

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)
Treatments; and (4) All Other Required Approvals)
And Relief)

Case No. 2025-00257

REBUTTAL TESTIMONY OF
DAVID HODGSON
ON BEHALF OF KENTUCKY POWER COMPANY

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EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT DAH-R1	NOLC With and Without Calculation

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KENTUCKY POWER COMPANY
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CASE NO. 2025-00257

I. INTRODUCTION

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

2 A. My name is David Hodgson. I am the Managing Director Tax Accounting & Regulatory
3 for American Electric Power Service Corporation (“AEPSC”), a wholly owned subsidiary
4 of American Electric Power, Inc. (“AEP”). AEP is the parent company of Kentucky Power
5 Company (“Kentucky Power” or the “Company”). My business address is 1 Riverside
6 Plaza, Columbus, Ohio 43215.

7 **Q. ARE YOU THE SAME DAVID HODGSON WHO OFFERED DIRECT**
8 **TESTIMONY IN THIS PROCEEDING?**

9 A. Yes.

II. PURPOSE OF REBUTTAL TESTIMONY

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my Rebuttal Testimony is to respond to and refute AG-KIUC Witness
12 Kollen’s arguments concerning the Company’s proposed net operating loss carryforward
13 (“NOLC”) deferred tax asset (“DTA”) and to respond to AG-KIUC Witness Futral’s
14 recommendation concerning property tax expense.

15 **Q. ARE YOU SPONSORING ANY REBUTTAL EXHIBITS?**

16 A. Yes. I am sponsoring Exhibit DAH-R1 which is the calculation of the NOLC with
17 accelerated depreciation and without accelerated depreciation (“With and Without
18 Calculation”).

III. NET OPERATING LOSS CARRYFORWARD

1 **Q. WHAT RECOMMENDATIONS DOES MR. KOLLEN MAKE WITH RESPECT**
2 **TO THE COMPANY’S NOLC?**

3 A. Mr. Kollen makes three recommendations with respect to the Company’s NOLC. First,
4 Mr. Kollen recommends that the Commission reject the Company’s proposed inclusion of
5 an NOLC DTA in the calculation of its revenue requirement. Second, Mr. Kollen
6 recommends that if the Commission allows an NOLC DTA in the calculation of the
7 Company’s revenue requirement that the amount of the NOLC DTA should be adjusted
8 based on his method of determining the amount protected under the normalization
9 requirements of the Internal Revenue Code (“Code”). Third, Mr. Kollen recommends that
10 if the Commission allows an NOLC DTA in the calculation of the Company’s revenue
11 requirement that a regulatory liability should be established to return the collected revenues
12 to customers with interest at a later date.

13 **Q. PLEASE DESCRIBE THE BASIS UPON WHICH MR. KOLLEN MAKES THESE**
14 **RECOMMENDATIONS.**

15 A. First, Mr. Kollen testifies that Kentucky Power’s request to include the NOLC DTA in its
16 revenue requirement on a going forward basis “violate[s] [the Company’s] commitment in
17 the settlement agreement in Case No. 2023-00159,” such that the Commission [should]
18 wait until after the Company receives a PLR” before allowing it to be include in rate base.¹
19 Second, and alternatively, Mr. Kollen testifies that to the extent the Commission decides
20 to include the NOLC DTA in rate base (and the revenue requirement) the rate base amounts
21 proposed by the Company are not calculated correctly.² Specifically, Mr. Kollen states

¹ Kollen Direct Testimony at 16-18.

² Kollen Direct Testimony at 18-29.

1 that Kentucky Power did not properly calculate the “with and without [tax depreciation in
2 excess of book depreciation calculations.”³ Finally, Mr. Kollen reasons that the Company
3 should defer the incremental base and Tariff F.T.C. revenue requirement effects, along with
4 a return at the Company’s weighted average cost of capital, to a regulatory liability because
5 he believes the NOLC-related adjustments are not costs actually incurred by the Company
6 due to the payments received from AEP pursuant to the Tax Allocation Agreement
7 (“TAA”).⁴

8 **Q. HOW DO YOU RESPOND TO MR. KOLLEN’S RECOMMENDATION THAT**
9 **THE COMMISSION REJECT THE COMPANY’S PROPOSED NOLC BASED**
10 **UPON THE SETTLEMENT IN CASE NO. 2023-00159?**

