze participation and then we've ultimately froze the benefit from the final hours paid formula, put in the cash balance plan.

We made the decision that in total we're going to design the combination of the two going forward formulas to be market competitive rather than going all one direction or all the other direction.

That to me is not a material difference in terms of cost. It's just the administration. For the customers in Kentucky or anywhere else. It's the same total cost.

Q. Based on a market value that you consider to be cost competitive for your employees that that's what you need to do to maintain a good workforce, and here again, you're valuing it on a valuation to a market that basically at this point is the utility industry, and that's your primary comparison. Is that a fair assessment?

A. It's -- it's one of our comparisons. I'll let Mr. Cooper decide and tell you whether it's our primary comparison or not. We use several comparisons.

Q. So let's just take one more step and go towards the benefit side, which is the healthcare, and I noticed that the chart that was supplied gave a blended formula on the company cost for different levels of healthcare.

So if you had employee, employee plus spouse, employee plus children, it still had the same value, and can you verify that the company is paying the same rate regardless of whether it's a single or a married with children or whatever, or whether that chart needs to be updated?

A. This would be a great question for Mr. Cooper.

Q. Okay. I'll save that for Mr. Goodwin?

A. Cooper.

Q. Cooper.

A. He's up next.

Q. I'll save that for him.

CHAIRMAN SCHMITT: He can't wait, can he?

Commissioner Mathews, questions?

I have none. Mr. Garcia?

MR. GARCIA: Just a few, Your Honor.

* * *

REDIRECT EXAMINATION

By Garcia:

Q. Mr. Carlin, you had a thorough discussion with Commissioner Cicero, and I wanted to ask you a couple questions about that.

But stepping back for a second, when we are looking at the question of employee benefits, does the company, and when I say "the company," in this case I mean Kentucky Power and the American Electric Power Service Corporation employees that provide services to Kentucky Power. When you look at the market value of total compensation, are you looking only at the benefits portion, only at the incentive compensation portion, only at the wages portion, or are you looking at everything as a whole?

A. We look at everything in total, and we also look at the individual pieces, so our primary benchmark on the compensation side is total compensation, but we also are looking at total cash compensation, which is base pay plus annual incentive. Total compensation also in addition to that includes long-term compensation for higher paid employees, and we look at base salary, so we want to make sure the mix of those elements is reasonable within the market practice and fits the company's needs and that in total the compensation is market competitive.

Q. And one observation that you make, just to clarify the record, when you're talking about market competitive, are you talking only about the market for employees for utilities, or is it a broader market?

A. It's broader. So obviously the jobs that only exist in utility industry you're going to have to benchmark against utility industry because that's the only industry they're in. You won't find line mechanics, for the most part, outside the utility industry.

But admin jobs we benchmark against general industry. That's because we can recruit them from across the street, to Your Honor's point, and so that's why we do benchmark against them, against a broader general industry survey data when we do that.

Q. Okay.

MR. GARCIA: Nothing further, Your Honor.

CHAIRMAN SCHMITT: Mr. Kurtz, questions?

MR. KURTZ: No questions.

CHAIRMAN SCHMITT: Anyone else?

Well, let me ask, we've been going to the Attorney General. Mr. McNeil, do you have any questions?

MR. MCNEIL: I have a few follow up, Your Honor.

CHAIRMAN SCHMITT: Okay. Then Mr. Gardner, we'll let Mr. Gardner go after you do.

RECROSS-EXAMINATION

By Mr. McNeil:

Q. Mr. Carlin, as a general proposition are wages rising 3 percent in Kentucky Power's service territory?

A. So when we talk about the wage increases I'd say yes, wages are -- for salaried employees are going up 3 percent. There is attrition in the marketplace, so when you talk about the general rate of wage increases, it goes up by something less than that amount, and we've been moving our salary structure by two percent. That's -- that's very common practice of among companies in our industry and outside our industry.

Q. Well, specific to the Kentucky Power territory, what do you base that on?

A. Survey information for wage increases in general. I don't have a lot of survey information on specific positions for Kentucky because Kentucky doesn't have enough companies in our surveys that we use to have a Kentucky only cut, so -- and in addition, we are in 11 states, 18,000 employees, and it is a problem when we have rates that are at different levels in different locations.

