COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Electronic Application Of Kentucky Power Company For: (1) Approval Of Continuation Of Its Demand-Side Management Programs; (2) Authority To Recover Costs And Net Lost Revenues, And To Receive Incentives Associated With The Implementation Of Its Demand-Side Management Programs; (3) Acceptance Of Its Annual DSM Status Report; And (4) All Other Required Approvals And Relief	)	Case No. 2026-00311

DIRECT TESTIMONY OF

JOHN D. CULLOP

ON BEHALF OF KENTUCKY POWER COMPANY

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EXHIBITS

EXHIBIT	DESCRIPTION
EXHIBIT JDC-1	Schedule C
EXHIBIT JDC-2	Lost Revenues Calculations
EXHIBIT JDC-3	Cost-Benefit Analysis
EXHIBIT JDC-4	Bill Impact Analysis

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I. INTRODUCTION

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

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

II. BACKGROUND

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

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

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

A. I am responsible for supporting Kentucky Power's regulatory activities, including preparing the monthly fuel adjustment clause ("FAC") filings and Environmental Surcharge Tariff ("Tariff E.S.") filings, and assisting with the Company's other periodic regulatory filings.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY PROCEEDINGS?

A. Yes. I submitted testimony in the Company's three most recent environmental surcharge proceedings before the Public Service Commission of Kentucky (the "Commission"), Case Nos. 2025-00036, 2025-00267, and 2026-00071. I also submitted testimony in the Company's most recent base rate case, Case No. 2025-00257.

III. PURPOSE OF TESTIMONY

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

A. The purpose of my Direct Testimony is five-fold. First, I describe how Kentucky Power calculates lost revenues, including supporting the Company's methodology when compared to the methodology employed by other Kentucky utilities. Second, I discuss the cost-benefit analysis showing that an interest-bearing account for collected DSM surcharge funds will be a detriment to Kentucky Power customers when compared to maintaining that money in the American Electric Power ("AEP") Utility Money Pool ("Money Pool"). Third, I provide an update on the Company's DSM status reports. Fourth, I present the proposed updated DSM surcharge factor and its associated rate impact to customers. Finally, I support the Company's request that the Commission accept the Company's Annual DSM Reports.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes, I am sponsoring the following exhibits:

- Exhibit JDC-1: Schedule C
- Exhibit JDC-2: Lost Revenues Calculations

- Exhibit JDC-3: Cost-Benefit Analysis
- Exhibit JDC-4: Bill Impact Analysis

Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION?

A. Yes.

IV. LOST REVENUES CALCULATION

Q. DID THE COMPANY CALCULATE LOST REVENUES USING ITS PREVIOUSLY-APPROVED METHOD, AS WELL AS THE OTHER METHODS REQUIRED BY THE COMMISSION IN ITS ORDER IN CASE NO. 2025-00365?

A. Yes, the Company calculated lost revenues according to all three methods required by the Commission in Case No. 2025-00365. Kentucky Power first provides a calculation of lost revenues by multiplying the number of participating customers, the average net energy savings (kWh) per customer, and the net lost revenue ($/kWh), as it has in previous matters before the Commission. The Company also provides a lost revenue calculation using Duke Energy Kentucky, Inc.'s, ("Duke Kentucky") method, which multiplies the amount of kilowatt-hour sales and kilowatt-months of billing demand with the applicable energy or demand charge minus variable costs, then dividing that by expected sales. Finally, the Company provides a lost revenue calculation using the method employed by Louisville Gas & Electric Company ("LG&E") and Kentucky Utilities Company ("KU," collectively, "LG&E/KU"), which multiplies the estimated energy savings by the non-variable revenue requirement per kWh, with the non-variable revenue requirement defined as average weighted price per kWh minus variable costs. All three of these calculations are shown in Exhibit JDC-2.

Q. PLEASE COMPARE THE OUTCOMES OF ALL THREE LOST REVENUE CALCULATIONS.

A. Table JDC-1 below provides a comparison of the total lost revenue calculation for the period of September 2025–December 2027 from the Company's DSM programs using each of the three versions of the calculation as required by the Commission's Order in Case No. 2025-00365.

Table JDC-1

DSM Lost Revenues (Sep 2025 – Dec 2027)			
	Kentucky Power	**LG&E/KU**	**Duke Kentucky**
Residential	$59,373	$59,373	$69,168
Commercial	$104,566	$104,566	$111,376

Kentucky Power reviewed the tariffs and prior DSM filings of both Duke Kentucky and LG&E/KU and contacted both companies to inquire about their lost revenue calculations. The Company determined from that review that while described slightly different in tariff language, all three of the calculations function in a similar fashion. Each one ultimately multiplies the kWh savings associated with DSM programs by a rate that is determined by each company. Kentucky Power describes that rate as "Net Lost Revenues ($/kWh)," while LG&E/KU termed the rate "non-variable revenue requirement per kWh" and Duke Kentucky calls it "the applicable energy or demand charge minus variable costs." During Kentucky Power's review of the other utilities' calculations, it was unable to

determine exactly how that rate is calculated by the other utilities.[1] Therefore, the Company used its own Net Lost Revenues ($/kWh) rate in place of the other utilities' version of that rate. Table JDC-1 shows that LG&E/KU's and Kentucky Power's calculation results in the same net lost revenues for the period, while Duke Energy's calculation results in a slightly higher net lost revenue.