11 A. Mr. Kollen’s recommendation should be rejected because it is based upon an incomplete
12 and fundamental misunderstanding of the proceedings in Case No. 2023-00159. First,
13 while a settlement agreement was filed with the Commission, the Commission did not
14 approve the settlement. Second, Mr. Kollen omits an important piece of the Commission’s
15 ruling. The Commission order stated that recovery of the *regulatory asset* that it authorized
16 related to the NOLC was contingent on receiving a PLR from the Internal Revenue Service
17 (“IRS”) that affirmed the Company’s position. In my Direct Testimony I clearly stated that
18 the Company is not seeking recovery of the regulatory asset in this case because it had not
19 yet received a PLR from the IRS.⁵ What the Company has requested in this case with
20 respect to the regulatory asset is that if the IRS issues a PLR which affirms the Company’s
21 position on the NOLC, that the regulatory asset be recovered through Tariff F.T.C. This

³ Kollen Direct Testimony at 18.

⁴ Kollen Direct Testimony at 29-30.

⁵ Hodgson Direct Testimony at page 15.

1 request aligns with the Commission order in Case No. 2023-00159 by seeking recovery
2 only after a PLR has been issued.

3 Importantly, the Order in Case No. 2023-00159 stated that “The Commission will
4 consider any PLR received in future cases along with any other evidence and arguments.”⁶
5 As discussed in my Direct Testimony, the Company has presented substantial new
6 evidence that did not exist as of the resolution of Case No. 2023-0159 to support its request
7 for the NOLC DTA to be included in the revenue requirement (on a going forward basis)
8 in this case. That substantial new evidence came in the form of the IRS issuing three PLRs
9 to affiliates of Kentucky Power and each of those rulings affirming that the NOLC DTA
10 must be included in rates to comply with the requirements of section 168(i)(9) of the Code,
11 Treasury Regulation § 1.167(l)-1(h), and section 13001 of the TCJA (“Normalization
12 Rules”). The critical facts in the three PLRs issued to affiliates of Kentucky Power are
13 substantially the same as the Kentucky Power facts. Finally, the Company has requested to
14 include the NOLC DTA in the calculation of its revenue requirement because of its concern
15 to not do so is a violation of the tax normalization requirements, which if not corrected
16 would have an adverse effect on customers through the loss of the tax benefits of
17 accelerated depreciation.

18 **Q. MR. KOLLEN CLAIMS THAT THE NOLC DTA INCLUDED IN THE**
19 **CALCULATION OF THE COMPANY’S REVENUE REQUIREMENT IS**
20 **OVERSTATED. HOW DO YOU RESPOND?**

21 **A.** Mr. Kollen’s claim is incorrect that the NOLC DTA included in the calculation of the
22 Company’s revenue requirement is overstated. He incorrectly claims that the proposed

⁶ Commission order in Case No. 2023-00159 at page 16.

1 NOLC DTA is inconsistent with the calculations described by Company Witness
2 Schlessman in Case No. 2023-00159 because he claims the proposed NOLC DTA is not
3 limited to the NOLC attributable to accelerated tax depreciation.

4 **Q. DOES MR. KOLLEN ACKNOWLEDGE THAT THE CODE REQUIRES AN**
5 **NOLC DTA THAT IS ATTRIBUTABLE TO ACCELERATED TAX**
6 **DEPRECIATION BE INCLUDED IN RATEMAKING?**

7 A. Yes. In reference to Company Witness Schlessman's testimony in Case No. 2023-00159,
8 Mr. Kollen states that "Witness Schlessman correctly recognized that the normalization
9 requirements apply only to the portions of the NOLC DTA, deficient NOLC DTA, and the
10 related amortization expense caused by tax depreciation in excess of book depreciation."⁷

11 **Q. HOW DID THE COMPANY DETERMINE THE AMOUNT OF ITS NOLC DTA**
12 **THAT IS ATTRIBUTABLE TO ACCELERATED TAX DEPRECIATION?**

13 A. The Company performed a "With and Without" Calculation just as described in the
14 testimony of Company Witness Schlessman in Case No. 2023-00159 and is provided as
15 Exhibit DAH-R1. The With and Without Calculation is the only method that the IRS has
16 confirmed as ensuring that no amount of ADIT attributable to accelerated tax depreciation
17 is excluded from the NOLC DTA

18 **Q. PLEASE DESCRIBE THE WITH AND WITHOUT CALCULATION.**

19 A. The "With and Without" Calculation is a straightforward calculation that, as the name
20 implies, calculates both the NOLC that results from the taxable income with accelerated
21 tax depreciation and the NOLC that results from the taxable income without accelerated
22 tax depreciation (i.e., with book depreciation rather than accelerated tax depreciation). The

⁷ Kollen Direct Testimony at page 21.