Our line mechanics, for instance, have been to, you know, they work in Kentucky, they've been to Maine, they've been to Texas, they've been to Florida, all in the last few months. We -- you know, it can cause issues. Our labor unions are negotiating with us to standardize our rates across our service territories, and we're working towards that.

Q. Would you be able to provide in a post-hearing data request that info that you have for the 3 percent -- wages are rising at a rate of 3 percent in this territory, in your service territory?

A. I think I said that the wages -- the wage -- I'm sorry, the salary increase budgets tend not to vary, and so I don't know that I have a Kentucky cut for that, but they've been very consistent throughout the U.S. by location and by industry as well, so I don't know that I have a Kentucky cut of that, but they've been consistently 3 percent. It's almost a foregone conclusion at this point.

Q. So what about in Hazard in Perry County, do you think that holds true there?

A. For salaried employees, yes, I do. There may be more attrition, maybe the wages in general are going down in Hazard if population is shrinking because people are leaving Hazard, but those people that have jobs for the beginning of the period and the end of the period that we're talking about here, their salary increased budget for those companies probably was 3 percent. Not been a lot of variance around that.

Now, you know, any one company or any group of companies it could be different, but you get a statistically significant sample, they all seem to show 3 percent.

Q. Do you have a study that shows a sample like that that you're talking about to support this?

A. There are many studies. I don't have one specific to Kentucky. I'm using some of my general knowledge here to having looked at these studies throughout the years, and for the last number of years it's been 3 percent with very little variance, if any, by industry or geography.

Q. But hasn't the information in this case, testimony, studies, documents shown that Eastern Kentucky is not like the national trend, the national average? Isn't it different in that it's not increasing in the same way?

A. Well, as I explained, the wage increase budgets of the companies in Hazard, it's a different thing from the wage level or the average wage level for any position, say welder or something like that in Hazard. Those are two different -- those are apples and oranges.

The companies in Hazard, if they're -- if it's a significant sample, statistically significant sample, I should say, they're probably following the trend throughout the U.S., which is 3 percent.

Q. I'm not trying to do apples to oranges here. I just mean as a general proposition you still think 3 percent is what that entire area is --

A. For the wage and increase budgets, which again is different from general wage levels, yes, I do.

MR. MCNEIL: That's all the questions we have, Your Honor.

CHAIRMAN SCHMITT: Mr. Gardner?

MR. GARDNER: Thank you. Thank you, Your Honor.

CROSS-EXAMINATION

By Mr. Gardner:

Q. Mr. Carlin, I just have a couple quick

questions. How many of the 30,000 commercial customers in the Kentucky Power territory do you think can afford a pension plan or pension plans as generous as Kentucky Power's?
A. I have no idea.
Q. How many of the 30,000 commercial customers can even afford one pension plan in Kentucky Power's territory?
A. Again, I would have no idea.
MR. GARDNER: Okay. Thank you.
CHAIRMAN SCHMITT: Staff, questions?
MS. VINSEL: Nothing further.
CHAIRMAN SCHMITT: Commissioner Cicero?

REEXAMINATION

By Vice-Chairman Cicero:
Q. Just one other. In your testimony on page 21, you talked about steps to control compensation expense in light of the great recession and weak recovery, and there was a list of about 1, 2, 3, 4, 5, 6 items, okay?
As a post-hearing data request, can I have those dollarized to see what the cost savings or what the company actually ended up saving through these programs, through these efforts?
A. Unfortunately, I don't know that there -- we

can get a dollarized amount for each of these. A lot of these programs were in years past that that information may never have been collected or may now be lost.

Q. Well, I understand that you go back to 2008 and 2009, which I think stretches the whole process, but it does say in light of the great recession, which did start in 2008, but there's items like reduce the employee workforce through staff reduction and severance programs, implemented efficiency measures such as Lean and other continuous improvement initiatives.

Those types of programs I would have thought as part of the corporate culture there would have been some dollarization in order to go back to management and say we implemented these programs, and here's the dollar savings associated with it.

A. There undoubtedly was at one point in time. Those may have been local management, not collected at a central location, especially the Lean programs. There's been many, many Lean initiatives, two or three in the HR department, for instance, over that long period. I don't know that those have been aggregated in a central location that I'd be able to provide to you the dollar impact.