Q. WHICH CALCULATION DOES THE COMPANY PROPOSE TO USE?

A. Because all three calculations result in similar lost revenues, the Company defers to the Commission's judgement as to which version of the calculation it should use. For the purpose of calculating its surcharge factors in Schedule C, which is included here as Exhibit JDC-1, Kentucky Power has maintained its previously-approved method. However, the Company has also provided examples of the surcharge factor using all three methods in Exhibit JDC-2.

[1] The Company was unable to determine exactly how these rates were calculated because they were hard-keyed into the workpapers filed by the utilities in their DSM approval cases, requiring Kentucky Power to reverse-engineer the calculation with the data it had available. LG&E/KU declined to provide Kentucky Power with its calculation due to proprietary information in the file, and Duke's valuation is based on results of a model that Kentucky Power does not have access to.

V. COST-BENEFIT ANALYSIS OF INTEREST-BEARING ACCOUNT FOR SURCHARGE REVENUE

Q. DID THE COMPANY PERFORM A COST-BENEFIT ANALYSIS OF THE IMPACTS OF ESTABLISHING AND MAINTAINING AN INTEREST-BEARING ACCOUNT FOR FUNDS COLLECTED PURSUANT TO THE DSM SURCHARGE AS REQUIRED BY THE COMMISSION IN ITS ORDER IN CASE NO. 2025-00365?

A. Yes. Exhibit JDC-3 compares the impact on customers of maintaining its practice of retaining DSM surcharge funds in AEP's Utility Money Pool to moving those funds into a separate interest-bearing account.

Q. WHAT IS THE OUTCOME OF THE COST-BENEFIT ANALYSIS?

A. The cost-benefit analysis demonstrates that placing the DSM surcharge funds into a separate interest-bearing account, such as a money market or demand deposit account, would result in a lower overall benefit to customers than retaining them in the Money Pool. This is because, in addition to the capital and on-going expenses associated with opening and maintaining a separate account, the interest rates that would be offered on the DSM surcharge account will be less than those Kentucky Power currently has access to through the Money Pool.

Q. PLEASE EXPLAIN HOW THE DIFFERENCE IN INTEREST RATES DRIVE THE RESULTS OF THE COST BENEFIT ANALYSIS.

A. Kentucky Power generally retains its revenues in the Money Pool, along with other AEP Regulated Operating Companies. When Kentucky Power is in an invested position in the Money Pool, it earns interest on the invested balance at the weighted average cost of the liquidity borrowing rates used to fund the Money Pool. When the Company is in a

borrowed position, it incurs interest expense at that same rate. While moving these DSM revenues to a separate interest-bearing account would allow the Company to earn interest on those revenues at the standard money market or demand deposit account rate, the removal of those revenues from the Money Pool would also cause the Company to incur increased interest expenses. The cost-benefit analysis proves that leaving the money in the Money Pool is beneficial to customers because the liquidity borrowing rates are almost always higher than the short-term investment rates, such as those on money market or demand deposit accounts. For example, the Money Pool interest rate for August 2026 was 3.85%. The average money market return in August 2026 was 3.375%. The result of this difference would be an increase to interest expense costs that would outweigh the potential interest earned on over-collected DSM surcharge revenues, as shown in Exhibit JDC-3.

Q. WHAT ADMINISTRATIVE COSTS ARE ASSOCIATED WITH ESTABLISHING AN INTEREST-BEARING ACCOUNT?

A. To establish a separate interest-bearing account for DSM surcharge funds, the Company would have to incur one-time capital costs to develop reports and build out the software infrastructure to segregate the DSM rider revenues from the Money Pool, the monthly costs required by the banking institution to maintain the account, and the labor costs associated with actually transferring the funds on a monthly basis.

The Company estimates that these one-time capital costs will amount to approximately $45,000. There is no way for the Company to know the exact final cost to establish and maintain the account unless and until it does so. However, the Company developed this estimate by evaluating the capital costs associated with establishing a separate account for the Securitization Surcharge Rider. In establishing a separate account

for the Securitization Surcharge Rider, the Company incurred approximately $131,000 in capital costs to establish the account. The Securitization Surcharge Rider includes more complicated mechanisms and reporting requirements than an account for the DSM surcharge funds. Accordingly, the Company believes that a value that is approximately one-third of that cost serves as a reasonable estimate for the purposes of the cost-benefit analysis.