NOLC that is produced from the taxable income with accelerated tax depreciation in excess of the NOLC that is produced from the taxable income without accelerated tax depreciation is attributable to accelerated tax depreciation and therefore protected by the Normalization Rules.

Q. PLEASE PROVIDE A SIMPLE EXAMPLE OF A “WITH AND WITHOUT” CALCULATION.

A. For this example, I will look at the taxable income of a utility over a three-year period as shown below in Figure DAH-1. With the deduction for accelerated tax depreciation, the utility in this example had a taxable loss of \$4,000 in Year 1 and taxable income of \$1,000 in Year 2 and \$1,000 in Year 3. Without the deduction for accelerated tax depreciation, the utility in this example would have had a taxable loss of \$1,000 in Year 1 and taxable income of \$4,000 in Year 2 and \$4,000 in Year 3.

Figure DAH-1

	Year 1	Year 2	Year 3	Cumulative
Taxable Income Without Accel. Tax Depr.	(1,000)	4,000	4,000	7,000
Accelerated Tax Depr. in Excess of Book Depr.	(3,000)	(3,000)	(3,000)	(9,000)
Taxable Income With Accel. Tax Depr.	(4,000)	1,000	1,000	(2,000)

As shown in Figure DAH-2 below, when using the taxable income with accelerated tax depreciation, the utility has an NOLC of \$4,000 in Year 1 that is carried forward to Year 2. In Year 2 the utility can offset the \$1,000 of taxable income with its cumulative NOLC (from Year 1) and has an NOLC of \$3,000 remaining that is carried forward to Year 3. In Year 3 the utility can offset its \$1,000 of taxable income with the \$3,000 NOLC carried into the year. The utility has utilized a total of \$2,000 of the NOLC generated in

Year 1 to offset its taxable income in Year 1 and 2 and has an NOLC of \$2,000 at the end of Year 3.

Figure DAH-2

Description	Year 1	Year 2	Year 3
Taxable Income (Loss) With Accel. Tax Depr. Before NOLC	(4,000)	1,000	1,000
NOLC Available to Offset Current Year Income	-	(4,000)	(3,000)
Taxable Loss With Accel. Tax Depr. After NOLC	(4,000)	(3,000)	(2,000)
NOLC	(4,000)	(3,000)	(2,000)

As shown in Figure DAH-3 below, when using the taxable income without accelerated tax depreciation, the utility has an NOLC of \$1,000 in Year 1 that is carried forward to Year 2. In Year 2 the utility can offset \$1,000 of the \$4,000 of taxable income with its NOLC. At the end of Year 2 the utility has utilized the \$1,000 NOLC that was generated in Year 1 to offset its taxable income in Year 2 therefore at the end of Year 2 and Year 3 the utility has an NOLC of \$0.

Figure DAH-3

Description	Year 1	Year 2	Year 3
Taxable Income (Loss) Without Accel. Tax Depr. Before NOLC	(1,000)	4,000	4,000
NOLC Available to Offset Current Year Income	-	(1,000)	0
Taxable Loss Without Accel. Tax Depr. After NOLC	(1,000)	3,000	4,000
NOLC	(1,000)	0	0

Figure DAH-4 below compares the NOLC at the end of each year that results from the taxable income with and without accelerated tax depreciation. The difference between the two is the NOLC that is attributable to accelerated tax depreciation. As shown in Figure DAH-4, the utility has an NOLC attributable to accelerated tax depreciation of \$3,000 at the end of Year 1, \$3,000 at the end of Year 2, and \$2,000 at the end of Year 3.

Figure DAH-4

Description	Year 1	Year 2	Year 3
Taxable Income (Loss) Without Accel. Tax Depr. Before NOLC	(4,000)	(3,000)	(2,000)
NOLC Available to Offset Current Year Income	(1,000)	0	0
Taxable Loss Without Accel. Tax Depr. After NOLC	(3,000)	(3,000)	(2,000)

Q. PLEASE DESCRIBE THE RESULTS OF THE WITH AND WITHOUT CALCULATION PERFORMED BY THE COMPANY.

A. The Company's NOLC at the end of the test year using taxable income with accelerated tax depreciation was \$218,416,745. The Company's NOLC as of the end of the test-year using taxable income without accelerated tax depreciation was \$8,796,353. The "With and Without" Calculation performed by the Company determined that the difference between the "with accelerated depreciation" of \$218.4 million and the "without accelerated depreciation" of \$8.8 million was \$209.6 million. Therefore \$209.6 million of the NOLC is attributable to accelerated tax depreciation and required to be included in the calculation of the Company's revenue requirement to satisfy the Normalization Rules.