Q. So how does Kentucky Power manage their costs if they don't somehow have an overview of savings programs or a way to go back to management to review whatever those savings that are associated with these type of initiatives? How can management determine whether they're doing effective job or not unless there's some kind of review?

A. Well, I didn't say there wasn't a review. I think there probably was at some point in time. Whether that information has been collected and aggregated in a central place that's now accessible to me is a much different question, and I don't think it probably is.

It may be that management knew that, for instance, we had the integrated disability center in the HR department went through a process improvement as part of the Lean initiative, and those budget dollars were baked into the budget two or three years ago. Don't know what that -- and that was -- it was implemented, we got the savings, the budget year went on, and I don't know now whether that's information is accessible.

That's one, that one probably is because it's in the HR department, but there may not be somebody at the corporate center that collected all the different initiatives from all the different departments and to be able to provide you a total.

Q. Let me approach it from the other direction. Typically when a program is implemented there's a target that says this is what we expect to achieve through this program, this initiative. Do those target dollars exist that are associated with this?

I mean, only reason why I'm asking is because from a managerial standpoint one of the worst things that I hate to see personally is when savings are referenced with no dollars, and I call them foo-foo dollars. They make things look good, but there's nothing to substantiate them, and it's always nice to have something that goes along with it that says, you know, we had savings, here's what our target was. I always like to see them make good on it, but this is what we actually achieved, but somewhere a measurement process that says we were successful, unsuccessful, this is we were trying to do, but shows an approach by the organization to reach some target.

A. So the Lean initiative is an example. A lot of -- and some of those had very explicit targets that were probably achieved. Others did not. They had sort of save ourselves targets.

If we've got 40 percent more work than we can really handle in our integrated disability center, and we can cut 30 percent of that out, we're cutting back nonexempt overtime, which is not paid overtime, so there's no dollar savings, but that process improvement enables us to get our work done without being there till 8:00 o'clock every night, and that's a huge improvement on company culture.

Q. But this specifically says take into control compensation expense. This wasn't an efficiency list. This was a control compensation expense list.

A. And many of the Lean initiatives were. The one example I just used was not, I'm sorry, but I still don't know that those have been collected in a central location. In fact I don't believe they have. You are not the first one to ask.

Q. Well, how about making an attempt to see what you can do?

A. I shall do so.

Q. Thank you.

CHAIRMAN SCHMITT: Commissioner Mathews?

I have none.

Mr. Garcia, any follow-up?

MR. GARCIA: Nothing further, Your Honor. Thank you.

CHAIRMAN SCHMITT: Any questions from anyone else? If not may, this witness be excused?

MR. OVERSTREET: Yes, Your Honor.

CHAIRMAN SCHMITT: Like to call your next witness?

MR. OVERSTREET: Our next witness is Mr. Cooper, and Mr. Garcia will present him.

CURT D. COOPER, called by the Kentucky Power Company, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By Mr. Garcia:

CHAIRMAN SCHMITT: Please be seated. Mr. Garcia, you may ask.

MR. GARCIA: Thank you, Your Honor.

Q. Would you please state your name and business address for the record?

A. My name is Curt D. Cooper, business address 1 Riverside Plaza, Columbus, Ohio, 43215.

Q. By whom are you employed and in what capacity?

A. American Electric Power Service Corporation, and I'm the director of employee benefits.

Q. Mr. Cooper, did you cause in this case rebuttal testimony to be submitted consisting of five pages of questions and answers?

A. Yes.

Kentucky Power Company is seeking permission to provide Confidential Exhibit ARC-R2 and will provide as a supplemental filing once obtained.

Confidential Exhibit ARC-R3 is redacted in its entirety.

VERIFICATION

The undersigned, Andrew R. Carlin, being duly sworn, deposes and says he is the Director of Compensation and Executive Benefits, for American Electric Power Service Corporation, 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.

Andrew R Carlin
Andrew R. Carlin

State of OHIO)
Franklin County) Case No. 2025-00257
)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Andrew R. Carlin, on December 19 2025

Notary Public

My Commission Expires January 4, 2029

Notary ID Number N/A

NOTARIAL SEAL STATE OF OHIO
DONNA J STEPHENS
NOTARY PUBLIC
STATE OF OHIO
Comm. Expires
01-04-2029