Q. ABSENT THESE ADMINISTRATIVE COSTS, DOES THE COST-BENEFIT ANALYSIS STILL SHOW THAT AN INTEREST-BEARING ACCOUNT WOULD BE DETRIMENTAL TO CUSTOMERS?

A. Yes. The actual one-time capital costs, monthly banking fees, and labor associated with managing the account increase the cost to customers of maintaining a separate interest-bearing account. As explained above, the difference in interest rates between holding these revenues in the Money Pool or holding them in a separate money market account will result in a negative impact on customers regardless of the administrative costs associated with opening and maintaining the separate account. The addition of these administrative costs adds an additional burden to customers. In other words, even if there were zero administrative costs associated with establishing the account, it would still be more beneficial for customers if the revenues were kept in the Money Pool.

Q. DOES THE COMPANY MAINTAIN ITS POSITION THAT ESTABLISHING AN INTEREST-BEARING ACCOUNT FOR DSM SURCHARGE FUNDS IS NOT BENEFICIAL TO CUSTOMERS?

A. Yes. The increase in the Company's interest expense costs from removing these revenues from the Money Pool would exceed any benefits the customers may receive by using a

separate interest-bearing account to offset DSM surcharge costs. The Company therefore maintains that such a requirement would be a detriment to customers.

VI. DSM STATUS REPORTS

Q. WHAT INFORMATION IS CONTAINED IN THE DSM STATUS REPORTS?

A. DSM Status Reports are filed with the Commission as part of this annual DSM filing. The reports contain program information on all DSM programs that were offered to customers since each program's inception. The Annual DSM Status Report for the 2025 program year is provided within Exhibit JDC-1. The Annual DSM Status Report includes DSM revenue collected, individual program costs, energy savings, and peak demand reductions. The report also describes 2025 program participation.

Q. DID THE COMPANY INCLUDE A DETAILED NARRATIVE OF ITS DSM PORTFOLIO IN THIS APPLICATION?

A. Yes. In accordance with the Commission's Order in Case No. 2025-00365, Company Witnesses Cobern and Lake discuss the administrative performance of the Community Action Agencies and TRC Companies, Inc. respectively, the amount of budget spent in the prior program year, participation levels in the prior program year, and changes in advertisement of each DSM program.

VII. DSM SURCHARGE FACTOR AND BILL IMPACT ANALYSIS

Q. IS THE COMPANY PROPOSING A CHANGE TO ITS DSM SURCHARGE FACTOR?

A. Yes. The Company is proposing to decrease the residential surcharge factor from $0.000437 per kWh to $0.000351 per kWh. Kentucky Power is also proposing to increase the commercial surcharge factor from $0.000453 per kWh to $0.000495 per kWh.

Q. WHY IS THE COMPANY PROPOSING THESE CHANGES TO THE DSM SURCHARGE FACTORS?

A. The decrease to the residential surcharge factor is mostly driven by the adjustment made to estimated participation numbers for the HEIP program in 2026 and 2027. As explained in Company Witness Lake's Direct Testimony, the Company has adjusted these participation targets that were established in Case No. 2024-00115 to align with the actual participation level it has seen throughout the first full year of the program.

The slight increase to the commercial surcharge factor is primarily driven by a minor decrease in projected kWh sales (*i.e.*, the denominator shown on DSM Form "Summary," cell F16) for 2027 compared to 2026.

Q. WHAT IS THE ANTICIPATED EFFECT ON THE AVERAGE RESIDENTIAL CUSTOMER'S BILL AS A RESULT OF THE PROPOSED UPDATE TO THE DSM SURCHARGE FACTOR?

A. Using the Company's currently-approved rate, the average residential customer using 1,300 kWh per month receives a monthly DSM charge of $0.57. The new proposed rate results in a $0.46 monthly charge to the same customer. This is a decrease of $0.11 per customer per month. For a more detailed bill impact analysis as requested in the Commission's September 17, 2026 Order in Case No. 2025-00365, please see Exhibit JDC-4.

Q. WHAT SUPPORT DOES THE COMPANY OFFER FOR ITS CALCULATION OF ITS SURCHARGE FACTOR?

A. "Schedule C" which is filed as Exhibit JDC-1, supports the Company's calculation of the surcharge factor that the Company proposes in this case.

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

VERIFICATION

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

John D. Cullop

Commonwealth of Kentucky)
) Case No. 2026-00311
County of Boyd)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by John D. Cullop, on October 26, 2026.

Notary Public

My Commission Expires May 5, 2027

Notary ID Number KYNP71841

MARILYN MICHELLE CALDWELL
Notary Public
Commonwealth of Kentucky
Commission Number KYNP71841
My Commission Expires May 5, 2027