Additionally, the "With and Without" Calculation determined that the entire NOLC as of December 31, 2017, was attributable to accelerated tax depreciation. This is important to note because that is the date at which the federal corporate income tax rate was reduced from 35 percent to 21 percent. Therefore, the deficient NOLC DTA that resulted from the rate change and the amortization of the deficient NOLC DTA are required to be included in the calculation of the Company's revenue requirement to satisfy the Normalization Rules.

1 **Q. ARE THE RESULTS OF THE “WITH AND WITHOUT” CALCULATION**
2 **CONSISTENT WITH THE PROFORMA ADJUSTMENT FOR THE NOLC DTA**
3 **INCLUDED IN THIS CASE?**

4 A. Yes, with the exception that the NOLC DTA included in the proforma adjustment
5 inadvertently included a portion of the NOLC that is not attributable to accelerated tax
6 depreciation because the “With and Without” calculation initially performed omitted the
7 impact of the taxable loss for the 5 months of tax year 2025 that are part of the test year.
8 The proforma adjustment was based on the total NOLC of \$218.4 million rather than the
9 NOLC attributable to accelerated tax depreciation of \$209.6 million. The “With and
10 Without” Calculation provided as Exhibit DAH-R1 provides a revised calculation of the
11 proforma adjustment from \$44,950,166 to \$43,139,877, a decrease of \$1,810,289.

12 **Q. SUBJECT TO THE AFORMENTIONED CORRECTION, IS THE “WITH AND**
13 **WITHOUT” CALCULATION PERFORMED BY THE COMPANY CONSISTENT**
14 **WITH THE PROCESS DESCRIBED BY WITNESS SCHLESSMAN IN CASE**
15 **2023-00159?**

16 A. Yes. The “With and Without” analysis described above, and applied in this case (subject
17 to the inadvertent omission) aligns with the simply objective analysis that was described
18 and advocated by Witness Schlessman in Case No. 2023-00159.

19 **Q. DOES THE CALCULATION PROVIDED BY AND DESCRIBED IN THE**
20 **TESTIMONY OF MR. KOLLEN FOLLOW THIS SAME SIMPLE LOGIC?**

21 A. No, it does not. While the testimony of Mr. Kollen appears to agree with the use of the
22 “With and Without” Calculation to determine the extent that an NOLC is attributed to
23 accelerated tax depreciation and therefore protected under the Normalization Rules, he

1 instead performs what he refers to as a “vintage tax year analysis” which reduces the
2 amount of NOLC attributable to accelerated tax depreciation by all subsequent years’
3 taxable income.⁸

4 **Q. IS MR. KOLLEN’S “VINTAGE TAX YEAR ANALYSIS” CONSISTENT WITH**
5 **THE “WITH AND WITHOUT” CALCULATION?**

6 A. No, it is not. Mr. Kollen’s analysis departs from the sound logic and simple computation
7 of the “With and Without” Calculation, which computes the NOLC attributable to
8 accelerated tax depreciation as the excess of the taxable loss computed with accelerated tax
9 depreciation over the taxable income or loss computed without accelerated tax
10 depreciation. Mr. Kollen’s Vintage Tax Year Analysis does not make this simple
11 comparison but rather reduces the NOLC attributable to accelerated tax depreciation by
12 any subsequent taxable income without considering the NOLC that was not attributable to
13 accelerated tax depreciation as first reducing taxable income consistent with a comparison
14 of taxable income or loss with and without accelerated tax depreciation.

15 **Q. PLEASE PROVIDE A SIMPLE EXAMPLE OF MR. KOLLEN’S ANALYSIS.**

16 A. For this example, I will look at the same taxable income of the utility over a three-year
17 period as shown in Figure DAH-1. Mr. Kollen’s analysis recognizes that in Year 1, the
18 NOLC with accelerated tax depreciation exceeds the NOLC without accelerated tax
19 depreciation by \$3,000. The \$3,000 is used as the starting point to calculate the NOLC at
20 the end of Year 3. Mr. Kollen’s analysis then ignores and abandons the comparison of the
21 taxable income with and without accelerated tax depreciation in Years 2 and 3. As shown
22 in Figure DAH-5, his analysis simply looks at the taxable income in Year 2 and Year 3

⁸ Kollen Direct Testimony at 27.

with accelerated tax depreciation and makes the assumption that the entire \$1,000 taxable income in each year should be used to reduce the \$3,000 NOLC attributable to accelerated tax depreciation in Year 1. By ignoring the NOLC in Year 1 not attributable to accelerated tax depreciation, Mr. Kollen does not compare the NOLC that results both with and without accelerated tax depreciation. In this example Mr. Kollen's calculation would arrive at a NOLC of only \$1,000 that is attributable to accelerated tax depreciation. This is despite the fact that with accelerated tax depreciation, the utility has a NOLC of \$2,000 and without accelerated tax depreciation, the utility has a NOLC of \$0 resulting in the NOLC attributable to accelerated tax depreciation of \$2,000.

Figure DAH-5

Description	Year 1	Year 2	Year 3
Taxable Income (Loss) With Accel. Tax Depr.	(4,000)	1,000	1,000
Taxable Income (Loss) Without Accel. Tax Depr.	<u>(1,000)</u>	4,000	4,000
NOLC Attributable to Accel. Tax Depr.	(3,000)		
Taxable Income With Accel. Tax Depr. Before NOLC		1,000	1,000
NOLC Available to Offset Current Year Income		<u>(3,000)</u>	<u>(2,000)</u>
Taxable Income With Accel. Tax Depr. After NOLC		(2,000)	(1,000)
NOLC	<u>(3,000)</u>	<u>(2,000)</u>	<u>(1,000)</u>

Q. PLEASE DESCRIBE MR. KOLLEN'S REGULATORY LIABILITY RECOMMENDATION WITH RESPECT TO THE NOLC.

A. Mr. Kollen makes the recommendation that if the NOLC DTA is included in rates that the Commission should direct the Company to defer the incremental revenue requirement effects, along with a return at the Company's weighted average cost of capital, to a regulatory liability for future refund to customers. He states that his recommendation is to

1 ensure “that this harm is remedied in the future and that customers are made whole for the
2 recoveries resulting from this issue.”⁹

3 **Q. WHAT IS THE “HARM” THAT MR. KOLLEN SEEKS TO REMEDY WITH HIS**
4 **RECOMMENDED REGULATORY LIABILITY?**

5 A. It appears that the “harm” that Mr. Kollen is seeking to remedy and make customers whole
6 for is the Company’s inclusion of the NOLC DTA in the calculation of the revenue
7 requirement as needed to adhere to the Normalization Rules to maintain the ability to claim
8 accelerated tax depreciation deductions. Mr. Kollen is suggesting that what is prohibited
9 by the Normalization Rules currently can be accomplished after the deferred taxes are
10 eliminated by providing a customer benefit for the nominal amount of the additional
11 revenue requirement that was needed to comply with the Normalization Rules plus a return
12 on that amount to compensate the customers for the time value of money for the interval
13 of time from when customers paid the additional amount to the time they recovered it.

14 **Q. DO YOU AGREE WITH MR. KOLLEN’S REGULATORY LIABILITY**
15 **RECOMMENDATION?**

16 A. No, I do not. First, Mr. Kollen’s recommendation would lead to a violation of the
17 Normalization Rules which harms customers. Second, Mr. Kollen’s recommendation is
18 based on the false assertion that customers are harmed by the Company’s adherence to the
19 Normalization Rules. What Mr. Kollen fails to acknowledge is that customers benefit from
20 the Company not violating the Normalization Rules because the Company is able to
21 maintain the ability to claim accelerated tax depreciation deductions. The ability to claim
22 accelerated tax depreciation provides the Company with an interest-free loan from the

⁹ Kollen Direct Testimony at page 30.

1 federal government, which is a substantial benefit to its customers because the Company
2 is permitted to reduce rate base by the amount of the interest-free loan.

3 **Q. YOU STATE THAT MR. KOLLEN'S REGULATORY LIABILITY**
4 **RECOMMENDATION WOULD LEAD TO A NORMALIZATION VIOLATION.**
5 **PLEASE DESCRIBE THAT IN FURTHER DETAIL.**

6 A. Mr. Kollen's regulatory liability recommendation is clearly a method of evading the
7 economic effect that the Normalization Rules provide. His recommendation changes the
8 timing of the benefit to customers but economically restores the benefit that customers
9 were provided under the Company's previous method of ratemaking, which the IRS has
10 specifically ruled did not comply with the normalization requirements of the Code (per the
11 three PLR rulings I attached to my Direct Testimony as Exhibit DAH 1-3). Mr. Kollen's
12 testimony states that the intention of his recommendation is to ensure that customers are
13 made whole for the recoveries resulting from the inclusion of the NOLC DTA. The
14 sanctions for a methodology undertaken to achieve results similar to those precluded
15 directly by the normalization requirements are the same as the sanctions for a direct
16 violation of those requirements, namely the loss of accelerated depreciation deductions.

17 Mr. Kollen's recommended regulatory liability is designed to provide the economic
18 benefit not permitted to provide to customers under the Normalization Rules while the
19 NOLC exists at a later point in time when the NOLC is used on a stand-alone basis by
20 increasing the amount of the tax benefit to customers at a later time. This method would
21 redirect the time value of money protected by the Normalization Rules from the Company
22 to the customers, which is exactly the economic consequence the IRS has ruled is a
23 violation of the principles of normalization. Effectively, the regulatory liability does what

1 the IRS has stated would result in a normalization violation by providing a benefit to
2 customers at a later time beyond what they would have otherwise received. In doing so,
3 Mr. Kollen has provided a “roadmap” for the IRS to conclude that his recommendation is
4 intended to circumvent the Normalization Rules by restoring customers to their prior
5 economic position, which would be an indirect violation of the normalization requirements.

6 The PLRs issued to Kentucky Power’s affiliates are clear in stating that the
7 Normalization Rules require that the NOLC DTA not be reduced due to the utilization of
8 its stand-alone NOLC in the AEP consolidated tax return and that it would be a violation
9 to achieve a similar result as reducing the NOLC DTA. Specifically, the PLR issued to
10 Kentucky Power affiliate Southwestern Electric Power Company states,

11 By reducing Taxpayer’s stand-alone DTA by reason of the TAA [tax
12 allocation agreement] payments (**or achieving a similar result**
13 **through other methods**), this improperly involves amounts that did
14 not actually defer tax due to the presence of the NOLC, as
15 represented in the DTA account.¹⁰ (emphasis added)

16 The IRS reference to a taxpayer achieving a result similar to that which would be achieved
17 by violating the Normalization Rules is a caution that using another method to achieve a
18 similar result that is not permitted by the Normalization Rules is itself a violation of the
19 Normalization Rules. It has been long established that a commission cannot achieve
20 indirectly the accounting equivalent of a pass-through of tax benefits where the direct pass-
21 through is not permitted by the Normalization Rules. See for example Treas. Reg. § 1.46-
22 6(b)(4) and PLR 200945006 Nov. 6, 2009) dealing with the investment tax credit
23 normalization rules.

¹⁰ Exhibit DAH-1 at page 15.

IV. PROPERTY TAX EXPENSE

1 **Q. PLEASE DESCRIBE MR. FUTRAL'S RECOMMENDATION FOR THE**
2 **PROPERTY TAX EXPENSE INCLUDED IN THE COST OF SERVICE.**

3 A. Mr. Futral recommends that the property tax expense included in the cost of service be
4 reduced by \$0.319 million to reflect the corrected proforma adjustment W42 provided by
5 the Company in response to a discovery request.¹¹ The Company's modifications to
6 proforma adjustment W42 resulted in a reduction in the proforma adjustment W42 from
7 +4.263 million to +3.944 million.

8 Mr. Futral states that the primary reason for the magnitude of the proforma
9 adjustment is due to the timing of large 2024 expense true-up adjustments that were
10 recorded in December 2024 making the 12-month test year expense artificially lower than
11 the actual property tax expense for the calendar year.

12 **Q. DO YOU AGREE WITH WITNESS FUTRAL'S RECOMMENDATION FOR**
13 **PROPERTY TAX EXPENSE?**

14 A. Yes, I do. Mr. Futral accurately describes the reason for the magnitude of the proforma
15 adjustment and accurately states that the adjusted property tax expense included in the cost
16 of service is consistent with the total property tax expense incurred by the Company during
17 the last several years.

18 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

19 A. Yes, it does.

¹¹ Kentucky Power response to AG-KIUC 2-12.

VERIFICATION

The undersigned, David A. Hodgson, being duly sworn, deposes and says he is the Managing Director, Tax Accounting and Regulatory 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.

David A. Hodgson
David A. Hodgson

State of Ohio)

)

Case No. 2025-00257

County of Franklin)

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by David A. Hodgson, on December 17, 2025

Pauline A. Lutz
Notary Public

Pauline A Lutz
NOTARY PUBLIC
State of Ohio
My Commission Expires 9/12/2026

My Commission Expires _____

Notary ID Number 2016-RE-600919